

**Diversifying European  
Pension Provision and  
Pension Policy-Making:  
Evidence From Seven  
European Countries**

*Deliverable D2- Synthesis  
Report*

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## 1 Introduction

Comparing different national pension reform efforts is a little bit like spotting faint stars in the night sky. Although the star is clearly visible from the corner of your eye, it gently melts into the dark night sky when you try to focus on it.

At a general level, it is evident that European policy-makers have found very similar solutions to the same set of challenges facing European pension systems. Not only have pension reforms of the past fifteen years pointed in the same general direction, it is even arguable that reformed pension systems are increasingly beginning to resemble each other. However, at closer range different European pension reform effort seem less open to systematic comparison. Like the faint star, what seemed to be a similar set of rational responses to common pension problems becomes indiscernible from the general background noise of national pension policy-making processes.

Yet, the aim of the first stage of research in the PEN-REF Project has been to understand and compare different European pathways to pension reform. In the following, then, we will review and compare the findings of the different national PEN-REF teams. The research, carried out throughout 2000, aimed to analyse pension reform processes in seven European countries: Austria, France, Germany, Italy, Norway, Poland, and the UK. The scope of the study, then, provides a spread between different types of social protection systems: the PEN-REF project looked at systems both in the Bismarckian social insurance tradition as well as the Beveridgian tradition.

All country studies relied on a four-pronged methodological strategy. First, the PEN-REF project produced a comparative statistical picture of old age income in Europe. Second, each country study is based on a review of national academic literature in the pension field. Third, the PEN-REF project conducted semi-structured qualitative interviews with pension policy-makers and experts in all seven countries. Last, the PEN-REF country teams conducted quantitative and qualitative analyses of quality print media in each of the seven countries.

In particular, WP 1 of the PEN-REF project set out to examine the following questions:

- How have pension systems changed in the past 10-15 years?
- How did this change come about?
- What do these changes mean for policy-making at national and European level?

If there is one global trend the country studies have brought to light, it is a general movement towards increasing diversity. European pension reforms have expanded and diversified at all levels of analysis. At the level of pension systems themselves, reforms either already have or are in the process of widening the spectrum of old age income provision. At a very general level, the movement has been away from single pillar, PAYG defined-benefit pension systems to more diversified means of providing old age income. At the level of policy-making, arguably the area that has experienced most change in the 1990s, policy subsystems have expanded to include a wider set of different policy actors. These, in turn, have contributed to diversifying the ideological landscape in pension reform. The result, in all cases, has been an increase in scope and intensity of political conflict in pension policy subsystems.

Increasing diversity has implied more choice: at the end of the 1990s, individuals have (or will have) a wider scope of viable choices concerning old age income provision just as policy-makers have a wider choice of political strategies and policy levers. However, more choice also has meant more financial, scientific and political uncertainty: in short, the pension reforms of the 1990s have (re)introduced complexity and risk into pension policy-making and old age income provision.

How, then, have pension reforms in Europe increased uncertainty and risk? Mainly by furnishing individuals with more personal responsibility for their pensions and through changes in the way pensions are calculated. Increasingly, countries are opening the door to private pensions as reforms to public pension schemes hold out the prospect of ever-decreasing future pension benefits. In general, reforms have transferred risk from public actors to private individuals. Increasingly, pension benefits depend more on investment performance and economic growth than wage earnings.

In section 2, then, we will look at these changes to pension system throughout the 1990s. This section will provide the demographic and statistical background for the European pension issue as well as provide a brief overview of the pension systems in the countries covered by the PEN-REF project.

Since pension reforms have an untypically long time-horizon of 20-30, policy outcomes of the reforms in the past 10-15 years are difficult to assess at present. However, reforms and reform efforts have had a more immediate and, arguably, more significant impact on the way policy-makers go about formulating pension policy. That is why in section 3 we will turn our attention to the changes in pension policy communities and policy-making.

## **2 Broad Pension Reform Trends In Europe**

In this section, we will look at the general commonalities and differences between different reform experiences in the examined countries. Before, however, we delve into the changes in pension systems of the last 10-15 years, we should take a brief look at the statistical background to pension reform in Europe.

### **2.1 The Demographic, Social and Economic Background**

#### **2.1.1 Demographic and social trends**

For several decades Europe has benefited materially from a growing workforce and steadily increasing productivity. This demographic phase is now coming to an end as Europe's population stabilises and at the same time grows older. The fear of Governments, and the basic motivation for the PEN-REF study, is that support through the pension and other parts of the social protection system may become unsustainable from an economic and social standpoint. In other words productivity gains may not be able to keep pace with social expectations and economic demands.

The purpose of this section is to set the scene and offer an explanation for the institutional changes and reforms that are underway in all PEN-REF countries. We start with a brief overview of demographic trends that are relevant to the pension debate starting with the dependency ratio. This measures the ratio of the working age population to the retired population, so that for example if the ratio is low it means there are fewer people to support an elderly population than if the ratio is high.

Specifically, the measure considers the population aged 15 to 64 to the population age 65+ an age, which we assume, for the present, to be the official age of retirement. Of course the concept of dependency here is being used very loosely applied since plainly many younger people remain in full time education until their early or late 20s, whilst the actual as opposed to official retirement age could be considerably less than 65 years. Table 1 shows the trend in the dependency ratio for PEN-REF countries, and, as is seen, the ratio is set to fall over the next 30 years or so from a level of between 4 and 5 to between 2 and 3, or 60% or lower than its current value.

Figure 1 shows the same information but throws the countries into starker relief. It also compares the trend in the dependency ratio against the European average in 2000. As is seen all of the PEN-REF countries with the exception of Poland are already at or below the European level whilst the dotted line in the centre of the graph indicates where they will be in 30 years time. What is the significance of these trends in terms of pensions?

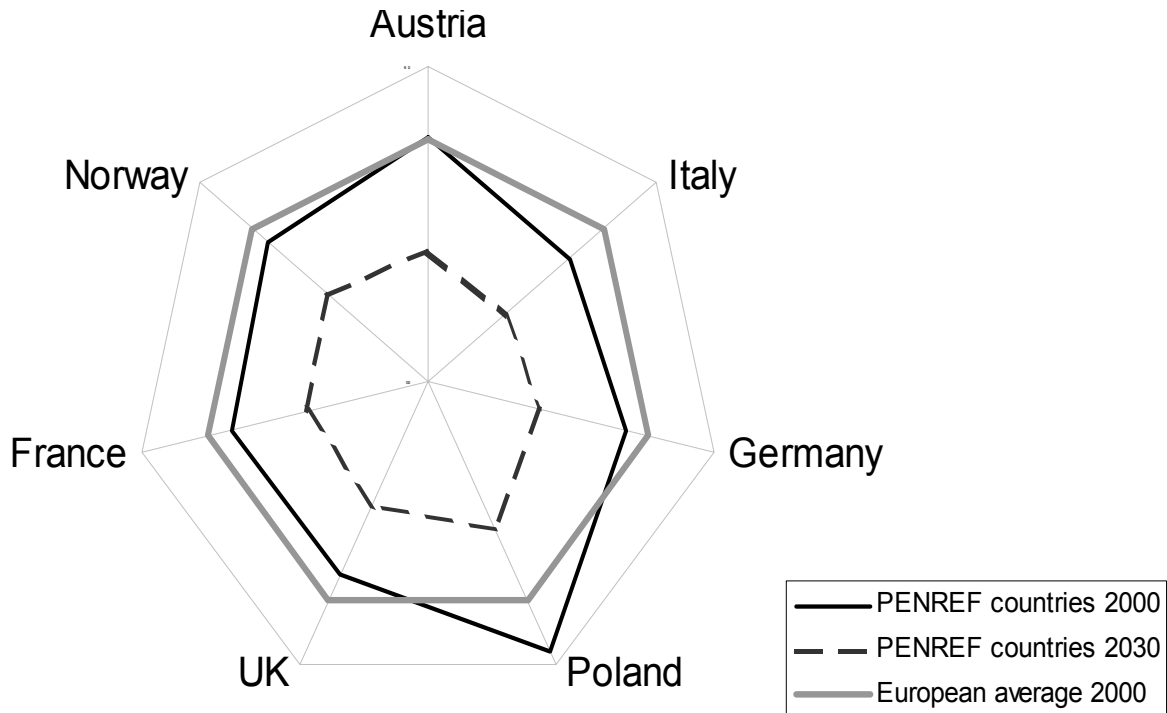
Assume a public financed Pay-As-You-Go (PAYG) system which pensions average 80% of wages. If the dependency ratio is 4 the pension contribution rate would be equal to 20% of wages, but if it were to reduce to 2, as our figures would suggest will happen, then a contribution rate of 40%, twice the amount, would be required to deliver the same level of pension. Politically, a contribution hike on this scale, even if phased in, would severely strain the system and possibly create social tensions.

Of course, it is possible to bring the system back into line by various devices but at varying political cost. The two simplest examples are reducing the level of pension or raising the retirement age. Continuing with our example were we to reduce pension levels to 70 % of wages the contribution rate would fall to 30%. If we were then to raise retirement age from, say, 65 to 70, assuming a typical European population age profile, the contribution rate would fall back to as low as 15%. But neither are easy options although such simple arithmetic helps to put the pension question into perspective and the scale of the political problem to be addressed.

**Table 1: Ratio of people aged 15-64 to people 65 and over in PEN-REF countries in 2000, 2020, 2030.**

	<i>Austria</i>	<i>Italy</i>	<i>Germany</i>	<i>Poland</i>	<i>UK</i>	<i>France</i>	<i>Norway</i>
2000	4.7	3.7	4.2	5.7	4.1	4.1	4.2
2020	3.5	2.7	3.0	3.9	3.2	3.1	3.2
2030	2.5	2.0	2.3	3.1	2.6	2.6	2.6

Figure 1: Spider graphs showing contraction of dependency ratios in PEN-REF countries over the next 30 years compared with today and with the European average.



The basis for the trends in the dependency ratio is simply that fertility is declining and the population is living longer. Table 2 shows the life expectancy of males and females in PEN-REF countries compared to current official retirement ages. Two final columns show the expected number of years the average male or female would be expected to receive a pension. As can be seen there are remarkably wide differences between PEN-REF countries.

At the low extreme there are Polish males who have a relatively low life expectancy but a relatively high retirement age. At the other extreme are Italian females who have a comparatively low retirement age and one of the highest life expectancies among this group of countries. Plainly there is a major difference financing a pension for 11 years compared to 27 years, and we find that these kinds of broad indicators correlate quite well with the ability to push through reforms.

