Pension Reform in European Social Insurance Countries

Martin Schludi

Max-Planck-Institute for the Study of Societies, Cologne (Germany)

Paper prepared for delivery at the 2001 Biennial Meeting of the European Community Studies Association

Madison, Wisconsin

May 31- June 2, 2001

Schludi@mpi-fg-koeln.mpg.de
Abstract

This paper analyzes national processes of pension reform in various European welfare states. The countries under study (Austria, France, Germany, Italy, Sweden) not only face similar fiscal, demographic and competitive pressures since the early 1990s, but are also characterized by broadly similar pension arrangements. Being from the defined benefit/pay-as-you-go type, mainly financed through wage-based social contributions, pension systems in these countries reveal a high vulnerability to changes in demographic and employment structures. Generally, I argue, that European integration has exerted only marginal influence on national pension policies. Moreover, the impact of European integration does not explain cross-country variance in pension reform outcomes: While we observe substantial similarities in the direction of reform, the degree of policy change varies considerably even among countries with similar pension policy profiles. By the same token, the failure of several pension reforms in European welfare states suggests, that the presence of the EMU convergence criteria and increased economic internationalization was by no means a sufficient condition for the successful implementation of pension reforms. Thus, only a closer inspection of national decision making processes does allow for an explanation of different pension reform outcomes. The political feasibility of a substantial pension reform critically depends on the government’s ability to orchestrate a reform consensus either among the major political parties on both sides of the political center or between the government and the trade unions. The capacity of governments to take concerted action in pension reform is again largely a result of the strategic interactions taking place between these actors.
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1. Introduction

The restructuring of public pension schemes has emerged as a central element in the reform of most European welfare states in recent years. Since the mid 1970s public pension systems became increasingly subject to external economic pressures. In particular, low economic growth and rising unemployment led to an erosion of their revenue basis. At the same time, pension systems themselves were increasingly used as an instrument for early retirement. As a consequence, public pension arrangements were faced with a growing gap between revenues and expenditures. Moreover, demographic developments are likely to exert considerable pressure on public pension schemes in the future, as the share of elderly persons will rise dramatically relative to the working age population in the following decades.

Initially, most governments responded to these developments by raising pension contributions rates, which was a politically more feasible strategy to deal with the fiscal crisis of European pension systems than cut-backs of pension entitlements (Palier 2001). However, in the context of increased economic integration within the European Union this option turned out to be increasingly costly. In particular, intensified competition on product markets put a severe constraint on the capacity of domestic producers to shift any increase of labor costs onto domestic consumers. As a result, the leeway for increases in social contribution rates has diminished considerably. To some extent, governments were able to compensate for this by financing a higher share of pension costs out of general taxation. However, political tax resistance and fiscal constraints imposed by the internationalization of capital markets set limits to this strategy as well. As a consequence, the focus of pension policy makers moved (mostly irrespective of their party affiliation) increasingly towards a policy of retrenchment and cost containment. This motive became particularly evident in the 1990s, when virtually all advanced welfare states tried to dampen the growth of public pension expenditures (Hemerijck/Schludi 2000). This holds even true for those countries, whose welfare systems had still been resistant to major retrenchment efforts throughout the 1980s.

This paper explores, among others, the role of European integration behind recent pension reforms in a number of European welfare states. I will argue, that European integration does not make a big difference for national pension policies. As
empirical evidence shows, neither the requirements of European economic integration nor other economic or demographic pressure are sufficient conditions for successful welfare reforms. It is essential to analyze the interplay among national political actors so as to explain different reform outcomes across countries as well as within a country (Pitruzello 1997).

This paper seeks to illuminate the interaction between external pressures and national politics in the area of pension policy. I will provide brief case studies of Austria, France, Germany, Italy and Sweden. In several respects these countries represent ‘most-similar-cases’. For one, they faced broadly similar fiscal, demographic and competitive pressures in the 1990s. The share of the elderly population relative to the working age population is significantly higher than for the OECD average. More importantly, these countries are confronted with rapidly aging populations in the near future. What is more, rapidly shrinking employment rates in the early and mid 1990s have seriously weakened the revenue basis of public pension systems in these countries. Finally, and partly related to the employment crises, all of the five countries were hit by sharply rising or persistently high public deficits in the early 1990s and thus were forced to adopt a very tight fiscal policy in the subsequent years so as to rebalance their public budgets and, in particular, to meet the 3% deficit criterion set by the Maastricht treaty for 1997. The need to reduce public deficits also puts public pension schemes under pressure, which represent a sizeable share of public expenditures. If the rising costs of public pensions (resulting from both aging populations and from changes in the labor market) will be primarily matched by higher contribution rates, the tax burden on labor will continue to increase. Moreover, the political leeway to bail out any accrued or looming deficits in public schemes through increased government spending is limited as well. At first, raising taxes is highly unpopular in a period of stagnant real wages. Second, in earnings-related, social insurance based public pensions schemes tax financing is only regarded as justified, if it covers non-contributory benefits. As a consequence, the general requirement of fiscal consolidation at the level of public budgets is frequently transformed into cost containment requirements at the level of public pensions.

A second criterion, on which the selection of these countries is based, concerns the structural similarity of their pension systems. Since pension arrangements in these countries are strongly biased towards contribution-financed social insurance working on a pay-as-you-go basis, these schemes are also similarly vulnerable to
fiscal and demographic pressures (Hinrichs 2000a). At first, these countries provide relatively generous earnings-related public pensions, which are primarily financed out of payroll taxes. As a consequence, pension contribution rates are significantly above the international average in these countries (see table 1), which again contributes to the high level of non-wage labor costs in these countries. This is likely to have a particularly detrimental effect to employment at the lower end of the earnings scale, where social assistance arrangements set a reservation wage, below which net wages cannot fall (Scharpf 2000a). Conversely, the strong reliance on employment-based social contributions makes this kind of pension financing particularly vulnerable to fluctuations in labor’s share in national income. Moreover, as Myles and Pierson (2001) point out, covered earnings are often limited to the bottom two-thirds of the earnings distribution. As a consequence, rising pension costs fall disproportionately on lower and middle wage earners.

Second, due to the defined benefit design of public pensions policy makers face a quasi-contractual obligation to increase contribution rates, when pension outlays exceed revenues (Myles/Pierson 2001). Thus, little surprisingly, countries which today provide relatively generous public pensions, are also likely to spend disproportionately much on public pension in the future. This “implicit debt” is reflected in the present value of future pension payments (see table 1). Thus, in the absence of reform, the “demographic time bomb” is likely to result in excessively high contribution rates. Against this background the reform of social insurance-based public pensions is characterized by a sharp trade-off. While the strong reliance on earnings-related payroll taxes makes social insurance pensions particularly vulnerable to economic and demographic pressures, any reform efforts aimed at cutting benefit levels are likely to trigger strong political resistance, since contributory and earnings-related benefit entitlements not only are in the interest of politically powerful middle classes, but also are widely regarded as “acquired rights”, where the state has only a limited legitimacy to intervene (Bonoli 2000).

Finally, Austria, France, Germany, Italy and, to a somewhat lower degree, Sweden share another feature concerning their private/public pension mix, which is highly important both in economic and political terms. As is shown in table 1, pay-as-you-go financing plays a much larger role in these countries than is true for most other OECD countries. From an economic point of view, it is often argued, that the prevailing pay-as-you-go systems are unsustainable in the long run, as they are sus-
pected to cause higher labor market distortions and to yield a lower rate of return than is true for fully-funded systems (Siebert 1998). Moreover, a stronger mix between pay-as-you-go and funding would allow for a better diversification of the specific risks associated with either of them (Bovenberg 1996). At the same time, however, a (partial) shift from a pay-as-you-go towards a capitalized system would impose a double financial burden for at least one generation. Thus, for politicians, typically oriented to short-term election cycles, even a partial switch towards a fully-funded scheme is politically costly, given that the costs of transition accrue immediately, while the (potential) benefits will only accrue in the long run. In sum, Austria, France, Germany, Italy and Sweden not only have been subject to similar external demographic and economic pressures, but also resemble each other with respect to the basic structure of their old-age security systems, which assign the function of income replacement to public social insurance rather than to private or occupational pension schemes. To be sure, we must not neglect the differences within the cluster of social insurance pension schemes. However, the pool of common problems, with which pension policy makers in these countries have to cope, is sufficiently big to justify a research design of most-similar cases (Hinrichs 2000a).

In section 2, the impact of the European Union on the reform of public pension schemes is discussed in more detail, suggesting that the process of European integration plays only a marginal role for national trajectories of pension reform. The common European market and the European Monetary Union may have expedited the pension reform process in the 1990s (depending on the degree of budgetary pressure), but their presence was in most cases neither a sufficient nor a necessary condition for the restructuring of national pension systems (as is illustrated by the fact, that major pension reforms have taken place in virtually all non-EU countries as well). A notable exception is Italy, where the politically binding character of the convergence criteria constituted a new quality of external pressures on national welfare states and a powerful argument in the national reform debate, which goes clearly beyond the mere informal constraints imposed by the internationalization of capital markets.

Section 3 provides an empirical account on the scope of pension reforms in the above-mentioned countries in the 1990s. While there has been a number of commonalities in the general direction of reform, we also observe substantial cross-national variation in the degree, to which pension systems of the Bismarckian type
have been transformed. For instance, among the five scrutinized countries only Italy and Sweden brought about a changeover from a defined-benefit to a defined-contribution scheme, while only Sweden implemented a new fully-funded private pillar on a mandatory basis.

Section 4 tries to account for this cross-national variance in pension reform outcomes. Starting from the empirical observation, that unilaterally imposed pension reforms run a high risk of political failure, I will put forward the argument, that the successful implementation of major pension reforms is typically based on concerted action either between political parties on both sides of the political spectrum or between the government and trade unions. Subsequently, relying on a game-theoretic approach, I will analyze the conditions, under which successful concertation is likely to occur. On the basis of this theoretical framework, brief accounts of the national pension reform processes will be provided.

Section 5 concludes.

2. The impact of European integration on the reform of public pensions

Authors such as Leibfried and Pierson (Leibfried/Pierson 1995; Leibfried 1997) have argued, that the process of European integration has undermined both the sovereignty (in terms of legislative power) and the de-facto autonomy of EU member in the area of social policy. In this section, I will discuss this hypothesis with respect to national pension policies. Based on a rough empirical review of national pension reforms within and outside the European Union, I argue, that the role of European integration on national pension reform processes is generally overstated. While it is true, that the de facto autonomy of nation states in the area of pension policy has diminished, the factors, which constrain the national autonomy are not specifically related to the dynamics of European integration. By contrast, there is a common set of crucial driving forces behind national processes of pension reform, which affect advanced welfare states in general.

The imminent aging of populations, the virtually complete internationalization of capital markets and the intensification of international competition on product markets impose powerful pressures and economic constraints on national welfare poli-
cies even in countries outside of the European Union. As a consequence, the reform of public pension schemes is by no way restricted to European Union member states. This is easily demonstrated by a rough empirical inspection of pension reforms in non-EU countries: Switzerland has adopted a major pension reform in 1995, which envisaged among others a gradual raise of the retirement age for women from 62 to 64 years (Bonoli 2000). A similar measure has been decided in Australia in 1997, where the pensionable age for women will be lifted from 61 to 65 years. In New Zealand the retirement age will be increased for both men and women from 62 to 65 (decided in 1997). Canada has reformed its pension system in 1997, including a reduction of disability pensions, a new means-tested basic pension and a greater reliance on funded schemes. In Japan a pension reform has been implemented recently, providing for a lowering of future benefit levels by 5 percentage points. As early as 1994, the indexation of pensions had been changed from gross to net wages, while at the same time a gradual raise of the retirement age from 60 to 65 years had been enacted. In the United States a similar decision was already made in 1983, providing for a stepwise increase of the pensionable age from 65 to 67 to be phased in between 2000 and 2022. Even oil-rich Norway enacted a reduction of pension benefits in 1992 (Gern 1998; Kalisch/Aman/Buchele 1998). This raises the question, of whether European integration at all does have a significant influence on its own on national pension policies in the member states of the European Union. To answer this question, a more thorough analysis of the potential channels of EU influence on national pension reforms is needed. Based on the work of Leibfried and Pierson (1995), Anderson (2000a) and Marier (2000) identify the potential impact of European integration on public pensions along three dimensions: positive intervention from EU institutions aimed to establish a number of common European standards in social (and employment) protection, negative intervention from EU institutions aimed to assure the conformity of national social policies to the common market, and indirect, mainly economic pressures for adaptation.

