Introduction

In many ways the Danish pension system is nothing special compared with other systems in Europe. As other pension systems in as well the EU countries as the applicant countries, it consists of three tiers, a basic social old age pension, occupationally related supplementary pensions and private pension savings. However, the weighting of these three elements is what makes the Danish pension system distinct: great emphasis is put on public old age pension for all citizens regardless of their previous attachment to the labour market.

In recent years, the Danish pension system has undergone a number of reforms that have changed the constitution of the system from purely public to partly private. This also indicates a shift in the ideology governing the pension policy. The reluctance against following the Nordic pattern of introducing an income related supplementary pension scheme in the 1960s could be seen as a result of strong resistance against passing the income differences of working life on to the age of retirement as it was expressed by one of the leading social science experts, Bent Rold Andersen. Instead, the basic supplementary pension scheme, the ATP (Arbejdsmarkedstillægspension), was introduced in 1964, but for several reasons the scheme was never fully developed and therefore also never gained any real importance. Today, people mostly regard it as a (hidden) part of the tax system.
Up through the 1980s, concerns about the future demographic burden emerged in the welfare debate all over Europe. How could the welfare state be sustained when too few people of working age should provide for too many elderly? In Denmark, this rising concern with demographic changes was interpreted as a question of whether the public PAYGO old age pension, the so-called ‘peoples pension’ could survive in the years to come with its present features. Several white collar employee groups had already established occupational pensions up through the 1960s and 1970s – in the middle of the 1980s about one third of the employed was guaranteed an additional pension as a supplement to the old age pension when they retired. As we will dig more into later, the bourgeois government and the social partners made an agreement that would benefit the macro economy as well as the future pensioners by establishing occupational pensions for the remaining two-thirds of the employees.

In 2001 Denmark spent DKK 90 billion on public old age pension (peoples pension). When expenditures on survivors and disability are included this amounted to Euro PPS 3.632 per capita which was at par with Norway, Sweden, Belgium, France, Germany, Italy, the Netherlands and the United Kingdom (NOSOSCO 2003: 181). The peoples pension is financed out of taxation while the occupational pension schemes are financed out of contributions from employers and employees.

In this paper we will present a historic view of the Danish pension system after WW2 and how we ended up with the current system. In addition to this we will discuss if the recent changes from a purely public to a partly private pension system should be regarded as path dependency or a path-breaking tendency. Finally, future challenges to the Danish pension system – including the early retirement scheme and how to possibly get rid of it – will be dealt with.
The Danish pension system after WW2

Before we turn to the most recent development we will very briefly explain some of the first basic steps in the establishment of the Danish pension system. These preliminary schemes are important for a number of reasons. First of all, they show that though Denmark today is considered to belong to the Scandinavian welfare regime with generous, universal benefits based on individual rights this was not initially features of the Danish welfare schemes. Furthermore, as will be dealt with later, a number of similarities exist between the original pension schemes and the recent wave of privatisation that has characterised the last 20 years.

Already in 1891 the first pension-like scheme, the ‘Alderdomsunderstøttelsen’, was introduced as a social policy measure for the worthy needy. The main principle was that Danish citizens who had reached the age of 60 and who were in need of help would be entitled to the ‘Alderdomsunderstøttelsen’ that should be generous enough to make it possible for the old person to provide for him- or herself. However, to receive the benefit some preconditions had to be met: The claimant was not allowed to have received any social assistance in the previous ten years and the social contingency causing the need for help was not to be self-induced. The benefit was calculated on behalf of an individual means test (Johansen 1996).

Though the conditions that had to be met in order to qualify for the ‘Alderdomsunderstøttelsen’ might sound pretty harsh comparing to what we know of nowadays, it then indicated a major step forward, since receiving the benefit was not followed by loosing citizen rights such as the right to vote as had been the case previously. The 1891 act on the ‘Alderdomsunderstøttelsen’ can be regarded as a first foundation stone in the Danish welfare model with general access or right based on citizenship to a means tested benefit financed by taxes and administered by the local governments (Johansen 1996; Due & Madsen 2003; Green-Pedersen forthcoming).
Nevertheless, the individual means testing felt humiliating for people who had to go through it, and it was removed in 1922 – partly as a consequence of the rising labour movement who – in many instances and at times - have had great influence on Danish welfare policy. This we will return to later. After the 1922 reform the ‘aldersrente’ - as it then was renamed - was a fixed amount regulated by certain settled rules according to the claimant’s income (Johansen 1996).

Today, the Danish pension system is usually regarded as consisting of three or four distinct pillars as illustrated in the figure below:

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1  Peoples Pension
2  ATP
3  Occupational Pensions
4  Private Pensions

Basic Security  |  Income Maintenance
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Source: Nielsen 1998

Whether there is three or four pillars depends how the ATP is grouped – some place it together with the peoples pension, other classify it with the occupational pensions, which according to the terminology must be the most proper place to put it. In this paper we follow Nielsen’s (1998) framework with four pillars where the ATP has got a pillar of its own, the reason for this being that even though the ATP as indicated above is of little importance in the pension package, the reform that
resulted in the ATP is of great interest - not at least because Denmark with the non-income related ATP schemes broke with the Nordic pattern (Nielsen 1991).

The numbers of the four pillars are not put on randomly. Firstly, they indicate a sort of chronological order as the peoples pension was introduced before the ATP, which again - generally speaking - was introduced prior to the occupational pensions. Secondly, when ignoring the distinct ATP pillar, the numbers express the relative importance of the three remaining pillars of today's individual pensioner, as the peoples pensions still constitutes the basic element in the pension package. In addition to the latter, the number order of the pillars can be regarded as an indication of the cumulative 'top-up' that exists. Finally, the numbers could also be seen as an expression of the degree of privatisation as the higher the number get, the more privatised the scheme is and the less people it covers.

In what follows, the main features and reforms that have resulted in each of the four pillars will be analysed.

1. The Peoples Pension

The basic social pension, the peoples pension, is one of the elements in the Danish pension system that definitely ties the Danish model to the Scandinavian welfare regime. The peoples pension is based on citizenship, and it is therefore a universal right, and is financed by taxes following the PAYGO logic where the generation in active employment pays the pensions of contemporary pensioners.

In 1956 the Aldersrente was substituted by the peoples pension (Folkepension) which gave a basic pension to everyone 67 and older; and to those who had nothing else an additional amount was added, but as a means-tested part. With this reform the pension age was increased from 65 to 67 and the citizenship element was installed. From 1964 to 1970 the composition of the basic element and the additional
means-tested element was radically changed towards what was described as ‘full’ peoples pension paid
to everyone meeting the age criteria, supplemented with a flat-rate addition to those having no other
means.

This truly universal provision was and is conditioned upon some residence criteria. In order to be
eligible one must have been living in Denmark for at least three years all together and for non-nationals
they must have 10 years of residence in Denmark, including five years immediately before pension. One
is then eligible for a pension calculated as a fraction of the years set against 40. I.e. to receive a full
pension (basic amount) it takes 40 years of residency between age 15 and 65 (since 2004). If one has
been living in Denmark e.g. for five years one is entitled to 5/40, provided one lives in the country
currently.

The basic amount (grundbeløb) in 2002 was DKK 52,872 (Euro 7,108) that may be reduced according to
the professional earnings of the pensioner if they exceed DKK 223,200 (Euro 30,005). Pension
supplement (pensionstillæg) was DKK 24,672 (Euro 3,317) that may be reduced on account of the
earnings of the pensioner and spouse if they exceed DKK 98,800 (Euro 13,282) or DKK 49,200 (Euro
6,614) for a pensioner living alone. If the spouse is not pensioned, his/her earnings are not taken into
account up to DKK 154,100 (Euro 20,716).¹ Pensions are taxed in the same way as wages (MISSOC
2002).

¹ The adjustment rate (satsreguleringsprocenten) for social pensions, as well as that for the other transfer incomes
(overførselsindkomster), is set once a year on the basis of wage development. The basic amount (grundbeløb) depends
on the income gained from the pensioner's professional activity. Reduced by DKK 30 (Euro 4.03) for every DKK 100
(Euro 13) earned in excess of DKK 223,200 (Euro 30,005) per year. Pension supplement (pensionstillæg) is reduced by
30% of earnings and any other kind of income (earnings of pensioner and spouse) in excess of DKK 98,800 (Euro
13,282) per year for each married person and DKK 49,200 (Euro 6,614) for singles. If the spouse is not pensioned,
his/her earnings are not taken into account up to DKK 154,100 (Euro 20,716).
To give an idea about the living conditions of pensioners depending upon the peoples pension including supplement and the ATP the compensation rate for a single pensioner has been calculated to 62 per cent in 2001. This is at par with Finland and Norway but less than was received in Sweden (68 per cent). For a couple the compensation is only 42 per cent which is a lot less than in the other Scandinavian countries (NOSOSCO 2003).

When the peoples pension was inaugurated there was still some stigma attached to receiving public benefits; but by granting the pension to everyone stigmatisation disappeared and the idea of seeing it as a right was firmly developed. This has now become a problem for contemporary governments that face an increasing elderly population and with time fewer in working ages. Therefore more recent reforms have gone in the direction of reducing the basic amount relatively and make it more difficult to obtain the additional amount. This development should, of course, be reflected on the background of a dramatic change in longevity: in 1960 a European male worker in average lived two years after retirement; in 2000 he lives in average 15 longer than retirement age (Gården 2002). Obviously, the peoples pension was not geared to pay pensions to people for many, many years which is, nevertheless the prevailing condition.

2. The Basic Supplementary Pension: the ATP

The reform of the peoples pension in 1956 did not put an end to the question of the future Danish pension system. Supplementary occupational pension schemes for white-collar employees had already existed for a long time, mainly for employees in the public sector. Though the benefits of the peoples pension had been adjusted upwardly a number of times, also the blue-collar employees faced the prospects of income reduction after retirement. In connection with the collective agreements in 1961, the social partners agreed to settle a commission to investigate a supplementary pension schemes on top of the peoples pension could possibly be made. In 1963 the ATP was introduced as part of the so-
called ‘Overall Solution’ (*Helhedsloesningen*), a political initiative taken in relation to the collective bargaining round, and the scheme came into force in 1964 (Due & Madsen 2003; Green-Pedersen & Lindblom forthcoming).

The intention of introducing an income related element was pursued by making contributions as well as benefits to be based on number of hours worked, not earnings. In this way, the scheme actually did not have any re-distributive effect. The scheme was a combination of a funded scheme and a PAYGO scheme, though as the years went by the funded element has become more prevalent.

In 2002 Supplementary pension (*arbejdsmarkedets tiltagspension, ATP*) amounted to: DKK 21,024 (Euro 2,826) per year.

Both benefits and contributions of the *ATP* scheme were and still is quite modest, and the social partners never regarded the *ATP* as any more than a temporary solution that would need further development to fulfil its goal as an occupational supplementary pension. However, this was and has never been the case, and as the following part will show, the settlement of the Danish pension system was also far from solved with the *ATP*.

### 3. The Occupational Supplementary Pensions

Though other Scandinavian countries such as Sweden and Norway managed to settle their pension systems with income related elements during the 1960s, the Danes had to wait another 20 years to complete their pension package. In the meanwhile, the number of occupational pensions for higher level groups of white-collar employees had expanded from just around 10 in 1960 to 22 in 1980, covering about one third of the employed (Due & Madsen 2003; LO 1985).
In this way, a ‘dual pensions system’ in which the majority of the wage earners were left with the peoples pension and the ATP, whereas a minority had funded occupational pension supplements on top of the peoples pension and the ATP, had occurred. Together with a number of other factors this was part of paving the way for the establishment of occupational pensions for the remaining parts of the labour market.

Up through the 1970s economic democracy had been on top of the agenda in the labour movement and in the Social Democratic Party and especially in the peak organisation, the LO. Several attempts were made to introduce economic democracy by law, but even in periods where the Social Democrats were in power no political solution could be found, and economic democracy never became reality in its original form. In the beginning of the 1980s, for some of the members of the labour movement occupational pensions became a new opportunity for realising the ideals behind economic democracy if they were created as one big central fund, controlled by the labour movement. Unsurprisingly, the employers and the government did not support this approach, and one of the reasons why it took years to establish the occupational pensions was that the employers – and the government as well – regarded the models suggested by the labour movements as ‘economic democracy through the back door’ (Due & Madsen 2003; Green-Pedersen & Lindblom forthcoming)

For instance, in 1985 a committee settled by the LO, The LO’s pension reform committee, who was supposed to make recommendations for a reform of the existing pension system, concluded that a three tier pension system where adjusted versions of the peoples pension and the ATP should make the foundation and central fund based occupational pensions the supplement would be the way to do it. Occupational pensions was a new element in Danish pension policy and the committee further concluded that an extension of the PAYGO financed peoples pension did not constitute a realistic solution to the problem of occupational pensions. In 1986, the LO proposal with a few changes was
endorsed by the Social Democrats, who suggested a pension scheme introduced by law covering all wage earners who did not already have occupational pension savings in one of the existing schemes (Due & Madsen 2003; Green-Pedersen & Lindblom forthcoming).

The bourgeois government was clearly interested in having occupational pension not least because of the beneficial macro economic consequences such arrangements would have. However, it could neither support the central fund nor the introduction by law. The government wanted occupational pensions to be part of the collective agreements as this would ensure that part of the expected wage-increase would be given in the form of pension savings, thereby impeding the immediate consumption and, furthermore, if the occupational pensions would be imposed by law they would be regarded as tax increases which would make it very hard to persuade the wage-earners not to claim further wage increases in return for pension savings (Green-Pedersen & Lindblom forthcoming).

In 1987, the government and the social partners signed the so-called Common Announcement (Fælleserklæringen). The announcement was intended to be a long-range structural initiative, which should solve the severe macro economic problems by a wage restraining policy that also via the occupational pensions should increase savings. First of all, the announcement stated that the government and the social partners agreed and recognised the importance of that the development of costs in Denmark should not exceed the development in other countries, and that one way to enlarge private savings would be by extending the occupational pension schemes to those groups who did not have any supplementary pensions to the peoples pension and the ATP (Due & Madsen 2003: 137).

In addition to this, the Common Announcement stated at least two other important elements that we will deal with here: the establishment of a tripartite commission that by autumn 1988 should have investigated different models of occupational pensions. However, what may seem even more important
today the announcement also stated that the government would be willing to introduce legislation that would be necessary. What exactly should be understood by this statement is not clear. Some of the representatives in the LO did interpret it as follow-up legislation in relation to the pension schemes so that those with unstable or interrupted attachment to the labour market also would be covered, whereas the vague formulation on legislation in the announcement might be a rather good illustration of the position of the government: no clear position due to internal disagreements. Nevertheless, a follow-up legislation to cover people outside or at the periphery of the labour market was not and has never been introduced.

The tripartite commission, the Occupational Pension Reform Commission, that apart from representatives from the social partners also included civil servants from a number of relevant ministries and was headed by the permanent under-secretary (departementschef) of the Ministry of Labour, was settled in February 1988. The commission investigated the technical aspects of four different models of occupational pensions: 1) the individual model, 2) the firm based model, 3) the decentral model, and 4) the central model, but none of these were recommended as the way to do it, partly due to disagreements between the social partners, and partly due to internal disagreements within the bourgeois government.

