Open Method of Co-ordination: The EU's Impact Upon Spanish Pension Reform

Carolyn M. Dudek
Hofstra University
Department of Political Science
203 Barnard Hall
Hempstead, NY 11549
e-mail: psccmd@hofstra.edu

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ABSTRACT

The following suggests that demographic changes and the creation of a single currency in Europe have compelled greater EU influence in Spanish pension reform. Although, pension reform has remained the domain of the domestic realm, increased European integration has necessitated lifting the issue of pension reform to the EU level. The economic dependence among members of EMU and the unique institutional structure of the EU has facilitated increased attention at the EU level regarding pension reform. Particularly, the creation of the "open method of co-ordination" introduced at the Lisbon Summit has created an institutionalized way for the EU to play an oversight function in pension reform as well as provide a formalized avenue for countries to share policy ideas.

As a result, greater EU activity in pension policy has directly influenced pension reform agenda setting within Spain. Politically, the EU presents a unique condition. For instance, accountability is quite distinct from democratic configurations within member states whereby constituencies can place greater political pressure to inhibit change. In addition, national governments are able to use the EU as a scapegoat to implement needed yet unpopular or highly contested policies such as pension reform. Economically, the almost complete economic integration after the introduction of the Euro, means that countries are ever more dependent on policy choices in other Member States. This study concludes that the uniqueness of the EU and its political and economic importance have facilitated Brussels taking an important role in the context of pension reform.

INTRODUCTION

Strong EU involvement in social policy reform is often disregarded (Lange, 1992; Ferrara, 1996; Caporaso and Jupille, 2001). Similarly, scholars suggest that although external pressures are important, it is "domestically generated pressures" that will bring about change of the welfare state, of which pension policy is a central component (Ferrera and Rhodes, 2000:20). Recent discussions, however, at the Lisbon, Stockholm, Gothenburg, and Laeken Summits suggest that the EU is taking a more active role in pension reform. It is clear that demographic generational imbalance due to low birth rates, increased participation of women in the work place and increased life expectancy have created unsustainable pension systems in most European member-states. Although pensions remain the competency of national governments, the EU has increasingly taken a more significant role to influence pension

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reform within member-states. Moreover, the introduction of the "open method of co-ordination" has created a formal mechanism whereby the EU can promote greater exchange of ideas among member states and allows the Commission to play a more direct role evaluating pension policies within member-states.

Spain is a critical case for pension reform since it currently has the lowest birth rate among EU members, very generous pension pay-outs as well as a striclty pay-as-you-go (PAYG) public pension system. This means that the sustainability of Spanish pensions is questionable. Although the recent publication on Spain's national strategy, in compliance with the open-method of co-ordination, paints a more positive picture, it is clear that demographic shifts making a PAYG system unsustainable have created a difficult situation for Spanish pensions (Ministerio de Trabajo y Asuntos Socialies, 2002). In addition, since Spain is a member of the European Monetary Union its foreseen problems with pension distribution has the potential to make it difficult for Spain to comply with the Growth and Stability Pact and could have a ripple effect impacting the economies of other member states. Spain is not alone in this predicament, several other members of the European Monetary Union are facing similar problems.

In the past, the strength of a country's neighbor's pension system was of little importance. Today, with greater European integration and the creation of a single currency, member states have a vested interest in the sustainability of their neighbors' pension systems. Pension reform, however, is a highly salient issue and often times many domestic actors have been able to stop major reform from taking place or have even brought down governments. For example, in France during Alain Juppé's term and in Italy under Silvio Berlusconi public protest regarding pension reform were massive and significantly contributed to the fall of these governments. Even very recently in France large protests emerged in response to Jacques Chirac's proposal to reform pensions.

Scholars suggest that strong labor unions, public protest or a country's institutional structures have defined and shaped pension policy reform (Epsing-Andersen, 1990, 1985; Flora, 1986; Ross, 2000; Guillén, 1999, 1992; Schmitter and Lembruch, 1979; Bonoli, 2000). Due to pension reform's controversial nature and since state run schemes are financed with national tax money, it is commonly assumed that pension reform does not and will not enter the realm of EU politics.

Impetus for pension policy reform, however, is no longer dependent solely upon domestic economic factors and domestic political actors. In the context of the EU, namely monetary union as well as other global factors are shaping and perhaps driving the pension reform agenda. Specifically, the contributions of pension funds to foreign capital markets and deepening European integration have facilitated lifting the issue of pension reform from the domestic to the international arena. In particular, demographic shifts and international capital flows have created an economic necessity for members of the EU to co-ordinate pension reform. Moreover, the unique institutional structure of the EU and the forum for discussion creates and promotes greater interaction among members as well as provides a mechanism for more direct EU involvement in pensions.