For example, we find that in countries with generous state pensions and long life expectancy major reforms have proved harder to bring in whereas in Poland pensions have proved easier to reform. In Poland's case the reforms were partly helped by the economic climate and the general but painful transition to a market economy. A second example is the UK where reforms such as increasing the retirement age have proceeded quite smoothly. In this case, the public pension system is not renowned for its generosity and most people have separate or additional large private and occupational pensions which financially are totally independent from the state.

<b>Table 2: Life Expectancy of Males and Females in PEN-REF Countries</b>								
<b>World life</b>							<b>Expected</b>	
<b>Expectancy</b>	<b>PEN-REF</b>	<b>Life expectancy at birth</b>			<b>Official age pension</b>		<b>pension years</b>	
<b>ranking (WHO)</b>	<b>Country</b>	<b>Male</b>	<b>Female</b>	<b>M+F</b>	<b>male</b>	<b>Female</b>	<b>Male</b>	<b>Female</b>
7	Norway	75	81	78	67	67	8	14
8	France	74	82	78	60	60	14	22
13	Italy	75	81	78	57	57	18	24
19	UK	75	80	77	65	60	10	20
22	Germany	74	80	77	63	63	11	17
23	Austria	74	80	77	65	60	9	20
63	Poland	68	77	73	65	60	3	17

Table 2 shows pension years based in life expectancy of males and females in PEN-REF countries at 60 years. The table also shows their world ranking based on life expectancy at birth.

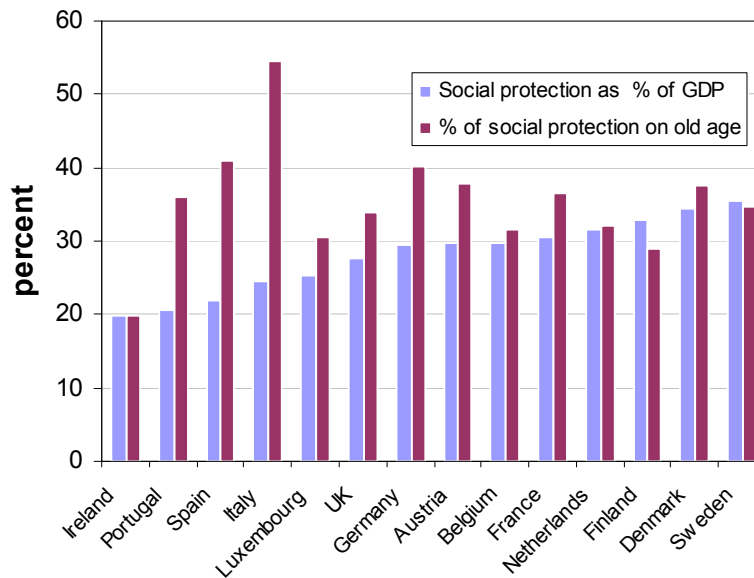
### 2.1.2 Old age benefits in an economic and social perspective

At the country level pension benefits and wider benefits for old age inevitably present a more complex picture. We used the European System of Social Protection Statistics to analyse benefits for elderly people. ESPROS incorporates all the EU members of PEN-REF study but not Norway. It defines old age benefits as replacement income for when a person retires, when a person reaches a prescribed age and includes goods and services specifically required by the personal and social circumstances of the elderly. Thus it includes old age pension, partial old age pension for older workers, care allowances or benefits paid to old people who need frequent assistance, other cash benefits such as lump sum payments, and benefits in kind such as accommodation or assistance in carrying out daily tasks.

Figure 2 shows all social protection expenditure includes old age expenditure as a percentage of GDP in each EU country. Alongside it shows old age expenditure as a percentage of all social protection expenditure. The results indicate that expenditure on social protection varies widely from around 20% in countries such as Ireland to over 30% in Sweden. Nordic countries, and by extension Norway, are thus higher up the relative spending ladder than other countries. In terms of expenditure on old age we note that countries spending relatively less on social protection spend a higher proportion of what they do spend on old age, Italy among the PEN-REF countries being the most prominent example.

Breaking down old age benefits into three categories, pensions, means-tested income support and benefits in kind we see further patterns emerging. Table 3 which includes the PEN-REF countries minus Poland and Norway but plus Sweden shows three fairly distinct groupings. Sweden for example devotes a high percentage for spending to benefits in kind in contrast to all the other countries in this group. The UK by contrast spends a significantly greater proportion of total benefits on means tested income support, used in the main to 'top up' the state pension to minimum income levels relative to household circumstances.

Figure 2: Relative Expenditure on social protection and old age benefits in the European Union (source: ESPROS).



**Table 3: percentage breakdown of the cash value of benefits in the old age function by PEN-REF country (Norway is replaced by Sweden).**

	France	Germany	Italy	Austria	Sweden	UK
cash benefits	96.3	96.8	97.3	96.3	78.5	88.8
benefits in kind	1.6	3.0	1.2	1.7	18.7	4.7
means tested cash benefits	2.1	0.2	1.5	2.0	2.8	6.5
Total	100	100	100	100	100	100

Source: ESPROSS

The socio-economic circumstances in each country vary but are an important part of the pension debate as they affect individuals differently. Three particular issues are worthy of mention in the context of pension reform. First, an elderly person cohabiting with next generation family members lives more cheaply than an old person living on his or her own; however, the trend towards independent living has undoubtedly put a greater premium on the value and level of pensions. Second, women can outlive their male partners by many years and older women living alone are in especially vulnerable group for whom special measures may be required.

The third important issue is that retirement ages in practice are flexible and fall into at least three different categories – persons retiring below the official retirement age, persons retiring at or above the official retirement age, and persons partly retiring (receiving a pension) but

continuing to work in some capacity. Also entry into the workforce is being increasingly delayed through for example extended educational opportunities and changed lifestyles. Thus, an important conclusion is that there is more flexibility in the population to meet labour shortages than is supposed providing older people are fit and willing to carry on working in some capacity and the young are willing to work.

In terms of income levels the picture is further complicated by a number of factors. Research by the OECD using the Luxembourg Income Study and OECD Income Distribution Data Set indicates that income inequality has increased for working age people but has been steady or declined for retired people. Some of this can be explained as cohort effects but an important implication is that income for future retirees will also widen. Private pensions have grown significantly and that growth has been heavily concentrated in upper income groups.

It is clear, that since private pensions have little or no redistribution element, this is likely to be one source of the widening gap in future years. Self evidently pensioner income distribution will tend to be wider in countries where there is little or no compulsion to save for an adequate pension. A corollary is that more people will require means tested income support in those countries. Again this argument seems to work quite well when it is applied to PEN-REF countries. Whereas, for example, income in retired households in Germany tends to be around 80% or even 90% in the UK it is much lower at between 57% for older groups rising to 68% for newly retired and younger old.

## 2.2 Old Age Income Provision in Europe

European pension systems have had about a century to evolve in more or less isolated national contexts. This means that pension systems reflect socio-economic, legal, and political traditions specific to a particular national context. In many cases, the historical and institutional backdrop to the pension system dates back further than the polity in which it is currently situated: in continental Europe, for example, pension systems are date back to the beginning of the 20<sup>th</sup> century whereas the current political culture, particularly in the case of Austria, Germany, Italy, and to a lesser degree France, developed after WWII. Any useful comparison, then, has to play down these constitutive socio-institutional idiosyncrasies in favour of more general pension system mechanics. In practice, then, comparing pension systems implies abstracting very different socio-institutional and legal arrangements into similar categories and labelling these with a common metaphor<sup>1</sup>.

### 2.2.1 Pillars and tiers

Comparative literature on pension reform (Gruber and Wise, 1997; Miegel and Börsch-Supan, 1999; Reynaud, 2000; Hinrichs, 1999; World Bank, 1994; ILO, 2000) and, more

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<sup>1</sup> Arguably, this is what all science involves.

generally, social security systems (Esping-Andersen, 1991) tends to focus on a limited set of variables. Commonly, these include:

- Functions: what do pension systems provide?
- Delivery systems: how do pension systems fulfil these functions?
- Governance structures: who is responsible for managing these delivery systems?

The most common metaphors analysts use in comparative literature are of an architectural nature: a pension system is an edifice that consists of different 'pillars' or 'tiers'<sup>2</sup> (World Bank, 1994; ILO, 2000). These pillars or tiers ascribe the responsibility for different functions and delivery systems to specific actors.

The terminology of pillars and tiers is rather useful. Not only does it allow the analyst to compare different pension system set-ups in terms of (relatively) standardised concepts, it also provides a model for analysing change in pension systems. For the PEN-REF project, we have slightly adapted the pillar and tier metaphors to reflect different variables of pension reform and include other sources of income in old age beside pensions. In this model, pillars primarily ascribe governance responsibility to different institutional actors (the state, employers and individuals). Tiers, in turn, describe different forms in which actors can provide old age income within each pillar. Table 1 shows how different pillars and tiers combine to provide old age income.

Pillar/Tier	<i>1<sup>st</sup> Tier</i>	<i>2<sup>nd</sup> Tier</i>	<i>3<sup>rd</sup> Tier</i>	<i>4<sup>th</sup> Tier</i>
<i>State</i>	Flat-rate, universal pensions	Earnings-related pensions		Means-tested benefits
<i>Employers</i>		Occupational pensions		
<i>Individuals</i>		Private earnings-related pension schemes	Savings, house ownership, investment income (including private pensions)	

## 2.2.2 Basic features of pension systems in PEN-REF countries

Based on this analytical scheme, we can provide a first comparison of different pension systems in the PEN-REF countries.

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<sup>2</sup> As an aside, comparative studies that advocate the separation of different social insurance functions, say savings function from poverty amelioration (see World Bank, 1994), to different actors use the pillar metaphor: like pillars in a building, there needs to be a clear separation between these functions and delivery systems. Advocates of more integrated approaches to pension organisation prefer to speak of tiers thus implying the inherent indivisibility of pension functions, delivery systems and governance.

Fundamentally, all pension systems examined by the PEN-REF country teams are multi-pillar, multi-tier systems. Each country features pension schemes governed by the state, the private sector, and by individuals. The differences here lie in the relative importance of differing pillars in the old age income mix. Although income data here is highly unreliable (see section 2.1), continental and Nordic pension systems tend to exhibit a high reliance of pension schemes governed by the public sector. In 1992, pension benefits from both the flat-rate universal and the earnings-related public pension systems in Norway provided 63,2% of old age income compared to 21,6% provided by capital incomes. Continental European countries (Austria, France, Germany and Italy) feature a preference for second tier, that is income-related, pension provision. For example, the German and French earnings-related public pension schemes provides about 70% of expenditure for all old age security (Schmähl, 1999). Likewise, in Italy and Austria, occupational pensions cover only about 5% and 10% of the working population respectively (Bertelsmann Foundation, 2001). In Britain, in turn, 60% of old age income is publicly financed (including public sector occupational pensions) and 40% of old age income originates from the private sector.