However, according to Due & Madsen (2003), the investigations and discussions in the commission nevertheless clarified the realistic solutions for the participants involved in the work. At the beginning, the employers were stiff on the individual model whereas the LO – as we have touched on earlier – were very keen on the central model, but as the work in the commission proceeded it became clear to both parts that none of these ‘extreme’ models could become reality. The commission finished the work just before Christmas 1988 and the realisation of introducing occupational pensions was left to a political tripartite forum (Due & Madsen 2003: 155-165).
As we have indicated earlier, also the bourgeois government suffered from disagreements between the two major parties, the Liberals and the Conservatives, and this was one of reasons why the position of the government with regard to labour market pensions was not clear. The Liberals were strongly in favour of individual schemes, whereas the Conservatives had a more relaxed attitude towards the pensions and at least some of the ministers were willing to introduce follow-up legislation. One illustration of the internal disagreements in the government was the Conservative prime minister Schlüter’s New Years speech in 1989. In this speech he proposed - without mentioning the newly written report of the Occupational Pension Reform Commission with a word - that one way to strengthen the Danish competitive position would be by at the same time reducing the wages and the taxes, thereby maintaining the purchasing power. This rather controversial statement, which clashes with the complex structure of the Danish wage bargaining system and the traditional autonomy of the social partners, and which very few - if any - representatives from the government and the social partners welcomed as a plausible solution, marked the new orientation of the government concerning the occupational pensions and the willingness to introduce follow-up legislation (Due & Madsen 2003).

The New Years speech made the LO feel less sure about the government’s initiatives with regard to the realisation of the labour market pensions, whereas the employers appreciated that the idea of introducing follow-up legislation seemed to have been abandoned by the government. However, later in 1989 the LO gained hope. During the round of central bargaining the government, represented by the Minister of Finance Palle Simonsen, reached an agreement with the trade unions for the public employees to extend the occupational pensions to cover the employees in the municipal sector, who previously had not been covered.
In this way, for the first time ever the central bargaining in the public sector sat the agenda for the private sector, though the relation normally go the other way around. The way for introducing occupational pensions via collective bargaining was paved and the powerful trade union, the Metal Worker’s Union, announced that it would demand a pension scheme in the round of collective bargaining in the private sector in 1991. The goal of getting occupational pensions for the remaining part of the private sector was then achieved - though as mentioned earlier, without follow-up legislation. The solution to the Danish pension problem became different occupational schemes for the different trade unions – a much more decentralised solution than the one initially put forward by the LO, and the fear of the employers of facing the ‘ghost of economic democracy through the back door’ was effectively dismantled.

4. Private Savings

The fourth pillar in the Danish pension system consists of private pension savings of which there exist two kinds: so-called capital pension (kapitalpension) and rate pension (ratepension). Both forms are treated preferentially by the tax authorities. Hence, payments are tax deductible when made, and moderately taxed when they are paid out again. The first kind gives the pensioner a one off lump sum at the beginning of retirement which will be taxed 40 per cent, while the other gives monthly payments which will be taxed according to future prevailing tax regulation as any other income.

Yearly payments into private pension savings accounts are estimated to DKK 81 billions in 2003. Because of the privileged tax treatment the Danish state is estimated to loose tax revenue equivalent to DKK 41 billion (Sorensen 2003: 2). Before the tax reform of 1998, called the Whitsuntide package (Pinsepakken), tax rebates were even more advantageous. At the same time the Voluntary Early Retirement Pension Scheme (Efterlon) was made less attractive, meaning that in order to receive a reasonable coverage one would have to wait till 62 before retiring.
In a survey the association of financial institutions \((\text{Finansrådet})\) asked a representative sample of Danes under 65 years of age whether the reforms have affected their interest for pension savings. 44 per cent replied that they had not changed savings behaviour, only four per cent answered that the reforms have encouraged them to save more, while 29 per cent felt that the reforms had reduced their inclination for saving. Among a number of reasons for being less interested in saving about one in five said that it was because of increased taxation; 18 per cent said that it was because they did not trust politicians and another 18 per cent said it was because ‘the state takes the money anyway’. Nielsen (1998: 5) estimated that in 1995 only 10-12 per cent of the current pensioners actually had private pension savings, while in 2015 he expected 25-35 percent of pensioners to have private savings. The survey mentioned above found that only 18 per cent did not have any ‘pension plan’ \((\text{pensionsordning})\). This has probably been interpreted as having neither an occupational pension nor private pension savings, but it does indicate that in the future most Danes will involve the third and fourth tiers in financing their retirement.

Most political parties and interest organisations maintain the four pillar system as the structure for future pensions in Denmark. However, some radical movements advocate differently. Hence, the youth wing of the liberal party \(\text{(Venstres Ungdom 2001)}\) recommends that the first tier, i.e. the Peoples Pension, will be phased out over a 30 year period, so that people currently 35 and younger will not benefit from it. So far, they are alone with the standpoint of abolishing the peoples pension, but the other suggestion they have regarding the future of pensions is the abolishing of the Voluntary Early retirement Pensions Scheme and that is supported by many observers, especially by ‘independent’ economists. We shall return to this while discussing the future at the end of this paper.

In addition to the four pillars presented above a fifth, but very small, pillar actually exists. This fifth pillar, the Special Pension Saving \((\text{SP})\), is often grouped together with the \(\text{ATP}\) (as it is also regarded as
a tax) and is a compulsory pension saving of 1 percent contributions of the earnings of wage earners, self employed and some groups of social benefit claimants. The $SP$ was introduced in 1997 by the then Social Democratic government and the intention was to benefit the low-paid groups by making similar benefits for all contributors (Albret 2002).

In that way, the $SP$ - in contrast to the $ATP$ – but in line with the peoples pension contained a re-distributive element. However, in the spring of 2002 the newly elected bourgeois government transformed the tax financed pension supplement to an individual compulsory pension with earmarked contributions and benefits. That is, the re-distributive element of the $SP$ has now been rejected, which according to Albret (2002) means that the one million richest Danes gain a higher annual pension saving whereas the 1.6 million poor loose on their pension savings. Consequently, the $SP$ has been transformed from a PAYGO model to an individual, funded scheme. Summing up, the four-pillar Danish pension system is a top-up system, where the four pillars work as cumulative elements. The figure below summarises the main characteristics of the different elements.

**Characteristics of the four pillars**

<table>
<thead>
<tr>
<th></th>
<th>Peoples Pension</th>
<th>ATP Pensions</th>
<th>Occupational Pensions</th>
<th>Private Pensions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal basis</td>
<td>Legislation</td>
<td>Legislation</td>
<td>Collective agreements</td>
<td>Private contract</td>
</tr>
<tr>
<td>Financing</td>
<td>General taxes</td>
<td>Flat-rate contributions</td>
<td>Earnings-related contributions</td>
<td>Flexible Contributions</td>
</tr>
<tr>
<td>Accrual of Rights</td>
<td>Years of residence</td>
<td>Number of contributions</td>
<td>Number &amp; size of contributions</td>
<td>Number &amp; size of contributions</td>
</tr>
<tr>
<td>Benefits</td>
<td>Flat-rate + income tested supplements</td>
<td>Based on reserves reflecting working hours &amp; duration of work life</td>
<td>Based on reserves reflecting earnings and employment</td>
<td>Based on reserves reflecting contributions</td>
</tr>
</tbody>
</table>

Source: Nielsen 1998
The constitution of the Danish pension system means that in relative terms the low-paid gain the most from the peoples pension due to means testing and as different income groups get similar ATP benefits, the share of the ATP benefit of the total pension is higher for the low paid. In contrast to this, the occupational pensions and the private pension savings in general are of most importance to the well-paid groups (Nielsen 1998).

In the following part we will turn to whether the introduction of the occupational pensions has caused a qualitative shift in the Danish pension system.

**Path Dependency or a Path Breaking Tendency?**

We have earlier stated that the recent reforms of the Danish pension system have caused a shift from a purely public to a partly private pension system. This indicates a shift from a PAYGO financed system to a partly funded system where each generation saves money to pay for its own future pensions. According to the path dependency framework developed by Myles & Pierson (2001) such shifts are not easily undertaken. When moving from a PAYGO financed systems to a funded system a politically difficult situation of *double-payment* occurs, as the working generation has to pay for contemporary pensioners via the taxes and furthermore has to make savings for their own funded pensions. Due to this, countries that years ago chose a PAYGO pension systems have entered a route of path dependency and cannot shift to a funded model (Green-Pedersen & Lindblom forthcoming).

According to Green-Pedersen (forthcoming), not even a Social Democratic Government (instead of the bourgeois government) could have expanded the PAYGO logic to supplementary pensions, as this in reality - due to severe macro economic problems - was not an option. Supplementary pensions following the PAYGO logic would have caused too high tax increases that neither economically nor
politically would have made the solution. This were the conclusions of as well the report of the LO made in 1986 and the Occupational Pension Reform Commission in 1988, and as we have touched on earlier, the LO’s proposal was actually later endorsed by the Social Democrats.

Furthermore, as illustrated above, the reluctance in the 1960s and 1970s to introduce an income related element in the pension package gave the well-paid groups of employees an incentive to establish occupational pension schemes and these could not be abandoned in order to secure a PAYGO financed model. Once significant groups in society have established funded schemes, a PAYGO solution becomes politically very difficult to introduce even for the rest of society, as inducing people who have already saved for their own pension to pay taxes or social contributions to a scheme offering earnings-related benefits at a high level to people who have not saved for their pensions seems politically very dangerous (Green-Pedersen & Lindblom forthcoming).

In this quite strange way, the Danes ended up in a situation where the PAYGO path with regard to income related pension supplements suddenly ended at a crossroad, forcing the supplementary pensions to become either occupational or totally individual (private savings). In that sense, neither path dependency nor a path breaking tendency seem to have much explaining power: the new road points in the direction of path breaking tendency, but on the other hand not much of a choice was offered since expanding the PAYGO logic to supplementary pensions or simply increasing the rates of the peoples pension did not make a realistic option.

Nevertheless, if the fact that increasing numbers of occupational pensions were established for certain well-paid groups of employees from the 1960s and onwards is regarded as a path in itself (see for instance Green-Pedersen & Lindblom forthcoming), then the development in the end of the 1990s can be regarded as path dependency, as the majority followed the path pointed to by the minority: the
occupational pensions. However, this somehow blurs the meaning of path dependency, since several paths pointing in different directions then can exist at the same time. As pointed out earlier, in the middle of the 1980s two thirds of the employees were left with the peoples pension and the ATP – both of them being (primarily) PAYGO financed elements. That is, the main characteristic of the Danish pension system then was the peoples pension, not the occupational pensions, and from our point of view, the introduction of the labour market pensions represents a shift of paths, though the initial step in this direction was taken many years ahead of the reform.

Future challenges

Though from a general perspective - when comparing the Danish pension system with other European systems - the Danish case seems to be quite well equipped to meet the future challenge of an increased demographic burden, some elements of the system still concerns politicians. The most remarkable one of these is the voluntary early retirement scheme, the ‘efterlan’. The voluntary early retirement scheme was introduced in 1979 and was targeted at workers with health problems needing an early exit from the labour market. However, the scheme quickly gained popularity – not least among other groups than the one it initially was targeted at.

Today, the early retirement scheme is one of the very hot topics in the welfare debate in Denmark, and also one of the most expensive schemes, since it apart of the benefits paid in fact lowers the retirement age of workers: the official age of retirement is age 65 (since 2004), but in reality the average age of retirement is around 61. The issue is that in fact the scheme allows all/most employees (and self-employed?) to take retirement at age 60 instead of at age 65 which is the official retirement age in Denmark. Given that Danes having reached the age of 60 can expect to live to 79 and 82 for men and women respectively (Statistics Denmark 2003) 60 or 61 seems a very early (read: expensive) retirement age. The conflict is, thus between the large majority of the people, and, of course an overwhelming
majority of people 50 and older on the one hand side who consider the scheme a social right, and, on the other hand government officials, independent experts and the like who point to the difficulties of sustaining the scheme financially.

However, reforming the voluntary early retirement pension scheme has become a sort of ‘political trauma’ as the most reason attempt in 1998 made by the then Social Democratic government turned out to have severe political consequences for the involved politicians, who were punished for it in the 2001 general election, and the current bourgeois government shows little interest in reforming the scheme though especially economic experts are much in favour of it (Due & Madsen 2003: 411). In line with the solution of the ‘pension bomb’, one could argue that one possible way to solve the problem of the voluntary early retirement scheme would be to leave it to the social partners and the collective agreements.

Conclusion
In this paper we have briefly outlined the general features and reforms of the Danish pension system. The order of the four pillars in the pension system, the peoples pension, the ATP, the occupational supplementary pensions, and private savings can be regarded as an indication of their relative importance for today’s pensioners, who top-up their pensions according to how long they have lived in Denmark, their labour market affiliation, their previous earnings, and their private savings.

However, the most recent major reform – the introduction of occupational pensions to the remaining two-thirds of the labour market in the beginning of the 1990s – indicates a qualitative shift towards a more privatised pension system with greater emphasis on especially the third tier. In addition to this, the move from a purely public to a partly private system needs elaboration; a more proper formulation
may be from a purely public to a predominantly private pension system. Following the new path, a privatisation of the Voluntary Early Retirement Scheme may occur in the years to come.

References


The Economics of Pension Reform in Europe

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Pension Reform in Europe: Shared Problems, Sharing Solutions?
London School of Economics, 5 December 2003
The Economics of Pension Reform in Europe

1 The backdrop
2 The simple economics of pensions
3 What policies for Europe?
4 Conclusion


1 The backdrop

- The good news – longer lives
- The purposes of pensions
  - Poverty relief
  - Insurance
  - Consumption smoothing

2 The simple economics of pensions

2.1 The centrality of output

2.2 The real policy choices

Methods of organising pensions

- Store current production
- Build a claim to future production

Funded and PAYG schemes

- Both are simply methods for organising claims on future production
Is funding the solution? A myth to beware

Static output: effects of demographic change on funded pensions

- Money accumulation: desired pensioner consumption exceeds desired saving by workers. Excess demand in the goods market causes price inflation, reducing the purchasing power of annuities.
- Financial asset accumulation: desired asset sales by pensioners exceeds desired purchases of assets by workers. Excess supply in the assets market reduces asset prices, reducing pension accumulations and hence the value of the resulting annuity.

Growing output: effects of demographic change on funded pensions

- Money accumulation: a decline in the savings rate increases aggregate demand. But if supply has increased in parallel, there is no effect on prices. Thus period 2 pensioners get the real pension they expect.
- Asset accumulation: wages generally keep pace with output. If workers' pension target is (say) 50% of their earnings, rising wages imply rising demand for assets, hence no effect on asset prices. Again, period 2 pensioners get the real pension they expect.

2.2 The real policy choices

- Increasing the productivity of each worker, through:
  (1) more and better capital equipment
  (2) better labour
- Increasing the number of workers from each age cohort:
  (3) increased labour force participation
  (4) increased age of retirement
  (5) import labour directly (immigration)
  (6) import labour indirectly (export capital)

Conclusions from economic theory

- The central variable is output
- There is a large range of policies to increase output
- Demographic change creates problems but, from an economic perspective, not insoluble ones
- The debate over PAYG and funding concentrates on a very narrow part of the pensions picture

3 What policies for Europe?

- Increase output and/or
- Reduce the living standards of workers and/or
- Reduce the living standards of pensioners and/or
- Reduce the number of pensioners
The Lisbon strategy

• Address social exclusion substantially via employment
• Advantages
  • European living standards
  • Social inclusion
  • Pension finance

Policy directions

• A move towards funded pensions has various reasons, but is largely irrelevant in terms of demographics
• An increase in pensionable age
  • The only real solution
  • Also a desirable one in economic and social policy terms
  • But what about the politics of raising pensionable age?