Possible solutions to ameliorate the forecasted failing public pensions include: decreasing benefits, raising the retirement age or adopting incentives to promote additional private systems such as corporate provided or individual private pension funds. The use of both a public and private system, or otherwise called a mixed system, has been adopted by some European countries as well as the United States. However, Mediterranean countries such as Spain, Portugal, Italy and Greece as of yet have not made significant steps toward the creation of a mixed system. Scholars often place these countries in a unique category of pension typologies since familial structures within society often accounted for pension provisions (Ferrera, 1996; Epsing-Andersen, 1990). Changes in societal structures compounded with demographic shifts and changing economic conditions have necessitated these countries to reform their systems.

The open-method of coordination is the latest EU initiative to deal with pension reform, and seems to be a reasonable compromise between the interest of Member States and an integrated Europe. The EU, namely the Commission, and member states have very different priorities regarding pensions. Promotion of capital markets, free movement of retirement funds within EU borders and worry over public debt that can threaten the Euro are the main concerns of the Commission[1]. On the other hand, member states emphasize more the social protection function that pensions serve as well as the legitimacy that pensions provide to their governments.

Since the EU and member states have different interests regarding pension sustainability the strategies of national and supranational governments to achieve their respective goals likewise vary. Thus, it seems that the advocacy of the open method of coordination from the Commission and the acceptance of this coordination style from member states was a reasonable compromise that may be able to help both national and European levels of government to achieve their aims. The advantage of the open method of

[1] The EU's insertion into pension policy has developed slowly over time. One of the earlier aims of the Commission was to make sure national pension regulations fairly treated people moving between countries.

coordination is it has a voluntary component that provides the Commission with an oversight role, without making member states feel as if policy autonomy is being eroded.

Open-method coordination creates a formalized way for member states to share information and to arrive at defined objectives that all member states find acceptable. Frank Vandenbroucke, the Belgian Minister for Social Affairs and Pensions states that open method

> respects local diversity, is flexible and simultaneously wants to ensure progress in the social sphere. Commonly agreed indicators should help Member states to find out where they stand...the exchange of information aims at institutionalizing "policy mimicking", at least to a certain extent[2] (Vandenbroucke, 2001:2).

Essentially, open-method coordination would allow member-states to learn from one another and to share their policy initiatives with other members. The underlying idea of the method would be to exclude no European and to gradually create a "European social policy paradigm" (Vandenbroucke, 2001:3).

PENSION REFORM IN AN INTEGRATED EUROPE

European political, economic, and specifically monetary, integration has created an environment necessitating the co-ordination of pension reform. Pensions initially were created to appease certain pressure groups or to alleviate poverty; however, today pensions are 'big business' (Bonoli, 2000). Although demographic changes seem to dictate the need for pension policy reform, political factors determine if such reform will actually occur. Willingness on the part of political leaders and the limiting or lack of political pressure from societal groups, particularly labour organisations, will determine the success and depth of pension reform.

The EU provides a special institutional framework that binds together member states and places limits on member state policies. For example, the Growth and Stability Pact places constraints on government public spending. The 3% limit on deficit spending inhibits member states' public expenditure and also helps member states to implement traditionally unpopular austerity measures. Increasing political and economic integration has placed the EU in a very unique position. EU policies greatly affect and transform domestic policies[1]. The EU seems to have an unusual position providing not only constraints upon member state policy making, but also acting as a possible policy agenda setter within member states.

Social policy in the European Union is shared among different levels of government (national, sub-national/regional and supranational), thus creating a "multi-tiered" political system (Liebfried and Pierson, 1996; Zeitlin, forthcoming). The EU, including its policies and institutional structure in Brussels, has fundamentally affected the responsibility and competency over policy sectors that national and sub-national governments once enjoyed (Dudek, 2001; Marks et al. 1996). Most significant is the EU's role in monetary and regulatory policy, which was traditionally the responsibility of national governments. Social policy, however, is claimed to have remained mostly in the hands of national governments "but their influence *has been* increasingly circumscribed and embedded in a dense, complex institutional environment" (Liebfried and Pierson, 1996: 4).

It seems that as national governments become more involved with one another within an institutional framework, as embodied in Brussels, there is more opportunity for sharing pension reform policy ideas across borders. In addition, as European countries find their economies closely linked to their neighbours', pressures may arise from other member states or the EU itself to convince countries to adopt more sound policy initiatives. For instance, in a recent European Commission communication the Commission has acknowledged that pensions are a matter for member states to legislate, but the Commission suggests that member states should adopt a mixed pension system (European Commission, 2000). As stated in a recent EU press release pension systems are the competence of member states, but Article 2 of the EC Treaty "states that the Community's tasks include promotion of a high level of social protection" (http://europa.eu.int/comm, 2002)

THEORETICAL EXAMINATION OF DOMESTIC INFLUENCES ON PENSION POLICY

Pension reform is a particularly salient and highly sensitive issue. Many countries at different points in time have attempted to reform their pension systems but have been met with opposition due to domestic pressures. For instance, in Italy in 1970 experts realised the need for structural changes in the pension system, however it was not until 1992 that reform was actually begun under the Amato government (Antichi and Pizzuti, 2000). Reform in Italy was only possible due to their desire to re-enter the European Monetary System and the inclusion of labour in the policy making structure (Antichi and Pizzuti, 2000).

