Pension reforms at European level, actors, discourses and outcomes
First draft

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Paper prepared for delivery at the 2001 Biennial Meeting of the European Community Studies Association
Madison, Wisconsin, May 31-June 2001

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Abstract

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Introduction

In most analyses of European Integration, it is generally recognised that social policy is mainly an area of national competency and that if there is a European influence, it is principally indirect and/or due to negative integration. The consensus between scholars is even greater when speaking about social security, within which the field of pensions, in particular, is considered as purely nationally driven and strongly path dependant.

The question that we would like to address in this paper is why an area so nationally embedded as pensions now (since 1999) appears to be one of the key issues on the European social agenda. The hypothesis in this paper is that it is not a dynamic that emanates from the social domain, but instead, from the economic area. It is not a classical spill-over effect, but a struggle to control this field that has just entered the European arena. The inter-linked debates on the reform of pension systems within the European arena have, on the one hand, led to a broad and shared consensus between the social and economic actors on the necessity of having a "three pillar system", inspired by the World Bank's approach to pensions. On the other hand, besides this very general consensus, the key question is how to consider pension reform; in other words, how to define the challenges and to formulate solutions at European level. The Ecofin Ministers would like to restrict the scope to financial sustainability, while the Social Council is trying to agree upon and to develop a broader definition, encompassing intergenerational solidarity.

The paper will illustrate how different players are trying to grasp the stakes of the pensions debate, each using their particular expertise (and setting up advisory boards) to reach their respective aims. It will also illustrate that when analysing the reform process, pensions must be considered in the wider perspective, notably encompassing the overall reform of the social protection system in the view of the situation of public finances.
In order to begin to shed some light on the inter-linked debates, this paper will first of all clarify the background to the pensions debate, and the different sources from which it emanates. Thereafter, the second section will review the recent developments in the area, illustrating that it is currently the economically oriented players that dominate the debate, while the socially oriented players have a hard time orienting the debate. The aim of the third section, the analysis, is manifold. Following from the descriptive section, it firstly explains how the different European actors legitimise their contribution to the pension debate. It secondly analyses the manner in which national interests are configured within the Social Council. Thirdly, it illustrates how the national or European level do drive or could drive pension reform nationally, in two contrasting cases: that of Spain and that or Ireland. The paper will focus on the current state-of-affairs of the pension debate, and the links with other broader reforms, rather than giving a comprehensive historical account of its emergence on the European agenda, since this has been done elsewhere.

1. Background

The debate on pensions has entered the European arena by different means. The first is by the rulings of the European Court of Justice, assessed from the perspective of the principles of competition. The second is more limited in scope and derives mainly from the internal market rules; the claim of the actors in this area is that the second and third pillars of the pension system are submitted to competition rules. The third is as a spill-over effect related to complying with the Stability and Growth Pact of EMU through the discourse held by the EPC, that advises the Economic and Financial Affairs Council. Finally, the fourth source of influence is through the activities of the socially oriented players.

1.1 European Court of Justice (ECJ)
Numerous analyses of the ECJ have found that it is the main driving force behind indirect positive integration, as well as an effective actor in limiting the scope and the options of national social policies (Pierson and Leibfried, 1995; Stone Sweet and Caporoso, 1998).

According to the ECJ, the public tier of the pension systems, like the other areas of social security, is not subject to the rules of free competition. As to complementary pensions, i.e. the second and third pillars, the situation is not nearly as clear (we will not discuss the issue in this paper; for a detailed analysis see Bosco, 2000; Lhernoud, 2000). Through case law, the role of the ECJ in this area has progressively been increasing, and in the absence of explicit norms on complementary social protection and its status vis-à-vis the rules of competition, it tends to be more favourable to a liberal economic logic. The Court has, for example, recognised a particular enterprise status for providers of complementary pensions. However, the Albany case indicates that the ECJ takes account of the nature of the fund. In this case, the participation in the complementary pension schemes was mandatory for all workers, and the fund was not subject to comply with the competition rules. In view of the (potential) power of the ECJ in this area, the Member States took an initiative to limit the interpretative scope of the Luxembourg Court. At Nice, they added a new sentence to the Treaty (article 137) stipulating that EU rules "shall not affect the right of Member States to define the fundamental principles of their social security systems and must not significantly affect the financial equilibrium thereof." This can be understood as a political message to the Court, indicating the need to respect the key underlying principles of the national social security systems.

1.2 Internal Market

A second route by which the European arena contributes to the pension debate is through the Internal Market Project. The directorate general for the completion of the internal market claims that supplementary pension schemes should fall under its competencies. The Green Paper of 1997 on complementary pensions can be seen as a
milestone document in the pension debate as far as complementary pensions are concerned. The document put forward that the development of retirement funds invested in shares and other long-term financial investments could play a key role in improving pensions. Following this Green Paper, different proposals, managed by the Internal Market Council, have been put forward recently, with the justification that they are geared towards a better functioning and completion of the Single Market (Math 2001a). Moreover, they are also set out to create more fertile ground for the development of capitalisation in the pension systems. Thus, the Commission has proposed a directive that aims to establish a legal framework that would be favourable to the development of safe and sustainable pension funds (European Commission, 2000) and has recently made proposals aiming at the “Elimination of tax obstacles to the cross-border provision of occupational pensions” (European Commission, 2001). In this framework, the development of complementary pensions, functioning through capitalisation, is presented as a way to develop a more effective single market of financial services.