A specific pension strategy: five elements

• An adequate pension
• A minimum pensionable age that rises in a rational and transparent way as life expectancy increases
• A flexible labour market such that can move from full-time work to retirement along a phased path of one’s choosing
• A pension system which follows workers throughout the EU
• Public understanding of pension economics

4 Conclusion

Messages for policy designers

• Message for macro types: don't forget microeconomics and institutional capacity
• Message for micro types: don't forget macroeconomic realities
• Message for Department of Social Security types: don't forget the view from Ministry of Finance
• Message for Ministry of Finance types: don't forget the view from the Department of Social Security

An upbeat conclusion

‘The ageing problem’ – a horrendous concept

Crisis? What crisis?
The Politics of Pension Reform:  
*a brief introduction*  

Kevin Featherstone  
LSE
Why Pension Reform?

*Shared* Problems

- **Fiscal pressures:** *Demographic* and *social changes* and *escalating costs* of provision
- Resistance to *higher taxes, labour costs.*
- Concern for *budget discipline:* global competitiveness; EMU
- **Equity of provision:** tackling social exclusion, protecting future generations.
- Improving *efficiency, effectiveness.*
Increasing academic interest

• Social Policy: adaptation of models
• Economics of Welfare Provision; PAYG sustainability, capital markets and private pension schemes
No. of articles: WoS
Problems in comparing

• *Differences in pension systems* create distinct (path-dependent, incremental) agendas:
  – Bismarckian social insurance schemes: Germany, Italy, France.

• *Distinct financing constraints*: e.g. PAYG have greater demographic and political risks; ‘funded’ have capital market risks (Boersch-Supan & Miegel, 2001).
• **Policy makes process**: distinct policy models, distinct constituencies & power distribution (Pierson 1998) affects scope for reform.

• **States at different stages of reform**: e.g.
  - Scandinavian: implemented recent reforms
  - UK & Netherlands: decreasing public pillar

• **Gauging different magnitudes of reform**:
  - small system shifts may have big long-term impacts (Hinrichs & Kangas, 2003).
Linked agendas


- ‘Pensions’ cannot be seen in isolation: tripartite concertation covers welfare; jobs; tax; education; wages. Not a simple political exchange.

Supranational intervention & transnational learning

• *Increased EU activism via (very) soft process of coordination:* from Lisbon 2000 to Brussels 2003.
• OMC, Social Protection Committee, EPC.
• *Distinctive impact?* learning, framing, discourse.
• *Weak external lever,* domestic constraint.
• So, EU states who *need* empowerment from EU get too little (e.g. latecomers - Greece, Portugal)
• Others do *not need* it & resist stronger EU role (e.g. Scandinavia, UK) (de la Porte/Pochet).
The Political Issues: 1

• *Why* Pension Reform?
  • More research needed on patterns of policy discourse & stimuli. Gauge multiple agendas.
  • Shifting actor interests?

• *Who drives reform?* Domestic-EU linkage; domestic veto-points & state actor capabilities, autonomy; policy styles; role of expertise: policy entrepreneurs, advocacy coalitions.
The Political Issues: 2

• *How?* Bargaining – scope for agreement:


  • *Constraints relaxed* by wider agendas, new mix of instruments; positive-sum (Natali & Rhodes).

  • *Actor strategies*: blame avoidance (Pierson); external empowerment (Featherstone); credit claiming (Natali & Rhodes).
The Political Issues: 3

• *What is reform content?* Adaptations of models, innovations, benchmarks.
  – *Sharing solutions?*
    • Evidence of policy learning; transfer.
    • Mechanisms of learning, transfer – role of EU networks, OMC.
    • The ability of the EU to adjust its social models (Ferrera, Hemerijck, Rhodes/ Esping Andersen): a distinctive ‘European way’?
The European Union and Pension Reform: Eurozone Membership and the Open Method of Co-ordination

Conference organised by the LSE Hellenic Observatory

London, 5 December 2003

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G. Glynos

European Commission
Head of the Cabinet of Commissioner Anna Diamantopoulou
Responsibilities of the EU and the Member States

- Member States remain responsible for their social protection systems
- The EU ensures the smooth functioning of the Internal Market (free movement of people, freedom to invest, to provide services)
- … and the respect of certain fundamental rights: anti-discrimination rules (women and men, age…)
- EU surveillance of public finances for a sound Euro
  - Maastricht criteria for joining Monetary Union
  - Growth and Stability Pact for maintaining sound public finances within the Eurozone
The demographic challenge

Ageing and Pensions Expenditure 2000-2050

- Public pensions expenditure as % of GDP
- Old-age dependency ratio (65+/15-64)

Expenditure in 2000
Expenditure in 2050
Dependency in 2000
Dependency in 2050

Countries: B, DK, GR, E, IRL, I, L, NL, A, P, FIN, S, UK, EU15
The Open Method of Co-ordination: What Does it Mean?

• Applies to policy areas which remain a primary responsibility of the Member States, but are of concern to the EU as a whole
• Defined by the Lisbon European Council (March 2000)
• EU agrees on common objectives (Laeken European Council, December 2001)
• Member States submit national strategy reports or national action plans (September 2002)
• Commission examines national reports and drafts a joint report to be adopted by both the Commission and the Council (March 2003)
• Progress towards common objectives is assessed using commonly agreed indicators
Common objectives on pensions

Adequacy
(meeting the social objectives)

Financial Sustainability
(making sure that we can afford it)

Modernisation
(adapting to changing needs)
Common objectives (I)

Adequate Pensions

• Ensure a decent living standard, a share in the economic well-being of one’s country and the ability to participate in public, social and cultural life
• Provide access to appropriate pension arrangements necessary to maintain one’s living standard
• Promote solidarity between and within generations
Common objectives (II)

Financial Sustainability

Employment

- Achieve a high level of employment
- Offer effective incentives for labour market participation of older workers

Sound Public Finances

- Ensure sustainability of public finances

Pension Reforms

- Strike a fair balance between the active and the retired
- Ensure the financial sustainability of private pension schemes
Common objectives (III)

Modernisation of pension systems

- Ensure compatibility with labour market flexibility and mobility
- Abolish gender discrimination
- Increase transparency and predictability of pension systems and their capacity to adapt to changing circumstances
Achieving Progress: Indicators and Targets

- Disposable income of older people (65+) around 90% of that of people under 65
- Poverty risks only slightly higher for people over 65
- … but rising with age (older women more at risk of poverty)
- Employment targets for 2010 are important for financial sustainability: 70% overall employment rate, 60% for women, 50% for older workers (55-64); average labour market exit age to rise by 5 years.
- Powerful financial impact of employment on pensions - depending on accrual of additional rights
Next Steps

- European Council of March 2003 welcomed the Joint Report and asked for this cooperation to be continued.
- New assessment of national strategies in 2006, covering also acceding countries.
- Special studies requested by European Council:
  - incentives to work longer
  - current and prospective replacement ratios
  - later: regulation of private pension schemes; defined-contributions vs. defined-benefits; gender impact of pension systems
- New expenditure projections for mid-2005
- National Strategy Reports by mid-2005
Further information

All information about the European Union:

http://europa.eu.int

The Joint Pension Report and the National Strategy Reports:


Reports by the Economic Policy Committee on the budgetary implications of ageing:

http://europa.eu.int/comm/economy_finance/epc/epc_ageing_en.htm
The Politics of Pension Reform in Germany

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1. **Introduction**

After a series of changes enacted between 1989 and 2001, at the end of 2003, the Red-Green government in Germany got involved in another enterprise of reforming pensions. Apart from closing a short-term deficit of the public pension scheme, the main rationale for the latest reform initiative is again demographic aging. It results from both below-replacement fertility and ever greater life expectancy and concerns those welfare programs disproportionately utilized by the elderly, as are health and long-term care services, but most heavily affected are old-age pension schemes. The combination of an ever more elderly-biased age structure and a shrinking population of what presently is defined as employable age pose severe problems for a welfare state which, in its expenditure orientation, is elderly-biased anyway, not the least since public pensions regularly represent the largest single item of total social spending.

Germany is among the Western countries where fertility has been very low since about the mid-1960s. This will — according to the median variant of the latest official projections — lead to a shrinking population size: from presently 82 million to 75 million in 2050 (see Table 1). Due to increasing longevity, a smaller population size goes along with a rising share of elderly. The percentage of elders (60+) already exceeds that of the young generation (<20) since the 1990s, and more than one third of the population will be 60 years of age and older in 2030 and thereafter.

If one starts from a continued actual retirement age of about 60 years, it is obvious that compelling an ever smaller working age population\(^1\) to finance pension benefits for a growing percentage of the population for an ever longer period of their lives constitutes a serious political challenge. It will hardly be eased by a declining share of young people who are also dependent on income support as long as they are still children or involved in education. Table 1 shows the interesting fact that, in case the projected figures come true, the total dependency ratio in 2050 will be almost the same as it was at the beginning of the 20th century when Germany was incomparably less wealthy. For one thing, many more youngsters below age 20 were actually in the labor force then and, almost regularly, older employees continued working until death or disability since public pensions were low and explicitly meant to supplement other resources. More important is, however, that spending on the young generation is mainly private, i.e. by sharing the family's resources. Compared to the elderly, per capita public spending on the young is substantially less although, in

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\(^1\) Whatever extreme assumptions about an increased participation rate of women and higher net migration are made, the potential labor force in Germany will definitely start to decline after 2010. According to the most realistic scenario between 2010 and 2040 it is going to decrease from 40.5 to 29.9 million persons what is about 25 per cent (Fuchs and Thon 1999).
cross-country comparison, the shares vary (Lynch 2001; Esping-Andersen and Sarasa 2002).

***Table 1 about here***

Hence, population aging remains a challenge for matured welfare states, adding to other strains they are facing: lower growth rates as post-industrialism progresses, structural changes in the labor market (decline of the "standard employment relationship"), more diversity in private (family) households and, finally, globalization. Paul Pierson (2001) has questioned whether globalization indeed represents an autonomous cause of pressure on welfare states and a major threat to their central features. Notwithstanding the validity of this argument, globalization reinforces the pressure on political actors in the welfare state to tackle the aging problem through pension reforms, and it becomes effective in the reform discourse in at least in threefold manner.

First, besides a rapidly growing volume, intensity and speed of cross-border transactions regarding goods, (financial) services and capital investments, globalization means that information flows almost without a time difference. Epistemic communities are part of an increasingly transnational exchange of information. Their role in the political discourse on potential responses to demographic aging and the future of (public) pensions has increased, and it is further fuelled by interference of supranational organizations (like the World Bank, the International Monetary Fund or the OECD). This is so because the interest in "successful" or "innovative" pension reforms abroad and to adopt seemingly "best practices" has grown. The Open Method of Coordination, applied by the European Commission in the area of old-age pensions, is another attempt to put that interest into practice when national pension systems and reform strategies in EU member states become exposed to some kind of competition.

Second, recent pension reforms in developed nations regularly imply a larger role of (mostly private) funded schemes and thus, for the time being, more savings have to be invested most profitably. In view of largely liberalized (deregulated) financial markets, pension funds and other institutional investors have become global actors when they operate worldwide and on a still growing scale. These multinational corporations and/or corresponding interest associations are attempting to gain a stake in national discourses on pension reform and to influence the direction of the reform process with regard to state regulation of their activities and the potential volume of their business.

The third relationship between globalization and population aging viz. pension reform is particularly relevant for Germany as the "social insurance state" par excellence: in no other OECD country, contributions to social insurance schemes make up such a large share of GDP as in Germany, namely, 18.6 per cent in 2001 which is about 43 per cent of total public
revenues (Bach et al. 2002, p. 662; see also below, Table 2, col. 2). High proportional taxes on employing labor (up to an earnings ceiling) are presumed to have two effects: (a) Particularly jobs yielding low productivity are endangered to be substituted for by capital, and in the labor-intensive service sector the creation of corresponding jobs is impeded. That problem will aggravate when, due to population aging, contribution rates to the public pension scheme as well as to statutory sickness funds and long-term care insurance have to be raised. Fewer jobs for low-skilled workers would shrink the contributory base, increase outlays (unemployment benefits) and, thus propel a vicious cycle. (b) Since social insurance contributions are partly shifted forward into labor costs, a country like Germany is prone to lose out on "locational competition", i.e. to be no place of profitable investment and production anymore. In a globalized economy high total wage costs may not only scare off investors of capital, but also employees due to the tax wedge: it could cause a "brain drain" of domestic workers with a high earnings potential and, vice versa, make Germany a comparatively less attractive place for potential immigrants. The influx of preferably young and well-educated migrants is a most important option to moderate the effects of demographic aging. Framing the aging issue in the globalization context thus urgently calls for pension reforms containing the combined contribution rate to the social insurance schemes as a "no alternative" policy.

A major obstacle to cope with this seemingly irrefutable demand is that of all welfare state programs a pension scheme organized as a social insurance turns out to be the one most resistant to change. According to Titmuss (1976, p. 60), 'contributory "rights" and privileges, spanning perhaps fifty years, become sacrosanct'. This is so because entitlements are "earned" through prior contributions and are regarded as "quasi-property rights". Moreover, the opportunities of workers to adjust to policy changes decline to zero as they approach retirement age. The metaphor of the "generational compact" is thus a conceptual arrangement meant to bridge the temporal cleavage between the stages of a complete adult life, ranging from first covered employment to the last pension benefit paid. Maintaining confidence in the scheme's continuity and stability is thus an essential requirement. Additionally, the "generational compact" signifies a self-reproducing cooperative solution for income redistribution: based upon serial reciprocity it ties together the elderly, being interested in fair as well as sufficient pensions, and contributing members of the working age generation who want to see their parents and, after all, themselves well provided with public pensions. Therefore, these schemes regularly enjoy high esteem and support among citizens of all ages, adding up to a broad constituency. Living up to current and future beneficiaries' expectations of reliable income security nonetheless poses a difficult challenge for public policy. In order to overcome inertia as an institutional feature of pension schemes, reform considerations of policy-makers in this area of social policy are typically shaped by a very long time frame,
stretching well beyond one parliamentary period. It entails a specific pension politics, among others, regularly resulting in attempts to spread the consequences of adjustments into the future in Generous phasing-in or phasing-out clauses avoid immediate hardships, but timely responses to imminent problems are essential.

Germany started early to meet the challenge of an aging population and passed the Pension Reform Act 1992 (hereafter: PRA92) in 1989. After enacting the PRA92 the assessment prevailed among all relevant political actors that no substantial legislative change had to be considered much before the year 2010. Actually, already when the PRA92 was going into effect a changed interpretation of the scheme's financial viability in the short and long run began to spread. It became the starting point of further so called "structural" reforms which, however, remained within the realm of parametric changes, but led the way to a paradigmatic shift in 2001. The reform process until the 2001 legislation is dealt with in section 2. which, in order to show the subsequent paradigm shift more clearly, begins with a short review of the pension reform of 1957. Section 3. describes the emergence and elements of an old-age security system that, with regard to goals, principles, actor constellations and possibilities for further development, substantially differs from the traditional one-pillar approach. Thereafter it is analyzed how such a path-departing turn towards a multi-pillar pension system came about, and special attention is given to policy-makers' strategies vis-à-vis the perceptions of policy-takers since issues like institutional trust (reliable income security) and the legitimacy of the pension system were most important. Besides looking into the political and socioeconomic constellations — or: the changing politics — facilitating or even demanding a break in continuity, in section 4. the most recent reform attempts are described and evaluated as well. Starting from the German case, the concluding section discusses the "frozen" welfare state landscape' argument (Esping-Andersen 1996, p. 24).


