

Rediscovering Pensions

I. Pensions in Europe, European Pensions

Analysis of pensions politics and policy has for long been a central focus of comparative research on the welfare state. The importance of retirement programmes is largely recognized.¹ From a financial point of view, public pension schemes are one of the most expensive elements in the public budget. From a social perspective, protection against the risks of old-age is at the core of social security and is becoming increasingly important in an ageing society. From a political point of view, decisions in the field affect the vast majority of citizens and voters, and therefore controversial measures (such as reducing benefits or increasing the systems' revenues) are widely debated and extremely difficult to pass. For all these reasons, pension reforms have attracted much interest in recent years. A wide range of contributions has focused on the evolution of pension programmes in response to old and new challenges (Clark and Whiteside, 2003; Bonoli and Shinkawa, 2005; Johnson *et al.*, 2005; Clark *et al.*, 2006; Immergut *et al.*, 2007; OECD, 2005 and 2007a; Holzmann and Palmer, 2005). The (supposed) "pension crisis" and the subsequent debate on the system's modernization has attracted the interest of both experts and policy makers.

Despite such a wide range of research, the present book represents an attempt to "rediscover" pensions in three main respects. Firstly, it provides an up-dated and more detailed picture of national pension systems in the wider Europe.² Reforms in many countries seem to be a

¹ In the following pages the term retirement programmes is used as a synonym of pension policy which assumed to be the system of benefits (not services) delivered to protect against the social risks affecting the elderly: old-age, disability, and widow (with particular reference to the former).

² The focus of much of the book on national (and supra-national) pension policy is justified by the persistent importance of the nation-state (and the more limited but increasing EU influence) in the field. While some attempts to improve the role of regional and/or local authorities have been advanced (see later on the Italian case), key decisions on the financing, the benefit-structure, the administration and the provision of pensions have been for long and are still mainly the competence of national policy-makers.

never-ending process (see the case of Cyprus, France and the UK, where further legislative innovations are in progress as this book goes to press). The chapters that follow therefore provide information on pension systems up to 2007. This comparative analysis focuses on the long-term evolution of retirement programmes with some reference to “adjacent institutions”. Following Hacker (2005: 47), Chapter 1 briefly introduces the idea that welfare state scholars have restricted their analysis almost entirely to policies with explicit and elaborate rules governing eligibility and benefits in the realm of old-age risks. As a consequence their understanding of the dynamics of reform has been limited. Other policy areas close to retirement programmes represent an important source of ideas, instruments and financial resources for innovation. This is true, for example, in the case of salary savings schemes, which have proliferated in many European countries (France, Italy, Cyprus). These, together with the institutional complexity in the pension field, represent some “institutional gates” that policy makers may open in order to promote change.³ A global comparison of both Eastern and Western countries on the basis of a common analytical perspective represents a further step towards providing an updated map of pension models in the wider Europe. The comparative part of our study is, in fact, focused on nine countries in different parts of Europe.

Secondly, “rediscovering” pensions means adding a European dimension to the more traditional comparative analysis. The major part of the literature, with some exceptions (see Clark and Whiteside, 2003), makes little reference to EU activities in the field. Yet, as convincingly proved by some seminal welfare state research (see Leibfried and Pierson, 1995; Scharpf, 2002; Ferrera, 2005), European integration does represent a source of growing challenges and constraints to national welfare states, and a further level of governance that is of growing importance. Rediscovering pensions means developing our understanding of the various semi-sovereign pension systems. In the words of Putnam (1989), the pension game is (increasingly) a “two-level” game, where national and European players are keen to implement their strategies and to affirm their ideas and interests. As argued by Leisering (2003), any attempt to describe and explain pensions policy (and politics) “from alpha to omega” through comparative analysis of national systems seems increasingly unrealistic. Can we really understand (or even just describe) the recent reform process in Italy without mentioning the Maastricht criteria and the Stability and Growth Pact? Can we assess Belgian reform policies in the last twenty years while avoiding any

³ I refer to the term proposed by Jessoula (2004a) and then used by Ferrera and Jessoula (2007) in the analysis of Italian pension reforms.

reference to the European Court of Justice and its rulings on gender equality in social security policies? Can we provide a precise picture of reforms in Central and Eastern European (CEE) countries without mentioning their accession to the European Union?

In all these respects, an excessive focus on national dynamics risks reducing our understanding of “what is going on” and providing only a limited view of the present and future in this crucial field of policy that affects the life of every European citizen.

The third dimension of our analysis deals with the key concept of welfare mix – i.e. the specific articulation of the state, market, community and family production of welfare that leads to specific welfare outcomes.⁴ As stressed by Powell and Barrientos (2004), this is one of the key components (together with de-commodification, defamilialization and stratification) of the seminal work by Esping-Andersen (1990 and 1999) on welfare regimes. But it has been underestimated in its ability to describe the interaction between players, their role and the normative foundations of past, present and future systems. Its declination in the pension area allows us to assess the evolving role of each institutional sphere (state, market, family and civil society) in providing protection against old-age and similar risks that affect the elderly. A combined study of pensions in Europe and European pensions leads us to assess the “pension mix” of the 21st century. Parallel to this it also provides some insights into the definition of key concepts related to the contemporary welfare state: solidarity, equity, redistribution of resources and risks.