The aspects linked to the internal market will not be developed in the framework of this paper, as on one hand, we are more concerned with the reform of the public pension scheme, rather than the second and third pillars and on the other, we do not believe that there is enough drive behind the recent developments to be able to filter into the debate on public pension schemes.

1.3 Monetary Union and Stability and Growth Pact

A third source through which the European level contributes to the pension debate is through Monetary Union and the Stability and Growth Pact. The Treaty of Maastricht and the criteria for becoming member of the Single Currency club, in particular the 3% limit for the public deficit, is used a starting point for the analysis of the possible consequences for social protection of the transition towards the new monetary regime. Since the very beginning of EMU, the key players have been well aware of its potential consequences for the reform of pensions. In her Ph.D. thesis,
Verdun (1996: 80) concludes that the European Union is deliberately underdeveloped: «Experts argued that they favoured EMU exactly because it would lead to a process of harmonization through market forces. EMU would offer legitimacy for restructuring the expensive welfare states.».

These findings are partially confirmed by the results of an inquiry by Pieters (1996), who found that a clear-cut majority of all EU respondents (researchers, political and administrative decision-makers, social partners, interest groups etc.) were convinced that attempts to meet the convergence criteria have resulted in national social policy changes, and that these efforts would in the end lead to either a stabilisation of the growth of national social security expenditure or to a reduction. However, numerous respondents from Luxembourg, Germany, the UK and Denmark argued that although their national social policy has changed, it has not been as a consequence of or in the framework of EMU. Respondents from almost all the other member states linked the convergence criteria (particularly the “3% norm”) to a reduction/stabilisation of national social security benefits, although most of them suggested that these would have had to be cut anyway and that the EMU served merely as a scapegoat. The evidence of the influence of the European level on national reforms (with the exception of Italy) is, at best, weak (Pakaslahti, 1998, Pochet and Vanhercke, 1999). It has influenced the timing of the reform (the need to enter to the EMU) more than the content. As put by Pierson (1998). "EMU is likely to have considerable consequences, exacerbating and channelling pressures for fiscal retrenchment. Yet it is essential to realise that the broad constraint on government debt/ratio, and the implication of rising interest payments, would exist in a world without EMU" The Stability and Growth Pact of EMU, (1996) re-enforced the discourse on promoting the reduction of the publicly funded pillar of the pension system in order to curb the public debt and reach a balanced budget and to create new constraint (binding recommendation, fines) when a country has a public deficit of more than 3% of the GDP.

The EPC first took the initiative to address the issue of pension reform in 1997, without having a specific mandate to this aim. The guiding philosophy of its view of pension reform was that it needed to be adapted to the ageing of the population, while ensuring
durable fiscal consolidation and improving the conditions of European labour markets. The arguments put forward to reform the pension schemes - the demographic argument, the fiscal burden argument, and the efficiency of the labour market argument – have become permanent features of the pension debate architecture in Europe.

The principal recommendation of the opinion was the containment of benefits, representing the main instrument for guaranteeing the solvency of the pay-as-you-go pension systems. The principal means prescribed for achieving this aim was by delaying the age of retirement. A second recommendation was to move away from a solidarity-based system to an individually based pension system. A third recommendation was to gradually increase the role of funded schemes. Since this initial opinion, the working group under the auspices of the EPC has worked on the question of the sustainability of pensions, and was thus able to produce a comprehensive report in 2000. These recommendations became pillars for the future strategy, as set out in its report of November 2000.

Another emerging actor in this area is the European Central Bank (ECB), which has manifested concern for the budgetary stability of public pensions (not pre-financed). In July 2000, an explicit reference to this concern was made for the first time: the ECB analysed the consequences of the ageing of the population on public finances. The ECB’s approach follows the suit laid down by EPC, particularly focusing on the effects of the ageing of the population on consumption and savings patterns, making a link with the interest rate and the situation of public finances (ECB, 2000).

1.4 Socially Oriented Actors

Social protection has come a long way since the muddled period at the beginning of the 1990s, when a cloud of confusion emerged from the two Council recommendations, the first (92/442) aiming at a convergence of objectives and policies of social protection, the second (92/441) aiming at a definition of common criteria to assure sufficient resources
and social assistance in the social protection systems of the EU Member States (Council of the European Union, 1992a and b). The need to modernise the social protection systems was put forward in the successive Commission (Directorate General of Employment and Social Affairs) Communications on social protection in 1995 and 1997. They put forward that Member States faced common challenges, such as the decreasing proportion of workers compared to the increasing proportion of pensioners, the need to make the social protection systems more “employment friendly”, and the need to review the financing of the social protection systems. The proposed remedy to the demographic burden was to increase the employment rate, in order for the pension systems to be able to be able to guarantee a decent replacement income for older persons, and to ensure that they would be provided with appropriate care. The Member States were encouraged to formulate joint strategies to respond to these "common challenges", especially since their interaction would be increasing progressively through EMU. Several observations are worth noting: the social protection strategy is closely linked to the employment strategy, consisting of increasing the overall employment rate, and making people more “employable,” which makes labour markets more productive economically. This is part of the “activation” paradigm, including “active ageing” and individual responsibility for ageing in comfort. The discourses have remained particularly vague and the dissemination of these documents has been limited to a small group of specialists. Moreover, the vagueness of the discourse has been to the advantage of EPC, which was left with a carte blanche to make policy recommendations in this area and to disseminate them widely.