2.1. The starting-point

Until 1957, central traits of the German public pension scheme\(^2\) which are assumed to be

\(^2\) Nowadays, the "public pension scheme" compulsorily covers all white-collar and blue-collar workers above a certain earnings threshold and, additionally, the artisans (other self-employed may join voluntarily). Civil servants (nearly 6 per cent of all employed persons) are provided for through a uniform, tax-financed program without own contributions. Farmers are included in a special scheme, and the professionals (doctors, lawyers etc.) have to join non-public pension funds.
generically "Bismarckian" — particularly the equivalence principle and status maintenance — were merely embrionic. Although benefits were linked to preceding contribution payments right from the beginning, elements of basic security, representing remnants of Bismarck's original plan of a tax-financed flat-rate pension, still played a role after World War II. Nevertheless, benefits emanating from this static scheme were low and, conceptually being part of a "multi-pillar approach" (as would be today's terminology), meant to simply contribute to other sources securing livelihood in old age, like private provision, family support, (reduced) earnings from continued work or (selective) occupational pensions. Despite an incremental expansion of the scheme since 1889 and several ad hoc benefit increases after 1951, in 1956 the average pension amounted to no more than 25 per cent of net earnings for blue-collar workers so that, for almost all low-skilled, "being old" was synonymous with "being poor". White-collar workers who attained an average replacement ratio of about 40 per cent were somewhat better off (Alber 1989, p. 183; Döring 2000).

*** Table 2 about here ***

The pension reform of 1957 had an immediate impact on the economic well-being of current retirees when the benefit formula and the post-retirement adjustment of benefits were made dynamic (Hinrichs 1998): taking into account individual, lifetime earnings in relation to average earnings of all insured (thereby granting credits for military service, spells of unemployment and education) when calculating the pension amount and annually upgrading it according to gross wage growth made the retirees participating in economic progress. The benefit increase of almost 70 per cent in spring of 1957 transformed public pensions as a floor of retirement income into an actual wage replacement that went up to a higher ratio subsequently (see Table 2, col. 4). Although basic security elements were abolished completely, the number and rate of elderly people being dependent on (additional) social assistance payments declined.\(^3\)

Providing (future) pensioners a stake in the "economic miracle" substantially contributed to the support for the new economic order ("social market economy"). At the same time, the reform helped to further consolidate the legitimacy of the restored democratic order.

\(^3\) The reduction of old-age poverty was enhanced as a result of the expansionary 1972 reform: a revaluation of covered earnings below 75 per cent of average favored low-paid workers with long employment careers (and their surviving widows). Internal redistribution was further enlarged when a flexible retirement option (at age 63; for seriously handicapped persons at age 60) without permanent benefit deductions was created. Moreover, self-employed and other non-covered groups were offered the opportunity to enter the public scheme on extremely favorable terms by paying low retroactive contributions (Baldwin 1990, pp. 281-3).
system as it effectively demonstrated its ability to deliver "social security". Albeit the 1957 legislation established the pattern of consensual pension policy (lasting until the 1990s; see below) when it eventually passed parliament with the votes of both Christian Democrats and Social Democrats, competitive party politics was central: the Social Democrats came forward with a reform bill first and "pushed" the government to present a more generous proposal than it originally planned. However, only the incumbent Christian Democrats were given credit for this most popular post-war social policy reform when, for the first and only time, they attained an absolute majority in parliament after the federal elections in September 1957.

Assessments as to whether features of institutional continuity prevailed in the 1957 reform (Conrad 1998) or it factually meant a path shift (Döring 2000) differ. Supporting the latter position, Mätzke (2002) argues that a conversion had happened which manifested itself as a 'conservative innovation'. Within this combination conservative relates primarily to 'organizational form', i.e. preserving occupationally segregated schemes with still no universal coverage or the continuing role of social partners in the schemes' administration. Innovation mainly concerns 'institutional form' and refers to the goal shift that occurred on the benefit side of the scheme when this institution was assigned a new mission, namely to provide wage replacement according to the equivalence principle at a level that maintains pre-retirement living standards after a full occupational career and all through retirement. Hence, not earlier than 1957 the old-age income system attained its specific shape that is usually associated with Germany as the prototype of a conservative welfare state regime.

Moreover, the 1957 reform meant the "birth" of the one-pillar approach in Germany because a net replacement ratio hovering around 70 per cent even for employees with earnings up to about 1.7 to 1.9 times the average⁴ (see Table 2, col. 4 and 5) reduced the need to strive after further income for an extended and from now on virtually work-free period of life. Whereas elderly people's resource mix during the late 19th century and beyond most often signaled straitened circumstances, after 1957 a more varied public/private mix of retirement income, almost regularly, became an indicator of affluence: due to the relatively high level of public benefits, occupational pension coverage remained low. Like additional private provision for old age (financial assets or home equity) of some significance it was largely confined to the more prosperous parts of the work force. Despite much rhetoric about the "three-pillar model", due to the "crowding-out" effect of quite generous public pensions still about 80 per cent of total retirement income stems from unfunded public sources (when

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⁴ The "target" or "standard replacement ratio" is defined as net benefit level for a fictitious pensioner after spending 45 years in covered employment and constantly receiving an average wage as percentage of former net earnings. Due to the strict equivalence principle it would also apply to pensioners whose earnings had been always below or above the average, but progressive income tax factually implies a higher net wage replacement for former employees with above-average wages.
the civil servants' pensions are included – Deutscher Bundestag 2002, pp. 317-21).

2.2. Containing the future rise of the contribution rate: general and selective retrenchments

Increasing outlays and declining contribution revenues out of actual earnings beleaguered all social insurance schemes in Germany after the "sudden death" of full employment in 1974. In the public pension scheme, additionally burdened with the costly consequences of the expansion concluded in 1972 (see above, n. 3), this pressure implied a series of discretionary interventions into the indexing formula so that instead of steady gross wage adjustments a factual net wage development of pensions occurred after 1977. Moreover, the contribution rate was increased several times. Apart from "dutiful" protests of the respective opposition parties, these "first-order changes" (Hall 1993) were largely undisputed due to the 'grand coalition of path dependants' (Conrad 1998, p. 112) that had been established in 1957. It was a policy network with a shared belief system regarding the techniques and principles of social insurance, and it included the social policy experts of both Volksparteien (CDU/CSU and SPD), representatives of the social partners, the administrators of the public pension scheme as well as the academic advisers. Thanks to its interpretative hegemony that policy network was able to fend off attacks on the prevailing policy paradigm and to successfully push through reforms within the system as against system shifts (e.g. moving towards capital funding or a tax-financed basic pension scheme). Commitment to now consolidated institutional features meant a preference for technical solutions which, after a joint learning process, usually resulted in compromises acceptable for all actors involved.\footnote{It almost looks as if Peter Hall (1993, p. 291) has had in mind the German public pension scheme when he argued that '(policy) paradigms are most likely to be found in fields where policymaking involves some highly technical issues and a body of specialized knowledge pertaining to them (and) ... are likely to have greatest impact in institutional settings where policy is superintended by experts or by administrators with long tenures in office.'}

Therefore, the preparation of the PRA92 was a highly depoliticized and deparlamentarized course of events. There was almost no controversy on the implications of demographic aging and the need for timely action when, at that time, the equally non-acceptable alternatives either were to exempt retirees from any benefit cuts, and then gradually have to increase the contribution rate from about 18.7 to 36.4 percent by 2030, or to cut benefit levels by half while maintaining a stable contribution rate. The final reform bill was a compromise between the government parties (CDU/CSU and Liberal Party) and the
Social Democrats, and both social partners had agreed to it as well. The cumulative effect of the altogether incremental reform elements should reduce the increase of the expected contribution rate by almost 10 percentage points (Schmähl 1993; Sozialbeirat 1998, p. 242).

The difference to the pre-reform projections mainly stemmed from the three changes mentioned first in Figure 1, i.e. an increased and in future constant share of federal subsidies, introducing permanent deductions if pensions are claimed before age 65\(^6\), and the shift to net wage adjustment. The central idea of the new indexing formula was the 'fixed relative position' (Myles 2002, p. 141, referring to Musgrave), i.e. to ensure a stable target replacement ratio of 70 per cent and to make pensioners participating in demographically (or otherwise) induced alterations of social insurance contributions and income tax codes that would change employees' net wages.

**** Figure 1 about here ****

When the PRA92 that passed the legislative bodies in November 1989 became effective in 1992, the "unification boom" was almost over in West Germany and employment in East Germany was still in steep decline. As a result of the deteriorating labor market situation the number of elderly unemployed who claimed an early retirement pension (starting at age 60) nearly exploded. The concomitant rise in social spending and the increased contribution rates to the social insurance schemes can be read off from Table 2 (col. 2 and 5). This development contributed to another round of retrenchments of the public pension scheme being included in an omnibus bill enacted in 1996 (WBG – see Figure 1 for the main elements). The WBG enhanced the effects of the PRA92 when it accelerated the phasing-out of early retirement options without permanent benefit deductions and further reduced various non-contributory entitlements. The Social Democrats and the unions vehemently opposed these changes (and further elements of the omnibus bill, e.g. waiting days for sickness benefits). The passing of the WBG in parliament and the subsequent preparations for another major reform (PRA99) by the Christian-Liberal government marked the end of the traditional "pension consensus" between the two large parties (and also created less unanimity among the social partners) — although there was no principled dissent on all changes included in the reform bill enacted in 1997.

For example, higher federal subsidies, financed out of an increased VAT rate (already

\(^6\) At first glance, a permanent deduction of 3.6 per cent for each year of premature retirement seems not much of a disincentive for not working until age 65. However, no credits are earned for those years (or months) not spent in covered employment anymore which amount to a reduction of about 2 per cent per year. It is nevertheless contested whether the deduction is actuarial or not (Börsch-Supan and Schnabel 1999; Ohsmann et al. 2003; Salthammer 2003).
beginning in April 1998) and meant to cover non-contributory components of the benefit package more completely, were not contested as was a further improvement of child care credits (see below). However, the two most momentous reform elements of PRA99 were, at the same time, the most controversial ones: (a) In order to push through a higher actual retirement age, individual efforts to evade permanent benefit deductions by resorting to disability pensions were made unattractive, and access to them was rendered more difficult. (b) The core piece of the PRA99 was the "demographic factor" by which, beginning in 1999, the hidden expansion of the scheme due to decreasing mortality rates at higher ages should be halted when lower benefits were stretched over a prolonged period of retirement. Further life expectancy at age 65 was integrated into the formula that determines the initial benefit level as well as the annual adjustment. Rising longevity assumed, the "demographic factor" would gradually lower the net standard pension level from nearly 70 to 64 percent (but not below).

Contrary to the expectations that after implementing the PRA99 no further adjustments would be necessary until about 2010, the legislation of the WBG and PRA99 already in 1996 and 1997 and the end of the "pension consensus" between the CDU/CSU and the SPD accompanying their passage demonstrate a changed, but not yet universally shared interpretation of aging and globalization issues. When the PRA99 was read in the Bundestag, the spokeswomen of the Liberal Party, Gisela Babel, expressed the difference to the 1989 situation most clearly: 'At that time no discontent with a contribution rate to the pension scheme of 26 per cent or 28 per cent was discernible. That was flatly considered acceptable then. Today we do not consider it acceptable anymore' (Deutscher Bundestag 1997).

Including the effects of the PRA99 now a contribution rate of 23.5 per cent in 2030 was estimated. It was substantially lower than the 36.4 per cent that had been projected before the PRA92 became law (Sozialbeirat 1998, p. 242). Although the reforms enacted between 1989 and 1997 were clearly parametric, the moderation of the expected rise of the contribution rate by about 13 percentage points will inevitably leave grave "traces" in the future structure of benefits and the actual level of pensions — even if the lower figure is partly due to more funding out of general (and partly earmarked) revenues and to savings from making early retirement more costly for pensioners. The scheduled decrease of the target replacement ratio (from 70 to 64 per cent), a widely used indicator of benefit generosity, only partly displays the most serious consequences on the level and overall distribution of benefits. The cumulative effect is much larger and not immediately visible. It mainly stems from a strengthened insurance principle (Prognos 1999). The full impact hinges upon future pensioners' improved or diminished chances to realize a standard employment career and thus to earn credits sufficient for attaining the (lower) target replacement ratio. If ongoing changes in the labor market indeed diminish these chances it is most decisive for the individual pensioner whether those developments are compensated for by corresponding
adaptations of the entitlement rules or are aggravated when exactly those provisions aiming
at social adequacy of benefits are removed.\(^7\)

For these reasons it is clear that stabilizing the contribution rate and status
maintenance increasingly become contradictory goals. Albeit the latter goal had not been
officially abandoned by the Christian-Liberal government and thus the 'basic model' of 1957
remained unchanged (Döring 2000, p. 180), it is obvious that after this series of reforms in
future fewer employees can expect a factual wage replacement well above the social
assistance level. This is exactly what the term 'creeping disentitlement' (van Kersbergen
2000, pp. 28-9) means when several incremental adjustments are evaluated according to their
cumulative impact — namely, a tacit system shift in the long run (Hinrichs and Kangas
2003). To the majority of insured a number of single changes were intangible, and in
particular the combined impact for oneself remained obscure. Therefore, these
non-transparent adjustments failed to produce the effect the government had hoped for: in
future lower pensions were not regarded as "more secure", and lost confidence in the
reliability of the public pension scheme could not be regained. Additionally — and not the
least as a result of a transnational discourse diffusion — a new interpretative frame emerged
when social insurances were no longer regarded as a solution to workers' typical risks, but
rather as a central problem for international competitiveness and employment growth. It
linked to amplified fears of indeed unprecedented population aging and, for the first time,
notions of intergenerational equity emerged as an imperative. As a result of the failure to
reestablish confidence and of changes in the cognitive map of political actors, at the end of
the 1990s the German pension system arrived at a "critical juncture" when a learning process
was triggered which finally led (in 2001) to a "path dynamics" that is tantamount to a
paradigm shift.\(^8\)

3. From public pension reform to retirement income policy: the
"Riester-Reform" of 2001

During the 1998 election campaign the Social Democrats created difficulties for themselves

\(^7\) Shifting risk constellations that lead to an effective decline in protection are more frequent and
longer spells of unemployment within the career of younger cohorts when no or reduced pension
credits are earned (Kortmann and Schatz 2000, pp. 160-3) or result from rising earnings inequality.
For example, more all-year-round full-time employees earn precarious wages (below 75 per cent of
the average) and have less chances to obtain sufficient pension benefits (Schäfer 2003).

\(^8\) On "path dynamics" see Goul Andersen (2001) who refers to March and Olsen's "policy
martingales".
when they announced to revoke the "demographic factor" which had been denounced as a "pension cut" before. After coming into office these difficulties were enlarged when the Red-Green government actually kept that promise.\(^9\) In addition, the government got under time pressure because it merely suspended this element of the \textit{PRA99} as well as the impairments for future disability pensioners until end of the year 2000.