At this general level, the PEN-REF findings are roughly in line with other comparative studies (such as Hinrichs, 1999 or Esping-Andersen, 1991). Continental pension systems form a separate group with clearly discernible characteristics. These include a strong state pillar, reliance second tier income-related pension benefits, and weakly developed first tier basic old age security security elements. These systems, then, follow the Bismarckian social insurance tradition. The Norwegian system, in keeping with Esping-Andersen's description of "universal systems", features both a strong public sector first (flat-rate, universal) and second tier<sup>3</sup> (earnings-related). Last, the British pension system reflects the characteristics of the Beveridgian welfare state structures: here, the state primarily manages first-tier benefit provision. Earnings-related pensions, however, are not the exclusive province of the public sector: in Britain a multitude of private and public sector actors administer a plethora of differing schemes.

How do the different national pension systems compare in terms of functions, delivery systems, and governance?

### Functions

In terms of functions, all pension systems in essence do the same thing: they transfer income from one social group (the working population) to another group (the retired). However, while shifting income between the generations, pension systems can pursue three different (and somewhat contradictory) objectives. First, pension systems may aim to prevent or alleviate old-age poverty by redistributing income to those who, for whatever reason, were not in the position accrue sufficient savings while working. Second, pension systems may enable individuals to save income for retirement. Third, pension systems may co-insure for a range of different social risks such as disability or longevity.

Table 5 shows what particular scheme in the overall pension system primarily fulfils either of the three functions.

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<sup>3</sup> Hinrichs (2000a) calls these 'late-comers' to the social insurance group of countries. He argues that initially these pension systems were based on Beveridgian principles but later reforms have shifted the systems towards the social insurance group.

<i>Function/ Country</i>	<i>Austria</i>	<i>France</i>	<i>Germany</i>	<i>Italy</i>	<i>Norway</i>	<i>Poland</i>	<i>UK</i>
<i>Poverty amelioration</i>	state, earnings- related (state top- up transfer)	state, flat- rate universal	n.a. communal social assistance	state, flat- rate universal and State, earnings related (state top- up transfer)	state, flat- rate universal and state earnings- related	state, earnings- related (state top- up transfer)	state, flat- rate universal
<i>Insurance/ Savings</i>	state, earnings- related	state, earnings- related	state, earnings- related	State, earnings- related	State earnings- related, occupational pensions and individual savings	Individual pension plans, earnings- related	Occupatio nal pensions and individual pension plans
<i>Co- insurance of social risks</i>	state, earnings- related	state, earnings related	state, earnings- related	state, earnings- related	state, flat- rate universal and state, earnings- related	state, earnings- related	state, flat- rate universal and means- tested benefits

Pension schemes across all PEN-REF countries, whether in the public or private sector, furnish pensioners with similar 'products'. With the exception of the German pension system, each of the schemes ameliorates old age poverty by providing redistributive flat-rate universal pension benefits. Moreover, all pension systems under analysis insure for old age by offering the institutional means for workers to save retirement income. Last, each of the pension systems co-insures for roughly the same set of social risks: apart from old age pensions, all public pension schemes offer disability pensions, permanent disability benefits and survivor benefits (SSA, 1999).

The difference between pension systems lies in the way they assign functions to institutional pillars and tiers. Here, the PEN-REF sample splits into three clusters.

- Countries in the first cluster, consisting of continental European countries (Austria, France, Germany and Italy), conflate the three pension functions into one or at most two institutional pillars. In all four countries, the public earnings-related pillar is responsible for savings and co-insurance functions. The French and Italian pension systems feature a separate public flat-rate universal benefit structure. Likewise, the Austrian system provides a minimum pension guarantee: the state tops-up pensions below a certain threshold. The German pension system alone does not provide a flat-rate minimum pension: social assistance, provided at the communal level, ameliorates old age poverty. In all cases, flat-rate benefits are means-tested. However, comparatively high wage replacement in public earnings-related schemes (about 70% for Germany and Austria) have diminished the importance of means-tested basic benefits. For example, in both France and Austria, flat-rate provisions account for only about 4% of all old age benefits

(Bertelsmann Foundation, 2001). *De facto*, then, the earnings-related state schemes in continental European countries fulfil all three social insurance functions.

- In Norway, the institutional separation between different pension functions is less obscure than in continental countries. In general, different institutional arrangements share responsibility for different pension functions rather than conflating them to a single scheme. Both the public flat-rate universal system as well as the earnings-related supplementary scheme provide separate forms of co-insurance for social risks (SSA, 1999). Similarly, the Norwegian pension system prevents and ameliorates old age poverty both through the universal and the earnings-related schemes. Both schemes are strongly redistributive: whereas the general replacement rate is about 50% for average wage earners, this level can increase to over 66% for incomes below the average and fall to 33% gross for incomes above average earnings. Both the state earnings-related schemes and occupational pensions provide Norwegian workers with a framework for long-term savings. In the latter case, replacement rates vary from 60-70% in all occupational groups. Furthermore, the sector of private individual pension plans in Norway is by no means negligible: from 1982 to 1998, the number of private pension policies grew from 166 860 to 698 000 (including both tax-favoured and other plans).
- Pension system structures in the UK and Poland draw the sharpest boundaries between different functions. In Britain, flat-rate rate state pension benefits are responsible for preventing poverty among the aged and for co-insuring various social risks. Flat rate benefits in the first pillar are highly redistributive but not particularly generous (they fall below social assistance, so-called Income Support, entitlements). Although the State Earnings Related Pensions (so-called *SERPS*), were designed to provide a public earnings-related pension within the first pillar, successive governments have cut the value of the *SERPS* and will discontinue the scheme in two years time. The savings function in the UK falls to the extensive occupational and private pension sector. At present, the coverage of private, second-tier pension provision is about 50% and is set to increase to 60% in the coming years. Similarly, the new Polish system<sup>4</sup> institutionally separates different pension functions according to pillars. The state pillar primarily provides earnings-related pensions with a minimum pension guarantee for workers whose savings fall below a certain level. The second, private sector pillar largely fulfils the long-term savings function. Here, Polish workers are compelled to invest 7,3% of their income in a private sector pension fund. Additionally, Polish workers can take up further private sector pension schemes. Projected replacement rates in the new system are estimated to be around 40-60%.

In sum, although all systems in the PEN-REF sample are ostensibly multi-pillar, multi-tiered systems, the institutional responsibilities for different pension functions differs. Whereas continental systems channel redistribution, savings, and co-insurance through public earnings-related schemes, Nordic systems feature more distinct but nonetheless interrelated pension pillars. Institutional arrangements in Poland and the UK, however, clearly ascribe different functions to organisational pillars and tiers. In this sense, both the British and the Polish systems come closest to the World Bank's ideal multi-pillar scheme (World Bank, 1994). Conversely, Norwegian system more strongly resembles the multi-tier model of the

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<sup>4</sup> Adopted in 1999. The old Polish system in essence resembled continental European pension systems.

ILO (ILO, 2000). Continental systems, in turn, are unfavourably located somewhere between the two ideal types.

### Delivery Systems and Financing

Delivery systems are the technical and legal instruments for fulfilling different pension functions. They are the form rather than the substance. Issues here concern the technicalities of transferring funds from social group to another and means of financing benefits. The common comparative models used here are concepts such as Pay-As-You-Go<sup>5</sup> (hereafter PAYG), Credit Reserve<sup>6</sup> (hereafter CR) or tax financing as well as defined-benefit (hereafter DB) or defined-contribution (hereafter DC) pension schemes.

Table 6 outlines the scope of delivery systems used in European pension schemes.

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<sup>5</sup> also referred to as 'unfunded' systems. See Deliverable D1 for a more detailed explanation.

<sup>6</sup> also referred to as 'funded' systems. See Deliverable D1 for a more detailed explanation.

<i>Pillar/ Country</i>	<i>Austria</i>	<i>France</i>	<i>Germany</i>	<i>Italy</i>	<i>Norway</i>	<i>Poland</i>	<i>UK</i>
<i>State, flat-rate universal</i>	n.a.	PAYG, DB	n.a.	PAYG, DB	PAYG, DB	n.a.	PAYG, DB
<i>State, earnings-related</i>	PAYG, DB	PAYG, DB	PAYG, DB	PAYG, DB	PAYG, DB	PAYG, NDC (PAYG, DB)	PAYG, DC
<i>Employer, earnings-related (occupational pensions)</i>	varies according to sector. Private sector: generally CR, DC Public sector: PAYG, DB	varies according to sector, Private sector: generally CR, DC Public sector: PAYG, DB	varies according to sector. private sector: generally CR, DC and book reserve Public sector: PAYG, DB	CR, DC	varies according to sector. private sector: generally, CR, DC Public sector: generally PAYG, DB	n.a.	varies according to sector. private sector: generally, CR, DC Public sector: generally PAYG, DB
<i>Individual, earnings-related (individual mandatory pension plans)</i>	n.a.	n.a.	n.a.	n.a.	n.a.	CR, DC	CR, DC
<i>Individual savings (individual voluntary pension plans)</i>	CR, DC	CR, DC	CR, DC	CR, DC	CR, DC	CR, DC	CR, DC

PAYG = Pay-As-You-Go; CR = Credit Reserve; DB = defined benefit; DC = defined contribution; NDC = notional defined contribution; n.a.= not applicable

The table shows that the favoured financing mechanism in European public sector schemes across the previously identified country clusters is the defined-benefit, Pay-As-You-Go model. All state flat-rate universal systems operate an unfunded, defined benefit regime. The same is true for public earnings-related schemes in continental Europe and Norway. Again, the UK and Poland differ from the other countries in the PEN-REF sample. In the UK, benefits emerging from *SERPS* are based solely on contributions. In Poland, the new public earnings-related system is based on a so-called 'notional-defined-contribution' model (NDC). Here, the insured receive individual pension accounts. On the basis of these accounts, pension administrators calculate benefits *as if the system were* based on a fully-funded, defined-contribution model. The system, however, continues to finance current benefits from current contributions; i.e. the scheme essentially remains a PAYG system.

At the level of occupational pensions, all countries portray a wider scope of variety in delivery systems. In countries where occupational pensions cover a considerable part of the workforce (descending order the UK, Norway, Germany, France and Austria) financing mechanism usually vary according to sector. Whereas public sector occupational schemes generally favour unfunded systems, schemes in private sector industries vary widely: some schemes are funded, defined-contribution schemes, other schemes are partially funded. The outlier here is Italy where recent reforms are aiming to create and develop an occupational pension sector. Here, schemes generally are based of funded, defined-contribution financing models (Bertelsmann Foundation, 2001).

Private sector individualised pension plans, in turn, rely predominantly on fully funded, defined-contribution financing methods.