In all these respects, the present research addresses certain key questions. What does history tell us about the evolution of pension programmes? Is it a story of stability or change? Is there any convergence between pension models? What is the role of the EU in the field? What are the main elements of the interplay between state, market and the other institutions in the area?

The chapters that follow provide some tentative answers through a study of the long-term evolution of retirement policy in nine countries (Belgium, Cyprus, Estonia, France, Italy, Poland, Slovenia, Sweden, and the United Kingdom), the EU role in the field, and the interplay of different institutions within the “pension mix”. The remaining part of this introduction summarizes the research project design, and the key concepts underlying the chapters that follow.

⁴ That of welfare diamond is a similar concept proposed by Jenson (2004) Chapter 1 will introduce in more detail.

II. Pensions in Europe: Challenges, Stability and Innovation

The first four chapters of the book investigate the long-term trajectory and the most recent innovations in pension systems in nine European countries in order to address some of the empirical questions mentioned above. What are the main features of pension reforms across Europe? Are these innovations just marginal? Or do they depart from past institutions? Is there any convergence between pension models? How many “worlds” of pensions exist in the European context?

The descriptive aim is central to the book. At the same time, it asks some more analytical questions related to the determinants of the reform process. To address the latter, some analytical tools are defined in the pages that follow.

A. Key Analytical Tools for Understanding Pension Reforms

The present work aims to represent a sort of handbook of retirement programmes in the wider Europe in the 21st century. It does this through combining traditional *historical institutionalism*, for which the welfare state is the result of historical contingency and policy legacy (Esping-Andersen, 1990 and 1996; Pierson, 1994 and 2001 and especially for pensions Bonoli, 2000; Bonoli and Shinkawa, 2005), with the latest studies, which have proposed a less deterministic interpretation of *path-dependency* (Campbell, 2004; Crouch, 2005; Ebbinghaus, 2005 and 2006; Streeck and Thelen, 2005). The empirical findings summarized in the next pages enable us to put forward the argument that it is welfare institutions inherited from the past that largely shape present decisions and the political strategies required to introduce them. Yet they neither prevent nor fully trigger innovations. The number and magnitude of reforms demonstrate the considerable room to manoeuvre enjoyed by policymakers over the last fifteen years. To understand pension stability and change, the research focus is on three concepts: critical junctures, pension institutions and their process of evolution. The politics of reforms is then analyzed (and assumed) to be largely influenced by policy legacy.

1. Critical Junctures

First and foremost, both exogenous (globalization and European integration) and endogenous factors (ageing and the transition to a post-industrial economy) can be defined to be one of the underlying causes of the last wave of reforms (see also Bonoli 2000; Bonoli and Shinkawa, 2005). They contributed to the formation of the most recent *critical juncture* which is “a window of opportunity for action, often opened up

through societal crises” (Ebbinghaus, 2005: 15). The next three chapters “reconstruct” the longitudinal paths of national pension systems from the late 19th to the beginning of the 21st century. The concept of “critical junctures” helps such an analysis by identifying “turning points” that have characterized key moments of rapid shift in exogenous conditions.

Although there is huge debate about the analytical relevance of this concept (see Streeck and Thelen, 2005; Hemerijck and Visser, 2007), it still seems useful, primarily for descriptive reasons: to punctuate the long-term historical evolution of public policy and distinguish between different periods of time characterized by specific, coherent waves of reform. In the words of Ebbinghaus (2005: 16), “the critical juncture model serves [...] as a working hypothesis that needs to be studied in historical comparative research”.

The analysis of challenges and constraints is then combined with that of the institutional structure of pension systems. The present work is based on a non-deterministic understanding of institutional development (much less deterministic than the traditional “punctuated equilibrium” perspective). Exogenous challenges do not impact on immovable objects. But they do interact with highly complex institutions characterized by a more dynamic evolution through time.⁵ The long-term transformation of pensions is not perceived to be the result of an alternation of long periods of stability and short phases of change, but rather an ongoing transformation through processes of institutionalization and de-institutionalization. Long pathways are still punctuated by major critical shocks, but much happens in between.

2. *Institutions and their Evolution*

There are certain key concepts underlying this understanding. Firstly, by *institutions* I mean the “building-blocks of social order [...] socially sanctioned (and) collectively enforced expectations with respect to the behaviour of specific categories of actors or to the performance of certain activities and involve mutually related rights and obligations” (Streeck and Thelen, 2005: 9). While much of the research has focused on political institutions (Immergut *et al.*, 2007), the book’s interest is in pension institutions – the system of rules involving rights and obligations to deal with old-age risks that creates constraints and incentives for political action (Myles and Pierson, 2001).⁶ Chapter 1 briefly summa-

⁵ The term institution is used as synonym of policy arrangements which create rules, constraints and incentives for political action (Myles and Pierson, 2001).