The first draft of reform proposals was presented in June 1999, and it was not earlier than May 2001 when the \textit{Bundesrat} passed final pieces of the reform package (hereafter: \textit{PRA2001}). This lengthy process was due to numerous and sometimes very detailed changes in response to objections from various actors as well as to attempts to revive the inter-party "pension consensus" that had lasted until the mid-1990s.\(^10\) Parallel to the reform project \textit{PRA2001} the government enacted several changes concerning the public pension scheme: it introduced a gradually increasing energy tax (Ökosteuer). The revenues are earmarked as a supplementary federal grant to the public pension scheme in order to further cover non-contributory benefits and to facilitate a lower contribution rate.\(^11\) Furthermore, pension credits on behalf of recipients of unemployment assistance were reduced. Instead of wage indexing, pensions were arbitrarily adjusted according to consumer prices only in 2000, and in 2001 a moderated version (compared to the \textit{PRA99} provisions) of disability pension reform went into effect. Three innovations included in the \textit{PRA2001} (see Figure 1) justify to speak of a \textit{paradigmatic change} (see also Michaelis and Thiede 2000) towards a retirement income policy that has happened and which supersedes the institutionally confined public pension policy.

\(^9\) The influence of the pension and health care issue on the election result cannot be ascertained exactly. However, exit polls show that the SPD gained disproportionately among voters of retirement age (60 years and older) or approaching retirement (between 45 and 59 years of age) which in turn are the age groups where the decline for the CDU/CSU was largest. In particular, elderly women, traditionally its most loyal followers, turned away from the CDU/CSU. Moreover, there is a further indicator demonstrating the salience of the pension issue at the 1998 federal elections: compared to other themes it ranked high among the electorate, and the Social Democrats were believed of being capable of "securing pensions" much more frequently than the Christian Democrats (Emmert et al. 2001).

\(^10\) Lamping and Rüb (2001, pp. 20-1) accurately speak of 'experimental law-making' to characterize the mode how the government pushed ahead the reform process. For a chronology of the course of events see Dünn and Fasshauer 2001.

\(^11\) It is questionable whether at all in a \textit{social} insurance scheme there can be (non-contributory) benefits which indeed would be "alien" to a \textit{private} insurance. However, it can be considered a substantial shift when in the basically \textit{contribution}-financed pension scheme nowadays about 39 \textit{per cent} of its expenditure stem from tax revenues which are transferred to cover certain benefit components (not based on individual contributions) and other expenses (Sachverständigenrat 2003, para. 333).
(a) Hitherto, like in many other pay-as-you-go, defined-benefit public pension schemes, in Germany the contribution rate functioned as the dependent variable of all parameter changes affecting revenues and expenditures, e.g. it was increased when the available funds fell below a certain contingency reserve. In future, this practice will be reversed because upper limits were fixed: the contribution rate must not exceed 20 per cent until 2020 and 22 per cent until 2030. In order to realize this transition to a "revenue-oriented expenditure policy", apart from funding a higher share out of general taxation, only savings on the benefit side remain as an option. A new benefit (adjustment) formula comprising a complicated "brake mechanism", replacing the suspended "demographic factor", was expected to deliver most of the required savings (Schmähl 2003). It should lead to roughly the same result in the long run, namely a standard replacement ratio of 64 per cent although, due to a redefinition of "net wage", the factual decline appears to be less large: the officially projected figure for 2030 is about 67 per cent. In case higher contribution rates than those mentioned before or a replacement ratio lower than 67 per cent come into reach, it is stipulated that the government has to take "appropriate" action. The expectation to actually live up to both targets was based on overly optimistic assumptions (about declining unemployment, demographic development etc.), and very soon it became foreseeable that if a conflict will arise such a trade-off would be decided in favor of containing the contribution rate at the expense of the pension level (see section 4.2.).

(b) Among the 18 traditional OECD member countries, so far, only Germany has had no special minimum protection scheme for the elderly. Persons without sufficient insurance claims were referred to the general social assistance scheme. At the beginning of this decade only about 1.3 per cent of retirement age people received those means-tested benefits. The new basic security scheme for old-age and disability pensioners is still means-tested, but the legal obligation of adult children to support their elderly parents is virtually lifted since 2003. The official justification for introducing this scheme was to increase the take-up rate, and that will indeed be the immediate consequence. In its explanation to the reform bill the government also admitted that changing (un-)employment careers may lead to more pensioners receiving benefits lower than the social assistance level (Bundesregierung 2000, p. 43). Therefore, the major role of this "social assistance de luxe" for the elderly will make "new risks" in the labor market and the consequences of past and future pension

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12 After sorting out the pensioners, the bulk of social assistance recipients are people of employable age and their minor children. Therefore, the fusion of earnings-related, albeit means-tested unemployment assistance (which is financed by the federal government) and social assistance (as yet within the municipalities' responsibility) is eased. Corresponding measures have passed parliament in December 2003. It includes stronger work incentives and measures to better "activate" the largely overlapping clientele of the hitherto two schemes.
retrenchments socially more bearable when there is an increasing number of newly retired persons whose insurance entitlements prove to be insufficient.

(c) Core element of the PRA2001 are incentives for a new type of voluntary private pension savings which is named after the then Minister of Social Affairs, Walter Riester (Riester-Rente). Although officially called supplementary provision for old age, this component of future retirement income is in fact meant to compensate for the declining target replacement ratio and to ensure income security: after the various measures taken in order to contain the contribution rate have created 'a "social protection gap"' it is now 'filled by private provision' (Bonoli et al. 2000, p. 46). When institutionalizing private pensions, the Red-Green government has not only made up for the "forgotten" compensation in the PRA99 of its predecessor. Moreover, the extension towards retirement income policy has irrevocably converted the German pension system into a multi-pillar approach again after it had been tantamount to public pension policy and a one-pillar approach since 1957 (see section 2.1.). The Riester-Rente started in 2002. Contributions to certified savings plans, gradually increasing to 4 per cent of gross earnings in 2008, benefit from direct subsidies or tax privileges with a bias in favor of families raising children and high-income earners.

Different from the public pension scheme employers do not financially participate the Riester-Rente so that their compulsory contribution payments will be limited to 11 per cent of covered wages at maximum. Sparing employers from joint financing may be regarded as a further innovation. For the trade unions and the traditional Left it was of high symbolic value although economically it is irrelevant because employers' social security contributions always added to total wage costs, and increases were considered in subsequent wage bargaining. In any case, for those employees who voluntarily engage in supplementary provision their total contribution rate is higher than before. It is the inevitable consequence if one moves from a complete PAYG system to partial capital funding and represents the well-known "double payment problem" that goes along with it. Therefore, the shift away from the one-pillar approach will proceed very slowly. If employees save for the Riester-Rente as recommended and these savings were to yield a constant interest rate of 4 per cent, according to government estimations (Deutscher Bundestag 2001, p. 7), the personal pension accrual would amount to no more than 10.5 per cent of the combined pension benefits for a worker retiring in 2030. While the 1957 pension reform within the PAYG framework immediately produced a large improvement (see section 2.1.), as a result of asymmetrical reversibility, the full effect of this element of PRA2001 evolves gradually.

So far, employees have not embraced the Riester-Rente enthusiastically. After 18 months the take-up rate has remained low (about 12 per cent - BMGS 2003; Dünn and
Fasshauer 2003). One has to take into account, however, that there is also the option to benefit from corresponding tax privileges when it is provided as an occupational pension. Converting parts of the salary (up to 4 per cent right from the start in 2001) into savings to single-employer plans or those set up by industry-wide collective agreements can be advantageous due to cost efficiency, and the individual employee has not to invest much in "financial literacy". Understandably, occupational pension coverage has mushroomed since 2001 (April 2001: 29 per cent; March 2003: 57 per cent – BMGS 2003) whereas it was comparatively low before and even on the decline for about 25 years. Moreover, outside the public sector, almost nowhere occupational pensions had been an element of collective bargaining until 2001. Within the new architecture of the German pension system, occupational pensions will change their character: up to now they were first of all an instrument of firms' human resource policy in order to recruit, motivate and tie personnel and thus supplemented (sufficient) first-pillar pensions. This function (and employers' financial responsibility) will fade in importance as against a new role, namely to become a genuine element of social policy, providing status maintenance for a substantially larger share of employees when public pension benefits alone do no longer perform that role.

Whether employees take out savings contracts for the Riester-Rente on their own or convert a part of their earnings into occupational pension plans, in any case, on a voluntary basis the take-up rate will remain incomplete. This will, in addition to the fact that these "defined-contribution type" pensions contain no redistributive elements, lead to enlarged economic inequality in old age because only employees who can afford to forego present consumption will additionally provide for retirement, and only those who actually do may take advantage of the tax privileges in addition to their own savings efforts (or when they divert savings correspondingly). Thus, mainly employees with medium and high wages will benefit from the transition towards the multi-pillar approach (Bulmahn 2003; Schmähl 2003). Another criticism relates to the legitimacy of contribution payments: compared to tax payments, social insurance contributions are usually less resisted because they "earn" benefits which in most cases exceed the social assistance level by a considerable margin. If selective curtailments and the declining replacement ratio result in public pensions below or close to what one would receive as means-tested basic security anyway, from the individual

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13 One reason may be that employees systematically overestimate their public pension entitlement (Deutsches Institut für Altersvorsorge 1999). Furthermore, the majority of Germans is not very knowledgeable about individual pension planning, and the Riester-Rente is a completely new and, so far, a rather complicated product. Lack of trust in welfare markets may be another impediment (Taylor-Gooby 1999).

14 This type of occupational pension resembles the "401(k) plans" in the United States (see e.g. Springstead and Wilson 2000).
perspective, contributions to the public pension scheme were paid for virtually nothing in return. Schmähl (2003), who is particularly concerned about the delegitimation of the contributory scheme, therefore favors an index-linked increase in retirement age (that entitles to full benefits) instead of lowering benefits (see Schmähl and Viebrok 2000).

When considering the PRA2001 as a clear paradigm shift three conclusions may be highlighted. First, its central parts cannot be simply interpreted in categories of "more" or "less". Rather, the term 'recalibration' (Pierson 2001, pp. 425-6) is appropriate. The new goals assigned to the different components of old-age security and the new components itself (the certified savings plans entitling to subsidies or tax privileges as well as the means-tested basic security scheme) will lead to a substantially changed public/private mix of retirement income — albeit not to an identical composition across income classes.

Second, the transition towards retirement income policy cannot be simply treated as equivalent to (partial) privatization or less state responsibility. Fiscal expenditure increases due to subsidies covering non-contributory benefit components within the public pension scheme. Furthermore, a growing number of elderly will claim benefits from the means-tested basic security scheme, and tax expenditures to induce voluntary savings efforts for the Riester-Rente are on the increase. At the same time efforts to (re-)regulate the non-public components of the income mix (personal pensions, occupational pensions) have to be intensified since they are no longer supplementing actually sufficient public benefits, but rather compensate for exactly the loss of their status maintaining function.

Finally, the institutional dynamics has brought new actors, themes, conflicts and modes of conflict resolution into play which, as yet, have not fully consolidated (Hinrichs 2000b; Nullmeier 2001). For example, in the new politics of retirement income policy those actors have gained a stake who occupied a more or less marginal position so far, as there are the various branches of the financial service industry offering the certified defined-contribution schemes, the Ministry of Finance which is involved with considerably more tax money than before, authorities regulating the emerging "welfare market" and its products, organizations protecting consumers' interests, and the social partners in a new role as they enter collective agreements on occupational pensions. Moreover, it is foreseeable that after the interpretative hegemony of the "old" pension policy network, rallying behind the pay-as-you-go public pension scheme and its established principles, has gone the new retirement income policy will take place in different, partly parallel arenas with possibly more conflictuous relationships among each other and within.

4. After the paradigm shift
4.1. How could it happen?

Bridging long time spans is a central feature of all pension systems (see section 1.). An immediate and substantial reduction of public pension expenditures is thus most unlikely. Changes of pension programs aiming at such goal usually comprise "grandfather clauses" or provisions that cut back on entitlements are phased in. Consequently, the pension reforms enacted between 1989 and 1997 largely spared current pensioners and employees close to retirement age — not the least because they represent a significant group within the electorate. The PRA2001 factually implied no curtailments over and above the PRA99, but merely lower increments which are perceived differently than direct cuts (although present and future pensioners' benefits are partly decoupled from net wage development during their retirement). Moreover, by introducing the Riester-Rente the government went beyond a synchronous redistribution between covered employees and pensioners and the consequences arising from their shifting numerical ratio. Thereby, it enabled current employees to take an intertemporal (or: diachronic) perspective, i.e. to pursue an "investment strategy" which demands to (additionally) sacrifice consumption now for not being worse off (than the present generation of pensioners) later when a declining replacement ratio of public pensions is offset by a parallel increase of the Riester-Rente (see also Jacobs 2002).

In order to understand why it mainly were the Social Democrats who realized this "investment strategy" one has to recall the problem they faced after returning to office: successful social policy institutions perform a socializing function when by way of their lasting and well-known operation they create their own basis of support — a culture of solidarity as a fundament (Hinrichs 2002). These formative effects largely preclude positive answers to questions of how could or should it be different and foster expectations of stability and continuity. Today, the existence of the public pension scheme for more than hundred years no longer generates confidence automatically, and the working of the generational compact in the past is no guarantee for the continuance of rules and levels in future. Official assertions that there is no reason to be afraid of challenges lying ahead contrast with questions by the (younger) insured how it will go on.\footnote{15 The long-standing Minister of Social Affairs, Norbert Blüm (1982 to 1998), again and again maintained that public pensions are secure ("Die Rente ist sicher!"). Increasingly, the public cynically interpreted this message as a joke.} After recurrent policy adjustments and still uncertain prospects regarding security in old age, at the end of the 1990s, one was not simply 'running out of options', as Lamping and Rüb (2001, p. 16) argue, but rather, public pension policy had lost its credibility and the institution as such had used up plausibility. Parametric reforms of the public pension scheme have not come to an end yet and will
continue in order to attain defined upper limits of the contribution rate (see section 4.2.). However, merely confining oneself to again turning those well-known "adjustment screws" and afterwards declaring "less" as more "secure" would have been absolutely pointless for restoring confidence. On the contrary, it had again betrayed expectations of reliability. Insofar, the situation in Germany was similar to that in Sweden where only a fundamental reform was suitable for reconstituting credibility (Scherman 1999, pp. 44-7). Instead of asking higher contributions to a collective security scheme from the insured\textsuperscript{16}, they were given the opportunity to put subsidized savings into pension plans which offer true property rights and freedom of choice. Moreover, the government pointed out that public pensions plus Riester-Rente were going to amount to an higher retirement income level than at present (Deutscher Bundestag 2001, p. 7). In this way a strategy of "blame avoidance" was combined with the one of "credit claiming" (Weaver 1986; Pierson 1994, pp. 13-26).\textsuperscript{17}

Opting for individualistic solutions to securing a sufficient level of pensions in view of individualization as a societal "mega-trend" clearly matched the credo of a modernized ("New") Social Democracy that places self-responsibility and efficiency on an equal footing with (inter-generational) solidarity and social justice (see e.g. Clasen 2002). Out of numerous similar quotations from leading Social Democrats in Germany only one may suffice to prove the frame shift that occurred. Gabriele Behler (1999, p. 85), a former Minister in North Rhine-Westphalia, asked the population to say farewell to the desire for a welfare state which in a paternalistic way takes away individual responsibility for providing against risks.