Where do European pension administrations acquire funds for public pension benefits? In all PEN-REF countries, pension benefits from public systems emerge from both contribution payments of the insured as well as funds from general tax revenues. Table 7 shows the different levels of contributions and state subsidies to public systems in the PEN-REF countries.

<i>Country</i>	<i>Pillar</i>	<i>Tier</i>	<i>Employee contribution</i>	<i>Employer contribution</i>	<i>State Subsidy</i>	<i>Retirement age</i>	
<i>Austria</i>	State	1 <sup>st</sup> tier 2 <sup>nd</sup> tier	10.25%	12.55%	any deficits; costs of nursing care and means-tested benefits	65	60
<i>France</i>	State	1 <sup>st</sup> tier 2 <sup>nd</sup> tier	6.55%	8.2%	variable subsidies	60	60
<i>Germany</i>	State	2 <sup>nd</sup> tier	9.75%	9.75%	20% of benefit expenditure finances redistribution	63	63
<i>Italy</i>	State	1 <sup>st</sup> tier 2 <sup>nd</sup> tier	8.89%	23.81%	overall deficit; means-tested allowance	57	57
<i>Norway</i>	State	1 <sup>st</sup> tier 2 <sup>nd</sup> tier	7.8%	14.1%	finances any deficit in the system	67	67
<i>Poland</i>	State	1 <sup>st</sup> tier 2 <sup>nd</sup> tier	9.76%(+6.5%for disability cover)	9.76% (+6.5% for disability cover)	finances guaranteed minimum pension	65	60
<i>UK</i>	State	1 <sup>st</sup> tier 2 <sup>nd</sup> tier	10%(includes contributions the the National Health Sytstem)	12.2% (includes contributions the the National Health Sytstem)	finances means-tested allowances and non-contributory benefits; Treasury provides 17% grant for contributory system	65	60

Source: SSA, 1999

Employee contribution rates in all PEN-REF countries roughly resemble each other. Contributions range from 6,55% (in France) to 10,25% in Austria. In general, public scheme contribution rates for employers are slightly above those for employees: the largest differences between the two rates are in Italy (where employer contributions are nearly three times as high as employee contributions) and in Norway (where employers contribute nearly twice as much as employees). In Germany and Poland alone, the contributions to the public system are equal for both parties. However, in Poland this does not mean that financial burdens of the pension system distribute equally: the new Polish pension system compels workers to place another 7,3% of earned income into private pension funds (see the Polish Country Report). Likewise, if the German government implements current pension reform plans, the future overall contribution rate for employees will consist of an 11% payroll tax for both parties; additionally, however, the German government will encourage (not compel) workers to invest another 4% of earnings into a supplementary private scheme.

In all countries in the PEN-REF sample, the state subsidises pension benefits. In countries that feature flat-rate, universal benefits, the state grant usually covers means-tested or flat-rate benefits (e.g. the UK). In Austria, Italy and Norway, the systems featuring the most generous benefits, the government subsidy finances any pension system deficits. Other states in the PEN-REF countries are more discerning. In Germany, for example, the federal grant is fixed at 20% of pension expenditure and, in theory, funds redistributive elements in the earnings-related public system.

Delivery systems and financing mechanisms, then, differ marginally between the different PEN-REF countries. Public pension systems, of both the flat-rate universal and earnings-related flavour, are based on PAYG, defined-benefit structures. Conversely, private sector personalised pension plans favour funded, defined-contribution financing methods.

### Governance Structures

Pension system governance refers to the roles of different institutional actors in the administration of old age income provision. This variable points to the relative political influence and control of different policy actors in pension system administration.

Table 8 outlines different forms of pension governance in the PEN-REF countries.

As a rule, public flat-rate universal schemes are administered exclusively by central pension administrations. Moreover, France, Italy, Poland and UK also have centralised the governance of state earnings-related pension schemes. In Austria, Germany and Norway, however, pension administration takes place in more decentralised bodies: in Norway, regional and local offices of the central pension administration oversee the implementation of specific schemes whereas in Austria and Germany, a network of occupationally structured QUAGOs administers the earnings-related public system.

In terms of public governance, the PEN-REF sample again splits into different clusters. First, pension governance in continental European countries features strong involvement of social partners (unions and employers). The most developed forms of corporatist self-governance are located in Austria and Germany. Here, institutions called pension carriers administer and manage pension provision. These institutions feature bi-partite governing assemblies and share the management of pension provision. Moreover, central pension administrations in France (for the mandatory occupational pension schemes), in Italy and in Poland are

governed by bi-and tri-partite bodies. However, in all cases, the central ministry retains considerable degree of oversight and policy-making authority. In Germany and Austria, self-governing bodies are so heavily regulated by the respective ministries that the degree of discretion in pension implementation is rather narrow.

Second, Norwegian pension administration takes place within state institutions at differing levels of governance. This is not to say that unions and employers have no impact on pension system governance. However, the Norwegian polity tends to channel the political influence of social partners through parliamentary processes.

Third, although management of public pension schemes in Poland and the UK resemble continental governance structures, the diversity of pension provisions has given rise to differing governance emphases. Since both of these systems have introduced substantial private sector pension provision, pension governance increasingly concentrates on regulatory issues. In Poland, for example, the central pension administration manages both the state earnings-related system as well as overseeing and regulating private pension providers. Similarly, independent industry watchdogs regulate private sector pension provision in the UK.

In sum, three clusters of countries emerge from the analysis of functions, delivery systems and governance structures in the PEN-REF countries. The first cluster of countries comprises continental European pension systems. Here, the state, earnings-related system fulfils all three pension functions. The diversity of old age income sources in these countries is relatively limited: pension provision is concentrated in a single state pillar and private sector or occupational alternatives are marginal. The British and Polish pension systems reside at the other end of the spectrum. Here, old age income provision is more evenly distributed across different pillars and tiers. Compared to continental pension systems, different pillars fulfil different old age security objectives. Moreover, the significant level of private sector provision causes policy-makers to focus on more regulatory aspects of pension governance. Last, the Nordic system combines features of both the continental and 'Anglo-Saxon' pension provision models. On the one hand, the Norwegian pension system is, like the British scheme, a multi-pillared and multi-tiered system: apart from public provisions (flat-rate universal as well as earnings-related), Norwegian pensioners draw a considerable (and growing) proportion of their income from occupational and individualised pension plans. On the other hand, the pension system in Norway has been able to provide levels of wage replacement associated with continental pension systems.

It would seem, then, that the PEN-REF findings support the idea that European pension systems aggregate into three broad categories (Esping-Andersen, 1991). Rather than falling into either the Bismarckian social insurance or the Beveridgian universal social policy model, the Nordic system appears to combine structural features of Beveridgian systems with performance aspects of the social insurance tradition.

<b>Table 8: Pension System Governance</b>							
<i>Pillar/ Country</i>	<i>Austria</i>	<i>France</i>	<i>Germany</i>	<i>Italy</i>	<i>Norway</i>	<i>Poland</i>	<i>UK</i>
<i>State, flat-rate universal</i>		State (central pension administration)		State (central pension administration)	State (central pension administration)		State (central pension administration)
<i>State, earnings-related</i>	bi-partite self-governance by pension carriers; organised along occupational lines	State (central pension administration)	bi-partite self-governance by pension carriers; organised along occupational lines	State (central pension administration); bipartite governing body in branch offices; special funds are administered by separate bodies	State (central pension administration); administration of regional and local levels	State (central pension administration); tripartite board of directors	State (central pension administration)
<i>Employer, earnings-related (occupational pensions)</i>	Employer	bipartite self governance of mandatory occupational pension schemes	Industries Mutual Funds Collective insurance	Employers and industries	Employers and industries		Employers Financial industry (contracting out)
<i>Individual, earnings-related</i>						State (central pension administration); Pension fund supervisor oversees private pension funds	Financial Industry Industry watchdogs
<i>Individual savings</i>		Financial industry		Financial industry		Financial industry	Financial industry; industry watchdogs

### 2.2.3 Common reform patterns in Europe

The differing structural features have given rise to varying reform emphases. Generally, the reform efforts in continental European countries focus on the public earnings-related pillar. Throughout the 1990s, however, governments in these countries have aimed to either establish new private sector sources of old age income provision (typically occupational pensions or individual pension plans) or encourage the development of existing private sector structures. In Norway, pension reforms have concentrated on the public flat-rate and earnings-related pension arrangements. Like in continental countries, policy-makers have attempted to shift the system towards more individual forms of old age pension provision. In the UK, pension policy debates centre on the level of benefits provided by the flat-rate, universal system. Additionally, since private sector pension provision is well established in Britain, pension policy has increasingly addressed regulatory issues.

Yet despite different reform agendas, two general reform trends have emerged in the past decade and a half. In all examined countries pension reform has been an exercise in streamlining public pension systems while expanding private forms of old age income provision.

Since about the mid-1970s (or mid-1980s in some countries), policy-makers in all countries have sought to limit the costs of public pension systems. Throughout the past decade, decision-makers have applied reforms to expenditures and revenues of public pension provision. By far the most visible reforms have aimed at reducing public pension benefits. Here policy-makers have used all conceivable pension policy levers on offer. First, pension reforms in all countries have raised either the standard retirement age (Germany and UK) or the actual retirement age. In most countries, most notably Austria, France, Germany, and Italy, governments have introduced benefit deductions for early retirement. In many cases, for example in Germany and Austria, the deductions are below what would be actuarially neutral (in Germany, actuarial deductions are about 1/3 of what would be actuarially neutral). Second, policy-makers have manipulated and reformed existing pension calculation formulas. Throughout the past two decades, annual pension adjustment rules all PEN-REF countries except Norway, have changed to the disadvantage of pensioners. For example, since 1989, the rules for adjusting public pensions in Germany has changed twice and is set to change again in the near future. In the UK, the Thatcher government indexed the flat-rate, universal pension to price movement rather than wage increases. Moreover, particularly in continental countries, experts have been devising actuarial means of accounting for demographic ageing in pension benefit calculation: again, the effect of these endeavours has been to lower replacement rates. Third, policy-makers have reduced the level of general redistribution within public pension systems. Throughout the PEN-REF countries, eligibility criteria for disability pensions have become tighter (particularly in Austria and Italy). What is more, survivor benefits as well as non-contributable benefits have decreased in most PEN-REF countries.

In the light of the projected financial problems associated with demographic ageing, policy-makers in most PEN-REF countries have increased the flow of revenues into public pension systems. Increasingly, however, policy-makers, particularly in continental European countries, have been careful to avoid increasing pension contributions. Instead, they have concentrated on increasing the coverage of the system. For example, in Austria and in Germany reforms in the 1990s have included new forms of employment into social

insurance. Additionally, most governments in PEN-REF countries have simply increased the state subsidy to the system to relieve pressure on increasing contribution rates: again, this has been most visible in continental pension systems.