Within the study of public policy there are many explanations to account for the kinds of policies chosen and how policies can be changed. In the context of pension policy in Western Europe it is evident that policies that have been adopted vary greatly among countries. Historically, the initial division of pension policy schemes stems from the

[2] The latter portion of this quote Vandenbroucke uses the words of Anton Hemerijck and Jelle Visser.

introduction of social policies in the late 1800's and early 1900's. The two models that set the foundation of pension policy were the Bismarckian social insurance and Beveridge's[2] poverty prevention scheme (Bonoli, 2000). Bismarck introduced his scheme in 1889, which was a program to allow retired industrial workers to receive a pension related to their earnings while they were working. On the other hand, the Beveridge plan was a means-tested pension scheme to aid the poor (Bonoli, 2000; Myles and Quadagno, 1997).

These two models of pension policies were chosen in order to accomplish very different goals. Bismark chose to implement a social policy to quell discontent among industrial workers. For instance, in conjunction with his pension scheme he also had legislation to ban the political organisation of workers (Bonoli, 2000). No pension provisions were given to other groups other than industrial workers since they did not pose a political threat. On the other hand, the Beveridge model, which the Danish actually first introduced prior to the publication of the Beveridge Plan, was meant to help alleviate poverty. Thus, it is apparent that the creation of pension policy was created to achieve very different purposes in different countries.

Since its inception, the political and economic implications of pension policies have changed significantly. Pensions are the cornerstone of the welfare state, providing a significant source of government substantive legitimacy. As the benefits and coverage of pensions have expanded, so too have citizen expectations. Moreover, pensions contribute significantly to national GNP. When considering pension reform it is important to take into account the significant political and economic implications. Thus, it is a complex matter to understand why certain policy options are chosen. Why do countries choose certain pension schemes and why has the reform of pensions been such a slow moving process? To answer such questions there are various perspectives that have been adopted. I suggest that there are four main schools to understanding pension reform, which emphasise: industrialisation, institutions, ideas and political mobilisation.

The 'logic of industrialisation' was an earlier school of thought regarding pension policy. It suggested that industrialisation had created conditions that necessitated the creation of social policy. Bonoli (2000) points out that such a theory became difficult to support as the link between economic development and pension provisions seemed to be more tenuous. For instance, Bonoli (2000) proposes that the United States and Sweden compared provides a useful example to discount the 'logic of industrialisation' since both countries have comparable economic development but differ considerably regarding the kinds of social benefits provided.

The 'logic of industrialisation' attempted to use economic conditions as an explanatory variable to determine social policy adoption. Today, the global economy and EMU present a new dynamic that has the potential to influence the kinds of policies adopted. For instance, although not directly related to pension policy, in Italy and Spain severe budgetary austerity programs were instituted. In the case of Spain austerity measures were implemented to allow for European Community membership and to enable Spain to enter the European Monetary System (EMS). In the case of Italy, in 1992 following Italy's exit from the EMS a restrictive budget policy was adopted to ensure the re-entry of Italy into the EMS and entrance into EMU (Antichi and Pizzuti, 2000). Similarly, Gordon Clark (2001) suggests that the terms of global finance may cause continental Europe to accommodate their pension policies to pension schemes that are "at odds with continental political traditions" (p. 4). Although changes in the international economy may be necessary to promote pension reform it is still not a sufficient condition due to the political dynamics associated with pension policy. Thus, we have still not seen significant pension policy changes in Western Europe more recently.

Whereas the 'industrial logic' literature highlights economic factors some public policy theorists suggest that ideas or belief systems explain policy reform (Sabatier, 1988; Sikkink, 1990; Clark, 2000). This theoretical body suggests that policy change relates to changes in belief systems and the influence of ideas themselves. In relation to pension policy it appears that certain models of pension policy have gained support and have been put in practice. Some suggest that the Anglo-American model has become the predominant model of economics and pension reform (Clark, 2000; Aglietta, 2000). The Anglo-American model focuses on neo-liberal ideas and places emphasis upon the "balance between government and private provisions of retirement income and the benefits of market provision rather than the threats posed by demography are at the core of the debate." (Clark, 2000: 4). Such a model incorporates "acceptance of levels of risk and inequality at odds with continental political traditions" (Clark, 2000: 4; Bonoli, 2000).

The policy reform proposals being discussed in EU member states and policy proposals from the European Commission support the idea that the Anglo-American model is becoming a popular policy option. The impact of ideas, however, begs the question how these ideas become popular and why elites choose to adopt certain policies over others. Thus, it seems that ideas need a vehicle in which to have an impact.

Institutionalism may provide greater explanatory value to identify what influences pension policy choices and reform. Political institutions are collections of interrelated "rules and routines that define appropriate actions in terms of relations between roles and situations (March and Olsen, 1989:160)." One institutionalist approach to understand public policy suggests that the variation of policies across countries within the same policy sector is explained either by the political structure hypothesis or the policy style hypothesis (Lane and Ersson, 1994). The political structure hypothesis suggests variation of policies within the same sector across countries since decision-making structures play a significant role in the way policies are created and implemented (Lane and Ersson, 1994). Thus, structural characteristics within countries determine policy choices more than the policy issue itself. On the other hand, the policy style hypothesis explains the variation in the same policy sector across countries also due to structural differences of policy-making and implementation, but this hypothesis also takes into account that changes in time and tradition can alter these structures. The underlying basis of the policy structure and policy style hypotheses is that institutions shape public policy.

Epsing-Andersen's (1990) seminal work incorporates an institutionalist approach to categorize types of welfare states. The typology created focuses on the variation of regime types in reference to welfare states. The three major typologies of Epsing-Andersen include Scandinavian or social democratic, Anglo-Saxon or liberal welfare states and Continental or corporatist welfare states. Later literature suggests that Southern European countries namely, Italy, Greece, Spain and Portugal follow a distinct model (Ferrera, 1997; Rhodes, 1996, 1997). Epsing-Andersen demonstrated that the perceived role of the state, the logic of state activity and the view of what private and public realms should provide determined the kinds of welfare policies adopted.

In the context of pension policy Epsing-Andersen (1990) distinguishes two types of pension schemes: public and private. Public systems basically refer to the PAYG system, (pillar 1) whereby current taxation and social security contributors finance current pension payouts. On the other hand, private systems, other wise called capital systems include either occupational pension plans or individual annuities, (pillars 2 and 3). The institutionalist approach asserts that the variation of pension schemes across countries is based upon culturally defined ideals concerning what is the appropriate role of the state. These rules and organisation of the state are a reflection of embedded societal beliefs and structures. As ideals become institutionalised they also become reinforced. Institutionally entrenched ideas regarding the relationship between public and private sectors define the responsibility of government and contribute to the formulation of pension policies. As a result, pension reform has occurred at a slow rate. In this way, institutionalism provides a convincing argument to explain why pension schemes vary across countries and remain varied.

Another model to understand government pension policy choices emphasises the role of politically mobilised groups. In particular this approach highlights the importance of protest, labour unions and ideologically left leaning political parties in the creation and type of pension policies within countries (Lagares, 2000; Antichi and Pizzuti, 2000; Guillén, 1992, 1999). For instance, in Italy the long time awaited pension reforms only came about with the inclusion of labour unions in the reform process (Antichi and Pizzuti, 2000). Pension reform, since it is a controversial topic, needs strong public support. Lack of public support has resulted in major political failures.

The four approaches to explain pension policy choices, reform or lack thereof, each provides a certain amount of explanatory value, however it seems that political mobilisation and institutional approaches are more convincing. It must be kept in mind, however, that these approaches were designed to understand pension reform in the context of domestic politics. Within an integrated Europe will these approaches, specifically institutionalism and political mobilisation, have the same explanatory significance?

THE UNIQUE POSITION OF EU INSTITUTIONS

The EU presents a distinct political arena that can alter significantly the policy options available for pension reform. First, the EU itself is a forum for discussion and debate. In this way, countries interact on a regular basis and share and provide ideas creating new policy networks or epistemic communities. Thus, different policy ideas can be introduced to pertinent political agents that may otherwise have not emerged within domestic dialogues regarding pension reform. Second, the interdependence of the economies of EU members and particularly the twelve members of the monetary union presents an unusual situation, whereby member states are increasingly concerned with the economic well being of their partners for their own self-interest. Thus, member states may become more vocal regarding the domestic policies of other members. In the past, it was unheard of for foreign governments to critique the type of pension policy chosen within a country[3]. With deeper European integration we are beginning to see countries that have relatively more successful pension policies pressuring the countries with less effective policies to reform. For instance there have been some rumblings from Dutch officials demanding the Italians to reform their PAYG pension system (interview, 2000).

Third, the EU itself has become an agenda setter for national policy makers. Although the EU in certain sectors cannot usurp the powers of the national or regional governments it can present certain parameters that promote the adoption of certain policy options above others. In this way, the EU can constrain the policy-making autonomy of national governments (Ferrera, 2000). European Monetary Union and other policy initiatives have placed the Commission in a unique position to have significant influence upon member states' pension policy choices.