The attempt to gain reputation by making up for the "forgotten" compensation of the preceding government and pushing the transition to the multi-pillar approach nonetheless implied that the Social Democrats (much more than their coalition partner, the Green Party) got involved in a very risky enterprise. This was so because important criteria for a smooth implementation of loss-imposing changes were not met. In order to ensure acquiescence and to minimize the threat of electoral retribution, in discursive manner, any government should

\textsuperscript{16} That is exactly the "Achilles heel" of a pay-as-you-go pension scheme as was pointed out by Martin Feldstein (1975, p. 78): 'future tax rates can be set so that tax revenues are sufficient to meet the claims of the beneficiaries … as long as the voters support the social security system' (italics in original).

\textsuperscript{17} The only benefit improvements included in the PRA2001 again concerns persons who raised children (see Figure 1). That development started in 1986 and, subsequently, it was strongly pushed by several rulings of the Federal Constitutional Court demanding to compensate families raising (or having raised) children for the positive externalities they produce. Due to its far-reaching rights to actually stipulate concrete legislative action, the Court has become a major actor in this policy domain when it comes to family-related benefits like child care credits. By another judgement in 2002 regarding the taxation of (public) pension benefits the Court has again obliged the legislator to take action (see section 4.2.).
bring home to the public that the reform is small, necessary, burdens are fairly distributed, can be regarded as a coherent redesign of the policy which was broadly consented (Hinrichs 2000b; Schmidt 2002). Concretely, the immediate impact of the reform package was indeed small, but inevitably growing over time. In addition, there were the phasing-in effects of all reforms prior to the PRA2001. When the PRA99 was at stake the Social Democrats had outright denied its necessity, but proclaimed own reform plans as indispensable after the federal elections of 1998. It remained contested whether the overall burdens of the PRA2001 were distributed in a socially fair manner and therefore satisfied established values of social policy. Much emphasis was put on convincing the public that the reform meant a coherent redesign of the pension system in response to well-known challenges, ensuring sustainability and sufficient retirement income. However, the corresponding attempts have not proved very successful (Bulmahn 2003; Leinert 2003). In any case, the PRA2001 was not broadly consented among the relevant political actors.

In view of the credibility problem and own ambitions to modernization ("strengthening self-responsibility"), the government — and that was much more the Federal Chancellery than the Ministry of Social Affairs that had been most decisive in the process of all former reforms — proved extremely capable of learning when it integrated initially vague reform conceptions and a conflicting paradigm. Although one should always be cautious towards conspiracy theories, but it can hardly be avoided to concede that the financial services industry (assisted by economists advocating of "pension funding" and who had not conquered a voice in the pension policy arena until the 1990s) has successfully contributed to the destruction of confidence in the public pension scheme and, moreover, exerted substantial influence on the reform discourse. Following Peter Hall (1993, p. 290), it shows the power of interest groups to change interpretative frames. Inasmuch as the social (re-)construction of a policy problem and the responses it suggests was successful, the established policy network lost ground and was no longer capable of unassailably defining the problem and a solution that would match traditional goals of public pension policy.\(^\text{18}\)

The Left among the Social Democrats ("traditionalists") could hardly be convinced to abandon the quasi-monopoly of the public pension scheme and, likewise, the trade unions

\(^{18}\) An indicator of the approaching change of course was that Walter Riester, deputy president of the Metal Union and renowned as a "modernizer", was appointed Minister of Social Affairs instead of Rudolf Dreßler, a dyed-in-the-wool protagonist of the social insurance approach and experienced social policy spokesman of the Social Democrats in the Bundestag. The intention of the government to execute the transition towards retirement income policy became also obvious when in 2000 the long-standing chairperson of the advisory council (Sozialbeirat), Winfried Schmähl, was not reappointed, but rather replaced with the more "flexible" multi-purpose advisor Bert Rürup, also a Professor of Public Finance.
only reluctantly accepted the *PRA2001*. Eventually, they were appeased by the stipulation that the replacement ratio must not fall below the 67 per cent level (see above). The special (tax) privilege of occupational pensions also accommodated their interests since it benefits the unions' core membership and opened up an attractive terrain for collective agreements on pension funds (and for participating in their administration then). Finally, it is hard to prove whether there was a tacit deal, trading compliance with the *PRA2001* for an extension of works councils' rights that was firmly demanded by the trade unions and actually legislated later in 2001.

Until the end of the parliamentary process the government attempted to win over the Christian Democrats for a consensus. In principle, the party supported the system shift, but continuously caviled at the concrete form. Eventually, it shied away from thwarting the *Riester-Rente* in the *Bundesrat* which had to agree on this element of the *PRA2001*. Utilizing their majority in the *Bundesrat* would have meant that the CDU/CSU had denied future pensioners attractive opportunities to attain a higher retirement income. Despite considerable concessions to the CDU/CSU (particularly on family-related benefits) it refused an overall compromise with the government. One reason may be the lasting disgruntlement about the SPD's successful strategy to blame the Kohl government for the "pension cuts" during the 1998 election campaign. More important was that the Christian Democrats were very much on the defensive after a financial scandal (about "soft money" and other unlawful deeds) was uncovered in November 1999. In such a situation it was hardly opportune to simply give away a potentially mobilizing theme for the next election campaign by striking an agreement with the political opponent. Thus, the government learned that in order to reach a compromise it needed a strong negotiating party on the other side of the table.

Paradigm shift in a policy area does not imply that basic programmatic structures are completely thrown out. Central elements of the German pension scheme, like employment-relatedness or contribution financing, are maintained ever since 1889 as it is also true for countries that realized an alternative starting point (based on citizenship) for their pension system. Nor is it required that, in order to claim a paradigm shift, all political actors involved have already adopted the new interpretative frame in full. Finally, such a claim may be made even if the impact of the corresponding policy changes has not yet fully materialized. Substantiating the path departure as being irreversible would suffice, and such further drifting away from the one-pillar approach will be shown next.

4.2. *How will it go on?*

Contrary to expectations in 2001, the contribution rate had to be increased to 19.5 per cent in
2003, and a rise to 20.4 per cent already in 2004 would have been inevitable without "emergency" measures. Such development was caused by a declining employment level and was partly self-inflicted due to reduced fictitious contributions on behalf of unemployment assistance recipients and revenue losses as a growing number of workers converted parts of their earnings into occupational pension plans (see also Schmähl 2003). Moreover, the long-run targets fixed in the PRA2001 are in jeopardy as well: projections included in the report of the so called Rürup-Kommission (Kommission 2003, p. 101) arrive at a rate of 21.5 percent in 2020 and of 24.2 per cent in 2030. They are based on less optimistic assumptions than the government employed in its calculations when the PRA2001 was prepared. The commission's central proposals to nonetheless achieve the 20/22 per cent target are (a) gradually increasing the age at which "full benefits" can be claimed from 65 to 67 (starting in 2011) and (b) including a "sustainability factor" in the benefit (adjustment) formula. By this factor the changing worker/pensioner ratio will determine the replacement rate of newly and already retired persons (whereas the "demographic factor" of the PRA99 took into account further life expectancy at age 65). A variable factor will adjust the weight of this standardized dependency ratio so that "sustainability" is ensured, the 20/22 per cent target is always met.

In view of the unpleasant prospects in the short as well as long run, the government disregarded the doctrine to reform the pension system only occasionally. In 2003 it came forward with two reform packages and a third one that will translate the Constitutional Court's demand for equal tax treatment of all retirement income recipients. The "emergency" package that will ensure a contribution rate at the 2003 level has already passed parliament. It includes a suspension of benefit adjustment in 2004, and the pension scheme will no longer pay the "quasi-employers' share" of contributions to the long-term care insurance, so that pensioners have to bear the full rate (1.7 per cent). Beside this understandably unpopular benefit cut there will be a further (temporary) reduction of the scheme's contingency reserve and some minor changes.

In its second reform package the government has adopted all proposals of the Rürup-Kommission with the only exception that the decision on whether to raise retirement age will be postponed until 2008 when the labor market situation might have improved. Moreover, the reform bill provides for a complete abolition of non-contributory pension credits for periods spent in school or university education (and which had been reduced to a maximum of three years already).

In 2002, the Constitutional Court has again (see above, n. 17) proved to be a powerful veto-player in German pension politics when it ruled the unequal treatment of civil servants (whose pensions are fully taxable) and beneficiaries of the public pension scheme unconstitutional. Hitherto, white and blue-collar workers pay contributions largely out of post-tax income, and the accruing benefit is regularly tax-free if the retiree has no substantial
income (like occupational pensions) in addition. Beside provisions that will simplify the Riester-Rente the third reform package aims at realizing the "EET principle", i.e. up to a certain limit contributions to public as well as private pension plans are exempted from taxation as are the funds' earnings (capital income), but benefits paid are liable to income taxation. Due to the tax revenue losses it implies (and which can only be recouped later) such a transition has to occur gradually and therefore will last from 2005 until 2040.

The government argues that the increasing tax relief will enlarge the scope for additional pension savings (but obviously most for employees with higher earnings). Those savings become all the more necessary since the "sustainability factor" will aggravate the decrease of the benefit level. While the Riester-Rente more or less filled the "social protection gap" that had arisen (see above), it is created again when the gross replacement ratio\(^\text{19}\) for the standard pensioner will decline from presently 48 to 40 per cent in 2030 (Kommission 2003, p. 107), i.e. by one sixth (if she does not earn extra pension credits by working beyond age 65). It has been estimated (Schnabel 2003, p. 13) that an average employee who is going to retire in 2030 should have started already in 2000 to save 7 per cent of her income in order to end up with the same disposable income as present cohorts of pensioners. These figures point to a problem of savings incentives for voluntary (tax-privileged) pension plans (Disney 2000): if the emerging income security gap appears to be small no such savings are deemed necessary. In contrast, if the gap is large individual efforts are likewise discouraged because, in view of one's disposable income, it seems hopeless (or no longer worthwhile) to strive for adequate retirement income. In view of the standard replacement ratio having lost a "ratchet", even the Council of Economic Advisers, ideologically most committed to market liberalism, is concerned about incalculable public pensions and the legitimacy of the contributory scheme (Sachverständigenrat 2003, para. 346, 348 and 353).

Have these reform plans caused conflicts among relevant political actors? Obviously, there is less resistance than when the PRA2001 was at stake because the dominance of political parties has been strengthened, particularly as against organized labor. The Christian Democrats have appointed their own commission chaired by the former Federal President Roman Herzog (Christlich Demokratische Union 2003). Its proposals largely overlap with the government's plan and also include an identical "sustainability factor" (BMGS 2003). It remains to be seen whether there will be a return to an inter-party "pension consensus" this time. However, apart from the largely "technical" taxation package, the government is not dependent on an approval of the Bundesrat. The trade unions which had forced the government to moderate the PRA2001 are in a weak position after the Metal Union, the usual

\(^{19}\) Due to the change in taxing pension benefits, \emph{net} figures (see \text{n. 4}) can no more be applied.
spearhead, has lost a labor dispute on working hours reduction in East Germany in May 2003 and, moreover, the trade unions were unable to massively mobilize against the Agenda 2001, a comprehensive program for a far-reaching overhaul of the German welfare state and of which the current pension reform is an element. Likewise, the Left among the Social Democrats fought in vain against the Agenda 2010. At an extra party congress convened at their initiative in June 2003 they were clearly defeated. Therefore, in December 2003 it seems most likely that the second and third package of the current reform will pass without major changes whereas it is hardly foreseeable how the electorate will respond to the retrenchments which are not confined to pensions, but effect other areas of social policy as well.

5. Conclusion: pensions still frozen?

In comparative welfare state research explaining obvious institutional resilience against varied pressures and path-dependent development as dominant pattern have become central topics. Since Pierson's (1994) seminal work institutionalist approaches prevail, not the least, because quantitative methods are hardly capable of proving or disproving notions of a "frozen" welfare state landscape' argument (Esping-Andersen 1996, p. 24). Predominantly, case studies on single welfare states or cross-country comparisons of certain programs are suitable to show whether there are changes 'beyond incrementalism' (Wiesenthal 2003) and, if so, why. In view of major reforms that occurred at accelerating speed during the 1990s and when welfare states became increasingly "defrosted" (Palier 2000), discontent with deterministic notions of almost static institutions has engendered concepts of large, path-breaking changes or "path creation" and how they came about (Crouch and Farrell 2002). Starting from the premise that "history matters", institutionalist approaches are not necessarily tied to a strict path dependence theorem although they can more easily explain immobility and inertia than fundamental policy changes. If the latter are not a priori denied, "critical junctures" are important when during periods of reorientation different routes are conceivable and the course for future development is set.

At the end of the 1990s, Germany's public pension policy had reached such a "critical juncture". Despite the difficulties to define and, subsequently, to measure whether a policy change is incremental or paradigmatic, particularly in the pension area (Hinrichs 2000a; Hinrichs and Kangas 2003), clearly a change of the latter type happened in 2001 and that will be reinforced in 2003/4. It has been demonstrated that a once 'coherent policy paradigm' (Hall 1993, p. 290) concentrating on truly earnings-replacing public pensions has been shaken and was replaced with a "multi-pillar approach". The current reform legislation will further
enforce this transition as the 'hard budget line', following from the shift towards a 'fixed contribution rate' principle has maintained absolute priority. It supersedes the alternative of a 'fixed relative position' (Myles 2002, pp. 140-5), the core of the PRA92, when the financial consequences of aging should be shared between pensioners (constant ratio of net earnings), the insured (somewhat higher contributions) and the state (increased subsidies out of general revenues).

Nevertheless, it is remarkable that the paradigmatic shift from public pension policy towards retirement income policy occurred within a short period of time and concerned a policy domain prototypical for path-dependent development (Pierson 1994; Haverland 2001). Theoretically assumed "lock-in effects" of a mature pay-as-you-go scheme obviously dissolve with accelerating speed and contradict notions of a most immovable object. It is furthermore astonishing that the break with institutional inheritance happened in a country which is characterized by lacking power concentration and numerous veto-players. Finally, one would hardly expect that it was exactly a Social Democratic party departing from an established welfare state consensus and the routine of incremental adjustments as a technology of securing social policy institutions and instead realizing an almost bottomless decline of benefit levels and self-responsibility as a dogma.

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des Umstiegs zu mehr privater Altersvorsorge -’, *Die Angestelltenversicherung* 50, 349-363.