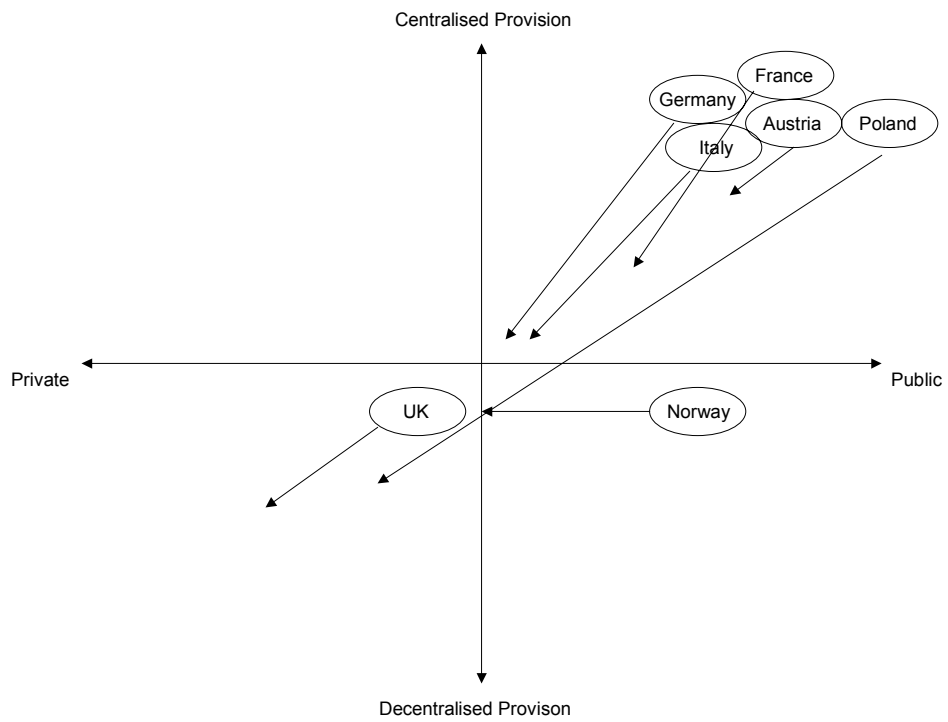
A few countries, most notably Italy and Austria, have harmonised different public pension systems. In Italy, the reforms of the past decade have aimed to reduce the multitude of different pension arrangements within the public pillar. In Austria, and to a lesser degree in Germany, policy-makers are slowly moving towards harmonising privileged pension arrangements (such as civil service pensions) into mainstream pension provision. Similarly, separate pension provisions (e.g. for miners) has become an issue on the Polish policy agenda

Overall, policy-makers have streamlined public pension systems by parametric changes (such as raising retirement ages or changing annual pension adjustment mechanisms) to existing systems. By pulling diverse existing policy levers, decision-makers in all PEN-REF countries have strengthened the savings function of public pension systems. In general, reforms have pursued three aims. First, reforms have tied benefits closer to contributions. Second, reforms have attempted to create clearer functional divisions between different pillars and tiers in public pension schemes. Last, policy-makers have also pursued budgetary objectives: reforms have also aimed at containing social security costs for the public purse.

In terms of expanding private sector provisions, policy-makers in all PEN-REF countries have used a plethora of direct and indirect measures. In all countries, policy-makers are either erecting (or seriously thinking about erecting) a private sector tier based on CR financing mechanisms. The extent and pace at which policy-makers are diversifying pension systems differs from country to country. At one end of the spectrum we find the British pension system which already features a strong and growing private sector pillar. At the other end of the spectrum we may find Austria where debates about private sector pension system are at a timid beginning. The former countries have implemented institutional innovations, that is new institutional structures, to encourage more private provisions: the most notable example here is Poland and, if planned reforms go ahead, Germany. Alternatively, a whole host of tax-incentives, contracting-out policies, and similar accompanying policy measures have aimed to encourage the growth of a private pension market in most PEN-REF countries. Particularly, in Italy, Norway and Germany, recent changes to the pension system point in that direction.

In sum, despite the multitude of different initial conditions and pension reform paths in the different countries, at a general level the reforms seemed to have arrived at the same place: in essence, the reform experience of the past 10-15 has been about tightening the link between contributions and benefits. In general, pension reform debates have centred on ways of reducing social security costs. In a very real sense, the general direction of reform in all PEN-REF countries has shifted responsibility for old-age income provision away from the state (1<sup>st</sup> pillar) towards both employers (2<sup>nd</sup> pillar) and individuals (3<sup>rd</sup> pillar). Pension provision, then, is slowly moving away from centralised public systems to more decentralised private systems (see Figure 3).

Figure 3: The General Direction of Pension Reform in PEN-REF Countries



### 3 Pension Policy-Making in Europe

Like pension systems themselves, the 1990s also witnessed changes to the way policy-makers go about formulating and implementing pension reform policy. Arguably, these changes outweigh the actual reforms to pension systems. Not only have policy community structures changed in all countries, these changes have (in part successfully) challenged dominant norms and practices of pension policy-making in Europe.

The changes to European pension policy-making have expanded the scope of political conflict surrounding pension reform. This has occurred at three interdependent levels. First, the community of policy actors has expanded in terms of membership in all analysed countries. Second, changes in policy communities have widened and intensified the level of political conflict within pension reform debates. Third, the transformation of policy-making in the past 10-15 years in the PEN-REF countries has made policy processes and political interaction less transparent and more uncertain.

#### 3.1 Changes to European Pension Policy Communities

In general, pension policy communities in all examined countries number relatively few institutional and individual policy actors. Apart from political elites, the pension policy issue has been the sovereign province of technical experts. In continental systems, pension expertise has traditionally emerged from the legal profession and, to a lesser but increasing degree, the economists' guild. In the UK and in Norway, expertise relies more on economic theory and actuarial sciences than law. In either case, requirements of technical expertise have in the past erected high barriers to entry for would-be pension reform policy-actors. Consequently, the number of players is rather limited: in most countries the wider pension policy community houses something in the region of 20-30 policy relevant institutions. When considering institutional actors that actually impinge on pension reforms, this number falls to the region of 10-15.

However, even though pension policy communities remain relatively small and exclusive, the 1990s have witnessed changes in both the composition of and relations within European pension policy communities.

##### 3.1.1 Pension policy communities before the 1990s

Before the 1990s, pension policy communities in the PEN-REF countries broadly conformed to the corporatist model of interest intermediation (Schmitter and Lehmbruch, 1979). The institutional policy actors within pension policy networks (Rhodes, 1990) reflected tripartite corporatist constellations: as a rule, pension policy formulation and decision-making was a bargaining process limited to representatives from state, capital, and labour.

These tripartite policy communities featured strong organisational interdependencies between institutional actors. A key resource in pension policy-making was (and continues to be) credible pension knowledge (Reynaud, 2000). Before the 1990s, state actors and pension systems administrators (such as the pension carriers in Austria and Germany)

operated and controlled all sites producing legitimate pension knowledge, be it pension expenditure statistics, demographic and financial projections, or forecasts about future developments of benefits and contributions. In this way, states could tie the corporatist partners into the bargaining process: impact on pension policy necessitated “credible pension data” which was available from a limited number of controlled sources (Nullmeier and Rüb, 1993). In return, social partners provided political co-operation and compliance. Although the power of corporatist policy actors differs from country to country, withholding political compliance would, at least, slow down the policy process (as in Austria and Germany) and, at its most effective, paralyse reform attempts (as in France and Italy during the 1980s).

These interorganisational resource dependencies gave rise to tightly organised, institutionally interdependent pension policy communities. Frequent interaction among individual policy actors with shared epistemic commitments led to the emergence of a highly selective, ideologically coherent and institutionally interdependent group of policy-makers. By effectively insulating the issue area from other policy spheres as well as other policy actors, pension policy communities managed to control problem definition, agenda-setting and policy formulation.

Consequently, policy change, if it took place at all, occurred within narrowly delimited and carefully defined boundaries. The complicated web of organisational resource interdependencies implied that each reform attempt also tested the political viability of the corporatist bargaining system. In order, then, not to upset the fragile internal balance of power between policy actors and to substantiate the claim to superior knowledge to external contenders, policy-making in European policy communities strongly tended towards consensus-seeking. Often, the aim of policy was to forge agreement among social partners rather solve a perceived pension problem (see also Lindblom, 1958).

In Austria, Germany, France and Italy, pension reform emerged from a intricate bargaining process that sought to create consensus across any conceivable socio-political cleavage (social partner, party political, etc.). By limiting the pension reform agenda to relatively innocuous issues, pension policy communities curtailed political conflict by either excluding or co-opting dissenting voices. What were the innocuous issues? Basically, policy communities defined pension problems so that policy solutions exclusively fell *within* the institutional logic of existing pension provision. In both France and Italy, a decade of debate about pension reform in the 1980s produced little or no concrete policy outputs; changes in both countries took place in the 1990s. In Germany, the PRA 1992 (passed in 1989) emerged from a process in which the pension policy community selectively set the agenda to devise a predominantly parametric reform of the pension system.

In the UK, Poland, and Norway, however, these tendencies were less pronounced. Given the peculiarities of the British parliamentary system, governments are not compelled to seek majorities. Thus, in Britain, pension reform usually reflects the preferences of the party in government (Reynaud, 2000). In Norway, the relatively strong position of parliament in the pension policy community has rendered the Norwegian pension policy community less immune to political conflict: reforms of the past years show that Norwegian pension policy-makers are willing to implement policy measures unpopular with social partners.

### 3.1.2 The diversification of policy actors in the 1990s

Throughout the 1990s, pension policy communities in all PEN-REF countries have become less cohesive and more diverse. At the level of the policy community, the past decade has witnessed an influx of new institutional policy actors in all countries. This, in turn, has ruptured the web of interorganisational resource dependencies within pension policy networks. At the level of policy elites, the 1990s have seen a significant realignment of ideological allegiances.

In terms of policy actors, the banking and insurance industry has become more active in the pension reform debate. This trend is most visible in the UK and in Poland: here, pension reforms have formally created a space for increased industry involvement in policy-making. However, the same is true, albeit to such a considerably lesser extent, in continental European and Nordic countries. In Germany, France, Italy and Norway, the private financial sector has increased its efforts of influencing pension reform outcomes by adopting more proactive policy strategies and circumventing established corporatist channels of policy interaction. Even in Austria, the country in which corporatist interest mediation is strongest, the private sector is becoming increasingly active in providing pension-related products.