Fourth, the EU provides a useful buffer for political leaders. Within a strictly domestic arena, political pressures regarding pension reform can come from labour groups and public protest. It is clear that pension reform is a highly contested policy area and there are many strong domestic actors that can block policy reform. On the other hand, the EU provides a "scapegoat" mechanism that allows public officials to adopt unpopular policy options that are EU suggested or imposed. In response to public outrage, public officials can point the proverbial finger at Brussels and as a result avoid political heat. Such practice was seen in Italy and Spain while they implemented austerity measures to meet the convergence criteria of monetary union membership. For example, Silvio Berlusconi, as then leader of the opposition in Italy, stated during the election campaign that "No acquired pension rights will be touched *but* what we have to do will be based on what Europe will impose on us."[4]

The EU has transformed domestic politics through its re-allocation of competencies to different levels of government and its affect upon the role of domestic actors and institutions to influence policy-making (Marks et. al., 1996; Green Cowls, et. al., 2001). The EU itself is a unique institution that like domestic institutional structures has its own "rules and routines that define appropriate action." (March and Olsen, 1989: 160). EU institutions often take on their own character and haved moved forward integration without member state approval (Burley and Mattli, 1993; Burley-Slaughter, 1991; Alter and Meunier-Aitsahalia, 1994).

Fifth, the impact of domestically mobilised groups at the EU level is quite different than within the domestic realm. As mentioned earlier, in the domestic realm labour unions and other forms of political mobilisation have influenced the passage or blockage of pension reform. In the context of the EU, representation and the ability or willingness of domestic interests to change the EU policy arena is significantly altered.

One, political leaders within most of the institutions of the EU are not directly elected officials. The only EU institution composed of directly elected officials is the European Parliament. Hence, one of the major critiques of the EU is its democratic deficit. Such critiques tend to focus on the absence of directly elected officials in the two most influential institutions: the European Commission and the Council of Ministers. Although the Maastricht Treaty attempted to empower the European Parliament many critics suggest that the change is not sufficient to remedy the deficit. As a result, policy-makers at the European level do not have the same electoral pressures as those within member states.

Two, political mobilisation at the EU level differs significantly from mobilisation at the domestic level. Often organised interests lobbying or protesting EU policies do not choose to do so at the EU level. Instead, organised interests prefer to operate within the domestic arena since that is where their resources and networks are located (Imig and Tarrow, 2001). Although European labour unions do have representation at the EU level, they do not have the same kind of impact at the EU level as they do within domestic politics. In Brussels, business is better represented and the objectives of different European companies are fairly well aligned, such that they forcefully and unanimously argue for fairly deep cuts in pension provisions in a common report, entitled 'European Pensions, an appeal for reform (European Round Table of Industrialists, 2000). Their counterpart, the European Trade Union Confederation, is far more divided: national trade unions in countries with prefunded systems are wary of calling for deeper integration since that implies they will have to pay. In addition, they are concerned about calling for cuts. Consequently their resolutions on pension reform are full of compromise:

> As regards the financial aspects, it is vital to establish a minimum number of rules because it is essential to protect the rights of contributors and pensioners.[5]

Without specification this phrase remains rather empty.

HISTORY OF THE EU: ROAD TO THE OPEN METHOD OF COORDINATION

In the past, the EU and specifically the Commission attempted to place European pensions on the EU agenda. Not much was actually accomplished since member states fought to preserve their competency in this policy area. For example, in July 1990 Sir Leon Brittan presented a proposal that would protect the occupational pension of a migrant worker and create a single market for pensions. Once a proposal was sent to the Council with Brittan's suggestion member states vehemently opposed the bill and it became watered down significantly.

Seven years later the Commission placed pensions again on the front burner. The Commission published a Green Paper dealing with pension reform, which recognized the demographic burdens in Europe and the impact this will have on public expenditure. To address these problems the Paper proposed a European solution to the predicament by establishing a Community framework to promote the creation and sustainability of funded supplementary pensions. Member states, in response to the Green Paper took issue with the Commission's emphasis on pensions as a "vehicle to create European capital markets" as opposed to focusing on the social aspect of pensions (European Commission, 1999a: 10)

In response to Member States' criticism, the Commission stated that the "role that EU capital market integration can play in favour of growth and employment should not be disregarded: efficient and transparent financial markets can facilitate access to capital and enhance capital productivity" (European Commission, 1999a: 11). It is clear from this statement that the EU's desire to play an agenda setting role in pension policy is distinct from traditional domestic reasons for pension policy reform.

In the past, pension policies were used to either help the poor, provide socio-economic stability or to quell political pressures from labour. In the context of the EU, it seems that the underlying reason driving the EU's interest in pension reform is the preservation of the European Monetary Union and more generally strengthening the European economy. Thus, the EU and its policy-makers will tackle the issue of pension reform from a very different perspective than member states might. In addition, EU institutions do not face the same kind of public accountability that domestic political leaders do.

To place pension reform further on the EU's agenda the Commission collected reports from member states and used the information to publish their own report emphasising the difficulties related to pension reform within member states. The Commission pointed out that reform was not occurring since the public and private sector in many member states were in disagreement over reform and that action on pension reform had been insufficient (European Commission, 2000b). The report not only pointed out the problems within the domestic arena blocking reform, but it also suggests that the Commission was asserting itself as a mechanism to help push forward pension reform.

In March of 2000 the Lisbon Summit enabled a High Level Working Party on Social Protection to prepare a report based upon past Commission communications and the Economic Policy Committee's work. The purpose of this report was to pay particular attention to the "sustainability of pension systems in different time frameworks up to 2020 and beyond, where necessary." (European Commission, 2000).

The October communication presented a very direct reference to EU involvement in setting the policy agenda within member states. The communication stated:

> While each Member State remains responsible for its pension system, it is clear that they also have much to learn from each other. Furthermore, the sustainability of pension systems will determine to a significant extent the European Union's ability to achieve the promotion of a high level of social protection, which is one of the fundamental objectives defined in Article 2 of the Treaty establishing the European Community. This is why the European Council has called for co-operative exchange on the future sustainability of pension systems (European Commission, 2000:2).

In December of 2000 the Presidency of the Council following the meeting in Nice reiterated the desire of the EU to promote co-operation among member states regarding pension reform.

> The European Council approves the Council's approach, which involves a comprehensive assessment of the sustainability and quality of retirement pension systems. The European Council invites Member States, in cooperation with the Commission, to exchange their experience and present their national strategies in this area. The results of this preliminary overall study on the long-term viability of pensions should be available for the European Council meeting in Stockholm (European Council, 2000:art 20).

In February, prior to the meeting in Stockholm the Commission published a proposal regarding occupational retirement (European Commission, 2001). In this explanatory memorandum the Commission expressed the need for a "Community legal framework covering institutions for occupational retirement provision."(European Commission, 2001; art. 1.1). According to the proposal,

> The Lisbon European Council placed strong emphasis on the need to integrate financial services and markets within the Union. A single financial market will be a key factor in promoting the competitiveness of the European economy, the development of the new economy and social cohesion. That is why Heads of State and Government called for the Financial Services Action Plan to be implemented by 2005. In its conclusion the Presidency stresses that priority must be given to removing barriers to investment in the field of pensions (European Commission, 2001, preamble)

Following the Lisbon summit European involvement in pension reform was also addressed at the Stockholm Summit which placed demographic shifts as a serious concern for social welfare, namely pensions, health care and care for the elderly (Council of the European Union, 2001). At the opening of the Stockholm Summit, Commissioner Pedro Solbes Mira announced that the Council "endorsed the Commission's priority for tackling the challenge of an ageing population" (Solbes, 2001). Solbes also asserted that the Commission would push member states to take "comprehensive strategies and be ready to examine them in the context of multilateral surveillance" (Solbes, 2001). Solbes comments point out the active role the Commission strives to have regarding pension and that member state cooperation and coordination are an essential component. The outcome of the Stockholm meeting set up certain EU objectives. One objective decided at the Summit was for Member States to strengthen their co-operation regarding pensions especially in light of demographic and economic changes in Europe.

A few months later at the Gothenburg Summit three broad principles to secure long term sustainability of pensions were discussed which included: "safeguarding the capacity of systems to meet their social objectives, maintaining their financial sustainability and meeting changing societal needs" (Council of the European Union, 2001). At both the Stockholm and Gothenburg Summits the idea of open-method of coordination was proposed, whereby discussion of pension policy would be conducted jointly by the Social Protection Committee and the Economic Policy Committee. Although, at these summits the European Council placed pensions on the European agenda there was a strong reassurance that the open-method of coordination would not change member state responsibilities over pension and that the subsidiarity principle would be upheld (COM 2001, Council of the European Union, 2001)

During the Belgian Presidency a conference was held regarding the "Open Co-ordination on Pensions and the Future of Europe's Social Model." This conference highlighted the significance of the open-method of coordination and highlighted the benefits of this procedure. Minister for Social Affairs and Pensions, Frank Vandenbrouke in his closing address pointed out key benefits to the open-method of coordination. One, he pointed out how the open method of coordination is a "cognitive tool" since it allows member states to learn from one another (Vandenbrouke, 2001). Two, he asserted that the underpinning idea of open method of coordination is that no European citizen will be excluded and left to take care of themselves, which means the ability to eventually create a European social paradigm (Vandenbrouke, 2001).