'Positive intervention', to begin with, denotes activist social policies adopted by the Directorate-General for Employment and Social Affairs within the European Commission and by the Council of Ministers. However, since social protection is still largely a domain of national welfare states, the role of positive intervention in pension policy is limited. One exception is EU equality law, which requires equal treatment of men and women in, among others, statutory social security schemes. In the area of
public pensions, the most important consequence was the equalization of retirement ages for men and women. In a number of EU countries (e.g. Austria, Belgium, Germany, Italy, Portugal and the United Kingdom) legal retirement ages for women are or used to be lower than those for men. These countries were thus legally forced to bring the retirement age for women in line with that for men (Cichon 1998). As Anderson points out, a “downwards equalization” of retirement ages towards the lower level for women would have caused massive financial costs and was thus not perceived as a realistic option. However, while the presence of EU equality law clearly constitutes a sufficient condition for the alignment of retirement ages between genders, it is not a necessary condition and it is not necessarily the primary driving force behind the adjustment of pension ages. In Austria, for instance, the equalization of retirement ages was actuated by the constitutional court in 1990, which declared the lower retirement age for women as unconstitutional (Tálos/Wörister 1998). In Germany, the increase in women’s pension age decided in 1989 was justified with reference to substantial improvements in women’s pension entitlements elsewhere, such as the extension of credits for child rearing (Tálos/Filipic 1998). Moreover, as the examples of Australia, Japan and (at least in tendency) Switzerland show, this alignment process not only takes place within the EU. These findings suggest, that, irrespective of formal EU guidelines, an unlimited retention of unequal retirement ages of men and women is generally considered as anachronistic and undesirable.

A second process, through which European integration affects national pension policies, usually labeled as ‘negative integration’, concerns the compatibility of national social policies with the principles of the common market such as the free movement of labor and capital and unhampered competition on product and service markets. Here, the European Court of Justice (ECJ) plays a key role in supervising the conformity of member state legislation to the common market rules laid down in the EU Treaty. In particular, the ECJ is responsible for the keeping of European Competition Law, such as Article 86, which prohibits an enterprise from abusing the dominant position it may have in a specific market. The applicability of this article to specific pension schemes thus depends on whether or not pension funds are considered as undertakings engaged in a commercial activity. Thus far, the fear, that the ECJ might interpret the dominant position of public pension schemes vis-a-vis private

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1 In most other OECD countries outside the EU (e.g. Canada, New Zealand, Norway and the United States) equal retirement ages for men and women are already in place.
pension funds in old-age provision as a breach of competition law, has not been confirmed. Both the ECJ and the Commission have acknowledged the non-profit character of compulsory social-insurance schemes and the non-applicability of the competition articles for that matter (Marier 2000). However, it is less clear, whether or not competition law applies to second pillar schemes, based on supplementary, employment-related pension provision and, whether or not the granting of exclusive rights (such as preferential tax-treatment or the entrustment with a legal monopoly) to these pension funds is justified. Generally, the ECJ has stated, that compulsory social security schemes based on the principle of solidarity do not fall under European competition law (as has been acknowledged for the compulsory supplementary and pay-as-you-go financed pension schemes in France)\(^2\). In any case, the importance of negative integration is likely to increase in the near future, as far as the public regulation of private pension funds is concerned. For instance, Germany is pressed by the European Commission to follow other EU countries in applying the principle of the taxation on disbursement rule to private pension funds so as to ease cross-border trade among private pension funds\(^3\).

In sum, the formal EU influence on national pension policies in terms of both positive and negative intervention only seems to be of marginal importance. In his in-depth study of welfare retrenchment in Denmark and the Netherlands (also dealing with old-age pensions) Green-Pedersen (2000) arrives at a similar conclusion, attaching an almost negligible importance of both positive and negative integration to the national trajectories of welfare reform. I will now turn to the indirect economic constraints, which emerge from intensified European integration. Here, we must distinguish between various kinds of indirect pressures:

As already noted, the completion of the common European market has exposed the national economies to a higher competitive pressure on product markets. What is more, restoring international competitiveness through currency devaluation is no longer possible. Finally, by the threat of relocating production abroad internationally mobile capital has considerable bargaining power vis-a-vis national governments and trade unions. As a consequence, the containing of labor costs has become increasingly important as a tool to maintain international competitiveness. Since social

\(^2\) For a more thorough analysis of this point see Drabbe (1999).

\(^3\) This would mean that contributions into private pension schemes would be exempted from tax payments, while the disbursements themselves would be subject to income taxation. For the German state budget such a shift would imply substantial revenue losses for quite a long transition period.
contributions make up for a sizeable share of total labor costs, it can be argued, that welfare states, which are primarily financed through social security charges, are particularly susceptible to competition on product markets. Thus, the stabilization of contribution rates has emerged as a primary concern for the reform of social insurance based pension systems. However, as already noted, there is reason to believe, that this has been a central motive behind the reform of old-age protection schemes outside the EU as well.

As Anderson (2000a) points out, pension programs also differ in their vulnerability to beneficiary mobility, which has become less restricted in the context of the free movement of labor within common market. In particular, pension arrangements, in which benefits are based on citizenship rather than being tied to contributions or the length of residence, may give some incentive for increased beneficiary mobility within the EU. The Swedish basic pension is a case in point. Prior to 1993, all Swedish citizens above 65 were entitled to a full basic pension. Foreigners, however, needed a minimum of 5 years of residence for a full basic pension and where not allowed to receive their basic pension outside of the country. These rules were not compatible with EU provisions about the equal treatment of nationals and non-nationals. What is more, the extension of the existing rules for Swedish nationals to non-nationals would have meant, that all persons, who had resided in Sweden at some time, would have been entitled to a full pension. As a consequence, Sweden (which joined the EU in 1995) introduced a residence requirement, according to which 40 years residence (or 30 years of contribution to the general supplementary pension ATP) is needed so as to obtain a full basic pension. It is obvious, that this danger of “benefit leak” is not a major problem in pension systems of the Bismarckian type, where the link between contributions and benefits is relatively strong.

Indirect adaptational pressures on national pension arrangements also emerge from the convergence criteria within the European Monetary Union (EMU). In particular, the 3% criterion for public deficits (to be reached until 1997) forced most European countries to adopt more or less tight fiscal policies. The Maastricht treaty unfolds considerable pressure for budgetary consolidation even for those countries, which did not intend to join EMU in the first place. As Anderson (2000a) points out, the convergence criteria are important yardsticks for these countries as well, as – under the conditions of high capital mobility – excessive deficit spending is punished by high risk premia on their public debt and may trigger speculative runs on their cur-
rencies (Scharpf 2000a). It is thus not surprising, that traditional soft currency countries, such as Italy and Sweden, adopted major consolidation packages (including cuts in public pensions) in the wake of the currency crises in 1992 and 1995, so as to restore the confidence of international capital markets. It needs to be emphasized, that one of the Maastricht criteria refers to the stability of exchange rates, requiring a national currency to remain within the stipulated bandwidth of the European Monetary System for at least two years. Italy, for instance, would not have been allowed to enter the Monetary Union in the first stage, if the currency crisis of 1995 had been repeated one or two years later. There is reason to believe, that this criterion has strengthened the incentives for Italian policy makers to adopt pension reforms, which dramatically reduced the (future) implicit debt of public pension schemes. Even if the short-term savings resulting from these reforms have been relatively limited, they are likely to have corroborated the confidence of international capital markets, thereby easing Italy's access to the participants of the first round. This brings us to the question, whether or not the EMU has a separate influence on national policy makers, which goes beyond the informal pressures from globalized capital markets. As already stated, there has been a wave of pension reforms in many OECD countries throughout the 1990s, both in and outside of Europe, mainly driven by demographic change and intensified competition on product markets. Thus, from a cross-country perspective it is difficult to argue, that EMU has really made a difference in terms of pension policies. Basically, policy makers in all OECD countries have come to the realization, that excessive deficit spending is no longer a viable option in an environment of internationally mobile capital and have acknowledged that the reform of public pension schemes is indispensable so as to lower the burden for the public budget and to dampen the growth of non-wage labor costs. Thus, the hypothesis, that changes in the underlying goals of pension policy are specifically related to the exogenous pressures exerted by the single market and the monetary union, has, in general, only limited explanatory power.

However, from a diachronic point of view, it can be argued that the Maastricht criteria have in several countries served as a triggering device, helping to overcome political resistance to unpopular reforms, which seemed to be politically unfeasible.

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4 Japan is a notable exception. In contrast to practically all other OECD countries, Japan has pursued a policy of excessive deficit spending in recent years so as to stimulate the economy. As a consequence, the public budget which displayed a surplus of 1.5% of GDP in 1992 has turned into a deficit of 7% in 1999. This suggests, that the legally binding Maastricht criteria do indeed impose tighter constraints on national fiscal policies than is true for international capital markets per se.
before. France and, in particular, Italy may serve as cases in point. In both countries, no major pension reforms were adopted until the early 1990s, although the prospects for the medium and long-term financing of public pensions turned out to be dramatic in the course of the 1980s. As table 2 reveals, the lack of substantial cost containment reforms in these two countries has contributed to a steady rise in pension contribution rates until the mid 1990s. In France, an agreement among all major political parties (except the Communists) about the necessity of benefit cutbacks in the basic scheme has emerged since the mid-1980s, but no savings measure was adopted until 1993 (Bonoli 2000). Similarly, Italy did not introduce any large-scale reform containing the growth of pension outlays in the 1980s, despite frequent calls for a general reform of the pension system (Franco 2000). Instead, benefit levels were increased considerably leading to very high replacement levels by international standards (table 2). As late as in the early 1990s the political resistance to cost-containing pension reforms could be overcome. In France, a major reform of private sector pensions was adopted in 1993. In Italy, a wave of reforms was introduced during the 1990s leading to a radical restructuring of the entire pension system. This suggests, that political resistance to pension reforms used to be particularly high in these countries and could (at least partly) be overcome in the 1990s due to the presence of EMU’s convergence criteria. As Pitruzzello (1997) has argued, the Maastricht Treaty represents a legally binding obligation, which generates powerful pressures within a relatively short time horizon. By contrast, the pressure from international capital markets to reduce public deficits does not enforce the keeping to a concrete deficit criterion at a concrete point in time. This difference matters, if politicians have a very short time horizon such as in Italy, where the frequency of changes in government is extremely high by international standards. As long as the binding criteria of the Maastricht treaty did not force the short-lived Italian governments to adopt tight fiscal policies in a very short time frame, the task of deficit reduction and securing the fiscal viability of public pensions could easily be shifted to subsequent governments. When Maastricht did no longer allow the postponement of problems, the public discourse about the necessity of pension reform (and welfare reform, in general) changed fundamentally. In the 1990s, pressure from the EMU, which is a virtually uncontested project in Italy, allowed successive Italian prime ministers to spread an understanding of the costs of non-adjustment, pointing to the necessity of sacrifices in the short-run (such as benefit cuts) in exchange for the promise of future benefits (in particular a
massive lowering of the excessive public debt service in Italy). This also helped to reduce the electoral costs usually associated with the retrenchment of highly popular welfare programs. The expected long-term advantages connected with the entry into EMU have also persuaded the trade unions to agree with a major overhaul of Italy’s inequitable and fiscally unsustainable pension system (Ferrera/Gualmini 2000). Moreover, European integration also paved the way for a stronger position of the executive. Most important, in the face of the 1992 currency crisis an “authorization law” (legge delega) was adopted, which gave the government a higher discretionary power in areas such as pension and health care policy vis-a-vis the parliament (Antichi/Pizutti 2000; Gohr 2001). In France, too, albeit to a lower extent, the intention to fulfill the Maastricht criteria (a goal, which has been widely supported by the public) has been a powerful driving force behind recent pension reform efforts (Bonoli 2000; Pitruzzello 1997).

