European Integration and Pension Policy in the Netherlands and Germany

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Recent contributions to the literature on European integration emphasize the domestic impact of decisions made at the EU level. Instead of analyzing the EU level as a dependent variable, many scholars have now begun to focus on the EU and the process of European integration as independent variables with profound effects on domestic political processes. This literature is still fairly new, so the processes and mechanisms through which European integration influences domestic political processes are still not well understood.[1] This is especially apparent in the field of social policy. The first wave of research in this area emphasized the minimal impact of EU intervention on national welfare states and highlighted the weakness of relevant EU institutions.[2] According to influential early analyses, EU influence on social welfare policy is likely to result in "fragmented, partial, and piecemeal" policies rather than policies reflecting broad, stable principles.[3] In other words, the EU's role in social policy making would be limited to a neoliberal, regulatory approach in which symbolic politics play a large role.[4]

The most recent wave of research concerning the impact of Europeanization on domestic social policy takes issue with the minimalist interpretation of the EU's impact. In particular, analysts using the theoretical lens of historical institutionalism argue that the process of European integration creates significant constraints on member state autonomy concerning social policies, despite the weakness of EU level social policymaking institutions. For example, Pierson and Leibfried argue that EU institutions occupy the central level of a multi-tiered system of social policy governance.[5] According to Pierson and Leibfried, social politics in the EU is characterized by "a 'hollow core,' a prominent role for the courts in policy development, and an unusually tight coupling to market-making processes."[6]

Although the historical institutionalist approach broadly identifies the avenues of EU

[1] For a recent discussion of this issue, see, Simon Hix and Klaus H. Goetz, "Introduction: European Integration and National Political Systems." *West European Politics*, 2000.

[2] P. Lange, 'The Politics of the Social Dimension,' in A. Sbragia, ed., *Euro-politics* (Washington, D.C.: Brookings, 1992).

[3] Lange, 'The Politics of the Social Dimension.'

[4] G. Majone, 'Which Social Policy for Europe?' in Y. Meny et al. *Adjusting to Europe* (London: Routledge, 1996).

[5] S. Leibfried and P. Pierson, *European Social Policy. Between Fragmentation and Integration* (Washington, D.C.: Brookings, 1995). See also B.Greve, 'Indications of Social Policy Convergence in Europe,' *Social Policy and Administration* vol. 30, no. 4, December 1996.

[6] Leibfried and Pierson, chapter two, p. 74.

influence on national social policy, these arguments remain largely untested, especially in the field of pension policy. Additionally, historical institutional analyses of the EU and social policy are largely silent about how pressures for reform are translated into actual policy changes at the domestic level. Recent studies by Green Cowles et al, Börzel, Conant, and Risse and Börzel attempt to fill this gap by providing more careful investigation of the interaction between pressures created by European integration and the domestic-level political processes that filter these pressures for change.[7] However, this emphasis on the domestic factors that mediate European pressures is not very well developed in the field of social policy.[8]

This paper investigates the impact of European integration on pension arrangements in two member states, the Netherlands and Germany. I examine the impact of three types of EU pressures on pension politics: EU gender equality law; the EMU convergence requirements concerning budget deficits and public debt; and increased discipline on wages, including pension costs, because of the internal market. In order to identify and conceptualize the domestic-level processes that translate EU pressures into domestic policy change, this paper draws on recent work that emphasizes the relationship between EU incentives/standards and existing domestic policies, as well as the structure of domestic institutions.[9] Thus, the paper attempts to join arguments about EU adaptational pressures with the existing literature concerning welfare state change in order to identify the conditions under which Europeanization is likely to lead to domestic pension policy change. I treat Europeanization as a pressure that is broadly similar in its domestic political effects to other pressures for pension policy change, such as population aging, demographic change, changes in employment patterns, and general economic austerity. Domestic actors' responses to European pressures

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[7] Thomas Risse, Maria Green Cowles, and James Caporaso, eds. *Europeanization and Domestic Structural Change* (Ithaca: Cornell University Press, 2001); Tanja Börzel, "Towards Convergence in Europe? Institutional Adaptation to Europeanisation in Germany and Spain." *Journal of Common Market Studies*, Vol 34, no 4, 573-596; Tanja Börzel and Thomas Risse, "When Europe Hits Home," Paper presented at APSA 2000, Washington, D.C., and Lisa Conant, *Contained Justice* (Ithaca: Cornell University Press, forthcoming).

[8] Notable exceptions to this include research on the impact of EU gender equality law on national social security systems. See, for example, A.Eylenbosch and K. Verreth, 'Equal Treatment for Men and Women in Complementary Pension Systems: Answers or Unresolved Questions?' *Journal of European Social Policy* 1996 vol 6 (2).

[9] J. Caporaso and J. Jupille, 'Gender Equality in the EU,' chapter forthcoming in T. Risse, et al., eds. *Europeanization and Domestic Structural Change*, and K. Anderson, *The Welfare State in the Global Economy. The Politics of Social Insurance Reform in Sweden 1990-1998.* PhD Dissertation, University of Washington, 1998.

thus involve political bargaining about the distribution of the costs and benefits of adjustment. This political bargaining, or the pension-political game, is shaped by actor interests and the institutional context of pension policy decision-making.

The paper makes the following arguments. First, adaptational pressure refers to the ways in which member state pension policies coincide with or deviate from EU standards, however these are defined. The greater the "distance" between EU standards and domestic policies, the higher the adaptational pressure, and vice versa. Second, the structure of affected interests at the member state level refers to the receptiveness or opposition of domestic actors to adaptational pressures for policy change. The present analysis emphasizes the role of labor unions in pension policy decision-making and thus focuses on whether union organization is narrow or encompassing. Narrowly organized unions are hypothesized to block attempts at change that entail losses for their members, and unions characterized by encompassing organization are predicted to cooperate in pension reforms when proposed changes involve both benefits and losses for members. Third, the institutional context of pension policy decision-making influences the extent to which pension policy reform becomes politicized. When the social partners are responsible for pension policy decisions, policy change is taken out of electoral competition, and bargaining is less conflictual. In contrast, when the legislature is responsible for policy change, the likelihood of pension policy politicization increases and change is more difficult because of electoral risks. The interaction of these three variables shapes the nature and extent of policy response at the domestic level.

The paper is organized as follows. The first and second sections discuss the concepts of adaptational pressure, actor interests, and institutional setting. For each variable, I provide a working definition, provide a theoretical rationale for its importance, and discuss its implications for pension arrangements. The third and fourth sections apply the arguments to pension policy changes in the Netherlands and Germany. The final section summarizes the paper's findings and discusses their implications for the literature on Europeanization and welfare state change.