By illustrating the routes by which the pension debate has entered the European arena, it is clear that although the frames of reference differ according to source, the arguments and the solutions proposed are often inter-linked. If the ECJ was in the past the European driving force in the area of pensions, it is now the economic actors and mainly the EPC, as will be illustrated in the following section, that are behind the new European dynamic.
2. Recent Developments

As indicated in the first section, the pension debate was initiated by different players, with distinct frames of reference and objectives. Several circumstantial factors, notably, the ageing of the population, the recession that affected all European countries in the 1990s and the pressure on EU Member States to reduce the public debt, contributed to the debate. However, the debate was until recently very limited or focused on particular countries (whether the EMU criteria was the cause of pension reform in Italy has been the most recent debate in academic circles). In the last two years, the initiatives pertaining to pensions have been increasing at a rapid rate. In this section, we will review the developments in the pension debate step-by-step, from mid-1999 up to present.

From mid-1999 to mid-2000, important policy documents and decisions that contributed to the debate on pension reform were produced by the socially orientated players, although the key “technical” document presenting a projection of the burden (in terms of GDP) that pensions would represent in the future (until 2050) was presented by the EPC.

2.1. Creating a European legitimacy to address the pensions question

Several arguments are proffered to explain why the European Union should deal with pensions. The most frequently cited argument concerns the consequences of the ageing of the population. The Commission put forward in May 1999 an important communication on this topic “Towards a Europe for All Ages: promoting prosperity and intergenerational solidarity”. It proposed solutions to issues which had progressively been mainstreamed into the policy debate in Europe, by the means of the four routes mentioned in section 1. The proposed solutions were:

- to bring about an increase in the employment rate in a sustainable manner, including for older workers;
• to reverse the trend towards early retirement, to explore new forms of gradual retirement and to make pension schemes more sustainable and flexible;
• to develop adequate responses to ageing in health care;
• to set out policies against discrimination and social exclusion.

These policy prescriptions, particularly the first two, are part of the "active ageing" paradigm, to which a positive connotation is associated: "promoting active ageing is about promoting opportunities for better lives", including adequate income provision and care 1.

The policy priorities in the framework of the communication on active ageing are taken up in the communication – “A concerted strategy for modernising social protection” (July 1999) indicating coherency of the European social policy discourse. The pivotal communication sets out a strategy for social protection, in which securing pensions in the framework of viable pension schemes is one of the four axes. It sets out that the pension systems are to guarantee a decent replacement income for pensioners, and to promote active ageing, namely through life-long learning and flexibility in retirement arrangements. The three others are to make work pay and promote secure incomes, to ensure a high and sustainable level of health protection and to fight poverty and promote social inclusion.

Following this Communication, the Council for Labour and Social Affairs, under the Finnish Presidency, agreed to set up a high-level working party on social protection to tackle the four axes of the communication via enhanced co-operation, consisting of identifying common challenges and exchanging experiences in order for the Member States to be able to find solutions adapted to their national contexts (European Council, 1999). The Social Protection Committee, officially established in the Nice Treaty (new article 144), is an inter-governmental gathering, consisting of two high-level civil servants per Member States and two Commission officials. At the outset, the method used for the area of pensions was "co-operation" which is a supple instrument for

policy-making: there are no recommendations, no national reporting requirements, no surveillance mechanisms and no sanctions. In other words, it is a method that depends principally on the will of Member States to respond to the challenges that they face. The success of the method depends entirely on the good will of the principal constituents involved, the EU Member States. However, some progress has also been possible in the process of implementing the method.

While a rapid consensus emerged around prioritising the objective of fighting poverty, some Member States were reluctant to address the question of pensions. The attitude changed when the Members of the Social Protection Committee were informed by the Commission that the EPC was carrying out a comprehensive study on the sustainability of pensions.2 As indicated by Chassard (2001:317) "It is important that the "social experts" should make their voice heard in this concert, so as not to leave the field open to those who view social protection from an exclusively financial angle."

The Portuguese Presidency (first half of 2000) confirmed the "activation" trend through the aim of "promoting more active ageing, combating early retirement from the labour market" (Portuguese Presidency, 2000 : 6). The Portuguese Presidency accorded a crucial place to active employment policies, and claimed that "bolstering the sustainability of protection schemes depends to a large measure on one factor: increasing the rate of employment of European populations"(Ibid). During the Lisbon European Council, an objective of increasing the employment rate of the Union to 70% by 2010 (and to 60% for women) was agreed upon. A more specific mandate was defined for the pensions axis of the social protection strategy. A forecast study on the sustainability of pensions was to be prepared by the Social Protection Committee, taking due account of the on-going work of the EPC in this area. Furthermore, a report on the contribution of public finances to employment was to be prepared by the EPC. As will be illustrated below, it will be another (influential) means by which to influence the pension debate.