Among most other European countries cost-containing pension reforms were on the political agenda well before Maastricht or were in the most cases adopted without specific reference to the requirements of the monetary union. This also holds true for Austria, Germany and Sweden. In Austria, the period of modest pension cuts started already in the mid 1980s (Tálos/Wörister 1998), which is among others reflected in pension contribution rates, which have stabilized since the mid 1980s (see table 2). In Germany the first curtailments in public pensions were enacted as early as 1977 (Alber 1998). As a consequence, contribution rates grew only little since the mid 1970s, while replacement rates have fallen slightly. In Sweden, there has been a steady expansion of old age pensions until the early 1990s. The cutbacks in Sweden adopted in the early and mid 1990s were first and foremost driven by the dramatic economic crisis in the early 1990s rather than by the requirements of the monetary union (Anderson 1998). For the Swedish Social Democrats, which returned to power in 1994 (but which have also supported the pension cuts enacted by the bourgeois government in 1992), the primary motive behind these cuts has been to restore a balanced public budget, which had turned into a dramatic deficit due to the economic recession. However, the Swedish Social Democrats have always attached importance to solid public finances, so as to reduce their dependence on international capital markets regardless of any legally binding criteria for fiscal consolidation (Scharpf 1987). By the same token, the “big” pension reforms adopted in these countries (Austria 1993 and 1997, Germany 1989 and 1997, Sweden 1994) were
primarily aimed to secure the long-term viability of public pension schemes in the face of aging populations rather than to meet the Maastricht criteria. However, there is some evidence that the Austrian pension insurance has become subject to increased budgetary pressures in the mid 1990s, which emerged at least partly from the constraints of monetary union. This has led to a number of short-term savings measures within the Austrian pension insurance, such as the temporary suspension of benefit adjustment in 1997. Thus, Maastricht has temporarily increased budgetary pressures on public pension schemes in some countries, leading to bigger and faster benefit cutbacks than might have happened otherwise. In sum, however, the convergence criteria seem only to be of limited importance for the general course of pension reform adopted in European welfare states.

3. A comparative assessment of policy change in social-insurance based pension systems

Since the impact of EU membership on national pension policies has been relatively weak, there is little reason to believe that the process of European integration has led to a convergence of national pension policy profiles. However, a process of policy convergence between national pension arrangements might result from rapidly aging populations and from the internationalization of product and capital markets in general. As has been shown above, these developments put, albeit to different degrees, virtually all advanced welfare states under considerable pressure for adjustment. As a consequence, there has been virtually no advanced industrialized country, which has not adopted any reform aimed at containing the growth of pension expenditures. However, the strategies of cost containment differ according to the design of public pension schemes. Countries with flat rate pension schemes have typically introduced or expanded elements of means-testing, which either exclude the rich or confine benefits to the “really needy”. In Sweden, for instance, the universal basic pension has been transformed into a “guarantee pension”, which is provided to

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5 In a working agreement from 1994 between the two governing parties SPÖ and ÖVP concerning the priorities of Austria’s budgetary policy, an explicit reference is made to the EMU: “Auch um die Stabilitätskriterien, die von der Europäischen Union für den Eintritt in die Wirtschafts- und Währungsunion festgelegt wurden, erfüllen zu können, muß das Defizit der öffentlichen Haushalte nachhaltig gesenkt werden. Diese Vorgabe kann nur erfüllt werden, wenn es gelingt, ein umfassendes, alle Gebietskörperschaften einschließendes und sozial ausgewogenes Konsolidierungsprogramm zu entwickeln und umzusetzen” (cited in Tálos/Wörster 1998). Moreover, like in France, Austria’s public deficit was still above 5% of GDP in 1994, which put the public pension system under higher short-term budgetary pressure than in Germany, where the public deficit was only slightly above the Maastricht deficit criterion in 1994.
those, which have no or only a small income from the general supplementary pension. As Myles and Pierson (2001) point out, this option is politically unfeasible in contributory pension systems of the Bismarck-type. However, these countries still have a potential set of reform strategies at their disposal, from which they might choose. In the following section, a rough overview is given about the general trends of pension reform in these countries (Hinrichs 2000b).

3.1 Common reform trends in Bismarckian pension systems

We can identify a number of broad reform trends, which are largely common to all social insurance-based pension systems (Hinrichs 2000b). For one, almost everywhere the link between contributions and benefits has been strengthened in several ways. In particular, the assessed earnings period in final/highest earnings plans has been extended. As a consequence, the “number of best years”, on which the calculation of benefits is based, has been increased implying a at least partial shift towards the life-time principle. By the same token, higher reductions in case of early retirement were adopted in a multitude of cases. Moreover, non-contributory benefits have been reduced or even abolished on a broad scale (with the notable exception of credits for child rearing and care of frail and elderly, which have been expanded in recent years). Secondly, as already noted, there has been an across-the-board trend towards higher retirement ages and towards a harmonization of retirement ages between men and women. By the same token, a gradual change in early retirement policy has been introduced across OECD countries aimed to close the various pathways to early exit from the labor market. Finally, many countries have shifted to less generous indexation mechanisms or even suspended the adjustment of pensions for a certain time. This measures were not only aimed to contain rising pension costs, but also to strengthen work incentives and to achieve a greater distributional equity both across and within generations. At the same time, the share of pension expenditures, which is financed out of general taxation, has been expanded in recent years, so as to cover non-contributory benefits. This is insofar remarkable, as the pressure for fiscal consolidation, considerably intensified by the Maastricht criteria, would have suggested a reduction of the governments' share in public pension revenues.

3.2 Variation in pension reform outcomes

Given the relative similarity of external pressures to Bismarckian-type pension schemes and their confined potential of economically and politically feasible policy
responses, it is little surprising to detect comparable strands of reforms in these countries. By the same token, a radical shift towards private and pre-funded pension arrangements would cause massive transition costs and would thus not be politically viable in these countries. Thus, as Myles and Pierson (2001) aptly point out, the adoption of the World Bank’s three pillar model of old-age income security is largely irrelevant to these countries⁶. However, while the direction of public pension reform is relatively similar within this country cluster, we observe considerable variation in the degree of adjustment. Moreover, one can discern strong qualitative differences in reform outcomes across these countries, as far as the harmonization of different pension schemes and the switch to a partial pre-funding of pensions is concerned. These patterns of intra-regime variation will be explored in more detail in this section.

As has been pointed out above, it has been a common strategy of policy makers not only in European social insurance countries to contain the growth of pension expenditures so as to get to grips with rising non-wage labor costs and to reduce the pressure on the public budget. To which degree have Austria, France, Germany, Italy and Sweden accomplished this goal in the 1990s⁷? Looking at aggregate spending figures for public pension spending reveals a rather sobering picture (table 3). The share of pension outlays in GDP has risen in all those countries since 1990. While the growth of pension expenditures has generally been stopped or even (temporarily) reversed in the course of the 1990s, spending levels in 1997 are still higher than in 1990. However, this does not mean, that cost containment efforts have generally failed. A number of intervening factors has to be taken into account, if one tries to assess the magnitude of pension cutbacks on the basis of aggregate spending data. At first, between 1990 and 1997 the share of elderly persons (relative to the working age population) has risen between 0.7% in Sweden and 11.6% in France. This is likely to be a major driving factor behind the growth in pension outlays. If one controls for this factor, the observed increases appear substantially lower. Net of this demography-induced additional outlays can we discern relatively stable spending levels in Austria, France and Germany, but still considerable increases in Sweden and especially in Italy. A second factor has to be taken into account, although its quantification

⁶ The World Bank (1994) recommends a mandatory, publicly managed and tax-financed first pillar based on the pay-as-you-go principle and providing for basic security needs. This is to be supplemented by a mandatory, privately managed and fully-funded second pillar, which again might be topped up by voluntary occupational or individual savings plans as the third pillar.
⁷ A both quantitative and qualitative overview about the fiscal effects of recent pension reforms in European Union member states is provided in European Commission (1996).
seems practically impossible on a comparative basis. Labor force participation rates of women have increased virtually everywhere in the last decades, modestly in Austria, France, Germany and Italy, sharply in Sweden. As a consequence, women with a relatively meager contribution record (and thus low benefit entitlements) are gradually replaced by women with higher benefit entitlements. Thus, the growth of pension expenditures is at least partly driven by the rising labor force participation of women, in particular in Sweden. For Sweden, a third intervening variable has to be considered. In Sweden, the supplementary public pension scheme ATP has only been introduced in 1960s. As a consequence, employment spells prior to 1960 are not taken into account for the calculation of pension payments (Lißner/Wöss 1999). This again results in incomplete contribution records for older retirees, which are gradually taken over from insured persons with longer contribution records. Thus, the ongoing maturing of the supplementary pension system provides for a further driving factor behind growing pension outlays in Sweden. To control for this factor, table 3 displays -- in addition to figures about total pension spending -- the development of expenditure ratios for the Swedish basic pension, which is not affected by this kind of maturing process, but has been subject to similar benefit curtailments as the ATP scheme. As table 3 shows, spending levels in the Swedish basic scheme have declined in recent years, suggesting that effective pension cutbacks have been enacted. This empirical evidence is also supported by the fact, that among this group of countries only Sweden has adopted a general reduction of pension payments by 2% (see table 3). By contrast, Italy stands out as the country, which has been least able to adopt significant short-term savings in its public pension scheme. Despite some minor cut-backs in the pension system the growth of pension outlays could not be stopped in the 1990s, as the recent reforms did not reduce the pressure towards early retirement significantly in the short and medium term. By contrast, Austria, France and Germany seem to occupy a medium position in terms of short-term pension retrenchment in the early and mid 1990s.

The quantification of the future long-term savings effect of recent pension reforms on a comparative basis runs into even greater difficulties than the quantitative assessment of pension cuts, which have already become effective. The reason is, that highly speculative projections about future growth rates, wages, rates of labor force participation and a host of behavioral responses to these reforms would have to

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8 Partly as a consequence of this, labor force participation among older men has fallen more rapidly
be made. Predictions about the long-term development of these parameters are associated with massive uncertainties. Moreover, due to the tremendous complexity of pension systems accurate projections have to be based on a multitude of data and institutional knowledge, that so far only national institutions are able to provide (European Commission 1996; Myles/Pierson 2001). As a consequence, the best, we can arrive at on a comparative basis, is a qualitative and systematic assessment of selected reform components across countries. This attempt will be undertaken subsequently.

Table 4 provides an overview over selected items of pension reform since the early 1990s. It also covers those reform elements, which have already been legislated, but which will be only gradually phased in over the next decades, so as to grasp the long-term effects of recent reforms. It needs to be emphasized, that the table displays only those reform aspects, which are relevant to all or at least to the majority of these countries.

First, the countries differ in the degree, to which they have shifted from a defined-benefit (DB) to a (notional) defined-contribution (DC) scheme\textsuperscript{9}. A complete switch towards a DC scheme has so far only been enacted in Italy and Sweden, albeit with long transition periods. This means, in principle, that pension systems in these countries will be financially stable and no increases in contribution rates will be needed to keep the systems in equilibrium, as soon as the DC scheme is fully operational. However, due to the lengthy transition period, this shift only generates savings effects in the long-run. In Italy the ratio of public pension expenditure to GDP will thus rise from 16\% in 1999 to 17.4\% in 2015 despite the reforms in the 1990s and only level off thereafter (Franco 2000). The same is true for Sweden, where pension contribution rates are projected to rise by about 3 percentage points between 2000 and 2020, when the new DC scheme has been fully phased in (Palmer 2000). Among the other countries, pension arrangements are still largely based on defined benefit principles, albeit the link between individual contributions and benefits has been strengthened. In Germany, the calculations of benefits has traditionally been based on lifetime earnings, but this link has become tighter in recent years with the abolition

\textsuperscript{9} In a notional defined-contribution (NDC) scheme each insured person has an individual account, which is not funded, however. The return that is credited to each worker's account takes into account demographic and productivity changes. Typically, NDC schemes are aimed to generate an automatic equilibrium between contributions and benefits, where contributions are fixed, while the volume of benefit payments varies in line with the available contribution revenues (Cichon 1998).
or radical reduction of non-contributory benefits. The latter holds true for Austria as well, but the number of "best years", on which the calculation of pensions is based, has only been increased from 15 to 18 years (with the qualifying period kept at 45 years). In France the qualifying period for a full pension has been extended from 37.5 to 40 years, while the period, over which the reference salary is calculated, has been increased from the best 10 to the best 25 years.

However, France stands out as the only country within our sample, which has so far not enacted an increase in the formal retirement age. Among the other countries there has been a strong tendency to raise both the standard and the early retirement age. In Austria and Germany the retirement age for women, 60 years in both countries, will be gradually brought in line with those of men, whose regular retirement age is 65. However, while this process will be finished as early as 2004 in Germany, the transition phase in Austria will last until 2029. In Italy, the regular retirement age is increased for both men and women by 5 years (in the private sector), whereby younger workers will have a flexible retirement age from 57 to 65 following actuarial principles. In Sweden, a flexible retirement age with actuarial adjustments will be installed as well, albeit at a more rapid pace than in Italy and only from 61 years onwards. In both Austria and Italy, the very generous conditions for early retirement benefits will be substantially reduced or even abolished (for younger workers in Italy), but the changes will only become fully operational after extraordinarily lengthy transition periods. In general, widows pensions were subject to benefit cutbacks, too. In France, by contrast, benefits for widows were slightly expanded. The most pronounced curtailments have been enacted in Sweden, where widows pension are gradually phased out since 1990 for spouses above 64 years.