Adaptational Pressures from European Integration

The concepts of adaptational pressure and goodness of fit have emerged as key concepts for analyzing the impact of Europeanization on domestic structural change.[10] As Cowles et al. argue, European integration may create a misfit between EU standards, law, and practices and existing domestic institutions and policies. This lack of fit, or what I prefer to call "policy distance," results in adaptational pressure on domestic institutions and policies that domestic political actors must address.

Leibfried and Pierson provide the clearest articulation of the types of EU processes that are relevant for member states' social policies. Briefly, the authors argue that European integration constrains member state social policy autonomy through three pathways: "positive" reforms or activist policies adopted by the Council and Commission; ECJ decisions about the compatibility of national policies with treaty obligations concerning the internal market and gender equality; and the spillover effects of the EU's market building initiatives. For the present paper, I would like to focus on the "hard" incentives provided by EU gender equality law and the less direct but nonetheless significant pressures created by EMU requirements concerning budget deficits and public debt and the increased wage competition created by the completion of the internal market.[11] I will examine each in turn.

EU Equality Law

EU gender equality law and the ECJ's interpretations thereof are an important avenue of EU influence on pension policy. Because European law supersedes national law, this is a potentially powerful avenue of influence. Two EU measures with considerable influence on member state pension policy are Article 119 of the EC Treaty and Directive 79/7/EEC. Article 119 requires equal pay for men and women and defines pay to include both statutory and occupational pensions. Directive 79/7/EEC requires equal treatment for men and women in statutory social security schemes, including pensions. The ECJ's activist application of the article over the past twenty years has had important effects on national pension systems. The most direct example is the equalization of retirement ages for men and women. Germany, the UK, and other states have changed national legislation in order to comply with the gender

[10] Cowles et al.

[11] This is not to say that "positive" integration in the form of Council and Commissions recommendations and action programs is inconsequential. Right now I am interested in "harder" incentives created by equality law and market building, since these are likely to be much more constraining on member states' social policy choices than the "soft" incentives provided by the EU.

equality requirement. This means that lower pension ages for women have been increased to the same level as men. Compliance with EU law could also be achieved by lowering men's' retirement age to the same level as women's', but considering the financial costs of such a change, EU equality law has had the effect of "leveling down."

The deadline for implementation of Directive 79/7 was December 1984, and specifically declares that it is illegal for member states to discriminate on the basis of sex, either directly or indirectly through rules concerning marital status in their statutory social insurance programs. Beginning in 1984, member states were no longer allowed to provide benefits to married men while denying them to married women.[12] Thus, EU law was interpreted to mean that married women should be entitled to social security benefits in their own right, rather than as an anonymous member of a married couple.

EU equality legislation constitutes "hard requirements" that are binding on the member states. As such, their impact is immediate and direct. However, the process of member state implementation of EU equality laws varies among the member states and compliance is not automatic. According to some observers of EU judicial politics, the member states are not "passive and unwilling victims of European legal integration."[13] Thus, implementation of EU equality law into member state pension systems may be difficult, slow or incomplete.

Negative Integration

In contrast to EU gender equality law, the EU's market-building efforts constitute an indirect avenue of influence on national welfare states. These are essentially side effects of the market-building efforts of the EU and do not require member states to adapt social policies. However, market building may generate pressures for change because member states may experience or expect to experience negative consequences from the integration process. Two types of pressure are likely to constrain pension policy in the member states: increased discipline on wages, including pension costs, as a result of the completion of the internal market, and EMU limits on member state budget deficits and public debt.

First, the completion of the internal market creates increased discipline on wages.[14]

12 L. Luckhaus and S. Ward, 'Équal Pension Rights for Men and Women: A Realistic Perspective,' *European Journal of Social Policy*, vol 7 (3).

13 G. Garrett, R. Keleman, and H. Schulz, 'The European Court of Justice, National Governments, and Legal Integration in the European Union.' *International Organization* 52, 1, Winter 1998, p. 150.

[14] See, for example, Martin Rhodes, "Globalization, Labour Markets and Welfare States: A future of

The logic of this process is straightforward: high wage costs, including the employer contributions that finance pensions, damage competitiveness, leading to decreased investment and increased unemployment. The ability of firms to move production from one location to another also creates downward pressure on the taxes and social security contributions paid by firms. Thus, to the extent that employer-financed payroll contributions constitute a mobile tax base, the dynamics of the single market creates downward pressure on this type of tax. On the other hand, pension schemes financed by general revenues and payroll contributions paid by workers, should be less vulnerable to this type of adaptational pressure.

Second, meeting the Maastricht convergence criteria for budget deficits and public debt create incentives for political actors to control pension spending. In terms of fiscal discipline, the Maastricht convergence criteria create a powerful constraint on national policy choices.[15] Pension spending typically makes up 5-10% of GDP in social democratic and christian democratic welfare regimes, and pension spending as a share of public spending is even higher. If demographic and economic trends lead to significant increases in public pension spending that cannot be financed by increases in contribution rates, government borrowing above the limits allowed by EMU will lead to inflation and endanger the success of EMU.

What do these channels of influence mean for member state pension systems? As noted, Europeanization leads to adaptational pressures on national pension schemes depending on the "goodness of fit" or "policy distance" between EU requirements/pressures and the features of national pension schemes.[16] To the extent that existing national pension arrangements coincide with the pressures/requirements of the EU, there should be little or no adaptational pressure, and vice versa. For example, if a national pension system already has equal retirement ages for men and women, there is no pressure for change. Conversely, if the retirement age for women is lower, the ECJ's interpretation of the EU Treaties' gender equality requirements will force a change toward equal retirement ages. For "softer" types of EU incentives, the degree of adaptational pressure is less direct. For example, the process of

'Competitive Corporatism'? in Martin Rhodes and Tyes Meny, eds. *The Future of European Welfare: a new Social Contract?* (New York: St. Martins Press, 1998).

[15]See, for example, J. Moses, 'Sweden and EMU,' in E. Jones, J. Frieden, and F. Torres, eds., *Joining Europe's Monetary Club: the Challenges for Smaller Members* (New York: St. Martin's Press, 1998).

[16] On the concept of 'goodness of fit,' see Caporaso and Jupille, 'Gender Equality.' For a critical view of the concept, see Markus Haverland, "National Adaptation to European Integration: The Importance of Institutional Veto Points." *Journal of Public Policy* 20, I, 83-103. 2000.

market-building creates incentives for member states to control pension costs, but this is a general pressure for which EU institutions have no power to sanction non-compliant member states. Moreover, governments may respond to the fiscal discipline imposed by EMU by reducing other types of government spending, in order to safeguard pension levels.