⁶ According to Streeck and Thelen (2005: 12), policies are institutions to the extent that they constitute rules for actors other than for the policy makers themselves. Rules that if necessary are enforced by agents acting on behalf of the society as a whole.

risers the main characteristics of retirement programmes (eligibility rules, financing mechanisms, benefit structure, administration etc.). This is developed in parallel with a study of the policy goals that represent the overall aim of (public) pension systems. According to the most recent research on pension reforms (see Arza, 2006; 2007), policy goals are defined in line with two dimensions: level of protection and distributional logic.

Once institutions emerge at a critical juncture then they start to live and evolve. *Institutional evolution* consists of two different sets of processes. That of *institutionalization* is made of “[...] self-reinforcing dynamics and positive feed-backs (which) contribute to strengthening new rules and increase their social acceptance, legitimacy and objectivation” (Ebbinghaus, 2005). In other words, it is a set of social reproductive dynamics that reduce the relative vulnerability to social intervention. The second set of processes is that of *institutional change* where dynamics block the activation of reproductive procedures or thwart the successful completion of reproduction. Changes may originate from contradictions between institutions and their environment, exogenous shocks and/or endogenous change. That is the case of self-undermining dynamics and negative feed-backs that diminish both legitimacy and social acceptance (Jepperson, 1991).

In contrast to the “conservative bias” of the literature on path-dependency, the next pages show that the process of institutional evolution is neither linear nor riskless. It does not represent a crystallization of past choices, and it can culminate in complete implementation and social acceptance of institutions or, alternatively, a more incomplete form of enforcement. The stability of the institutional structure cannot be taken for granted. Self-reinforcement can be weakened through processes of erosion if not exhaustion (see Hacker, 2005). And the institutional settings resulting from critical points can coexist with, rather than replace, older programmes (Crouch and Farrel, 2004; Crouch, 2005; Schneiberg, 2007). According to Brooks (2006), the relative concept of *policy legacy* consists of formal rules, sanctions and promises. All this is based on shared norms and beliefs (about what is fair and what is not) and on performance expectations (about what is the adequate outcome of an institution). When the two elements are perceived to be loosely implemented, then they may undermine rather than reinforce existing institutional settings.⁷

⁷ The reference in this case goes to Hirschman (1981) and his seminal work on changes and fluctuation of citizens’ preferences which are originated by their dissatisfaction about the quality of services and goods compared with their earlier expectations. Chapter 1 will look at this with more precision.

Hence, the two forces (challenges and institutions) “collide” at a certain moment in time and the subsequent innovation and/or stability is the result of the impact between them. Such an interaction can be easily comprehended through the metaphor of a car crash. The car represents a set of institutions (in our case pension programmes). It is not immovable but rather runs at a certain speed and with some kind of stability (equilibrium) – the state of its engine, brakes, wheels etc. (the result of the institutionalization process). When an exogenous shock (for instance a truck causing the crash) happens, it has an impact on the car. But the impact’s outcome will depend on both the magnitude of the shock and the “state” of the car, i.e. its speed and robustness, the state of its brakes, etc. Similarly, in order to assess the evolution of pension systems, researchers have to pay attention to the critical shocks and the state of the institutional setting as well.

Chapter 1 proposes a more coherent and precise framework for assessing reform scenarios. Here we introduce the main analytical consequences of such an interpretation of institutions’ stability and change. Firstly, the process of institutionalization is much more complex than simple stabilization. Positive feedbacks are often paralleled by negative feedbacks (see Crouch, 2005; Hacker, 2005). Secondly, the parallel focus on exogenous and endogenous forces helps avoid the schematic understanding of the alternation of continuity and change that is typical of the punctuated equilibrium model. A study of long-term historical sequences aids understanding of both continuity and change. Thirdly, more complex institutional evolution is consistent with greater opportunities for reformers. Policy legacy has an influence on present decisions, but policy makers have scope for path-departure if not path-switch. Going back to the car crash metaphor, the driver steers the car and has some role in (acting and) reacting in response to shocks.

Fourthly, the different degree of legitimacy and social acceptance of past institutions helps assessment of variations within single clusters of pension systems. Once institutions emerge, then their pathway can lead to different points of equilibrium (i.e. a different articulation of policy instruments and goals), with different levels of stabilization.

What is more, the analysis of institutional evolution (in parallel with critical junctures) helps assessing the stability of an institution, the opportunity for change and the plausibility of certain reforms rather than of others. When a critical juncture emerges this does not lead to a *tabula rasa*, even when past institutions seem to collapse. Past decisions alter

the set of alternatives and hence influence the following trajectory of innovation.⁸

The reform record of many European countries proves that retirement policy and welfare programmes in general are not “immovable objects”. They are subject to change in many respects: institutional heterogeneity, incoherence, complexity and hybridization provide opportunities for innovation, change and even departures from policy legacy. As brilliantly shown by Immergut *et al.* (2007), institutions (those inherited from the past) tell us a lot, but not everything, about the logic of present and future reforms. Future investigation of political and ideational variables seems necessary (see Hemerijck and Visser, 2007; Hausermann, 2007).