Another significant addition to pension policy communities in all countries is the media. Throughout the past decade, all countries show a change in both the frequency and content of articles about pension reform issues. Media coverage in all countries tends to describe pensions in terms of impending financial crisis: the emphasis here is on the inequitable distribution of burdens across generations. Metaphors such as 'the tidal wave of old age' (Norway), the 'struggle of the generations' (Germany), and the 'demographic time-bomb' (ubiquitous) underline the alleged urgency of policy action. In general, the media is quick to criticise policy-makers for inaction. In continental countries, particularly Germany, France, Italy and Poland, the media equate parametric reforms within the established pension system with governmental weakness, agency capture, and electoral cynicism: the failure to radically reform pension systems (usually meaning a shift to a CR financing mechanism) reflects the inability of policy-makers to rid themselves of old fashioned corporatist dogmas as well as the unwillingness of policy-makers to jeopardise the 'grey vote'. In Norway and Austria, media attention has been less sustained and has concentrated more on particular reform issues. The outlier, yet again, is the UK: since pension policy in general is a somewhat marginal issue, it makes for poor headlines in the media: a notable exceptions here is the Maxwell scandal<sup>7</sup>.

In terms of interorganisational resource linkages, new arrivals to pension policy communities have come replete with new ideas and approaches to pension policy-making. In many cases, new actors to the policy communities have established competing sites of knowledge production. For example, the significance of think-tanks has increased throughout the 1990s. The independence of these think-tanks varies. Most independent think tanks are 'close' to a particular policy position or political party: for example, Demos in the UK is (somewhat unfairly) said to be close to 'New Labour', both the Adam Smith Institute (UK) and the Cato Institute (USA) champion libertarian policies, and the ZeS (Germany) is close to a

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<sup>7</sup> The media tycoon Robert Maxwell illegally rerouted substantial sums of money from his employees' pension funds into the Maxwell corporation. When it became clear that Maxwell would not be able to cover up the fraud, he committed suicide.

conventional German social policy approach. Other think-tanks have more concrete institutional ties to policy actors: the *Deutsches Institut für Altersvorsorge* (DIA) in Germany is nominally independent but receives funding from the *Deutsche Bank Group* and *Deutsche Bank Research* is a department of the banking corporation whose mission is to inform the DB's board of directors.

What is more, the rise of think-tanks has also meant the advent of transient policy actors that dip in and out of pension reform debates. The most prominent example in the PEN-REF countries is Poland. Here, international experts, mostly from the World Bank and USAID but also experts within the PHARE framework, have provided 'technical assistance' for pension policy formulation and implementation. To a lesser extent, increasing transience of expertise and knowledge is also evident in other countries. At some point in the 1990s, reform processes in most countries are punctuated by one-off reports by external experts: in Germany, the projections of the Swiss consultants Prognos in 1987 and, in Austria, the report by the German economist Bert Rürup in 1996 are examples of transient participation in a national pension policy process. Often, these pieces of expertise become reference points for the policy debate: policy actors within the national community confer a status of non-partisan 'hyper-objectivity' on these pieces of pension knowledge. Yet, findings in these (commissioned) reports more often than not emerge from assumptions provided by central actors in the national pension policy community. However, compared to other issue areas such as the environment, transnational links between policy communities as well as links between policy communities and international organisations remain relatively weak.

At the level of political elites, the 1990s have brought about a reshuffle of political allegiances. Political parties no longer mirror corporatist cleavages. Rather, many major parties in PEN-REF countries are split internally along the lines of competing advocacy coalitions. Moreover, in continental European polities, advocates of the social stability policy story rare rapidly disappearing from the political map. In the UK and Germany, the 'purge' of old-style social policy experts from both the major parties (but specifically from the German Social Democrats and the British Labour Party) has been particularly noticeable. A similar process also took place in Italy and, to a lesser degree, in France and Austria. In the latter two cases, traditional social democratic values weathered the ideological upheavals of the 1990s far better than in Germany or the UK. The shift the union's traditional allies towards the centre of the political spectrum has, especially in continental countries but also in Britain, left the unionised labour movement on high and arid ground: unions, in terms of pension policy-making, cannot count on the uncompromising political support from socialist or social-democratic parties.

In sum, the diversification of participants in European pension policy communities has contributed to loosening formerly cohesive interorganisational ties at two levels. First, the new entrants to pension policy communities have challenged the cognitive monopoly of conventional pension knowledge. Not only are the new sites of knowledge production in a position to interpret pension data within the conventional pension paradigms<sup>8</sup>, they have also brought new approaches to bear on the pension issue. In all PEN-REF countries, the

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<sup>8</sup> A very simple explanation here may be the increased accessibility to computing power. For Germany, Nullmeier and Rüb (1993) point out that in the 1980s, the German Labour Ministry (BMA) was the only location with sufficient computing power to crunch credible numbers. In the 1980s, the ministry performed all calculations of alternative pension reform plans. While this is still nominally the case (see German country report), credible (if not necessarily legitimate) projections now emerge from a plethora of sources.

generational accounting and internal rate of return comparisons have surfaced (albeit with variable impacts) throughout the 1990s. In short, there no longer is one dominant pension truth but several alternative and competing pension truths: changes in pension policy communities have introduced scientific uncertainty.

Second, both the additions to the pension policy community and the changing socio-economic conditions of the 1990s have fractured the web of corporatist interaction. Increasing international competition as well as changing forms of accumulation and employment have transformed the political outlook of pension policy actors. In general, employers and employer's organisations have become decidedly indifferent towards national social policy-making. Tight labour markets, perceived global competitive pressures, and access to global markets imply that employers and enterprises no longer rely as strongly on co-operation and compliance from other social partners, specifically the unions. Add to this the realignment at policy elite level and the relative marginalisation of labour unions in Europe is complete. Consequently, private sector policy actors throughout the 1990s have become increasingly assertive in terms of their own perceived interests and increasingly recalcitrant *vis-à-vis* union demands. This tendency is most marked in the UK, Germany, Italy and, less so, in France. In Austria and Norway, however, employers are still relatively co-operative but have become far more proactive. In this context, Poland is an outlier since the private sector is as yet still emergent.

### **3.2 The Emergence of Policy Conflict**

The changes in European policy communities have widened the scope of political conflict in European pension policy-making. In all PEN-REF countries, albeit to differing degrees, new approaches to pension reform have challenged formerly dominant perceptions and definitions of the pension issue. As a result, formerly cohesive pension policy communities have split into conflicting "advocacy coalitions" (Sabatier and Jenkins-Smith, 1993). These advocacy coalitions consist of institutional and individual policy actors who rally around distinctive sets of beliefs about a particular issue area. In all PEN-REF countries, the membership of these advocacy coalitions cuts across formal institutional boundaries as well as levels of governance.

In the PEN-REF countries, (at least) three different sets of beliefs, or policy belief-systems, have guided policy actors in constructing divergent policy stories about pension reform. Each policy story starts from differing initial assumptions, each provides an interpretation of pension policy problems, and each provides different policy solutions.

The institutional 'location' and relative strength of the advocacy coalitions differ from country to country. Similarly, specific policy prescriptions apply to particular national contexts. However, the effect of the emergence of three advocacy coalitions has been the same in all countries: they have reintroduced principled policy conflict to European pension reform debates. Consequently, conflicting policy stories have implied the end of consensual policy-making in European pension policy communities.

### 3.2.1 Common and competing pension issues definitions

Despite ideational diversity within and across national pension policy communities, policy-makers in all countries perceive general policy challenges similarly. First, policy-makers and experts in all countries understand demographic ageing and the unfavourable future development of replacement rates to be the root cause of the pension problem. Second, demographic imbalances, policy-makers in all countries point out, will place considerable financial strain on existing pension systems in the future. Last, policy-makers in all countries point to the set of social, economic and political developments commonly referred to as globalisation. Increasingly, economic agents, whether these are enterprises or individual workers, compete in global markets: for many policy-makers, this implies that future societal wealth will depend on costs and competitiveness. Moreover, policy-makers in all PEN-REF countries point to changes in household structures and employment patterns: increasingly, the male bread-winner model and life-time employment are becoming the exception rather than the norm. In the future, pension systems will have to cope with issues such as discontinuous employment histories, whether for spells of unemployment, training or maternity/ paternity leave.

Although there is broad agreement about general problems within and across different national pension policy communities, the interpretation of policy challenges has given rise to conflicting problem definitions. Differing constructions of the pension issue have divided national pension communities in similar ways.

In general, advocacy coalitions emphasising intergenerational equity seek to expand the pension issue. The effects of demographic ageing, so the argument goes, are not merely limited to PAYG pension systems: rather, the expected increase in dependency rates is likely to affect national economic performance as a whole. Globalised markets, advocates argue here, reward those economies with low production costs. Yet, in order to cover generous and unsustainable pension promises, public PAYG DB schemes will foist an intolerable financial burden on both younger workers and employers in the form of ever-increasing social security costs. This, proponents maintain, inevitably leads to contribution evasion by younger workers and a general loss of international competitiveness.

Conversely, advocacy coalitions focussing on social stability generally limit the pension issue to technical problems. Here, the issue is how to best adapt and fine-tune existing systems to demographic and socio-economic challenges. Demographic ageing and socio-economic change, the argument goes, requires judicious and measured social management by competent experts. Given the central role and proven track-record of existing pension systems in securing social stability and intergenerational solidarity, the main pension issue here is to keep those institutional mechanisms intact. This, advocates argue, includes securing the public's trust in the pension system by providing stable and reasonable replacement rates.

Last, the advocacy coalition stressing social justice and equality applies a holistic view to expand the pension issue beyond economic or technical considerations. Here, pension schemes are a part of a socio-economic system that, in general, is highly inequalitarian. By relying on standard, male-dominated patterns of employment, existing public and emergent private sector pension schemes penalise and marginalise vulnerable social groups: these include, most prominently, the working poor, families, women, people with special needs, as well as persons adopting alternative life-styles. Demographic ageing and globalisation,

protagonists here argue, is likely to exacerbate existing social problems of inequality. Pension reforms, the argument goes, need to be a part of general societal reform agenda which aims to level social injustices.

At a more detailed level, country-specific pension issues arise from differing national socio-economic and political contexts. In Germany and Italy, the wider pension policy debate has a distinctive regional dimension: in Italy, this dimension addresses imbalances between the North and the South whereas in Germany the issue is about inequalities between the East and the West. Due to the considerable role of the private sector in Poland and the UK, pension policy problems here revolve around regulatory issues. Additionally, the strong focus on old age poverty and means-testing distinguishes the UK pension debate from its European counterparts. In Norway, due to oil wealth, the issue of how to finance demographic ageing is not as acute in the other PEN-REF countries: the divisive policy problem here, however, is how to best use these oil funds.