Changing the adjustment index of pension payments has been a very effective tool to contain the growth of pension expenditures, since this measure typically includes current pension payments, too. Within our sample of countries the indexation mechanisms have, all told, become less generous in recent years. Austria and Germany have moved from gross to net wage indexation, while France and Italy have shifted from wages to prices as the calculation basis for pension payments\(^{10}\). In the

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\(^{10}\) It needs to be added, that a shift to another indexation mechanism per se is not a guarantee for lower pension expenditures. In periods of low economic growth, price indexation might turn out to be more costly than wage indexation. By the same token, net wage indexation is cheaper than gross wage indexation only as long as gross wages grow at a faster rate than net wages. In Germany, for instance, the principle of net wage indexation was temporarily replaced by less costly indexation to consumer price inflation, when large-scale tax reductions led to rising net wages.
French case, this change had already been realised in 1987 with ad hoc legislation being passed by parliament every year. With the 1993 reform this procedure was replaced by a government decree, which linked the indexation of pensions to consumer prices for a five-year period. This measure was prolonged by the Socialist government in 1998 (Bonoli 2000). While the magnitude of the savings effects resulting from these measures is difficult to assess on a comparable basis, there is reason to believe, that the new indexation formula introduced by the recent Swedish pension reform will be the most effective in adjusting the pension system to overall economic resources. According to this index, pensions will in principle follow general earnings, but with a deduction of 1.6 percentage points (which is the estimated rate for future real wage growth). Until the new pension system is fully operational, this formula will keep contribution rates between 1.7 and 4.6 percentage points lower (depending on the assumed growth rate) than would have been the case with a continuation of consumer price indexation (Palmer 2000).

Pension reform outcomes also differ across countries as far as the harmonisation of pension law regulations between the private and the public sector is concerned. Apart from Sweden, which relies on a universal pension system, national pension arrangements in these countries have traditionally been fragmented along occupational categories. Most importantly, pension programmes for public sector employees typically grant more generous benefits than is true for public pension plans in the private sector. In recent years the reduction of these pension privileges has emerged as a major concern for reform. However, while Austria and Italy have launched a long-term alignment of private and public sector pension schemes, a similar plan has failed in France, whereas in Germany no serious efforts at all have been undertaken to arrive at a similar pension system for employees and civil servants.

Finally, national pension reform records vary in the degree, to which private and occupational, respectively, pension plans have been promoted\(^{11}\). In that respect, Germany and Sweden have implemented the most far-reaching reforms. In Germany, a pension reform was enacted most recently, encouraging savings to private and occupational, respectively, pension plans through the use of direct transfers and tax advantages. This system is intended to be fully operational until 2008, when employees, who transfer 4 per cent of their gross wages to their pension plans, will be

\(^{11}\) The following overview is largely based on (Leinert/Esche 2000).
entitled to the maximum state subsidy of 300 DM per person and year (and supplements of 360 DM per each child). However, the original plan to make private old-age provision compulsory has been dropped. In Sweden, a new fully funded pillar has been established recently, whereby the insured persons are obliged to invest 2.5 per cent of their pensionable income into a pension fund at their option (which can be either private or public). The Premium Pension Authority aggregates the choices of all participants so as to negotiate better conditions of contract for the insured and to protect the identity of individual workers (Ministry of Health and Social Affairs 1998).

In Austria, France and Italy, by contrast, the promotion of advance-funded pension plans has thus far only proceeded at a very slow pace, albeit there is a growing consensus among pension policy makers in these countries that major steps in this direction are necessary or at least desirable. In France, a small buffer fund for the public pension system has been built up in 1999 through channelling revenues from privatised state-owned firms into the public fund. In 1997 the "Loi Thomas" was passed, envisaging the creation of a voluntary retirement scheme for employees in the private sector at the firm level on a fully funded basis and with tax-deductible contributions. However, the law has been suspended by the present left-wing government. In Austria, the tax reform in 2000 included government subsidies to private or occupational savings schemes. However, only 4.5% of contributions to these schemes up to a ceiling of 1000 Euro per year are reimbursed by the use of government premiums (OECD 2000b). Thus, the level of state subsidisation will still be about six times lower than in Germany (Percher/Ettinger 2000). In Italy, too, efforts to strengthen private pension arrangements have been undertaken in recent years, such as the establishment of new regulations and tax incentives, but as a recent report from the OECD states, a rapid expansion is still unlikely to take place under the present framework (OECD 2000a).

Summarising these findings in a nutshell, we can discern substantial cross-national variation in the degree of adjustment even within the group of countries characterised by a dominance of social insurance based pension arrangements. Myles and Pierson (2001) correctly point out, that the inherited pension policy profile, in particular the presence or absence of mature earnings-related public pension schemes on a pay-as-you-go basis, represents the single best predictor for the basic pathway of national pension reforms. These policy legacies constitute powerful political constraints, which are difficult to overcome in democratic polities. However, while
radical reform is unlikely for precisely this reason, we can detect remarkable examples of transformative change even within the cluster of Bismarckian pension system (Brooks 2000). As Hinrichs (2000a) aptly puts it: "Elephants can be moved!". In the following section, I will argue, that the degree, to which transformative change of pension policies has occurred, can be attributed to the specific shape of national decision-making processes, which differ in terms of actor constellations and in terms of the broader institutional setting, in which the politics of pensions is located.

4. Explaining variation in pension reform outcomes – a game-theoretic approach

4.1 The importance of concerted action in the politics of pension

As has been demonstrated in the previous section, the degree to which national pension schemes of the Bismarck type have been adjusted to economic and demographic pressures differs considerably. In this section, I will use a game-theoretic framework so as to account for these differences. As Scharpf (1997) points out, a game-theoretic approach is very well suited for modeling constellations typically identified in empirical studies of policy processes. These studies usually involve a limited number of individual or corporate actors, which are engaged in purposeful action and which are generally aware of their interdependence by responding to and trying to anticipate one another's moves. From this perspective, policy outcomes are perceived as the joint product of their separate choices. In a similar vein, the politics of pension reform is treated as a strategic game between government, opposition parties and trade unions.

The starting point for the analysis is the theoretically and empirically founded assumption, that governments strive to adopt pension reforms in consensus with other political and societal actors. Thus, as a number of authors (Baccaro 2000; Hinrichs 2000c; Hinrichs 2000a; Myles/Pierson 2001) point out, successful pension reforms mostly take a "concerted" form. Interestingly, this thesis also seems to hold true in countries, which are traditionally not regarded as typical "negotiated democracies", such as France and Italy. The efforts of governments to form an alliance with other collective actors for pension reform typically goes above and beyond the search for a simple parliamentary majority (Hinrichs 2000a). This motive can be attributed to at
least two interrelated factors: the electoral importance of pension policy on the one hand and the veto power of potential reform opponents.

The electoral importance of pension policy emerges from the fact, that the reform of public pensions in the context of rising economic and demographic pressure is necessarily associated with considerable political costs. Following Pierson and Weaver (Pierson/Weaver 1993; Pierson 1994), this is largely related to the asymmetry between the concentrated and highly visible costs and the rather contingent and diffuse benefits of welfare retrenchment, which make pension cuts a highly unpopular undertaking. However, as Anderson (2000b) points out, this logic of retrenchment would only apply, where concentrated and highly organized groups are the potential losers, while the funding out of general revenues would lead to relatively diffuse benefits of retrenchment\textsuperscript{12}. By contrast, in contributory pension systems the numerical ratio between contributory persons and welfare recipients is much more balanced. As a consequence, from this point of view there is little reason to believe, that a rise in pension contributions is necessarily less unpopular than cutbacks in pensions. This judgement is also supported by empirical evidence. As a recent opinion survey of French, German, Italian and Spanish citizens on welfare state reform (Boeri/Börsch-Supan/Tabellini 2001) has ascertained, a majority of citizens wants to maintain taxes and compulsory contributions at current levels. More importantly, with the exception of Spain, the share of respondents, which prefer a lower level of both pensions and contributions is generally higher than the share of persons giving preference to a higher level of both pensions and contributions. Thus, if we assume, that the interests of contributors (i.e. persons liable to pay contributions) are not less concentrated than those of pensioners, then the political costs of retrenchment would at least equal the political gains, which accrue on the side of the contributors. In this respect, pension reform is as much an exercise in “blame avoidance” as it is an exercise in “credit claiming”. However, as the aging of population tends to worsen the ratio between pensioners and contributors dramatically, pension cuts are likely to result only in a lower increase in contribution rates rather than in a reduction of contribution levels. Thus, in a pay-as-you-go financed pension scheme, a rising share of pensioners will almost inevitably led to a deterioration of the rates of return, thereby weakening the confidence into the pension system on the side of current contributors (which tend to

\textsuperscript{12} The German system of civil servants’ pensions is a case in point. While benefits are concentrated on the relatively small group of civil servants, the costs accrue completely on the diffuse mass of taxpayers.
expect a relative equivalence between their contributions and the benefits, they get). Since pension policy makers have to transform this largely inevitable process of declining rates of return into political decisions, pension reform may raise widespread discontent among the electorate. At the same time, however, a delay of pension reform, resulting in rising contribution rates, will be unpopular as well, especially in a period of stagnating or even falling real wages. In short, pension policy makers cannot elude to make an unpopular choice between the Skylla of higher contribution rates and the Charybdis of reducing benefits.

Given their interest in reelection governments are likely to pursue a strategy of “blame avoidance” so as reduce the electoral costs associated with pension reforms. As Myles and Pierson (2001) point out, bringing other key institutional actors on board is an important element to share the political costs of pension reform. From the point of view of government parties, the most effective strategy of blame sharing is to get the consent or at least the acquiescence from the trade unions and from other political parties. In Europe, strong trade unions still play a crucial role as defenders of earnings-based social insurance schemes and their approval is likely to reduce the general political resistance against unpopular welfare reforms (Anderson 2000b; Palier 2001). By the same token, a broad cross-party consensus on pension reform involves substantially lower electoral costs for the government parties than is the case for unilaterally imposed reforms, against which opposition parties may try to mobilize voters.

The necessity for governments to bring the trade unions or the opposition parties on board also depends on the veto power of these actors. At a later stage I will discuss, under which conditions these actors are likely to oppose pension reform or not. While these actors generally do not exercise a universal veto power, they might be able to exploit specific veto points in the course of the reform process depending among others on the properties of distinct political systems (Immergut 1992; Immergut 1990). Moreover, even if these actors are unable to make use of the formal veto points in a political system, they still might be able to forestall the effective implementation of reform laws, which have been imposed unilaterally by the government. For instance, in Italy and France major pension reforms were stalled in 1994 and 1995, respectively, in the face of nationwide strikes and demonstrations organized by the trade unions. Moreover, opposition parties, after their return to government, might
reverse or suspend these reforms. For instance, the 1997 pension reform in Germany, which has been adopted by the bourgeois Kohl government, was suspended only one year later, when the Social Democrats came back into office. Thus, governments trying to impose pension reforms unilaterally, take a high risk of policy failure.

Starting from the assumption that unilateral pension reform is a risky strategy for governments, we can discern two possible strategies for governments to bring about concerted pension reform: Cross-party concertation including the major parties at both sides of the political center and Corporatist concertation aimed to generate a consensus between government and trade unions. In principle, both forms of concertation are equally suitable for providing a stable political basis for pension reform. As a rule, major pension reforms are politically feasible, if concertation is effectively achieved at least along one of these dimensions. If a broad party consensus around pension reform can be orchestrated, this reform would be likely to politically feasible even against fierce union resistance. At first, a broad party consensus would provide for a stable parliamentary majority, against which trade unions could set little against. By contrast, if government parties with a slim majority in parliament do not have the parliamentary support by the opposition, even a comparatively small faction of trade unionists and other opponents to reform would have a sufficient blackmail potential vis-à-vis the government. Second, a broad cross-party agreement would deprive unions from the possibility to exploit the electoral competition between government and opposition parties.

Conversely, the parliamentary opposition would face greater difficulties in blaming the government for pension cuts, if the latter is backed by the trade unions. For one, support from the trade unions would it make easier for the government to organize consensus within the own camp. This is particularly relevant for Social Democratic and Christian Democratic parties, which typically possess a more or less strong trade union wing. Moreover, it is arduous for the opposition to mobilize the electorate against unpopular welfare reforms, if these are supported even by the trade unions, which enjoy a high credibility as traditional defenders of the welfare state. This points

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13. It is a typical feature of pension reforms, that many provisions only become fully effective after very long transition periods. As a consequence, the complete implementation of pension reforms is only guaranteed if successive governments are willing to implement them.