3. *The Politics of Pension Reforms*

The combination of challenges and institutional dynamics exerts an influence on both reform policy and politics. The latter is influenced by institutional arrangements but in a more subtle and less deterministic way than expected. The chapters that follow look at the traditional divide between *credit-claiming* and *blame-avoidance* strategies (Weaver, 1986; Pierson, 1994; 2001; Bonoli and Shinkawa, 2005).

The concept of “credit-claiming” refers to the way politicians claim responsibility for “good news” such as full employment, investment in education, etc. (Mayhew, 1974 quoted in Béland, 2005). For example, elected officials can claim credit for an increase in pension benefits and/or in their coverage following the introduction of new legislative measures. The politics of blame avoidance, by contrast, is usually related to “bad news” that may strengthen a sense of risk and insecurity. It is typical for cost-containment measures in a phase of permanent austerity. It involves the reduction of benefits to people (voters) through cutbacks to benefit rates, tightening of eligibility requirements, and/or increases in costs by raising taxes and/or contributions (Pierson 1994, 1996). In this case, the electoral and social risks are high, in that costs are concentrated while gains are diffuse; and because the reaction of the public to cutbacks (losses) and gains is asymmetric: they are more sensitive to the first than to the second. Politicians’ desire to avoid blame can be best understood as a set of interlocking attitudes. When forced to impose losses, they will use a variety of techniques in an effort

⁸ This is the case of communist pension systems. After the fall of state socialism, all of them abandoned the old path. But the new path (in some cases multi-pillar systems, in others social insurance systems) was hugely influenced by past decisions. This process is consistent with the argument proposed by Campbell (2004) about institutional *bricolage* and the recombination of old institutions in new shapes.

to conceal what they are doing, obscure their accountability and reduce the impact of the measures.

Pierson (1994) in his seminal work, followed by Green-Pedersen (2002), enumerated such strategies. Obfuscation aims at reducing the visibility of cost-containment through manipulation of or lack of information about the measures to be implemented. Dividing potential opponents is a second strategy to reduce the electoral cost and facilitate the introduction of innovations: the revision of eligibility rules for certain social groups but not for others is an example. Compensation is then represented by back-payments to policy-takers that are included in package deals whose nature (redistributive, distributive and/or subtractive) is more difficult to assess. Persuading the public of the need for unpopular initiatives is a further instrument policymakers have to construct a different interpretation of both problems and solutions and justify the less favorable definition of rights and obligations.

As argued by Bonoli (2000; 2003), the particular mix of credit claiming and blame avoidance depends on the policy legacy of each pension system. Chapter 1 will differentiate the politics of reform in different pension clusters.

B. Comparing Pension Systems: Mapping, Tracing, Modelling

The key analytical concepts mentioned above help us to study the long term evolution of retirement programmes in the European context. Such a comparative analysis, and the related research strategy, are developed in the first chapters in line with three key objectives: to map pension systems across Europe, to trace their long-term evolution, and to investigate pension models of the 21st century. This section provides a brief introductory summary based on three keywords: *mapping*, *tracing* and *modelling*.

1. Mapping and Tracing Pensions in the Wider Europe

This book aims to provide a *map* of pension systems, their stability and change across Europe. On the basis of selection of “most dissimilar cases”, the chapters that follow will assess retirement policy in nine countries (from Eastern and Western Europe). This is consistent with the interest in the stability and/or innovation of retirement institutions inherited from the “golden age” of welfare, and the convergence and/or divergence of present (and future) pension systems.

However to fully understand the present and future of pensions it is necessary to look back at the origins of national programmes. In many areas – and in pensions in particular – time is crucial in different respects. It is important for assessing the distribution of resources (and

thus of protection) between age groups and generations. And it is crucial for understanding the very nature of the policy, its evolution and its determinants.⁹ The present is a mirror image of past institutions, while the future is the outcome of present decisions. *Tracing* their long-term path is thus crucial for mapping pensions.

Chapters 2, 3 and 4 shed light on the long-term evolution of pension systems across Europe: from their emergence at the end of the 19th century to their growth in the second half of the 20th century, and then up to their “recalibration” over the last twenty years. A study of the emergence and growth of pension systems is a crucial source of information on the *status quo ante*: the status of pension institutions when the most recent critical juncture appeared. It forms the first step for the core part of the comparative analysis – that related to the most recent wave of reforms. This book’s analytical framework, which is based on critical junctures, institutions and institutionalization, will be fully adopted for this last period of reforms.