The Structure of Affected Interests at the Domestic Level: the Crucial Role of Organized Labor

As noted, the role of domestic factors is undertheorized in the existing literature on the impact of Europeanization on domestic structures. There seems to be consensus among scholars that whereas European integration may generate adaptational pressures on national pension arrangements, domestic structures mediate these pressures for change. For example, in the field of pension policy, the EU may provide both "hard" and "soft" incentives to the member state governments to modify the structure of public pension schemes, but these incentives do not translate unproblematically into policy change. Governments may quickly and immediately adopt public pension reforms in order to satisfy EU legal requirements concerning gender equality, but even then several types of policy amendment are usually possible in terms of EU law.

At this point the analysis requires answers to three questions. First, which groups are likely to influence social welfare politics for major programs like public pensions? Second, will the relevant groups act in a self-regarding or other-regarding manner when responding to Europeanization? Finally, how do differences in the ways that pension policy decisions are made affect the bargaining process about adjusting to Europeanization?

The analysis presented here proceeds from the assumption that organized labor is the crucial actor in pension politics in corporatist political economies.[17] As Myles and Pierson argue, pensions are a classic case of path dependent change. Because pensions usually entail long-term, costly benefit commitments to large groups of voters, the structure of existing policies seriously constrains the prospects for reform. Moreover, the groups with a large stake in existing policies have an important impact on reform, not least because of the enormous political risks involved in scaling back and/or re-organizing pension arrangements.[18]

[17] Karen M. Anderson, "The Politics of Rentrenchment in a Social Democratic Welfare State. ..." *Comparative Political Studies*, forthcoming February 2002.

[18] John Myles and Paul Pierson, "The Comparative Political Economy of Pension Reform,' in Paul Pierson, ed., *The New Politics of the Welfare State*. See also Paul Pierson, *Dismantling the Welfare State* (Cambridge: Cambridge University Press, 1994) and R. Kent Weaver and Paul Pierson, "Imposing Losses in

The role of unions is especially important in corporatist political economies, where welfare states are characterized by a solidaristic system of interest intermediation in which peak level union organizations are the principal defenders of the interests of welfare state beneficiaries.[19]

The literature on social democratic corporatism and collective action suggests that interest groups, especially labor unions, are capable of both self-regarding and other-regarding behavior. When will each type of behavior prevail? In other words, when are unions likely to accept changes that hurt their members and when is labor likely to mobilize opposition to cutbacks?[20]

Garrett argues that powerful left-wing parties allied with centrally organized labor movements promote policies resulting in economic efficiency and stability.[21] Although this type of research has typically focused on labor unions' cooperation in wage restraint in return for government policies that cushion the effects of markets and promote employment, the argument can be extended to explain the cooperation of unions and social democratic parties in welfare state change that entails some losses for labor. As Swenson argues, "social democratic labor unions and parties are likely to impose limits on the welfare state" when welfare state growth harms economic performance.[22] Just as labor has an interest in a universal, generous, publicly financed welfare state, it also has an interest in ensuring that existing welfare state programs do not harm economic growth and unduly burden public finances. As Schwartz argues, clean fiscal balance sheets were a "hidden precondition" for the social democratic welfare state.[23] Thus rising deficits at both the program and central government level undermine the future solvency of the welfare state and cast doubt on the state's ability to meet its future welfare commitments. The disciplinary effects of EMU and competitive pressures from the internal market magnify this problem. Under these conditions, unions have an incentive to cooperate with politicians pursuing reforms designed to improve public finances and improve the performance of social programs, so that EMU targets and competitiveness are not endangered. Indeed, governments planning retrenchment may ask for union support of

Pension Policy," in R. Kent Weaver and Bert A. Rockman, eds., *Do Institutions Matter? Government Capabilities in the US and Abroad* (Washington, D.C: Brookings, 199x).

[19] Geoffrey Garrett, *Partisan Politics in the Global Economy* (Cambridge: Cambridge University Press, 1998) and Peter Katzenstein, *Small States in World Markets* (Ithaca: Cornell University Press, 1985).

[20] Adaptational pressures from EMU and the internal market would almost certainly involve cutbacks.

[21] Garrett, *Partisan Politics.*

[22] Peter Swenson, "Labor and the Limits....p. 46.

reforms in exchange for union influence on the content of reforms as well as on measures that soften their negative impact.[24]

Olson's distinction between interest groups with narrow versus encompassing interests helps to explain union behavior when welfare state restructuring is on the agenda.[25] Whereas organizations representing narrow interests have strong incentives to engage in rent-seeking behavior, encompassing organizations face different incentives. Because encompassing organizations by definition represent the interests of a large segment of society, their members share in both the benefits and the losses resulting from policies that affect their members. Thus encompassing organizations with rational leaders "will care about the excess burden arising from distributional policies favorable to its members and will out of sheer self-interest strive to make the excess burden as small as possible."[26]

To summarize, unions pursue either self-regarding or other-regarding policy preferences in response to adaptational pressures from the EU depending on the structure of incentives they face. The type of incentive is shaped by program structure and the balance of costs and benefits associated with reform initiatives. If unions accept that EU pressures require program changes that will contribute to the improvement of public finances and competitiveness, they have an incentive to cooperate in policy change to the extent that they are also invited to influence the content of reform. Concerning the hard incentives of EU law, unions have no choice but to accept at least minimal pension policy changes in order to comply with EU requirements, but their specific policy stance is likely to be shaped by whether they represent the narrow interests of specific member groups, or the more encompassing interests of groups that EU law seeks to improve the position of.

How does this logic apply in the field of pensions? In general there are three types of pension: means-tested minimum pensions; flat-rate universal pensions; and earnings-related pensions organized by either the public or private sector. For the first two, pensions can be regarded as a citizen's right, whereas earnings-related pensions represent a deferred wage. For flat-rate pensions, encompassing unions should be concerned about the capacity of the government or employers (depending on the structure of financing) to finance current and

[23] Herman Schwartz, "Social Democracy Going Down..." *Comparative Political Studies* 1998.
[24] Bernard Ebbinghaus and Anke Hassel, "Striking Deals..." *Journal of European Public Policy*. 2000.
[25] Mancur Olson, *The Rise and Decline of Nations* (New Haven: Yale University Press, 1984).

future pension obligations without harming societal interests such as competitiveness and EMU requirements. Narrowly-organized unions (or pensioners' groups, depending on who represents the interests of retirees) are likely only to be concerned about maintaining benefit levels, without much regard for societal interests, since the structure of their membership gives them no incentive to do so. In this case, unions will favor reform that pushes the costs of adjustment onto other groups. For supplementary pensions, union confederations will be concerned with both the current level of pensions, since these represent deferred wages, and the ability of the pension system to meet future pension obligations. Because of the substantial cost of pensions and the long-term commitment implied in accrued pension rights, unions must consider the capacity of the pension system to deliver both current and future pensions.

Under what conditions will labor accept pension reforms that impose losses on (some of) its constituents? If labor wants to preserve pension levels because of their function as a deferred wage, labor will oppose reforms that entail benefit cuts. However, these conditions are relaxed under conditions of severe fiscal stress associated with EMU requirements and concerns about declining competitiveness because labor may be inclined to cooperate in order to contribute to solving both kinds of problem. If interests are encompassing, unions have an incentive to internalize costs of adjustment, i.e. they accept the trade off that some cuts have to be made in return for pension system sustainability. If interests are narrow, there is little incentive to internalize the costs of adjustment.

The Institutional Setting

The question of which actors actually make decisions about pension change shapes the nature of the reform bargaining process. As Immergut has shown, different institutional contexts establish different rules of the game for political actors seeking to enact and/or block policy changes.[27] As Pierson has shown, social policy reforms that involve losses for key groups are unpopular and electorally risky.[28] This makes the legislative arena a potentially conflictual setting for pension policy change. As noted, pension reform is a classic case of path dependent change because of the nature of the policy area: pension arrangements

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[26] Olson, *Rise and Decline*, p. 48.
[27] Ellen Immergut, ...in Thelen, Steinmo, Longstreth, eds., *Structuring Institutions*.
[28] Pierson, *Dismantling the Welfare State*.

represent costly, long-term commitments. Because of the electoral risks of imposing losses on future, and especially current beneficiaries, pension reform is likely to be contentious and entail only incremental change.

These risks are less prevalent when occupational pensions are negotiated by the social partners as part of collective wage agreements. When unions and employers negotiate the terms of occupational pensions, this is done with wage levels in mind, so negotiators treat pension costs as a component of overall wage costs. Because pensions are not negotiated in the electoral arena, politicians cannot use pension policy as a vehicle to attract votes. If the negotiating organizations represent narrow interests, however, they may be tempted to use pension arrangements as a tool to further their organizational interests. For employers, this may mean offering generous pensions in order to attract labor, even if this drives up wage costs and results in a loss of competitiveness. For unions, demanding generous pensions may have the same effect. If unions and employers are encompassing, and pursue their interests with the societal interest in mind, pension costs as a component of wage costs are likely to promote competitiveness and economic growth. The essential point here is that when the social partners negotiate pension details, they are responsible to their members. Here, unions representing encompassing interests are capable of other-regarding behavior, while unions representing narrow interests are likely to try to pass on the costs of wage cost adjustment onto other groups. In contrast, politicians negotiating pension reform face different, riskier incentives because pension policy changes must be negotiated in the legislative arena.

TABLE 1: Political Bargaining about Pension Policy Change

INSTITUTIONAL CONTEXT	UNION/PENSIONER INTERESTS	
	narrow	encompassing
legislative	4 conflictual minimal reform	2 negotiated modest reform
collective bargaining	3 conflictual modest reform	1 negotiated substantial reform

Table 1 summarizes the arguments presented above. The two critical variables that shape the type of bargaining process over pension policy change, as well as the extent of change expected, are institutional context and union/pensioner interests. Institutional context refers to whether pension policy choices are made in the legislative arena or as part of collective agreements. Union/pension interest organization refers to whether these organizations represent the narrow interests of an exclusive group or whether they represent the encompassing interests of a more inclusive group. The former are likely to pursue their interests in an self-regarding manner, while the latter are capable of other-regarding strategies in pursuit of their interests.

The four cells represent four different types of pension-political decision-making processes as well as the degree of reform expected. The highest degree of change is expected when encompassing interests negotiate pension reform as part of collective agreements. This process is likely to be negotiated reform. When encompassing interests bargain with politicians in the legislative arena, reform is likely to be modest, with politicians negotiating with peak level organizations about the content of reform. When narrow interests interact as part of collective agreement negotiation, the reform process is likely to be conflictual and result in modest reform. Finally, when narrow interests bargain with politicians in the legislative arena, we can expect very little change as part of a conflictual process. In sum, narrow interests will resist reforms proposed to respond to adaptational pressure from the EU (if it means losses) and encompassing interests will at least entertain the possibility of reform if it is in their interest. The ability of the government to credibly threaten legislative action if the social partners fail to reach agreement increases the likelihood of this type of reform. Encompassing interests might be willing to internalize the costs of reform, in return for future sustainability of the pension system and continued growth in investment and employment. Narrow interests are not likely to internalize costs.

Pension Structure in the Netherlands and Germany

Netherlands

A system of public flat-rate pensions provides an adequate retirement income for all residents over 65, and publicly regulated occupational pensions provide earnings-related benefits to more than 90% of wage earners. Thus, the system is a hybrid of both the social democratic principle of universal social rights and the corporatist principle of status-based entitlements. Until recently, the Dutch system represented a strong case of "the male breadwinner model" in that the pension system was designed to provide benefits to the male breadwinner as the head of the household.[29]

The AOW Pension (AOW, Algemene Ouderdoms Wet) was introduced in 1957 and provides a basic income for all residents over age 65. The scheme is financed by wage-earner contributions (17.9% of income in 2000 up to a ceiling of EURO 21,897) and 50 years of residence are required for a full pension. The pension amount is pro-rated if full residence is not achieved (2% for each year of non-residence). The residence requirement has been in place since the AOW was introduced in 1957. Until 1985, the AOW benefit was paid to the head of the household (the husband) for married pensioners, and to individuals for unmarried pensioners. The pension amount is indexed to "net minimum wages." In 1998, AOW spending equaled 4.8% of GDP and provided benefits to 2.2 million pensioners, or 13.3% of the total population.[30]

AOW is constructed as a pay-as-you-go system (PAYG) with current revenues financing current obligations. The financing of the AOW system is designed to be self-regulating in that the level of pension contribution is set every year so that revenues cover expenditures. For example, AOW revenues of EURO 19.1 billion financed benefits costing

29 D. Sainsbury, *Gender, Equality and Welfare States* (Cambridge: Cambridge University Press, 1996).
30 Ministry of Social Affairs and Employment, The old age pension system in the Netherlands, p.6.

EURO 18.4 billion in 1998.[31] However, the self-financing rule is not always followed. In exceptional circumstances, the government may opt to provide resources to the AOW from other sources. Since the introduction of the AOW in 1957, growing pension commitments have necessitated significant increases in contribution rates. As table 1 shows, the contribution rate has increased steadily from 6.75% of income (up to a ceiling) to 17.9% in 2000.