Table 1: Population (Structure) in Germany: Development 1900—2000 and Projections 2010—2050 (Variant 5)

<table>
<thead>
<tr>
<th>Year</th>
<th>Population in million</th>
<th>&lt; 20 yrs. in percent</th>
<th>≥ 60 yrs. in percent</th>
<th>old-age dependency ratio</th>
<th>total dependency ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1900</td>
<td>56.4</td>
<td>44.2</td>
<td>7.8</td>
<td>16.3</td>
<td>108.5</td>
</tr>
<tr>
<td>1910</td>
<td>64.9</td>
<td>43.7</td>
<td>7.9</td>
<td>16.3</td>
<td>106.7</td>
</tr>
<tr>
<td>1939</td>
<td>69.3</td>
<td>32.0</td>
<td>12.3</td>
<td>22.0</td>
<td>79.6</td>
</tr>
<tr>
<td>1950</td>
<td>69.3</td>
<td>30.8</td>
<td>14.0</td>
<td>26.8</td>
<td>83.3</td>
</tr>
<tr>
<td>1961</td>
<td>73.7</td>
<td>28.1</td>
<td>17.8</td>
<td>33.0</td>
<td>84.9</td>
</tr>
<tr>
<td>1970</td>
<td>78.1</td>
<td>30.0</td>
<td>19.9</td>
<td>39.8</td>
<td>99.7</td>
</tr>
<tr>
<td>1980</td>
<td>78.4</td>
<td>26.8</td>
<td>19.4</td>
<td>35.9</td>
<td>85.6</td>
</tr>
<tr>
<td>1990</td>
<td>79.1</td>
<td>21.8</td>
<td>20.3</td>
<td>35.1</td>
<td>72.8</td>
</tr>
<tr>
<td>2001</td>
<td>82.4</td>
<td>20.9</td>
<td>24.1</td>
<td>43.9</td>
<td>81.9</td>
</tr>
<tr>
<td>2010</td>
<td>83.1</td>
<td>18.7</td>
<td>25.6</td>
<td>46.0</td>
<td>79.5</td>
</tr>
<tr>
<td>2020</td>
<td>82.8</td>
<td>17.6</td>
<td>29.2</td>
<td>54.8</td>
<td>87.7</td>
</tr>
<tr>
<td>2030</td>
<td>81.2</td>
<td>17.1</td>
<td>34.4</td>
<td>70.9</td>
<td>106.2</td>
</tr>
<tr>
<td>2040</td>
<td>78.5</td>
<td>16.4</td>
<td>35.2</td>
<td>72.8</td>
<td>106.6</td>
</tr>
<tr>
<td>2050</td>
<td>75.1</td>
<td>16.1</td>
<td>36.7</td>
<td>77.8</td>
<td>112.0</td>
</tr>
</tbody>
</table>

1) elderly ratio = (population ≥60 × 100) : population 20 to <60
2) total dependency ratio = [(population <20 + ≥60) × 100] : population 20 to <60

Sources: BMFS 1993: 257; Statistisches Bundesamt 2003: 42
Table 2: Social Expenditure and Public Pension Financing in Germany

<table>
<thead>
<tr>
<th>Year</th>
<th>Social Expenditure in Percent of GDP</th>
<th>Combined Contribution Rate to Social Insurance Schemes</th>
<th>Public Pension Expenditure in Percent of GDP</th>
<th>Net Standard Pension in 1995 EURO/in % of Real Net Average Earnings</th>
<th>Contribution Rate to the Public Pension Scheme (Earnings Ceiling in % of Gross Average Earnings)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1957</td>
<td></td>
<td>21.6</td>
<td></td>
<td></td>
<td>14.0 (178.5)</td>
</tr>
<tr>
<td>1960</td>
<td>21.1</td>
<td>22.4</td>
<td>6.4</td>
<td>5,517/66.8</td>
<td>14.0 (167.2)</td>
</tr>
<tr>
<td>1970</td>
<td>25.1</td>
<td>26.5</td>
<td>7.7</td>
<td>8,398/65.0</td>
<td>17.0 (161.9)</td>
</tr>
<tr>
<td>1975</td>
<td>31.6</td>
<td>30.5</td>
<td>9.8</td>
<td>9,995/66.8</td>
<td>18.0 (154.1)</td>
</tr>
<tr>
<td>1980</td>
<td>30.6</td>
<td>32.4</td>
<td>9.6</td>
<td>11,527/71.1</td>
<td>18.0 (170.9)</td>
</tr>
<tr>
<td>1985</td>
<td>30.0</td>
<td>35.1</td>
<td>9.5</td>
<td>11,171/72.4</td>
<td>19.0 (183.6)</td>
</tr>
<tr>
<td>1990</td>
<td>27.8</td>
<td>35.8</td>
<td>8.8</td>
<td>11,849/68.0</td>
<td>18.7 (180.2)</td>
</tr>
<tr>
<td>1991</td>
<td>28.4</td>
<td>36.7</td>
<td>8.9</td>
<td>11,902/67.8</td>
<td>17.7 (175.6)</td>
</tr>
<tr>
<td>1995</td>
<td>31.2</td>
<td>39.3</td>
<td>10.3</td>
<td>11,822/69.9</td>
<td>18.6 (184.7)</td>
</tr>
<tr>
<td>1996</td>
<td>32.1</td>
<td>40.8</td>
<td>10.5</td>
<td>11,733/70.1</td>
<td>19.2 (185.8)</td>
</tr>
<tr>
<td>1997</td>
<td>31.6</td>
<td>41.8</td>
<td>10.5</td>
<td>11,594/71.0</td>
<td>20.3 (188.7)</td>
</tr>
<tr>
<td>1998</td>
<td>31.5</td>
<td>42.1</td>
<td>10.6</td>
<td>11,552/70.1</td>
<td>20.3 (190.5)</td>
</tr>
<tr>
<td>1999</td>
<td>31.9</td>
<td>41.2</td>
<td>10.6</td>
<td>11,619/69.9</td>
<td>19.5 (190.6)</td>
</tr>
<tr>
<td>2000</td>
<td>31.9</td>
<td>41.0</td>
<td>10.7</td>
<td>11,537/69.1</td>
<td>19.3 (190.2)</td>
</tr>
<tr>
<td>2001</td>
<td>32.1</td>
<td>40.8</td>
<td>10.9</td>
<td>11,375/67.7</td>
<td>19.1 (190.9)</td>
</tr>
<tr>
<td>2002</td>
<td>41.3</td>
<td>41.3</td>
<td>11,440/68.4</td>
<td></td>
<td>19.1 (189.4)</td>
</tr>
<tr>
<td>2003</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>19.5 (209.4)</td>
</tr>
</tbody>
</table>

Sources: (1) = BMAS 2002: 19 and 22 [figures not comparable to OECD calculations; figures 1991 and after relate to united Germany]; (2) = VDR 2003: 243; (3) = BMAS 2002: 35 and 38; (4) = VDR 2003: 240 [for the definition of "standard pension" see n. 4; all figures relate to West Germany]; (5) = VDR 2003: 239 and 245 [1992 and after: contribution assessment ceiling valid in West Germany].
### Figure 1: Central Elements of Pension Reform Acts Legislated in Germany between 1989 and 2001

<table>
<thead>
<tr>
<th>Act Description</th>
<th>Details</th>
</tr>
</thead>
</table>
- benefit adjustment according to preceding year's net wage development  
- federal subsidies increased to 20% of the scheme's annual expenditure (permanently)  
- all provisions to retire before age 65 without benefit reduction phased out in 2012 (exception: seriously handicapped workers); permanent deduction: 0.3% per month  
- credits for periods of schooling and tertiary education reduced: from max. 13 yrs. to 7 yrs. at max. 75% of average wages  
- 4 instead of 5 first yrs. of covered employment revalued at 90% of average wages  
- child-care credits for births after 1991 increased from 1 to 3 yrs. at 75% of average wage |
- phasing out of first benefit receipt without permanent deduction before age 65 accelerated (completion: December 2004 instead of December 2012)  
- credits for periods of schooling and tertiary education after age 17 reduced: from max. 7 yrs. to 3 yrs.  
- 3 instead of 4 first yrs. of covered employment revalued at max. 75% of average wages (formerly: 90%)  
- no credits for periods of unemployment and sickness if no benefits from respective social insurance scheme; credits reduced for recipients of unemployment assistance |
| **Pension Reform Act 1999 (PRA99)** | - legislated: 1997; effectiveness scheduled for 1999 and subsequently  
- retirement age for seriously handicapped persons lifted from 60 to 63 yrs. (benefits deducted if claimed between 60 and 63 yrs. of age)  
- benefit calculation of disability pensions changed to the disadvantage of claimant and requirements for claiming disability pensions as such strengthened  
- increase of life expectancy at age 65 taken into account when calculating initial benefit and adjusting current pensions ("demographic factor")  
- credits from simultaneous covered employment can be added to child-care credits whose value is increased from 75 to 100% of average wages |
| **Pension Reform Act 2001 (PRA2001)** | - legislated: 2001; effective 2002 and later  
- benefit adjustment formula incorporates changes of the contribution rate to public pension scheme and to certified private pensions (effect: decreasing replacement ratio)  
- survivors' pensions: more comprehensive income test; supplements for children born  
- revaluation of low earnings for parents when child is between 3 and 10 yrs. or additional credits if non-employed while raising 2 or more children below age 10  
- special, tax-financed means-tested basic security scheme for old-age and disability pensioners without reverting to children's income support  
- tax-subsidized contribution to certified supplementary provision (starting in 2002, gradually increasing to 4% of maximally covered earnings in 2008)  
- political action triggered if foreseeable that contribution rate will exceed 20% before 2020 or 22% before 2030 or target replacement ratio falls below 67% |
We begin this short paper by defining Europe’s ‘pension regimes’ against the background of the classic analyses of Europe’s varieties of welfare systems. We derive our definitions of Europe’s pension regimes from a wide-ranging literature on the categorisation of pensions systems and relate Europe’s diverse pension regimes to conventional understanding of Europe’s worlds of welfare capitalism. Part two considers the nature of the challenges to these different systems, while parts three and four consider, respectively, the nature of general reform goals and specific reform paths.

I. How Many Pension Regimes in Europe?

Much has been written on the definition of welfare states and pension regimes in the European context. Figure 1 presents in simplified form two classificatory schemas: Esping-Andersen’s well-noted (1990) worlds of welfare capitalism (based on the degree of decommodification of social policy programmes) Ferrera’s (1993) classification based on the different characteristic of the welfare communities in which social risks are shared (see Fig.1).

In terms of pensions’ provision, Esping-Andersen’s ‘worlds’ range from the ‘commodified’ liberal regime (the UK in Europe) with its ‘safety net’ state pensions and reliance on occupational and/or private personal pensions, to the more, but incompletely decommodified conservative-corporatist world of work-linked social insurance pensions alongside less generous social assistance benefits, and the more highly decommodified pensions provisions of the social democratic regime of generous tax financed pensions.

But as pointed out by numerous authors (e.g. Hinrichs 2001; Ellison 2003), fundamental cross-cutting characteristics of function and design are obscured (or rather unanalysed) in this conception. Ferrera’s analysis introduces the scope and nature of provision, but for a
fuller understanding of the relationship between welfare regimes and pension systems, we need to bring institutional features more explicitly into play.

The classification below proposed by the OECD (1988) is based on the institutional mechanisms implemented in different countries to cover the risk of old-age, illustrating the combination of schemes and policy goals (Fig. 2), helping define the structure of each pension system.

**Fig 2 - Pension systems and their basic characteristics**

<table>
<thead>
<tr>
<th></th>
<th>Assistance (Poverty prevention)</th>
<th>Occupational (1st pillar)</th>
<th>Universal</th>
<th>Occupational private (2nd pillar)</th>
<th>Occupational public (2nd pillar)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td></td>
<td>X</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Italy</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spain</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Netherlands</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>UK*</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Sweden</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* the coexistence of private and public occupational pensions is characterized by the contracting-out option for workers.

More recent studies have adopted a different perspective. Bonoli (2003) has identified two main clusters based on the prevalence (or not) of public systems over private schemes: multi-pillar systems where the state has the responsibility for basic entitlements alone, while additional benefits are provided by occupational schemes and/or private arrangements; and social insurance systems where either the state provides the greater part of pension benefits through national and universal or occupational schemes or provision is based principally on social insurance. For Marier (2002), an important distinction should be made between pension systems managed by social partners pension schemes administered by the state. These different classificatory schemas are resumed in Fig. 3.

**Fig 3 - Social protection and Pension Systems in Europe**

<table>
<thead>
<tr>
<th>Politico-institutional Roots</th>
<th>Administration</th>
<th>Pillars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bismarckian</td>
<td>Beveridgean</td>
<td>Social Administration</td>
</tr>
<tr>
<td>Austria, France, Germany</td>
<td>UK, Sweden</td>
<td>Austria, France, Germany, Italy, Netherlands, Spain</td>
</tr>
<tr>
<td>Italy, Netherlands, Spain</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source, Bonoli, 2000; Marier, 2002; Bonoli, 2002.

In Figure 4 we use the various contributions introduced above to identify four European pension regimes, linking institutional features with programme functions and historical background (cf. Palme 1989):
### Fig.4. Europe’s Four Pension Regimes: Historical Roots and Institutional Characteristics

<table>
<thead>
<tr>
<th></th>
<th>Bismarckian Roots</th>
<th>Beveridgean Roots</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Conservative-Corporatist Model</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Beveridgean Roots</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Liberal Model</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Social-democratic Model</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Social Administration</strong></td>
<td></td>
<td><strong>State Administration</strong></td>
</tr>
<tr>
<td><strong>Social Insurance</strong></td>
<td><strong>Multi-pillar</strong></td>
<td><strong>Social Insurance</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Country</th>
<th>1st Pillar</th>
<th>2nd Pillar</th>
<th>3rd Pillar</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>State/Flat-rate universal</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Germany</td>
<td>-</td>
<td>PAYG</td>
<td>PAYG</td>
</tr>
<tr>
<td>France</td>
<td>PAYG</td>
<td>PAYG</td>
<td>PAYG</td>
</tr>
<tr>
<td>Italy</td>
<td>PAYG</td>
<td>PAYG</td>
<td>PAYG</td>
</tr>
<tr>
<td>Spain</td>
<td>PAYG</td>
<td>PAYG</td>
<td>PAYG</td>
</tr>
<tr>
<td>Netherlands</td>
<td>PAYG</td>
<td>PAYG</td>
<td>PAYG</td>
</tr>
<tr>
<td>UK</td>
<td>PAYG</td>
<td>PAYG</td>
<td>PAYG</td>
</tr>
<tr>
<td>Sweden</td>
<td>PAYG</td>
<td>PAYG</td>
<td>PAYG</td>
</tr>
</tbody>
</table>

1. Mandatory or Quasi-mandatory Occupational Pensions
2. Individual Voluntary Pensions

*First pillar administration in the Netherlands; the second pillar is based on social administration and linked to collective bargaining on social policy issues.

* In Austria an anti-poverty supplement of low occupational pensions operates as an equivalent of a means-tested basic scheme.

• Pure occupational systems (Austria and Germany)
• Occupational plus means-tested systems (France, Italy and Spain)
• Universal plus occupational systems (Netherlands and the UK)
• Pure universal systems (Sweden)

The pure occupational systems are those in which pension benefits are linked to labour market participation and thus organized along occupational lines. The main goal is status (or revenue) maintenance. Following the (pure) Bismarckian model, benefits are financed through contributions by employees and employers, while calculations are based on a PAYG system. Each occupational category has its own scheme with particular formulae for the calculation of benefits and contributions (i.e. retirement age, required years of contribution etc.). The schemes are managed by social partners. Germany and Austria are the only countries in Europe that can be defined as purely occupational, even if Austria has introduced a basic provision for the poor which is the functional equivalent of a means-tested programme.

The second occupational plus means-tested group includes those countries that have added a means-tested programme for poverty-alleviation to the original pure occupational system. They thus represent a mix between the Bismarckian blueprint and influences from abroad (the Scandinavian and Anglo-Saxon countries). France, Italy, Spain, and other countries in Continental Europe belong to this group. The principal goals of these systems are status-maintenance plus poverty-alleviation.