This will take the form of a historical comparative analysis of nine countries representing different pension models with different institutional settings, policy goals and normative foundations. In this context I refer both to those contributions that have identified two main clusters in Western countries (see Myles and Pierson, 2001; Hinrichs, 2001; Bonoli, 2003), and to the traditional classification and/or typology of welfare states (Esping-Andersen, 1990; Ferrera, 1996). The latter allows one to enrich the reference to a single policy (in this case pensions) and to contextualize it in the broader welfare model it belongs to.

More specifically, the study examines two pension systems in Continental European countries that belong to the “conservative-corporatist” welfare regime: Belgium and France. Their comparative analysis helps one to assess possible distinct reform trajectories in what are broadly similar “social insurance” (SI) pension systems.¹⁰ Italy also represents the “social insurance” model, but it is also typical of Southern European welfare states, with important consequences for the institutional design of retirement programmes (Ferrera, 1996). UK represents the multi-pillar (MP) pension model integrated into a liberal welfare state typical of Anglo-Saxon countries.

Swedish pensions, which belong to the “second generation” of social insurance systems, offers an opportunity to outline the long-term evolu-

⁹ The seminal work by Pierson (2004) on politics and time has provided many examples related to retirement policy for the decisive role of timing and sequencing in the evolution of institutions.

¹⁰ The next section introduces the modelling business in the pension area and the two main clusters for western countries: social insurance and multi-pillar systems.

tion (and transformation) of pension schemes. Originally based on universalism and part of a social-democratic welfare regime, Swedish pensions were then “re-oriented” along the lines of the Bismarckian model.¹¹ All the countries mentioned above belong to Western Europe and, in line with our main focus on the EU, constitute Member States that were integrated into the European Union before the end of the 20th century.

Table 0.1: Pension Systems Under Scrutiny

	Path's Origin	Pension Model (end 1980s)	Welfare Regime (end 1980s)
Belgium	Bismarck	(1 st Generation) Social insurance	Conservative-corporatist
France	Bismarck	(1 st Generation) Social insurance	Conservative-corporatist
Italy	Bismarck	(1 st Generation) Social insurance	Southern-European
Sweden	Beveridge	(2 nd Generation) Social insurance	Social-democratic
UK	Beveridge	Multi-pillar	Liberal
Poland	Bismarck	Communist	Communist
Estonia	Bismarck	Communist	Communist
Slovenia	Bismarck	Communist	Communist
Cyprus	Beveridge	(3 rd Generation) Incomplete Social Insurance	Liberal/ Conservative-corporatist

The other countries under examination acceded to the EU at the beginning of the 21st century. Three out of four of these are post-Communist states. While some authors have treated them as part of a single welfare model, others have proposed a more nuanced and articulated reconstruction of their institutional settings (Deacon, 1999; 2003; Fenger, 2007).

Poland, between Visegrad countries, represents a pension system originally based on the Bismarckian model. It was subsequently

¹¹ Some authors use the label “second generation” of social insurance systems for Sweden, Norway and Finland in that they introduced a mandatory and public “earnings-related” scheme after WW II, well after the introduction of the first earnings-related programmes in Continental Europe (Hinrichs, 2001).

influenced by Communist ideology and the state planned economy. Since the end of the 1980s, with the fall of the Communist regime, retirement schemes have been widely reformed – as well as the welfare state in general (Bohle and Greskovits, 2007).¹²

Estonia is one of the Baltic countries, which followed a peculiar historical and institutional path. On the one hand, all these countries were largely influenced by Bismarck in the emergence of their first social programmes, but they then became part of the USSR. This reduced their autonomy and contributed to the definition and implementation of specific institutions in line with the so-called Soviet model. Then, at the end of the 20th century, transition to a market economy developed in parallel with the building of national independence.

Slovenia, by contrast, is a country that experienced a much softer transition to both national independence and a market economy. Its welfare institutions were hugely influenced by Bismarck and then by the particular Yugoslav version of Communism. Slovenia belonged to a federal state and thus had the opportunity to retain some autonomy in the definition of its welfare model, partly thanks to its ongoing socio-economic relations with the Western world. After Yugoslavia collapsed and Slovenia regained independence, the country has maintained many of its social standards.

Some of the so-called “new” EU members did not share a communist heritage with Central-Eastern Europe. Cyprus and Malta, in fact, developed a peculiar welfare model derived from liberal institutions, the British Commonwealth and UK domination (Natali, 2004a). Then in the 20th century both countries mixed these liberal roots with social insurance institutions. In the case of Cyprus, the mix led to an incomplete social insurance pension system within a hybrid liberal/conservative-corporatist welfare model.

2. Modelling 21st Century Pensions

After summarising the long-term transformation of pension systems across Europe, Chapters 3 and 4 describe pension models at the start of the 21st century. Many scholars have recently proposed a revision of the classic categorization of both welfare states (Castles, 1993; Esping-Andersen, 1990; 1996; Korpi and Palme, 1998) and retirement schemes (Bonoli, 2000; 2003; Hinrichs, 2001; Myles and Pierson, 2001), and Chapter 7, on the basis of the empirical evidence produced by the comparative analysis, will focus on revising the latter.