2 Interview with the Belgian representative.
At the same time, the Lisbon Summit defined a new framework method, more systematised than mere co-operation: the open method of coordination. It was agreed that the question of poverty and social exclusion would be tackled with this new method. The Lisbon Summit represents an important turning point. Firstly, the introduction of OMC, a soft but co-ordinated tool with systematised reporting and multilateral surveillance, will prove to be important in the future.

2.2. Three key documents – three approaches

In October 2000, the Commission (2000) issued a communication on safe and sustainable pensions. In drafting the communication, there were intense internal discussions about the objectives of pensions between the various DGs. The backbone to the reason to address the reform of the pension system was, once again, the economic-labour market tandem. Pension reform was conceived as closely bound to a robust economic policy as well as an active employment policy, aiming at keeping older workers in the workforce for a longer period of time. The Commission pinpointed the improvements that could be made in this light: out of the present potentially active non-working adults, nearly 6 out of 10 are below the age of 65. The communication put forward ten guiding principles to the reform of pension systems:

(1) Maintain the adequacy of pensions;

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3 Open method of coordination consists of:

- fixing guidelines for the Union combined with specific timetables for achieving the goals that they set in the short, medium and long terms;
- establishing, where appropriate, quantitative and qualitative indicators and benchmarks against the best in the world and tailored to the needs of different Member States and sectors as a means of comparing best practice;
- translating these European guidelines into national and regional policies by setting specific targets and adopting measures, taking into account national and regional differences;
- periodic monitoring, evaluation and peer review, organised as mutual learning processes.
(2) Ensure intergenerational fairness;
(3) Strengthen solidarity in pension systems;
(4) Maintain a balance between rights and obligations;
(5) Ensure that pension systems support equality between men and women;
(6) Ensure transparency and predictability;
(7) Make pension systems more flexible in the face of societal change;
(8) Facilitate labour market adaptability;
(9) Ensure consistency of pension schemes within the overall pension system;
(10) Ensure sound and sustainable public finances.

The objectives are general and consensual. It is interesting to note that they seem to reflect the interests of different players. For example, objective 3, to strengthen solidarity, implies a re-enforcement of the public pillar of the pension systems, while objectives 7 and 8, to make pension systems more flexible in the face of societal change, and to facilitate labour market adaptability, indicate that individual responsibility, by investing in the second and third pillars, are to play a greater role.

In November 2000, the Economic Policy Committee (2000) presented a comprehensive projective analysis through 2050 on the impact of the ageing of the population on public pension systems, based on which its economically oriented recommendations are made. The analysis consists of long-term simulations of public pension expenditure, which are based on demographic and macro-economic assumptions. Two simulated scenarios for the future were envisaged, of which one assumed that the structural objectives set for the Union at the Lisbon Summit, including increasing the employment rate of the Union to 70% by 2010, would be achieved. According to conclusions that were based on both scenarios, pension expenditures as a percentage of GDP are on the rise. The effects on the public debt, in particular, were highlighted. The EPC put forward four recommendations:

1. Reforms should primarily aim at delaying retirement;
2. Fiscal policy should be rendered more sound and the public debt should progressively be de-cumulated;
3. The link between social contributions and benefits at the individual level should be strengthened, in the light of the equity principle;

4. The role of funded schemes should progressively be increased

It is of interest to note that the recommendations are exactly the same as they one of the 1997 opinion, when it first began to work in this area. This indicates that all the comprehensive analyses that were produced in the framework of its report were set out to support its policy line, which had been defined in advance. Within the context of the European Union, political recommendations and decisions draw on the results of the simulations in the report. Several analyses of the report have revealed that the demographic and macro-economic hypotheses on which the recommendations are based are far from being solid bases on which to project recommendations (Math, 2001). The EPC’s concern with the stability of public finances is supported by other economically oriented actors, such as the European Central Bank, as well (Dufresne, 2000). The figures from the report are now used by a variety of actors, which base their projective analyses directly on the report of the EPC. Meryll Lynch (2001), for example, proposed a normative barometer for reforms, based on the numbers and the conclusions of this report.

The next steps that the EPC has planned include the investigation of the merits of different pension systems and the possibilities for future reforms and an analysis of the impact of ageing on healthcare.

Based on the 10 priorities of the Commission, set out in its communication of October 2000, the Social Policy Committee defined in its interim report (November 6) three broad policy goals:

1. Maintaining social cohesion and social solidarity;
2. Safeguarding the financial sustainability of pension systems, in particular by improving employment performance, by adapting the structure and the parameters of pensions systems, and by increasing the budgetary room for manoeuvre;
(3) Adapting pension systems to a changing society and labour markets.

2.3. Defining the future agenda and method

During the Nice European Council, in December 2000, the European Social Agenda, covering the 2000-2006 period, was adopted. For social protection, the Social Agenda indicates when and how each of the four topics included in the 1999 Communication of the Commission will be addressed. There is a clear gradation in the objectives and instrument to be used. For poverty and social exclusion, the method to be applied is the OMC. A two-year action plan for combating poverty and social exclusion, on the basis of the joint objectives adopted during the Social Affairs Council of October, will be presented. Currently, a working group within the Commission is working on a proposal for indicators to measure poverty and social exclusion, which should be agreed upon by the end of 2001.

By 2002, an analysis will be made of the adjustments to be made to social protection systems and the progress that still needs to be made in order to make work pay and to promote a secure income.

Before 2003, a study will be conducted on how, with due regard for the requirements of solidarity, a high and sustainable level of health protection can be guaranteed.

Concerning the contribution of the socially oriented players to the debate, the Nice European Council represented a key turning point. The Social Agenda indicated that national contributions on current reform efforts in pensions were to be submitted to the European Council of Stockholm in March 2001. These contributions were based on the three broad policy guidelines laid down by the SPC, providing it with material for its work on pensions. The following stages will be determined in the next European Council (June 2001).

4 Comparing the Commission draft Social Agenda of June 28 and the version adopted by the Nice European Council we can notice how rapidly a broader consensus is emerging in these fields. In the initial Draft of the Commission, the wording was very vague concerning the objectives and the method.
On the basis of these national analyses, the Social Protection Committee is preparing a report on adequate and sustainable pensions that is due to be presented at the Gothenburg European Council in June 2001. In the draft report, the inter-linkage of different areas is considered as crucial by the Social Protection Committee in the overall framework of pension reform: “The challenge of demographic ageing requires concerted and mutually reinforcing efforts in three broad policy areas: social protection, employment and public finances...social protection policies must ensure that adequate pension provision is available to all without imposing too heavy a burden on the active population. A key instrument is... strengthening of incentives to work longer. The employment strategy must improve employment opportunities, particularly for women and older workers economic policy has to unleash the full growth potential of the economy, thereby fostering more employment growth, and to ensure sound public finances today." (p. iv) In the overall analysis of the national reports, the Social Protection Committee notes that “it will be important to keep in mind that financial sustainability cannot be achieved at the expense of pension systems' ability to meet their social goals”. It conceives the role of the European Union as helping “the Member States to progressively develop their own policies." The challenge was to focus more on the social (solidarity) than the financial dimension. This approach is supported by several Social Affairs ministers. The Social Affairs players that drive the social vision of pensions believe that the fundamental objective of pensions schemes is to provide people with a securely financed, adequate income after retirement, to be achieved while maintaining a sense of fairness and solidarity (Vandenbroucke, 2001).

The European Social Agenda also specified that the Employment and Social Affairs Council was to submit a study to the European Council of Gothenburg, defining the next steps to take at European level.

The Social Affairs Council of 6 March 2001 had an open session dealing with the pensions. A large consensus emerged on the added value of applying the open method of co-ordination (OMC) to area of pensions (for a description on the operational mechanism of OMC, see footnote 3).
During the European Council of Stockholm (March 2001), two important decisions were taken. The first was an agreement to increase the average EU employment rate among older women and men (55-64) to 50% by 2010. The second was the acceptance to envisage to apply OMC to the area of pensions. "The ageing society calls for clear strategies for ensuring the adequacy of pension systems where appropriate, the potential of the open method of co-ordination should be used to the full, particularly in the field of pensions." (European Council, 2001).

Based on a forthcoming communication by the Commission on the quality and sustainability of pensions in the light of economic change, the SPC and the EPC are to prepare a report for the Council in the view of the Spring European Council of 2002. (European Council, 2001).

2.4. Other influences

The dominant path by which the question of pension reform is addressed is that of the sustainability and quality of public finances, which falls directly under the competency of the EPC and the Ecofin Council. Their legitimacy to tackle this issue is not questioned or discussed. Starting from their analysis on the increase of spending on pensions, the EPC and the Ecofin Council argue that the Member States have to accelerate the reduction of their public deficit or consolidate their budgetary surplus. This is at the heart of the process of Monetary Union and its instruments of governance: stability or convergence programmes of the Member States, Broad Economic Policy Guidelines, etc.

The European Council of Lisbon decided that the Broad Economic Policy Guidelines would be the main instrument to establish and maintain coherence between economic and social policies. However, this instrument is essentially controlled by actors from the economic field (Ecofin Council, EPC and the Economic and Financial Committee). They work closely with a specialised unit in the Commission, GDII, which endorses a very liberal position (see particularly Communication on the Contribution of public finances
to growth and employment (COM (2000) 846 and Commission recommendation for the 2001 BGEP, Ecfin 323)).

In this framework, the Ecofin Council has decided that the issue of pensions be included in the convergence and stability programmes and in the Broad Economic Policy Guidelines from the perspective of the sustainability of public finances.

As a conclusion to this descriptive part, we have shown how there has been a battle of expertise and legitimacy the last two years, notably through the successive reports commissioned and the arbitration of the Heads of State and Government during the European Council.

Another path by which to influence the pension debate has been by the Stability and Growth Pact and the sustainability and quality of public finance. In the latter debate, the socially oriented actors are marginalised.
3. Analysis

In this analytical section, the paper will first of all discuss the sources of legitimacy of the different players at European level, and their strengths and weaknesses. The second part of the analysis will consist of shedding some light on the configuration of different national interests within the Social Council and explaining their will to enter into such debate. The third part consists of contrasting the Spanish and Irish cases. The former will illustrate that the dynamics leading to pension reform is still mainly nationally drive, while the latter will illustrate how the European level economically oriented players could influence the debate in the national arena.