14. The reform of the Dutch disability pensions is a case in point. Due to the broad party consensus for the reform, Dutch trade unions could neither seek recourse in alternative political coalitions nor take advantage of party competition (Wijnbergen 2000).
to the fact, that the strategic interactions between government and opposition on the hand, and the government and trade unions on the other are interlinked and must be conceptualized as nested games. As a rule, trade unions should have a stronger incentive to cooperate with the government, if the government has the alternative option to strike a pension deal with the opposition, which then might be even more disadvantageous for the trade unions. Conversely, if the opposition refuses cooperation with the government, the latter may find itself in a situation of unilateral dependence from the trade unions, whose support might then became indispensable so as to make a pension reform politically feasible.

4.2 Conditions for successful concertation

While it is plausible, that governments have a strong incentive to organize a stable political basis for pension reform, the incentives for cooperation are less straightforward for both trade unions and opposition parties. In the following I will analyze the conditions under which these actors are likely to strive for a pension consensus with the government.

4.2.1 The strategic game between government and opposition

In order to model the strategic interactions between government and opposition parties in pension politics, I will start from the assumption, that political parties within democratic polities are both policy seekers and political entrepreneurs. In the first dimension, political parties primarily represent the interests of their core constituencies (in particular of specific socio-economic groups) and pursue appropriate policy goals irrespective of their organizational self-interests (Lipset/Rokkan 1967). In the second dimension, typically emphasized by rational choice theorists, political parties strive first and foremost for the maximization of their private gains. From this perspective, party behavior is largely driven by vote- and office-seeking strategies of political leaders (Downs 1957). As Mulé (2000) points out, vote-seeking, policy-seeking and office-seeking are not mutually exclusive. Party leaders pursue each of these strategic aims in various arenas depending on specific institutional context factors. How do these motives impinge on the strategic behavior of opposition parties in pension politics?

Following Tsebelis (1995; 1999), an increase in the ideological distance between political veto players is likely to reduce the ability of both government and parliament to produce significant laws. This suggests, that a broad cross-party consensus over
pension reform is more difficult to achieve, if there is substantial dissimilarity among the pension policy positions of government and opposition parties. However, this assumption is less self-evident than it might appear at first sight. I argue, that a high congruence of policy positions among government and opposition is neither a sufficient nor a necessary condition for a cross-party pension consensus. Under certain conditions, similar policy profiles might even be counterproductive to successful cross-party concertation in pension reform. The reason is, that the strategic interactions between government and opposition are not only motivated by the endeavor to reach certain material policy aims, but also by the logic of party competition. Both “logics” are fundamentally distinct from one another in terms of their underlying interaction orientations. Concerning the policy dimension, interaction orientations of political parties are typically egoistic in the sense that actors strive for solutions, which maximize their individual gains. Insofar, political parties are likely to select policies, which are as close as possible to their ideal point. At the same time, however, government and opposition are engaged in electoral zero-sum competition trying to maximize their relative gains. Thus, as Scharpf (2000b) puts it, “the opposition has no not only a substantive interest in promoting its own policy goals through favorable compromises but also a competitive interest in defeating government initiatives to undermine its reputation for competent and successful policy action”. As a rule, a “grand coalition” for a pension reform is unlikely to emerge, if the ideological distance is big and if the degree of party competition is high. However, both logics might well operate in opposite directions, if a small distance between the policy positions would allow for a cooperation across political parties, but is countervailed by strong competitive incentives in the electoral arena. In this case of a mixed-motive game (in which actors’ preferences are partly in conflict with one another and partly harmonize), the actual behavior of opposition parties and thus the chances for a cross-party pension consensus are highly contingent upon specific context factors. Assuming that pension reform is typically associated with unpopular benefit cuts, party competition might lead to reform blockage, even if parties’ policy positions differ only at the margin. As Kitschelt (2001) aptly remarks

“ When pondering unpopular social policy retrenchment, the leading conventional parties find themselves in a prisoner’s dilemma situation. Even if politicians in all major parties see social policy retrenchment not merely as a redistributive measure favoring affluent constituencies, but as a collective good that accrues to all citizens by
boosting economic growth and a country's international competitiveness, no individual party may have the incentive of bringing about that good in a situation where all its competitors are credible "centrist" supporters of the welfare state status quo. These competitors would promptly exploit the governing parties' implementation of unpopular social policy measures to improve their own electoral standing at the expense of the government party. Trapped in this prisoners' dilemma, party systems with only centrist parties in social policy terms that credibly defend the welfare state status quo and structure inter-party competition primarily around socio-political rather than socio-economic themes will deliver unpopular social reform only if all the major competitors can be incorporated in a "grand coalition" for social retrenchment and thus engineer a "blame diffusion" across the political spectrum.

Thus, the electoral incentives for opposition parties to blame the government for "unsocial" welfare retrenchment are particularly pronounced, if these parties enjoy a reputation as traditional proponents of existing social policy programs. As a rule, left parties can more credibly attack centrist or right-wing governments for "unfair" cutbacks than vice versa. As a consequence, it is generally more easy for left governments to curtail welfare entitlements, as bourgeois parties typically do not represent a serious alternative for dissatisfied voters in that respect\textsuperscript{15}. As the Nixon-goes-to-China thesis\textsuperscript{16} this phenomenon has found its way in recent welfare state research (Haverland 2000; Kitschelt 2001; Ross 2000). However, in a constellation, where the major parties on both sides of the political center are equally acknowledged as supporters of welfare arrangements such as a public pension insurance, even a bourgeois opposition party might successfully exploit the issue of pension reform in the electoral arena, if a left-wing government adopts unpopular benefit cuts. The current pension debate in Germany is a case in point. Although their position in pension policy differs only marginally from the one held by the Social Democratic government, the Christian Democratic opposition has adopted a hostile attitude towards government's pension reform plans so as to improve its own electoral standing.

\textsuperscript{15} In some countries, reformed Communist parties represent a serious alternative for voters disappointed in retrenchment policies of left governments. However, Social Democratic parties are more likely to accept a drain of voters to Communist parties, as long as it does not endanger their pivotal position in the party system (Kitschelt 2001).

\textsuperscript{16} As Kitschelt (2001) puts it, "an anti-communist Republican with a hawkish reputation in foreign policy could initiate reconciliation with communist China more easily without raising suspicions of "selling out" America than a liberal Democrat in the presidency".
Pondering the chances for a party-overarching pension pact, three other aspects have to be taken into account. At first, the intensity of party competition is not only dependent on the party system, the ideological format of which might or might not allow the opposition parties to exploit the pension issue in electoral terms. Party competition also hinges upon institutional properties of political systems and varies greatly across national polities as well as over time. Typically, party competition tends to be most intense, if the frequency of elections is high and if even a small loss in the share of popular votes endangers a party’s stay in government. In that respect, it is again useful to distinguish between vote-seeking and office-seeking strategies. While unpopular cuts in public pensions are likely to reduce the electoral support for the government parties, they do not necessarily diminish their prospects to remain in office. For instance, a government might dispose of a comfortable majority in parliament, which cannot be seriously compromised through electoral results. In this case, the political costs of retrenchment are significantly reduced for the government, while the competitive incentives for the opposition parties are then limited to the vote-seeking dimension.

Second, the incentives for competing political parties to enter into a common pension deal, depend on whether opposition parties dispose of a formal veto point in the decision making process. In this case, the government is unilaterally dependent from the support by the opposition parties and is likely to make substantial concessions to bring them on board. Moreover, the disposability of a veto point changes the individual payoffs within the strategic game between government and opposition. The aforementioned prisoner’s dilemma only occurs, if the opposition party does not have a formal veto power. Only in this case the opposition can profit from the collective goods produced by pension reform and simultaneously avoid the political costs associated with it. This strategic option of “cheap talk” is foreclosed, if the opposition parties are able to block reform by the exercise of their own veto.

Finally, striking a “grand pension coalition” between government and opposition parties also depends on the internal homogeneity of these actors. The more internally fragmented these actors are (either by a high number of parties in government or by strong intra-party divisions), the higher will be the transaction costs associated with the search for an internal consensus and the more difficult it will be to orchestrate simultaneously a concertation between opposition and government. Moreover, if a government is internally divided about the issue of pension reform, opposition parties
may have a stronger incentive to refuse the cooperation with the government, so as to exploit these dissentions within the government for their own electoral purposes.

4.2.2 The strategic game between government and trade unions

In the following, I will expound the game-theoretic constellation between government and trade unions in pension politics. The logic underlying the game between these actors is fundamentally different from the one prevailing the interactions between government and opposition. Unlike the opposition parties trade unions have basically no competitive incentives vis-a-vis the government. Their primary interest first and foremost revolves around substantive policy solutions rather than electoral competition (Scharpf 2000b). Basically, the “pension game” between trade unions and the government can be understood as a mixed-motive game. Given that trade unions and the government do not compete with each other in the electoral arena, none of these actors has a genuine interest to engage in conflicts with the other side. Other things being equal, both actors are likely to prefer a joint solution to social conflict, the costs of which might be considerable. This holds particularly true for the government, for which a social conflict with the trade unions might harm its electoral prospects. However, the substantive policy interests are likely to differ fundamentally, if governments launch a pension reform, which involves benefits curtailments for unions’ rank-and-file. As already noted, governments have an interest to contain the growth of pension expenditures so as to keep contribution rates relatively stable and to lower the pressure on the public budget. Typically, this involves the necessity of benefit cutbacks. The trade unions, by contrast, which typically regard contributory pension entitlements as a form of “deferred wage”, are likely to resist cuts in public pension schemes. To be sure, trade unions face a trade-off between the interests of contributors and beneficiaries, when they have to state their own approach to public pension reform. However, this trade-off is moderated by the fact, that current contributors are future beneficiaries and are likely to oppose the scaling down of their own pension claims. This is particularly true for elderly workers, which typically represent the most influential group among trade unions’ rank and file. Thus, as (Wijnbergen 2000) points out, unions will mostly (though not always) prefer the preservation of the status quo to reforms, which involve painful cutbacks for their clien-

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17 More often than not the policy distance between trade unions’ and government’s in pension policy is bigger than the policy distance between government and opposition, whose conflicts in pension policy are often inspired by electoral competition rather than genuine differences in their policy positions (Bonoli 2000).
tele. In any case, governments strive mostly for larger curtailments than is true for the trade unions. At the same time, however, trade unions are also likely to give preference to a negotiated reform (in which they have at least a say in the implementation) over a reform, which is imposed unilaterally by the government against trade unions’ resistance.

For the government, the first preference is typically a negotiated reform, in which trade unions signal “green light” for unpopular welfare cutbacks through the government. However, as Wijnbergen (2000) aptly remarks “governments need to balance their desire to obtain the consent of unions to the reforms with their desire to implement real changes. If consensus with the social partners is their primary goal (and not the implementation of reform itself), it hands the social partners a veto power”. In this case, negotiated reform will often boil down to a de-facto reform paralysis, since trade unions by and large tend to adhere to the status quo. Under the assumption, that governments attach a greater importance to the reform contents than to consensus with the unions per se, governments will prefer imposed reforms to a continuation of the status quo. If these assumptions were correct, we would get the following order of preferences:

Order of preferences for government and trade unions in the “pension game”

<table>
<thead>
<tr>
<th></th>
<th>Government</th>
<th>Trade unions</th>
</tr>
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<tbody>
<tr>
<td>First preference</td>
<td>Negotiated reform</td>
<td>Retention of the status-quo</td>
</tr>
<tr>
<td>Second preference</td>
<td>Imposed reform</td>
<td>Negotiated reform</td>
</tr>
<tr>
<td>Third preference</td>
<td>Retention of the status-quo</td>
<td>Imposed reform</td>
</tr>
</tbody>
</table>

Summing up the individual pay-offs, a negotiated reform turns out be the most preferable outcome from a welfare-maximizing perspective, even if it represents only the second-best option for trade unions. In this case, the willingness of trade unions to strike a deal with the government is dependent on whether unions believe, that the government is willing and able to push the reform through even without unions’ consent (Wijnbergen 2000). In other words, if the government can credibly threat to impose painful pension reforms unilaterally, trade unions are likely to resort to a negotiated solution, even if they have to make substantial concessions. By contrast, when confronting a government with a low commitment to reform, trade unions will be more likely to block reforms. Conversely, the willingness of governments to enforce reforms ‘no matter what’ will be influenced by the anticipated reactions from the trade unions.
If governments believe, that trade unions will mobilize massive protests against their reform plans or block their adoption by way of a formal veto point in the political system, governments will be more responsive to unions’ demands or abstain from pension reform at all. However, the “pension game” between government and trade unions involves a considerable uncertainty for both parties about the other’s “real” preferences and its likely strategic moves, with which it will respond to one’s own moves (Wijnbergen 2000).

Broadly speaking, the emergence as well as the scope of a pension pact between government and trade unions reflects the relative balance of power between these actors. This again hinges on a multitude of factors. As already noted, if backed by the opposition, the government has, as a rule, a very strong bargaining positions vis-a-vis the unions. Hence, if confronting a relatively unified “grand party coalition” unions are likely to show a greater willingness to compromise on pension reform than would be true otherwise. On the side of the trade unions, the extent, to which union leaders are able to mobilize protest against pension reform is of considerable importance. In countries such as France and Italy unions have proven to possess an extraordinarily high capability of mobilizing the public and even of paralyzing the country’s economy through large-scale strike activities. On the side of the government, the relative strength vis-a-vis the trade unions also depends on whether the unions can successfully exploit splits within the governing coalition. Especially left-wing governments seem relatively susceptible to attempts of trade unions to drive a wedge into the government camp. At first, trade unions might resort to cooperation with Communist parties or leftist Social Democrats, which mostly have similar policy positions concerning the reform of public pensions. Second, trade unions have more or less strong personnel linkages to Socialist parties determining the degree of party autonomy from the labor unions also in the area of pension politics. Following Kitschelt (1994:225) we have to distinguish at least three structural configurations in union-socialist party linkages: At one end of the spectrum, trade unions have a dominant position within the party elite by controlling key appointments and placing their own leadership in important executive and legislative party offices. This constellation is most closely approximated by the Austrian Social Democrats. A second configuration, traditionally prevailing in countries such as Sweden and Germany, is characterized by intense communication between the major union confederation and the socialist party. However, both sides try to keep some distance both in terms of overlapping leaderships
as well as strategic maneuverability. On the other end of the spectrum, Socialist parties have cut their formal organizational linkages to the labor movement and permit comparatively little personnel overlap at the level of the party elite (e.g. in France and Italy). While the first configuration gives the labor unions a strong veto power within the party, which cannot even be bypassed through a broad cross-party alliance for pension reform, the second constellation does not a priori foreclose a strategy, through which party leaders can circumvent trade unions' resistance by forming a broad pension consensus across political parties.

4.3 National patterns of decision-making in pension politics

It needs to be emphasized, that the strongly simplifying theoretical assumptions outlined above constitute a framework rather than a theory. As such, they can at best serve as a heuristic tool providing guidelines for the search for explanations, but will fail to produce universal hypotheses. As Scharpf (1997) has pointed out, real world constellations are too variable to be explained by universally valid theories. Insofar, my game-theoretic approach to pension politics can only partly account for variation in reform outcomes and is not sufficient to explain each individual case exhaustingly. Nevertheless, the following section tries to go beyond a mere description of national processes of pension reform by locating these individual cases into the broader game-theoretic framework sketched above. In particular, I will demonstrate, that national pension politics is based on the strategic interplay between government, opposition parties and labor unions, which again is shaped by specific institutional context factors. On the basis of the comparative assessment of pension policy change provided in section 3, I will try to summarize very briefly, how far the reform of public pension systems has gone in the respective country, thereby following a very rough and necessarily subjective rank-order of "pension reform progress" among the countries under study: Sweden and, to a somewhat lower degree, Italy have enacted the most far-reaching reforms, whereas Austria and especially France have progressed very little by international standards. By contrast, Germany takes an intermediate position concerning the degree of adjustment in pension policy\textsuperscript{18}. By and large, this pattern is also reflected in the projected growth of pension expenditures in the future calculated on a comparable basis in a recent report for the European Commission (see table below).

\textsuperscript{18} Recent studies gauging the progress of European countries in making their pension systems economically and fiscally sustainable arrive at similar assessments (Mantel 2001).
Pension expenditure projections (as % of GDP)

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>14.5</td>
<td>14.4</td>
<td>14.8</td>
<td>15.7</td>
<td>17.6</td>
<td>3.1</td>
</tr>
<tr>
<td>France</td>
<td>12.1</td>
<td>12.2</td>
<td>13.1</td>
<td>15.0</td>
<td>16.0</td>
<td>3.9</td>
</tr>
<tr>
<td>Germany*</td>
<td>10.3</td>
<td>9.8</td>
<td>9.5</td>
<td>10.6</td>
<td>13.2</td>
<td>2.9</td>
</tr>
<tr>
<td>Italy</td>
<td>14.2</td>
<td>14.1</td>
<td>14.3</td>
<td>14.9</td>
<td>15.9</td>
<td>1.7</td>
</tr>
<tr>
<td>Sweden</td>
<td>9.0</td>
<td>8.8</td>
<td>9.2</td>
<td>10.2</td>
<td>10.7</td>
<td>1.7</td>
</tr>
</tbody>
</table>

(Economic Policy Committee 2000); ° 2001 reform not yet taken into account

4.3.1 Sweden

Among the five countries scrutinized in this paper, Sweden has adopted the most far-reaching pension reform. Besides Italy, Sweden has thus far been the only country, in which the public pension system will be converted from a defined-benefit into a defined-contribution scheme, albeit with long transition periods. In addition, a new indexation formula has been established, which will effectively dampen the growth of pension outlays in the future. Moreover, most recently a private and fully-funded pillar has been introduced on a mandatory basis.

The adoption of such a large-scale reconstruction of the overall Swedish pension system was favored by the fact, that from the outset the major political parties showed their willingness to arrive at a broad societal consensus over the issue of pension reform. Interestingly, this pension consensus was finally brought about despite substantial dissensions between the Social Democrats and the bourgeois parties over the content of the reform. Consensus-building was eased by the format of the Swedish party system, in which neither the Social Democrats nor the bourgeois parties could gain a lot by bringing the pension issue in the electoral arena. On the side of the Social Democrats, incentives for electoral competition were also softened by their expected imminent return to government in the early 1990s18 (Scharpf 2000b). Thus, the issue of pension reform could be largely kept out of the electoral arena favoring a policy-oriented bargaining process, on which the trade unions could only exert indirect influence by way of lobbying, in particular through the strong ties
between the LO (the organization of blue-collar unions) and the Social Democrats (Anderson 2000b). Moreover, like the trade unions the leftist Vänsterpartiet and the Miljöpartiet were excluded from the working group inside the Ministery of Social Affairs, in which the details were finally decided and in which only the political parties in favor of the pension reform (the Social Democrats and the four bourgeois parties) were involved (Wadensjö 2000). Finally, the obstruction potential of trade unions was to a considerable extent neutralized by the fact, that labor unions themselves were divided in their attitude to the pension reform. In contrast to the white-collar unions TCO and SACO, LO was by and large in favor of the reform, which would have a neutral or even positive impact on most member pensions. The reason is, that blue collar workers are likely to be less affected by a shift towards the principle of life time income than white-collar workers, which have comparatively long spells of higher education, relatively short periods of labor market participation and a more steeply rising earnings profile during their career (Anderson 2000b).

4.3.2 Italy

In Italy, the long-term effects of the reforms of the public pension schemes launched in the 1990s are similar to those of the Swedish reform. Like Sweden, Italy has engineered a shift from a defined-benefit towards a defined-contribution system, albeit with extremely long transition rules. Quite remarkably, Italy has also managed to harmonize the pension schemes between the public and the private sector. However, as already noted, the establishment of a private or occupational fully-funded pillar has so far made only very limited progress.

Given the marked reform resistance of the Italian pension system throughout the 1980s, the scope of reforms adopted in the 1990s is remarkable. As already noted, the dynamics of European integration (in particular the fiscal pressure imposed by the EMU criteria) and its beneficial impact on the political discourse at the national level has been an important driving force behind the reform of the Italian welfare state in general. This also generated a high willingness both among political parties and among trade unions to arrive at a profound recast of Italy's highly unsustainable and unequitable pension system. However, while the old clientelistic parties (which were the main culprits for Italy's overblown pension system) have been largely replaced by

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19 The main principles of the reform were still decided during the incumbency of the bourgeois Bildt government.
more reform-oriented parties, a broad party consensus across the political camps over pension reform still turned out to be difficult to achieve. The persistent fragmentation and instability of Italy's multi-party government coalitions as well as the high degree of electoral competition hamper consensus-building within the government and hence make concertation between government and opposition parties particularly difficult. Even in those cases, where opposition parties offered their support to the government (as Berlusconi did in 1997), alternating majorities would be the likely result, which again would endanger the internal cohesion of government coalitions. Thus, alliances between government and trade unions are the more realistic option so as to arrive at a stable political basis for pension reform. As Baccaro (2000) aptly remarks, "in Italy, the presence of quarrelsome governmental coalitions based on a multiplicity of parties in constant competition with one another and relying on slim parliamentary majorities (or even, as in the case of the "technocratic" governments of the early- to mid-1990, devoid of clear and stable majorities) rendered interest-group inclusion in all major policy reforms, not just pension reform, almost a functional necessity". The indispensability of unions' approval to pension reform or at least their acquiescence furthermore follows from their pronounced capacity to mobilize protest. This is among others illustrated by the failed attempt of the Berlusconi government in 1994 to impose a pension reform against the fierce resistance of trade unions. The criticism referred mainly to the fact, that the reform envisaged a very quick implementation of the desired cuts and that the government favored a unilateral approach excluding the unions and the left opposition (Antichi/Pizutti 2000; Pitruzello 1997). Nevertheless, despite their considerable blockage power, Italian labor unions have, in principle, shown their preparedness to negotiate over a fundamental restructuring of Italy’s pension system. At first, trade unions themselves were well aware of the distributional shortcomings and the financial unsustainability of the old pension regime. Second, the Italian labor movement proved able to overcome internal dissents over the direction of pension reform by holding a referendum in 1995 covering the entire union rank and file. 65% of union members voted in favor for the reform proposal, which the technocratic Dini government and union leaders had agreed upon. Approval to the reform was among others based on the fact, that a minority of workers with an intense preference against the reform was voted down by a majority of workers, who had a positive, but less intense interest in the success of the reform.

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20 Personal communication to Antonia Gohr
At the same time, the opposing union members acknowledged the procedural justice of the vote and therefore abstained from wildcat strikes. This procedure may partly explain, why Italian public sector unions could not forestall, that the pensions for their members will be gradually adapted to the lower benefit level obtained by workers in the private sector. Finally, unions and workers had to fear, that a failure of the referendum might bring a subsequent government to impose a much harsher reform against the trade unions (Baccaro 2000; Baccaro 2001; Regini 1997; Schmidt 2000).

4.3.3 Germany

An inspection of recent developments in German pension policies reveals a mixed record. Recent pension reforms have substantially contained the growth of pension expenditures, but may not suffice to stabilize contribution rates in the medium and long-term. In contrast to Sweden and Italy, Germany has not implemented a complete switch towards a defined-contribution system, albeit important steps in that direction have been undertaken. Quite remarkably, the most recent reform is geared to establish a multi-tiered pension system, in which private and occupational pensions are partly to substitute the pension payments out of the public scheme. However, while wage earners are encouraged to pay up to 4% of their income into the additional pillar, German pension policy makers failed in their attempt to make private old-age provision compulsory. Instead, the envisaged recast is achieved by way of direct subsidies or tax incentives, respectively. A major weakness of German pension policy refers to fact, that all pension reforms have so far avoided to address the issue of civil servants' pensions, which are by far more generous than pensions from the general scheme and which impose an increasingly heavy burden on the public budget.

In Germany, pension politics has followed a rather erratic pattern in the recent years. Up to the early 1990s, pension policy rested upon an albeit fragile consensus among the major political parties on the one hand and among the social partners on the other. This consensus revolved around the perception, that the statutory pension insurance has to provide for an at least approximate maintenance of the previous living standard in old-age and that necessary reforms should be made within rather

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21 The very long phasing-in of the new (less generous) pension system left elderly workers and pensioners largely unaffected by cuts in pension entitlements, hence ensuring a majority for the reform. Among pensioners, 91% voted in favor of the reform (Baccaro 2001).
than outside the public system. In the following years, this consensus dissolved quickly, bringing the pension issue back onto the electoral arena for the first time since the late 1970s. In 1997, the bourgeois Kohl government launched a major pension reform, which involved a partial turning away from the principle of income maintenance (Lebensstandardsicherung), and which was heavily criticized both by the trade unions and the Social Democratic opposition, which announced to nullify the reform after their return to government. While the Social Democrats, after their election victory in 1998, indeed suspended the corresponding law, they carried out a radical change in pension policy only in 1999. At first, in striking contrast to their election promises, they replaced net wage indexation by consumer price indexation for two years\(^{22}\), thereby laying themselves open to massive attacks by the opposition parties. More importantly, they put forward a reform plan, which went far beyond the plans of the preceding government, envisaging among others a radical reduction of benefit levels for future pensioners and the introduction of a private mandatory pillar (Hering 2001). These plans were fiercely criticized by both the trade unions and the Christian Democratic opposition, albeit for different reasons. Unions’ criticism focused primarily on the severeness of benefit cutbacks and the fact, that the shift towards private old-age provision would distribute the rising financing burden for old-age provision solely onto the shoulders of the wage earners rather than equally between employees and employers. By contrast, the Christian Democrats, while largely sharing the basic principles underlying the government’s reform proposal, accused the Schröder government for mainly tactical reasons. Schröder made concessions to the Christian Democrats in virtually all aspects, the Christian Democrats had criticized, so as to get their support in the Bundesrat, whose approval is required to get parts of the reform package passed. Moreover, by forging an alliance with the opposition, Schröder tried to isolate the trade unions as well as the leftist reform opponents within his own party. However, this strategy failed, since the Christian Democrats still opted against a “grand coalition” with the government, so as to exploit the pension issue in the electoral arena. At the same time, about 30 trade unionists and leftists Social Democrats in parliament had publicly announced to vote against the bill, unless substantial “improvements” would be taken. Thus, without the backing by the opposition parties the government was dependent on the support from the left SPD wing in order to obtain a majority in parliament. As a consequence, the government

\(^{22}\) Later, this measure was limited to one year.
had to make substantial concessions to the Social Democratic left-wingers and to the trade unions. For one, the reduction in benefit levels will be considerably lower than initially envisaged. Second, collectively-agreed pension provision will take precedence over private provision (Tarifvorbehalt), which will give the unions a right to a say in the area of fully-funded supplementary old-age provision and which is likely to imply a stronger involvement of the employers in the financing of these schemes. These changes vis-a-vis the original bill were primarily brought about through a strategic alliance between trade unions and the left SPD wing. As Andrea Nahles, a prominent representative of the left-wingers in the party, has pointed out, this alliance gave the reform opponents a strong veto power: "For strategic reasons, the SPD leftists needed the trade unions and their backing in society as a leverage. Conversely, trade unions would not have been able to exert such a large influence without the blocking power of the left-wing within the party's fraction" (Nahles 2001, translation by M.S.). Nevertheless, the government could win out over the left-wing of the Social Democrats (which was in a clear minority after the resignation of Lafontaine) concerning the basic principle of the reform, which the government had declared as non-negotiable, namely the promotion of a fully-funded pillar through concessionary tax treatment and government subsidies. Moreover, the trade unions, as opposed to the left-wing in the SPD, had no fundamental caveat against this reform element, as long as the principle of parity financing between employees and employers was maintained (Nahles 2001). In the last stage of the reform process, the Schröder government also achieved the approval from the Bundesrat, where the Social Democratic Bundesländer do not have a clear majority. This success was largely based on a deal between the federal government and the two Bundesländer Berlin and Brandenburg, which are governed by grand coalitions, and which finally approved the reform (in the first round they abstained from voting). As part of the deal, the federal government promised to place the new agency for the administration of the state subsidies to private old-age provision in Berlin, which will create about 1000 new jobs for this region.

4.3.4 Austria

Austria has thus far made comparatively little progress in pension reform. Without further reform, outlays for public pensions, which are already very high by international standards, will rise to unsustainable levels in the future. In contrast to Italy and
Sweden, Austria has not transformed its statutory pension insurance into a (notional) defined-contribution scheme. A number of savings have been enacted in recent years, such as a temporary freeze in pensions and sharply reduced credits for schooling. However, by extending the "number of best years" only marginally up to 18 years, Austria has failed to establish the principle of life-time income in the calculation of public pensions. What is more, as many changes, such as the higher retirement age for women, will be phased in extremely gradually, the corresponding savings effects will only become fully operational in the remote future. Moreover, no major steps have been taken towards a strengthening of private and fully-funded pension plans. Quite remarkably, however, Austria has managed to widely harmonize the benefit levels between the general scheme and the scheme for civil servants by altering the calculation basis for the latter from last salary towards the 18 best salary years (Prinz/Marin 1999; Lißner/Wöss 1999; Tálos/Wörister 1998).

Throughout the late 1990s Austrian pension policy was characterized by very incremental changes tinkering at the margins of the public pension system. At first sight, it might appear puzzling, that the coalition government between the SPÖ and the ÖVP proved unable to launch a major overhaul of the Austrian pension system. In principle, we should expect that a such a grand coalition government should provide for a sufficiently stable political support basis for unpopular welfare reforms. However, as already noted, the strong organizational and personal links between the social partners and the political parties (often described by the notion of "Sozialpartnerschaft")⁵²³, in particular between the Austrian Trade Union Federation ÖGB and the Social Democrats (SPÖ), gave the unions a relatively strong veto power within this specific government constellation resulting in a pronounced orientation in favor of the status-quo. As Obinger (2001) points out, Sozialpartnerschaft constitutes a strong, albeit informal veto point in the Austrian political system. The two saving packages adopted in 1995 and 1996 are cases in point. Pressed by the Maastricht convergence criteria Austria was forced to adopt very tight fiscal policies in the mid 1990s including cuts in the pension system. In 1994, the government tried to enforce a number of consolidation measures on its own without consulting the social partners. The plan failed, when the leader of the Metal Workers Union left under protest the SPÖ bargaining committee labeling the envisaged cutbacks as unacceptable. So as to gain the consent from the trade unions, the government was forced to water down
the austerity package substantially by among others undoing the planned curtailments in the pension system. In 1996, by contrast, the social partners (which had a substantial interest in Austria's EMU membership) were from the outset involved in working out the details of the austerity package. Quite remarkably, the measures adopted were by far more severe than those passed in the previous package. Thus, as Unger (2000) points out, the inclusion of the trade unions clearly helped to sustain the political acceptance of welfare retrenchment. This also suggests, that the Austrian trade union movement has in principle a very high capacity for strategic action in an intertemporal dimension, i.e. the ability to forgo present satisfaction for future gains (Scharpf 1997). The veto power of the Austrian labor unions became again evident in the 1997 pension reform. Again, the SPÖ/ÖVP government proved unable to bring about a pension reform against the resistance from the trade unions. Similar to the 1995 savings package, the government tried to enact substantial benefit cuts without prior consultation with the social partners. However, in the face of fierce opposition by the trade unions, which showed little willingness to change the status quo in pension policy, the government finally opted for an inclusion of the social partners in the reform process. Due to the close links between the government parties and the trade unions, those politicians opposing a "pension reform without the social partners" gained upper hand in the government camp. Thus, in a last-minute deal the trade unions could negotiate a weakening of the planned benefit cutbacks and longer transition periods (Tálos/Kittel 1999). However, trade unions accepted a greater harmonization between civil servants' pensions with the general scheme, which will result in relatively strong benefit reductions for the former and which had been a main point of controversy (European Industrial Relations Review 1998). This suggests, that the capacity of strategic action on the side of the labor unions has also an interpersonal dimension. Due to the privileged position of its peak association ÖGB, the Austrian labor movement seems — in principle — capable of sacrificing the interests of some members (e.g. civil servants) for the greater benefit of others. While the 1997 pension reform soon proved to be insufficient to tackle the problem of rising pension expenditures, the SPÖ-ÖVP government presented a new pension reform plan in January 2000 being part of a coalition agreement. The plan, which envisaged among other an increase in the retirement age within a relatively short time frame, was strongly rejected by the trade unions and involved severe disputes between repre-

\[23\] For instance, until recently the Ministry of Social Affairs was de facto under the control of the ÖGB
sentatives of ÖGB, SPÖ and ÖVP, which finally culminated in a failure of the SPÖ-ÖVP coalition (European Industrial Relations Review 2000).

The relative balance of power between the government and the trade unions shifted fundamentally to the disadvantage of the latter, when the new coalition government between the ÖVP and the populist right-wing FPÖ took office in February 2000. In contrast to previous governments the new government coalition possesses a distinctly neo-liberal profile in social and economic policy. As a consequence thereof, the measures taken in social policy are exceptional both in their scope and in the speed, with which they are enacted (Obinger 2001; Tálos 2001). This also holds true for the pension reform adopted in summer 2000, which brought about quite a number of austerity measures (such as an increase in the early retirement age), which were mostly implemented without major interim regulations. In particular the latter aspect was met by fierce opposition from the trade unions and the Social Democratic opposition, which brought this issue to the constitutional court. Interestingly, the current government has not made any serious efforts to bring the unions and the opposition parties on board. By contrast, the new government tends to replace the traditional concertation pattern of Sozialpartnerschaft by a more confrontational strategy, often confining itself to mere pseudo-negotiations with the trade unions (Obinger 2001). Moreover, the government aims at an organizational weakening of the trade unions so as to limit their political influence and to break their veto power. For instance, the competencies for labor law and labor market policy were devolved from the Ministry of Social Affairs to the newly created Ministry for Economy and Labor so as to restrict the traditional channels of influence for the ÖGB (Tálos 2001). As Obinger (2001) correctly points out, neither the harsh retrenchment policy of the new Austrian government nor its open course of confrontation vis-a-vis the trade union movement can be grasped as a strategy of blame avoidance (Pierson 1994; Weaver 1998). On the contrary, especially the neo-liberal FPÖ perceives the dismantling of corporatist structures and the pushing back of the welfare state as an opportunity for "credit claiming" also in the electoral arena. However, the losses for the FPÖ during the recent elections at the Länder level suggest, that this strategy may not pay off. Nevertheless, the comfortable parliamentary majority for the government parties as well as the limited veto power of the opposition parties and the trade unions provide the government with a considerable leeway to pursue its neo-liberal policy profile (Obinger

(Obinger 2001).
2001). Thus, the envisaged recast of the Austrian pension system towards a three-pillar-model is a likely scenario for the near future.

4.3.5 France

Among the five countries under study France shows altogether the greatest deficits in placing its pension system on a more sustainable footing. While the Balladur reform of private sector pensions in 1993 will generate substantial savings in the medium term, contribution rates are still likely to rise considerably over time. Moreover, while significant steps were taken to strengthen the link between contributions and benefits, the reform did neither bring about a full changeover to the principle of lifetime income for the calculation of benefits nor provide for a higher regular retirement age. The meager reform record is further tarnished by the failure of the Juppé government in 1995 to implement a very similar reform of public sector pensions, which will account for over 50% of the total deficit of the whole system (Taverne 2000). Finally, the plan to establish a new pillar of private and fully-funded pensions launched by the Juppé government in 1997 was stalled by the subsequent Socialist government, which instead only introduced a small reserve fund within the public system to cover future pension costs. Apart from that, the Jospin government has so far largely avoided to grapple with the issue of pension reform. As a consequence, without further reform, contribution rates are projected to rise from 13.76% up to 25.9% in 2030 (Taverne 2000).

Which factors can be held responsible for the standstill of pension reform in France since 1993? Broadly speaking, neither the French party system nor the system of industrial relations are particularly conducive to a broad alliance for pension reform. The party system, to begin with, is characterized by a very high degree of bipolar competition between the Socialist and the bourgeois camp (which are roughly of the same size), largely resulting from the majoritarian electoral system. Moreover, the policy positions of French parties differ substantially on the issue of private old-age provision. The aforementioned "Thomas law", for instance, was vehemently criticized by both the left-wing parliamentary opposition and the trade unions. As contributions to these pension funds were deductible from contributions to the public scheme, the left denounced this law as a threat to the public pay-as-you-go financed pension schemes. Moreover, as these pension funds were to be run by private companies rather than collectively by the social partners, fears were raised about a "de-
solidarization" of old-age provision (Reynaud 1997; Sauviat 1998; Levy 2000). A further disincentive for cross-party concertation in pension policy may arise from the militancy and combativeness of French labor unions especially in the public sector, which possess a remarkable capacity for mobilizing their rank-and-file even in the case of "political" strikes against the government.24 As the failed Juppe reform has demonstrated, due to their the strength in the public sector, French unions were able to overcome internal divisions and to coordinate political action even against an institutionally strong and ideologically cohesive government (Pitruzello 1997). Thus, as pension cutbacks may trigger fierce and potentially successful protests from the trade unions, the opposition will have little incentive to share the blame with the government by backing their unpopular welfare policies.