¹² While Bohle and Greskovits (2007) use indicators which differ from those proposed by Esping-Andersen (1990), their contribution seems useful for a more heterogeneous picture of new EU members.

Contemporary literature has widely proposed two main pension clusters in Europe (*Bismarckian vs. Beveridgean* – Myles and Quadagno, 1997; *Social insurance vs. Late-comers* – Hinrichs, 2001; *Social insurance vs. Multi-pillar systems* – Bonoli, 2003), consistent with two different paradigms.¹³

In *social insurance* systems the state provides the greater part of pension benefits through mandatory public schemes that are basically earnings-related (e.g. France, Germany, and Sweden). The financing method is on a *pay-as-you-go* (PAYGO) basis. Current contributions paid by both employers and employees (or revenues coming from current taxation) are not accumulated but rather immediately used for financing current benefits. The main goal of such pension programmes (which represent the so-called “1st pillar”) is to grant the same level of revenues before and after retirement. The high generosity and coverage, and the comprehensive character of public pensions are assumed to have crowded out private schemes.

In *multi-pillar* systems, by contrast, the state has responsibility for basic entitlements with the aim of preventing poverty, while additional benefits are provided by supplementary occupational and/or individual schemes (e.g. Denmark, the Netherlands, and the UK). The financing methods are thus mixed: on the one hand, public pension programs (1st pillar) provide flat-rate or means-tested benefits, on the other hand, supplementary occupational schemes (2nd pillar) and pension funds (3rd pillar) are mainly funded. Current revenues are saved and then used to finance future benefits.

This classification has been particularly useful to summarize the main traits of pension programmes in western Europe throughout the 20th century. But is this effort consistent with the pension topography of Europe at the start of the 21st century?

On the base of the empirical evidence of pension reforms, Chapters 3 and 4 will focus on three critical issues related to the traditional classificatory approach. First of all, the “*social insurance/multi-pillar*” divide refers to Western Europe only. Does that classification need to be revised or amended to take into account the countries that joined the EU in 2004 (most of them with a Communist legacy)?

Secondly, the two clusters mentioned above refer to pension systems at the end of the “golden age” of welfare, prior to the last wave of innovation. They correspond to two opposing paradigms (Bonker, 2005). Yet, as claimed by Arza (2007), these clusters are now less “clear-cut” than they were some decades ago. New measures have increased

¹³ In the following, we refer in particular to the work of Bonoli (2003).

institutional fragmentation and the coexistence of rules and mechanisms that were mutually exclusive in earlier periods. Funded schemes, for instance, are becoming important not only in multi-pillar systems, but in social insurance countries as well. Some pension systems are hybrid cases that are difficult to assign to a particular cluster (Natali, 2004a). As a consequence, variations within each cluster have grown.

Few contributions have shed light on more recent innovations. Their assessment of the outcome of reforms (in terms of convergence/divergence) seems promising, but is still in need of further development. Some have provided ambiguous insights into the existence of a common trend shared by different countries. Bonoli (2003: 412) has claimed the existence of “[...] a mix of convergent developments and [...] a persistence of national differences [...]”, and stated that “[...] divergent developments will (probably) lead to two different types of multi-pillar systems”. If the last wave of innovations has led to new types of multi-pillar systems, how can they be defined? And which criteria can be used to assess the differences and/or similarities between distinct multi-pillar models?

Similarly, Bonker (2005) has stressed the spread of the multi-pillar paradigm in different social insurance countries (especially in Germany and Sweden) (see also Hinrichs, 2005 for the German case). But do countries like the UK, Sweden and France really share the same paradigm? Have recent innovations really led to some form of convergence towards a “common” European pension model?

Thirdly, the “two worlds” and the other similar divides assume that the interplay between public and non-public programmes is based on the “crowding-out” hypothesis: the more public retirement schemes mature, the less room is left for non-public schemes. Other contributions have, by contrast, outlined different and more complex dynamics between public and non-public provisions (see De Deken, 2007). As Chapter 3 shows, reforms since the 1990s have increased the complexity of the public/private mix. The partial privatization of mandatory programmes in countries like Sweden has not led to marginalization of public provisions, but to more complex public/private partnerships. The next chapter proposes a set of concepts to shed light on this complex interplay.

III. European Pensions: The Key EU Instruments in the Field

Pensions are, in many respects, the cornerstone of national welfare systems. Thus, it is assumed that pension reform does not and will not enter the realm of EU politics (Dudek and Omitzig, 2002). The

controversial nature of pension reform and the fact that state-run schemes are financed from national tax revenue mean that it seems an unlikely policy area for the EU to become involved in. Yet the EU has developed articulated strategies to deal with pensions policy. As proposed by the Council of Lisbon in 2000, the “pension issue” is dealt with at European level according to few different (but complementary) dimensions (European Council, 2000). While European integration in the realm of pensions has been traditionally limited, some long-term developments may represent a certain limitation of national prerogatives (Pochet, 2005; Goetschy, 2006). As stressed in Chapter 1, EU has favoured domestic changes through market integration and the hardening of fiscal, monetary and economic discipline, and the coordination of national social and employment policy. Moreover, European integration has directly affected the boundaries of social citizenship. Consequently the traditional link between social rights and (national) territory has become much weaker (Ferrera, 2005; 2007).