Two months following the conference the Laeken Summit convened and eleven objectives were set forth to guide member states' reports regarding their pension system. The eleven objectives are as follows:

1. prevent social exclusion in old age
2. allow people to maintain their living standards
3. promote solidarity between and within generations

4. raise employment levels
5. extend working lives
6. ensure sustainable pensions in the context of sound public finances
7. adjust benefits and contributions so as to share the financial consequences of ageing in a balanced way between the generations
8. ensure that private pension provision is adequate and financially sound
9. adapt to more flexible employment and career patterns
10. meet the aspirations for greater equality of women and men
11. make pension systems more transparent and demonstrate their ability to meet the challenges (www.europa.eu.int/comm.../joint_pensions_report_en, 2002)

Using these criteria and in accordance with the open-method of coordination member states have submitted their country reports and the result of these reports will be presented at the 2003 Spring Summit in Brussels.

These recent changes, which include pensions being placed on the agenda of European Summits as well as the creation and implementation of the open method of coordination, suggest that the EU and more specifically the Commission will become more involved in influencing the domestic agenda of pension reform within member states. Certainly the EU cannot usurp the policy-making autonomy of member states regarding pensions, but it seems that the EU is trying to take a more active role in coordinating reform across member states, which is an underpinning of the open-method of coordination.

PENSION REFORM IN SPAIN

As these ideas and influences in pension reform are emanating from Europe, what influence do they have upon domestic changes? Recently in Spain there was a significant bargaining process among the government, labour unions and industry to create legislation to begin to reform the current pension system. In the fall of 2001 the Workers Commission (CC.OO.), industry and the Conservative government signed a significant piece of legislation to reform pensions. The General Worker's Union (UGT) refused to sign the agreement, yet the government is going to go ahead with the legislation. The proposed reform (that will be signed into law) and current evaluations and proposals for the pension system suggest that the EU and ideas circulating within the EU have influenced the government's latest actions[3].

Ana Guillén (1999) provides a useful analysis of the history surrounding pension reform in Spain. Basically, she demonstrates that it was not until the late 80's until Spain saw any significant reform. On the other hand, even the reforms during the 80's did not suggest a change in the pension system regarding reducing benefits or privatisation. In actuality, with pressure from labour, benefits increased. The more recent proposals for reform represent a significant movement toward revamping the system more in line with the Anglo-American model which has decreased benefits, increased the age of retirement, and provided for supplemental private pensions (Clark, 2000).

Guillén (1999) points out that the foundation of the pension system was established under the Franco dictatorship. This system, however, was not universal in nature. Thus, in the 1978 Constitution there was an attempt to introduce the principle of universal coverage. Even with articles in the Constitution no real reform was taken until the late 80's. The reforms of the late 80's only came about as a result of pressure from labour in the form of a general strike in 1988 (Guillén,1999). Thus, it seems that labour unions in Spain, like in many other countries, have had significant influence upon pension reform. It seems, however, that the most recent reform, without the signature of the UGT, the largest of Spain's worker's unions, presents an interesting anomaly.

In 1995, the various political parties came together and agreed on the Toledo Pact, which is a series of measures to deal with the problems related to pensions. Within this Pact both spending and revenues of social security were discussed. Herce and Pérez-Díaz (1995) suggest that this Pact reflected a desire on the part of the Socialist government to arrive at a consensus with the various political parties and labour, which they had not attempted in the 80's (hence the labour strikes). Some of the issues touched upon in the Pact of Toledo included a discussion to delay retirement; however retirement age was not changed within the Pact (Herce and Pérez-Díaz, 1995). The failure to increase the retirement age put Spain out of step with the rest of Europe; where the trend is to encourage delaying retirement to cut pension spending. Moreover, Spain also differed from the rest of Europe through its promotion of generous pay outs with the Pact's proposal for annual indexing to keep up with the cost of living (Herce and Pérez-Díaz, 1995). Other European countries were either suspending or delaying indexing.

Currently, the Spanish government is in the process of re-evaluating and amending the Toledo Pact of 1995 in addition to creating new pension reform legislation. Although the final agreement was only recently made public, preliminary versions of the agreement as well as recorded sessions of the Congress of Deputies (lower house of parliament) specifically

[3] The legislation has only recently become available to the public, thus a full analysis of this reform is not included in this draft of the paper.

recognise the need for Spain to make changes similar to policy ideas from the EU and its member states. For instance in the official record of the Congress of Deputies on April 25, 2001, Deputy Fernando Fernández states:

> The purpose of the (Toledo Pact) agreement defines with precision its objectives: it is an agreement to improve and develop the social protection system. Searching the same as other agreements adopted by other neighbouring countries, and we have taken as a valuable reference the ten recommendations of the groups of experts, today the Committee of Social Protection of the EU, marked as a common reference...in materials regarding social protection[6] (Cortes Generales, 2001)

In addition, in a publicly available preliminary edition of the new legislation the UGT refused to sign, under the subsection discussing the flexibility of retirement the document asserts:

> In countries within our political/geographic proximity and concretely in the arena of the European Union are establishing methods in order that retirement be given a characteristic of being flexible and gradual in nature (unpublished document, 2001).

In an interview with a member of the People's Party (PP) or Conservative Party specialising in social policy, it was asserted quite clearly that the EU has had a significant impact upon the formulation of the new Toledo Pact. It was explained that the flexibility of retirement, specifically prolonging retirement and the issue of age, the increasing number of women in the work place and the inclusion of less favoured groups, e.g. immigrants were among the main issues the EU had influenced. Moreover, President Aznar at the EU level has attempted to use the EU arena as a way to stimulate policy initiatives within Spain such as his demand for greater prefunding of pensions within Europe.

The PP government also seems to be promoting complimenting the public pension system with a private system. Recently, the PP initiated investing a plan to have industry and private individuals to provide complimentary funds (del Pozo, 2001). Although this system is not yet in place it is clear that the PP government has taken an initiative to examine such prospects with the hope of adopting some kind of complimentary pensions to the public system, which is advocated within the European Commission.

CONCLUSIONS

A full analysis of current pension reform in Spain is still preliminary since the final version of the new legislation only recently has become public. In addition, the new Toledo Pact was only recently completed. However, it seems that from current information the EU, with its institutions and policy ideas has had a great deal of influence upon the reform of pensions within Spain. Pension reform is of grave concern for many countries in West Europe, particularly for Spain. It seems, however, that pension reform must be understood under the lens of increased European integration. Earlier work, which does not consider the European dimension of domestic policy, leaves out an important variable. Currently, the EU's implementation of the open-method of coordination provides a reasonable compromise between the interests of Europe and the desire of member states to maintain policy responsibility in pensions. Open method of coordination also is palatable since it does not mean the EU will have a direct impact on pensions and at the same time the EU can provide a useful scapegoat mechanism if new pension policies are implemented. Depending on the outcome of the 2003 Spring Summit, the Commission's comments on the member state reports submitted this fall may have a significant impact on pension reform, and at the very least will place reform ideas within the dialogue of domestic political leaders. Thus, it is possible for the EU to limit or influence the choices of national policy makers when they reform their respective pension systems.

The process of increased integration makes greater co-operation in policymaking ever more desirable, a fact that most policy makers are now slowly accepting. Although national governments still play a significant role in pension policy and its reform it is clear that the EU is taking a more active role setting the agenda for reform within member states. The unique institutional design of the EU and its facilitation of interdependence among member states have created a situation whereby the EU is becoming increasingly active in policy areas once the domain of domestic actors.

As Spain and other member states struggle to find a solution to the unsustainability of pensions, the EU may provide a useful catalyst to propose and implement more radical policy initiatives that will take significant steps to save pensions. Social policy normally does not notably enter into the European political arena. Particularly in the field of pensions, the EU has mostly dealt with the issue as it relates to the common market, specifically the free movement of workers. The linkage between pension funds with capital markets and the success of EMU seems to have necessitated greater European interest in pensions. Simultaneously, member states have a vested interest in maintaining pension policy competency to preserve an important source of legitimacy as well as to secure certain social standards. The open-method of coordination provides a less intrusive mechanism for the EU to influence pension reform without trampling on the domain of Member States. For countries like Spain, EU influence in pension reform may help to preserve a system that currently will be unable to sustain itself.

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APPENDIX I: PROJECTIONS OF OLD AGE DEPENDENCY RATIO

	Old age dependency ratio in 2050 (ratio of over 64 to working age population)
North-West	
UK	46.1
Ireland	44.2
Finland	48.1
Sweden	46.1
Denmark	41.9
NL	44.9
Central	
Belgium	49.7
Luxembourg	41.8
Germany	53.3
France	50.8
Austria	55.0
Mediterranean	
Italy	66.8
Spain	65.7
Portugal	48.7
Greece	58.7

Source: European Commission (2000c), page 32

[1] For example see Giandomenico Majone's *Regulating Europe.* (1996)
[2] Bonoli (2000) points out that pension schemes similar to Beveridge's plan emerged prior to the publication of the Beveridge report in 1942.
[3] We can see this change in the concern for member's domestic policies regarding border control and immigration policy. With the free movement of people throughout Europe, European governments have been outspoken regarding the practices of border control and immigration policy of their member countries.
[4] Interview on Radio Anch'io, February 20, 2001. These quotes are taken from the official web site of Forza Italia, the party Berlusoni leads: http://www.forza-italia.it/politica/articolo.jsp?id=280. The Italian text is: "Sulle pensioni nessun diritto consolidato sarà toccato" and "Ciò che si dovrà fare sarà in base a ciò che l'Europa ci imporrà'
[5] ETUC resolution approved by the Executive Committee during its meeting of 13 and 14 December, 2000, paragraph 3.4
[6] Translated from original version. The portion in parenthesis was added for clarity.