### 3.2.2 Competing policy solutions

Unlike other policy areas, the pension issue features relatively few policy levers. At a general level, policy-makers have three broad policy options. First, they can implement reforms exclusively *within* existing structures. Second, policy-makers can aim to create or encourage new forms of pension provision *outside* existing pension systems. Last, the most typical pension reform pathway in the PEN-REF countries, decision-makers can both reform existing structures and encourage alternative old age income provision.

When policy-makers reform pension systems from *within* existing institutional structures, the architecture of PAYG pension systems provides three basic sets of policy levers. These, in turn, incorporate different specific policy measures (Hinrichs, 2000) including:

- reforms to benefit structures: here, measures include
  - o reforming the pension calculation formula (suspending or altering annual indexation of pension growth or introducing demographic variables);
  - o increasing the standard retirement age;
  - o introducing actuarial deductions for early retirement;
  - o reforming eligibility criteria for disability pensions;
  - o retrenching intragenerational redistribution
- reforms to contribution rates: options for policy-makers comprise
  - o increasing contribution rates;
  - o extending coverage (either by widening the circle of insured persons or by increasing the income ceiling);
  - o differentiating contribution rates according to specific criteria (e.g. number of children or whether contributor is a wage earner or rentier);

- reforms to state involvement: the available levers include
  - o directly introducing or increasing tax-financed elements;
  - o increasing indirect measures such as
    - population and immigration policy
    - combating unemployment
    - increasing productivity, i.e. investments in human and physical capital)

(Hinrichs, 2000)

In general, then, institutional path-dependency constrains policy innovation when reforming pension systems from *within*.

Reforms that aim to move beyond existing pension systems provide policy-makers with a wider array of policy options. In the PEN-REF countries, these reforms have either created new forms of pension provision outside public PAYG systems or, in most cases, have encouraged the development of existing alternative forms of old age savings. Measures have included

- creating mandatory CR pension schemes managed by the private sector (e.g. Poland, Italy)
- creating voluntary CR pension schemes managed by the private sector (Germany, conditional on implementation of present reform plans);
- strengthening occupational pension schemes (e.g. Norway);
- providing tax incentives for private pensions (UK, Norway, Germany);
- providing the opportunity to 'opt out' of state sponsored occupational schemes (UK).

Although throughout the 1990s, European governments have pulled most of the available policy levers (Hinrichs, 1999), advocacy coalitions within national policy debates have been more discerning. In all PEN-REF countries, the array of policy-options provide basic elements or building-blocks that policy actors use to construct plausible policy stories. The way policy actors in the pension reform debate in Europe have combined different policy solutions into coherent stories or arguments is, however, not random. Rather, the selection and advocacy of specific policy solutions reflects the fundamental policy beliefs that characterise particular advocacy coalitions. In this way, policy actors construct policy solutions will fulfil fundamental normative aims of policy-belief systems. In short, policy-belief systems provide the blue-prints of how to construct plausible policy stories in the pension reform debate.

Generally, three distinct sets of policy solutions have emerged from pension reform debates in PEN-REF countries. First, the advocacy coalition championing intergenerational equity favour pension reforms that reduce social insurance costs and urges policy-makers to look for alternatives to public PAYG systems. Reform proposals have centred on ways of limiting

the long-term increase of contribution rates. Policy actors have suggested diverse ways for reducing the expenditure of public PAYG schemes including increasing the retirement age, abolishing early retirement, reducing replacement rates, and cutting redistributive elements within pension systems. Significantly, advocates of this policy story propose a partial or total shift to fully funded and privately managed pension schemes.

The presence of this advocacy coalition differs in the PEN-REF countries. In the continental Europe, the intergenerational equity story has received most attention from governments and the media alike in Germany, in Italy and, significantly, in Poland. However, arguments for more market-based pension provisions are less pronounced in France and virtually absent in Austria. In Norway, this discourse has influenced debates about early retirement, disability pensions and occupational as well as private pensions. However, in Norway this line of reasoning has caused a more fundamental ideational shift: the characteristically Nordic perception that pensions confer social rights is retreating in favour of a view that pensions are a means of long-term savings. In all countries except the UK, this advocacy coalition has challenged dominant pension wisdom in the past decade.

Second, the advocacy coalition arguing for social stability emphasises the need for judiciously balanced fine-tuning and adaptation. The aim here is to secure the long-term viability of existing pension systems. The catalogue of proposed reform measures is extensive and differs widely between countries and even within countries at different points in time. The *leitmotif* of reforms in this vein is to rely on the organisational resources of established PAYG systems without changing the basic institutional identity of the pension system. In general, reform proposals have suggested increases in contributions, retrenchment of benefits and reductions redistributive elements in public PAYG pension schemes. However, unlike advocates of the intergenerational-equity approach, the aim of reform options here is to obviate the need for substantial private sector involvement in pension provision.

In continental countries, advocates for the social stability story still represent the pension policy establishment. Typically located in key positions within the administrative structure of the PAYG pension system, proponents of the rational management approach still command considerable influence over pension policy debates. However, in several continental European countries, the cognitive and policy-making authority of the pension expertocracy has become shaky. Particularly in Italy, Poland and, to a lesser extent, in Germany more market-oriented discourses have undermined the cognitive and policy-making status of the established pension policy community: here, policy communities have not been able to avert partial or total shifts towards private sector provision. In Austria and France, however, ideas of rational management still dominate pension reform debates. However, here, like elsewhere in the PEN-REF sample, it is a debate about the rational management of pension cuts rather than pension system expansion. In Norway, the social stability story has traditionally played a more subdued role alongside more equalitarian social policy discourses. Unlike in continental countries, market-oriented challenges have strengthened advocates of rational management: proponents of systemic stability have instrumentalised market-oriented ideas to 'purify' and 'streamline' the Norwegian pension system by retrenching more universalist and egalitarian elements. Finally, advocates of social stability and rational management play a marginal role in the UK pension debate. In part, this reflects the institutional set-up of the British pension system: unlike European counterparts, the UK pension policy community simply does not feature quasi-independent corporatist structures (such as the pension carriers in Germany and Austria) characteristic of many continental countries. In part, however, the comparative absence of the rational management policy

story in the British pension debate points to the dominance of a particularly virulent strain of market-oriented liberalism in British social policy as a whole.

Third, the policy options proposed by advocates of social justice and equality aim at levelling inherent social inequities. Pension reforms, they argue, need to recalibrate old age income provision so that they allow individuals to fully determine their own destinies. This means that pension benefits should free the aged from both patriarchal state intervention as well as the vagaries of capital markets. In order to provide this degree of individual self-determination, pension benefits should provide an adequate level of old age income to all citizens, regardless of labour market participation. Thus, advocates of social justice and equality propose to increase redistribution among different social groups: high pensions need to fall so that low pensions can increase. Moreover, proponents of this policy story urge policy-makers to harmonise different pension systems (thereby abolishing occupational privileges) and increasing coverage of the pension scheme to all citizens.

The policy story about social justice and equality languishes at the margins of most PEN-REF pension policy debates. In continental countries, the most vociferous proponents of this policy story are the German and Austrian Green Parties. However, despite the German Green Party's government participation, proponents of the social justice and equality discourse have only had a limited impact on current German pension reforms plans. In Austria, in turn, the Greens are consigned to an opposition role at both governmental and policy community level: their impact on pension reform has been negligible. In France, Italy, and Poland egalitarian policy arguments about social justice are conspicuous in their absence. The Norwegian and British pension systems, however, institutionalise egalitarian principles, albeit to considerably different degrees. In Britain, the basic state pension provides equal benefits to all contributors at comparatively low rates of wage replacement. In Norway, in turn, the basic universal pension benefits are more generous and eligibility is independent of labour market participation. Consequently, policy arguments in the social justice and equality vein have more of an impact on policy debates than in continental countries. Whereas, however, the British debate is about ameliorating old age poverty in an essentially market-oriented context, the Norwegian debate is about granting fundamental social rights.

### 3.2.3 The level of policy conflict

The emergence of advocacy coalitions has disturbed the formerly quiet waters of European pension reform by expanding the scope of political conflict. Yet, the main line of conflict differs in the examined cases. In continental pension systems (Austria, France, Germany, Italy, Poland), the main fault line runs between the intergenerational and the social stability story. Policy-makers and experts in these countries stylise the conflict as a struggle of economic policy against social policy; it is a clash between CR, DC and PAYG, DB; between the ideals of liberal markets and rational social management. In continental Europe, dominant policy actors have either co-opted the third policy story (as in Germany and Austria) or have stonewalled it completely (Italy, France, Poland). In Norway and the UK, in turn, the major conflict is between institutional proponents of social justice and equality and policy actors more inclined to stress intergenerational inequities.

Moreover, the degree and level of conflict between the warring factions differs from country to country. In Germany, Italy and France, the level of conflict is at a fever pitch. In these

countries, the pension reform debate has become a proxy for more fundamental governance issues. In Sabatier and Jenkins-Smith's (1993) parlance, the clash between the advocacy coalitions concerns "deep core" and "policy core" beliefs. With decision-stakes as high as this, the current debate in these countries has deteriorated into a "dialogue of the deaf" (Sabatier and Jenkins-Smith, 1993) or an "intractable policy controversy" (Rein and Schön, 1994). Here, pension knowledge has become a rhetorical resource: policy actors can no longer solve disagreements by recourse to 'facts' because the 'facts' have become an integral part of an advocacy coalition's rhetorical strategy. Pension knowledge, then, has become 'repoliticised' in the sense that what seemed 'objective fact' a decade ago now reveals a fundamental political bias. Indeed, the form of political interaction has become less than genteel: in policy debates, mutual recriminations and accusations fly thick and fast. Each side accuses each other of irresponsibility and dubious ulterior motives. On the one side, policy actors point to unions and governments merely wanting to save their own political necks by burdening young workers (see Austrian, French and German Country Reports). On the other side, contending policy-makers conjure up images of destitute pensioners and class warfare all for the sake of short-term profits lining fat-cat employers' pockets. In short, agreement, let alone consensus, is unlikely.

In Norway and Poland, in turn, conflict about pension reform is at a moderate level. In Poland, however, policy actors had to 'tame' policy conflict institutionally: the creation of an independent professional body in charge of pension reform (the Office of the Plenipotentiary, see the Polish Country Report) effectively took decision-making out of the hands of competing advocacy coalitions. In Norway, the political consensus on basic Nordic values of social security provision is still intact. Additionally, given Norwegian oil wealth, the case for immediate and drastic policy action is somewhat implausible.

Last, the level of conflict in the UK is at a remarkably low level. On the one hand, the dominant position of the British government in the pension policy process promises meagre pay-offs for confrontational political behaviour. On the other hand, British policy-makers are relatively indifferent to the pension issue in general.