Chapters 5 and 6 will introduce the main advancements in the field of pensions. They will look at four main axes of action and at the two main policy instruments (regulation and coordination through post-regulatory instruments) used in the domain.

A. Main Axis of the EU Action on Pensions

The first axis concerns gender equality. Secondary legislation and the decisions by the European Court of Justice have extended the EU requirements and prohibitions which have required national pension reforms (see later on the case of Belgium and UK). This is what Leibfried (2005) has defined a truly activist EU social policy.

The second axis concerns the completion of the Single Market. In that context the EU has developed different strategies for implementation of the fundamental freedoms enshrined in the Treaties: free movement of workers, freedom of establishment, free movement of capital, freedom to provide services (Pochet, 2003). This is an area of social regulation where EU powers were previewed in the Treaty of Rome and then increased through its subsequent revisions. The portability of social security rights for migrant workers and the completion of a single market for occupational pension funds are at the core of our analysis.

The third axis aims to face population ageing through co-ordination of macro-economic policy (and especially of budgetary policy). Here the Stability and Growth Pact represent the main instrument to be adopted.¹⁴

¹⁴ Reform of capital markets are subject to the Cardiff process; matters concerning Economic and Monetary Union (EMU), are shaped by the Broad Economic Policy

The move towards the Economic and Monetary Union (EMU) has largely encouraged pension reforms across Europe and have posed problems and pressure on national programmes (Martin and Ross, 2004).

Finally, the fourth axis consists of modernization of social protection programmes through the improvement of their financial sustainability and the promotion of social adequacy and modernization in an “active” welfare state. The Open Method of Co-ordination (OMC) on pensions is the specific process introduced to facilitate a co-ordinated response to similar challenges. This soft form of co-ordination represents one of the most recent steps in the EU pension policy (de la Porte and Pochet, 2002; Pochet, 2005).

Moreover, as argued by Dudek and Omitzig (2002), the EU has provided forums for discussion where ideas are spread, awareness is raised, and policy networks are created. It is in the realm of ideas, their circulation, and their legitimacy that the EU’s influence makes itself felt. EU integration has made all Member States aware of the policies pursued by their neighbours. The EU has become an agenda-setter for Member States. The Commission has the power to impose issues that are not necessarily on national agendas. The fact that the Commission has taken up the issue, and may have received several explicit but different mandates from the European Councils, gives it the capacity to maintain the issue as a priority on national agendas. Some political leaders also use the EU as a pretext. As a study by the Commission stated: “[...] beside economic arguments, coordination can also play a useful role from a political-economy view-point by helping to implement unpopular but necessary policy actions at national level” (CEC 2002: 4). European-level advancements offer a resource for those who seek to recalibrate national pension programmes.

As stressed by Ferrera (2005), all these trends put national pension systems under further pressure. The key dimensions of solidarity, originally defined within national boundaries, are now increasingly being influenced by EU integration. Despite the still narrow competence in the pension area, the EU involvement tends to limit both state autonomy and sovereignty (Leibfried, 2005).

Guidelines (BEPG) and matters of employment, by the Luxembourg process. (For a description of these, see CEC 2002).

B. EU Instruments in Pension Policy: Regulation and Post-regulation

As far as the instruments utilized in the field are concerned, in line with Majone (1997 and 2002) and Levy-Faur (2005), the EU competence has been mainly centred on regulation and post-regulation. EU policies in the area have evolved along quite different lines from those followed by Member States. At national level, pension policy is keen to provide redistribution and merit goods. This is part of the welfare state and of the broader *positive state* (in the words of Majone). At the supra-national level, by contrast, regulation is to deal with market failures. Redistributive issues are substituted by efficiency issues.¹⁵

Given the limited financial resources of the EU, rule-making has been the most important instrument of governance at that level.¹⁶ What is more, the need to be part of the EU *regulatory state* and to improve implementation of European legislation has led each Member State to further develop regulation and has thus contributed to a regulatory virtuous cycle. The proliferation of directives and regulations and of regulatory agencies at European level, the key role of the European Commission and the European Court of Justice are all an expression of the increase in regulatory powers in the EU context (see Majone, 2002). In pension policy, it is the case of secondary legislation and the Court's rulings on gender equality, portability of pension rights and on supplementary schemes. Chapter 5 will therefore focus on EU regulation in the fields and its main influence on national retirement programmes.