Occupational Pensions: the Second Tier

Unlike many other EU members, the Netherlands has no public earnings-related pension system. Instead, private occupational pensions are regulated by the state in the Pension Savings Act (Pensioen en Sparfonds Wet, PSF) but the responsibility for implementation falls on the social partners. Because the PSW provides only the institutional framework for second tier pensions, the social partners have considerable freedom to negotiate the details of their pension arrangements, and they are negotiated as part of collective labor agreements (CAOs).[32] In 1999, there were 947 different pension funds, including industry-wide pension schemes, company pension schemes, pension funds for the self-employed and other schemes, such as the ABP system covering civil servants (SER 2000: 27). The coverage of these pension schemes is about 92% of the labor force. In 1998, employers paid 6.7% of their wage bill into second pillar schemes, while employees paid 2.3% of their wages (Ministry of Social Affairs and Employment 2000: 6). In addition to normal retirement benefits most workers have access to early retirement schemes negotiated in the same way as supplementary pensions. The so-called "VUT" schemes, or Pre-Retirement schemes were introduced in the early 1980s. At first these were designed primarily for persons aged 63 or 64 but have since been expanded to include persons aged 60 and above (De Vroom and Trommel 1994).

Supplementary pensions are closely linked to the AOW system in terms of benefits and financing. First, supplementary pension benefits are calculated by taking into consideration the provisions of the AOW pension. Thus, all supplementary pension include a

31 MoSAE, 'Old age pension system,' p. 6.

32 For overviews of the second tier pension system, see Erik Lutjens, "The Netherlands," in European Commission., Social Europe. The outlook on supplementary pensions in the context of demographic, economic and social change. Supplement 7/96 (Brussels: CEC, 1996); P.M. Tulfer, *Pensioenen, fondsen en verzekeraars* (Deventer: Kluwer, 1997); and Sociaal-Economische Raad, *Pensioenkaart Nederland*. (Leiden: SER, 2000).

Unlike the Netherlands, the occupational and private pension sectors in Germany are relatively small. Occupational pensions are relatively small and provide less than five percent of retirement income while 80 percent is provided by the public system. One fourth of retired males receive an occupational pension.[36]

Adaptational Pressure and Domestic Responses
EU Gender Equality Law
Netherlands

As a mix of both social democratic and corporatist/male breadwinner characteristics, the Dutch pension system faced substantial adaptational pressure from the EU to change the provisions of its public and private pensions that violated EU gender equality law. The "hard" requirements of EU equality law have had a substantial impact on the Dutch pension system. Starting in 1979, all Dutch social security schemes were adjusted to the EC equal treatment directive.[37] For the AOW system, this required the modification of existing rules excluding married women from eligibility. Before the new rules took effect in 1985, married women did not receive their own pension benefit. Instead, the husband received a benefit intended for both spouses.

Before the EU directive, there was little political pressure to modify the AOW system in order to provide married women with benefits. Because the AOW system provided married men a benefit that "included" a benefit for the wife, the system was not perceived to be unfair. However, when the EU issued its directive, Dutch policymakers quickly changed the existing rules without protest. The ease with which the pension system was modified to conform to EU rules is largely explained by the fact that the new rules did not require additional AOW pension spending and did not result in benefit cuts. The old benefit that went to the husband was simply divided in two and paid individually to the husband and the wife. Thus, for married couples, there was no financial change in the level of benefits, and the state was not required to spend additional money on pension benefits. Another factor influencing the low level of resistance to this change was the general acceptance of the legitimacy of EU law in the Netherlands.

EU legislation in the field of equal treatment also had substantial influence on the

[36] Axel Börsch-Supan and Reinhold Schnabel, "Social Security and Retirement in Germany" in ....p.x.
[37] 79/7/EEC

"franchise" based on the AOW for which no pension rights are earned. In other words, pension rights accrue only for the income above the franchise. In practice, the level of the franchise is determined by the social partners for individual pension schemes since there is no law requiring a specific franchise level. Until recently, the typical benefit formula was 70% of the final salary, including the AOW based on 35 to 40 years of employment.

The provisions of second tier schemes are negotiated in collective agreements by the social partners. Thus, they are subject to the same problems and opportunities inherent in such bargaining structures. On the one hand, the social partners have considerable room for maneuver in terms of adjusting pension provisions to changing circumstances. On the other hand, however, corporatist bargaining may lead to the agreement of pension provisions that add significantly to non-wage labor costs. The dramatic surge in take-up rates in early retirement (VUT) schemes since the early 1980s illustrates this dilemma.

The Structure of the German Pension System

The German pension system is a strong case of the corporatist model. Although the state plays a substantial role in pension provision, benefits are tightly linked to labor market participation and occupational status. The German old age pension system provides compulsory income-related pension benefits to white collar workers (Angestellte) and manual workers (Arbeiter).[33] About 85% of all pension income is provided by this system.[34] The system is constructed as a PAYG system with the employer and employee each contributing 10.15% of gross wages to the system (January 1999 figure). The federal government contributes an additional amount equal to about 20% of total costs, although this amount may vary from year to year. Benefits are calculated based on income and the number of years of contributions, with 35 years of contributions required for full benefits. Pension credits are awarded for periods spent in higher education, military service, and child-rearing. Until 1992, benefits were indexed to changes in gross wages. Currently benefits are indexed to net wages, but a very recent reform will index them to inflation for two years. In 1993, public pension spending equaled 10.3 percent of GDP.[35]

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[33] There is a separate pension scheme for public servants, farmers and miners.
[34] *OECD Economic Surveys. Germany. 1996.* p. 68.
[35] Axel Börsch-Supan and Reinhold Schnabel, "Social Security and Retirement in Germany" in ....p.x.

structure of occupational pensions. Until the early 1990s, some occupational pension schemes excluded married women from participation. Again, this was a legacy of the "male breadwinner" principles on which the Dutch pension systems were constructed. As a result, occupational pension schemes have had to modify their eligibility rules to comply with recent interpretations of EU law.

Until the 1980s/1990s, gender discrimination against women was prevalent in second tier pension schemes. The most common types of discrimination were different participation ages for men and women, the exclusion of married women, and the exclusion of part time workers. The Barber decision by the ECJ in 1990 would have cost the second tier pension schemes in the Netherlands an estimated NLG 400 billion if pension rights were to be made retroactive for women who had previously been excluded from occupational pensions.[38] Because of the substantial costs involved, the Dutch government (pushed by the pension funds and employers) lobbied successfully in Brussels (along with the UK) for a protocol to the Treaty of Amsterdam that would limit the retroactivity of the Barber decision. In other words, the new interpretation of EU law would only take effect in 1990.

As Kraamwinkel argues, these changes in the Dutch pension system were driven largely by legal actors, especially the ECJ. Domestic actors had little to do with pushing these changes, although they did exert substantial impact on the way that the rulings were implemented. There has been some reparation of pension rights for previously excluded women, but as Kraamwinkel notes, because supplementary pension s are built up over 40 years, it will take until at least 2035 before the first Dutch women is entitled to a full pension income.

Germany Adaptional pressures were much less significant in Germany, largely because the German system never had the type of breadwinner entitlements prevalent in the Dutch system. However, two modest changes took place in response to EU equality law. First, the retirement age for women was raised from 60 to 65 to make it equal to the male retirement age. This change will be phased in gradually. Second, occupation pension schemes that excluded part time workers were required to change their eligibility rules. However, the small size of the occupational pension sector in Germany meant that this change affected very few women

[38] Margriet Kraamwinkel, *Pensioen, emancipatie en gelijke behandeling* (Utrecht: 1995).

and did not involve large costs.

How did domestic actors and institutions influence the particular implementation of EU gender equality law in both countries? The following discussion focuses on the Netherlands since changes in the German system were fairly small.

1. Adaptation pressure was much more substantial in the Netherlands than in Germany.
2. The Dutch pension funds, representing the interests of unions and employers, heavily influenced the implementation of the Barber ruling, including pressure in Brussels to limit retroactivity, and limited provisions for voluntary pension reparation for women. Here, the pension funds, and the union interests they represented, behaved as narrow interest groups with one overriding goal: to limit the financial consequences of the Barber ruling. Women's interests have been traditionally underrepresented in Dutch unions, so it is not surprising that the outcome was biased against women's interests. A more encompassing union structure, representing the interests of both the pension funds and women's concerns about pension right retroactivity might have led to an outcome that balanced both of these sets of interests.
3. The institutional context of Dutch second pillar pension decision-making also shaped the outcome. The issue was relatively de-politicized, and the pension fund organizations could lobby the government to seek limited retroactivity at the EU level. Had the decision-making context been the legislative arena, women's interests might have been better served since they arguably could have had more influence there.

The Dutch policy changes are characterized here as "conflictual modest reform," with unions pursuing narrow interests in the wage bargaining/non-legislative arena.

Adaptational Pressures from EMU

EMU sets concrete limits on budget deficits and public debt levels in the member states. Because pensions comprise a large share of public spending in all EU countries, we should see government efforts to control public pension spending to the extent that it contributes to member state difficulties in meeting EMU requirements about budget deficits and accumulated public debt.

The structure of the two pension systems led to different adaptational pressure from the EU. First, in 1996 the level of funding in the Dutch second tier system was 141% of GDP while the German (including public and private pensions) level was 12% of GDP. Second, according to one estimate, the value of accumulated and projected pension rights in the Netherlands was 103% and 144% of GDP, respectively (1990 calculations). Fourth, when the 1999 debt levels for both countries are corrected for the costs of projected pension rights, the debt level rises to 171% of GDP for the Netherlands and 199% of GDP for Germany. Finally, if the projected impact of pension costs on public debt are corrected for the level of capital funding, the Netherlands is estimated to have a level of 58% capital required to finance pension obligations while Germany will have only 8% capital coverage.[39]

The data presented above must be interpreted with caution, but they do indicate several things. First, the fiscal pressure on the German pension system is substantial, especially if current trends continue. Second, the significant role of funded, private occupational pensions in the Netherlands means that the fiscal pressure cause by EMU is much weaker than in the Netherlands. Only the flat rate AOW pension is financed with public money, so any cost containment pressure from EMU should fall on the AOW system and not the second tier pensions. To the extent that German political actors are aware of the projected impact of pension spending on the ability of Germany to meet the convergence criteria, we should see efforts to introduce cost-containing reforms.

Netherlands

As table 2 shows, the Netherlands faced moderate pressure in the first half of the 1990s to reduce public budget deficits in order to meet this component of the EMU convergence criteria. It is probably the case that wage earners' pension contributions were increased in the 1990s (from 14.90% of qualifying income in 1990 to 17.9% of qualifying income in 2000) in order to prevent pension spending from burdening the central government budget. Because the financing structure of the AOW system allows for the state to finance program "deficits" caused when expenditures exceed revenues, the Maastricht public finance requirement meant that Dutch authorities had every incentive to prevent any increase in state financing of AOW expenditures. As table 3 shows, the AOW system ran program deficits from 1993 to 1996, and the state had to finance the shortfall. These program deficits probably

[39] All data are from Wetenschappelijke Raad voor het Regeringsbeleid, *Generatiebewust Beleid* (Den

account for the hike in wage earner payroll taxes after 1994. Since 1997 the AOW has run a financial surplus.

Besides the immediate task of meeting the Maastricht public finance requirement, Dutch policymakers had to deal with demographic pressure on the AOW system. Like most EU members, Dutch pension system faces a substantial increase in old-age pensioners in the next few decades. An expert report commissioned by the Ministry of Social Affairs in the mid-1990s predicted that AOW contribution rates would have to increase to 22% of income by 2045 in order to finance pension obligations.[40] Dutch policymakers' response to this impending problem consists of two strategies. First, there is wide political agreement on the need to increase labor force participation and thereby broaden the tax base, without increasing non-wage labor costs or taxes on wage earners' income. Thus, higher numbers of wage earners would be paying into the social insurance system, including the AOW, thereby obviating the need for further increases in the contribution rate. In fact, policymakers have agreed on an upper limit of 18.25% of income for wage earner contributions, and the introduction of some sort of employer financing is not under consideration. Second, a 1998 law introduces partial funding into the AOW system. Each year until 2020 the government sets aside NLG 250 million in the AOW Savings Fund. The fund earns interest every year, and it is hoped that the accumulated reserves will help to offset higher pension costs in the future so that contribution rates do not rise above the legally mandated level of 18.25% of income.

Germany and EMU

In general, the German pension system faced significant adaptational pressures arising from EMU. The German system contains almost no provision for funding. Because PAYG pension schemes are vulnerable to shifts in employment, the system is particularly sensitive to fluctuations in the level of employment. Moreover, the state's share of financing is not fixed at a specific level, so the share of state financing has increased in recent years in order to pay for increased pension costs. Germany's recent experience of high unemployment means that the financing of current and future pension commitments is threatened. Unlike the Netherlands, German policymakers have been unable to devise an effective strategy to boost

Haag: WRR, 1999) p. 160.

employment, and this appears likely to continue in the near future. Thus, to the extent that German political actors seek to prevent additional pension expenditure from burdening the government budget, there should be pressure to cut current and future pension costs.

Despite the legal retirement age of 65, in 1996 more than half of the eligible population retired earlier. Wage earners with long contribution records could retire at 63, and the disabled and the unemployed were eligible for retirement at age 60. The dismal employment situation in both eastern and western Germany led to a sharp increase in early retirement due to unemployment. In western Germany, this type of early retirement increased by 66% in 1993, 25% in 1994, and 13% in 1995. The numbers were much higher for the eastern länder.[41]

Two recent reforms (1989 and 1996) introduced modest changes in the pension system. The reforms were aimed at reducing long-term costs and increasing work incentives, so the retirement age was raised to 65 for all wage earners, a partial pension was introduced, and the index formula for calculating pensions was changed from increases in gross wages to increases in net wages. The overall direction was to increase the incentives for older persons to remain in the labor market, at least part-time. For workers seeking to retire early because of unemployment, the retirement age was increased from 60 to 63 years. In some cases, early retirement is still possible, but at reduced pension levels. Other changes include a gradual decrease in the replacement rate from 70 to 64 percent,[42] an increase in the minimum years of contributions, and this year, a shift from the net wage index to an inflation index (for two years). In addition, the retirement age for women has been raised to 65 (same as for men) with effect in 2001. Finally, a demographic factor was introduced into the pension benefit calculation formula so that benefits would be adjusted to changes in life expectancy.[43]

Despite recent reforms, the German pension system faces considerable financial problems as the number of pensioners increases. Recent calculations by the OECD predict that, in the absence of further reform, pension spending as a percent of GDP would have to rise from 11.1% in 1995 to 12.3% in 2020. Although this increase does not seem dramatic, it should be considered in the context of a shrinking population of employed persons.

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[40] J. Nelissen, *Towards a payable pension system* (Tilburg: TISSER, 1994) p. 43.
[41] *OECD Economic Surveys. Germany. 199x*, p. 69.
42 The SPD cancelled this part of the reform when it took office in 1998 in coalition with the Green Party.
43 T. Meyer, 'Retrenchment, Reproduction, Modernization: Pension Politics and the Decline of the German Breadwinner Model.' *Journal of European Social Policy*, vol 8 (3) 1998.

According to the OECD, the current system is "unsustainable."[44]

As table 4 shows, Germany, like the Netherlands, faced moderate pressure to reduce government spending[45] in order to meet the Maastricht public finance requirement. Between 1990 and 1997, pension expenditure increased from 11.7% of GDP to 12.4% of GDP.[46] During the same period, the state's share of financing increased from 30.85% of total pension spending to 33%.[47] German governments' response to this fiscal pressure was to increase payroll contributions to the pension system, from 9.35% of gross wages for both employer and employee in 1990 to 10.15% for each in 1999.[48] However, given the recent emphasis in German policy debates about reducing non-wage labor costs, the upward trend is highly unlikely to continue. In fact, the current SPD-Green coalition government has legislated a reduction in the contribution rate to 9.75% of gross wages for employers and employees starting in April 1999. The current government has also stated its intention to keep the total contribution rate below 20% of gross wages until 2020, and has proposed to finance reduced contributions with revenues from its new ecological tax. The previous government (CDU/FDP) also financed increased pension costs with an increase in the VAT in 1997 in order to avoid increasing payroll contributions.[49] Thus, the preferred method of fiscal adjustment appears to have been to increase payroll contributions as much as possible and then to use other methods of taxation (the ecotax and increases in the VAT) to raise additional revenues for pension expenditure. As noted, future increases in payroll taxes have been ruled out.

In 2001, the SPD-Green coalition government adopted a reform that would introduce partial funding into the public system through the use of tax incentives for private pension savings. In addition, the reform introduces modest cuts in benefit levels. The reform process was conflictual, especially between the unions and the government. The reform concentrates losses on younger workers who will have to start saving privately, and leaves current retirees

44 *OECD Economic Surveys. Germany*, 199x, p. 71.

45 Because of already high levels of taxation, further increases were not really an option discussed by the main political actors.

46 Data are from http://www.bma.de. Pension costs increased partly because of German unification and the merger of the two pension systems.

47 Data are from http://www.bma.de.

48 Data are from http://www.bma.de.

49 Informationen zur geplanten Rentenstrukturreform, Bundesministerium f_r Arbeit und Sozialordnung. November 1999. The current government also cancelled the implementation (for two years) of several aspects of the 1996 reform (for example, the demographic factor). Need to check this.

virtually untouched. Workers near retirement are likewise not very hard hit.[50]

The reform was motivated by the government's desire to stabilize contribution rates below a certain level and to establish an upper limit on employer contributions. This was clearly motivated by concerns about the competitiveness of German firms and the negative consequences of high non-wage labor costs.

Several things require explanation:

1. The content of reforms aimed at containing costs in the Dutch AOW concentrate losses on current workers through increases in contribution rates. Pensioners were not significantly affected.

2. Reforms in the German pension system, including the 2001 reform, are incremental. The introduction of partial funding with the 2001 reform is arguably a significant change, but it will not dramatically alter the balance between private and public pension income. Like the Dutch AOW reforms, losses are concentrated most on younger workers, while current retirees are not significantly affected. Likewise, older workers will not experience significant losses in pension income.

How did domestic actors and institutions influence these particular responses to EMU pressures for fiscal austerity?

1. In the Netherlands, the principal organizations promoting the interests of pensioners included several pensioners groups. These groups pursued their narrow interests in the legislative arena. Backed by considerable electoral clout, these groups succeeded in pushing most of the burden of cost containment to current workers, whose interests were not as well represented or electorally powerful in the legislative arena.

The Dutch case (AOW changes) is characterized here as conflictual minimal reform because pensioners groups pursued their narrow interests at the expense of current workers, and there was much political conflict in the legislative arena over these changes.

2. In Germany, the content of reforms in the 1980s and 1990s, and especially the most recent reform, were shaped by the electoral clout of the elderly, as well as the older-worker bias of

[50] For a more detailed analysis, see Karen M. Anderson and Traute Meyer, "The Third Way in Pension

German trade unions. In the 2001 reform process, relations between the SPD-Green government and the unions were highly conflictual. The final content of the reform concentrates costs most on younger workers, whose interests are not well-represented by the German unions. According to most observers, the reform also falls short of addressing the long-term financial problems of the pension system. In this sense, the reform fails to adequately address the adaptational pressures caused by EMU.

The latest German reform is characterized as conflictual minimal reform because unions were not willing to balance their own narrow interests with the larger societal interest of achieving EMU targets; unions mainly represented the interests of older workers. Reforms were negotiated in the legislative arena; this led to conflict about the distribution of reform costs. Electoral considerations also contributed to the concentration of losses on younger workers rather than current pensioners.

Wage Cost Discipline

Netherlands: Supplementary Pensions

As noted, the supplementary pension provisions are negotiated by the social partners. State regulation only provides a legal framework for such pensions and does not require specific benefit levels or financing provisions. In terms of actual costs, most efforts to reform second tier pensions fall on the social partners.

Like the AOW system, the second tier pension system faces substantial demographic pressure and reform efforts have focused on reducing costs, especially for future retirees. Of particular concern are the prevalence of final salary benefit formulas and the decreasing level of the AOW franchise. In the context of increasing numbers of retirees, both features of the second tier entail substantial future cost increases for employers. As a result, many employers are switching to average career earnings formulas (SER 2000).