### **3.3 Changes in Policy Processes**

European pension policy processes stands apart from other issue areas due to four distinguishing characteristics. First, in terms of policy actors, pension reform is a high profile political issue in all countries except the UK. Throughout the 1990s, pension reform has become increasingly subject to what Baumgartner and Jones (1993) call "serial processing". Rather than stewing in the murky waters of specialist policy communities (where politics processes many policy issue in parallel), pension reform has shifted into the limelight of elite policy-making (where policy-makers process one policy issue at a time).

Second, pension reforms are always subject to a formal legislative process. Unlike other policy areas, say environmental policy, pension policy-makers have little scope for independent, non-legislative policy formulation (such as voluntary codes of conduct, best practices, etc.).

Third, pension reform in all PEN-REF countries takes place exclusively at the national level. The pension reform issue has few downward links to regional or local arenas of policy-making. Moreover, the upward linkages to supra-national policy formulation are generally

informal (via contacts with the wider academic community) or, where they are more formalised, relatively weak (e.g. membership in international professional associations such as ISSA). Since social security is a subsidiarity issue, the European Commission can, at best, play an indirect and consultative role.

Fourth, although pension reform is a national legislative issue, parliaments play a relatively minor role in decision-making (with the possible exception of Norway). In all countries within the PEN-REF brief, pension reform has traditionally been detached and somewhat insulated from mainstream policy-making. The result is that pension policy-making in all countries takes place in a grey and informal area 'located' in the ante-room, or 'front-yard' of the formal parliamentary process. This grey area consists of a multitude of informal, ad hoc commissions, committees, hearings, policy advisory groups, expert round tables, etc. whose membership and policy relevance reflects the political power constellations within the pension policy community.

Given the informal and ad hoc nature of pension policy processes, changes in the 1990s have introduced political uncertainty into pension policy-making. Conflict in pension policy communities not used to political confrontation has made pension reform a politically more precarious affair. Whereas the corporatist system of interest mediation carefully regulated who interacted with whom, where, when, and, most importantly, about what, policy interaction in the past decade has occurred in increasingly unpredictable ways.

Pension policy communities, particularly in continental polities but also in Norway, have not kept pace with the shifting and uncertain alliances at policy elite level. In Austria and Germany, both present government coalitions (social democrats and Greens in Germany, conservative and ultra-right in Austria) would have been unthinkable only a few years ago. In both polities, governments have circumvented corporatist decision-making structures. In Germany, the present government has kept the traditional pension policy establishment at arms length. In Austria, in turn, policy-makers simply invented new policy venues to keep pension reform from the sway of the powerful Austrian social partnership. In Italy, the replacement of the entire post-war party system has given rise to vulnerable and volatile new political alliances on both the right and left of the political spectrum. Further, the reorientation of social democratic and socialist parties towards centrist policy agendas has politically stranded large parts of the traditional pension policy establishment.

Moreover, the expanding the scope of political and ideational conflict has suspended the implicit 'rules' of policy engagement in pension policy communities. Policy conflict and competition on 'knowledge markets' have successively eroded those policy norms that secured consensual decision-making in pension policy communities. As yet, with the possible exception of the UK, policy actors in all PEN-REF countries have not yet agreed on a new set of rules that could regulate the more conflictual policy sphere: indeed, in countries such as Austria, Germany and France, these rules are an integral part of heated policy conflict.

Who have been the winners of this ongoing transformation? On the one hand, the beneficiaries of changes in policy-making structures and styles are governments and state bureaucracies. In a very real sense, increasing diversity of actors and ideas has increased the strategic options open to governments. The break-down of corporate-style consensual policy-making has emancipated governments from the strictures of epistemically uniform pension policy experts. Rather than one 'pension truth', governmental policy-makers now have the choice of several plausible policy stories. Since the sites of credible pension

knowledge no longer reside solely within the corporatist pension policy community, there are far more 'scientifically sound' pension policy options to choose from. For governments with vague and broad ideological commitments (such as most major European parties), more ideational and institutional diversity means an increase in potential strategic alliances. This, in turn means more governmental leverage on potential partners since governments are less constrained (ideologically and in terms of credible pension knowledge) by policy actor demands. In sum, the changes in policy-making in the 1990s have shifted the control of the pension reform agenda from experts and policy actors towards governments.

On the other hand, however, uncertainty in policy-making also implies that policy success has become more elusive. Although overall pension reforms in the 1990s have generally moved systems away from unitary provision towards more diversity, the decade is also littered with spectacular examples of policy failures. In Austria, failure of the 1995 pension reforms led to the collapse of the coalition government. The German Pension Reform Act 1999 (*Rentenreformgesetz 1999*), overturned by the incoming SPD/ Green government only a year after it was adopted, arguably hastened the demise of the Kohl era. In Italy, the Berlusconi government failed to implement planned reforms due to the defection of the ultra-right wing coalition partner, the *Lega Nord*.

Increasing political and scientific uncertainty have also reduced democratic accountability of pension policy-making. Although pension reform in the countries examined by the PEN-REF project has become more open and conflictual, this is not necessarily been synonymous with an increase in democracy for several reasons. First, increasing governmental autonomy in agenda-setting and policy formulation is not necessarily the same thing as increasing popular control over pension policy-making. Although, governments are in principle more accountable than unelected functionaries, in reality the differences are relatively marginal. Second, pension policy-making still predominantly takes place in the front-yard of the parliamentary process by pension experts (who now tend to disagree more than they agree). Third, and most importantly, although an increase in diversity and conflict is desirable from a democratic perspective, democracy also implies the existence of institutional mechanisms for peacefully resolving policy conflict. As the evidence from the PEN-REF cases shows, the parliamentary front-yard is far more suitable to corporatist consensus-seeking than to the resolution of intense and fundamental policy conflicts. If the pension policy process in Europe is to be democratically accountable, policy-makers will have to design a suitable political venue equipped with the institutional means for resolving fundamental policy conflict.

## 4 Conclusion

We have seen how pension reforms in the past decade and a half have introduced diversity to both pension systems as well as pension policy-making. In terms of reforming actual pension systems, differing initial conditions and institutional path-dependency have led to a host of different pension reform measures in the examined cases. However, there are two general reform trends that span all countries:

- reforms have streamlined public pension systems by tying benefits closer to contributions thereby strengthening the savings functions of pension systems
- reforms provided space for the development of private sector forms of old age income provision

This has implied a shift in responsibility for old age security. Increasingly, states are divesting themselves of pension provision obligations. What is more, the decreasing willingness of states to shoulder all of the responsibility for old age income has met enthusiasm on part of private sector providers to take up the slack. In a very real sense, pension reforms are creating a viable role for private sector pension provisions by lowering expectations concerning the level of future public pension benefits.

We have also seen how the way policy-makers and policy actors go about formulating pension reform has changed considerably in the 1990s. In essence, corporatist models of interest intermediation have given way to a more complex and more conflictual policy process.

Throughout the countries examined by the PEN-REF project, pension policy communities have become less integrated and more populous. New policy actors, such as the banking and insurance sector, have introduced new forms of pension knowledge. However, increasing ideational diversity has been synonymous with increasing scientific uncertainty and increasing policy conflict at all levels. Whereas pension policy-making before the 1990s was based on consensus across corporatist and political cleavages, pension reform in the 1990s is characterised by increasingly hostile political conflict. In many countries, pension reform debates have become 'intractable policy controversies' in which knowledge and "credible pension data" are merely a rhetorical resource.

Since corporatist forces in pension policy communities have increasingly lost the ability to control pension problem definition and pension reform agendas, policy-making as a whole has become more uncertain. Diversity of actors and ideas have provided policy-makers with more choice: the 1990s has seen the rise of new political alliances and 'strange bedfellows' in pension policy-making. On the one hand, this has empowered government in the sense that new strategic allegiances have become more viable. On the other hand, conflictual policy-making implies that the risk of policy failure increases, as the 1990s in all PEN-REF countries show.

In the long-run, however, the presently high level of divisive policy conflict, as is evident in many continental European countries, is probably not conducive to pension policy-making. The risk here is creating policy deadlock, where policy conflict gets in the way of necessary reform, or vicious policy circles, in which successive new governments overturn pension reforms of their predecessors. In essence, policy-makers face two general options:

- *remove the pension issue from the public sphere*: policy-makers can institutionally ring-fence the pension policy issue. Institutionally insulating the pension issue from policy conflict would imply creating an independent pension institution that credibly stands above the political fray (like, for example, the Polish Office of the Plenipotentiary). This strategy is, however, problematic for several reasons. First, the credibility of the institution will depend on finding a common problem definition that all actors can agree on. Yet, the 1990s have been about dismantling common and consensual definitions of the pension issue. Second, this strategy implies a return exclusionary and democratically unaccountable pension policy-making. Apart from being undesirable from a democratic point of view, the strategy assumes that actors can agree on whom to exclude from policy-making: again, recent developments provide no indication that such a consensus is emerging. Another related way of removing the pension reform from political conflict is to 'privatise' the issue. By shifting the management of pensions into the private sector, commercial secrecy would replace public accountability. Again, this strategy is likely to prove difficult. On the one hand, the transition is likely to be subject of heated political conflict causing policy deadlock: in short, policy-makers may never reach their goal. On the other hand, given that private sector pension providers are not interested in providing redistributive benefits, even the most sweeping privatisation (see, for example, proposals by the US-based Cato Institute) would leave a residual element in the public sphere.
- *further expanding the scope of conflict*: an alternative strategy for policy-makers is to shift the pension issue from the informal expert-dominated grey-area it now inhabits into the full glare of public scrutiny. This would imply expanding the access to pension policy-making and pension policy deliberation to an increasing number of socio-political influences. While opening present pension policy-making to more socio-cultural and political plurality would enhance democratic decision-making, this policy option would inevitably decelerate pension policy processes. Moreover, creating a more open and, necessarily, more conflictual policy sphere requires an institutional framework that constructively channels ideological policy conflict. Traditionally, parliaments have provided the institutional framework for peacefully resolving policy conflicts in democracies. However, given the current suspicion many citizens in PEN-REF countries harbour towards parliamentary processes, this strategy may need to more directly include the citizen in pension reform policy.

Whatever policy-makers choose to do, pension reform is unlikely to fade from the agenda in the near or even medium term. Neither, we suspect, is policy conflict. The dangers that the way policy-makers presently go about pension reform will alienate citizens from pension policy-making and, by extension, politics in general are real. Avoiding the breakdown of trust in pension policy-making will mean thinking about reforms to pension policy-processes as much as reforms to pension systems. This, in turn, may imply bringing the citizen into pension policy-making. In short, policy-makers need to look for ways of democratising pension reform.

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