Such an increased role, together with the persistent limits to EU competence and new challenges have, however, contributed to a more critical understanding of regulation and to the shift of scholars' interest on new forms of governance to be used on social policy (Goetschy, 1999; 2006; Zeitlin, 2001; 2005a). Legislation may be irrelevant and non-effective for other systems, it may damage them, and it may be damaged through "over-socialization" (Teubner, 1998). For scholars of the theory of autopoiesis, the way to address such problems is neither a

¹⁵ In terms of ideal-types, welfare policy is at the origin of redistributive conflicts that are managed through majority votes. Redistribution is a zero-sum game: the gain of one social group means the loss of another group. Regulation, by contrast, consists of positive-sum games where everybody can gain once the right solution is found. In contrast to redistributive politics, Pareto efficient choices could be settled, in principle, by unanimity. A second-best alternative is the delegation of problem-solving tasks to independent agencies (Levy-Faur, 2006).

¹⁶ This is part of what Scharpf (2002) has defined the political decoupling of economic integration and social protection issues which has characterized European integration from Rome to Maastricht.

highly specified regulatory law nor de-regulation, but “more sophisticated, abstract and indirect forms of regulatory interventions” such as control of self-regulation, reflexive law and meta-regulation (Scott, 2004). Some scholars have in fact stressed the need to move beyond the notion of regulatory state (see Levi-Faur, 2005).

Instruments of soft law (i.e. guidance, circulars and contractual rules) are assumed to be effective in shaping the behaviour of those to whom they apply without the use of formal law (Trubek and Mosher, 2003). The development of multiple instruments is paralleled by a variety of control mechanisms. Forms of hierarchical control coexist with “architecture”, “community” and “competition”. The institutional setting of regulators is at the same time more complex and more integrated than in the regulatory state.

A first distinctive characteristic of the *post-regulatory state* is the new function of public intervention. Rather than correcting market failures, the aim is to secure “structural coupling” between different autonomous social sub-systems (mainly politics, economy, society and law). More complex institutional settings, the increased number of actors exerting control functions and the development of softer forms of control are further key traits of the post-regulatory ideal type. Chapter 6 will offer a brief summary of the main advancements through post-regulatory instruments. New forms of governance have been introduced in many policy areas with direct and indirect effects on retirement programmes. In particular, the emergence and evolution of the Stability and Growth Pact; and of the Open Method of Co-ordination on Pensions will be analyzed in more detail, with reference to their influence on national reforms.

IV. The European “Pension Mix” in the 21st Century

This final section looks at the articulation of different settings and institutional spheres that contribute to providing protection against old-age risks. Much of the contemporary literature on pension reforms has focused on the interaction of public and non-public actors in the provision of services and benefits. Starting with reference to the dichotomy between state and market, many have then used a more varied articulation: first by using the label “welfare triangle” to mean the progressive interaction between the state, the market and the community, and then some have proposed the label “diamond” of welfare, to include the family as well (Jenson, 2004; Saint-Martin, 2004).

On the basis of the concepts referred to above, the concluding part of the book provides a picture of the welfare diamond at the beginning of the 21st century. For Jenson (2004: 3), the welfare diamond describes

“the role and responsibilities as well as governance arrangements that are used to design and implement relationships among family, market, community and the state”.

Chapter 7 proposes this last definition as a basis for the analysis of the outcome of pension reforms. In fact some authors have recently widened their analysis to cover new players – not just the nation state but also social partners, financial institutions, international organizations, etc. (see Bonoli and Shinkawa, 2005). As far as pensions are concerned, I refer to four main institutions that play a role in the field.¹⁷ Access to welfare first comes from the state sector. The state acts in line with more or less ambitious aims (e.g. to maintain the same level of revenue before and after retirement; or to simply prevent the risk of poverty). As argued above for the EU, pensions’ regulation may directly affect individual well-being as well. The market provides further or alternative protection on the base of the insurance principle (typically in the form of individual contracts with pension funds, insurance companies etc.). The social partners are key players in providing a degree of communitarian protection: while it is still based on the labour market, some solidarity rules and risk-pooling assume peculiarly non-market forms of exchange. And social dialogue is important as an additional source of rules to regulate the provision of pensions (through occupational schemes). Moreover, European citizens gain welfare from benefits and services provided by the family: it is a central locus for redistributing risks, resources and protection through care and financial support.

Personal and material well-being depends on the mix of interventions from the sectors mentioned above. In the next chapters of the book the main focus will be on the first three sectors (state, market and social partners), with particular attention being focused on the articulation of public responsibilities between the national and supra-national level.¹⁸ Hence the EU is part of the renewed “pension mix” of the new century.

Old and new social risks, demography, economic globalization and many other socio-economic variables have destabilized the old pension architecture. The study of national reforms and supra-national interventions allows some preliminary reflections on the normative foundations of the renewed pensions policy across Europe.

¹⁷ With a reference to the seminal work of the Italian sociologists Ascoli and Ranci (2002) I do refer to the pension mix, where different institutions interact to protect against old-age and related risks.

¹⁸ See Albertini *et al.* (2007) for an interesting introduction to the role of families in the redistribution of welfare between generations.