3.1 The tensions between the economically and socially oriented players

This brief description of the recent European debates has highlighted the key role played by the Ecofin Council through the technical discourse of the EPC, despite various initiatives by the socially oriented players. As a key advisory body to the Ecofin Council, the EPC was able to control the agenda and put new issues on it, as for example the question of the cost of health care in the context of the ageing of the population. The main advantage for the EPC is that it is fully recognised for presenting the economic analysis of the challenges (criticisms of the underlying assumptions are rare, see Math, 2001 a and b). The Social Protection Committee has mentioned that the figures are a forecast and not a precise prevision, but it did not challenge the figures, indirectly accepting the main hypothesis of the EPC. The SPC still needs to define its own field of legitimacy. Its strength is that it has an explicit mandate to propose the broad lines for reform of the public pension schemes. EPC, on the other hand, is not recognised as competent in comparative studies of pension reforms. It is worth underlining that the first report of the EPC includes a substantive section describing the different systems. It is not needed for the rest of the arguments, but could be considered as a first attempt to prove its legitimacy in this (non strictly) economic field.
Three topics are now agreed by the economic as well by the socially oriented players. First of all, to increase the employment rate, secondly to eliminate the early retirement schemes, thirdly to establish a three-pillar pension model. Having reached this consensual discourse at European level, some believe that the end-result will be a smaller role for public pensions (Palier et Bonoli, 1999, Math 2001b).

As mentioned above, the strategy of the Social Protection Committee is organised around three axes: safeguarding the financial sustainability of the pension schemes, maintaining social cohesion and solidarity, and adapting the pension system to a changing society and labour market. But as Chassard (2001) notes behind the general agreement on the necessity to modernise social security systems, there is no common view on how to do that effectively.

To try to camouflage and overcome national differences, one strategy is to mobilise the academic community and to create shared diagnostics and solutions via networks/epistemic communities to disseminate to a wide public and to contribute to the debate. The Portuguese Presidency supported a study realised by Hemerijck, Ferrera and Rhodes on the Future of Social Europe. Similarly, the Belgian Presidency is following the same strategy and has commissioned a report, to be co-ordinated by Esping-Andersen, with a specific section devoted to pensions to be prepared by Myles.

The weakness of such approach is that there is no implicit or explicit model on which to converge, contrary to those leaning towards the EMU process for legitimating their policy prescriptions. The fundamental difficulty lies in the differences in conception and arrangement of the welfare states among the EU fifteen. National social protection systems are embedded in specific institutional structures; three or four principal clusters with similar characteristics can be identified (Esping-Andersen, 1990, Berghman, 1997; Ferrera et al., 2000). In contrast to the sphere of monetary policy, here there is no hegemon capable of enforcing a single vision of social objectives of social security systems in general and of the pension systems in particular. Some social objectives can be argued by reference to the imperatives of the single market, but these rarely have
sufficient precision to silence debate. We can contrast coordination in the monetary, employment and social fields, in terms of the strong hegemonic role played in the former by the German monetary authorities. The objectives and benchmarks which they defined and the political leverage they were able to bring to the process of monetary unification drove out dissent, with the political classes in each of the aspirant members of Euroland subordinating other policy interests to this one overriding national objective (de la Porte et al., 2001).

Another weakness of the process initiated by the socially oriented actors is that it mainly involves high-level civil servants. However, the recent analyses of pension reforms illustrate that it is important to reach a broad consensus among the main political parties and/or trade unions (BIT, 1999, Schuldi, 2001). Currently, the parties that are not in the government do not, by definition, participate in this European exercise. The social partners are formally consulted at European level prior to the meetings of the SPC. However, this procedure involves a limited number of players. In addition, there is a certain contradiction between the will to discretely modify certain parameters (age, contribution rate, indexation, years of work on which the pension income is calculated) and the will to increase transparency and have more public debates, as envisaged by the SPC. This contradiction can be illustrated by the fact that the SPC accepted, based on the request by several Member States, not to diffuse the national reports. Indeed, the question of which type of coalition supports this dynamic with the Social Affairs Council arises.

3.2 The underlying strategies of the different Member States and configuration of interest

Our main hypothesis is that the support by most of the Ministers of Social Affairs to the current procedures is motivated by the need to re-appropriate the discourse on social protection at European and national levels. To leave the playing field entirely to the Ministers of Finance could have significant consequences for the national balance.
However, the consensus among the Ministers of Social Affairs has taken form around diverging interests and at least three different groups, with particular strategies and situations, can be identified.

A first group is that of the Scandinavian countries, which have recently reformed their pension system in order to render it compatible with equity and long-term financing. The case of Sweden, which is an instigator of European action, is exemplary (it is one of the driving countries in favour of European action in this field). Swedes can present their case of pension reform as the ‘model’, while not having anything to fear from a European-level intervention.