Changes in the development of AOW pensions have led to calls for reform of second tier pensions. As noted, most second tier pension schemes use a franchise based on the AOW pension; for income below the franchise, no pension contributions are paid. This means that the AOW franchise level should accurately reflect the expected level of AOW benefits,

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Reform?" Presented at ECPR, Grenoble, April 2001.

otherwise pensions will be underfinanced. The level of the franchise in many pension schemes has not kept pace with changes in the labor market and is therefore too high, leading to underfinancing. The reliance on unrealistically high franchise levels led to concerns about the ability of pension schemes to meet future commitments without substantially increasing contributions. The problem is especially severe in final salary pension schemes: when the franchise is too high, the pension scheme must cover an increasing proportion of the total pension (AOW + occupational pension) in order to achieve the desired benefit level. This development leads to increased supplementary pension costs for employers and has prompted moves toward average career earnings schemes.

In 1997 the government (Labor Party + Conservative Liberals + Social Liberals) issued policy statements calling for, among other things, cost control, and stronger work incentives in both the AOW and second tier pensions. In the same year, the Social and Economic Council (SER) recommended the negotiation of a "Pension Covenant" between the social partners and the government. The background to this agreement was the government's concern about updating supplementary pensions in order to respond to future demographic and economic developments. The government and social partners were particularly concerned about controlling pension costs because of their share in total labor costs (Stichting van de Arbeid 1997). In particular, the social partners agreed to, among other things, reduce reliance of final pay benefit schemes and encourage the lowering of the AOW franchise. The results of the covenant are currently under evaluation, but preliminary indications are that the social partners have achieved the goals specified in the covenant.

Germany and Wage Discipline

The financing structure of the German pension system entails significant non-wage labor costs for employers because they finance one half of the payroll contribution. Given that non-wage labor costs figure prominently in German political discussions about job creation and competitiveness, any financial adjustment is expected to fall on either wage earners or the state. This has indeed been the case in the most recent reforms.

Concerns about the competitiveness of German firms in the EU and in world trade played a major role in the 2001 reform. For the first time, politicians have legislated an upper limit on contributions so that rising pension costs do not require further increases in contributions in the future. In other words, the level of contributions, especially for employers, was a major issue in the 2001 reform.

Two things require explanation:

1. The Dutch more or less successful in introducing changes in the second tier pension system that would keep wages in line with competitiveness.

2. The German reforms, especially the 2001 reform, only partly address the problem of non-wage labor costs.

How did domestic actors and institutions influence the particular response to wage discipline pressures?

1. In the Netherlands, pension changes were negotiated as part of collective agreements. The peak level organizations that represent the interests of unions and employers, the Social Economic Council (SER) and the Labor Foundation (Stichting van de Arbeid) had already recommended specific changes in pension schemes in order to limit costs. The Labor Foundation also provided a forum for the government and the social partners to agree to work out the desired reform goals. The government threatened legislation if the social partners did not agree; this no doubt contributed to successful reform.

The changes in the Dutch second tier pensions that are aimed at controling pension costs as a component of wage costs are characterized as negotiated substantial reform. The pension issue was depoliticized and peak level representatives of unions and employers were able to pursue more encompassing and inclusive policies in order to promote the competitiveness of the Dutch economy.

2. The German reform provides only a modest attempt at controlling non-wage labor costs. As noted the burden of adjustment falls mainly on younger workers, and pension decision-making in the legislative arena contributed to a conflictual reform process.

German pension reform efforts to control pension costs as a component of non-wage labor costs are characterized as conflictual minimum reform.

Conclusion

The central task of this paper has been to investigate the impact of European integration on the Dutch and German pension systems. The role of EU law concerning gender equality has forced the re-examination and reform of pension rules that discriminated against women. This was a major source of change in the Netherlands and rather insignificant in Germany.

In contrast, the influence of EU's market building efforts on pension systems has been less direct and, as a result, more difficult to substantiate. Because this avenue of EU influence operates through the spillover effects arising from the completion of the Internal Market and EMU, causal mechanisms leading to change in public pension structures are complex and hard to document. Nevertheless, the empirical evidence presented in this paper appears to confirm theoretical expectations that market building processes will lead to downward pressure on the employer payroll contributions that finance pensions and other social insurance programs in many member states. The downward shift in employer payroll contributions was evident in German reforms.

The pressure on member states to cut public spending in order to improve public finances as part of the EMU convergence process also appears to have exerted some downward pressure on public pension spending in Germany. Dutch policymakers followed a different route, increasing wage earner payroll contributions in order to maintain pension commitments. Additionally, in the Dutch case, policymakers have adopted reforms designed to prevent the public pension systems from burdening central government financing, either by shifting financing to wage-earners (the Netherlands), or introducing partial funding (the Netherlands).

The analysis presented here demonstrates that existing welfare state theory provides a promising approach to the study of how adaptational pressures arising from European integration are channelled into domestic policy changes. As noted, the existing research on the domestic impact of processes of Europeanization is better at describing and conceptualizing the pathways of European influence, but less successful at explaining how and under which conditions these adaptational pressures are translated into policy change. The analysis also demonstrates the utility of drawing on political economy approaches to the study of welfare state change[51] as well as approaches that emphasize the interaction of actors and institutions to explain domestic responses to policy problems, including pressures from

[51] Paul Pierson, "Three Worlds of Welfare State Research," *Comparative Political Studies*. Vol. 33 No.

Europeanization.[52]

6/7, August/September 2000. pp. 791-821.

[52] Fritz W. Scharpf, "Institutions in Comparative Policy Research,' *Comparative Political Studies.* Vol. 33 No. 6/7, August/September 2000. pp. 762-790.

table 1: AOW Pension Contribution Rates

year	contribution rate (% of salary)
1957	6.75
1970	9.50
1980	10.25
1990	14.30
1994	14.25
2000	17.90

source: Nelissen, *Payable pension*, p.11.
(for data to 1994)

table 2: Netherlands:
Public Deficits 1993-1999

year	budget deficit % GDP
1993	-3.2
1994	-3.8
1995	-4.0
1996	-2.3
1997	-1.4

source: Eurostat.

table 3: AOW Program Finances 1993-1997

	AOW program deficit (million NLG)	deficit/surplus as percent of program spending
1993	-852	-2.6%
1994	-960	-3.0%
1995	-1,154	-3.5%
1996	-1,828	-5.4%
1997	+1,945	+5.3%

source: Centraal Bureau voor de Statistiek,
Statistisch Jaarboek, various years

table 4: Germany: Public Finance Deficit; % GDP

year	deficit %GDP
1993	-3.2
1994	-2.4
1995	-3.3
1996	-3.4
1997	-2.7

source: Eurostat.