At the same time, France lacks the institutional preconditions for a close cooperation between the government and the trade unions. As Culpepper (2000) points out, French trade unions may be able to mobilize protest, but are largely incapable of organizing consent among their rank-and-file due to their limited capacity for strategic action. For one, French trade unions stand in strong competition with one another. As Levy (2000) aptly remarks, "even if one particular trade union (...) is willing to cooperate, the fragmentation of interest groups means that five or six rival organizations immediately denounce the collaborator for 'selling out,' and successful implementation of the reforms is anything but guaranteed." Moreover, trade union leaders in France have little control over their members, which often organize spontaneous strike committees on their own (Deutsch-Französisches Institut 2001). Thus, while the devolution of policy-making functions (namely to convince union members about the need for reform) to the trade unions was feasible in Italy with its comparatively encompassing trade union structures, such a strategy is doomed to fail in France (Culpepper 2000).

As far as pension reform is concerned, another factor hampers the willingness of French unions to engage in large-scale pension reform with the government. As Bonoli and Palier (2000) point out, French trade unions are particularly eager on keeping their position in the social insurance administration. In the face of very low union density rates, especially in the private sector, unions' involvement in the management of social insurance bodies provides for an indispensable job and income source for union functionaries. As a consequence, French trade unions strongly op-

24 In contrast to the German labor law, "political" strikes against the government are legal in France
pose the establishment of private pension funds, which may over time endanger the role of public social insurance and thus the organizational power resources of trade unions (Veil 2000b; Veil 2000a). However, as the Balladur reform has shown, pension cutbacks can be successfully implemented even under unfavorable political circumstances. Following Vail (1999), the success of Balladur is based on the judicious choice of policy substance as well as on the policy-making style on the part of the government. Both factors were conducive to get at least tacit acquiescence from the trade unions. Concerning policy substance, the implementation was facilitated by confining the reform to the less unionized private sector, diffusing the reform over time and by removing the non-contributory elements from the insurance scheme. Moreover, as opposed to Juppé, the Balladur government took a deliberately non-confrontational policy style and attached importance to intense consultations with the trade unions (Bonoli 2000; Vail 1999).

6. Conclusion

As the “process tracing” of national pension reform trajectories reveals, pension politics goes clearly beyond the functional adaptation to external pressures. To be sure, the internationalization of product and capital markets as well as the graying of populations constitute important driving forces for national policy makers to bring pension reform on the political agenda. This holds true for both countries within and outside the European Union. In a few countries, such as Italy, the politically binding criteria of the Maastricht treaty have determined the speed at which social and fiscal policy reforms (including pension reform) were undertaken. However, even in the case of Italy, the mere presence of European or international pressures did not guarantee the successful implementation of pension reforms. In short, supranational models of social policy reform tend to neglect the importance of domestic factors. As Pitruzello (1997) points out, we have to take into account the interactions of parliamentary and extraparliamentary conflicts at the national level as well as the socioeconomic and political institutions, which shape them. In particular, we have to ana-

(Deutsch-Französisches Institut 2001).

As Bonoli (2000) points out, the tax financing of non-contributory benefits had been a key demand of some trade unions. First, it relieved the financial pressure on social insurance schemes. Second, through the separation of these two elements the government acknowledged the managerial role played by the trade unions in social insurance.
lyze carefully the specific interlinkages between the political parties and the trade unions, which account for a great deal of variance in pension reform outcomes.
### Table 1: Selected indicators of national pension systems

<table>
<thead>
<tr>
<th>Country</th>
<th>Contribution rate (1)</th>
<th>Today's value of future pension payments (2)</th>
<th>Share of pre-funding (3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>0,0</td>
<td>96,7</td>
<td>High</td>
</tr>
<tr>
<td>Austria</td>
<td>22,8</td>
<td>298,0</td>
<td>Low</td>
</tr>
<tr>
<td>Belgium</td>
<td>16,4</td>
<td>299,8</td>
<td>-</td>
</tr>
<tr>
<td>Canada</td>
<td>5,4</td>
<td>203,8</td>
<td>High</td>
</tr>
<tr>
<td>Denmark</td>
<td>1,0</td>
<td>234,5</td>
<td>High</td>
</tr>
<tr>
<td>Finland</td>
<td>17,9</td>
<td>384,2</td>
<td>Medium</td>
</tr>
<tr>
<td>France</td>
<td>19,8</td>
<td>317,8</td>
<td>Low</td>
</tr>
<tr>
<td>Germany</td>
<td>18,6</td>
<td>347,9</td>
<td>Low</td>
</tr>
<tr>
<td>Ireland</td>
<td>15,7</td>
<td>107,0</td>
<td>-</td>
</tr>
<tr>
<td>Italy</td>
<td>29,6</td>
<td>401,3</td>
<td>Low</td>
</tr>
<tr>
<td>Japan</td>
<td>16,5</td>
<td>299,4</td>
<td>Medium</td>
</tr>
<tr>
<td>Netherlands</td>
<td>14,5</td>
<td>213,5</td>
<td>High</td>
</tr>
<tr>
<td>New Zealand</td>
<td>0,0</td>
<td>212,8</td>
<td>-</td>
</tr>
<tr>
<td>Norway</td>
<td>22,0</td>
<td>229,5</td>
<td>-</td>
</tr>
<tr>
<td>Portugal</td>
<td>13,9</td>
<td>277,0</td>
<td>-</td>
</tr>
<tr>
<td>Spain</td>
<td>28,3</td>
<td>323,3</td>
<td>Low</td>
</tr>
<tr>
<td>Sweden</td>
<td>19,8</td>
<td>369,6</td>
<td>Medium</td>
</tr>
<tr>
<td>Switzerland</td>
<td>8,4</td>
<td>-</td>
<td>High</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>13,9</td>
<td>142,0</td>
<td>High</td>
</tr>
<tr>
<td>United States</td>
<td>12,4</td>
<td>162,5</td>
<td>High</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>14,8</strong></td>
<td><strong>259,0</strong></td>
<td><strong>-</strong></td>
</tr>
</tbody>
</table>

(1) 1995
(2) as % of GDP; 1994; the calculation assumes a discount rate of 5 per cent per year over the period 1994-2070
(3) sum of public, occupational, hybrid and private schemes; high (> 50 per cent), medium (> 40 per cent, < 50 per cent), low (< 40 per cent)
Source: Blöndal/Scarpetta 1998; Roseveare et al. 1996; Leinert/Esche 2000
Table 2: Pension contribution rates and replacement rates 1975-95

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>17.5</td>
<td>22.7</td>
<td>22.8</td>
<td>79.5</td>
<td>-</td>
<td>79.5</td>
</tr>
<tr>
<td>France</td>
<td>8.75</td>
<td>13.9</td>
<td>19.8</td>
<td>62.5</td>
<td>-</td>
<td>64.8</td>
</tr>
<tr>
<td>Germany</td>
<td>18.0</td>
<td>19.2</td>
<td>18.6</td>
<td>59.6</td>
<td>-</td>
<td>55.0</td>
</tr>
<tr>
<td>Italy</td>
<td>17.65</td>
<td>24.1</td>
<td>29.6</td>
<td>62.0</td>
<td>-</td>
<td>80.0</td>
</tr>
<tr>
<td>Sweden</td>
<td>14.95</td>
<td>19.45</td>
<td>19.8</td>
<td>77.1</td>
<td>-</td>
<td>74.4</td>
</tr>
</tbody>
</table>

Note: Replacement rates refer to the expected gross replacement rates for a 55 year-old as % of average earnings.

Source: Blöndal/Scarpetta 1998; US Department of health and human services, various years.

Table 3: Changes in pension expenditures in the 1990s

<table>
<thead>
<tr>
<th>Country</th>
<th>Pension outlays as % of GDP 1990</th>
<th>Pension outlays as % of GDP 1997</th>
<th>(A) Change in pension outlays</th>
<th>(B) Change in old age dependency ratio*</th>
<th>(A) – (B) Change net of demography-induced additional expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>12.08</td>
<td>12.35</td>
<td>+ 2.2%</td>
<td>+ 1.5%</td>
<td>+ 0.7%</td>
</tr>
<tr>
<td>France</td>
<td>11.10</td>
<td>12.38</td>
<td>+ 11.5%</td>
<td>+ 11.6%</td>
<td>- 0.1%</td>
</tr>
<tr>
<td>Germany</td>
<td>9.33</td>
<td>10.09</td>
<td>+ 8.1%</td>
<td>+ 8.3%</td>
<td>- 0.2%</td>
</tr>
<tr>
<td>Italy</td>
<td>13.50</td>
<td>16.10</td>
<td>+ 19.2%</td>
<td>+ 6.4%</td>
<td>+ 12.8%</td>
</tr>
<tr>
<td>Sweden:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- total pensions</td>
<td>8.20</td>
<td>8.81</td>
<td>+ 7.4%</td>
<td>+ 0.7%</td>
<td>+ 6.7%</td>
</tr>
<tr>
<td>- basic pension</td>
<td>2.93</td>
<td>2.77</td>
<td>- 5.4%</td>
<td>+ 0.7%</td>
<td>- 6.1%</td>
</tr>
</tbody>
</table>

* 65+/15-64 years

Table 4: Summary of changes in public pensions benefits since 1990

<table>
<thead>
<tr>
<th>Number of “best years”</th>
<th>Austria</th>
<th>France</th>
<th>Germany</th>
<th>Italy</th>
<th>Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qualifying period for full pension</td>
<td>45</td>
<td>37.5 -&gt; 40/37.5 (private/public sector)</td>
<td>Career</td>
<td>40 -&gt; Defined-contribution</td>
<td>30 -&gt; Defined-contribution</td>
</tr>
<tr>
<td>Regular Retirement Age</td>
<td>60/65 -&gt; 65 (w/m; until 2028)</td>
<td>60 (private sector) 50-60 (public sector)</td>
<td>60/65 -&gt; 65 (w/m)</td>
<td>Private sector: 55/60-&gt;60/65 Public sector: 65-&gt;60/65 (w/m) Young workers will have a flexible retirement age from 57 to 65 with actuarial adjustments.</td>
<td>65 (age 60 to 64 with reduction of 0.5% per year) -&gt; flexible retirement age from 61 with actuarial adjustments</td>
</tr>
<tr>
<td>Retirement age for seniority pensions</td>
<td>55 -&gt; 56.5 -&gt; 61.5 until 2033 (w) 60 -&gt; 61.5 (m)</td>
<td>-</td>
<td>63 -&gt; 65</td>
<td>No age limit, but minimum contribution record of 35 years (15 to 25 years in the public sector) -&gt; 57 years of age and 35 years of contributions or 40 years of contribution for middle-aged and older workers, abolished for younger workers</td>
<td></td>
</tr>
<tr>
<td>Minimum contribution years for seniority pensions</td>
<td>35 -&gt; 37.5 years</td>
<td>-</td>
<td>35 years</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Widows pensions (as % of spouse’ pension)</td>
<td>Between 40 to 60% -&gt; between 0 and 60%</td>
<td>52% -&gt; 54%</td>
<td>Between 0 and 60% -&gt; ??</td>
<td>60% -&gt; between 30 and 60%</td>
<td>Since 1990 widows pensions gradually phased out</td>
</tr>
<tr>
<td>Shift to a less generous indexation mechanism</td>
<td>Yes: Gross wages -&gt; net wages</td>
<td>Price indexation maintained</td>
<td>Yes: Gross wages -&gt; net wages</td>
<td>Yes: Wages -&gt; Prices</td>
<td>Yes: Prices -&gt; Earnings minus 1.5%</td>
</tr>
<tr>
<td>General freeze or reduction of benefits</td>
<td>Suspension of adjustment in 1996 (plus in 1997 for civil servants)</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>2% reduction in 1993</td>
</tr>
<tr>
<td>Harmonisation between private and public sector pensions</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Universal scheme already existent</td>
</tr>
<tr>
<td>Promotion of private or occupational fully-funded pension schemes</td>
<td>Marginal</td>
<td>Introduction of fully-funded occupational schemes (&quot;Loi Thomas&quot;) suspended</td>
<td>Gradual introduction of subsidies/tax advantages to private/occupational schemes</td>
<td>Marginal</td>
<td>Introduction of a fully-funded private mandatory pillar (2.5% of contributions)</td>
</tr>
</tbody>
</table>
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