The second group is made up of the United Kingdom and the Netherlands for which the second and third pillars will make up the principal part of the old-age pension in the future. For this group, a balance between these pillars is in line with the overall objective of the EPC. The national strategy of these countries is based on obtaining a balance between the second and third pillars, and on decreasing the role of the first public pillar of the pension scheme.

The third group is that of the Mediterranean countries, which has used Monetary Union as a pretext and an instrument to modernise the economy, to modify industrial relations or to reform the pension systems. The report of the SPC for the Gothenburg European Council illustrates that only the five Mediterranean countries have reported problems: Italy, Portugal, Spain, France and Greece (Featherstone et al., 2001, ). The political and bureaucratic elites in these countries have not hesitated to use EMU as a pretext (*vincolo esterno* is the term used by Featherstone and Dyson, 1996) to make politically sensitive changes that would otherwise have been too difficult to implement. Indeed, Europe has been considered as a valuable political resource to legitimise change (Ferrera and Gualmini, 1999). The recent developments in the European arena support those countries that would like to embark upon a pension reform programme. Contrary
to the two other groups, it is a group that is generally favourable to the development of a social dimension of Europe.

This brief analysis has illustrated that one configuration consists of countries that are not very favourable to a Social Europe guided by Brussels but support the soft governance approach (notably OMC) at European level. They esteem that enough reforms have been made to adapt to the demographic imbalance of the population, labour market trends and financial sustainability. Another consists of countries that are more in favour of enhancing the social dimension of Europe, and which need to undertake several reforms and are ready to use a European pretext (EMU) to reform their economies. However, the long-term reform of social protection to render it sustainable does not put the same pressure on Member States as the need to make short-term adaptations to the economy, in order for them not to be excluded from the monetary union.

This configuration is globally the same in the case of the European Employment Strategy. It is worth highlighting that, as far as labour market participation is concerned, the Scandinavian countries and the United Kingdom are in a similar situation, with an employment rate over 70%. They are not under pressure to adapt their labour market strategy in this respect and support the soft European strategy (OMC). On the other hand, the conservative corporatist countries and the Southern European countries must make considerable structural changes to their system to reach the 70% objective (Goetchy and Pochet, 2000). This implies that the constellations of interests and strategy concerning the soft method and objectives of the Union should not be analysed in the traditional manner of analysing Social Europe.

3.3 The Spanish and Irish cases: contrasting influences

In this section, we seek to clarify the sources of influence of the pensions debate in the national context. We will illustrate this through two examples. The first is the Spanish
pension reform of March 2001. The second explores the possible effects of the recommendation from the Commission and the Ecofin Council to Ireland concerning its engagement in budgetary issues.

In Spain, changes to the contributory pension system began in 1985; but reform was only started in the run-up to EMU by the signature of the so called Toledo Pact between the government and the social partners. Soon afterwards a important agreement in the labour market field was signed by the social partners.

In the EPC's report, Spain was identified as the country where pensions would increase the most by 2050, implying a radical pension reform (increase of 8.5% of the GDP). Nevertheless, an agreement reached in March 2001 on pension reform between the conservative government of the Populist Party, the employers and the trade union Comisiones Obreras (CCOO) (the UGT, the socialist trade union, did not want to sign the agreement) resulted from national tensions and dynamics. The adaptations proposed to the pension system were mild. The Spanish case should be conceived in the overall framework of its social reforms, which result from an inter-relation between various tables of negotiation (Ebbinghaus and Hassel, 1999; Fajertag and Pochet, 2000; Rhodes, 2000; Hemerijck and Schuldi, 2001). The interaction between the actors illustrates how social security and pension reform are linked with wage negotiations and social conditions. After a government intervention to reform the labour market in February 2001, the socialist trade union (UGT) called for a general strike. The CCOO did not adhere to this strategy, as they preferred to wait for the results of the pension negotiations. In a nut-shell, the government could choose to sign an agreement that would satisfy CCOO, or face a general strike. The government chose to sign the agreement, and now the two trade unions are divided. This brief account illustrates that the pressure of the actors at European level were not the driving force in agreeing upon a pension reform package.

This is also reflected in analysing the content of the agreement that was signed between the Spanish government and the CCOO, which do not seem to take account of
the EPC’s forecast and concern. Concerning early retirement, the conditions were rendered more favourable for workers, extending the right to take early retirement and decreasing the reduction in pensions in the case of early retirement. The minimum pension rate was raised, the pensionable age remained unchanged, at 65 years. The period on which to calculate pensions will only be increased from 12 years to 15 years, which is far below the government’s expectations5.

As illustrated by the Spanish case, the European influence in this area still appears to be too weak. However, a potential threatening source is through the Monetary Union and the Stability Pact. The criteria of the Stability Pact are now interpreted in a stricter manner: Ecofin seeks to push its influence further by moving beyond the objective of budgetary consolidation to accelerating the process of debt reduction.

The Irish case is illustrative of a new strategy that could affect the founding pillars of Social Pacts) and the capacity for national actors to act through processes of complex exchange. Ireland has been a pioneer in the signing of national social pacts, which allowed the country to surpass the economic crisis and to implement a strategy to reduce the unemployment rate, to re-enforce public finances and to drastically diminish the public debt by a very moderate wage increase (O’Donnell and O’Reardon, 2000).

In the context of strong economic growth (10%), the moderate increases in salary (more than 15% in three years) were accompanied by a reduction of direct taxation, bringing the real salary increase to 27% (in real terms, without taking account of inflation) in three years. Investments in the infrastructure were planned as was an increase in social spending (in % of PIB, Ireland is among the low spenders for social protection in Europe). (European Commission, 2000b).

This catch-up scenario was confronted with a significant inflation rate, which decreased the real increases in salary. In order to respond to this situation, the employers and trade unions signed an additional agreement in December 2000. The government accepted to devote additional resources to social protection, including increasing family

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5 El gobierno cierra un pacto con CCOO que facilitara las jubilaciones anticipadas, El Pais, 31 March
allowances and minimum pensions, while decreasing indirect taxation by 1%. Thus, the budgetary surplus decreased from 4.7% to 4.2%, which is in conformity with the requirements of the Stability and Growth Pact, although the surplus decreased contrary to the aims set out in the national Stability Programme. It is in this context that the intervention of the Commission and the Ecofin Council, recommending that the Irish government adopt an anti-cyclical stance against overheating conditions in the economy, should be seen. Ecofin's recommendation identified two sources of inconsistency between the guidelines and the budget. First, the direct tax cuts were unlikely to induce greater labour force participation, second, the expenditure side of the budget generated a pro-cyclical rather than an anti-cyclical fiscal stance. ECOFIN suggested that the government «...ensure that no reduction in the underlying budgetary surplus from 2000 takes place." (Council, 2001)

The Irish government and the social partners were disturbed by this European recommendation and noted that they respected the Stability and Growth Pact. Up to now, Ireland has not taken any corrective budgetary action and the position of the Minister of Finance is that the recommendation issued was based on the wrong grounds. Although a binding sanction will not be issued, "the true costs of its actions have yet to be established". (Hodson and Maher, 2001)

The elements that favoured the Social Pacts (exchange wage moderation against reducing taxation, negotiated recalibration of the Welfare State) in the past could now be questioned in the name of inflation and stability in the Euro zone, if the opinion of the European economically oriented players are taken seriously.

The question addressed here is broader than pensions. However, it illustrates an emerging tension on the sustainability of public pensions through 2050. It threatens the autonomous negotiation position of different actors. It could have a greater impact on the catch-up countries (Ireland, Portugal, Spain, Greece), with less developed Welfare States. As for Ireland, Spain's share of GDP devoted to social security has remained constant during the last ten years (Guillen, 2001). From this brief analysis, it would

seem that the potential impact of the European level economic players could be greater for developing rather than mature Welfare States.

Conclusion

This paper was instigated by the will to come to an understanding as to why the path-dependent and nationally driven area of pensions has become a hot topic among European level actors. As the description and analysis illustrate, the debate is kept alive by the tasks defined by the European Councils for the socially and economically oriented actors. In accordance with their mandate, they produce documents with various different policy prescriptions, trying to re-write the agenda and the direction of policy reform. The economically actors and the socially oriented actors have different sources of legitimacy, justifying their activity in this area. In the economic area, this source – EMU and the Stability and Growth Pact – is indirect, but more influential than that of the socially oriented players. It is through this door that they attempt to influence the direction of national pension reforms, to develop the second and third tiers of the system further, and to decrease that of the first tier. Beyond the instruments associated with these economic areas, there are no direct ways in which to influence the pension debate. The socially oriented players do not have this indirect means of influence. Instead, they resort to academic analyses and discourses to camouflage national differences, and promote a participative approach, involving the European institutional players, as well as social partners, social security institutions and non-governmental organisations. The struggle between the different actors is through their instruments, policy documents and dissemination techniques. A new approach has to be adopted to analyse the balance of power between, on the one hand, the European level players, and on the other, between the European level and national players.
As illustrated in this article, the national configurations of interest in pension reform are not the same as for the area social policy. Since the participative approach promoted by the socially oriented players has not taken form, it should be organised. One means to do this is through the open method of co-ordination, that sets out for the involvement of different players in defining the stakes and in setting out the operational mechanisms with which to reach the end defined in concert. However, this technical instrument for putting forward reform could, to a certain extent, de-politicise the stakes. It is important that the political process be integrated as well. As indicated by Rhodes: ‘... As with the EMU process, governments may be able to use a coordinated European strategy to engage in a certain degree of "blame avoidance" to force through controversial reforms. But given that the reform of most European welfare states requires confrontation with often well-organized vested interests, it is essential that mechanisms of concertation are reinforced without, however, giving the parties involved the power of veto on decisions.’ (Rhodes 2000)

This ideal-typical situation is far from representing the real picture. Indeed, there is no hegemon sustaining the move towards such a situation involving benchmarks and indicators. It does not seem feasible that the national analyses could be used effectively to create a European dynamic in this area, due to the diversity of the underlying philosophies and the structures of the pension systems. However, as indicated by the latest recommendation issued by the Commission and the Ecofin Council to Ireland, it seems that the European level players could influence the direction of the pension reform indirectly by interfering in the complex exchanges the various tables of negotiation (wage, social protection, working condition,...).
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