The third universal plus occupational group has gone further towards a mix of systems. These countries (which include the Netherlands, the UK, and Denmark) have developed complex hybrid systems derived from the both the Bismarckian and universal models (Bonoli’s (2003) multi-pillar systems). In the Dutch case, the first pillar of the system is a universal scheme covering all citizens (rather than workers) but is financed through contributions (rather than taxes) in line with the PAYG rule. The basic pension is lower than that offered by Bismarckian countries and so is combined with a second funded pillar organized along occupational lines and administered by the social partners. In the UK the first pillar is universal but is financed through contributions. As in the Dutch case, a second pillar accompanies the low basic state pension. In the British second pillar, employees have three options: to be covered by a public scheme, a company-level occupational scheme and/or a private scheme. In Denmark, the first pillar is universal and financed by taxes while the second pillar is similar to that in the Netherlands. In these countries the goal of the first pillar is to protect all citizens against the risk of ageing, while status-maintenance is the aim of the second.

In the fourth group of pure universal systems, public schemes are managed by the state and financed through taxes as well as employers’ contributions. Public schemes cover all residents following common rules and formulae and the same PAYG model. The first pillar is combined with a second pillar covering the active population. Supplementary pensions are financed by self-employed and employers’ contributions and also operate on a PAYG basis. They are administered by the state with no distinction made between occupational categories. Sweden is the case par excellence of this system, which is also found in most of Scandinavia (including Norway).
II. Different or Common Challenges?

Over the last two decades, pension systems across Europe have had to confront a series of common challenges but with different effects according to system and country.

1. The first challenge commonly presented to explain the ‘pension time bomb’ is demographics, or population ageing in the most developed countries. In most European countries, pension schemes are PAYG, whereby current contributions are not capitalised but used to pay current benefits, and are particularly susceptible to changes in the number of retirees. Data from the OECD reveal a particularly worrying situation and future trends for Continental Europe (OECD 2000). These data show a dramatic increase in the ratio of elderly people (over 65 years old) to working population in the countries of Continental Europe, with a predicted dependency ratio for 2030 of 49% in Germany, 48% in Italy and 39% in France. While the average figure in Bismarckian countries is expected to be higher than 40%, it is expected to be below that level in the rest of Europe (e.g. Sweden and the UK). Demographic trends in Continental Europe appear even worse when compared with the US and the OECD average.

2. The second factor contributing to financial instability is the degree of maturity of pension schemes in that the share of resources transferred to the retired population is a function of beneficiary and contributor rates (the ratio of beneficiaries and contributors to the total population). If these ratios are still growing and are expected to grow in the future, then the system is still in a process of maturation. The maturation of a given system is related to a number of elements: when it was introduced, the institutional mechanisms adopted, changes in coverage or eligibility rules, etc. While the maturity problem is usually referred to in the case of the Bismarckian countries and pure universal systems, there also appears to be a problem for the future stability of younger funded schemes (e.g. in the Netherlands and the UK) (Bonoli 2003).

3. The third dimension of the pension problem derives from by the transformation of labour markets and from employment and unemployment rates. High unemployment rates are part of a vicious circle (affecting Bismarckian countries and to a lesser extent universal systems) that is difficult to understand in terms of causal mechanisms and subsequent effects. On the one hand, the increase of unemployment figures since the 1970s, as well as lower economic growth, the rise in inflation, and a slower increase in wages have all contributed to financial strains on pensions. But the same variables are often argued to be the effect rather than the cause of the burden of social protection systems in Europe. Thus, these factors are both pressures on the sustainability of current pension programmes and possible consequences of their impact on the economic competitiveness of the countries under analysis. Unemployment rates and employment rates are considerably worse in the Bismarckian countries than elsewhere in Europe, revealing the multi-dimensional character of the pension problem. See figure 5 for comparative employment rates across European countries.
## Fig. 5 – Sources of Pension System Stress

<table>
<thead>
<tr>
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<th>B</th>
<th>DK</th>
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<th>GR</th>
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<tbody>
<tr>
<td><strong>Employment Rate</strong></td>
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<tr>
<td>15-64 Employment Rate</td>
<td>59.9</td>
<td>76.2</td>
<td>65.8</td>
<td>55.4</td>
<td>57.7</td>
<td>62.8</td>
<td>65.7</td>
<td>54.9</td>
<td>62.9</td>
<td>74.1</td>
<td>68.4</td>
<td>68.7</td>
<td>68.2</td>
<td>74.1</td>
<td>71.8</td>
</tr>
<tr>
<td>55-64 Employment Rate</td>
<td>25.1</td>
<td>58.0</td>
<td>37.7</td>
<td>38.0</td>
<td>39.2</td>
<td>31.9</td>
<td>46.8</td>
<td>28.1</td>
<td>24.4</td>
<td>39.6</td>
<td>28.6</td>
<td>50.1</td>
<td>45.8</td>
<td>66.8</td>
<td>52.3</td>
</tr>
<tr>
<td><strong>Age of Labour Market Exit</strong></td>
<td>55.9</td>
<td>61.1</td>
<td>60.4</td>
<td>57.7</td>
<td>60.2</td>
<td>58.9</td>
<td>62.2</td>
<td>59.2</td>
<td>55.3</td>
<td>60.3</td>
<td>58.6</td>
<td>61.5</td>
<td>61.4</td>
<td>61.9</td>
<td>62</td>
</tr>
<tr>
<td><strong>Pension Spending (% of GDP) 2000/2040</strong></td>
<td>10/</td>
<td>10.5/</td>
<td>11.8/</td>
<td>12.6/</td>
<td>9.4/</td>
<td>12.1/</td>
<td>4.6/</td>
<td>13.8/</td>
<td>7.4/</td>
<td>7.9/</td>
<td>14.5/</td>
<td>9.8/</td>
<td>11.3/</td>
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<tr>
<td></td>
<td>13.7</td>
<td>14.0</td>
<td>16.6</td>
<td>23.8</td>
<td>16.0</td>
<td>15.8</td>
<td>8.3</td>
<td>15.7</td>
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<td>13.6</td>
<td>17.0</td>
<td>13.2</td>
<td>15.9</td>
<td>10.7</td>
<td>5.0</td>
</tr>
<tr>
<td><strong>Gov. Debt/GDP</strong></td>
<td>107.6</td>
<td>44.7</td>
<td>59.5</td>
<td>107.0</td>
<td>57.1</td>
<td>36.4</td>
<td>36.4</td>
<td>109.9</td>
<td>5.6</td>
<td>52.8</td>
<td>63.2</td>
<td>55.5</td>
<td>43.4</td>
<td>56.6</td>
<td>39.1</td>
</tr>
</tbody>
</table>

Source: European Commission and Socio-Economic Committee; Joint Report by the European Commission and the Council on Adequate and Sustainable Pensions 2003
Labour market problems have also had financial consequences for pension programmes. Social protection schemes have been used in many countries as a response to labour market problems, e.g. through the expansion of early-retirement (as in Italy and Germany – see Figure 5 for effective average ages of labour market exit) and invalidity benefits (as in the Netherlands). Especially in Bismarckian countries, the rising level of unemployment has produced increasing financial strains on public pension programmes due to the reduction of contributions.

4. Still on the revenue-side of the problem, decreasing productivity rates and wage levels have also had adverse effects (see George and Taylor Gooby 1996 on the productivity effect and Myles and Pierson 2001 on the wages effect). The average productivity growth in OECD countries was 3% in the period 1960/73 but declined to 0.6% in the period 1973/1979 and 0.9% in 1979/92. European countries reveal a similar pattern: Italy had the highest productivity growth in the 1960s (4.4%) but this dropped to 2.1% in the 1970s and 1.1% in the 1980s. France fell from 3.9% in the 1960s to 1.7% in 1970s and 1.4% in the 1980s. Other welfare models (Sweden and the UK) have experienced similar declines in productivity.

5. The changing labour market has produced a further challenge to pension systems. This relates to new career profiles. Pensions were originally proposed and introduced for male full-time workers. Today’s career profiles, however, are more varied, including extensive female labour market participation, and increasing number of part-time jobs part-time and temporary jobs, careers with long periods of interruption etc. These ‘atypical’ jobs are usually less well covered by pension systems. This problem was shared by all the pension systems of Europe.

6. Finally, the growing integration of financial and product markets has produced other pressures on pension systems. More open financial markets, increased capital mobility and changing patterns of trade produce pressures on governments to reduce non-wage labour costs (i.e. social contributions). This pressure is much more acute for occupational countries where pensions are financed through contributions and to a lesser extent in universal systems financed through general taxation. In multi-pillar systems, by contrast, benefits are only partly financed through contributions and/or taxes and partly by profits coming from investments of pension funds and the problem is less acute.

III: From Challenges to Reform Goals

All the above-mentioned challenges have increased the pressure to reform pension systems across Europe. In response, policy-makers have developed a complex reform agenda to tackle pension problems. The political debate on recasting pensions has been thus centred on the following objectives:

Financial Viability. One of the main challenges has been the financial imbalances of social security programmes. Since the 1970s growing financial strains have obliged decision-makers to reduce social outlays and increase social contributions. In Bismarckian countries, the political debate on the financial sustainability of pensions schemes has centred on the distinction between non-contributory benefits and contributory elements. This debate has been about the necessity, emphasised
particularly by the unions, to clearly identify those expenses directly attributable to the state (and thus to be covered by general taxation), and those attributable to the pension scheme (and to be financed through contributions). There has been disagreement about how best to restore the equilibrium of social insurance. Some actors have stressed the need to reduce benefits (*cost-containment*), while others have proposed an increase in the flow of funds into the pension system (*increasing revenues*).

**Economic Competitiveness.** The financial crisis of the welfare state has been related to general economic difficulties. In the conservative-corporatist model economic problems consist of the low level of annual growth (lower, that is, than in other systems of welfare capitalism) and a relatively high level of unemployment. The prevalence of Catholic familialism and other rigidities of the labour market may have played a significant role in impeding job creation (see Esping-Andersen 1995). And since social insurance schemes are to a large extent still financed by employers’ and employees’ contributions, the often high level of contributions may exert a negative impact on the unemployment rate (and therefore competitiveness) due to the direct influence on labour costs.

**Equity.** Equity problems derive both from the uneven distribution of protection and costs between social and occupational groups, and the massive differences between financial resources at the disposal of different social programmes. This inequity assumes different features in different national contexts, and has been perceived in different ways by public opinion. For instance, in Italy the ‘equity deficit’ is mainly due to gap in coverage between the core of the labour force (insiders) and the periphery (outsiders); in Spain between workers and other social categories (i.e. widows); in Germany between different age cohorts (inter-generational inequity). As a consequence, equity creates different reform problems in different countries. The equity issue breaks down into the following dimensions:

- **Inter-generational inequity,** when benefits and costs are spread differentially between generations;
- **Intra-generational inequity,** when there are different provisions for different socio-economic or occupational groups across generations. This is the case of the above-mentioned uneven distribution of pension rights between labour market insiders and outsiders, or for differences between male and female employees when they received different levels of social protection (gender inequality);
- **Inter-risk inequity,** due to the overprotection of people facing certain risks while other people and other risks are under-covered by public provisions.

**Effectiveness.** Part of the dilemma for decision-makers in the contemporary period is how to reorganise welfare programmes to reduce financial imbalances while also improving their ability to ‘cover’ different (old and new) risks. An example has been the need to maintain the average level of benefits for beneficiaries after implementing cost-containment measures. Another is the need to extend the ‘pension net’ to new occupational groups (e.g. part-time workers). In Southern countries (Italy, Spain, Greece) the effectiveness problem also consists of administrative inefficiencies (Ferrera, 1996; Rhodes, 1996).
IV. How Many Reform Paths?

The pension model under the most severe pressure has been and is still the occupational one (including both pure occupational and occupational plus means-tested systems). Here, pension schemes have to deal with a series of different problems: increasing financial instability, inter and intra-generational inequity and low economic growth, while they face fewer problems, for example, in terms of poverty rates among the elderly. Moreover, occupational systems appear the most ‘sticky’ from a political viewpoint. Enlarging the consensus for pension reform has proven to be particularly difficult. Successful reform can usually only proceed via complex negotiations with social partners who can act as effective ‘ideological veto players’ (Béland 2001) in the ‘crowded’ policy networks of the continental pension systems. To give an example of one of the effects of this union power, the predominance of mature workers in Italian unions (though this is also the case, if less acute, elsewhere) prevented a more rapid shift in first pillar pensions from a defined benefit to a defined contribution basis than that achieved in Sweden which has a much younger unionised workforce (non-active membership in Sweden is less than 10 per cent, whereas in Italy it is around 50 per cent of all three large union confederations.)

As for the financial challenge, all Bismarckian countries have adopted the same approach, consisting of greater funding (e.g. through supplementary funded schemes) to reduce the impact of cutbacks in the first pillar. This common approach seems to indicate a degree of convergence towards a particular form of multi-pillar system, and also indirectly responds to the challenge of more open financial markets. As for equity, intra-generational inequity has usually been reduced through the (a) the introduction of common rules for different occupational categories (i.e. the introduction of similar formulae for calculating benefits and contributions, removing glaring differences between public and private schemes, or between those applying to self-employed workers and dependent employees); and (b) contribution credits for new forms of job (filling the gaps in entitlements of e.g. female workers taking maternity and parental leaves and part-time or temporary jobs). To reduce the financial burden linked to social contributions, most Bismarckian countries are introducing a clearer distinction between social protection benefits paid from social insurance and social solidarity paid from general revenue.

The pure universal model, in particular in Sweden, has faced similar problems. The financial problem has been dealt with through the introduction of cutbacks in first pillar benefits and by increasing the actuarial logic of the scheme. The large-scale Swedish reform at the end of the 1990s involved a shift from a defined benefit to a defined contribution basis for the first pillar and the introduction of more funded schemes in occupational pensions. Funded schemes have been introduced as compensation for consequent curtailments. Inequity problems have been more limited than in Continental Europe but where they exist they are related to new jobs: the introduction of contribution credits as in Bismarckian countries have proven to be an effective step in the face of this problem. Effectiveness problems have also been more limited than in the other welfare models, as has the economic impact of pension benefits on the economic growth. Underpinning the success (and sustainability of these systems is the very high rate of labour market participation across age groups and the gender divide, while competitiveness is protected from the adverse effects of a
relatively generous pensions system by the tax rather than insurance basis of the system.

In mixed universal plus occupational systems the reform path has been different. First, financial strains have been less acute than in the Bismarckian and universal countries. Multi-pillar institutional arrangements have spread the burden between public and private actors and budgets and have thus reduced the strain on state budgets. Moreover, reforms introduced in the 1980s in most cases pre-empted further problems (e.g. the UK). These early innovations proved these systems being less politically ‘sticky’ than their counterparts in the rest of Europe. By contrast the inequity problem has received less emphasis by policy-makers and innovations have been less effective. For instance, the problem of part-time and less secure jobs is still acute in these countries. In fact, contribution credits have not been introduced and only partly substituted for by the increase in second pillar coverage.

The effectiveness problem as well seems to be more acute than in the other models especially where the basic pension is particularly low (i.e. in the UK). Finally the problems elated to the internationalization of financial markets were not present in multi-pillar countries. As argued by Bonoli (2003), they already provide a source of investment capital to the national economy and pension schemes do not rely exclusively on social contributions. An important problem in the UK (and also the Netherlands) nevertheless stems from the collapse or radical transformation over recent years of company occupational schemes due the stock market crisis and the growth of outstanding liabilities. The maturity of occupational pension schemes is also a problem (and in the Netherlands this also affects the first pillar that was only introduced in the 1950s). Many companies have consequently closed defined benefit schemes to new entrants, or have shifted to defined contributions in which risk benefits are reduced. This suggests that the often lauded multi-pillar systems may not provide effective solutions in all respects.

References:


