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RETHINKING RETIREMENT

THE POLITICS OF PENSION REFORM IN BRITAIN, SWITZERLAND AND FRANCE

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October 1997

Abstract

This study is concerned with the impact that political institutions can have of welfare reforms. It compares recent pension reforms adopted in three countries - the UK, France and Switzerland - characterised by very different constitutional arrangements. In each country, governments shared similar concerns for the medium and long term financing of state pensions, and were equally committed to achieve savings through a partial rethinking of pension policy. However, the three governments were operating in substantially different institutional environments, and developed different strategies in order to achieve a common goal.

In the UK, thanks to a constitutional structure which concentrates power in the hands of the government, the latter was able to impose changes in face of widespread public opposition. In contrast, in Switzerland, the high level of power fragmentation generated by its political institutions, forced the majority to combine saving measures with elements of expansion. Finally France, which as far as constitutional arrangements comes somewhere between the two, managed to adopt a (negotiated) reform when, because of contingent political factors, power concentration was low, but failed when it was higher.

The study concludes by arguing that political institutions are an important factor which affects the selection of a given strategy in pension reform. However, their impact is mediated by a series of other contingencies that can influence the level of power concentration. Of particular relevance are electoral results, which can strengthen or weaken the bargaining power of a government, and the position in the electoral cycle at the time of reform.

Contents

Acknowledgments

In this study, I have greatly benefited from the generous help and assistance of many friends and colleagues. First, I would like to thank Vic George, supervisor of this dissertation, for providing intellectual guidance and constant encouragement throughout this project. I am particularly grateful also to Peter Taylor-Gooby, who has managed to pass on to me some of his enthusiasm for academic research. His comments, especially on the theoretical part, were of great use.

For their advice, comments, and encouragement, I am also much indebted to: Jens Alber, Sandro Cattacin, Clive Church, Jochen Clasen, Olivier Giraud, André Mach, François-Xavier Merrien, John Myles, Bruno Palier, Yannis Papadopoulos, Juan-Francisco Perellon, Paul Pierson and Martino Rossi. Luc Nicod deserves a special mention, as he proof-read the whole manuscript and greatly helped improving the quality of the text.

A very special thanks goes to Zsusza Pesko, whose patience, support and encouragement have helped me a lot throughout the preparation of this thesis.

I am also grateful to the civil servants, politicians, and representatives of organised interests who agreed to be interviewed for this project, and to whom I promised anonymity. Their insiders' view proved on more than one occasion instrumental in understanding the substantive issues at stake.

Last, but obviously not least, thanks are due to the *Dipartimento Istruzione e Cultura* of the Swiss canton Ticino, which, through a generous grant, made possible the research on which this study is based.

List of abbreviations

AARP: American Association of Retired People
AdI: Anneau des Indépendents (Swiss centre independent party)
AVS: Assurance Vieillesse et Survivants (Swiss basic old age pension scheme)
CBI: Confederation of British Industry
CFDT: Confédération Française des Travailleurs Salariés (French federation of trade unions)
CFE-CGC: Confederation Française de l'encadrement - Confédération Générale des Cadres (French managers' association)
CFQF: Commission Fédérale pour les Questions Féminines (Swiss federal commission on women's issues)
CFTC: Confédération Française des Travailleurs Chrétiens (French federation of Christian workers)
CGP: Commissariat Général au Plan (French planning commission)
CGPME: Confédération Générale des Petites et Moyennes Entreprises (French association of small and medium-sized business)
CGT: Confédération Générale du Travail (French federation of trade unions, close to the Communist party)
CNAV: Caisse Nationale d'Assurance Vieillesse (French old age insurance fund)
CNPF: Conseil National du Partonnat Français (French association of employers)
CPAG: Child Poverty Action Group
CPS: Centre for Policy Studies
CSC: Confédération des Syndicats Chrétiens (Swiss federation of Christian Unions)
CSG: Contribution Sociale Généralisé (French tax earmarked for social security)
DHSS: Department of Health and Social Security
DTI: Department of Trade and Industry
EMU: European Monetary Union
ENA: Ecole Nationale d'Administration (French school for civil servants)
FO: Force Ouvrière (French federation of trade unions)
FPTP: First-past the-post (British electoral system)

FSV: Fonds de Solidarité Vieillesse (French old age solidarity fund)
GMP: Guaranteed Minimum Pension
IEA: Institute of Economic Affairs
IoD: Institute of Directors
LFPR: Labour Force Participation Rates
LIS: Luxembourg Income Study
LPP: Loi sur la Prévoyance Professionnelle (Swiss law on occupational pension funds)
MNC: Multi-National Corporation
NAPF: National Association of Pension Funds
NIF: National Insurance Fund
OASDI: Old Age, Survivors and Disability Insurance (US)
OFAS: Office Fédéral des Assurances Sociales (Swiss federal office for social insurance)
OPB: Occupational Pension Board
PC: Prestations complémentaires (Swiss means-tested pension supplement)
PCF: Parti Communiste Français (French Communist Party)
PDC: Parti Democrate-Chrétien (Swiss Christian-Democratic party).
PLS: Parti Libéral Suisse (Swiss Liberal party)
PRD: Parti Radical Démocratique (Swiss Libéral-Democratic party)
PSS: Parti Socialiste Suisse (Swiss Socialist Party)
RPR: Rassemblement pour la République (French Gaullist party)
SERPS: State Earnings Related Pension Scheme
SNCF: Société Nationale des Chemins de Fer (French national railway company)
RATP: Régie Autonome des Transports Parisiens (Parisian underground)
SSA: Social Security Act
TUC: Trade Union Congress
UCAPS: Union Centrale des Association Patronales Suisses (Swiss employers' association)
UDC: Union Démocratique du Centre (Swiss ex-farmers' party)
USS: Union Syndicale Suisse (Swiss federation of trade unions)

List of tables and figures

Tables

Figures

Introduction

I started working on this project in the early 1990s, a short time after I had moved from Switzerland to Britain. At that time I was finding out what had happened in this country during the 1980s. The memory of Thatcher was still firmly entrenched in discussions and in collective thinking, and the social consequences of Thatcherism were increasingly being recognised. I instinctively compared what I was seeing in Britain with what I had been used to in Switzerland. Many things surprised me, but perhaps the one that most struck me was the fact that the various Thatcher governments, which were never supported by the majority of the electorate, were able to implement radical and unilateral reforms regardless of substantial criticism coming from large sections of society. I was amazed by the degree of control the Conservative governments had on policy-making, and by the extent to which they could afford to ignore what so many other people wanted.

Coming from a country which is viewed as the exemplar of consensus democracy, my surprise was undertsandable. In Switzerland, political decisions are generally the result of compromises that are indirectly supported by some 80% of the electorate. As political scientists have pointed out, this is not due to a particular listening attitude of Swiss policy-makers. Rather, it is the Swiss constitutional structure which makes provision for power-sharing and offers veto points to unsatisfied minorities, such as referendums. The result is that governments have tended to incorporate potential dissent, in order to reduce the risk of being unable to get legislation accepted. For this reason, the legislative process is among the most lengthy in Europe. For instance, work on the 1995 pension reform (the one analysed in this study) started 16 years earlier, in 1979. A second consequence of 'consensual' policy-making, is the fact that truly innovative policies are very unlikely. Typically, viable compromises can be achieved only on incremental change, which affects only marginally the current situation.

In the early 1990s, however, Switzerland was going through its worse economic downturn since 1945, and increasingly, the neo-liberal ideas that inspired the Thatcher reforms of the 1980s were gaining ground among Swiss elites.

Employers, the powerful banks and the political right-wing were increasingly arguing in favour of a more radical approach in economic and social policy, based on lower social expenditure, a more flexible labour market, lower taxes, and so forth. The conditions were ripe for a shift in public policy like the one experienced by Britain in the 1980s.

In this context, I became convinced that Swiss formal institutions were likely to constitute a formidable obstacle to the neo-liberal ambitions of economic and political elites. The sort of reforms they were suggesting were certainly not likely to attract support from a substantial majority of the electorate. Perhaps, a 'Thatcherite revolution' was simply impossible in the Swiss institutional context.

To try to answer this question was the initial stimulus for this study, which, more in general, is concerned with the issue of whether welfare retrenchment is affected by constitutional structures. I chose to concentrate on the particular area of pensions because public pensions are one of the programmes that are most strongly supported by the public and as a result the institutional obstacle to retrenchment is likely to be more visible. For it is not institutions *per se* that impede retrenchment. They can provide an opportunity to influence policy, but there needs to be a social group prepared to take up this opportunity, otherwise the potential impact of institutions on policy remains unexploited. In this respect, the focus on institutions should not be accompanied by neglect for social forces.

Since the UK and Switzerland are two rather extreme versions of majoritarian and consensus democracy respectively, I decided to include in the analysis a third country, France, which can be seen as being half-way between the two. France was also a particularly interesting case because of the topicality of the pension issue there: despite a rapidly growing deficit in the pension scheme budget, governments of different political orientations had long been unable to win the unions' resistance to a reduction in pension entitlements.

As I am about to complete this project, the pension issue remains crucial in most European countries. It has gained additional prominence also because of the commitment of many EU countries to join the European Monetary Union (EMU). Because access to the EMU depends on a number of economic criteria, including the level of government budget deficit, these EU countries are under pressure to save public funds. Pensions, which is generally the single largest item in social expenditure, are obviously a privileged target for cuts.

In France, after various attempts at cutting back public pensions, the right-wing government has been voted out of office, as it promised austerity measures in order to qualify for the EMU. In Switzerland work has already started on a new pension reform, which should guarantee the financial viability of the basic scheme. In Britain, the most pressing issue is not cost. Instead, the problems generated by a largely unregulated private pension sector have become increasingly evident. Now the debate is on how to regulate it better.

Hopefully, the findings of this study will help to explain why given paths to pension reform are adopted in some countries but not in others. It is argued that the political limits to welfare retrenchment are country specific and that they depend on the institutional opportunities for influencing policy provided by formal institutions to the relevant groups. In general, when institutions favour power concentration, legislation reflects the government's priorities to a larger extent. In contrast, when a political system is characterised by power fragmentation, governments have to make concessions or to accept the inclusion in new legislation of non-retrenchment elements in order to secure the approval or at least the acquiescence of the relevant interest groups, most often the labour movement.

These mechanisms of power concentration/fragmentation are likely to become more important in the future, as the main political cleavage in social policy seems to be shifting from the left-right axis to an opposition between governments and trade unions, to a large extent regardless of the political orientation of the government. This has long been the case in France where the Socialist governments of the 1980s clashed with the unions on a number of welfare issues. As new left-of-centre governments have been voted into power in Europe, this shift in the dominant cleavage in the politics of social policy is likely to become more evident. In Italy, it is becoming clear that the centre left government is committed to a possibly radical reform of the welfare state, and the main struggle will be between them and the unions. Economic conditions allow very narrow room for manoeuvre, and as a result the left, even when in power, has little choice but to adopt retrenchment policies in the area of welfare.

If it is true that the main cleavage in social policy reform will not be the left-right one but the opposition between governments and organised labour, then the institutional explanation of policy outcomes might acquire some additional relevance and replace the 'politics matter' thesis as one of the key approaches to policy analysis. In fact, the degree of influence trade unions have on policy depends to a large extent on the access they are allowed to policy-making.

This study looks at how formal institutions, and in particular constitutional structures have affected the course of pension reform in three countries, selected because of their different patterns of power concentration/fragmentation. It begins by looking at the socio-economic pressures on pension schemes, in particular ageing (chapter 1). These socio-economic pressures are then translated into debates, policy-making and ultimately in policy-outcomes. The link between socio-economic pressures and policy outcomes is obviously mediated by a series of political, institutional and cultural factors, which have inspired the theoretical works on the determinants of social policy. Some of these are reviewed in chapter 2, and on this basis, a set of hypotheses in relation to how the different countries are likely to deal with the pension problem is put forward. Before looking at the course of policy in the three countries, chapter 3 looks at some methodological issues.

Chapters 4 to 6 are attempts at reconstructing the political processes that led to the adoption of pension reforms in the three countries. As far as possible, I have tried to follow a similar structure in the presentation of the case-studies. First, I look at the institutional and political context in which reforms have been adopted; second I provide a description of the country's pension system. The third part concentrates on the pension policy-making process, and finally, I try to provide a link between what has been observed and the theoretical framework presented in chapter 2. Finally, chapter 7 highlights the key elements that emerge from the comparison of the case-studies, and links them to the theoretical discussion of chapter 2.

Chapter 1

DIMENSIONS OF THE PENSION PROBLEM: INSTITUTIONS, ECONOMICS AND POLITICS

The long term sustainability of current pension arrangements is one of the major issues which advanced societies will have to deal with over the next few decades. The projected increase of the size of the older population, combined with a reduction in the number of workers, constitutes a significant challenge to the viability of existing pension systems, which, according to many, need to be substantially reformed. While these general views are widely accepted, there is little agreement as to what the actual size of the pension problem is now and will be in the future. Those who have analysed the phenomenon have reached conclusions which range from apocalyptic scenarios in which, if nothing is done, the elderly will appropriate increasing large shares of national income with massive detrimental consequences on the welfare of younger generations (Thurow 1996), to less pessimistic ones, where the occurrence of an increase in pension expenditure is accepted as possible, but it is felt that this will not constitute a major economic problem (Johnson and Falkingham 1992).

Arguably, gloomy predictions of a 'demographic time bomb' deserve little credibility. However, it seems clear that when the baby-boomers born after World War II are going to reach retirement age, pension expenditure is going to increase quite dramatically over a relatively short period of time. Moreover, some recent developments have put additional pressure on pension schemes. First, recent economic changes have resulted in increased international competition and in an upswing in unemployment figures in most European countries. The result is a reduction in tax and contribution revenues, which has affected the financial viability of pensions schemes as well as of other government programmes. Second, countries willing to participate to the European Monetary Union need to respect a number of economic criteria. In particular, government budget deficits higher than 3% of GDP are not considered as acceptable. As a result, countries committed to join and to remain in the European single currency (such as France, Germany or

Italy) have taken steps to reduce public expenditure. Pensions, as the largest single item in most government budgets, constitute an obvious target for saving measures. Finally, unlike a few years ago, the current dominant approach to economic policy favours balanced government budgets. Again, this is likely to encourage policy makers to turn to pensions. These elements combined with the threat of a substantial change in the demographic structure of the population, constitute a powerful pressure on governments to take action.

This chapter discusses some of the elements that contribute to define the pension problem. Above all, it aims to establish what are the conditions in which the pension problem emerges and in which debates on the future of pensions take place, or in other words, the factual background against which political actors operate. In this respect, it constitutes the basis on which to build an analysis of the politics of pension reform. First it provides an overview of provision for retirement in industrial countries. It looks at the differences between pension systems and at their origins. Starting points can be important for the course of reform, as they channel debates in some given directions. Second, it focuses on the socio-economic pressures that are likely to affect pension policy over the next few years. The discussion covers demographic and expenditure projections as well as the living standards of the retired population.

The chapter concludes by making the case for an analysis of the politics of pension reform. Pension systems are highly sensitive distributional mechanisms. They transfer huge sums of money across generations, time, occupational groups, income groups, genders and so forth. In this respect, pension systems are political creatures. Their distributional equilibrium reflects the power relationship between the different political actors who designed them. The result is that once a settlement is reached, departures from that arrangement are likely to be extremely delicate exercises. In particular, when it is a matter of achieving savings, it is almost impossible to reform a pension scheme and to maintain the same distributional equilibria. Some groups are bound to lose out. That is why, pension policy in general, and especially the recent pension reforms, have been characterised by an impressive level of political controversy.

1.1. THE INSTITUTIONAL LEVEL: AN OVERVIEW OF PENSION SYSTEMS[1]

As in other areas of social policy, there are substantial cross-country variations in pension systems, even if the analysis is restricted to a fairly homogeneous geo-political area, like western Europe. Palme, for instance, looking at pension systems in 18 OECD countries, points out that 'countries are similar in the very simple sense that they all have legislated old-age pension programs.' (1990: 147). Beyond that, it becomes more difficult to find consistency between different pension systems. Several attempts to make sense of variations have been made, some of which are reviewed below. In particular, it has been tried to identify ideal-types of pension provision, which can be found in a more or less pure form in a number of countries. To a large extent, this exercise overlaps with the more general effort aimed at classifying welfare states, as pensions typically constitute the largest social programme and are often seen as the backbone of a welfare state.

The classification of welfare states in recent years has tended to revolve around three types, or regimes (Esping-Andersen 1990) or four depending on whether or not one considers southern European welfare states to constitute a distinctive category. This approach focuses mainly on the outcomes of social programmes, in terms of decommodification[2] and social stratification. A socialist or social democratic regime is found in Nordic countries. Their welfare arrangements (including pensions) cover the whole population, perform a fair amount of vertical redistribution, and access to benefits is less dependent on labour-market participation than it is the case in other countries. A second model, referred to as corporatist or conservative, is found in continental European countries. The key social programmes cover the working population only, and grant earnings-related benefits which guarantee the maintenance of status differentials in times of inactivity. Those who do not participate in the labour market have to rely on often stigmatising social assistance schemes. Finally, a liberal regime is found in English-speaking countries. Its most distinctive character is the preference for programmes

[1]Throughout this study the notion of 'pension system' is used to designate the totality of transfers to the older population which are either compulsory, provided by the state or encouraged by legislation (e.g. through tax concessions). This excludes other sources of income for the elderly such as earnings, private savings, social assistance and intra-family transfers. A pension scheme, by contrast, is understood here as a single arrangement which has the aim of providing income to older people. In virtually all industrial countries pension systems consist of various pension schemes.

[2]Decommodification is defined as 'the degree to which individuals or families can uphold a socially acceptable standard of living independently of market participation (Esping-Andersen 1990: 37)

targeted on the poorest sections of the population. It reinforces social divisions because the affluent have no stake in these programmes. In addition, since benefits are often very low, it does not constitute an alternative to individual provision. The existence of a fourth regime of Southern European welfare states has been postulated (Leibfried 1992; Ferrera 1996b). Its key features are a highly fragmented income maintenance system with a strong emphasis on old age pensions, the persistence of clientelism, and a stronger reliance on the family as an alternative to labour market-participation.

In contrast to Esping-Andersen's preference for outcomes, studies dealing only with old age pensions have typically concentrated on the institutional design of the various systems and on their evolution in a historical perspective. Reference is often made to two initial models of pension provision which were introduced at the end of the 19th century in Germany, Denmark and New Zealand. In 1889, Germany instituted a pension scheme for industrial workers. The scheme was meant to guarantee retirees a level of income related to their earnings while in work. Denmark (1891) and New Zealand (1898), in contrast, introduced a means-tested pension scheme targeted on the poor (Myles and Quadagno 1996; Overbye 1996b).

These two models of pension policy had two very different underlying objectives. In the German case, the scheme introduced by Bismarck was part of a political project aimed at containing the rise of the labour movement. The adoption of a pension scheme, as well as of other social programmes introduced more or less simultaneously, were meant to buy the allegiance of the rapidly emerging working class. As a matter of fact, Bismarckian social legislation was accompanied by laws which banned the political organisation of workers (Alber 1986: 5; Baldwin 1990: 59-65). Understandably, the schemes were confined to industrial workers as other groups did not constitute a threat to social stability and Bismarck had no immediate interest in improving their condition. The Danish scheme, in contrast, did not have such an overt political aim. Its introduction constituted mainly a modernisation of the existing system of Poor Laws (Baldwin 1990: 65-76). Its objective was to alleviate poverty across the whole population . Given their different goals, the two original approaches to pension policy used different means as well. The German scheme was financed by contributions equally shared by employers and employees (with a state subsidy), it granted earnings-related benefits and entitlement to a pension was based on contribution records. Its overall result was status maintenance. In Denmark, by contrast, the 1891 pension scheme was tax-financed, means-tested and granted flat-rate benefits. As such, it continued in an ameliorated form the tradition of poor relief enshrined in the previous system of Poor Laws.

In subsequent years, other countries followed the example set by Germany and Denmark. In general, the German lead was followed in continental Europe. In France this came as a result of the re-annexation of Alsace and Lorraine after World War I. As these two regions had been part of Germany before the war, they already had a compulsory system of social insurance. This was extended to the rest of the country in 1930 (Saint Jours 1982: 95). In Italy a compulsory pension scheme covering industrial employees only, was introduced in 1919 (Artoni and Zanardi 1996: 1). Switzerland was a latecomer as a compulsory pension scheme at the federal level was introduced only in 1948 (see chapter 5). In contrast, the Danish (and New Zealand) model was followed in other Nordic countries (Salminen 1993), though with some variation, and in other English-speaking countries (such as the UK in 1908), with the notable exception of the US, which in 1936 introduced an earnings-related scheme closer to the Bismarckian tradition (Overbye 1996b). Figure 1.1 shows the initial choices in the area of pension provision in a number of countries.

Table 1.1. Origin of pension policy in selected countries (first compulsory or comprehensive nation-wide scheme)

Social insurance (Bismarck)	Poverty prevention (Beveridge)
Germany 1889*	Denmark 1891
France 1932*	New Zealand 1898
US 1936	UK 1908
Italy 1919*	Sweden 1913
Switzerland 1948	Norway 1936

* for industrial employees only
Source: adapted from Overbye 1996b

These two initial models of pension provision can also be seen as ideal-types in the analysis of past and current developments in pension policy. In fact the distinction between the two is often used in order to classify pension schemes and systems. In the literature, different terminology is found in relation to these two models, however, perhaps somewhat anachronistically[3], the two traditions can be conveniently labelled with reference to Bismarck and Beveridge, two key figures in the development of modern welfare states who had very different motives for their actions. The Beveridge plan, in fact, set out to achieve 'freedom from want' and as such it was consistent with the objectives of the Danish and New Zealand social reformers. As seen above, Bismarck was worried more with social stability in the context of rapid industrialisation and rise of the labour movement.

Like all classifications, the one presented here is a crude simplification of the real world. In fact, other authors have suggested more complex ways of categorising pension schemes. Some (Ferrera 1993a; Overbye 1996a) further distinguish between (Bismarckian) insurance programmes which cover the whole population of a country (Switzerland, US) and those in which different groups are covered by different arrangements (Germany, France, Italy). Niemelä and Salminen (1995) have put forward a four type classification, which uses the basis of entitlement in order to discriminate between pension schemes (instead of the objective). The result is a categorisaion where pension schemes are grouped according to whether entitlement depends on citizenship, social condition (need), employment or private contract. The approach is not much dissimilar from the one reviewed above, the main difference being the distinction between means-tested and universal schemes and the introduction of private schemes.

While most countries initiated pension policy by adopting one or the other model discussed above, the overall trend in subsequent years, but in particular after World War II, has been towards a convergence in pension provision (Chassard and Quentin 1992; Overbye 1996b). In general, the first step taken in either of the two 'worlds' was to expand provision so as to cover larger shares of the population. In Bismarckian countries, this was done by progressively including other occupationally-defined groups into the existing social insurance system. In 1911 Germany introduced a new scheme for white collar employees; and in 1957 one for farmers. In France, the *régime général*, which was meant to cater for the whole

[3]In fact, as the above discussion shows, the schemes that are commonly referred to as 'Beveridgean' were introduced well before the publication of the Beveridge report of 1942. In addition, the predominant use of the word 'Beveridgean' in comparative social policy refer to tax-financed schemes, which is in contrast with Beveridge's preference for contribution financing (Silburn 1995: 92-93). This peculiar understanding of the term 'Beveridgean' in comparative social policy probably developed because of the focus on the overall objective of Beveridgean social policy, poverty prevention, rather than on the instruments he suggested to use.

population, was set up in 1946 (see chapter 6). In Italy additional compulsory schemes for farmers, non-industrial employees, and the self-employed were set up throughout the 1950s and 1960s. In addition, with the notable exception of Germany[4], countries which initially followed the Bismarckian lead, such as France, Italy, Switzerland and the US introduced income-tested pensions, either within the insurance system or as additional schemes to provide for those who did not have a sufficient contribution record to afford them an adequate pension.

A similar trend towards enlargement in pension coverage can be observed in countries that started with means-tested pensions, which were expanded into universal schemes. This was done in most countries after World War II and took the form of a citizenship pension in Scandinavian countries (Salminen 1993) and in the UK, of a contributory pension, which however, because it grants flat-rate benefits that are just above the social assistance level, remains closer to the Beveridgean ideal-type than to the Bismarckian one. Because universal flat-rate benefits were rather low, especially for those on relatively high incomes, the post-war period saw a rise in occupational provision in these countries. In some countries, like Sweden and the UK, supplementary earnings-related coverage was made compulsory for employees.

In most countries, the result of convergence has been a two-tiered pension system, where the first tier aims at guaranteeing a subsistence level to the whole population; the second tier, instead, allows retirees to maintain a living standard close to the one they had while working (Chassard and Quentin 1992; Overbye 1996a). The notion of convergence seems accurate to describe developments in the functions fulfilled by pension systems. The guarantee of a minimum income combined with a partial replacement of earnings is a common feature to almost all pension systems. There are exceptions, though. Germany, beside a minimum pension, which however requires 25 years of contributions, does not have an income-tested pension. Conversely, Denmark does not have a compulsory earnings-related element in its pension system.

Convergence, thus, has occurred mainly with regard to the functions of pension policy (poverty prevention and income maintenance). In contrast, when analysis

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[4]The German basic pension scheme does have an internal minimum (*Rente nach Mindesteincommen*) but since it requires 25 contribution years, it does not constitute a guarantee of a pension regardless of contribution record. It entitles recipients to 75% of average earnings. Older people who do not fulfil the 25 years contribution requirement if in need have to rely on social assistance.

shifts from the functions to the details of the various components of pension systems, the variation that can be observed across industrialised countries is still impressive. Important differences exist with regard to benefit formulas, source of financing (taxation or contributions), financing method (funded or pay-as-you-go) and in the roles played by private and occupational provision. In general, the initial choice in term of the Bismarck or the Beveridge model still affects the current shape of a pension system.

The institutional design of a pension system can be relevant to the current debate on pension reform in two different ways. First, it is possible that different systems are affected in different ways by current socio-economic change. Second, countries might respond differently to the pension problem depending on the key features of their pension system. There are reasons to believe that when it comes to reform pension schemes, depending on the overall design of a system, some options may be more politically attractive than others (Myles and Quadagno: 1996; Pierson 1996b). These two hypotheses are dealt with in the next section and in the next chapter respectively.

1.2. THE ECONOMIC DEBATE: AGEING, PENSION FINANCING AND PENSIONERS' WELFARE

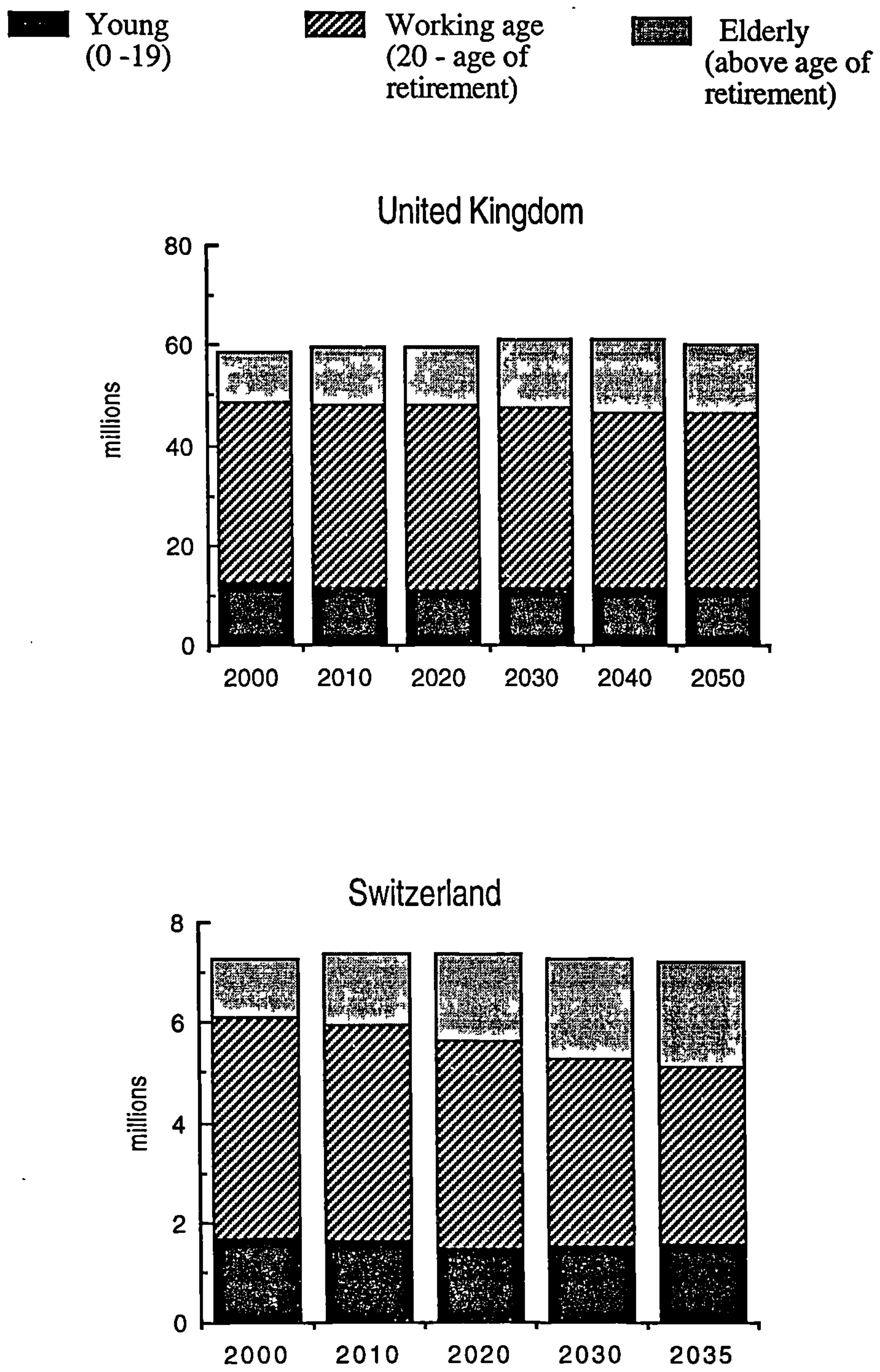
Debates on the present and on the future of pension policy usually make reference to three different socio-economic developments which are likely to affect the viability of pension schemes. First, demographic ageing, the increase in the proportion of older people in the total population, constitutes an ever present background to any discussion on pension policy and pension reform. According to currently available projections, in industrial countries, particularly in Europe, the population age structure is expected to change dramatically over the next 50 years as a result of a decline in birth rates, an increase in life expectancy and a reduction in the scale of migration, with possible consequences on the financial viability of pension schemes. Second, pension schemes' receipts and outlays depend on a number of developments in the sphere of production. In particular, increases in productivity and increases in labour market participation rates can have a substantial impact on the financing side of pension schemes, and possibly offset the negative effects of demographic change. These developments, which are almost impossible to predict, are nonetheless crucial in any discussion on the viability of pension schemes. Third, particularly in English-speaking countries, there is growing concern with regard to notions of generational equity. It is assumed that the older population today constitutes a relatively affluent group in society. As population ageing will increase this group's financial requirements, it is considered fair that the elderly contribute to solve this problem, possibly by accepting reductions in pension expenditure and in their living standards (Longman 1987; Thurow 1996; for a critical discussion, see Quadagno 1989 and Walker 1994).

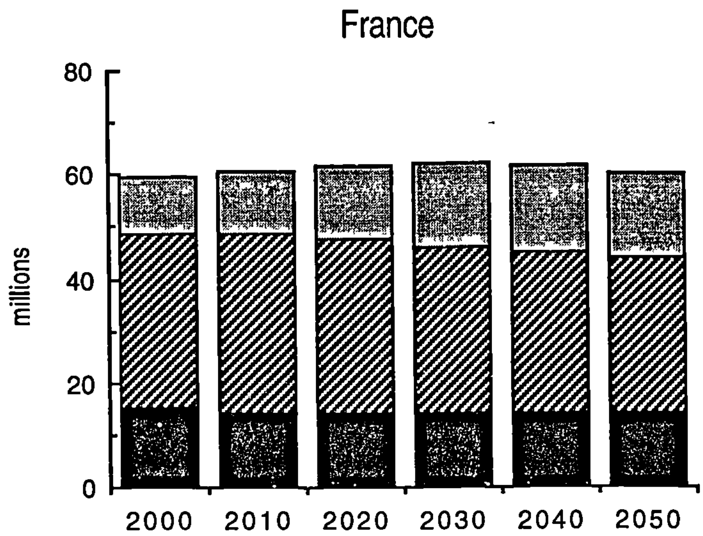
These economic variables constitute the overall background against which debates on the future of pensions and policy changes take place. They are the starting point of virtually any discussion on pension policy. Possibly because they are characterised by a significant degree of uncertainty, they can also be instruments in the hands of political actors aiming at redefining existing distributional equilibria in the area of old age pensions. In this respect it is important, prior to any discussion on the politics of pension reform, to establish what the reality of these variables is. On the basis of studies carried out by international agencies and of a comparison of different national situations, this section will try to provide a picture of the socio-economic component in the pension debate.

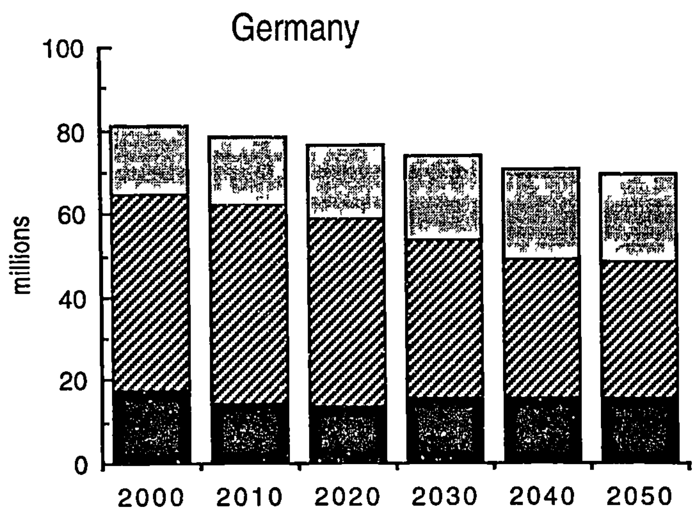
Demographic change

There is a relatively widespread agreement among analysts on the fact that the proportion of older people in western societies is going to increase over the next 50 years. This is the result of recent trends in fertility rates, which have been declining since the 1960s and in life expectancy, which has been increasing since World War II. As figure 1.2 shows, population projections produced by international agencies tend to confirm this view. However, they also highlight the existence of substantial country differences in the expected transition pattern.

Figure 1.1. Population age structure projections in selected countries (source: OECD 1995; for Switzerland, recalculation of data from World Bank 1994; same assumptions are used)




France
millions
80
60
40
20
0
2000
2010
2020
2030
2040
2050


Germany
millions
100
80
60
40
20
0
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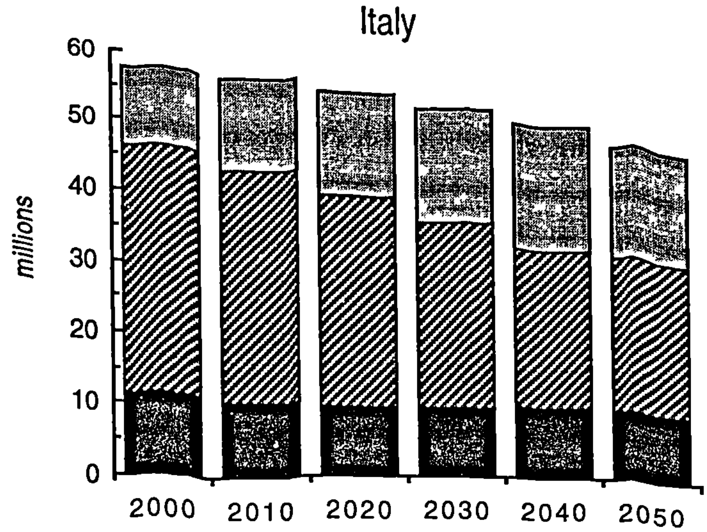


Figure 1 , based on World Bank demographic projections (1994), makes this point very clearly. While all countries will experience an increase in the proportion of older people, the variation in the relative size of the working population is expected to be more severe in Italy, Germany and Switzerland. In these countries, the absolute size of the working population is expected to decline as well as its relative size after 2005. In the UK the transition seems to be less dramatic. In particular, the size of the working age population is going to remain roughly constant.

These projections have to be looked at carefully, as they are based on a number of assumptions on which there is in fact little certitude. The age structure of a population is affected by three key variables: mortality, migration, fertility, and by the current age structure. Typically, trends in fertility are measured by the fertility rate, which is defined as the number of children per women in the reproductive ages (15-45). Trends in mortality can be measured either with a death rate (death per 1000 population), or, more commonly, by life expectancy. In a society with no net migration changes the age structure of a population depend only on fertility and mortality.

Demographic projections are particularly sensitive to assumptions made with regard to future fertility rates, as this determines the size of the new generations that feed into the age pyramid and over time affect the size of the different age groups. Fertility rates, however, are also particularly difficult to predict (Johnson and Falkingham 1992: 21; OECD 1988b: 16). The overall trend in fertility rates in western countries has been one of decline for the past century. However, after World War II there has been an upswing in fertility, followed by a decline since the 1960s. There are a number of factors behind these developments. Economic expectations are usually considered to be the main determinant of people's decisions with regard to having children (Ermisch 1983). Nevertheless, it seems clear that other factors have played an important role in recent developments in fertility, and are likely to do so in the future. The availability of contraception, the increased participation of women in the labour market, the character and scale of family policies are all factors that have probably influenced recent trends in fertility.

World Bank's and OECD's population projections are based on the assumption that fertility rates will remain constant until 2005 and that they will then gradually increase and converge on 2.1 in 2030. Similar assumptions are made by other agencies as well. However, recent developments, particularly in the Nordic countries, suggest that fertility rates may be more volatile than expected. For instance, in the case of Sweden, fertility increased from 1.6 in 1983 to 2.1 in 1990, but dropped to 1.6 in 1996 (Calot and Sardon 1996). The upswing has been explained with reference to Sweden's work-friendly family polices, such as free child care and generous maternity leave, as a result of which Swedish women do not experience a trade-off between work and motherhood like many of their Continental European counterparts (Esping-Andersen 1996b: 78). On the other hand, the recession of the 1990s, and the fact that the generosity of the Swedish welfare state is increasingly being questioned, are possibly the reasons behind the recent decline in fertility (Calot and Sardon 1996).

Changes in life expectancy, unless they are very unstable, have a lower impact on the age structure of a population, as they affect only the upper end of the pyramid (Johnson and Falkingham 1992: 21). In addition, trends in mortality rates and in life expectancy seem relatively easy to predict. In general, mortality rates have declined gradually in the past and they can be expected to continue along the same line (OECD 1988b: 16). The World Bank's population projections assume an increase in life expectancy at birth of about 5 years between 1995 and 2035. With regard to the problem of pension financing, however, what matters is not life expectancy at birth, but at the age of retirement. As Sturm points out, the two can be quite different. Looking at EU-12 countries, he notes that 'less than one half of the increase in life expectancy of males (and one quarter of females) has been due to the increase in life expectancy at the age of 60' (1992: 24).

Migration can also have a substantial impact on the age structure. Nevertheless, in so far as the economic impact of population ageing is concerned, migration is not likely to play an important role. In Europe, in fact, high levels of immigration occurred at times of labour shortage, which is not the case at present. Labour shortage is likely to occur only if there is a dramatic upswing in economic activity, which would by itself considerably reduce the difficulties involved in coping with population ageing.

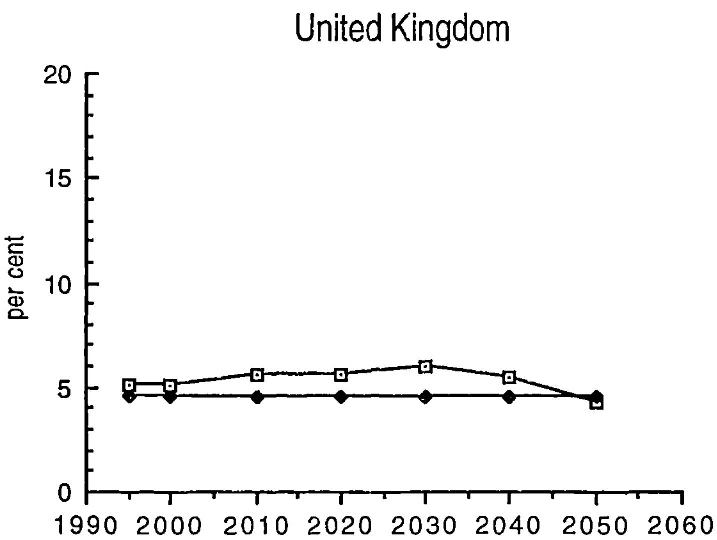
In sum, there seems to be a relatively high degree of uncertainty with regard to population age structure projections. In general, because the fertility rate is the most relevant factor and yet the most difficult to predict, projections are reliable only if they look at the generations who have already been born. For instance, the ratio between the above retirement age population and the working age population is not going to be affected by changes in fertility for the next 15 to 20 years, i.e. until when today's newborn are going to enter the labour market. Current projections of the population above 15-20 years of age, thus, should be considered as relatively reliable until around 2015. Beyond this time-horizon it is extremely difficult to produce useful projections. However, in most countries, the period between 2000 and 2015 will almost certainly see an increase in the relative size of the retired population. This development is likely to have an impact on the financial viability of pension systems.

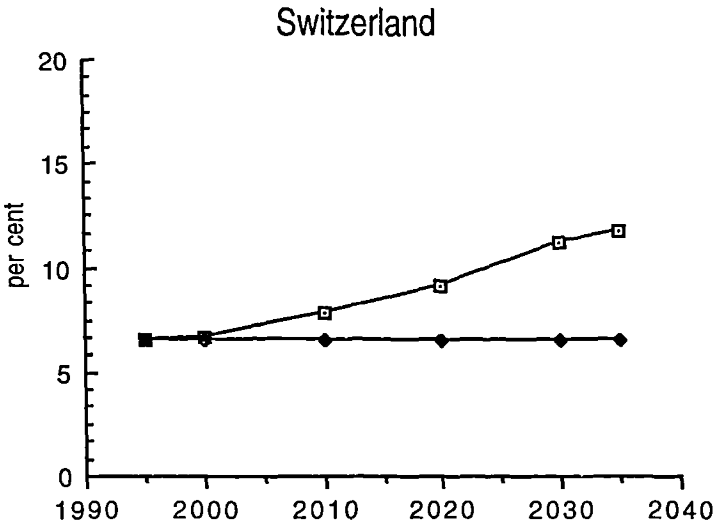
Projecting pension expenditure

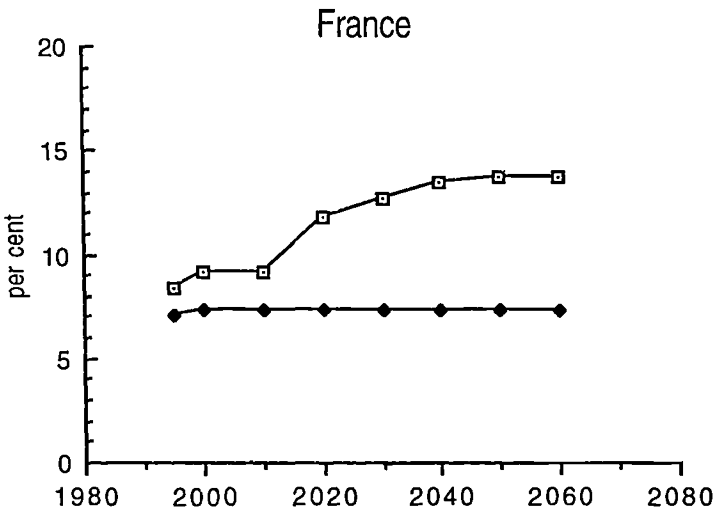
Age structure projections provide only one element for the assessment of the future viability of retirement systems. In fact, a number of other factors are going to affect receipts and outlays of pension schemes, the most important of which are increases in productivity, changes in labour force participation rates and national pension legislation. The projections given in figure 1.3 take into account these factors. Variations reflect to a large extent the differences in the expected pattern of demographic ageing as seen in figure 1.2. This means that expenditure projections depend to a large extent on the assumptions made for demographic projections. However, the degree of variation here is even more striking than in the simple demographic projections. While Germany and Italy are expected to reach expenditure levels of around 18 % of GDP in 2035, France and Switzerland are forcasted to spend around 14% of GDP after 2035. In contrast, in the UK, public pension expenditure is expected to remain at around the current level of 5% of GDP for the whole period concerned.

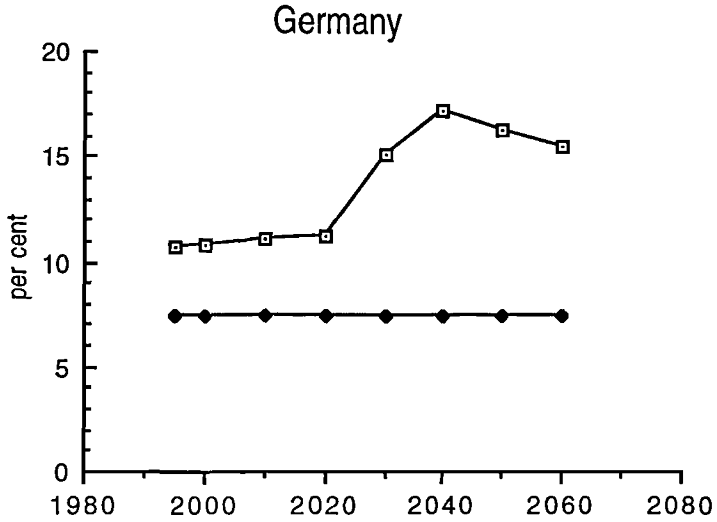
Figure 1.2. Pension payments and contributions as a percent of GDP in selected countries
(source: OECD 1995; for Switzerland, recalculation of data from World Bank 1994)

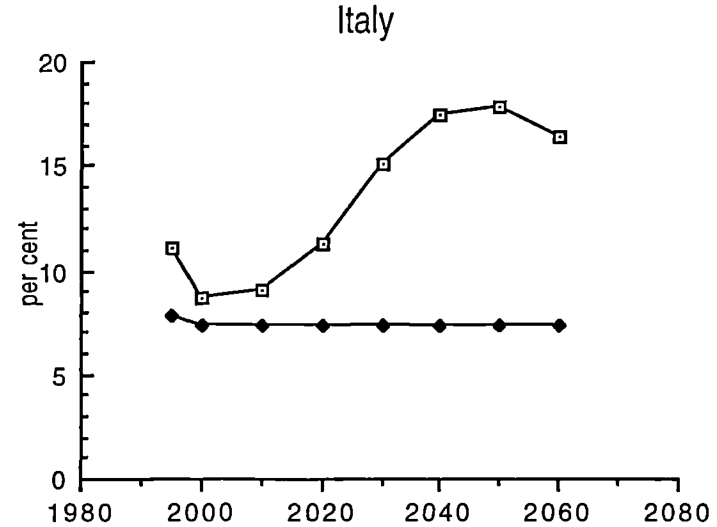
□ pension payments ■ contributions




Switzerland
per cent
20
15
10
5
0
1990
2000
2010
2020
2030
2040


France
per cent
20
15
10
5
0
1980
2000
2020
2040
2060
2080





Like age structure forecasts, projections of pension expenditure and financing should be looked at carefully. First, as seen above, there is little certainty on the validity of the demographic projections on which they are based beyond the year 2015. Second, in order to produce expenditure projections it is necessary to make additional assumptions on indicators which are extremely difficult to predict such as the labour force participation rate (LFPR), increases in productivity, and the extent to which such increases will be reflected in pension scheme revenues and outlays.

The OECD projections reported in figure 2 are based on the assumption that the LFPR is going to remain constant after the year 2000. However, there are some reasons to believe that this is not going to be the case. First, there are considerable variations in LFPRs in Europe. To a large extent this is due to differences in women's involvement in the labour market, and current trends seem to suggest the participation rate of women is going to increase in the future, especially in countries where it is comparatively low (Schmähl 1990: 167). Second, the demographic transition is expected, in some countries at least, to imply a significant reduction in the size of the working age population. If this trend is not accompanied by a corresponding reduction in labour demand, it is likely that LFPRs are going to increase and to absorb part of the currently unemployed population. As the baby-boomers are going to retire after 2005, they will free up more jobs for younger generations, so that the unemployment rate might decline (George and Taylor-Gooby 1996).

LFPRs are a crucial element in any debate on the future of pensions. In fact, according to some commentators, the financing of pensions in the future is more an employment problem rather than a demographic one. As a recent EU report put it:

> If job availability [...] could be expanded over the next 30 years to reduce unemployment [...] and to accommodate a continuing increase in the participation of women in the work force, as well as perhaps a reversal of the trend towards early retirement, this would more than offset the effect on the dependency ratio of the ageing of the population and make it easier to effect the income transfer required. If on the other hand [...] job availability remains low, then any significant transfer will present serious problems, irrespective of how pensions scheme are funded in the meantime (European Commission 1995: 13).

A second important assumption refers to increases in productivity and to the extent to which these increases are reflected in benefits and on contribution/taxation revenues. The OECD projections reported above assume an increase in productivity of 1.5% per annum. How much of this increase is going to be reflected on pension benefits and contribution/taxation revenues, depends on national pension and tax legislation. In countries such as the UK, where increases in wages have almost no impact on benefits (with the exception of SERPS; the basic pension is flat-rate and upgraded according to prices), increases in productivity have a substantial positive impact on the country's ability to finance pensions. In contrast, in countries like France or Italy, where benefits are earnings-related, part of the increase in productivity will result in an increase in benefits. In addition, if pension schemes are financed only through employment-related contributions (France), it is also important to know whether the increase in productivity is reflected on wages, as it does not otherwise contribute to the financing of pensions. With regard to France, a study has shown that between 1970 and 1993 the growth rate of wages was close to that of GDP. However, between 1970 and 1976 wages rose faster than GDP, between 1976 and 1981 they increased roughly at the same rate, but after 1981 salaries have risen significantly slower than GDP, on average by 1 percentage point per year (De Foucault 1994: 8).

The projections in figure 1.2. assume that in all countries current legislation is applied consistently throughout the projected period. However, it can also be argued that as increases in productivity will result in rising wages, current workers might be prepared to give up a larger share of their salary for financing pensions. As noted in an earlier OECD report 'the shift in the demographic structure is manageable even assuming a quite moderate rise in real income, but then requires a major redistribution of resources between generations' (OECD 1988a: 41).

This last observation highlights the presence of two distinct dimensions in the debate on the future viability of pension schemes. The first dimension is macro-economic and refers to the ability of the economy as a whole to sustain a larger section of its population in retirement. In relation to this dimension, a crucial aspect is the productivity of those who are in work. If it is high enough, the intergenerational transfer does not constitute a serious problem. On the other hand, there is a micro-economic problem, which relates to how each individual is going to participate in this transfer. If, as it is the case in most public schemes, current expenditure is financed by contributions and/or taxes levied on current earnings, then the reduction in numbers of the active population relative to those in retirement will result in an increase in the amount that each of them is expected to contribute to the system. As a result, the future viability of pension systems will depend also on the willingness of the working population to share part of its income with retirees.

Pay-as-you-go versus funded schemes

These two dimensions of the pension problem are related to two different financing methods for pension expenditure. Typically, pension schemes are financed on a pay-as-you-go basis or are funded (or a mix between the two). In the first case, current expenditure on pensions is financed by contributions and taxes levied on current earnings. In the second case, funded schemes, the contributions paid by the current generation are invested and will be used to finance their pensions once they retire. From the macro-economic point of view, there is no difference between these two financing methods. As Johnson and Falkingham put it:

> If the ratio of pensioners to workers rises, but if the relative incomes of workers and pensioners remain constant, then this necessarily implies that the claim on current output exercised by pensioners will increase. In an unfunded public pension system this claim is exercised through the tax system, but in a founded private pension system it is exercised through the return to capital owned by the pension fund. The alternative funding systems have no differential impact on the overall national income, the only difference lies in the degree of social and political legitimacy attached to the alternative mechanisms for appropriating some of the output of current workers (Johnson and Falkingham 1992: 148; see also for the same view Gilliand 1988).

In fact this is true only if the funds accumulated by funded schemes are invested within the country where the pensioners live. If this is not the case, then foreign workers are going to contribute to financing the living expenses of retired population. This fact might acquire some relevance if the investment is made in Third World countries, which have a more favourable age structure. In this case, the shift in the generational balance might be countered by getting younger workers in Third World countries to support western ageing populations.

While in a closed economy the macro-economic impact of ageing is not affected by the funding method of pensions, from a micro-economic point of view, the difference can be quite substantial. The revenue side of a pay-as-you-go system, especially if financed by employment-related contributions, is more sensitive to variations in aggregate wages than to changes in GDP. As seen above, increases in GDP are not always reflected on wages, which means that increases in national income might be of little use to the financing of pensions. A deterioration in the dependency rate, means that a higher proportion of workers' earnings will have to be used to finance current expenditure on pensions. In contrast, in a funded scheme, older people become capital owners, and live on the profits produced by the capital they own, plus the revenue produced by selling it to the working generations who will retire later on, and so forth. In this way two components of GDP, wages and profits, are contributing to the financing of pensions.

On the other hand, funded scheme have the disadvantage of being more sensitive to inflation. In the UK, in the late 1970s and early 1980s the erosion of savings for retirement was a major concern for policy-makers. In addition, pension funds are also sensitive to fluctuations on capital markets. It has been pointed out that an excessive reliance on funding combined with population ageing might actually contribute to these fluctuations. 'As the baby-boomers save heavily in middle age in all countries, an excess in savings on capital world markets would tend to drive down the rate of return and stimulate asset price inflation. However, when the large baby-boom cohorts retire, pension funds in all countries will want to realise their assets, which will tend to drive down asset prices (Johnson and Falkingham: 1992: 148). The result might be that defined benefit scheme might be unable to meet their obligations whereas defined contribution ones will end up paying lower than expected pensions[5] (ibid.; Ermisch 1990: 47).

The discussion on the relative merits of different financing methods seems to be affected by the same overall uncertainty which characterises the more general debate on the future of pension provision. In a recent report, the OECD suggests a mix between funded and pay-as-you-go financing, where the latter should be used to guarantee a minimum level of income security while additional provision should be funded (OECD 1994: 14-16). In some countries (France, Germany, Italy), however, this model would imply a major shift in the financing method, which raises the issue of 'double funding', i.e. the fact that the current generation is asked to provide for current retirees through a pay-as-you-go system and to save for its own old age. This, as will be discussed below, constitutes a major political problem.

[5]In defined benefit schemes, the amount of the pension is expressed as a percentage of a salary (final or the average of a given number of years). This level is guaranteed regardless of the performance of the invested capital. In contrast, in defined contribution schemes, there is no guaranteed level for pension benefits, which depend entirely on the amount paid in contributions and the interest earned on that amount.

Pensioners' living standards and the debate on generational equity

If the effectiveness of old age policy is measured by the extent to which the living standards of older people have improved over the years, state intervention in the area of pensions has been a success story in most countries. It is widely accepted that during the post-war period pensioners as a whole have progressively moved from being a relatively deprived group in society to relative affluence. This is a result of the overall movement of expansion in pension provision that has taken place over the last 50 years in western European countries. Public schemes have become more generous and coverage has been extended. In OECD countries between 1960 and 1985 expenditure on old age pensions as a proportion of GDP increased by 146%, mainly as a result of changes in eligibility and in the level of benefits (OECD 1988a: 26). In addition, almost in all western European countries, there has been an important expansion of occupational pensions, and more recently of private plans, as a result of which the overall inter-generational transfer has increased over the years.

The relatively favourable economic situation enjoyed by many older people, combined with the concern associated with the expected increase in the proportion of elderly people in industrial societies, has sparked a debate on the issue of fairness and equity in inter-generational transfers. OECD studies show that because of differences in cohort size, some generations end up being net contributors to the state system while others are net beneficiaries. The debate is not confined to pensions, as there other areas in which expenditure is related to age (such as health care and social care) and because the debt policy of a government is also relevant to generational accounting. A recent OECD report summed up the results of a comparative study as follows: 'The calculation reveals generational imbalances in favour of living generations. If policies do not change generations that are born after the base year 1993 are likely to have a significantly greater tax burden than present generations' (OECD 1995: 38).

These considerations have entered political debates, mainly in English-speaking countries and particularly in the United States. It has been argued that older people are enjoying an affluent retirement at the expenses of current working generations, and particularly of the young who are having to put up with squeezes in education budgets to finance public pensions and other social programmes (Thurow 1996). The policy implication of this analysis is that radical steps to contain and possibly reduce pension expenditure must be taken to redress the unfairness brought about by the substantial growth in pension provision over the past decades. From an economic point of view, the affluent status of older people, allows room for manoeuvre to politicians to achieve substantial savings.

The available evidence on the generosity of pension schemes and living standards of older people does support the overall claim that older people are better off than they were in the past, and that they can be considered as a relatively affluent group in society. These overall trends, however, conceal country variations, and, within countries, differences between income groups. Country variations are quite substantial as far as replacement rates of public pension schemes are concerned (table 1.1.).

Table 1.1. Replacement rates of public pension schemes as a proportion of net average salary, EU-12 countries and Switzerland, for a single person with a full contribution record, in 1993

% of average earnings	66%	100%	200%
	%	%	%
Belgium	59	47	36
Denmark	51	34	17
Germany	53	53	39
Spain	90	90	90
Greece	112	98	87
France	78	69	59
Ireland	44	29	15
Italy	78	78	82
Luxembourg	76	67	54
Netherlands	50	33	17
Portugal	77	77	77
United Kingdom	42	33	23
Switzerland	47	36	20

Source: Sécurité Sociale 5/1993: 22

As table 1.1. shows, there are quite important national differences in the level of replacement rates. Three groups of countries can be identified in relation to the replacement rates of public pension schemes. First, the highest rates are found in southern European countries (Italy, Greece, Portugal and Spain), where the level of the pension is close to the actual salary. A second group includes France, Germany, Belgium and Luxembourg. There replacement rates are still high, but pensions replace only about half of the salary. Third, the lowest rates are found in countries which have a flat-rate system, the Netherlands, Ireland, Denmark the UK and in Switzerland, where there is a lower and an upper limit on the benefit (see chapter 5).

The extent of this variation, however, should not be exaggerated. For instance, the low level of wages in Southern European countries means that high replacement rates do not necessarily mean high pensions. In addition, countries which have low replacement rates tend to have a widespread system of occupational pensions which are not included in the table. Namely, in the Netherlands, in the UK and in Switzerland, a second tier-pension is compulsory for most employees, which means that for the majority of retired people in these countries income in retirement is higher than what is suggested by replacement rates. If one takes these factors into account, then the differences in pension provision between European countries are perhaps not as important as it appears form the analysis based simply on replacement rates.

Replacement rates give a measure of the size of the public component of pension provision. However, in the debate on fairness of generational transfers, what is also seen as crucial is the living standards enjoyed by today's pensioners. Table 1.2 looks at older people incomes in relation to those of the working population in different countries. A second dimension is added in table 1.2, i.e. the variation in older people's incomes within a country. Interestingly, replacement rates and pensioner's living standards do not seem be related at all.

Table 1.2. Ratio of average income of quintile groups of older people to overall average income of the total population, selected countries, mid-1980.

Country	Lowest	Second	Third	Fourth	Highest	Total
UK	0.49	0.61	0.72	0.89	1.51	0.84
France	0.50	0.67	0.83	1.08	1.97	1.01
Germany	0.47	0.69	0.85	1.06	1.81	0.98
Italy	0.42	0.62	0.81	1.06	1.67	0.92
USA	0.33	0.56	0.80	1.13	2.05	0.97
Sweden	0.54	0.68	0.78	0.92	1.31	0.85

Source: Whiteford and Kennedy 1995: 35, using LIS data, no comparable data available for Switzerland

Three main elements emerge from table 1.2. First, the variation in replacement rates which has been observed in table 1.1 is not reflected in terms of older people's incomes, presumably for the reasons mentioned above. Second, the average income of older people is very close to that of the working population. Nevertheless, this observation should be qualified in the sense that there are substantial differences between different income groups. This suggests that it is not appropriate to refer to 'the elderly' as an homogeneous group when discussing issues of inter-generational equity. (Johnson and Falkingham 1992: 58). Third, the existence of substantial inequalities among the elderly as a group suggests that those at the bottom end of the income distribution have to live on low incomes, often below the poverty line. The evidence provided by the EU Observatory on older people in Europe in the late 1980s suggests that this is the case. As Walker pointed out:

> 'Despite generally rising living standards and the achievement of high net replacement ratios in some member states the national reports reveal a continuing poverty problem among a minority of older people, with the size of the minority varying considerably between countries' (1993: 16)

Using national definitions of poverty (typically people living on or below the social assistance level), Walker identifies three groups of countries. The first group includes countries which have poverty rates below 10%: Denmark, Luxembourg, Ireland and Germany. Second, France, the Netherlands the UK and Belgium have medium poverty rates which range between 10 and 30%. Finally a third group includes the southern European welfare states for which it is difficult to find reliable information, though it seems that poverty rates are most likely to be relatively high (Walker 1993: 16-18). With regard to Switzerland, a study by Mitchell (1991) based on LIS data, suggests that this country is likely to belong to the second group. Using a poverty definition of 50% average equivalent disposable income, she found that in 1980, 18.6% of single older people and 11.9% of couples had incomes below the poverty line.

Living standards of elderly people seem to be to a large extent related to gender. This, in part, reflects income inequality which can be found in the labour market and longer life expectancy. In addition, however, the assumptions on which most pension schemes are based usually imply continuous careers, which are more rarely found among women than among men. Moreover, in countries where occupational and private pension are widespread, women are less often covered by these additional arrangements. In Britain, for instance, only a quarter of those who have taken out a personal pension are women (Rake 1996: 10). In Switzerland occupational pensions cover virtually the totality of male employees but only around 80% of females. Occupational pensions are compulsory only above a certain earnings level, which because of lower wages and stronger reliance of part-time work, is more rarely exceeded by women.

A study by Rake (1996) covering France, Germany and the UK has found that there are substantial differences in disposable income according to gender. In all three countries male headed one-person households and two-persons households fare better than female headed one-person households, though in France this occurs to a lesser extent than in Germany or in the UK. In addition, in all three countries, elderly women rely more on state pensions and in particular on means-tested provision than their male counterparts. In contrast, male pensioners and couples receive a bigger proportion of their income from occupational pensions or investment.

The evidence reviewed here concerning the living standards of older people suggests that it is misleading to treat the elderly as a homogeneous group in discussions regarding income distribution, as the differences within that group are more important than the difference between the active population and older people. This has important consequences for the debate on inter-generational equity. As Johnson and Falkingham put it 'Any discussion of intergenerational conflict for welfare resources establishes a false dichotomy as economic inequality within age groups is greater than between age groups' (1992: 59). As a result, normative approaches to the pension problem suggesting that the current situation demands a shift in the distributional equilibria towards the young, do not seem convincing. Like demographic and expenditure projections, data on pensioners' living standards can be an instrument in the hands of political actors who aim to modify the existing arrangements.

1.3. FROM ECONOMIC TO POLITICS

Above all, this brief review of current key issues in pension policy shows an impressive degree of complexity in the subject-matter. First, because of the high level of uncertainty that characterises medium and long-term projections of pension expenditure, it is extremely difficult to assess the size of the pension problem in the future. Second, since the retired population is far from constituting a homogeneous social group, generalisations with regard to resource distribution between age groups are not acceptable. For these reasons, it is difficult to appreciate what the objective features of the pension problem are. Economic constraints certainly exist, but cannot be measured satisfactorily.

Despite uncertainty and complexity, the existence of a pension problem is widely accepted,both by Western governments, generally regardless of political persuasion, and by the public at large. As a recent study on elite opinion on current social policy issues in seven EU member-states has highlighted, ageing is seen as a major challenge to social security systems by a majority of policy-makers (George *et al.* 1995). There are a number of reasons that can account for this discrepancy between the uncertainty of science and the confidence of policy-makers. First, and perhaps most importantly, the difficulties involved in pension financing have been exacerbated by economic change. Low economic growth and unemployment affect pension schemes' receipts. In addition, in a number of countries, governments have responded to rising numbers of jobless by allowing older workers to pre-retire (this is especially the case of France). The combined effect of these two trends, has been a swift worsening in pension schemes' budgets, which has put pressures on governments to act. In this respect, pension reforms can be seen more as a reaction to a contingent economic situation rather than the anticipation of expected changes in the population's demographic structure.

Second, governments willing to alter the existing distributive equilibria, might find an ally in the pension problem. Actors who support a reduction in the role of the state in the economy can strengthen their claims by arguing that current public pension arrangement will not be sustainable in the future because of demographic change, and as a result reduce the size of the intergenerational public transfer. As discussed in chapter 4, according to a number of commentators the UK's 1986 pension reform was not justified by demographic and financial pressures. Rather, it was an element of a wider project of shifting responsibilities from the state to the market.

Over the last few years, a majority of Western European countries have taken steps to reform their public pension schemes. Generally, these changes consisted of reductions in the generosity and/or the scope of public pensions, with the view of reducing current and future expenditure. The measures adopted vary quite substantially among countries. For instance, they range from the introduction of incentives for individuals to provide privately for their retirement, to increases in pensionable age or changes to the indexation mechanisms of existing pensions. On occasions, more complex measures have been taken, which affect the pension formula in various ways, generally with the effect of reducing the average level of benefits. What pension reforms have in common, however, is their potential for generating political controversy. A fully consensual pension reform is something extremely unusual. In contrast, there are examples of reform-minded governments forced to step back on the pension issue because of massive popular protest. This is what happened in France with the attempted pension reform for public sector employees of 1995, which generated an impressive wave of strikes and forced the government to withdraw its plans (see Chapter 6).

Pension reforms, thus are highly sensitive political exercises. Because their goal is generally to achieve savings, they upset established distributional equilibria, and are thus likely to generate controversy. If savings are going to be achieved, there is bound to be losers in a pension reform. These, unless they are compensated in some other way, are likely to oppose reform, and depending on their effective power might succeed in preventing the adoption of new pension legislation. The uncertainty and complexity involved in the pension issue only adds to its potential for political controversy. If the validity of expenditure projections such as those presented in this chapter were unanimously accepted, it would certainly be easier for a reform-minded government to generate consensus on a pension reform. That is why pension reforms are often preceded by what a French civil servant interviewed for this project called 'the pedagogics of the deficit', i.e. a long-lasting effort by the government to convince the public that there is a problem with the financing of pensions.

The way governments go about reforming their pension schemes varies quite substantially between countries and sometimes within the same country at various times. There are examples of pension reforms which have been approved by the trade unions, such as the one of 1995 in Italy, and others that were strenously fought by the labour movement, such as the British 1986 Social Security Act. The reasons behind such varying degree of responses to changes in pension legislation are one of the key concern of this study. They emphasise the interest of an analysis of the politics of pension reform.

The next chapter will look precisely, on the theoretical level, at the question of why do pension reforms take given shapes in given contexts. In order to do that, it first provides a review of the literature on the determinants of social policy. On this basis, it puts forward a theoretical framework for the analysis of current change in pension policy.

Chapter 2

UNDERSTANDING THE POLITICS OF PENSION REFORM A THEORETICAL FRAMEWORK

To a very large extent, theorising old age pensions is an exercise which overlaps with the more general work on welfare state theory. A number of reasons can explain that. First, in modern welfare states, pensions are generally the single largest item in terms of expenditure. Second, in many countries pensions were the first social programme introduced and have set the example for other schemes. As a result pension schemes often embody the key principles that can be found throughout the welfare system of a country. As a matter of fact, many of the most influential theoretical works on the welfare state (Wilensky 1975; Baldwin 1990; Esping-Andersen 1990; Ferrera 1993a; Pierson 1994) include pensions in their analysis, while this is not always the case with other programmes. For this reason, the following discussion often refers to welfare in general, but unless otherwise specified, what is said is applicable to the area of old age pensions as well.

The literature on welfare state theory, by and large, has been concerned with explaining the development and the expansion of social programmes in industrial countries. Generally, studies falling under this category have addressed two basic questions: why did welfare states develop, and how does one explain country variations in social policies. These two questions have kept busy students of social policy for around three decades and now, with the benefit of hindsight, their work can be summed up under three headings: socio-economic-explanations, the 'politics matters' school, and the new-institutionalist approach[1]. The first part of this chapter looks at these theories (sections 2.1 to 2.3). The main concern is with the extent to which analyses of the expansion of welfare states are useful in understanding current change. Since these theories focused primarily on the determinants of social policy, they are the natural place to start a discussion

[1] This categorisation of theories of the welfare state is borrowed from Pierson 1994.

on current changes in pension policy. At the same time, however, they need to be reconsidered in the light of recent changes.

The second part of this chapter, looks at theories of current change, with a particular focus on the new-institutionalist approach. It is assumed that institutions can affect current social policy-making in two different ways. First, the structure of existing arrangements is likely to point governments in some given directions when it comes to formulate pension policy. This hypothesis, which has been defended by a number of authors (Ferrera 1996a; Myles and Quadagno 1996; Pierson 1994; 1996b) is discussed in section 2.4 and found relevant. Second, constitutional structures and traditional patterns of policy-making are likely to affect the direction of reform. This second claim has not been explored in relation to current social policy change, and constitutes the original contribution of this study to the debate on the restructuring of the welfare state. It is first discussed on the basis of the relevant literature (section 2.5) and then a theoretical model is suggested (section 2.6).

2.1. THE SOCIO-ECONOMIC EXPLANATION

The initial efforts to theorise the determinants of social policy go back to the 1960s. Among the first conceptual frameworks developed, was 'the logic of industrialisation approach', put forward by authors such as Cutright (1965) and Wilensky (1975). They viewed the welfare state as a by-product of economic development. In a functionalist perspective, social policy is seen as a response to the needs generated by industrialisation. According to Wilensky:

> 'economic growth and its demographic and bureaucratic outcomes are the root cause of the general emergence of the welfare state ... categories as 'socialist' versus 'capitalist' economies, 'totalitarian' versus 'individualistic' ideologies, or even 'democratic' versus 'totalitarian' political systems ... are almost useless in explaining the origins and the general development of the welfare state'(Wilensky 1975: xiii)

This thesis was supported by statistical analyses covering large numbers of countries (sometimes over 60) which proved the existence of a significant correlation between economic development, measured by GDP, and the level of social expenditure of a country. The 'logic of industrialisation' approach was an accurate first approximation of the causes of welfare development. However, as more comparative information of welfare provision was made available, it became clear that country variations went well beyond what could be explained by differences in the level of economic development. Particularly, the comparison of Sweden and the US, two countries with comparable levels of economic development, emphasised the weakness of the logic of industrialisation approach. In addition, the measurement of the 'welfare effort' of a country, based solely on expenditure, was also criticised, since it did not take into account important notions such as conditions for entitlements, degree of redistribution, or coverage (Esping-Andersen 1990).

If applied to the current situation, the 'logic of industrialisation' approach suggests the existence of a link between the seriousness of the economic and demographic crises of a country, and the extent to which programmes are retrenched. This, however, does not seem to be the case. As Pierson put it, in relation to pensions 'what is striking ... is the lack of correlation cross-nationally between the economic burdens associated with present and future pension costs and the national assessments of sustainability' (Pierson 1996b: 25). This view is confirmed by the present study. Of the three countries studied, France is the one where pension financing problems are greatest, and yet it did not adopt a reform until 1993. Britain and Switzerland, in contrast, introduced restrictive pension legislation in response to much lower socio-economic pressures. In Britain in particular, a number of commentators felt the 1986 Social Security Act could not be justified on economic and demographic grounds alone (see chapter 4).

Welfare crisis theories

Socio-economic explanations of current change, however, cannot be seen as confined to a reversal of Wilensky's 'logic of industrialisation approach'. Since the mid-1970s, various interpretations falling into this category have been put forward. In the 1970s and early 1980s, two idelogically driven interpretations of the welfare state's financial problems became rather popular. They were suggested by neo-Marxists and New Right theorists. What they had in common, was the fact that both approaches saw an inherent contradiction between liberal democracy and capitalism. First neo-Marxists saw an inevitable trade-off between two functions of the capitalist state: accumulation and legitimation. On the one hand, it was argued, the state must ensure that capital can operate successfully, by being in the condition to achieve substantial profits and generate investment (accumulation). On the other hand, it must also construct and maintain democratic consensus on the existing social order. It does so, precisely by redistributing part of the wealth created by the private economy through social policies (legitimation). Its failure to do that would result in mass popular discontent and social unrest. To finance a welfare state big enough to guarantee an acceptable degree of social consensus, the state has to raise substantial funds, which in turn impairs capital's ability to carry out accumulation. (O'Connor 1973; Gough 1979; Offe 1984).

The welfare state was seen a transient arrangement, which made possible the persistence of the capitalist mode of production for a longer period than it would have been possible without it. The welfare state, however, did not succeed in its attempt to eliminate this fundamental contradiction of capitalist democracy. The logical consequence of this, is that the only way out from the current crisis is the adoption of a Socialist political and economic order.

As Mishra pointed out (1984: 75), New Right theorists analysed the crisis of the welfare state in terms which were surprisingly similar to those used by neo-Marxists. New Right accounts of the welfare state crisis are generally based on a particular understanding of party competition in democratic systems. Parties compete in a political marketplace and shape their programmes in order to maximise their share of the electorate. As a result, they are encouraged to comply with the requests of various interests groups, which typically involves additional expenditure for governments. Since voters lack a budget constraint, this mechanism has lead modern societies to a situation in which governments are spending much more than what they can raise through taxation without suffocating the economy. The alternative facing governments is either to roll back the state, and therefore reduce social expenditure, or the persistence and presumably the worsening of the economic crisis, which will ultimately lead to generalised chaos or even to the installation of an authoritarian regime (Brittan 1975; King 1975).

These dramatic views on the crisis of the welfare state, which were probably connected to the pessimism generated by the economic crisis of the 1970s, have been attacked in subsequent years by many authors, on theoretical and on empirical grounds. Theoretically, a number of authors have challenged the view that there is an inevitable trade-off between state-provided welfare and economic competitiveness and that the two variables are linked by a more complex relationship (Gough 1996). Empirically, it has been pointed out that the somewhat apocalyptic predictions of the 1970s and early 1980s have simply not materialised (Alber 1988; Klein 1993; Mishra 1993; Pierson 1994). As Mishra put it:

> 'It now appears that the developments of Western society and the future of the welfare state envisioned in these grand scenarios are quite out of line with the somewhat prosaic reality of the persistence of social programmes and expenditures in all western countries' (1993: 24).

It is true that the last two decades have been characterised by an overall persistence of welfare arrangements. Nevertheless, the socio-economic pressures that were identified as responsible for the crisis of the welfare state are to a large extent still there and remain unresolved which might suggest that, in fact, the big changes in social policy lie ahead. This is the point made by other strands of the socio-economic interpretation of the welfare problem.

Post-industrialism and welfare

More recently, a number of authors have put forward an interpretation of current change which links the welfare problem to socio-economic transformations (Lash and Urry 1987; Offe 1987, 1992; Piore and Sabel 1984; Rodhes 1996; Strange 1993). Though they emphasise different aspects, these writers all agree on the fact that a number of changes, which became evident after the mid-1970s, have given rise to a new pattern of production structures which has been referred to with different terms such as post-industrialism, post-fordism, or disorganized capitalism. Their common assumption, is that the pattern of social and economic structures which dominated Western societies during the long boom, the 'golden age' of welfare states, has undergone a set of transformations, which have lead to new and qualitatively different patterns. Existing welfare arrangements, based on the socio-economic structures typical of the previous phase of capitalist development, are no longer adequate.

This interpretation is not only found among academics. Governments as well as international agencies often rely on this understanding of current change. According to an OECD report:

> 'Circumstances change, and public policies must adapt to the new environment. Policies that were effective in the post-war era are less responsive to the needs of the 1990s. The new context of slow growth, persistent labour market difficulties, ageing population, increasing female labour force participation, a growing rate of marital dissolution and lone parent families, urban decay, ... are leading to a re-examination of the role of social policy' (OECD 1994: 10).

The argument has multiple facets which refer to different levels of analysis. First, on the level of production, it is argued that until about the early 1970s, Western societies reflected a model of organised capitalism. The key features were a highly structured productive system, characterised by the fact that manufacturing industry was the main economic sector; the existence of powerful collective organisations in the labour market; the high level of state intervention in the economy; the fact that firms were nationally based, in terms of ownership, production and market . Since the 1970s however, '[...] this era of organised capitalism [...] has, in certain societies, come to an end, and there is a set of tremendously significant transformations which have recently been literally disorganising contemporary capitalist societies' (Lash and Urry 1987: 12). The new socio-economic environment is characterised by the internationalisation of the economy and the emergence of global companies, independent from individual countries; the transfer of production to emerging capitalist countries in the developing world; the expansion of the number of white collar workers, which results in the development of an educationally based stratification system which fosters individual achievement; and the decline of the size of the working-class (ibid.) .The consequence of this transformation for social policy,is that:

> 'Welfare states will not continue to appropriate a rising share of national income [...]. what is now happening in some at least of the European countries, is the development of a similar two-tiered arrangement, depending on the balance of characteristically disorganised capitalist social and political forces"' (ibid. 230-231).

According to the 'disorganized capitalism' thesis, the welfare state was an arrangement tailored for what was considered organised capitalism. Recent transformations are making the traditional welfare state less suitable to the new social and economic environment. As a result, the most likely outcome of this transformation, is a residual welfare state, with low level state provision for the bottom end of society and private individual provision for the rest of society. A similar conclusion is reached by Abrahamson (1991) who, after having considered recent developments in EU member-states, argues that '[...] European nations are primarily moving toward liberal and corporate welfare arrangements. There is some emphasis on programs of insertion; but these programs are targeted towards the most deprived only [...]' (Abrahamson 1991: 262).

Second, on the political level, Offe (1987; 1992) argues that there is a relationship between structural socio-economic change and declining support for the welfare state. According to him, any welfare state, in order to be viable, needs to be underpinned by a relatively widespread consensus as to how much resources are to be made available for redistribution. In his own words: 'Any welfare state must operate upon the basis of a socially and politically validated conception of how much is enough under given circumstances' (Offe 1992: 64).

In his view, among the factors that contribute to shape people's opinion on welfare is the 'potential for self-inclusion (1992: 66) i.e. the individual perception of being at least potentially, a beneficiary of existing social programmes. Yet, structural changes in modern societies are reducing the potential for self-inclusion for relatively large sections of society. According to Offe 'there are increasing disparities of life-chances among the totality of wage workers' (Offe 1987: 529). Moreover, the strong division between the 'underclass' and the rest of society undermines the potential for self-inclusion among those who are involved in waged work. In Offe's own words: 'Suppose that I happen to be a middle-aged, middle class, male, married, healthy, skilled, home owning private sector employee. The implication is that being in this kind of position will increase the moral effort required to see through a thick veil of ignorance concerning all those social policies that are aimed at unemployed, youth, foreigners, [...], and so on'. (Offe 1992: 66). In addition, the economic crisis and the persistence of low rates of economic growth, triggers the development of individualistic moral norms. 'In this sense, the economic crisis of the welfare state generates individualistic political attitudes and orientations and thus translates [...], into a political crisis of the welfare state' (Offe 1987: 529). As a result of all these changes, according to Offe, the conditions for a widespread support for redistributive social policy, which have made possible the construction of the European welfare states, are not in place any longer. '[...] the welfare state as we know it as a major accomplishment of post-war West European societies is rapidly loosing its political support [...]'(ibid. 528).

The evidence provided by public opinion surveys, does not lend much support to this thesis. Taylor-Gooby, reviewing data collected in six industrial countries (US, Austria, West Germany, Italy, the UK and Australia), found that majorities in all countries support increased spending on health care and pensions, while support for unemployment benefits is much lower. (Taylor-Gooby 1989: 41). His general conclusion is that: 'the attitudes of the citizens of the six nations correspond more closely to the traditional post-war settlement than they reveal any enthusiasm for change, although within this framework there are substantial national variations [...] . Social welfare that provides for mass needs is warmly endorsed, but provision for minorities, whose interests challenge the work ethic, receives meagre approval'. (Taylor-Gooby 1989: 49). More recently, Ferrera (1993b), in an analysis of a Eurobarometer survey covering 12 EU member-states, also found a relatively wide support for health care and pensions, coupled with mixed feelings with regard to unemployment benefits and social assistance. Dissatisfaction was recorded with regard to the perceived high level of taxes and contributions. Overall, Ferrera concluded that while 'social protection is still highly valued by a large majority of Europe's citizens, their support is certainly more nuanced and qualified than in the past'(Ferrera 1993b: 4)

There is little evidence, thus, of a large scale decline in people's willingness to be involved in redistributive arrangements. Public opinion is certainly segmented, especially with regard to programmes which are likely to serve minorities, such as unemployment benefits and social assistance. However, these opinions are not new (Pierson 1991: 171), and are coupled with an overall support for social protection. Nevertheless, the results of public attitude surveys must be looked at carefully. As Taylor-Gooby emphasises 'what people say about their opinions is a poor guide to their likely actions' (1985: 22), because a number of factors are likely to influence the collection of this sort of information. For instance lack of knowledge on the topic, courtesy or desire to appear an altruistic person, may prompt respondents to give an excessively pro-welfare image of themselves. This might contribute to explain why, despite the support for social policies shown in opinion polls, parties with openly anti-welfare state platforms, have been repeatedly able to win elections in the UK and abroad.

The impact of globalisation

More recently, socio-economic analyses of current change in the area of social policy have focused on the impact of globalisation (Euzéby 1992; Stopford and Strange 1991; Strange 1993; Rohdes 1996). This probably reflects an acceleration of that phenomenon since the early 1990s, and the fact that countries which seemed to be relatively immune to the effects of global economic trends, such as Germany, Sweden or Switzerland, are now affected by the same problems that troubled the UK and the US in the 1980s.

The international economy during the 1980s and the 1990s has been characterised by a process of intensification of economic relations on a world-wide scale, and by the decline of the relative importance of nation-states as territorial economic units. Trade barriers have been progressively removed, and production is being moved to low-wage economies. The result is a global economy characterised by harsh competition, in which nation-states have to struggle to keep up with their competitors.

In this context, a key development is the fact that multinational corporations (MNCs) have expanded geographically to such an extent that they cannot be identified in terms of production, market, and sometimes even in terms of ownership, with one single country. It is common for MNCs to have production units in different countries in different continents, and to operate in the world market. Only ownership, with a few exceptions, remains predominantly nationally based. Without entering into the details of this highly complex problem, two important relationships between globalisation and the financial crisis of the European welfare states need to be considered.

First, the transfer of production to low wage economies, is having an impact on the level of employment in the industrialised world. Stopford and Strange point out that, according to their estimates, MNCs directly employ 21million people in Third World countries, and they argue that through the multiplier effect, MNCs are *de facto* responsible for twice as many jobs in the developing world (Stopford and Strange 1991: 16). Obviously, such a huge transfer of production is having an important impact on the employment structure of industrialised countries, as well as on the receipts of social insurance schemes, since unemployed people typically do not pay social insurance contributions. While this should not constitute the basis for a nationalistic protectionist argument, one cannot ignore the impact that the transfer of production to low wage economies is having on the social and economic structure of industrial countries. In addition, the emergence of new zones of production in low wage and low social protection economies, can be responsible for what has been termed 'social dumping'. In practice, social dumping occurs when producers (sometimes assisted by governments) engage in a competition by lowering wages and social protection standards, which can ultimately result in a downward spiral in labour standards (Euzéby 1992).

Second, the increased mobility of capital, allows MNCs to lawfully avoid high rates of taxation, which reduces the financing capacity of welfare states. Goods and services are increasingly exchanged between different production units of the same MNC. These exchanges do not obey to market rules: intra-firm trade is piloted by MNCs headquarters, by arbitrarily setting the prices of exchanged goods and services. Big multinationals can adopt a pricing policy which will make more profitable the units located in low tax economies. As a result, these companies are now capable of actually transferring profits to countries which offer better fiscal condition. For instance: '... they can set up their own insurance company in a small country which does not investigate too accurately how insurance premiums are calculated. They can also modify prices within the group and move profits so that they will pay the minimum rate of taxation' (Strange 1993: 249). Strange points out that these practices are not obstructed by governments, on the contrary, they are sometimes encouraged by them. Yet, she argues, 'these practices certainly contribute in a substantial manner to the fiscal problems of every welfare state' (ibid.).

Towards convergence in social policies?

The socio-economic explanations of current change reviewed so far, assume that the transformations described are affecting various industrial countries roughly in the same way. The trends discussed here, such as changes in production, globalisation, demographic shift, etc., are found in all industrial countries, and as a result it is reasonable to expect that their responses will be similar. According to this view, we are likely see further convergence in social policies.

This claim is certainly accurate in relation to broad trends. As argued elsewhere, (Bonoli *et al.* 1996), however, if analysis focuses on the details of changes in policy, current trends in European welfare states reveal a wider degree of variation. While the common overall direction of welfare reform is towards cost-containment and adaptation to the needs of the economy, there are significant variations in the way this is done. In France a key element in welfare reform is a shift in financing from employment-related contributions to taxation, in order to reduce indirect labour-costs. Germany, despite being faced with very similar problems, does not envisage such a solution. In Britain, the shift in financing is from general taxation towards private funding (ibid.). Similarly, with regard to pension reform, measures adopted display a substantial degree of variation, which does not seem to be related to socio-economic differences (see chapters 4 to 6). How does one explain the fact that Switzerland reformed its pension system before the occurrence of actual social security budget deficits, while France intervened only after various years of recurring imbalances? Why did the Swiss pension reform[2], unlike the British and French ones, include elements of both retrenchment and expansion? To answer these questions, socio-economic explanations are of little use. Country variations are better understood if political and institutional factors are brought into the analysis.

2.2. FROM 'POLITICS MATTERS' TO REGIME THEORY

Focusing on the Swedish case, and to a lesser extent on other Nordic countries, a second strand of welfare theory emerged in the early 1980s. Authors like Stephens (1979), Korpi (1983), Esping-Andersen (1985; 1990) and Castles (1982) developed what is known as the 'politics matters' or 'power resource' model. Its general hypothesis is that the strength of the labour movement and of left-wing parties are a key determinant of the level of social provision in a country. According to them, the successful mobilisation of the working class is the crucial factor in the explanation of different levels and models of social

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[2]The 1995 pension reform in Switzerland combined retrenchment measures, such as an increase in women's retirement age from 62 to 64, with some expansion elements, such as the introduction of contribution credits for carers (see chapter 5). In contrast, neither the British nor the French reforms included elements which could be characterised as expansion of the state scheme.

protection. Left-wing parties, can, once in government, prompt the adoption of generous and universalist social policies which best serve working class interests. As Esping-Andersen puts it, his approach 'flows from social democratic political economy. It differs from structuralist ... analyses in its emphasis on the social classes as the main agent of change, and in its argument that the balance of class power determines distributional outcomes' (1990: 16).

Empirical studies of welfare state development have generally confirmed the existence of a relationship between the strength of the left and of the labour movement on the one hand, and various measurements of welfare effort on the other (not necessarily spending). Esping-Andersen (1990), for instance, found a significant correlation between left-power mobilisation and the degree of decommodification achieved by various welfare states. Castles, concentrating on political parties only, argued that '... partisan control of governments is among the factors influencing ... public expenditure, with strong parties of the Right acting as an impediment to expansion and social democratic and other parties, jointly or separately, serving as a stimulus' (Castles 1982: 85). With regard to pensions, Myles (1984) found a correlation between the power of the left and his index of pension quality , which takes into account a wide range of variables.

Despite a relatively strong empirical support, this approach has also attracted substantial criticism. Baldwin (1990) and Ferrera (1993a) have challenged the assumption made by the power resource model with regard to the link between working class and solidaristic social policies. According to them, other social classes have fought for inclusion in redistributive arrangements at various times in the history of European welfare states. This is the case of Scandinavian farmers first and middle classes later and of the French self-employed in the 1950s and 1960s. According to Baldwin, it is not so much the fact of belonging to the working class that determines the positive attitude of a social group to welfare. Instead, it is the subjective perception of the groups' risk exposure and capacity of self-reliance.

With regard to current change, it has been argued that the power resource approach does not accurately reflect actual developments. As Pierson puts it:

> 'a power-resource perspective cannot explain patterns of retrenchment in the United States and Great Britain. [...] Their overall impact has

> been modest [...] . In Both countries, the political and economic resources of the left have diminished considerably. Rates of unionization have plummeted; left of center parties have been weakened. Although power-resource arguments suggest that this shift should have sharply altered the character of the welfare state, this has not been the case' (Pierson 1994: 28).

Given the substantial decline in the level of support for the left and the labour movement, welfare states in the UK and in the US were not dismantled as the power-resource model would have predicted. In Pierson's view, thus, other forces have replaced the left and the unions as the political basis of social policies, particularly the new constituencies created by the welfare state itself such as the beneficiaries of social programmes (particularly pensioners). This conclusion, however, is contradicted by the analysis of pension reform in continental European countries. In fact, the role of the labour movement in defending existing arrangements there has proved substantial and sometimes crucial. In some respect, it seems that Pierson's choice to compare the UK and the US might have led him to conclusions that are not applicable to a number continental European countries[3].

A second problem with the application of a 'politics matters' approach to the analysis of current change, lies with the fact that socio-economic changes reviewed above, particularly globalisation, have sharply reduced the room for manoeuvre enjoyed by left-wing governments in the areas of social and economic policy. While the expansion of welfare states took place at a time when economic and political boundaries roughly coincided, this is not the case any longer. As seen above, the bargaining power of the business community on social and economic matters has been strengthen by recent socio-economic developments. The result is that even when politics favours labour, the imposition of market-correcting mechanisms remains problematic. This does not necessarily mean that political parties of different political persuasion now have similar positions. As a recent study has shown, elite opinion on current changes in the area of social policy is strongly correlated to the political orientation of the organisation represented (George *et al.* 1995; George 1996). However, when in

[3] This risk, in fact, is acknowledged by Pierson himself, who admits that '... this selection of cases bypasses key issues raised by power-resources analysts. In a comparison of, say, the United States and Sweden, the strength of left parties and labor movements might well have emerged as more important' (1994: 29).

government, left-wing parties are, more often than in the past, forced to adopt policies that are more responsive to economic than to social requirements.

It seems thus that the link between left-wing power and policy outcomes has not disappeared altogether. Instead, its significance has possibly been reduced by the emergence of new, more powerful, factors. Globalisation, for instance, limits the room for manoeuvre available to governments in pursuing their social and economic objectives. In addition, the new constituencies created by the welfare state have reduced the centrality of the labour movement as the key supporter and defender of social policies.

Regime theory

A more complex version of the 'power resource model' has been put forward by Esping-Andersen in his more recent work (1990; 1996a). This approach identifies three regimes of welfare provision within industrial countries which refer to three different ideological traditions, liberalism, conservatism (often related to Catholicism), and social democracy. Countries such as Britain and the US, with a strong influence of liberal ideology, a relatively weak labour movement and without a strong Catholic tradition, have developed welfare states which are characterised by low levels of provision, targeted on the most disadvantaged. Continental European countries, most evidently France and Germany, strongly influenced by conservative traditions such as paternalism and social Catholicism, have based their welfare states on contributory social insurance, which keeps under control the uncertainty brought about by capitalism but at the same time guarantees the preservation of socio-economic status-differentials, and follows meritocratic principles. Finally, the social-democratic model, which is found in Nordic countries (most typically in Sweden) is the result of the strength of the labour movement and of left-wing parties. As the defenders of wage earners' interests, these political forces have managed to impose the introduction of social policies that reduce the dependence of employees on their participation in the labour market. The privileged means of social intervention in this case are generous and universal programmes, a developed social services sector and a commitment to full employment (Esping-Andersen 1990).

On the basis of this typology, Esping-Andersen formulates a number of hypotheses with regard to how different countries are likely to deal with current socio-economic challenges to the welfare state. Countries belonging to the liberal regime are likely to respond by de-regulating the labour market, by containing social expenditure and reducing welfare entitlements. This approach does have a positive impact on employment (Blank 1994) but it engenders developments such as job insecurity, rising numbers of working poor and ultimately a substantial increase in inequality. The conservative-corporatist response to current challenges has been to reduce the size of the labour-force by adopting pre-retirement schemes (particularly in France), by not encouraging women to enter the labour-market (Germany) and more in general by maintaining relatively generous entitlements to social benefits for workers. The result of this approach is the constitution of what has been termed a 'ring-fenced' labour market, which exacerbates the division between insiders and outsiders. The main indicator of this trend is the high unemployment rate in continental European countries, and particularly high levels of youth and long term unemployment. Thirdly, countries belonging to the social-democratic regime (particularly Sweden), have responded by increasing public employment (particularly in the social services sector) and by adopting a range of active labour market policies. This approach managed to keep the unemployment rate at relatively low levels until the early 1990s. More recently, however, to some extent because of rising budget deficit and unemployment, the social-democratic approach has been reversed, and cutbacks in provision have been adopted (Esping-Andersen 1996a).

The main interest of Esping-Andersen's work is arguably the fact that it brings together political, institutional and cultural factors within a single framework of analysis. In this respect it certainly constitutes a substantial break-through which is confirmed by the influence regime theory is having on academic debates on welfare states. The approach, however, has also attracted substantial criticism. First a number of commentators have argued that Esping-Andersen's categorisation should be complemented with a fourth regime, the Southern European model (Leibfried 1992; Ferrera 1996b). The key features of Southern European welfare states are a strong reliance on the family as a provider of welfare, the importance of clientelar practices in the attribution of benefits, a comparatively generous pension system and weakness in the area of unemployment compensation. From a feminist perspective, regime theory has been criticised for failing to take into account differences in the treatment of women that can be observed among modern welfare states (Langan and Ostner 1991: 130).

A further problem identified in relation to regime theory refers to its weakness when it comes to account for change in policy (Taylor-Gooby 1996). This approach highlights the self-reproductive potentiality of welfare regimes, but neglects the scope for change. Current developments in social policy are likely to affect the fundamental structure of welfare states, and yet the independent variables used by regime theory, mainly cultural traditions and left-wing power, are insufficient in explaining actual change. While some countries have arguably strengthen the key features of their regime-type (US and UK), others seem to be moving away from their traditional approach. This is the case of France where in a number of areas social insurance is gradually being replaced by universal programmes (Bonoli and Palier 1997a; 1997b).

2.3. BRINGING INSTITUTIONS IN

Since the mid-1980s, a third interpretation of welfare state developments focusing on the state and more in general on institutions has gained prominence (state centred approach or new institutionalism). To a large extent this new strand of welfare state theory reflected what was happening in other areas of public policy analysis where the role played by institutions in determining the shape of public policy was increasingly being recognised. In a seminal article, March and Olsen (1984) used the term 'New-Institutionalism'[4] to describe a growing corpus of literature which emphasised the impact of institutions on public policy. Since then both the term and the approach have acquired a significant influence in academic debates[5].

The central claim made by new-institutionalists is that institutions can be considered as an independent variable or as important intermediate variables. In their view socio-economic factors constitute a more or less distant background whose impact on public policy is significantly mediated by the shape of

[4]This trend is contrasted with the 'old' institutionalism which dominated political science debates until the late 1950s. Within this strand, the main emphasis was put on institutions which were studied from a strictly formal point of view. To some extent, 'old' institutionalism overlapped with the study of constitutional law (March and Olsen 1984; Stone 1992: 157).

[5]The most recent reviews of new-institutionalist literature make reference to at least three sub-strands: historical institutionalism, rational choice institutionalism and organisational institutionalism (Immergut 1996; Hall and Taylor 1996). My discussion refers mainly to the first sub-strand (historical new-institutionalism).

institutional structures. The concept of 'institutions' is generally understood in fairly broad terms. Typically it refers to the 'formal and informal procedures, routines, norms and conventions embedded in the organizational structure of the polity or political economy' (Hall and Taylor 1996: 938). In other words, the term institutions includes a set of rules and structures which range from the constitutional order to the unwritten conventions that contribute to shape the political game. The organisational structure of the various state bodies, and particularly the rules that define the relationship among the various actors who take part to policy-making do also play a substantial role in characterising an institutional environment. In fact, however, new-institutionalist analyses of public policy tend to concentrate on a relatively small number of elements of the institutional environment which are treated as independent variables.

A second important element of the new-institutionalist paradigm refers to the way institutions affect actors' behaviour and ultimately policy outcomes. According to Hall 'the organization of policy-making affects the degree of power that any one set of actors has over the policy outcomes[...]. Organisational position also influences an actor's definition of his own interests, by establishing his institutional responsibilities and relationship to other actors' (1986: 19). More precisely, the perception of actors' interests as well as the definition of the most adequate strategy to reach their objectives depends to a large extent on the institutional structure, on the position of a given actor within that structure and on the relationship with other actors as determined by existing sets of rules.

In relation to the analysis of social policy, New-Institutionalists have put forward three basic claims. First, countries which developed a strong state apparatus relatively early are associated with big welfare states; second, it is argued that existing social policies have a substantial impact on future developments; and third, countries where the constitutional structure allows minorities substantial access to power, are less likely to develop big welfare states. These three claims are found in various combinations in the new-institutionalist literature on the welfare state.

Among the first to look at the impact of institutions on social policy, Heclo (1974) has emphasised the importance of institutional factors such as state capabilities, inherited policies and the role played by administrators in initiating social reforms. In his comparative study of welfare state development in Sweden and the UK, he highlighted the impact of old policies on the new developments. In his own words:

> The men who charted the first departures into modern social policy were not amnesiacs. The substance of their policies was not a simple by-product dictated by economic, social and political preconditions. [...] With varying degrees of deliberateness, all were reacting against a background of inherited techniques, forms and presumptions collectively known as the poor law' (Heclo 1974:46)

Later, some basic elements of a new-institutionalist theory of welfare state development were laid down in an important article by Skocpol and Amenta:

> Until recently, most work on the determinants of social policy has emphasised their socioeconomic roots and has treated states as if they were merely arenas of political conflict or passive administrative tools to be turned to the purposes of any social group that gains governmental power. Currently, however, scholars are exploring ways in which policymaking may be shaped by organizational structures and capacities of states and by the political effects of previously enacted policies (Skocpol and Amenta 1986: 147).

In her subsequent work, Skocpol has used a state-centred approach to analyse social policy developments in the US, a case which is not successfully accounted for by the logic of industrialisation approach nor by the power resource model. The comparatively small size of the American welfare state is explained with reference to the traditional weakness of state institutions. Particularly at the time of industrialisation, state bureaucracy was underdeveloped and did not have the capacity to set up and run extensive social programmes as was the case in Europe. Instead of the state, in the US social policies were instigated by political parties. This resulted in the introduction of social programmes which were more or less targeted on specific groups, such as civil war veterans, which were likely to respond with electoral support (Skocpol 1995).

More recently and in a comparative perspective, Immergut (1992) and Huber *et al.* (1993) have put forward the hypothesis that constitutional structures have a substantial impact on the level of state welfare of a country. More specifically, they argue that in countries where interest groups are allowed substantial access to the policy-making process, and where minorities have the opportunity to prevent the adoption of legislation thanks to the existence of veto points, solidaristic welfare reform are more difficult to implement. Immergut (1992) contrasts the different course of health policy in Sweden, France and Switzerland. In the latter, the lack of a public health insurance scheme or a national health service is explained with the fact that thanks to the availability of referendums, interest groups that opposed state intervention in the area of health care (such as doctors, mutual societies), were able to prevent the adoption of such legislation (see Chapter 5). The Swedish success in establishing a national health service, conversely, is explained with reference to the dominance of the executive in policy-making. A similar conclusion is reached by Huber *et al.* (1993), who found a correlation between various indicators of the size of welfare states and power concentration with the executive branch of government. Their approach is particularly interesting as it accounts for the comparatively low levels of social protection found in Switzerland and in the US.

Institutions are likely to have an impact on current change as they did in the expansion of welfare states. Of the three institutionalist claims mentioned above the second and the third seem more relevant in the current context. First, retrenchment occurs at a time when welfare arrangements are well established and entrenched in people's daily lives. In this respect, the existing arrangements are likely to have an impact on the future course of policy. Second, retrenchment is also a potentially controversial exercise, and as a result likely to generate confrontation between different actors. The way in which these actors will interact with each other and will be able to affect the shape of legislation is likely to be related to the institutional environment in which they operate. Particularly, constitutional structures which shape the political game, as well as standard procedures of policy-making are likely to influence the scope and shape of current reform. The next two sections deal with these issues.

2.4. POLICY FEEDBACK AND PENSION REFORM

According to the author of one of the most comprehensive studies of welfare retrenchment carried out so far, the current phase of welfare state development cannot be analysed with the same conceptual tools that proved appropriate for understanding previous developments. His central contention is that 'retrenchment [... occurs] on a terrain that the welfare state itself has fundamentally modified' (Pierson 1994: 2), and as a result requires a new theoretical approach. Welfare programmes have created new constituencies in the electorate, the beneficiaries of social programmes, who act as a powerful brake against cutbacks which are likely to worsen their condition. As a result of the welfare state, a certain level of economic security has become the norm in most western societies. If governments want to reduce that level, they are likely to encounter powerful resistance from relatively large sections of public opinion.

Pierson's own theory of retrenchment focuses on institutions, and particularly on the notion of 'policy feedback', which relates to the fact that existing policies predetermine debates, coalition formation patterns and strategy selection by relevant actors. Socio-economic factors are seen as a background. Because of recent socio-economic changes (such as declining rates of economic growth, increasing international competition, demographic change) governments are under considerable pressure to reduce the scope and level of social programmes. The way these pressure are translated into policy outcomes, however, is significantly influenced by the institutional design of existing welfare state programmes. This occurs in two different ways.

First, it is argued that the welfare state has modified the political landscape, by creating its own constituencies, which include a substantial section of the electorate (pensioners, families, middle classes, and so forth). The result is that politically, it is extremely difficult to adopt cutbacks that most likely will prove unpopular. There is a significant risk of losing electoral support, and governments, caught between two contrasting pressures, will develop strategies aimed at minimising the political cost of retrenchment. They are likely to refrain from adopting radical measures unless they are under major budgetary pressure (1996a: 157); in order to 'spread the blame' for retrenchment they are likely to seek consensual or negotiated solutions (1996a: 177); they might try to obfuscate the true impact of reform (by reducing indexation for instance) ; or also offer compensation (1994: 19-24).

Second, social programmes have often produced 'lock-in' effects, or mechanisms 'that greatly increase the cost of adopting once-possible alternatives and inhibit exit from a current policy-path' (Pierson 1994: 42). A key example of a lock in effect is the difficulty involved in shifting pension financing from pay-as-you-go to a funded system, which implies a double payment of contributions by the generations currently in work, as these would have to finance their own retirement and the pensions that are currently being paid. In the UK 1986 pension reform initial plans for scrapping a pay-as-you-go pension scheme (SERPS) and replace it with a system of funded private pension were dropped precisely because of the issue of double payment (see chapter 4).

Myles and Quadagno (1996) have argued that the institutional design of pension schemes is associated with given approaches to retrenchment. In an ingenious article they have pointed out that recent pension reforms have tended to follow two different patterns and that these patterns are related to the type of pension scheme which is being reformed. In particular, they argue, schemes of Bismarckian inspiration, i.e. those which offer earnings-related benefits on a contributory basis, have tended to be changed by strengthening the relationship between contributions and benefits. In practice, this means that the benefit instead of being expressed in terms of a proportion of a reference salary (typically the last salary or the average of the best X years) it is going to be determined by the amount of contributions paid during the entire life. In other words, defined-benefit schemes are transformed in defined-contribution ones, which was the starting point of pension policy in most Bismarckian countries.

In contrast, schemes belonging to the Beveridgean tradition, which grant flat rate benefits often on a non-contributory basis, have been cut back by restricting eligibility. For instance, Australia, Canada, Denmark and New Zealand have all introduced some form of income or means testing. Again, as in the case of Bismarckian systems, the direction of reform seems to be towards what used to exist before. In all the four countries mentioned, universal provision was introduced as an extension of existing means- or income-tested schemes. Myles and Quadagno point out that in the four countries above, the shift towards income-testing was facilitated by the fact that the basic pension there is financed through general taxation only, which means that unlike in other systems there is no clear link between what people have paid in and their expected benefits. In Beveridgean schemes financed through contributions such as Finland, Norway, Sweden and the UK. In these countries the trend towards more selectivity occurs through an erosion of the basic pension which is replaced by a greater role of means-tested pension supplements.

The trends observed by Myles and Quadagno can be explained in terms of structural predisposition of pension schemes. The basis for entitlement, the type of financing and the kind of benefits they provide make some reform strategies more feasible than others. In a Bismarckian system, the least politically damaging way to achieve savings is to strengthen the link between contributions and benefits, while in Beveridgean countries savings are best achieved through targeting. Like Pierson, thus, Myles and Quadagno understand governments' strategies in pension reform as the search for least politically damaging solution within a given institutional context.

A similar conclusion is reached by Ferrera (1996a) in his analysis of patterns of welfare retrenchment in various European countries. After having identified four regimes of welfare provision, Scandinavian, Continental, Anglo-Saxon and South-European, he argues that the use of increased targeting as a retrenchment option will be most easily implemented in Anglo-Saxon countries (UK and Ireland). Since these two systems are mainly based on flat-rate provision of a relatively low level, increased targeting can be achieved through the non-adaptation of benefits to increases in people's living-standards. In this institutional context, governments do not need to take a proactive approach to increase income-testing; if they simply omit to upgrade benefits, people will increasingly turn to means-tested provision. Politically, this solution is much more feasible than, say, the replacement of a contributory earnings-related scheme (such as the French and German pension schemes) with a means-tested one, which would entail the non-respect of the contributory principle.

The institutional design of pension schemes is a powerful determinant of reform. The authors discussed here have found different associations between given institutional features and the course that pension reform is likely to take in various countries. Despite their emphasis on institutions, all these studies highlight the importance of politics in the adoption of a pension reform. Institutional features become relevant only insofar as they make some solutions more politically feasible than others. As a result, abstract discussions on what are the best solutions to the pension problem, do not seem appropriate. Instead, the institutional context peculiar to each country as well a the power relationship between the relevant actors should be taken into account, as this defines the realm of what is politically feasible.

Pension scheme design, however, is not the only institutional variable likely to affect the politics of pension reform. The potentially conflictual character of retrenchment in the area of public pensions is likely to emphasise the impact of the decision-making process on new legislation. The rules and procedures that govern policy-making in the various countries are likely to further restrict the realm of what is possible and to affect actors' strategies. This is the subject of the next section.

2.5. PATTERNS OF POLICY-MAKING

One of the key aspects of pension policy is the fact that it affects a very large section of the population. Current retirees, of course, are among those who have the biggest stake in the retirement system of a country. In addition, the working population, often through the payment of employment related-contributions, has built up a number of strong expectations with regard to their retirement. Hence, retrenchment in the area of pensions is likely to upset a substantial section of the electorate, with obvious repercussions on the popularity of the government in power. The link between pension policy and electoral risks is perhaps most obvious in the case of the US, where powerful organisations of retirees, such as the AARP (American Association of Retired Persons) issue voting recomandations to their members on the basis of candidates' position in relation to old age policies (Pierson 1996b). In Europe, pension politics has not generated single-issue movements to a similar extent. However, the potential unpopularity of cutbacks constitutes an important asset in the hands of interest groups opposing pension reforms. Generally, when trade unions set up protest movements against reductions in pension entitlements, their ability to gather popular support is quite impressive. Even in countries like France, which have low rates of unionisation (around 10%), the labour movement has been able to generate massive protest movements in defence of current pension entitlements, with the result of forcing the government to abandon its plans (see chapter 6).

Obviously, governments are well aware of the potential for controversy embodied in a pension reform. As a result they are likely to adopt strategies that minimise the risk of generating mass protest, unless they feel confident enough that they will manage to impose reform packages even in the face of widespread opposition. To put it simply, two political strategies are available to governments wishing to reduce pension expenditure. They can either impose the reform package they regard as the most appropriate for dealing with the current situation, or, alternatively, they can negotiate the content of pension reform with external interests in order to obtain their approval or at least their acquiescence.

These two strategies have different implications. From the point of view of governments committed to a reduction in pension expenditure, the confrontational approach has the advantage of excluding a watering down of savings measures, as these do not need to be negotiated. On the other hand, however, this strategy has the drawback of being more uncertain, since external unsatisfied groups might succeed in preventing the adoption of a controversial piece of legislation. This is not only the case in Switzerland, where the referendum system allows interest groups to challenge legislation at the polls, but also in countries like France or Italy, where the trade unions have repeatedly proved their ability to set up and sustain massive protest movement, often forcing governments to back down. The consensual approach, in contrast, is likely to strengthen support for a pension reform, to make mass protest less likely, and as a result to increase its political feasibility . In this case, however, reform-minded governments are forced to accept a compromise in the extent of retrenchment which they will not necessarily find adequate to deal with the current problems as they perceive them[6].

In the end, from the point of view of a government aiming to tackle the pension problem, both strategies have advantages and drawbacks. Decisions on how to go about reforming a pension scheme, will depend on perceptions of convenience and on calculation, but also on the established tradition in policy-making of the relevant country, and perhaps more crucially, on the room for manoeuvre allowed to governments by constitutional structures and decision making procedures. Arguably, the strategy selected will have an impact on the scope and on the shape of a pension reform, as well as on its likelihood to survive possible popular protest. Before formulating more precise hypothesis, however, one needs to look

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[6]A similar view is taken by Pierson, who argues that concentration of power, associated with a confrontational approach, does not necessarily entail increased likelihood of success in retrenchment policies. He points out that while power concentration allows governments to impose controversial policies, it also concentrates accountability, thus making electoral punishment by voters more likely. He concludes by arguing that there is not a strong case for believing that power concentration favours retrenchment (Pierson 1994: 34).

more closely at the question of consensus versus confrontation in policy-making. In fact, a substantial corpus of literature has been produced on this issue, which sheds light on the conditions that favour the adoption of one or the other approach to policy as well as their respective impacts on legislation. Some influential works are discussed below.

Majoritarian and consensus democracy

The issue of aggregating conflicting preferences is central to Lijphart study on majoritarian and consensus government . His leading question is the following:

> 'Who will do the governing and whose interests should the government be responsive when the people are in disagreement and have divergent preferences ? One answer is: the majority of the people. [...] The alternative answer to the dilemma is: as many people as possible. This is the essence of the consensus model' (Lijphart 1984: 4).

In order to answer the question of how divergent preferences are aggregated into policy, Lijphart develops a typology of 'patterns of government' ranging from 'majoritarian government', typified by Britain, to 'consensus government', typified by Switzerland, with 19 other democracies falling somewhere between the two extreme cases. A number of dimensions are used in order to discriminate between the two models.

The majoritarian model (referred to also as the 'Westminster model') is characterised by a strong dominance of the cabinet on parliament; by bare-majority and single-party cabinets; asymmetric bicameralism; two party system; one dimensional party-system (the left-right axis is the dominant cleavage in politics); a first-past-the-post electoral system; unitary and centralised government; unwritten constitution; and absence of referendums (ibid. 6-9). These features of the Westminster model all contribute to enhance the power of the majority vis-a vis the rest of the population. The British electoral system, for instance, allows a party with a relative majority in the electorate to have an absolute majority in parliament; it also encourages bipartism, which in turn makes coalitions unnecessary and thus contributes to majoritarian government (see chapter 3). The absence of non-socio-economic cleavages (with the exception of Scottish, Welsh and Irish nationalism, which do not have a country-wide dimension), also encourages bipartism. Finally, the lack of a written constitution and the fact that constitutional matters can be modified by a simple majority in parliament, are also likely to enhance the power of the ruling majority.

The consensus model, in contrast, is characterised by features which tend to limit the power of the majority and to include minorities in decision-making. The key features of consensus democracy, as identified by Lijphart, include: oversized coalition governments, i.e. the government includes more parties than what is needed to rule; strong separation between legislative and executive powers i.e. parliament has more independence vis-a-vis the government (and vice-versa) than it is the case in the Westminster model; balanced bicameralism and minority representation; multiparty system; multi-dimensional party system (presence of religious, language and centre-periphery cleavages); proportional representation; federalism; written constitution and minority veto (ibid. 23-31). According to Lijphart, the frequent use of referenda in Switzerland is not a feature of consensus democracy but rather 'a foreign element in either of the two model, which are models of representative democracy' (ibid. 31). This assumption is disputable, since in Switzerland the possibility of calling a referendum on any law is a powerful tool in the hands of unsatisfied minorities, as it gives them an additional opportunity to intervene in the policy-process. It is true, however, as Lijphart points out, that referenda can also be used by governments to generate majorities in the public and to silence unsatisfied minorities, and thus be an instrument of majoritarian policy-making (ibid.), as was the case, for instance, with De Gaulle's referendum on the independence of Algeria. Nevertheless, since referenda in Switzerland are not called by the government but they are either compulsory or called by unsatisfied groups, it seems more appropriate to include the use of referenda in Switzerland as a feature of consensus government (Kobach 1993). The consensus model can be seen as the mirror image of the British political system, at least as far as the nine dimensions considered by Lijphart are concerned. Both the institutions and the segmentation of society along a number of cleavages tend to limit the authority of the majority and by the same token they allow minorities to play a bigger role in policy-making.

There are two main factors, in Lijphart's view, that contribute to explain the emergence of majoritarian or consensus patterns of government in a given country. First, the degree of societal homogeneity. Segmented societies, in order to make cohabitation of different minorities practical, tend to include them in decision-making to a significant extent, and thereby develop a consensus pattern of government. In contrast, in homogeneous societies, there is a lesser risk of unsatisfied minorities wishing to leave the polity (regional nationalism in the UK is a feature which does not correspond to the majoritarian ideal-type). The second factor identified is the existence of cultural links with the UK. On a number of dimensions English-speaking countries, with the notable exception of the US, come closer to the Westminster model than other nations (ibid. 220).

The interest of Lijphart's work in relation to the analysis of welfare retrenchment lies in its ability to distinguish between different models of managing disagreement and conflict, which are typical features of current social policy reform. In this respect, it highlights a number of potentially fruitful directions for understanding why governments adopt either consensual or confrontational approaches when they have to deal with pension reform. There are however some problems with his approach. First, the different dimensions which are used to discriminate between Lijphart's models of democracy include both dependent and independent variables. The number of parties, for instance, depends heavily on the electoral system, since typically, a first-past-the-post electoral system is associated with bipartism while proportional representation produces multi-party systems[7]. These two dimensions belong to two different levels of causal analysis and should thus be treated differently.

Second, Lijphart's model does not take into account factors falling outside the realm of parliamentary politics. Most notably, the role of organised interests in policy-making is neglected. While the formal procedures he analyses are certainly relevant to the policy process, the influence of organised interests on politics cannot be ignored. This is especially the case in corporatist countries like Switzerland or Germany, where interest groups are regularly consulted by the government and given official tasks (such as drafting regulations) which in other countries are carried out by civil servants. This weakness of his initial work has been recognised by Lijphart himself in subsequent writings, who has argued that the two notions, 'corporatism' and 'consensus democracy', are nevertheless strongly related (Lijphart and Crepaz 1991: 245).

[7] As Duverger put it, this statement is one of the few which in political science 'approximates a true sociological law' (Duverger 1963).

Corporatist policy-making

The role of interest-groups and their inclusion in or exclusion from policy-making is the central focus of a different, but related, strand of public policy theory which refers to the concept of corporatism[8]. Corporatism is understood as a system of interest intermediation in which groups supporting different (and often conflicting interests) are included in policy-making. According to Lembruch corporatism 'involves ... a plurality of organisations usually representing antagonistic interests [which] ... manage their conflicts and co-ordinate their action with that of government expressly in regard to the ... systemic requirements of the economy' (1984: 62). The inclusion of interest-groups into policy-making is usually institutionalised, typically through 'obligatory consultation of interest organisations over government bills' and through 'their representation on advisory and administrative committees (ibid. 68). These mechanisms play an important role in strong corporatist countries such as Austria, Sweden, Germany and Switzerland.

Typically, corporatist practices are associated with strong and well integrated labour movements and employers' associations. According to Schmitter (1982: 264) among the preconditions for corporatist concertation to take place are a system of interest organisation based on centralisation and monopoly of representation. These features are important because they affect interest groups' threat potential (such as the ability to call and sustain strike activities) and as a result constitute a powerful pressure on governments to adopt negotiated solutions in the relevant areas of public policy. Trade union monopoly of representation and vertical integration are also important when it comes to defend with the rank-and-file an agreement reached in tripartite negotiations. In the absence of strong integration, there is no guarantee that individual unions, or union members, will conform to decision taken by the national leadership. The failure of income policies in Britain in the 1970s was to a large extent due to the TUC's inability to control wage settlements negotiated by individual unions (Hall 1986: 277).

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[8] For a general discussion on the concept of corporatism, see among many other Schmitter and Lembruch 1979; Lembruch and Schmitter 1982; Lembruch 1984; Regini 1984. In relation to social policy, see Mishra 1990 and Kemeny 1995.

The existence of a corporatist tradition in a country is likely to affect the kind of political approach governments will adopt in a pension reform in two main ways. First, the conditions that have been identified as favourable to the establishment of corporatist practices are likely to put pressure on governments to seek external support for planned legislation. In countries with strong and well integrated labour movements, governments will be more inclined to adopt a consensual approach to welfare retrenchment, since there, the trade unions can credibly threaten to prevent the adoption of controversial legislation, through mass protest or by making use of the opportunities provided by formal institutions. Second, countries with a strong corporatist tradition have developed standard procedures in policy-making which include the concertation of policy with external interests. Organised interests, in turn, having being used to negotiate between themselves and with the government, are less likely to adopt an uncompromising stance. Corporatist countries, in fact are often characterised by what Katzenstein (1985a: 32-33) has termed 'the ideology of social partnership', a notion referring to labour movements and employer associations which are sensitive to the needs of the national economy rather than concentrated on simply defending the interests of their members. The existence of a tradition in public policy-making that values compromise and consensus can be seen as an element favouring a negotiated solution to a pension reform.

As a matter of fact, countries with a strong corporatist tradition have sought to reach consensus on retrenchment measures in the area of pensions. For instance, the German 1992 pension reform was supported by the main political parties (both by the ruling coalition and by the Social Democratic opposition), and was to a large extent influenced by the proposals made jointly by the trade unions and employer organisations (Schmähl 1993: 42). Similarly, the Swedish 1994 pension reform was carefully agreed between the Social democratic government and the social partners (Pierson 1996a: 172; Stephens 1996: 46). As discussed in chapter 5, the 1995 Swiss pension reform was also negotiated with the social partners, though, despite a number of attempts, a compromise could not be reached on all of its elements.

For the reasons mentioned above, it is not surprising that countries with well established corporatist practices tend to deal with the pension issue in a more consensual way. What is more striking, however, is the fact that countries which lack a corporatist tradition have also developed a consensual approach to pension reform. This was the case, for instance, with the 1995 Italian pension reform, which reflected to a large extent the proposals made by the trade unions (Artoni and Zanardi 1996). As discussed in chapter 6, the French 1993 reform, though it was not officially approved by a large section of the labour movement, included elements that were clearly geared at gaining its acquiescence. In both countries, governments were admittedly afraid of the possible conflictual reaction of the trade unions, so that they opted for a negotiated solution. In this respect, it seems that the strong attachment of the population to existing pension arrangements, which makes union-led mobilisation easier, compensates for the weakness and poor integration of labour movements in non-corporatist countries. In both countries, attempts to deal with pensions in a confrontational way failed as a result of impressive trade union-lead protest movements. In 1994, the Italian government had to drop plans for a pension reform after a general strike had been called (Artoni and Zanardi 1996), while in France the attempt to impose pension cuts on public sector employees in 1995 generated a major protest movement and forced the government to withdraw its plans. Standard indicators of trade union density, thus, do not seem to reflect accurately the extent to which labour movements are able to challenge the adoption of legislation. The case of France, in particular, shows that even numerically weak trade unions are able to set up and sustain massive protest movements, which can ultimately succeed in preventing the adoption of controversial reforms.

2.6. RESEARCH HYPOTHESES

The interpretations discussed in this chapter provide some useful insights in understanding current social policy change. First, socio-economic factors are having a substantial impact, although, as pointed out earlier, they do not explain national variations in policy responses. Second, political factors, and particularly the power of the left and of the labour movement, are likely to continue playing a role in the current redefinition of the welfare state, albeit possibly to a lesser extent than during its expansion. Third, institutional design of social programmes seems particularly crucial in the present context as policy feedbacks affect the direction taken by reform. Finally, the rules that govern policy-making, which determine who has access to it and the degree of influence granted to external interests, are also likely to affect the shape of reform.

The relationship between policy-making patterns and policy outcomes, which is the central focus of this study, is analysed in two separate stages. First, the study deals with the issue of how governments go about reforming their pension system in terms of policy-making process. As seen above, they can choose between two strategies based either on the inclusion or the exclusion of external interests. In relation to this issue, the study aims at understanding what are the factors that favour the adoption of one or the other of these two approaches to pension reform. Second, it examines the implications of the type of policy-making chosen on pension reform. In particular, it is assumed that the number and kind of actors involved will have an influence on the type and on the scope of measures adopted. In this section, a number of hypotheses related to these two questions are discussed.

Power concentration and policy-making patterns

On the basis of the above discussion on models of democracy and on corporatism, it seems that a key element likely to affect governments' approaches to pension reform is the balance of power between them and external interests, particularly the labour movement. The balance of power between these two actors (or sets of actors) depends on three main factors: the extent to which the constitutional structure concentrates power with the government, the level of integration and representativeness enjoyed by the trade unions, and a number of political contingent factors such as electoral results.

First, in relation to constitutional structures, Lijphart's work on consensus and majoritarian democracy gives us some insight into what individual institutional features are likely to be associated with strong power concentration with the executive. In this respect, one would expect countries falling into the majoritarian category to be more likely to adopt a confrontational approach to pension policy. Conversely, countries which share many features of the consensus model, are likely to include external groups in the definition of pension policy. Because of the potential for controversy embodied in pension policy, governments willing to retrench in a consensus democracy might find it more rational to agree on a reform package beforehand rather than to try to impose their own priorities. The second strategy, in fact, might result in the rejection of reform as a whole. In relation to the three country sample covered here, theory suggests that the UK is likely to adopt a confrontational approach while Switzerland is expected to negotiate the content of reform with the relevant interests. With regard to France, which according to Lijphart shares elements of both models, it is more difficult to suggest a likely course for pension policy merely on the basis of institutions. Some more elements need to be taken into account in order to do that.

Second, in relation to the existence of corporatist practices, which as seen above are expected to be related to a consensual approach to pension reform, only Switzerland has a relatively well integrated labour movement and a strong tradition of corporatist policy-making. France, in contrast, has one of the lowest unionisation rates among industrial countries, and the labour movement is further divided along ideological lines, which is seen as an impediment to the development of corporatist patterns. Finally, the UK, despite having a stronger and better integrated labour movement, has failed to develop consistent corporatist practices. According to most commentators, this is due to the lack of control of the TUC over individual unions (Hall 1986; Regini 1984). Moreover, the Conservative governments of the 1980s and early 1990s have shown little interest in negotiating policy with external groups.

Third, contingent political factors can affect the balance of power between governments and external interests. The position of a country on the majoritarian-consensual axis might in fact change as a result of these contingent elements. Three main factors seem to be particularly relevant: the proximity of an important election, the size of a parliamentary majority and the configuration of power within democratic institutions.

First, electoral cycles provide some windows of opportunity in which governments can take more risk in policy-making. Unpopular measures, such as a pension reform, are more easily adopted when the next important election is scheduled for a relatively distant future. Their potentially negative impact on the government's popularity has some time to fade away. These considerations are particularly relevant in the case of France, which because of its semi-presidential system has two non-coordinated electoral cycles: a president is elected every seven years while parliament is renewed every five. As discussed in chapter 6, the double electoral cycle narrows down the size of these windows of opportunity and helps to account for the long time taken by French policy-makers to adopt saving measures in the area of pensions.

Second, the size of the parliamentary majority is likely to affect the government's approach to a pension reform (Pierson 1996: 176). If it can rely on a substantial 'electoral slack', a government might be more inclined to ignore external demands. Under such conditions, possible defections in parliament do not constitute a cause for concern. Electoral slack might have played a role in the 1986 British pension reform, which was imposed by the Conservative government who could count on a majority of 146 in the House of Commons.

The third contingent factor, power configuration, refers to the orientation of political control of the different democratic institutions. This factor is relevant in countries with bicameral parliaments, where the two chambers are elected on a different basis and where they both can affect the course of policy (symmetric and incongruent bicameralism). Under such conditions, it is possible to have a situation in which the two chambers are dominated by different parties. This was the case in Germany at the time of the 1992 pension reform, when the *Bundestag* was dominated by the centre-right ruling coalition, and the *Bundesrat* was controlled by the Social-Democrats. According to the German constitution, most laws must be accepted by both chambers. The result of this peculiar power configuration is a significant pressure on the government to seek concertation with the opposition (Kriesi 1994: 334; Schmidt 1996). As seen above, this is precisely what happened in the 1992 pension reform.

A similar effect of power configuration on policy-making patterns could be observed in France, when between 1993 and 1995, President and Prime Minister belonged to two different parties. As in the case of Germany, the coexistence of two important actors with different political orientations constituted a powerful pressure to avoid confrontation and to seek wide support for legislation (Bigaut 1995). As argued in chapter 6, this configuration of power constituted an important incentive for the government to act consensually in the 1993 pension reform. When, in 1995, this incentive disappeared with the election of a President belonging to the ruling right-of centre coalition (Jacques Chirac), pension policy took a much more uncompromising character.

Policy-making patterns and pension reform

The relevance of the above discussion for understanding why a given course of pension policy is followed in a country, relates to the fact that the pattern of policy-making adopted (confrontational or consensual) limits the range of options available for reform. In general terms, it seems appropriate to expect governments choosing the confrontational approach to be better able to shape pension reform according to their ideological and political preferences. In this case, governments might also be able to anticipate predicted financial problems. In contrast, governments willing to adopt a negotiated approach, in order to convince external interests of the need for a pension reform, will need to wait until pension schemes budgets are unequivocally in trouble.

In addition, groups inclined to oppose retrenchment in the area of pension, most typically the trade unions, are likely to demand some sort of *quid pro quo* in return for their support or acquiescence to a pension reform. A deal can be achieved in a number of ways, which depend to a large extent on pension scheme design. As a result, it is difficult to generalise on this point. A progressive labour movement might accept retrenchment measures if these are compensated through an improvement of the situation of women, who often fare less well than men in insurance-based pension schemes (Rake 1996). As discussed in chapter 5, this was the case in the Swiss 1995 reform. Other possible *quid pro quos* include concessions on the management side of social insurance schemes (in the 1993 French reform; see chapter 6); or a commitment by the government not to intervene in pension policy for a number of years (in the 1995 Italian reform).

Given the important degree of variation of pension arrangements in Europe, it is difficult to theorise on the details of pension reforms. However, what seems likely, is that negotiated solutions, unless adopted in a context of generalised 'pension panic', i.e. a situation in which everybody agrees on the necessity to cutback pension expenditure, will include elements which constitute a compensation for the groups who are negatively affected by retrenchment measures.

Interacting determinants

The above discussion of the factors that are likely to affect the course of pension policy suggests that monocausal explanations are most unlikely. Instead, what best accounts for major policy reforms, is a combination of factors interacting with each other. A constitutional structure which concentrates power with the executive can become irrelevant if no party manages to achieve a majority. By the same token, bicameralism or two-headed executives have different impacts on policy-making depending on who controls the two institutions.

While it is plausible to assume that, in line with the new-institutionalist hypothesis, constitutional structures have an impact on policy, this impact, however, should not be seen as a constant and fixed feature. In fact, the importance of institutional variables depends on contingent political factors and on the balance of power between the different actors. For this reason, predictions with regard to the likely course of pension reform in given countries are extremely difficult to make. What one can say, however, is that given combinations of institutional features and contingent factors are likely to be associated with certain patterns of pension policy-making. In general, a confrontational approach to pension reform is more likely in countries presenting a combination of institutional and contingent factors which favour concentration of power within the executive.

This general hypothesis, however, needs to be adapted to the different national contexts, in order to increase the range of variables that are explained and in order to understand the details of pension policy. In the three case-study chapters, this hypothesis will be re-formulated in the light of the particular socio-economic, institutional, and political context that characterises the countries studied. In fact, the specific measures that make up reform packages can only be accounted for by a closer analysis of national situations. Before turning to the case-studies, however, a discussion of the methodology used in this work is needed. This is the focus of the next chapter.

Chapter 3

METHODOLOGY: COMPARING SOCIAL POLICIES

This chapter addresses some issues of method in the social sciences in general, and in particular with reference to the understanding of social policies. Given the approach adopted in this study, it concentrates mostly on the comparative method. It is important to be aware of what are the possibilities and the limits of scientific research in the social sciences. Too often, in fact, research is carried out on the basis of implicit assumptions with regard to the explanatory power of theory. Can we, social scientists, produce statements of general validity, or laws? If we cannot, what should we aim for? What are the best methods to achieve that? These are important questions that have kept methodologists busy for decades. Rather than attempting to answer them (this task could be the subject of a doctorate in its own right), I will try to provide an informed discussion of some of the main positions which can be found in the relevant literature.

First, the chapter presents the case for comparative research as being the most adequate to develop theories which relate to macro-social structures. It then moves on to look at two different traditions of comparative research, the quantitativist school and the strand referred to as historical sociology (sections 2 & 3). In the fourth section, it tries to relate the general debate on comparative social research to the area of social policy; and, finally, it focuses on the approach adopted in this study.

3.1. PERSPECTIVES ON COMPARATIVE RESEARCH

Strictly speaking, comparison is the essence of all scientific research. The scientific method, be it in the realm of natural or social science, is always based on a comparison between different situations, which are characterised by the presence, or absence, of given causal factors and by the occurrence, or non-occurrence, of a given event (Lijphart 1971: 683). In the social sciences, however, the term comparative is generally used to designate research based on the parallel analysis of a given issue in different geographical entities, most often nation-states, with the aim of uncovering causal regularities, or more ambitiously, scientific 'laws'. The following discussion is based on this definition of comparative research. As a result, the fact of studying more than one country is not a sufficient condition for a piece of research to be considered comparative. In this case, one might simply have a juxtaposition of case studies. To be comparative, analysis must go beyond the stage of parallel investigation and uncover consistency (or inconsistency depending on the research design) between causal links in the different countries studied.

A comparative approach is particularly powerful, and sometimes even inevitable, when the hypotheses being tested relate to macro-social, -political or -economic phenomena. In this case, in fact, the other major tool of the social scientist, the controlled group technique, cannot be applied. More confined events, like the impact of a given change in policy on the behaviour of a given group, can be assessed through the comparison between two groups, of which only one has been affected by that particular policy change. Different behavioural outcomes will tell us whether or not the policy change in question has had the supposed impact on the group concerned. For obvious reasons, most often of a practical nature, the controlled group technique cannot be applied to test the validity of hypotheses which concern macro-structures. For example, the proportion of GDP spent on social expenditure, the importance of corporatist networks or the level of investment in a country are all indicators which cannot be controlled by the social scientist.

When analysis covers this sort of phenomena, the comparative approach is the only practical option. Instead of intentionally exposing a group to a given stimulus, the comparativist will look around to find countries which present the best possible combination of presence-absence of his or her independent and dependent variables. The success of this exercise, of course, depends to a large extent on the availability of countries with the required features. Often the researcher is forced to compromise. Nevertheless, to look at a causal relationship between variables in a single country, is not a satisfactory solution either. The presence or the absence of a given causal relationship observed only once tell us nothing about the existence of such relationship independently from the context in which it has been observed. As Kohn put it:

> 'cross national research is valuable, even indispensable, for establishing the generality of findings and the validity of interpretations derived from single nation studies. In no other way can we be certain that what we believe to be social-structural regularities are not merely particularities of some limited set of historical or cultural or political circumstances' (Kohn 1987: 714)

Yet the identification and the validation of causal relationships can be extremely important in the area of public policy in general, and in particular of social and economic policy. Surprisingly, much of the current public debate on the supposed relationship between social expenditure and economic performance is not always informed by sound comparative research. Paradoxically, this is one of the areas in which the contribution of comparative analysis is potentially most relevant. From a scientific point of view however, (as opposed to a political one), comparative research which is used to inform policy decisions must be of the highest possible quality. The complexity involved in the study of macro-structural relationships across different countries, in fact, means that there is plenty of scope for errors. Measurements can be incorrect, or they can refer to different things in different countries. Institutions which developed in a country may or may not exist in another one. Concepts used in a given culture may or may not have an equivalent in other cultures. In sum, the extent of obstacles to successful comparative research is substantial, and can produce major misreading. That is why, before embarking in my own, I thought it useful to provide a discussion of what are the main problems in comparative research and how these can been dealt with as well as, perhaps most importantly, what are the possibilities and the limits of comparison in the social sciences.

The term 'comparative' offers a relatively loose methodological prescription on how to do research. The facts that more than one country must be involved and that the objective of research is to identify causal regularities tell us little about how one should proceed in the analysis. This reflects the existence of important variations in method between studies that are generally treated as comparative. Broadly speaking the majority of comparative studies can be grouped into two different categories. First there are quantitative studies, which compare a number of indicators usually across a relatively large number of countries. Alternatively, comparative research can be based on a more detailed analysis of events in different countries. In this case, because of the amount of work involved, the number of countries is generally smaller and they are chosen because of their relevance with regard to the research hypotheses. These two approaches to comparative research are based on different normative assumptions with regard to methodology in the social sciences and have different implications in so far as their general validity is concerned. For this reason, it is worth spending some time looking at some of the main debates surrounding them.

Quantitative comparative research

Quantitative comparative studies are based on the assumption that the scientific method as applied in the natural sciences can be successfully used in the social sciences. Reference is often made to the work of Karl Popper (1959) and to his normative theory of science. According to him, sound scientific research must be based on the elaboration of one or more hypotheses which need subsequently to be corroborated by testing them against empirical evidence. Hypotheses must be falsifiable, i.e. before the test takes place, it must be possible to identify a number of results which would invalid the hypothesis. The validity of hypotheses is, in principle at least, only temporary. Hypotheses should be considered valid as long as they are not contradicted by empirical evidence. The corollary of this understanding is the fact that the more empirical tests a theory has survived, the stronger it is. Consequently, it is in the interest of the researcher to test his or her theory against as many cases as possible. Much of the American political science tradition, until the late 1970s at least belongs to this strand (Cutright 1963; 1965; Wilensky 1975). Typically, macro-structural hypotheses, like for example that the level of social expenditure is related to economic development (Wilensky 1975), were tested across a large number of countries, depending on the availability of the relevant indicators.

In this perspective, the number of cases analysed is seen as a crucial factor in the ability to make generalisations (Lijphart 1971). According to Skocpol, it is because of this methodological belief that some research areas were not covered by American political scientists before the mid-1970s. Her subject, social revolutions, had been avoided because of the insufficient number of cases to produce convincing scientific results (1979: 33). While the number of cases covered is a crucial element, in general, quantitative comparative analysis pays relatively little attention to the differences in national contexts and to the dynamic character of the phenomena studied. Instead, the main concern is to improve the quality of measurements (indicators) which is believed to be a key standard by which to assess the scientific validity of research (Blalock 1975).

The quantitative approach remained the dominant paradigm in comparative social research until the late 1970s, though not immune from criticism. Among historians, in fact, there had always been resistance to the assumption that social theories could aspire to some sort of general validity. Their view is that generalisations are not possible in the field of social science, since social phenomena occur in particular and unique historical and cultural contexts. Within sociology, however, the quantitativist paradigm came increasingly under attack for its lack of understanding of contextual and cultural specificity. According to cultural sociologist Bertrand Badie, comparative social science entered a phase of crisis when the research community became aware, towards the end of the 1970s, of the difficulties involved in comparing social structures defined by western academics across a varied range of cultures. For instance, he points out, concepts such as 'nation', 'state', or 'civil society', do not have an equivalent in most non-European cultures (Badie 1989: 343). As a result of growing awareness of the Eurocentric perception which had dominated much of earlier research, the corpus of theory developed by quantitativists in the 1960s and 1970s was significantly weakened. When people were relating various economic indicators to the level of political development in different countries (Cutright 1963), were they really comparing like with like? Or were the equivalents found in non-European cultures just 'methodological artifacts' (Kohn 1987: 718). How can the problem be dealt with? Badie acknowledges that the implication of his view on the non-comparability between cultures is the risk for analysis to remain descriptive. Hypotheses developed in a given cultural context, cannot be tested in a different one, since the concepts used might not have a true equivalent in another culture (Badie 1989: 346).

Historical sociology

The result of the critique of the quantitativist research strategy was a resurgence, during the 1980s, of historical sociology as a comparative approach. A source of inspiration for historical sociologists is the work by Alexis de Toqueville (1981; 1983), unknowingly one of the founders of this approach, who between 1835 and 1856 published two books which compared the different paths to political modernisation undertaken by France and the United States. The comparisons he makes are based on many of the techniques which later became prescriptions of comparative historical sociology. Another study which is often quoted as an example is the work by Barrington Moore (1966) on the origin of democracy and dictatorship in a number of countries, chosen according to whether they developed democratic or dictatorial political regimes. His approach is often presented as an example in comparative methodology (Skocpol 1984; Kriesi 1995).

The revival of historical sociology developed to a large extent around Theda Skocpol and her school. The key aspects of this approach are a particular emphasis on the context in which a given phenomenon is taking place and on processes rather than on measurements. The units of comparison, instead of being economic indicators are 'selected slices of national historical trajectories' (Skocpol 1979: 36). According to Skocpol (1984: 1) there are four main features which characterise historical sociology as a distinctive method, as opposed to traditional history and to quantitative sociology. First, she argues, 'social structures and processes [are] understood to be concretely situated in time and space' (ibid.). Second, historical sociology is supposed to 'address processes over time' (ibid.), or in other words, to cover a given time span rather than concentrate on a particular moment. This feature is in contrast to the quantitative-empirical school, which has been criticised for being anti-historical, in the sense that it generally limits analysis to a particular point in time, thus failing to capture the dynamics of social phenomena. Third, she suggests that historical sociology should 'attend to the interplay of meaningful actions and structural context' (ibid.). This third item seems to relate more to a particular theoretical understanding of what explains social change i.e. a combination of actions and structures, rather than a methodological prescription. Finally, it is claimed that historical sociology should 'highlight the particular and varying features of specific kinds of social structures and patterns of change' (ibid.). In other words this approach follows historians in recognising the peculiarity and uniqueness of different social and cultural contexts. However, unlike historians, historical sociologists do not believe that this fact is an unavoidable obstacle to cross-national comparisons. In fact, by placing much emphasis on the context in which a given social phenomenon occurs, the risk of ignoring differences between the units of comparison is substantially reduced.

In historical sociology the selection of the countries to analyse is of foremost importance. The composition of the most appropriate sample is determined by the requirements of the research. For instance, in her work on the origins of social revolutions, Skocpol (1979) selected three countries which experienced a social revolution (France, Russia and China) and contrasted them with three other which did not (Japan, Prussia and England). Simple common sense tells us that factors which were present prior to revolutions in France, Russia and China, but did not exist in Prussia, England and Japan, are likely to be the causes of social revolutions. In the selection of her sample, Skocpol combined two main strategies in cross-national comparative research: the 'most similar system design' which consists of selecting countries similar in most respects, and then compare what is different between them; and the 'most different system design' which entails selecting very different cases and compare what these countries have in common. (Przeworski and Teune 1970: 31-39). In the comparison of the three countries which did experience a revolution, Skocpol looks for similarities; when she contrasts them with countries which did not, she looks for differences.

Comparative historical sociology, however, has also its disadvantages in relation to quantitative-empirical analyses. *First, since it requires a thorough investigation of* the different contexts and processes, the number of countries covered is bound to be lower. For instance, if one compares socio-economic indicators, the size of the sample, assuming that the indicators are available, does not constitute a practical problem. In contrast, when comparisons are made between processes which take place over a given time span, and when the context in which these processes occur is also analysed, then the number of cases cannot be increased beyond a certain level. In fact, while quantitative studies often cover up to around 100 countries, research projects in comparative historical sociology are typically limited to 2 to 5 or 6 cases. As a result, the general validity of findings emerged from the analysis of such a small number of countries, which moreover, have been carefully selected by the researcher, can certainly be questioned. Second, the fact that comparisons are usually carried out among broad themes or wide ranging events, means that it is extremely difficult or even impossible to include all relevant elements.

It seems thus, that the merits of comparative sociological history should not be overestimated. In particular, it should be made clear that its ambition cannot reasonably be to produce statements of general validity, especially when research is based on a very small number of cases. Instead, the usefulness of this method, lies in its ability to highlight some mechanisms which are at work in given processes and in given contexts. Following Boudon (1986) it seems that theories produced by historical sociologists can aspire to 'localised determinism '(*déterminisme par plaques*) a concept which basically refers to the fact that the validity of statements should be considered as limited to the particular context in which a given phenomenon has been analysed and a cause-effect relation has been identified. This limitation certainly applies to the present study

3.2. COMPARING SOCIAL POLICIES

One of the first problems which comparativists working in the broad area of social policy usually have to deal with is that of finding reliable and comparable statistics. The economic indicators provided by international agencies such as the OECD, Eurostat or the ILO are often difficult to use, since they rarely (if at all) mention what a given indicator means in different countries. For instance, it is not always clear what schemes are included in the indicator 'expenditure on pensions'. Does it include the German employer-sponsored (non compulsory) pension schemes? Does it include tax rebates for UK private pension plans? In most cases, this sort of detailed information is not supplied with a table. Indeed, it can be of crucial importance for the accuracy of a comparison, depending on what sort of hypotheses one is working on.

This type of problem is made worse by the fact that terms carrying the same name have different meanings in different countries. It is known that, for instance, the concept of social expenditure may (UK) or may not (France) include education. In addition, things get more complicated when it comes to the details. Higgins (1981: 17) points out that the term 'social security', refers to all cash transfers to individuals in the UK; in the US, the same term is used as a synonym of the Old Age Sickness and Disability Insurance (OASDI) scheme. In France, *sécurité sociale* can be understood as either an institution or a concept. The *sécurité sociale* institution indicates the social insurance system set up in 1945, which includes pensions, family benefits and health insurance. The concept, in contrast, refers to universality, i.e. the idea of a single plan covering the whole population of a country, since one of the initial aims of the *sécurité sociale* was universality. This objective, however, has not been achieved, and that is why it is sometimes said that the French social security system is not a real social security system (Chatagner 1993: 118). A sentence which does not make sense if taken out of its context.

These problems are mainly of a practical nature. Ideally, if one had access to national statistics, had a thorough knowledge of the languages and cultures involved in his or her study, this kind of obstacle would not be too serious. There are however more complex problems involved in cross-national comparative social policy, which are more of a conceptual nature. For instance, let's assume that the indicator 'social expenditure', has been built so as to be satisfactorily comparable, i.e. it includes the same programmes in all countries. A closer look at the schemes contained reveals that there are profound differences as to how these schemes are financed; what part of the population is covered, what the entitlement rules are and the kind of benefits they provide (flat-rate or earnings-related). For example, in Bismarckian systems the bulk of social expenditure consists of contributory earnings-related benefits while in some Nordic countries universal tax financed provision plays the major role. Is expenditure on these programmes 'the same thing'? Can it be treated, as is the case in some international comparisons as being interchangeable?

The most sensible answer to that question is that it depends on what this indicator is being used for. If, as it is often the case, it is to reflect in some way the overall welfare effort of a nation, then there is growing awareness that the social expenditure indicator is not the most adequate (Esping-Andersen 1990; Cochrane 1993). Esping-Andersen argues that 'not all spending counts equally' (1990: 19). For instance, he points out, in Austria relatively large sums are used to finance a scheme for privileged civil servants. When assessing the welfare effort of a nation, the amount spent on such schemes cannot be treated as equivalent to expenditure on schemes which cover the whole population. More in general, differences in the way schemes are financed, in their coverage and eligibility rules and in the sort of benefit that they grant, can produce a substantial impact on important dimensions such as redistribution and gender equality. For instance, it is known that welfare states based on contributory earnings-related schemes of Bismarckian tradition, are much less vertically redistributive than their Anglo-Scandinavian counterparts. O'Higgins *et al.* (1990) have found that the British and even the American welfare state are more vertically redistributive than the German one, though in the latter social expenditure is considerably higher both in relative and in absolute terms.

It seems that comparisons of welfare efforts based on the social expenditure as a proportion of GDP indicator (such as Wilensky 1975), which refer to substantially different sets of policies and institutions in different countries, are considerably weakened if one considers that the same economic indicator sometimes refers to rather different things in different countries. In this respect, the reasons which support the adoption of a more detailed contextual analysis in comparative social policy are the same as the ones reviewed above on a more general level. The emphasis on the context reduces the risk of inadvertently not comparing like with like. In fact, there are some excellent examples of detailed comparative research in the area of social policy that from a methodological point of view reflect the guidelines given by historical sociologists.

In his pioneering work on the relationship between industrialisation and social policy, Rimlinger (1971) uses an approach which reflects the main features of comparative historical sociology. The sample selected includes countries with a strong liberal-individualist tradition (US, UK, France) together with countries with an authoritarian legacy (Germany, Russia) and a totalitarian state (USSR). This is relevant in relation to Rimlinger's central hypothesis, i.e. that the impact of industrialisation on the development of social policy has been mediated by the role played by ideas, and in particular by liberalism (ibid. 8-10). The analysis then concentrates on processes (the development of social policies) and on contexts (industrialisation, political development, dominant ideologies), and concludes that 'the countries that denied the right to social protection during the period of industrialisation were the ones with the strongest liberal and individualistic traditions' (ibid. 336).

Similarly, Heclo's work on the development of old age and unemployment insurance in Sweden and in Britain (1974), employs comparative historical sociology as a methodological approach. Heclo explicitly mentions the relevance of looking at the context in which social policies develop. As he put it:

> 'Public policies never exist in a vacuum. To begin by immediately comparing the course of social policy in Britain and Sweden would not only obscure many of the extremely important conditioning factors for such policy but also ignore something of which the zealous comparativist needs constantly to remind himself: countries are not interchangeable pieces' (ibid. 17).

In his analysis of the context, Heclo focuses on three main areas: the socio-economic background, political development and the policy inheritance (ibid. 19-

64). In the following chapters, he looks at the processes, i.e. the development of social insurance programmes in the two countries. Finally, in his conclusion, the relationship between context and processes is outlined. In particular, he argues, that 'forced to choose one group among all the separate political factors as most consistently important [...] , the bureaucracies of Britain and Sweden loom predominant in the policies studied' (ibid. 301). In his opinion, thus, it is the policy inheritance which is the main determinant of public policies, mediated by the individual contribution of administrators, social reformers, or more in general of figures who took part in the debate on social policies.

Baldwin's work on the origins of social insurance is also an interesting example of comparative historical sociology applied to social policy. His general hypothesis is that groups which perceive their position as insecure are more likely to accept to be included in highly risk-redistributive arrangements in the area of social insurance. Much of Baldwin's argument is based on an understanding of social insurance schemes as risk-redistributive only, as opposed to income redistributive. In order to support the validity of his thesis, Baldwin defines two ideal-types of social insurance. In the first type, which he refers to as the solidaristic or the Scandinavian type, risk-redistribution is very important and occurs across large collectivities (usually the whole population). In contrast, in the second ideal-type of social insurance, which he calls un-solidaristic or Bismarckian, risk-redistribution is usually limited to an occupational group, and within that group among people with similar incomes.

The next stage consists of the identification of a number of criteria (or dimensions) which can be used to discriminate between the two types. Baldwin uses universality, earnings-related versus flat-rate benefits and contributions versus taxation as a financing method. These three indicators are considered to be 'the key reforms and issues that have defined the degree of solidarity embodied or lacking in social insurance' (Baldwin 1990: 51). These key elements of welfare provision are then compared across the sample (Sweden, Denmark, France, Germany and the UK). In particular, Baldwin concentrates on the interaction between different groups which has resulted in the adoption of a given form of welfare.

From a methodological point of view, Baldwin compares the processes which have led to the adoption of either universal or occupationally based provision, and so forth for the two other dimensions, focusing his attention on the preferences expressed by the different groups. The best example is perhaps the contrast between Scandinavian and continental European farmers at the beginning of this century (1990: 12). Scandinavian agriculture was mainly based on small size farming, and as a result farmers were suffering the consequences of mechanisation and improved methods of transportation, which made competition harsher. Consequently, Nordic farmers supported universalism so as to be protected against social risks. In contrast, because continental European agriculture was based more on large firms and markets were better protected, farmers there did not feel the same sort of insecurity which convinced their Nordic counterparts to support universalism. Hence universalism was never seriously adopted as a policy in most of Continental Europe, and it is only in the 1970s that something approaching universal coverage (but through different schemes) has been achieved there.

What is important here, is not so much the content of his study, but the method followed by Baldwin, which consists in the definition of a number of concepts related to his hypothesis; the identification of a number of dimensions which distinguish the two concept he has developed; and the analysis of the processes that have led in one or the other direction. What is compared, thus, is a number of processes which have occurred in different countries, and which have determined the current shape of welfare states. The analysis of the context in which these processes occur, is also important. For instance, in the case of Scandinavian farmers, it is pointed out that improvements in transport made competition harsher in the small free-market oriented Nordic countries, thus increasing the economic insecurity of farmers there.

There are however a number of problems with the approach used by Baldwin, which are obviously inherent to the historical sociological approach rather than specific to his work. As argued above, the main limitation in comparative historical sociology, lies in the small number of cases and in the formidable degree of freedom granted to the researcher in terms of the choice of events he or she wants to study. For instance, the development of universal social insurance in Britain is accounted for with a political explanation: 'because British policy did not share Bismarck's political aims, there was less reason to limit it [the 1908 pension scheme] to one particular social group' (ibid. 100), while his general hypothesis would have required a structural explanation, such as those he offered for Nordic universalism or continental occupationalism. In addition, Baldwin's hypothesis on the relation between perceived insecurity and willingness to participate in risk-redistributive arrangements, does not seem to work in today's Britain, where the middle-classes have been experiencing increasing economic insecurity but do not seem to be interested in collective risk-redistribution.

It seems, thus, that generalisations based on the observation of a carefully selected series of events have to be taken extremely cautiously. The complexity involved in the study of public policy is such, that a causal relationship observed in a very limited number of cases may be due to some overlooked contingent factors, which are typical of the countries covered but not of others. The result is that it is extremely difficult to produce convincing generalisations on the basis of a limited sample of countries. In my view this limitation must simply be accepted as an inherent feature of social research.

3.3. UNDERSTANDING THE POLITICS OF PENSION REFORM

Above all, this study is about the politics of pension reform. Its central aim is to deal with the question of how governments are going to act in the context of contrasting socio-economic and public opinion pressures in the area of pension policy. The leading hypothesis, as spelt out in chapter 2, is that the constitutional structure and the opportunities it provides to minorities to influence the course of policy is a key determinant of government's responses to the pension problem.

This hypothesis explains the selection of the sample. As it is conventional wisdom among political scientists, the UK and Switzerland constitute two extreme examples of majoritarian and consensual democracy respectively. In the former formal institutions magnify the power of the majority and allow minorities little access to policy-making; in the latter, a series of checks and veto points in the law-making process, provide opportunities for minorities to influence policy. A third country, France, has been included in order not to limit the analysis to the two extreme versions of one or the other model of democracy. Most countries in fact are somewhere in the middle. In fact, the choice to include France was a particularly lucky one. This country was selected because it had recently (1993) adopted a pension reform. However, while this study was being carried out, a second, unsuccessful, attempt at reforming pensions was made in 1995. The combination of two reforms with opposite fortunes which, incidentally were very similar in their content, provided additional empirical material to test hypotheses concerning the link between institutions and pension policy-making.

In addition, at the time of reform, all three countries were dominated by right-of-centre parliamentary majorities[1], which were equally committed to achieving savings in the area of pensions. This choice allowed to control for the political variable. In fact, if the sample had included a mix of left- and right-wing governments, it would have been more difficult to ascertain the impact of institutions on policy-making. Different outcomes could have been related to the different ideological orientation of the parties in government.

The comparison of the course of pension policy in the three countries was a two-stage process. Initially, countries have been dealt with as individual case-studies. Following a similar pattern of investigation in the different countries, I have tried to reconstruct the processes which have led to the adoption of a given set of measures. Particularly, I have tried to highlight the position of the relevant actors with regard to the pension issue, and the extent to which each of this positions was reflected in the final legislation. For each country, I have also tried to provide a picture of the political, socio-economic and institutional contexts as a preliminary to the analysis.

The second stage consisted in the comparison of the processes observed across the sample (chapter 7). This was done first in relation to the leading hypothesis which relates constitutional structures to pension-policy-making, and, second, with regard to other dimensions which emerged as potentially interesting in the course of the research. This two-stage structure has been followed also in the presentation of the results. The following three chapters are case-studies of pension reforms in the various countries. Finally, chapter 7 provides a discussion of the regularities and of the differences that have been observed in the different countries.

[1]As discussed in chapter 5, in Switzerland, there is a parliemantary right-wing majority which has a common orientation in the areas of social and economic policy. The right-wing parliamentary dominance, however, is not reflected in the composition of the government, which includes the Socialist party.

Chapter 4

BRITAIN: PENSION REFORM THROUGH MAJORITY RULE

By international standards, the British pension reform of the 1986 constitutes one of the most radical departures from the traditional west-European post-war approach to pension policy. As a result of this reform, British employees can now opt out of the state second-tier pension or of their occupational pension and make individual provision for their retirement through a private and personal pension. The significance of this change is twofold. On the one hand it constitutes a major shift from the state to the market in pension provision, with the implication that the redistributive function and the role of guarantor played by the former are substantially reduced. On the other hand, the introduction of the opting out clause means that fewer people are now paying into the state scheme which impairs its ability to meet existing and future pension commitments and thereby constitutes an additional incentive for employees to opt out of the state system.

It is useful to recall that the debate and the adoption of the British reform occurred in a particular ideological and political climate. The mid-1980s where characterised by the strong dominance of the Conservative party in politics, and by the general ascendancy of neo-liberal ideas with regard to the respective roles of the state and the market in modern societies. To some extent, the pension reform was part of a wider move to reform the British economy and society, which, under the heading of 'popular capitalism' included measures such as privatisation of state-owned firms and of public housing, deregulation of financial services, incentives to home- and share-ownership.

The ascendancy of neo-liberal ideas in the mid 1980s has prompted a number of commentators to argue that contrary to government's claims, the 1986 pension reform was adopted for ideological reasons, rather than to anticipate a pension crisis due to population ageing (Nesbitt 1995; Walker 1991). For instance, according to a leading expert in UK pension policy:

> 'It is not the burden of aging as such that concerns the Thatcher government, or even the cost of pensions; it is the public burden ... . Concern about the aging of the population in Britain has been amplified artificially as economic and demographic imperative in order to legitimate ideologically driven policies aimed at reducing the state's role in welfare' (Walker 1991: 31).

Walker's thesis is supported by international comparisons. If one looks at the financial situation of the British pension system throughout the 1980s, one will find that it is among the least worrying among industrial countries (OECD 1988a), and yet the UK was among the first countries to adopt radical retrenchment in the area of pensions. In addition, as will be seen below, the government's own analysis of demographic projections is not always clear as to why future pension commitments will not be sustainable. There is something missing, however, in this ideological explanation of the 1986 British pension reform. Walker's thesis assumes a linear link between economic ideas and public policy, but fails to address the issue of why Conservatives espoused a given set of ideas in relation to pension policy; and, perhaps more crucially, why were they able to carry them through into actual legislation.

This chapter discusses these two crucial questions on the basis of the theoretical framework presented in chapter 2. Particularly, the UK's constitutional structure and its standard patterns of policy-making are treated as two important independent variables. It is argued that the majoritarian character of the British democracy made possible and encouraged the adoption of a particularly radical pension reform, which is seen as part of a wider reform movement which goes under the rubric of popular capitalism.

4.1. THE POLITICS OF MAJORITARIAN DEMOCRACY IN THE UK

British policy-making is characterised by the relatively unchecked dominance of the party in government. As seen in chapter 2, this is to a substantial extent due to the particular constitutional structure of government in the UK, which emphasises the influence of the majority party over policy. This process takes place through two distinct stages. First, at the polls, where thanks to a first-past-the-post electoral system, the party which obtains a plurality of votes in the electorate is likely to reach an absolute majority in Parliament (see table 3.1). Second, once the majority party has formed a government, there is no written constitution to limit the scope of its actions. Because of the strong tradition of party discipline in British politics, underpinned by institutions such as the 'whip', Parliament does not constitute an effective check on the government's actions. The result is a political system which allows the government a comparatively wide room for manoeuvre in policy-making. Continental European countries, where electoral systems generally require political parties to form coalition governments, constitute examples of polities where the control of the majority on policy is less substantial.

According to political scientists, in the UK the main check on what the government does is in fact party competition (see, for example, Budge 1996). Dissatisfaction with government policies may lead to a transfer of votes from the ruling party to the opposition, resulting in an alternation in government between parties of different ideological persuasion. Governments seeking re-election, thus, are expected to adopt policies which take into account a wide range of external interests, precisely in order to reduce the risk of electoral defeat. In practical terms, however, party competition did not always work as an effective limitation on the government's action. This was particularly the case during Conservative governments of 1979-1992. Instead of smoothing the content of policy in order to appeal to wide sections of the electorate, the Thatcher governments of the 1980s have actively pursued radical and controversial policies. Probably because of a split in the opposition during the 1980s, the role of party competition as a check on government policy lost its effectiveness. Party competition provides an effective balance to government's power only as long as there is a competing party which can credibly threaten to win the upcoming election. During the 1980s this threat was not strong enough. The structural weakness of the Labour party and the division of the anti-Conservative camp between two parties have given the Thatcher governments a substantial degree of freedom to pursue their own objectives.

As a matter of fact, there is a substantial degree of agreement among those who have studied British politics since 1979 on the fact that the election of Margaret Thatcher as Prime Minister constitutes a major watershed in the government's approach to policy-making (Budge 1996; Hayward and Klein 1994; Jessop *et al.* 1988; Kavanagh 1990; Riddel 1989). Unlike the 1980s, the post-war period is generally seen as characterised by an overall consensus between the two main parties in areas of economic and social policies. This notion of consensus refers to a common orientation concerning the relative weight of the state and the market in modern societies. Both parties accepted the idea that the state had the duty and the ability to intervene in the economic system in order to redress the shortcomings of an unregulated market (George and Miller 1994: 7).

It should be noted, however, that the British post-war consensus had little in common with Lijphart's concept of consensual democracy discussed in Chapter 2. It is true that there was convergence in the orientation of the main parties in economic and social policy, but decision-making remained majoritarian throughout the post-war period. Some attempts to set up corporatist networks were made, but they were relatively short-lived (Regini 1984; Hall 1986). Moreover, the whole post-war period was characterised by an alternation in government of the two main parties, which did not encourage negotiation and inclusion of external interests. The British 'post-war consensus', unlike Lijphart's consensual democracy, is a notion that refers to the orientation of policy, and not to the patterns of inclusion and exclusion of external interests into policy-making.

Moreover, consensus proved to be more fragile in Britain than in consensual democracies such as Switzerland. After 1979 the common orientation in economic and social policy was lost, and the majoritarian approach to policy-making was emphasised. As a result, during the Thatcher years a substantial number of policies adopted after War World II saw a clear reversal. In economic policy demand-management of Keynesian inspiration was replaced by monetarism and a preference for economic laissez-faire. In social policy the desirability of having a welfare state was questioned. In pension policy, it was the public/private mix in provision for retirement that was going to be mostly affected.

This reversal in policy was made possible and encouraged by the structure of British formal institutions. The electoral system, coupled with the geographical dimension of economic and political cleavages, have allowed the Thatcher governments to pursue extremely controversial policies without incurring in substantial electoral losses. The lack of constitutional checks has allowed the government a substantial degree of freedom in the elaboration of a strategy geared at maximising the attainment of its objectives, including that of being re-elected. The remainder of the section discusses this hypothesis

First-past-the-post (FPTP) electoral system

The most obvious consequence of the FPTP electoral system in the UK is the fact that it allows a party with a plurality of votes in the electorate to have a majority in Parliament. This is precisely what repeatedly happened during the Thatcher years. As table 4.1 shows, the Conservative party never received more than 44% of the vote, yet it has had absolute majorities in Parliament throughout the period. Political parties which have a strong regional basis are favoured relative to those which are of medium strength nation-wide. This appears clearly in the 1983 election results, in which the Alliance, with more than 25% of the vote, won only 23 seats, whereas Labour, with less than 2 percentage points more, won 209 seats. The two major parties tend to concentrate their support in some areas, and to be extremely weak in others, while the Alliance (now the Liberal Democratic Party) are more likely to end up second (this was the case in 303 constituencies in 1983). Traditionally, the North of England, Wales and Scotland support Labour, while the South-East has been the key Conservative stronghold.

Table 4.1. British election results, 1979-1992

Year	Conservative Party		Labour Party		Liberal/Lib-Democrats	
	% of votes	MPs	% of votes	MPs	% of votes	MPs
1979	43.3	339	36.9	268	13.8	11
1983	42.4	396	27.6	209	25.4	23
1987	42.3	375	30.8	229	12.8	17
1992	41.9	336	34.4	271	17.8	20

Source: *Keesing's Archives of World's Events,* 1979; 1983; 1987; 1992.

A second implication of the FPTP electoral system refers to the fact that governments do not need broad, cross-class support in order to win elections. A plurality of votes is enough. This feature of FPTP seems to have been crucial in influencing the direction of policy during the 1980s. As the former Prime Minister herself put it: 'It [is] important to have a philosophy and policy which because they are good appeal to sufficient people to secure a majority' (Thatcher, quoted in Riddel 1989: 1). In fact, if one looks at the major reforms adopted by the various Thatcher governments, one will find that many have the quality of being palatable to a relatively large section of the electorate. This is the case of reforms that facilitated the establishment of the Conservative vision of 'popular capitalism' such as encouraging home and share ownership, privatisation of state owned firms, and the introduction of personal private pensions.

More precisely, however, these policies tended to have an asymmetric impact on the population, which most often depended on income and on ideological persuasion of individuals. In other words, those who had sufficient financial means and were prepared to go along with the project of a 'popular capitalism' put forward by the Thatcher governments, did rather well throughout the 1980s. The number of individuals involved was quite substantial. The privatisation of council houses resulted by 1988 in an increase by 3 million in the number of home owners, of whom many had bought their house with a substantial discount (up to 50%). The number of individual shareholders soared from 3 million in 1979 to 9 million in 1989. (Riddel 1989: 111-124).

The political significance of the various reforms falling under the rubric of 'popular capitalism' was a reinforcement of what Jessop *et al.* (1988) have termed the 'social base'[1] of Thatcherism. In other words the neo-liberal reforms of the 1980s did have a positive economic impact on a relatively large section of the population, which in turn became more inclined to stay in or to join the Conservative camp. This interpretation of Thatcherism is not new. Jessop *et al.* (1988) have suggested the existence of a link between the content of government reforms in the 1980s and the permanence in power of the conservative party, on the basis of a coherent strategy which consistently directed the course of policy .

A Thatcherite project?

Jessop *et al.*' s analysis of Thatcherism starts from a critique of the ideological interpretation, which basically sees the change of direction due to a shift in the values and beliefs which animated elites and public opinion. According to them, the main weakness of an ideological interpretation lies with the fact that 'it could neglect the structural underpinnings of Thatcherism in the economic and in the state systems and its specific economic and political bases of support' (ibid. 73). In contrast, Jessop *et al.* view Thatcherism as a political strategy adopted by the Conservative Party in response to the 'continuing relative decline of the British economy and, more particularly, to its political repercussions' (ibid. 163). The key element of this strategy is its 'two nation' character. In other words, it is based on a division between two sections of the population: on the one hand the 'productive', understood as those individuals who are able to extract resources from a competitive market, and, on the other hand the 'parasitic', who rely for their livelihood on the state or on non-competitive arrangements. The authors point out that this division does not correspond to the classical vertical class-division. Instead, the productive-parasitic cleavage cuts across social classes, so that among the 'parasitic' are included the unemployed but also inefficient capitalists who rely on state aid (ibid. 88).

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[1]The concept of 'social base' is defined in terms of the'... set of social forces which support - within an institutional framework and policy paradigm - the basic structure, mode of operation and objectives of the state system in its role as the official representative of civil society (Jessop *et al.* 1988: 156).

The Thatcherite strategy, which precisely for this reason is characterised as a 'two nations strategy', consists in the adoption of policies which reward the 'productive' at the expense of the 'parasitic', by performing a transfer of resources from the latter to the former. This transfer, took the form of various policies, such as privatisation of state enterprises, de-regulation of financial services, sales of council housing, and, of course, the partial privatisation of pensions. In return, those who were favoured by the policies adopted by the various Conservative governments, came to constitute the social base of Thatcherism, i.e. a coalition of interests which would support the government when elections are fought. This social base, which was created around 'popular capitalism' (ibid. 163), consisted of various interests which included the financial community (the City), industry (though only partially, since the lack of infrastructure and industrial policy has been a constant complaint that British industry has addressed to the Conservative governments), and the new share-holders, home-owners and others, in other words the 'winners' in the transformation implemented by the Thatcher governments.

The main problem with Jessop *et al.*'s interpretation is its insistence on the coherent and deliberate nature of the Thatcherite project. In fact, policy-making under Thatcher was characterised by a high degree of experimentation and by the tendency to go a step further in the adoption of policies such as privatisation or marketisation of public services (Hayward and Klein 1994: 112; Riddel 1989: 5). In addition, the claim that 'popular capitalism' reforms alone explain the permanence in power of the Conservative party does not seem plausible. Even though the new policies might have generated fresh support for the government by those who gained from them, elections are affected by numerous factors of a very different nature and are only partly influenced by individual perceptions of changes in personal economic well being. Nevertheless, it seems plausible to consider that when the neo-liberal policies were elaborated, their likely electoral repercussions were taken into account. In this context, the idea of targeting the benefits of policy on some given groups more likely to respond with electoral support might have played a role. Interestingly share ownership was not spread evenly across the political spectrum. In 1987 38% of Conservative party supporters bought shares as opposed to a much lower 14% among Labour supporters (Riddel 1989: 124). In addition, among the few Labour supporters who did buy shares, between 1983 and 1987, the swing in voting from Labour to the Conservatives was more substantial than in the rest of the electorate (Saunders 1995). While 'popular capitalism' alone does not explain the Conservative's permanence in power, their wish to stay might help to explain 'popular capitalism'.

Institutional opportunities

Despite some limitations, the interests of Jessop *et al.* 's approach in the context of this study, lies in its ability to relate Thatcherism to the concept of majoritarian democracy. The connection between the two notions is the common reference to a situation in which a majority in a democracy is able to determine the course of policy with little influence of the rest of the population. Thatcherism, thus, can be viewed as an extreme version of majoritarian democracy, because of the openly confrontational attitude in policy-making, and because of the refusal to use the existing (though limited) instruments which have traditionally been used in order to generate consensus. Namely, in the 1980s no Royal Commission was appointed in Britain (Hayward and Klein 1994).

The durability of Thatcherism is also connected to the majoritarian character of the British constitutional structure. As Jessop *et al.* themselves point out 'the mechanisms of first-past-the-post electoral system, the elective dictatorship of prime ministerial power under the British constitution [...] have provided the crucial political preconditions for Thatcherism' (1988: 176). Interestingly, the two preconditions mentioned by Jessop *et al.* correspond to two of the nine dimensions of majoritarian democracy identified by Lijphart and discussed in chapter 2. In this respect, it can be argued that Thatcherism, understood as a two-nation strategy, found a fertile ground in Britain thanks to the majoritarian character of British institutions.

In sum, it seems that Thatcherism was made possible, or at least facilitated and perhaps encouraged, by the majoritarian character of British democracy. The most obvious factor is certainly the electoral system. Following Jessop *et al.*'s interpretation, the Thatcher governments adopted policies which were expected to reinforce their social base, by making it better off economically and by enlarging it. The 1986 pension reform must be seen in this context, i.e. as an element of a bigger strategy aimed at constructing and regenerating a social base of support for the leadership.

4.2. THE BRITISH PENSION SYSTEM

Like those of other European countries, the British pension system is characterised by a two-tier structure. The first tier consists of a universal, flat-rate contributory state pension, commonly referred to as the basic pension. It is meant to provide pensioners with a minimum level of income only. In addition to that, British employees must belong to an earnings related scheme. This can be provided either by the state or by the employer, in the shape of an occupational pension funds (the 1986 Social Security Act added a third option: a private personal pension).

During the 20th century, the British pension system underwent a number of substantial changes. The overall trend, like in other countries, was one of expansion of provision for the elderly until the mid-1970s. The basic features of the current arrangements were laid down after World War II, when the Labour government implemented the Beveridge Plan. The main concern for Beveridge was to guarantee a minimum subsistence level to every resident. He also insisted on abandoning the pre-war practice of means-testing, which was regarded as highly stigmatising and had been extremely unpopular in the inter-war period. The Report argued in favour of contributory benefits in order to establish a clear link between financing and entitlements. Both contributions and benefits had to be flat-rate and kept to a minimum level, so that voluntary provision would not be undermined (Silburn 1995: 92-93). The actual implementation of the Beveridge report by the Labour government in 1946, included some additional provision which was not envisaged by Beveridge, such as a the granting of full pensions immediately instead of adopting a 20 years transitional period (Brown 1990: 26). In the 1950s, the flat-rate contributions approach came under increased scrutiny. Contributions could not be increased beyond a certain limit or would not otherwise be affordable by low earners, and yet the financial requirements of the National Insurance fund were growing (Baldwin 1990: 232). In 1958, a Conservative government introduced a limited earnings-related element in the calculation of contributions and benefits.

The basic pension is currently granted to men over 65 and to women over 60 year of age[2], who retire from regular employment and who have paid National Insurance contributions. If the contribution record is incomplete, the amount of the pension is reduced correspondingly. In order to qualify for a full pension, contributions must have been paid or credited for around nine tenths of the claimant's working life. There is an addition for a dependent spouse of around 67% of the single person's pension. Until 1980, the value of the basic pension was regularly increased in real terms so as to keep up with the evolution of earnings. From 1980 onwards the basic pension has remained constant in real terms, which means a decline in its replacement rate. In 1983 the amount of the single pension corresponded to 32% of average male earnings, while in 1993 the same figure was 22% (Atkinson 1994: 8).

The other important reform which determined the structure of the pre-1986 pension system was the Social Security Act 1975. On that occasion, National Insurance contributions were made totally earnings-related, and a State Earnings-Related Pension Scheme (SERPS) was introduced. The 1975 reform was the conclusion of two decades of debates on the issue of 'superannuation'. The main problem laid with the recognition that the level of the basic pension was in fact insufficient to guarantee an adequate standard of living to most pensioners. While those working for big employers were usually covered by an occupational pension, this was not the case for many other pensioners who had to rely solely on the state pension. The idea of a comprehensive second-tier pension gathered support among public opinion, so that both major parties started producing proposals for a new arrangement. Because many employees had already access to satisfactory occupational provision, none of the political parties seriously contemplated the idea of replacing existing pension funds (Heclo 1974: 265). Interestingly, in the early 1950s and 1960s the Conservative leaders considered the possibility of making private provision compulsory for everyone, but private insurers did not meet such

[2] Retirement ages are going to be equalised at 65 over a relatively long period of time. The first cohort of women who will start drawing a state pension at 65 will be the one born in 1955.

proposals with enthusiasm, because they feared that would mean stricter government interference in their activities (ibid. 280).

The final shape of SERPS was thus the result of a compromise between the different proposals. It did guarantee compulsory superannuation for all employees, but allowed those who wished to remain members of their occupational funds to do so. Also in the future, anyone would be entitled to contract out of the state scheme if his or her employer provided an occupational scheme which met certain conditions. The SERPS scheme granted an additional pension corresponding to 25% of earnings during the best 20 years (the pension formula was modified by the 1986 SSA).

Both the basic pension and SERPS are financed mainly through National Insurance contributions. These are paid by employers (13.7%) and employees (7.75%) as a percentage of gross salary[3]. If an employee is contracted out of SERPS to join an occupational scheme, the contribution rate is reduced by 2.5 percentage points for the employee and by 4.5 points for the employer (all figures refer to the period prior to the 1986 pension reform). The payment of National Insurance contributions entitles employees to claim a number of contributory benefits (including unemployment benefit). It should be noted, however, that National Insurance contributions are not ear-marked for specific programmes, but they all end up in the National Insurance Fund (NIF). In fact, the NIF is *de facto* considered as part of the general government budget, so that the difference between income from contributions and expenditure on benefits (usually negative) is made up with government money.

With the introduction of SERPS, the state intervened to regulate the occupational pension sector, which up to then had enjoyed a relatively high degree of freedom. In order to be able to contract out of the state scheme (i.e. to receive the rebate on National Insurance contributions), pension funds have to provide a *Guaranteed Minimum Pension*, which corresponds to the amount an employee would receive from SERPS, had he or she not contracted out. The state provides insurance

[3] The figures refer to Class 1 contributions, which are paid by employees only. Self-employed pay flat-rate contributions.

against the risk involved in such long term commitment. Earlier, the 1973 SSA set up a supervisory body, the *Occupational Pension Board* (OPB), charged with overseeing pension funds and advising the government on occupational pension policy (Hannah 1988: 64). The board is composed of representatives of employers, employees and of the actuarial profession.

Pressures for change

In the debate which led to the adoption of the 1986 SSA, two main issues played a key role. First, the problem of expected rising pension expenditure, due to population ageing and to the maturation of SERPS. Second, the inadequate level of pensions paid to employees who left an occupational pension before retirement (usually job changers) commonly referred to as early-leavers.

As Brown notes, preoccupation with the cost of pensions has been a constant feature of pension debates in the UK (1990: 206). The introduction of SERPS in 1978 added a new component to pension expenditure, which was likely to increase significantly over the following years because of the maturation of the scheme. This, together with the intellectual climate of the early 1980s, contributed to make the future cost of pension provision a topical issue. A number of reports, articles and influential interventions took place in the first half of the 1980s making reference to the expected rise in pension expenditure (Nesbitt 1995: 40). Particularly active were institutes and think-tanks which were sympathetic to new-Right ideas, although the most influential documents were those published by the government[4].

In 1982 the Government Actuary produced a report entitled 'National Insurance Fund Long Term Financial Estimates', which included projections of future expenditure and receipts of the state pension scheme. In the report it was argued that the standard contribution rate was expected to rise from 15.4% in 1985 to 16.7% in 2005 and to 21.9% in 2025, and to increase by a further 2 %. The projection was based on the assumption that earnings and flat-rate benefits would

[4] In addition to the two documents examined below, a Green Paper published by the Treasury in 1984, emphasised the pressure on pension expenditure represented by population ageing and particularly by the maturation of SERPS (HM Treasury 1984: 14)

increase at 8% (average) a year while earnings-related benefits would increase at 6% after award. In the comment to these figures, it was pointed out that 'if flat-rate benefits ... were uprated over a long period at a lower rate than earnings ... the increase in the standard rate of contribution might be less steep and it might even not increase at all depending on how big was the difference between earnings and benefit increases' (Government Actuary 1982: 5). With the benefit of hindsight, and considering the fact that flat-rate benefits have been uprated according to prices since 1980[5], the projections of 1982 do not seem to reveal a particularly alarming picture.

In 1984, however, the DHSS (Department of Health and Social Security) published a background paper dealing with the issue of projected expenditure on pensions. The document was presented as an updated version of the projections made by the Government Actuary two years earlier, but was based on notional contributions for pensions (i.e. the part of National Insurance Contributions needed to finance the pension element of social security) as opposed to the actual contribution rate (which include also contributions to unemployment insurance and other contributory schemes). This difference makes a comparison between the figures presented in the two reports impractical. The 1984 background paper presented a range of possible scenarios based on different assumptions with regard to fertility rates, mortality, unemployment, real earnings growth and benefits upgrading. Table 2 gives the result of the central projection[6] with benefits upgraded according to prices and earnings respectively.

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[5] It should be noted that at the time of the publication of the Government Actuary report (1982), it was generally assumed that the upgrading of flat-rate benefits in line with prices was a temporary measure (Nesbitt 1995: 36).

[6] This projection was based on the following assumptions: fertility rate of 2.1 in the period concerned; unemployment rate of 6%; 25% improvement in mortality; and average real earnings growth of 1.5% per year.

Table 4.2. Projected employer/employee combined contribution rates for pensions (percent of gross earnings)

Year	indexation on prices	indexation on earnings
1985	12.5	12.5
1995	11.9	13.3
2005	11.9	14.3
2015	13.3	17.0
2025	14.7	19.9

Source: DHSS 1984a: 6, Table 5.

Because of the different basis used in the two projections, it is difficult to compare these with those published by the Government Actuary two years earlier. However, the government's interpretation of the new figures was more concerned with the future cost of pensions. This was made clear in the introduction to the 1984 background report, signed by the then Secretary of State for Social Services, Norman Fowler, who commented the findings of the report in the following terms:

> 'One of the main messages about the future in the Government Actuary's projections is that expenditure on pensions is set to rise significantly as pensioners increase in number and live longer, and as more of them get higher pensions [...] some may say that looking ahead to the next century is too uncertain [...] . In pension policy twenty or thirty years is a relatively short time. We will not be thanked by [...] future generations if we do not address now the problems which they may face' (Fowler, in DHSS 1984a).

The government's interpretation of the projections was thus one of relative urgency. The expected increase in pension expenditure was seen as, or at least presented as, a reason to cutback on current commitments of the state pension scheme. Both the projections, but even more strongly the implication of the projections were challenged by a number of different interest groups and commentators. This was not only the case of the opposition and of other groups traditionally antagonistic to the Conservative governments, but also of independent commentators and academics (Abel-Smith and Townsend 1984; Reddin 1984).

The early-leavers problem

Pension schemes were designed at a time when stable full-time employment was the norm in Western societies. Since the mid-1970s, however, stable patterns of employment have become increasingly rare. In 1983, it was estimated that some 95% of employees change job at least once (*The Economist* 11/6/83). The issue of compatibility of the UK pension system with these tendencies in the labour market structure gained prominence in the pension debate prior to the 1986 SSA. The main problem was the preservation of pension rights for those employees who left an occupational pension scheme before reaching retirement age (early-leavers) typically because they changed job. At the time (before the 1985 SSA, discussed below), the situation of early-leavers was a particularly disadvantageous one, if compared to those who remained in the same scheme for their whole career. The law (1973 SSA) provided three options for those who intended to leave an occupational scheme. First, job-changers could have their pension entitlement transferred to their new employer, but only if an agreement between the old and the new employer could be reached. Alternatively, the employee could receive an entitlement to a 'deferred pension', which would be paid at the time of retirement and be based on the contribution record achieved before leaving the scheme, but not re-valued since[7]. The third option was the simple retrieval of one's own contributions, with no interest. According to estimates, the first option, potentially the most satisfactory, was being used only by 5% of early leavers, while the third affected some 75% of them (*The Economist* 11/6/83).

The problem of early-leavers was brought onto the agenda by a report of the Occupational Pensions Board (OPB 1981) which included some figures estimating the extent of early-leavers' losses. The estimate was based on the assumption that earnings were going to increase by 7.5% a year. Under such conditions an employee who changed job at 45, was left with a pension of 60% of what a stayer

[7]The problem of re-valuation concerned only defined benefit schemes, since the value of the pension would be expressed as a proportion of the salary of the employee at the time he or she left the scheme.

would have received. If someone changed job three times, he or she might have ended up with a pension of 50% of that of a stayer, despite having paid the same amount in contributions. The OPB report insisted on the need for improving the situation of early-leavers, and in particular it recommended improvements in the preservation of deferred pensions, suggesting that pension rights in Final Salary Schemes be increased in line with earnings (ibid. 69).

After the pubblication of the OPB report, the issue of adequate protection for early-leavers was picked up by New Right institutes and think tanks in the context of the introduction of personal pensions (Vinson and Chappell 1983). Also the government played an active part in the early stages of the debate on the protection of early-leavers' pensions, particularly by organising a conference on the issue, in September 1983.

To a large extent the issue of early-leavers was dealt with by the 1985 Social Security Act. The new legislation provided the right for employees to a 'transfer value' in respect of their accrued contributions (although the new employer would not be obliged to accept the transfer). It introduced an obligation for pension funds to disclose to members information on *the situation of their accrued contributions,* and provided for deferred pensions to be increased in line with inflation. This series of measures were the first step towards the establishment of a competitive market in provision for retirement. As argued by some commentators the 1985 SSA aimed at creating suitable conditions for the introduction of personal pensions (Nesbitt 1995: 123; Brown 1990: 222). In particular the right to transfer and the disclosure requirements were essential for an effective competition between different pension providers to take place.

4.3. THE PENSION DEBATE IN THE EARLY 1980s

The intellectual and political climate of the early 1980s in Britain was dominated by neo-liberal ideas of supremacy of the market over the state as an instrument of resource allocation. The overall discourse of the Thatcher government was a key factor in this, as well as the participation in the debate on social and economic policy of a number of London-based research institutes, commonly referred to as think tanks, which shared and pushed forward neo-liberal ideas. It has been argued that during the 1980s, these institutions played a key role in policy making. Novel ideas on how to shift responsibilities away from the state and to the private sector, frequently originated from these think tanks (Desai 1994; Hayward and Klein 1995). In the area of pensions, an important role was played by the Centre for Policy Studies (CPS), which in 1983 published a paper entitled *Personal and Portable Pensions for All* (Vinson and Chapell, 1983). This was the first important published document which advocated a radical shift in pension policy by setting out a reform proposal. The paper argued for the introduction of personal pensions, mainly on ideological grounds. Some of the ideas expressed in that paper, were in fact contained in subsequent government proposals for new legislation.

Politically, the period before the adoption of the 1986 SSA was characterised by the overwhelming victory achieved by the Conservative Party in the 1983 election. The party emerged with a majority of 144 seats, which gave the government a position of extreme strength in Parliament. This had an impact on policy, which became more uncompromising than before. As Nesbitt put it:

> 'as a consequence of the overwhelming Conservative majority in the House of Commons, the post-1983 policies on retirement pensions were of a more uncompromising nature than before. There was no need to concede amendments to bills in order to secure their passage through Parliament. Their implemented policies tended to represent the operationalisation of Conservative philosophy in an almost pure form (1995: 57).

The shape of power relationships in the British political system of the mid-1980s can be qualified as an extreme version of majoritarian democracy. As pointed out above, the various Thatcher government have typically profited from the opportunities offered by majoritarian politics. The period between 1983 and 1987 is, because of the strength of the government, the one in which the search for consensus was least needed and the majoritarian character of British democracy reached its highest level. This, arguably, did have an impact on pension policy.

The 'Inquiry into provision for retirement'

The official debate on a major reform of the British pension system started in November 1983, when the then Secretary of State for Health and Social Services Norman Fowler announced the setting up of an *'Inquiry into provision for retirement'*, in order to 'study the future development, adequacy and costs of state, occupational and private provision for retirement in the United Kingdom, including the portability of pension rights' (DHSS 1983: 4).

The team which carried out the *Inquiry* was chaired by Norman Fowler himself, which gave the *Inquiry* a strong political connotation. In the United Kingdom policy change is often initiated by the work of *ad hoc* commissions. Particularly, Royal Commissions were used to generate consensual approaches to a given policy problem. Alternatively, the *Inquiry* could have taken the shape of an independent Committee such as the Beveridge Committee. However, Norman Fowler decided to opt for a more overtly political form. As he pointed out, the task of the *Inquiry* was not to generate consensus nor new ideas, but 'proposals which I could get past my colleagues' (Fowler, quoted in Nesbitt 1995: 69). According to Nesbitt, the choice of an alternative format for the *Inquiry*, would not have allowed Norman Fowler to have the same degree of control over the policy making process (1995: 68).

The main team of the *Inquiry* was composed of 12 members, half of whom were Conservative ministers. Represented in the team were other government departments, such as the DTI (Department of Trade and Industry) the Department of Employment, and the Treasury. The remaining members were representatives of the insurance industry, and experts, such as the Government's Actuary (Nesbitt 1995: 71). It is striking to note how little representative of the interests involved was the team. For instance, not only there was no one who was supposed to represent employees or pensioners interests, but also employers, occupational pension funds and other political parties were all excluded from the main team.

These, as well as other interests, were consulted by the team in the following months. In November 1984 submissions of written evidence were invited, and in the two-month period of consultation, more than 1,500 different items were submitted. The duration of the consultation procedure, however, was widely regarded as inadequate for being too short. Strong criticism came from pressure groups which felt they had no opportunity to influence the course of policy, such as the CPAG (Ward 1985), but also from independent commentators (*Financial Times*, 3/6/85; Nesbitt 1995: 73).

The *Inquiry* team met 23 times, including 11 meetings with external bodies or individuals[8], until January 1985. The *Inquiry* did not produce a final report, although the Green Paper published in June 1985 can be regarded as the outcome of it. Two other documents were published in the context of the *Inquiry*. The first was a background paper containing data on current and future cost of state pension as well as statistics on pensioners' living standards (DHSS 1984a). The second, more significant, was a consultative document (DHSS 1984b) which set out the overall objectives of the government in the area of pension policy. The main points were the right for employees to have their own personal pension; a contribution-defined opting out criterion (such as the GMP for final salary contracted out schemes); the provision of special arrangements to avoid demographic destabilisation of occupational schemes; and, the commitment not to ask employers to contribute to personal pensions in excess of the National Insurance rebate.

4.4. THE 1986 SOCIAL SECURITY ACT

The government's intentions in the area of pension policy were spelt out in the Green Paper *Reform of Social Security*, which was published in June 1985 (DHSS 1985a). The main points of the paper were the gradual phasing out of SERPS, although all entitlement earned to date would be preserved, and the introduction of personal pensions. The Green Paper did not meet with much approval from the various actors concerned. The most controversial issue was the idea of phasing out SERPS which was opposed by groups antagonistic to the government (such as the Labour Party the Trade Unions, and the anti-poverty

[8]These included The Centre for Policy Studies, the CBI, the IoD, the NAPF and the TUC.

lobby) but also by more unlikely opponents, such as the CBI, the NAPF, and, perhaps most significantly, by the Treasury (see below).

In the face of mounting criticism, Norman Fowler eventually decided to drop plans for the abolition of SERPS. As a result, in the White Paper *Programme for Action* (DHSS 1985b) published in December, plans to reduce the generosity of SERPS were unveiled. The pension formula was to be changed so as to reduce the amount of standard benefits and provision for widows was also to be reduced. The White Paper maintained the introduction of personal pensions, and made provision for a 2% additional rebate to employees who joined a personal pension scheme.

The debate that lead to the adoption of the 1986 Social Security Act was highly complex and controversial. The various actors involved put forward a number of very different proposals and some of them even changed their requirements during the policy-making process. In order to reconstruct the course of policy, and to ascertain the level of participation of the relevant actors in decision-making, this section concentrates on the proposals made by the most influential of them, and on their reactions to the decisions taken by the government at the various stages of policy-making.

The Government

The position of the government is itself the result of interaction and of aggregation of the preferences of the different entities which compose it and of the interests represented within it. In this respect, mechanisms of compromise and consensus building are at work within the government as well as in the overall process of policy making. In the case of the 1986 pension reform, three key governmental actors took part in the definition of policy. The Prime Minister Margaret Thatcher, because of her position of leadership, was obviously able to affect the course of policy. Second, the DHSS, directed by the State Secretary Norman Fowler, was the department with direct responsibility with regard to both the formulation and the implementation of policy. Third, the Treasury frequently intervened in the policy-making process whenever matters of spending arose.

The Treasury, in fact, is often regarded as one of the most powerful government departments in the UK. In general, its main concern lies with balancing the budget, and historically the Treasury has been able to veto expensive economic policies (Hall 1986: 62). It appears that the Treasury did play a substantial role in the definition of pension policy. The review of social security was constrained within a zero cost requirement, set by the Treasury (Nesbitt 1995: 69). This meant that new programmes would have had to be financed by restrictions in existing ones, within the social security system. In fact, in the course of the *Inquiry into Provision for Retirement*, the representative of the Treasury in the team, intervened to block any attempts made by *Inquiry* members to discuss issues relating to taxation (ibid. 71).

It has been pointed out that the format of the *Inquiry* was rather unusual, as typically, the instruments used to generate new ideas for policy change are either Royal Commissions, independent commissions or internal departmental Inquires. In this case, however, Norman Fowler deliberately opted for a format which would enjoy a considerable degree of independence form the civil service and external bodies. In fact, the team did not include any civil servant, with the exception of the secretary to the *Inquiry*, who however, had joined the DHSS only recently (ibid. 68). Its particular format, gave the *Inquiry* a more political character and, arguably enabled Fowler to develop more innovative ideas, without having to convince the civil service[9]. In this sense, the personal input of the Secretary of State in the 1986 SSA has been fairly remarkable. Many of the views he expressed in interviews (both before and after the adoption of legislation) have been to a large extent incorporated into the 1986 SSA.

The extent of conflict within the 1983-1987 Conservative government should not, however, be exaggerated. Comparatively, a one-party government with a strong leadership is likely to display a significant degree of unity. In fact, with regard to the 1986 pension reform, it can be said that there was a substantial degree of agreement on the principles and on the overall direction of pension policy.

[9]According to Peter Hall, the British civil service has often resisted the development of innovative policies. Top officials are sometimes more influential than cabinet ministers, who do not always have access to alternative sources of information (Hall 1986: 62). The innovative ambitions of the Review of Social Security, required policy to be formulated independently from the civil service. In addition, the perception of the civil service as an entity which would resist change, might explain the substantial reliance of the various Thatcher governments on external institutes and research centres, the think-tanks (see below) rather than on the state's own resources.

Assumptions relating to the proper balance of state and private provision, the value of freedom of choice and of market-based competition were widely shared by cabinet members. The bottom line of consensus within the government in relation to pension policy, was well summarised in the 1983 Conservative election manifesto, where it was stated that:

> '[A conservative Government] would continue to maintain the value of the state retirement pension, [and would] reintroduce measures to give substantial tax incentives to personal pensions, and to enable members of occupational schemes to make additional voluntary contributions to a pension plan that is completely separate from their employers' scheme' (Conservative Party 1983).

Interestingly, the language used in the election manifesto, is evasive with regard as to whether personal pensions were going to replace some of the existing arrangements, or to be introduced as a third tier of pensions. This issue, in fact, was heavily contested and was a source of disagreement, mainly between the DHSS and the Treasury.

Four main areas were particularly topical in the debate prior to the SSA 1986: first, concern with projected rising expenditure; second, the situation of early-leavers; third, the introduction of personal pensions and fourth, the future of SERPS. The decisions taken in these four areas, determined the content of the reform and its overall character.

Cost

With regard to the issue of cost, there seemed to be an overall agreement within the government on taking steps to reduce projected costs of the state scheme. The Treasury stressed that '... after the turn of the century numbers [of persons above pension age] will rise rapidly as those born during the baby boom of the 1950s and 1960s reach retirement age' (HM Treasury 1984: 14). Similarly, virtually all the DHSS publications concerned with the review of social security, pointed out the sense of 'irresponsibility' involved in maintaining current arrangements:

> 'We should not place on our successors the responsibility for meeting all our financial expectations in retirement. Instead we should ensure that everybody is able to save and invest for his own additional pension' (DHSS 1985a).

The critique of the pay-as-you-go system, which was one of the key bases for the 1986 SSA, had also a moral dimension, which seemed to be consistent with the notion of individual responsibility embedded in the liberal-conservative ideology. The Treasury's pragmatic interest in keeping state expenditure on pensions under control was matched by the moral concerns of the ideologues, who saw the state compulsory pay-as-you-go system as an infringement of economic freedom[10]. As a result, the issue of cost did not raise much controversy *within* the government: the general agreement was on keeping state spending as low as possible. Nevertheless, this correspondence between the requirements of neo-liberal ideology and the Treasury's pragmatism in budget balancing, was not found everywhere in the 1986 SSA. As we shall see below, in other areas these two imperatives were in conflict.

Early-leavers

The second important issue which characterised the pre-1986 pension debate, is the comparatively disadvantageous situation of early-leavers, i.e. of employees who leave an occupational pension scheme before reaching the age of retirement (see above). The terms of reference of the *Inquiry* included the study of the 'portability of pension rights' (DHSS 1983), and in fact, even before the launching of the *Inquiry*, the DHSS had already organised a conference on the matter (Nesbitt 1995: 60-62)

Since the early stages of the legislative process, the problem of early-leavers was seen by the government as connected to the introduction of personal pensions and the creation of a competitive market for pension provision[11]. Under such conditions, ideally, employees would be able to move their accrued pension rights from one provider to the other according to their convenience and without incurring any loss of income. In such a context, employees leaving a pension fund before

[10] For a discussion of notions of personal freedom and responsibility in the area of pensions in a New-Right perspective, see Morgan 1984.

[11] The main practical obstacle to the creation of a competitive market for pension provision is that employers are often unwilling to pay contributions on behalf of their employees to an external fund, such as an insurance company (Brown 1990: 245).

retirement would not be disadvantaged, as they would be able to transfer their accrued pension rights to their new provider, be it private or occupational. In fact, the 1985 SSA (see above), which was intended precisely to deal with the issue of early-leavers, introduced the right to a 'transfer value' for members of occupational schemes. This corresponds to the amount of accrued contributions and must be disclosed to the employee at any time. As pointed out above, legislation passed in 1985 had the twofold objective of dealing with the problem of early-leavers and preparing the conditions for the introduction of personal pensions, by creating a levelled playground for the different pension providers (Brown 1990: 222; Nesbitt 1995: 122).

Personal pensions

There was substantial agreement within the government on the desirability of introducing personal pensions. This fitted in well with both the neo-liberal ideology and political concerns with resource allocation. In addition personal pensions provided an answer to the most pressing socio-economic issues discussed above. In the government's view, personal pensions did not represent a burden for future generations, since they were funded[12]. In addition, by creating a free and competitive market for pension provision, they tackled the problem of early-leavers.

The government, and in particular Norman Fowler, were keen to emphasise the individual choice dimension of personal pensions. As he put it in an interview: 'What I wanted to do, was to make it clear that what we were talking about was *your* pension, *you* had ownership and pension holders had rights' (Fowler, in BBC Radio 4 1996). Similarly, the White Paper stressed that 'the right to a personal pension gives all employees a new dimension of choice' (DHSS 1985b: 16). In addition, the government insisted in pointing out that there was a substantial popular demand for personal pensions. The DHSS commissioned a Gallup poll on

[12]The view that funded schemes do not represent a burden on future generations, while pay-as-you-go ones do, holds only if one considers market transfers as more legitimate than state transfers. In fact, the ratio between working and non-working population will not be affected by the financing method of a pension scheme. The difference between the two methods concerns only the basis on which a claim on existing resources is made: ownership in the case of funded schemes versus a political decision in the case of pay-as-you-go schemes (see chapter 1; for a discussion see Gilliand 1988: 283; Johnson and Falkingham 1992: 148).

social security, from which it emerged that two thirds of employees who were not members of an occupational scheme thought that it was important or very important to have access to a second-tier pension (DHSS 1985a, vol. 3: 75). This was reiterated in the White Paper: 'the evidence suggests that many more people would like to have their own occupational or personal pension' (DHSS 1985b: 3).

There was, thus, an important ideological component in the government insistence on personal pensions. While initially these seemed to be seen mainly as an instrument to deal with the issues of projected cost and of early-leavers, it became increasingly clear that the government viewed personal pensions as worth introducing in their own right. In Norman Fowler's own words:

> 'I would have proposed personal pensions irrespective of what had happened to SERPS because personal pensions seemed to me to be simply an extra option as far as the public was concerned. It of course was deeply unpopular with the occupational pension industry. It was an option we would have wished to give to people come what may' (Fowler 1993, quoted in Nesbitt 1995: 76).

Personal pensions became thus an element in the wider context of 'popular capitalism', which was part and parcel of the Conservative Party ideology and political strategy. Personal pensions were not necessarily aimed at the middle classes, although as it turned out, do benefit more those who are not on low incomes[13] (Waine 1995: 326). However, together with home ownership and share ownership, pension ownership was likely to contribute to the creation of a constituency who would resist changes in legislation likely to worsen the economic advantages of their position. Given the policy orientation of the major parties at the time, this amounted to a reinforcement of the Conservative's social base.

[13]That is because for someone on a low income, the rebate on National Insurance contributions would be so small that a substantial part of it would be needed to meet the cost of charges.

SERPS

The future of SERPS was certainly the most controversial issue in the pension debate during the 1980s, both within the government and in society at large. Norman Fowler envisaged a pension system based on a two-tier structure, in which there would be a strong basic pension coupled with a competitive market for additional provision. This would be compulsory for employees and totally funded. State provision would thus be limited to a minimum, so that there was no reason to maintain SERPS (Fowler, in BBC Radio 4 1996). Despite controversy within the Cabinet, Norman Fowler managed to transpose his vision almost intact into the Green Paper. The argument of the excessive future cost of SERPS was reiterated (DHSS 1985a: 22). In addition, the state additional pension was criticised because it 'discourages the development of occupational pensions because of the complexity of the state scheme's provision on contracting out and the open-ended commitment that employers have to take on' (ibid. 22). As a result, the government concluded that the best policy option was the gradual phasing out of SERPS. The possibility of reducing its importance was considered but dismissed, since 'the impact of restricting SERPS is essentially negative. It restricts the scope of state provision but puts nothing in its place' (ibid. 24) .

The abolition of SERPS attracted criticism from a significant and probably unexpectedly high number of actors. In addition to the Labour Party and traditionally left-wing groups (such as the TUC and the 'anti-poverty lobby'), substantial criticism came from interest groups traditionally sympathetic to the Conservative government such as the CBI and the NAPF (Nesbitt 1995: 88; *The Economist* 21/9/85). Moreover, there was no unanimity on the issue even within the government. In fact, even before the publication of the Green Paper, the Treasury had signalled its opposition to plans for abolishing SERPS. The episode was described by Norman Fowler as an 'all-out battle' with the Chancellor of the Exchequer Nigel Lawson (BBC 1996). The reason behind the Treasury opposition to the abolition of SERPS, was the additional cost that this would have implied for the exchequer. In fact, while contribution rebates would have had to be granted immediately, the state would have still been liable to fund current pensions and those of people near retirement age. This was going to put additional pressure on the state budget, and was seen as unacceptable by the Treasury.

Given the extent of criticism raised by proposals to abolish SERPS, and given the internal dissent[14] , the government decided to opt for a less radical solution: a reduction in the value of future SERPS pensions. This change of direction was announced in the White Paper. It was justified with the argument that 'the aim of pension policy should be to seek as much agreement as possible' (DHSS 1985b: 3). In addition, it was argued that while not constituting an optimal solution, the reduction of SERPS was acceptable because it made it possible to achieve the government's two key objectives: 'to see the emerging cost of SERPS reduced' and 'to ensure that the conditions are created whereby individual pension provision can expand' (ibid. 4). The proposals contained in the White Paper were translated into final legislation almost unchanged, in spite of continuing criticism from other groups.

The Think-Tanks

The term 'think-tanks' became widely used in the 1980s, and referred to research institutes putting forward ideas for policy change. The most influential think-tanks in the 1980s were obviously those supporting neo-liberal ideas, and indeed it has been argued that they contributed significantly to the spread of these ideas (Desai 1994; Hayward and Klein 1995). New-right think-tanks were extremely prolific, both in publications and policy proposals, and constituted a genuine reservoir of ideas from which the Thatcher government could pick up. Their common character was a firm commitment to free-market ideology and the inclination to take part in policy debates in order to influence them. As Desai points out, the marketing of new right ideas by the think-tanks was targeted on the ruling élites, rather than on public opinion at large (1994: 31).

Among the best known think-tanks, were the Institute of Economic Affairs (IEA), the Centre for Policy Studies (CPS) and the Institute of Directors (IoD), all of which played an important role in the pension debate. While the IEA is, formally an independent institute, the CPS, established by Margaret Thatcher in 1974, is attached to the Conservative Party. The IoD is a pressure group which represents

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[14] According to Norman Fowler , his plans were opposed 'most significantly of all by the treasury' (Fowler, in BBC Radio 4 1996).

company directors, and tends to be more sympathetic to the interests of the City (finance) than to those of industry.

The CPS was among the first actors who came up with the idea of contracted out personal pensions. The paper *Personal and Portable Pensions for All* (Vinson and Chapell 1983) can be seen as the document which introduced the concept of personal pensions into the debate. Published in April 1983, it preceded by 6 months the announcement of the *Inquiry* by Norman Fowler. The paper argued for the introduction of contracted-out personal pensions as an alternative to SERPS. This was justified on the basis of liberal notions of individual freedom and responsibility, as well as a solution to the early-leavers problem. As Nesbitt notes, the CPS paper was less radical than the DHSS Green Paper, as the former argued neither for the abolition of SERPS nor for allowing employees to contract-out of their occupational pensions (1995: 51).

The IoD became a particularly influential institute during the Thatcher years. While politically independent, its membership partially overlapped with that of the Conservative CPS (ibid. 50). Together with the other think-tanks, the IoD proved to be one of the fiercest supporters of personal pensions, and in general, of transferring responsibility for pension provision from the state to the private sector. Notably, the IoD was one of the few organisations which welcomed the proposal of phasing out SERPS contained in the Green Paper: 'We welcome the abolition (rather than the reform) of SERPS broadly for the reasons given in the Green Papers. [...] The provision of an earnings-related pension is no proper function of the state' (IoD 1985).

While it is difficult to assess the actual impact of think-tanks on government policy, it seems appropriate to acknowledge their role as producers of new ideas, thereby offering the government a constantly updated agenda for radical and sometimes subversive change. In addition, think-tanks contributed to the spread of neo-liberal ideas by giving them academic legitimacy, and by creating a vision of a 'neo-liberal better future'. Concepts such as 'share-owning democracy' or 'social market economy'[15] were created by the CPS and arguably had an impact on the public's perception of political and economic issues.

The intellectual salience of think-tanks should not, however, be exaggerated. Some of them were largely ignored in their first years of existence (the IEA was funded in 1955) and became prominent only when the political climate changed in the late 1970s. Rather than pure academic institutions, think-tanks are perhaps best described as organisations concerned with the marketing of ideas and as part of a wider political project, and it is in this capacity that they were able to have an impact on policy-making.

The Confederation of British Industry (CBI)

The position of British employers in relation to change in pension provision was characterised by a fundamental ambivalence. On the one hand, as an interest group concerned with competitiveness and levels of taxation, the CBI was sympathetic with the government's aim of shifting responsibility for pension provision from the state to the private sector. The overall ideological orientation of British employers, which favours economic freedom, is in line with the government's approach. On the other hand, however, British employers have responsibility for occupational pension schemes, and in this capacity they have tended to oppose measures which were likely to affect the stability of pension funds, which constitute a form of collective provision but are highly valued by employers. As some commentators have pointed out, occupational schemes constitute an efficient instrument in human resources management[16], as they encourage employee loyalty to the company, and constitute a means for tax-efficient self financing (Lusenti 1989: 396; Schmähl 1991: 35).

[15]These concepts refer to a vision of society in which share ownership is widespread, and individuals, through their rights as share-owners, would be able to control the economy and society. It represents the ultimate and complete superseding of the state by the market. The relationship between citizen and power, the vote, would be supplanted (although probably not replaced) by the right of share-ownership. It should be noted that in Britain the concept of 'social market economy' refers precisely to this vision and has nothing to do with its German translation '*Sozialmarktwirtschaft*', which in contrast, denotes a capitalist system with a strong component of state social intervention.

[16]This aspect is stressed in the CBI submission to the Inquiry: 'From the employer's point of view the objectives of pension schemes include attracting and motivating employees as well as retaining them...' (1984).

Consistently with these priorities, the CBI suggested a three-tier pension system. In the submission of evidence to the *Inquiry*, British employers argued that the basic pension should be kept as a safety net, that the structure of the second tier should remain unchanged, with pensions provided either by the state (SERPS) or by occupational pensions, and that personal pensions should be made available and encouraged through fiscal incentives as a voluntary third-tier level of provision (CBI 1984:2). In this way, the introduction of personal pensions would not have undermined the stability of occupational schemes.

On the issue of the projected costs of SERPS it was argued that 'provided the economy continues to grow [...] it would appear that the current commitments for State and occupational pensions can be met in the future within acceptable cost [...]. The CBI therefore does not believe that there is a need to dismantle the current State earnings related system [...]' (ibid. 3). The submission also suggested that some reduction in SERPS benefits could be more appropriate, such as in the case of widows' pensions and in the '20 best years' rule, which could by changed to 'lifetime earnings'.

The CBI showed a strong opposition to the proposal of introducing as an alternative to occupational pensions. The main problem was the fact that personal pensions were likely to attract younger employees[17], and thus undermine the demographic balance within occupational schemes. This, it was argued, would make it impractical for employers to provide occupational pensions. As a result many would contract back into the state scheme, with the result of achieving the opposite effect of what was intended (ibid. 7). Strong opposition was also displayed against the idea of employers contributions to externally provided personal pensions on behalf of the employee, as this would imply having to meet the cost of pension provision without enjoying the advantages provided to an employer by having a pension fund (see above).

[17]Many defined benefit scheme have been set up in the post war period and had not yet reached maturity by the mid 1980s. This means that these schemes were functioning (many still are) on a partial pay-as-you-go basis, with younger employees do facto paying for current retirees, who have not contributed for long enough to fund their own entitlement. Many occupational schemes, thus, perform a redistributive function from younger to older employees. If large numbers of young employees were to leave occupational pensions, this might have constituted a serious problem for their financial viability.

When the Green Paper was published, the CBI understandably manifested its opposition to the government's plans. Particularly, the suggested phasing out of SERPS was attacked, because it would have meant a higher rate of pension contributions (National Insurance and occupational), as employers and employees would have had to fund current SERPS pensions and the future (occupational or personal) pensions of current employees[18]. As a result, the CBI reiterated the suggestions made in the original submission of evidence, of a reduced version of SERPS rather than its abolition (CBI 1985)

The White Paper met with more approval, as the plans for scrapping SERPS had been abandoned. The Paper was described as 'broadly in line with CBI recommendations'. However, the demographic stability of occupational schemes was still cause of concern for British employers. In particular, the 2% tax incentive for personal pension buyers, was attacked as it was likely to encourage younger employees, attracted by a higher take-home pay, to opt out of their occupational scheme. The CBI requested that the 2% tax incentive be made available only to employees who would contract out of the state scheme, or, alternatively, to all contracted out employees. The first one was the option adopted by the government.

The National Association of Pension Funds (NAPF)

The NAPF, an association representing the interests of British occupational pension funds, perceived the government's plans for reform as a threat to the stability of their activities. Like the CBI, the NAPF was concerned that the introduction of contracted out personal pensions would have a detrimental impact on the demographic balance of occupational funds. In the various submissions of evidence and reactions to government proposals, the NAPF expressed sometimes strong criticism against the idea of contracted out personal pensions and little satisfaction with the government's motives.

The reaction to the CPS paper, which was one of the first appearances of the concept of personal pensions in the debate, was particularly negative. As the then

[18]This issue relates to the problems involved in shifting from a pay-as-you-go financing system to a funded one. For a discussion see Johnson and Falkingham 1992: 147).

Chairman of the NAPF put it, at an annual Conference of the Association: 'Let us hope that the Centre for Policy Studies document is never taken seriously by any politician who sees half a chance to win a vote or two' (Oldfield 1983, quoted by Nesbitt 1995: 54). The same aversion to personal pensions was expressed in the submission of evidence to the *Inquiry*. In that document it was argued that current occupational pensions were in fact personal, since 'the benefits for and in respect of each individual are based on *his* service and *his* salary', and the only difference with a personal pension is that 'the individual does not have his own pot of gold' (NAPF 1984, emphasis in the original). The same paper went on to argue that defined contribution schemes, such as personal pensions, would involve much bigger risks for employees than was the case with current arrangements, as the amount of the pension they will draw will depend on unpredictable investment returns. Like the CBI, the NAPF was prepared to accept personal pensions only as a third-tier arrangement, and not in the proposed contracted out form (ibid.).

The NAPF, had been criticised for its lack of action in relation to the early-leavers problem (*The Economist* 11/6/83). In fact, an improvement of the situation of early-leavers was seen to depend mainly on the introduction of an upgrading mechanism for earned entitlements, which would have involved substantial additional cost for pension funds, hence their reluctance to accept such proposals. Indeed, the NAPF own suggestion in 1982 in relation to the early-leavers problem, was the creation of a central fund, in which early-leavers contributions would be paid (Nesbitt 1995: 44). However, this proposal was regarded as impractical, as the central fund would probably have grown fast and become one of the largest financial institutions in the country (ibid.).

Predictably, the NAPF reaction to the Green Paper was particularly negative. First the speed of the policy making process was attacked: 'the introduction of legislation on pensions should be held back until there has been sufficient time for full consultation' (NAPF 1985). The proposals were described as a 'threat to the stability of the partnership between the occupational pensions movement and State provision'. The paper recommended that the government reconsider its plans for the abolition of SERPS, and expressed concern with the commitment made by the Labour Party to reverse such legislation once back in office. The overall argument of the NAPF reaction, was to ask the government to adopt a more consensual approach to pension reform attributing a bigger role to consultation and by seeking agreement with the opposition, in order to avoid a reversal of legislation with a Labour government.

The Labour Party

In the British political system, the opportunities for the opposition party to directly influence policy-making are particularly limited. In the 1986 SSA, moreover, the distance between the two parties on policy was such that it would have been extremely difficult for the Labour Party to have an impact on legislation. The 1983 election manifesto set out the main priorities of Labour party policy on pensions, and these included the restoration of the link between the basic pension and increase in earnings (removed by the Conservative government in 1980); and the movement towards a common retirement age for men and women at 60 (Labour Party 1983). As a result there was little common ground between the two parties on which agreement could be sought. The sort of minor changes that the government might have agreed to introduce were insignificant in relation to the differences between the two parties.

Labour Party officials did complain, however, about the lack of independence of the *Inquiry* team and about the absence of an effective consultation procedure (Meacher 1984). In fact, the Labour Party, rather than attempt to directly influence policy, worked at its own proposals for social security reform. In total independence from the government, the then Social Security spokesman Michael Meacher, headed a parallel *Inquiry* which produced an alternative reform package to that of the government. The Labour Party's proposals were presented at a press conference on the 15 April 1985, almost two months before the publication of the government's Green Paper. Michael Meacher's plans consisted mainly of a significant increase in the value of child benefit (by 100%), which would be financed through the removal of the ceiling on National Insurance contributions and the abolition of tax relief for mortgage holders and married couples (*The Guardian*, 16/4/1985). The plans did not include any major change in the area of pensions, which suggest that the opposition was relatively satisfied with the kind of provision existing at the time.

The Labour Party's plans were not only disregarded by the government, but also fiercely attacked in parliamentary debates (*Hansard*, 22/4/85). Norman Fowler argued that the Labour plan would have cost an additional £15 billion and as a result be impractical. This is not surprising. Given the gap between the priorities of the government and those of the opposition, a mutually satisfactory compromise was simply impossible.

Conversely, when Norman Fowler announced the content of the Green Paper, the Labour Party's reaction was one of fury. Michael Meacher, described the proposals as the 'erosion of the fundamental principle of a welfare state for all citizens' and as 'the reintroduction, for the first time this century, of Victorian values in an invidious distinction between deserving and undeserving poor'. The government was also attacked for the stated intention of abolishing SERPS, since the 1983 election manifesto did not mention any such plans. Finally, the validity of the demographic projections was challenged, in particular with reference to the forecasts made by the Phillips Committee in 1954, which turned out to be excessively pessimistic (*Hansard*, 3/6/1985).

The Green Paper was further criticised at the Labour Party Annual conference:

'This Conference, having noted the Government's proposals for the 'reform of social security' totally rejects the contents of this review as it is a blatant attack on the financial provisions made by the state for those most in need' (Labour Party 1985: 307).

In particular, the conference adopted a document which 'condemn(ed) the Government plans to abolish the state earnings related pension scheme' (ibid.) and which included a commitment for a future labour government to re-introduce a state earnings-related pension scheme if it were abolished (ibid. 308).

The decision of the government to abandon its plans for the abolition of SERPS, did not manage to bridge the gap between the two parties. In 1986, Labour Party policy on pensions was to block the implementation of the SSA 1986 if in government before April 1988, and to repeal the Act if elected after that date (Randall's Parliamentary Services 1986). In fact in the 1987 election manifesto, there was no mention of what a Labour government would do with regard to personal pensions, which suggests that the potential electoral appeal of such schemes was being recognised by Labour Party officials as well. The Manifesto included, however, a commitment to reverse two other major changes introduced by the Conservative government: an increase of the basic pension above the rate of inflation and eventually the return to the inflation/earning indexation formula; and, in relation to the changes brought about by the SSA 1986, the restoration of the former pension formula for SERPS (Labour Party 1987).

In subsequent years The Labour Party came to accept the existence of contracted out personal pensions, a reversal of this policy being extremely impractical[19]. However, some modifications were envisaged. The 2% tax rebate was to be abolished, and personal pensions, in order to be approved, were to be required to guarantee a minimum pensions, i.e. subject to the same sort of requirements applied to defined benefits occupational schemes (Meacher 1991).

The Trade Union Congress (TUC)

Like that of the Labour Party, the TUC priorities in the area of pensions were substantially different from those of the government. In the early 1980s, TUC policy aimed to 'establish a comprehensive State social security scheme that provides a range of benefits which ensure an adequate standard of living for people in retirement' (TUC 1982: 63). The value of the basic pension was to be increased to 50 percent of gross earnings for a couple, and to a third for a single person pension. These improvements could have been financed through an increase in employer's contributions, which, it was argued, were too low by European standards, and by an increase in the tax-financed part of National Insurance (ibid. 64).

[19]As argued by Pierson (1994) this is a clear case of policy 'lock in', ie. a policy choice which creates a situation in which the initial choice cannot be reversed without incurring in substantial expenses.

These priorities were entirely out of line with those of the government, so that when the *Inquiry* was launched, the TUC had little opportunity for fruitfully intervening in the policy process. Understandably, much of the TUC 's discourse and activities during the three year period prior to the adoption of the 1986 SSA, emphasised the total refusal to co-operate with the government's on the introduction of personal pensions. As stated in the TUC 's submission of evidence to the *Inquiry*:

> 'The TUC has no intention of assisting those who wish to reduce the protection to pensioners and workers in agreed final salary schemes. We do not accept that millions should be returned to the vagaries of the market-place and poverty for the unlucky' (TUC 1984a).

Opposition to personal pensions was reiterated at the TUC 1984 Annual Conference. A document was adopted, in which the danger represented by personal pensions for the demographic stability of occupational schemes was emphasised. Instead, the TUC 's approach was to increase the value of the basic pension and to support the 1975 SSA framework, or the combination of SERPS and occupational pensions as second-tier providers. (TUC 1984b).

The TUC response to the Green Paper was thus in line with its approach in the previous months. The support for the 1975 SSA framework was reiterated, with emphasis on the wide extent of public support for occupational provision, as they give employees 'some control on their pension arrangements. In contrast, the personal pension holder would have no voice and would be simply an individual subscriber among thousands' (TUC 1985). The TUC decided also to support the Labour Party's commitment to re-introduce SERPS once in office (ibid.), and launched a campaign to try to persuade the government to drop its plans (*The Guardian* 22/7/85).

The anti-poverty lobby

The term anti-poverty lobby usually refers to pressure groups and charities who are actively engaged in providing services to people in need, as well as in trying to influence policy debates in the relevant areas. In the case of older people, the most influential pressure group is Age Concern. In the early 1980s, its overall orientation in pension policy, was towards a Scandinavian-like pension system. In particular, the pressure group supported an increase of the basic pension and a change in the eligibility rules for it, so as to make it not dependent on a contribution record (Age Concern 1982).

It its submission to the *Inquiry*, Age Concern did not display a particularly strong aversion to personal pensions. However, it was pointed out that there were more pressing issues to be dealt with than the introduction of personal pensions: 'the more serious problem is that many people are not covered by company schemes and face retirement on inadequate state benefits' (Age Concern 1984). Consequently, the support for an increase in the basic state pension, was reiterated. In relation to the early-leavers problem, it was suggested to adopt full indexation and full transferability of preserved pensions (ibid.).

Age Concern's reaction to the Green Paper was highly critical. In particular plans for the abolition of SERPS were attacked, as personal pensions would not guarantee the same level of income security as the State scheme. As David Hobman, then director of the charity put it: 'We fear for the pensioners of the future, who will be left in the jungle of making their own pension arrangements. Personal pensions will never give the safeguards of SERPS' (Age Concern 1985). After the publication of the White Paper, Age Concern welcomed the retention of SERPS by the government, but was not satisfied with the treatment of women in the modified scheme, as the abolition of the 20 best years rule was likely to affect them to a greater extent than men (Age Concern 1986)

4.5. KEY ELEMENTS OF THE 1986 PENSION REFORM

The new law, which was passed in July 1986, introduced a number of changes in the British pension system as well as in other areas of social security[20]. The changes affected the whole area of second-tier pensions, by modifying the state scheme (SERPS) by changing some of the rules governing occupational provision and, most significantly, by introducing the possibility for employees to take out personal pensions.

First, the new law reduced the amount of future SERPS pensions, by changing the pension formula and by decreasing the value of widow(-ers) pensions. The benefit, up to then calculated as 25% of relevant earnings, was to be gradually decreased until 2009 to 20%. In addition, the basis for the calculation of the pension was extended from the average earnings in the 20 best years to whole career earnings, with effect from 1998 (when SERPS would be 20 years old). Finally, widows pensions were reduced from 100% of the husband's entitlement to 50%. As Brown pointed out, one of the effects of these measures was to make SERPS less competitive in relation to occupational and private pensions, which the government intended to promote (1990: 234).

With regard to occupational pensions, the SSA 1986 introduced provision which would facilitate the development of defined contribution schemes, by specifying a contribution defined opting out criterion. This was meant to encourage small employers who might have been deterred from setting up an occupational scheme by the commitment implied by a defined benefits scheme (GMP). In addition, the calculation of the GMP would be based on the new rules of SERPS and the minimum period of membership in order to qualify for preservation of pension rights (introduced by the SSA 1985, see above), was reduced from 5 to 2 years. A 2 percentage points contribution rebate was granted to newly contracted out occupational schemes. Finally, membership of an occupational scheme could not be made compulsory by an employer, although he or she could assume that, unless

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20 The pension reform was undoubtedly the most significant part of the SSA 1986. Other important changes included the introduction of an *income support* scheme, which replaced a number of means-tested benefits; the creation of a *social fund* which provides loans for particular circumstances (such as maternity or funerals); and the requirement for housing benefits recipients to pay a proportion (20%) of the rent.

notified differently by the employee, the latter wished to be a member of the scheme.

Finally, the most controversial aspect of the new law concerned the introduction of personal pension schemes. Personal pensions are provided by insurance companies, as well as by other financial institutions on a competitive market. Employees can then shop around to find the pension which best suits them. This constitutes a third option for the provision of an earnings-related pension . Employees are obliged to make supplementary pension provision, and can chose between the state scheme (SERPS), an occupational scheme (if the employer provides one) or a personal pension.

In order to encourage employees to take out the new personal pensions, the SSA 1986 provided some fiscal incentives. First, as was the case for contracted out occupational schemes, employees were entitled to a rebate in National Insurance Contributions of 5.8 percentage points (2% on employees contributions and 3.8% on employers contributions). In practice, both employers and employees continued paying the full contribution rate, and the DHSS (now DSS) then pays the amount of the rebate into his or her personal pension[21]. This measure was intended to prevent possible hostile employers from refusing to pay contributions to an external body.

In addition to that, a temporary 2% rebate was granted to new buyers of personal pensions (until April 1993). This incentive was only available to employees who belonged to SERPS, in order not to undermine the balance of occupational schemes. The employees' incentives were exempted from income tax, so that someone paying taxes at the standard rate of 25%, would receive an additional 0.67 percentage point rebate, as a result of which an employee taking out a personal pension would be paying into it 8.47% of his or her earnings, without having to spend any extra money (Nesbitt 1995: 98).

21 In 1993, this was reduced to 4.8%, in line with reductions of the rebate for occupational pensions.

Personal Pensions

In 1986 there was considerable uncertainty about the number of employees who were going to buy a personal pension. The official estimates made by the Government Actuary, forcasted 500,000 new contracted out pensions, in either occupational or personal pension schemes. On this basis, the 2% temporary rebate was expected to cost some £60 million in lost revenue to the exchequer. The reality was going to be quite different. As table 4.3 shows, the number of personal pension holders soared from over 1 million in 1988 to more than 5 million in 1992. The cost to the exchequer proved to be much bigger than expected. In the period 1987-1993, the 2% temporary rebate cost some £ 2.5 billion in lost revenues, while the grand total (including all rebates) reached £ 9.7 billion (Waine 1995: 328).

Table 4.3. Pension coverage for British employees (employees paying class 1 contributions at the standard rate)

	SERPS	OP	APP
1987	10,878	8,042	-
1988	10,043	7,904	1,288
1989	7,973	8,030	3,397
1990	7,679	8,270	4,172
1991	7,436	8,202	4,810
1992	6,653	8,068	5,340
1993	6,335	7,804	5,667
1994	6,527	7,476	5,732

Source: DSS 1996: 280 (table H103) and 287 (table H2.01)

Two factors arguably contributed to this unexpected popularity: first, the importance of the incentive package offered by the government, and second, the intensity of the advertisement campaign carried out both by the government and by the pension industry. The hostile attitude of the government to state provision and in particular to SERPS, certainly contributed to convince many members of this scheme to opt out of it.

The main problem identified in relation to personal pensions related to the quality of the advice given by pension salespersons to prospective buyers. The insurance industry was admittedly unprepared to handle the rapid development of this new sector, so that salespersons had to be trained in very short time and frequently were not competent enough to correctly advise prospective buyers (BBC, Radio 4 1996; Waine 1995). Most of those who were badly advised were people on low income, for whom the rebate was not important enough to be attractive in comparison to SERPS, or people who were advised to leave their more generous occupational schemes (Waine 1995: 326).

4.6. MAJORITARIAN POLITICS AND PENSION REFORM

The analysis of the decision-making process which lead to the adoption of the 1986 SSA, shows quite clearly the majoritarian character of pension policy-making in the UK. The official bodies involved in the debate, such as the '*Inquiry into provision for retirement*', were securely controlled by the government, and particularly by the Secretary of State for Social Services. This allowed the government a wide room for manoeuvre in the early stages of the definition of a new pension policy. The result was that the government was able to produce a Green Paper with relatively detailed suggestions for policy change before explaning its approach to external interests.

The confrontation with interest groups took place mainly between the publication of the Green and the White Papers, over a six-months period. In fact, such a short time did not allow much interference in government plans, though eventually, the latter was forced to drop a key element of its plan, i.e. the abolition of SERPS. This was a major concession by the government, which, nonetheless, does not necessarily constitute an instance in which the UK government abandoned its typical majoritarian approach to policy-making. It is true that a majority of the relevant interest groups opposed the abolition of the earnings-related scheme, but it is also true that this issue was source of disagreement within the government as well. As seen above, the abolition of SERPS was strongly supported by the DHSS and equally strongly opposed by the Treasury. The result was a division within the cabinet between two important Departments, which introduced an element of power fragmentation and arguably reduced the potential for majoritarian policy-making. One of the key dimensions of majoritarian democracy, in fact, is the asymmetry of power between the executive branch of power and the rest of society. On that occasion, the internal divisions of the government arguably reduced its ability to impose the adoption of controversial measures. It seems that the abandonment of plans for the abolition of SERPS was more a result of this internal division than a concession to external interests as suggested by the various quotations by Norman Fowler reported above.

A second important feature in pension policy making throughout the 1980s is the lack of agreement among the relevant actors on whether or not the British pension system needed to be reformed. In the two other countries studied here, the pension issue is generally viewed in the same terms by the various relevant actors, which usually disagree only when it comes to put forward solutions to commonly accepted problems. As seen above, in Britain the case for retrenchment of public pension provision was far from being unanimously accepted. Particularly the left and the labour movement were not persuaded of the need to radically reform the system. Similarly, other interest groups such as the CBI, did not feel that the pension commitments involved by SERPS were going to represent an excessive burden[22] (CBI 1984: 3). In this context, what is striking is the fact that the British government managed to push through a relatively radical reform, despite the lack of shared views on the pension problem. In other European countries, the political sensitivity of pension reform usually requires a widespread sense of urgency before governments can take action. In this respect, it seems that the British government benefited from the majoritarian character of the UK's constitutional structure and majoritarian tradition in policy-making.

Third, the British pension reform of 1986 stands out for the asymmetry of its impact on various sections of the population. Unlike the pension reforms adopted in other European countries, the British 1986 Social Security Act cannot be

22 Scepticism with the government's view on the urgency of pension reform was reflected in the comments of academics and independent commentators, see for instance Abel-Smith and Townsend 1984; Reddin 1984; Ward 1984; Waine 1995).

qualified as simply unpopular. It made provision for personal pensions which were subsequently taken out by some 5 million people, and this, if anything, is a clear indicator of popularity. Possibly, not all of them will be better off than if they had stayed in a collective arrangements. However, what is important here is their perception of a change in their economic situation and retirement prospects.

On the other hand, employees with low salaries, non-continuous career patterns, and particularly women, were the main losers of the 1986 pension reform. The state scheme SERPS included some *de facto* redistributive measures, such as the fact that it took into account earnings during the best 20 years, which benefited employees who did not have a full contribution record. The reduction from 25% of reference salary to 20% in the pension formula constituted an additional loss for employees who because of age, career patterns, salary, or personal beliefs, did not find it convenient to take up a personal pension.

Finally, employees covered by occupational arrangements, a large section of the British electorate, were not affected by the saving measures adopted in the 1986 SSA. Thanks to the structure of the British pension system, and particularly to the division between occupational and state second-tier provision, the government was able to target savings on a section of the population only, which reduced substantially the risk of electoral punishment.

The differentiated impact of reform on various sections of the population is a typical feature of the social and economic policies of the 1980s. It must be seen in connection with the majoritarian character of British democracy. Those who felt they were going to lose out in the reform of 1986 had little opportunity to influence the course of policy. On the other hand, the government did not need to worry too much about the electoral repercussion of its retrenchment measures. Those who felt that they were going to be better off with or unaffected by the new arrangements, would have compensated for the possible loss of support due to cutbacks in state pensions.

Chapter 5

SWITZERLAND: THE POLITICS OF CONSENSUAL RETRENCHMENT

With regard to the constitutional structure and to patterns of exclusion and inclusion in policy-making, Switzerland can be considered as the mirror-image of the UK. Formal institutions allow a substantial degree of influence to external groups. Most notably, this is the case of the referendum system, whereby any act passed by parliament can be challenged at the polls if 50,000 signatures are collected. In addition, well-established decision-making procedures tend to include a wide range of different and often conflictual interests, and to produce compromises that are more or less acceptable to as many actors as possible. This peculiar approach to policy-making constitutes an important limitation of the room for manouvre available to the government in virtually all areas of policy. Pension policy, of course, is no exception.

The 1995 Swiss pension reform was adopted after more than a decade of intense negotiations between political parties and the social partners. Despite a series of attempts to reach a mutually acceptable compromise, a totally consensual solution was not found. Eventually the reform included both expansion and retrenchment elements. This combination proved instrumental in guaranteeing the final adoption of the pension bill, as the retrenchment measures alone would have been at a much higher risk of defeat in a referendum. As pointed out elsewhere (Bonoli 1997b), this strategy has been used in other welfare reforms in the early 1990s, and can be seen as a response to the institutional constraints that limit policy-making. The combination of improvements in provision, on which there was widespread agreement, with retrenchment elements, has contributed to the successful adoption of reform also in the areas of unemployment benefits and health insurance.

This chapter looks first at the key features of consensus democracy in Switzerland, on the basis of existing studies. It then describes the structure of the Swiss pension system and provides an account of the developments that lead to the adoption of the 1995 pension reform. The final section explores the link between consensual politics and welfare retrenchment.

5.1. THE POLITICS OF CONSENSUS DEMOCRACY

To explain the roots and the underpinnings of consensual policy-making, has been a constant preoccupation in the work of Swiss political scientist. Their achievements have been quite substantial, so that we now know relatively well how consensual politics works, how it originated and, perhaps most importantly, what its limits are. In fact, the main challenge in understanding Swiss politics is probably to avoid an excessive idealisation of the Swiss model. The term of consensus itself can be misleading in this respect, because it conveys an image of general and widespread agreement and harmony in politics. Of course, it is not like this. Swiss policy-makers disagree on what to do as much as any of their counterparts in other countries. Nevertheless, they have been brought to develop a number of mechanisms which reduce the impact of disagreement and favour the adoption of mutually acceptable solutions. The search for a common platform among key actors is a basic rule in policy-making.

Moreover, notions of power-sharing and inclusion, which are central to the concept of consensus democracy, should not be seen as resulting in an above the average degree of democratisation. It is true that participation to policy-making is extended, but only to groups who have a significant threat potential, economically or politically (or both). Other groups are not invited to join elites in the definition of policy. This is most evidently the case of foreigners, who make up some 15% of the resident population but are not allowed to vote at the federal level; of some radical social movements (such as some environmentalist and pacifist groups); and of women, who, having been granted the right to vote only in 1971 are still catching up in terms of political influence with their European counterparts.

However, Swiss institutions are unique in many respects. Besides referendums there are other unusual elements by international comparison. First, the government (Federal Council) is a 'collegial' institution. This means that unlike in other democracies, there is no single individual head of government nor head of state[1], these two functions being fulfilled jointly by the seven members of the Federal Council. Decisions within the Federal Council are taken through majority voting, and individual ministers are expected to conform to the majority view, regardless of their initial opinion. The result is that the Federal Council is a place for consensus building in so far as it includes members of the four largest parties across the political spectrum. Compromise is a necessity in the government coalition if it is to survive. Second, Switzerland has a symmetric bicameral parliamentary system, shaped after the US. Legislation has to be accepted by both chambers. The upper chamber, the Council of States, represents the member-states of the confederation, or Cantons. Each Canton, irrespective of its size, has two members in the Council of States. In contrast, in the lower chamber, the National Council, Cantons have a number of MPs which is proportional to the size of their population. What is more, the Swiss constitutional order is characterised by a strict separation of powers between the government and parliament. This means that the executive has comparatively little control over decisions taken by parliament, which creates an additional opportunity for minorities to influence legislation. These elements, referendums, collegial governance symmetric bicameralism with a strong influence of the Cantons, and separation of powers, constitute a series of potential veto points that bills have to overcome in order to be adopted. The result is a legislative process characterised by the inclusion of minorities and a limited scope for policy innovation.

Political scientists are virtually unanimous in arguing that the availability of referendums to unsatisfied minorities is the main factor in the development of consensual politics (Kriesi 1995: 90; Katzenstein 1984: 144; Neidhart 1970)[2]. The

[1]There is in Switzerland a 'President of the Confederation', however this position has an exclusively representative function (like in international summits, etc.). The Presidency is assumed by each Federal Council member, by yearly rotation.

[2]According to Lijphart, however, referendums are not an element of either consensus or majoritarian democracy, because they can favour the majority as well as minorities. The weakness of Lijphart's argument is that it does not consider differences in the way referendums are called. As Kobach notes '... variations in the manner referendums are called produce entirely different effects on the surrounding political system' (1995: 60). When a referendum is called by the government it can be

fact that Swiss voters have the opportunity to call a referendum on any piece of legislation, provided they collect the appropriate number of signatures, has been a major element in the development of a consensual political system. Neidhart (1970) goes even further, and argues that referendums are *the* reason why Swiss policy-makers act more consensually than most of their European counterparts. He substantiates his claim by looking at the origin of consensus building procedures, which go back to the late 19th century. In 1890, the government was defeated in a referendum on a proposal for the introduction of compulsory health insurance, which had nevertheless received wide support in parliament. As a result of this event, it introduced consensus building mechanisms such as a consultation procedure, precisely in order to minimise the risk of being defeated at the polls. In addition, the inclusion of 'unnecessary' parties in the ruling coalition began as a response to an obstructive use of referendums. Until 1891, in fact, the Liberal-Democrats (PRD) were able to rule alone, but found it difficult to implement policy because of the obstructive strategy played by the Conservative-Catholic Party (now PDC). Between 1871 and 1891 the Conservative-Catholic party called 20 referendums on acts passed by parliament and won 15. This created a situation of legislative impasse, which was solved by the ruling PRD by incorporating the Conservatives in the ruling coalition. (Kriesi 1995: 207-9). Referendums are certainly a powerful force behind consensual politics. Typically, every effort is made in order to avoid the polls, as a defeat generally means a considerable waste of time and a loss of legitimacy for federal authorities, who are as a result unable to legislate in the relevant area for a number of years.

Referendums, however, are not the only factor responsible for the emergence of consensual democracy. Similar policy-making arrangements in fact developed in other countries as well, which do not have a referendum system. Katzenstein (1984;1985), though he recognises the impact of institutions (1984: 144) has offered a structural-economic explanation. Small European countries, because of the size of their economy, are extremely dependent on world markets and cannot rely on protectionism. The result is that they have developed a system of

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used to legitimise the view of the majority (like De Gaulle's referendum on the independence of Algeria); in contrast, when referendums are called by unsatisfied groups (as it is the case in Switzerland), they provide an additional opportunity for minorities to prevent the adoption of unwanted legislation, and thereby increase their influence on power.

compensation for economic change which implies concertation between conflicting interests and the development of corporatist arrangements. The Swiss version of democratic corporatism is dominated by export-oriented business; nevertheless, the well established decision-making procedures tend to magnify the influence of the labour movement, by 'relying on a policy-process that prizes the co-ordination of conflicting objectives through uninterrupted political bargaining in the policy network' (1984: 118).

Decision-making procedures

The legislative process in Switzerland is characterised by a series of stages at which the different relevant actors have the opportunity to intervene in the process and to make sure that their priorities are taken into account. When new legislation is initiated by the government, as was the case for the pension reform analysed here, the preparatory work is done by the civil service. The procedure is strictly regulated (Directive concerning the pre-parliamentary procedure for the adoption of legislation, 6/5/70). The relevant department of the federal administration (in the case of pensions, the Office of Social Insurance, OFAS), has the authority to decide the form of preliminary work. Legislation can be drafted by officials, however, if the decision is relatively important or likely to be controversial, it is usually drafted by an *ad hoc* expert commission[3].

Expert commissions are the first and perhaps most crucial element in the consensus building mechanism and in the elaboration of legislation[4]. Typically, expert commissions include civil servants; representatives of organised interests (usually employers and trade unions and other interests if relevant); academics; representatives of a number of Cantons and can include politicians. They have the task to produce the first draft of a bill. According to Klöti these commissions have a double function: 'they have to bring in the scientific state of the art and the expert-knowledge needed by the government and the civil service, but they also have to assess the political feasibility of given proposals' (1984:322). In his view,

[3]In the case of pension policy there is a permanent expert commission, which is always responsible for drafting new legislation (the AVS federal commission).

[4] According to a survey carried out by Kriesi among policy-makers, the initial stages of the law-making process are regarded as the most important insofar as the result is concerned. Typically, a viable compromise is reached there, and it is relatively difficult to depart from that compromise at later stages (1995: 175).

this double function can limit the government's ability to implement innovative policies, as typically agreement can be reached on some sort of minimum common denominator (ibid.). The combination of the two functions (to provide expertise and to shape a compromise) can also be seen as an attempt to de-politicise the consensus building effort. According to Katzenstein 'all those represented share the inclination to conceal these commission's political nature'(1984: 119). Expert commissions, thus, tend to avoid political confrontation by emphasising the technical aspects of legislation.

During the work of expert commissions, a constant concern is to avoid the prospect that some unsatisfied group might call a referendum on the bill. According to a survey carried out among expert commission members the threat of a referendum is never mentioned explicitly, but is implicitly present all the time (Germann, quoted in Kriesi 1995: 182). This finding seems to confirm the importance of the impact that referenda have on the policy process (Neidhart 1970; see above). Expert commissions, thus, are by far the main mechanism for consensus building. A second practice, albeit less effective, is the 'consultation procedure' (Kriesi 1995: 181). In this case a much wider number of organisations are consulted, who can comment and express positions on an existing draft. In general, it is only bills which are likely to be controversial that go through all these stages. A study by Poitry (1989) has shown that between 1971-1975, 53% of acts of parliament went through some form of consultation. Some 16% went through a simple consultation procedure; 11% were drafted by an expert commission, and 26% went through both mechanisms. Consensus building procedures are used more often if the bill is seen as an important one, if it involves constitutional change or if it is in the area of social and economic policy (Kriesi 1995: 181).

When the bill is finalised, it is presented in parliament by the government, it is examined by the relevant parliamentary commission which can propose amendments and then voted. This procedure is repeated in each of the two chambers of parliament, until they can agree on a common text. According to most commentators, however, the impact of parliament is relatively limited, as usually the content of a bill is not changed substantially (Kriesi 1995). This, however, was not the case with the pension reform of 1995, which was elaborated mainly by a parliamentary commission of the National Council. After the acceptance of a bill by both chambers, there is a 90 days deadline to call a referendum, which requires the collection of 50,000 signatures.

The existence of consensus building procedures, however, should not be seen as an opportunity given to all relevant groups in society to have some influence on a bill. For an interest group, the fact of being invited to join an expert commission largely depends on whether or not it is regarded as *Referendumsfähig*, able to call a referendum and to stand some chances of winning it (Klöti 1984; Kriesi 1995). It is relatively easy to call a referendum, as to collect 50,000 signatures costs on average around 250,000 SFR (Kriesi 1995: 91), but the level of expenditure required on the campaign is far higher, if the group wants to stand some chance of winning it. The subordination of inclusion to *Referendumsfähigkeit,* is an important limitation on the extent of minority inclusion. The rights of minorities are guaranteed with a virtual veto power, only insofar as they can convince the government that they are capable to call and win a referendum if unsatisfied. This element might have played an important role in the 1995 pension reform, as the savings were targeted on women who are in the labour market between the age of 62 and 64, a group less able than others to mobilise a majority in the electorate.

The politics of oversized coalition government

In order to understand the way Swiss politics works, it is crucial to emphasise the difference between the concepts of *majority* and *government.* While in most other democracies the two tend to overlap (most notably in the UK), this is not the case in Switzerland. Especially in the areas of social and economic policy, there is a parliamentary right-wing majority, which includes the Liberal-Democrats (PRD) the Christian-Democrats (PDC) and the ex-farmers' party (UDC). These three parties, though they represent slightly different constituencies, share an overall pro-market orientation in economic and social policy, and together, have majorities in both chambers of parliament. The Swiss government consists of these three parties and the Socialists, who, in contrast, have a more left-wing approach in social and economic policy. The result is a constant tension between these two entities, majority and government, because the two often take different views on social and economic issues. This was very clear in the 1995 pension reform, where the government decided not to increase women's retirement age, but the parliamentary majority overuled it and introduced this measure.

This is an inevitable feature of oversized coalition government, especially if the coalition includes parties representing conflicting interests. The practice of oversized coalition governments developed relatively early in Switzerland. Until 1891 the PRD, helped by a first-past-the-post electoral system[5], ruled the country alone. Then it admitted the Conservative-Catholic party in government, arguably in order to neutralise their referendum-based obstructive strategy. Subsequently, in 1923 the UDC was also included in the governing coalition. The Socialist party, however, did not enter government through the use of referendums. The origins of the Socialists' inclusion go back to the early 1930s. Before that, the PSS was not interested in collaborating with a liberal-conservative government. In the 1930s, arguably as a response to the fascist threat (both internal and external), the PSS adopted a more moderate approach and expressed the wish to join the ruling coalition. The inclusion of the PSS in the government coalition, however, did not materialise until the end of 1943. Then, in order to improve the image of Switzerland with the Allies, tarnished by the not-so-neutral relationship with Nazi-Germany, the right-wing coalition invited a Socialist minister to join the government. The current composition of the ruling coalition, described as the 'magic formula', was first adopted in 1959 and comprises 2 PRD, 2 PDC, 2 PSS and 1 UDC.

As decisions within the government (Federal Council) are taken through majority voting, the impact on policy of the two Socialist ministers is much smaller than that of their right-wing counterparts. According to Kriesi, the left has relatively little power in government. In general it can reject proposals that are seen as unacceptable, or initiate debates in the area of social policy, but has relatively little control on the overall government machine (1980; 1995). The marginality of the position of the PSS in government is clear when Federal Council members are elected. Members are elected individually by parliament and need a majority. As a result, PSS members need the support of other parties in order to get elected. In

[5]The first-past-the-post electoral system was kept until 1919. Then, after a massive wave of strikes, it was decided to adopt proportional representation, in order to allow a fairer representation of minorities (in particular of the Socialists) in order to defuse social tensions and conflicts.

recent years, on two occasions, the right voted against the official candidate put forward by the PSS, and elected another candidate, belonging to the right of the Socialist Party[6].

Referendum politics

The Swiss constitution provides for different kinds of referendums. First, constitutional change requires acceptance in a referendum. In this case an amendment must be accepted by a majority of voters and by a majority of cantons. The second kind, which is called 'initiative' is a proposal for constitutional change and has to be backed by 100,000 valid signatures. Third, on any law a referendum can be called if backed by 50,000 valid signatures. The political implications of the three instruments are different. For instance, constitutional referendums magnify the impact of small rural cantons, as a majority among cantons is required in order to adopt change. The initiative allows marginal groups to raise their concerns to matters of national debate. However, what is most relevant here, is the legislative referendum, because that was the instrument that was used in the case of the 1995 pension reform.

Referendum politics is substantially different from parliamentary politics, for two main reasons. First, referendum politics favours the formation of 'unholy' coalitions within the electorate, which are less likely in parliament and stand good chances of defeating a bill. Typically, a government sponsored bill is supported by the centre of the political spectrum. It can happen that both the far right and the far left oppose the bill, as it is seen as being 'too little' for some and as being 'too much' for the others. A highly heterogeneous coalition is possible in a referendum, as it is a one-off event and it does not require agreement on the alternative to the bill, as it is normally the case in parliament.

Second, and perhaps most importantly, party discipline among voters is not as strong as it is among MPs. Typically, political parties issue voting

[6]This occurred in 1983, when the right-of-centre majority refused to endorse the official candidate of the Socialist party, Lilian Uchtenagen, and elected Otto Stich instead. The same thing happened in 1993, when Christiane Brunner was replaced by Ruth Dreyfuss as the official socialist candidate (Kriesi 1995:212).

recommendations for each referendum. However, it has been estimated that on average, 12.5% of voters do not respect party recommendations in referendums (Papadopoulos 1996: 30). This figure might seem relatively low in relation to the fact the government coalition can count on the support of some 80% of the electorate at general elections. Nevertheless, it should be noted than many referendums are relatively uncontroversial which implies stronger compliance with party recommendations. On the other hand, of course, in the case of controversial decisions, non-respect of party guidelines is more widespread.

Referendum politics, thus, is characterised by a higher level of uncertainty than parliamentary politics though the government does have some instruments to try to control the outcome of a referendum. For instance, it can decide the date for a referendum to take place, and thus wait for the most favourable moment. It can combine an initiative (constitutional change backed up by 100,000 signatures) with a bill going in the same direction, but being more acceptable to the government. Finally, like political parties, the government issues voting recommendations which are printed in the voting instructions that are mailed to every voter. These instruments allow the government to reduce the extent of uncertainty involved in referendum politics, which, nevertheless remains important. In fact, defeats have become more frequent in recent years. The fact that government's decision are increasingly often challenged by unsatisfied minorities has prompted a number of commentators to argue that the 'consensus' model might be facing an impasse (Cattacin 1996; Church 1995; Kriesi 1995).

Current challenges and consensus democracy

It has been argued that the consensual nature of the Swiss political system reduces adaptability and promptness of government action, and that given the character of current challenges, it constitutes a burden for the country. This for a number of reasons.

First, the complexity of these procedures requires much longer periods for the adoption of law than it is the case in most other European countries. For instance, in the case of the 1995 pension reform, preliminary work started in 1979 and the law was passed 16 years later. While this is long even by Swiss standards, it is by no means exceptional. Second, the existence of consensus building mechanisms prevents policy-makers from developing innovative solutions, since compromise is generally easier to reach if close to the status quo. Third, new issues have emerged, on which it is extremely difficult to achieve a compromise. This is the case of the question of whether or not to join the European Union. As a yes/no question, this does not offer many opportunities for a compromise (Church 1995).

The issue of the capacity of a consensual system to implement reform in the area of social policy has been addressed by Cattacin (1996). He argues that existing mechanisms are inadequate to deal with current challenges, because of the long time span they require to produce policy responses and because of the objective difficulty involved in reaching consensus in an unfavourable economic context. In general, the Federal Council in order to be able to legitimise its intervention, must wait until there are strong economic pressures pushing for change. The federal government can *de facto* play only a reactive role. Cattacin argues that in recent years substantial change has come from the Cantons, which have implemented autonomously legislation for an income support system [7]; and from the voluntary sector, especially in the area of social services for Hiv/Aids sufferers. In these two cases, smaller units have been able to come up relatively fast with innovative policies, which might in the future be used to justify an intervention at the federal level.

Perhaps, however, the biggest strain on consensus politics is the impact of the recession. In the early 1990s, Switzerland went through the worse economic downturn since World War II, and is now facing social and economic problems that its European neighbours have long known: rising budget deficits, mass unemployment, employers' pressures on the welfare state and on wages, and so forth. This new economic environment is making it more difficult to achieve consensual solutions to current problems.

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[7] This has been the case, for instance, in Cantons of Geneva, Vaud and Ticino, which have adopted an income support system as an alternative to social assistance for long term unemployed persons who lose the right to unemployment insurance benefits. Social assistance in Switzerland is administered by the municipalities, it is seen as highly stigmatising and involves an important component of social control. In the past, social assistance recipients were mainly 'unemployable people' whereas now the system is increasingly needed by long-term unemployed.

As a result of these economic changes, the debate on welfare retrenchment has become topical in Switzerland. In fact, this is a fairly new feature in the Swiss political arena. Until the recession of the 1990s, there was an overall consensus on the desirability of maintaining the existing arrangements and structures. Given the low rate of unemployment and the overall good economic conditions, the financing of social programmes was not seen as problematic. With the recession and with rising government budget deficits, pressure has built up to rethink much of the Swiss welfare state. Between 1994 and 1995 three big reforms have been adopted, in the areas of pensions, health insurance and unemployment benefits. They are something rather new in the Swiss social policy landscape, in the sense that for the first time they have the explicit aim of achieving savings. Unsurprisingly, these three reforms represented a big challenge for the consensus building mechanisms, two of them were subjected to referenda, but eventually they were all accepted. As argued elsewhere, their common feature is the combination of retrenchment measures with elements of improvement and expansion (Bonoli 1997b). This strategy, which as will be shown has been largely used in the 1995 pension reform, seems to be a new way round the referendum obstacle. While in the past the search for a consensus provided a means to keep the impact of referendums under relative control, now, consensus being more difficult to achieve, the majority seems to have adopted a 'combination strategy' which consists in including in a single legislative package elements requested by different groups, in the hope that this will produce a majority in the electorate. In the three reforms of 1994-1995, this strategy seems to have worked, as all the three, despite containing highly unpopular elements, became law.

5.2. THE STRUCTURE OF THE SWISS PENSION SYSTEM

The Swiss pension system is generally described as a three-pillar system each of which caters for a distinct level of provision. The first pillar (AVS) is meant to cover the basic needs of retirees. It is partly earnings-related and provides a means-tested pension supplement (PC). The second pillar (LPP) has the task of providing retirees with a standard of living close to the one they had while working and consists of a compulsory system of occupational pensions. Finally, the third pillar, consists of non-compulsory private provision which is encouraged through tax-concessions. This functional division between three levels of pension provision is upheld by the federal constitution since 1972 (Article 34), and it is widely regarded as an important constraint with regard to policy change in the area of pensions. The 1995 pension reform, which is being analysed in this study, concerned only the first tier of provision (AVS).

The second pillar of the Swiss pension system, occupational pensions, was first granted tax-concessions in 1916[8] . They developed substantially throughout the 20th Century, but coverage remained patchy. In 1970 some 50% of employees were covered by an occupational pension, but only 25% of women (OFAS 1995: 4). Since 1985, however, occupational pension coverage is compulsory for all employees earning at least twice the amount of the minimum AVS pension (about 35% of average salary). Coverage is virtually universal among male employees but only around 80% of female employees are covered (OFAS 1995b: 10). A full occupational pension is granted to employees with an adequate contribution record (currently 37 years for women and 40 for men, the starting age being 25). Those who were first covered by an occupational pension after the age of 25 are granted contribution credits in order to compensate for shorter contribution periods. Benefits vary according to the type of pension fund and are uprated according to inflation. As far as financing is concerned, occupational pensions are funded schemes. They are financed by employer/employee contributions, the former contributing at least as much as the latter. The sums involved in occupational pensions are quite impressive: in 1992 occupational pension funds owned capital stock for Sfr 257 billion , equal to 72% of GDP; receipts amounted to Sfr 43 billion and outlays to Sfr 19 billion.

The third tier of the pension system, private provision, consists mainly of tax-concessions on personal pension schemes. These can be more substantial for people who are not covered by an occupational pension (self-employed, part-time or temporary workers). In 1994, some 1 million people had personal pensions,

[8] On Swiss occupational pensions (LPP), see Hebling (1992) or Schneider (1991). For a comparative analysis including Switzerland, see Lusenti (1990).

with a total capital stock of Sfr 17 billion (OFAS 1995: 15). Personal pension, thus, play a relatively minor role in the Swiss pension system, where the main provider of income in old age are occupational pensions.

The basic pension scheme (AVS)

The AVS pension scheme is generally regarded as the most progressive element of the Swiss welfare state. A trade unionist interviewed for this study described it as a 'little miracle' as it is an unusually redistributive scheme in the Swiss context. Even if compared to other Bismarckian schemes (in France or in Germany), the Swiss AVS fares rather well as far as redistribution is concerned. In fact, while there is no ceiling on contributions, the amount of the benefit can vary between a floor and a ceiling, the upper limit being twice as much as the lower one. Within these limits, the amount of the benefit is related to the contributions paid while in work. In a way the Swiss basic scheme is a compromise between the Bismarckian tradition of earnings-related contributory pensions and the Beveridgean flat-rate approach. Interestingly, in international comparisons the AVS is sometimes considered as a flat-rate pension scheme (Schmähl 1991: 48).

The scheme was introduced in 1948[9]. A previous attempt had been made in 1931, but on that occasion the government sponsored proposal was defeated in a referendum. The legislation enacted in 1948, which in contrast was accepted by an overwhelming majority at the polls, provided the basis for the current system. The scheme, which since then has been amended a number of times, is universal in its coverage.

Financing

The AVS works almost on a pure pay-as-you-go basis. It has a fund which consists of roughly one-year outlays. It is financed through contributions (4.2% of salary each for employees and employers; up to 7.8% for self employed), and

[9]On the history of the AVS pension scheme, see Bernstein (1986) and Binswanger (1987).

receives a subsidy equal to 19% of outlays[10]. The coverage is universal, so that those who are not working (like students) are required to pay flat rate contributions or, if providing informal care, are entitled to contribution credits. Unemployed people pay contributions on their unemployment benefits, which is treated as a salary (the unemployment insurance fund contributing on their behalf 4.2% of the unemployment benefit). Like in Bismarckian systems, the AVS has a separate budget from the government. The social partners do take part in the management of the scheme at the local level, by running some branch-related funds. The central fund however, is managed by the federal administration. The AVS budget is relatively healthy for the time being, as table 5.1 shows. However, a worsening is expected due to demographic ageing (see below).

Table 5.1.: Receipts and expenditure of the basic pension scheme (AVS)

million Sfr.	1992	1993	1994	1995
Receipts	23,160	23,856	23,923	24,511
- contributions	18,005	18,321	18,307	18,646
- subsidies	4,241	4,523	4,585	4,809
Outlays	21,206	23,046	23,363	24,503
Balance	1,954	810	561	9

source OFAS 1995: 7, table 12.1; *Securité sociale* 2/96: 77

The balance of the AVS fund has deteriorated in the last few years, though still making a slight surplus. The reasons for this development are twofold. On the one hand, benefits were increased by 3.2% in 1995, and the number of beneficiaries rose by 1.9% in the same year. On the other hand, because of the recession, receipts from employer/employee contributions have increased slower than outlays. The federal subsidy, moreover, has been reduced from 17.5% of expenditure to 17%. The fund has reserves for some Sfr 24 billion, which roughly correspond to one year expenditure.

[10] The Federal government provides a subsidy of 17 % of outlays, while the Cantons jointly provide an additional 2 %.

Benefits

The replacement rate varies, because of the existence of a lower and a upper limit on benefits, between 100% (for someone on an extremely low income, up to 18% of average salary) to 40% (for someone on a average earnings) and decreases for higher incomes (see table 4.2). The lower limit, applies only to those who have a complete contribution record (currently 45 years for men and 42 for women, retirement age being 65/62 respectively), otherwise the pension is reduced correspondingly. Table 5.2 gives the level of benefit in relation to insured salary. Insured salary is the average of re-valued (according to increases in average incomes) career earnings.

Table 5.2. Level of benefits of the AVS pension scheme (1995-1996)

Annual salary (uprated)		pension benefit (per month)		Repl.rate
in Sfr	% av. salary	in Sfr	% av. salary	
up to 11,640	18	940	18	100%
34,923	54	1475	27	50%
69,846 and more	107	1940	36	33% (or less)

Source: recalculation of data from *Sécurité sociale* 2/1995:66 and 6/1994: 250)

Benefits are uprated according to a mixed index, i.e. the arithmetic average between changes in consumer prices and in gross earnings. This means that retirees receive a share of increases in productivity, but it also means that in the long run, the replacement rate is going to deteriorate, albeit less fast than in the UK, where indexation of pensions is based on prices only. The uprating takes place every two years, unless consumer prices increase by more than 4%, in which case benefits are increased when that threshold is reached.

According to the federal constitution as amended in 1972, the AVS pension scheme must cover the basic needs of retirees. This makes it a Beveridgean scheme in its orientation. Nevertheless, since it was introduced as a compromise between a Beveridgean and a Bismarckian scheme, it still includes elements of the latter, namely a partial relationship with former earnings. The tension between these two conceptions is present in the Swiss pension debate. Given current financial constraints, the fact that benefits remain partly earnings-related means that those at the bottom end do not receive enough to cover their basic needs. In fact, the introduction of a flat rate benefit has been considered during the debate leading to the 1995 reform, but plans going in that direction were eventually dropped[11] . Because the minimum pension is regarded as insufficient to cover basic needs, a supplementary means-tested benefit has been introduced in 1965. Initially the pension supplement was meant to be a temporary measure, but in fact it has now become part of the pension system. The pension supplement, depending on individual circumstances, can increase the AVS benefit to up to Sfr 27,768 per year (42% of average earnings, 1995) and is applied also to those with incomplete contribution records. In 1993 there were some 160,000 recipients or 19% of all pensioners (*Sécurité sociale* 1/1995: 13).

Pressures for change

The main concern which prompted policy-makers in the late 1970s to start a debate on a new pension reform was the particularly discriminatory treatment of women in the AVS pension scheme. Basically, married women were not entitled to a pension of their own, instead, their husband would receive a 50% pension supplement. Contributions paid by married women were taken into account as far as earnings were concerned, but could not fill in an incomplete contribution record. In addition, there were no contribution credits for years spent providing unpaid informal care. The result was that women in general, and most notably divorced or separated women, got a particularly bad deal out of the AVS. This was reflected by the impressive difference in the amount of average pensions granted to different groups, as shown in table 5.3.

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[11] In 1993 the Council of States (upper chamber) asked the Federal Office for Social Insurance (OFAS) to produce a report on the impact of benefits and cost of the introduction (OFAS 1993). The proposal, however, was dropped because if it were to be cost neutral, it would mean a reduction in benefits for some 50% of recipients; if it were to be at the level of the maximum benefit, it would have cost some Sfr 3 billion in 1993. Both options were regarded as politically unfeasible and thus abandoned.

Table 5.3. Average amount of AVS benefit according to gender and marital status (in Sfr per month, 1994), and percentage receiving means-tested pension supplement

	Women		Men	
marital status	average benefit	% receiving means-tested supplement	average benefit	% receiving means-tested supplement
unmarried	1371	24.1	1373	23.7
married	1028	2.2	1644	4.1
separated	1089	NA	1548	NA
widow(er)	1701	18.4	1699	12.7
divorced	1442	35.3	1601	24.5

source: *Sécurité sociale* 2/1995: 63

The most striking difference in benefit levels between men and women are in the cases of separated couples and divorcees[12]. Average pensions are lower for women especially in the case of separated couples. Among divorcees, the reliance on the means-tested pension supplement is much higher among women than men (by more than 10 percentage points).

It was in response to pressures to remove these discriminatory practices from the AVS that in 1979 the government requested the AVS federal commission, a permanent expert commission, to produce a reform proposal which would have improved the treatment of women in the scheme. The government was reacting to demands by women's organisations, and concern which had been expressed by some interventions in parliament (Binswanger 1987: 251). Pressure to adopt a more favourable treatment of women in the AVS pension scheme increased further in 1981, when the constitution was amended so as to include provision for gender equality (Art. 4).

[12]The big difference between married men and women is due to the fact that women were not entitled to their own pension under 'standard' circumstances. This was unless the husband did not receive a pension (for example because he worked abroad), a relatively infrequent event. The fact that only 2.2% of married women receive a pension supplement suggests that in fact most of those belonging to this group have other sources of revenue as well.

Progress on the reform was slow (a bill was presented only in 1990), so that when it was debated in parliament in the early 1990s, the overall economic and political climate had changed quite dramatically. First, the recession caused a massive increase in the number of unemployed people, which had an impact on the balance of AVS fund (see table 5.1, above). In addition, concern was growing with regard to the future financing prospects of the scheme because of the worsening contributors/beneficiaries ratio. According to the projections published by the Federal office of social insurance in 1993, the ones which were used by policy-makers in the debate on the 1995 reform, the balance of the fund would become negative from 1999 on, and, if nothing was done, would make losses of some Sfr 5 billion by 2015 (*Sécurité sociale* 1/1994: 7). In this context of sluggish economic performance and predicted imbalance in the fund's budget, the right-wing majority found a relatively fertile ground for introducing an element of retrenchment, an increase in women's retirement age, in a pension reform which was initially designed to improve the situation of women.

5.3. THE 1995 PENSION REFORM[13]

Pre-parliamentary work

Following interventions (*postulats*) made by a number of MPs, in 1979 the Federal Council asked the Federal Commission for the AVS to elaborate a reform proposal meant to improve the situation of women and eliminate the discriminatory practices in the way contributions are taken into account. The Federal Commission for the AVS is the equivalent of an expert commission, but has a permanent status, because the AVS requires virtually constant debate on reform. Its task, as for expert commissions, is to elaborate reform proposals which must be technically viable,

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13 With the term 1995 pension reform I designate the second part of the 10th revision of the AVS. In fact, given the long time span required by the legislative process, it was decided to introduce a first set of non- controversial measures already in 1992 through a temporary decree (AFPG 19/6/92) , which would expire upon acceptance of the overall package. The temporary decree included measures to increase the value of pensions for people on average incomes and a contribution credit for divorced women with children.

and, especially, politically feasible. The Federal Commission for the AVS[14], in fact, includes representatives from a number of different organisations who have a stake in pensions and who can effectively oppose measures regarded as unsatisfactory. It is essentially an instrument for pre-testing the political feasibility of reform proposals and thus, ultimately, for consensus building.

The AVS Federal Commission came up with a reform proposal in 1982. This included some minor improvements for women. However, since the government had requested the adoption of a cost-neutral reform package, these were compensated by an increase in the age of retirement (for women only) from 62 to 63. The reaction to these proposals was rather lukewarm, and even within the Commission there was controversy with regard the increased retirement age for women. The Commission was asked by the government to reconsider its plans, but was nevertheless was unable to produce a different proposal. According to Binswanger, (1987: 250) it was the combination of cost-neutrality and the need to reach consensus that prevented the Commission from producing a more satisfactory proposal.

Towards the end of the 1980s, after Flavio Cotti, a Christian Democrat, took office as Interior Minister[15], the government decided to abandon the cost-neutrality requirement, which was blocking progress towards effective gender equality. In March 1990, the Federal Council was at last able to produce a bill for the reform of the AVS pension scheme (FF, vol.2, 1990: 1-231). The key element of the bill was the introduction of gender equality, without abandoning couple pensions for married people. The bill, thus did not introduce an individual right to a pension for married women as was being advocated by a number of influential organisations. Quite simply, contributions paid by the two spouses were to be combined and computed for a couple pension. This could have been split (half each) upon request. Basically, the proposed change was limited to the removal of all reference to gender in the calculation of the pension, making the law compatible with the

14 Typically, the AVS commission includes representatives of the trade unions, employers, insurance societies, the Cantons, organisations of retired persons, women's organisations, the federal government and the army.

15 The Department of the Interior has responsibility for social insurance as well as for most social policy areas (inlcuding health care).

constitutional requirement for gender equality. The rationale of this decision was that, being the married couple still the predominant type of cohabitation, the introduction of a system of individual pensions for everyone regardless of marital status was regarded as premature.

In relation to the question of women's retirement age, the government argued that the constitutional requirement of gender equality will eventually have to be applied to retirement age as well as to other areas. However, given the fact that gender equality in the labour-market (in terms of wages, career patterns, access to occupational pensions, etc.) was far from being achieved, it was thought that the existence of a positive discrimination in favour of women was justified.

The pension reform in parliament

The lack of an individual right to a pension regardless of gender and marital status in the 1990 pension bill became an important political issue. In the late 1980s, in fact, all major political parties and the Federal Commission for Women's issues, published documents in which they suggested the introduction of a system of individual pensions regardless of gender and marital status calculated on the basis of a contribution-sharing system. In general, it was suggested that contributions paid by the members of a couple be summed, divided by two, and counted separately and individually for each of the two spouses, a system which became known with the term of *splitting*. Such plans were put forward by the Liberal-Democrats (PRD 1988) and by the Socialist Party (PSS/USS 1987) which produced a joint document with the trade unions. The Christian-Democratic Party did not produce a detailed proposal for a contribution-sharing system, but in a document published in 1988, it argued in favour of a system which would guarantee full gender equality and an overall arrangement which would favour the family (PDC 1988: 6). This was not a clear-cut statement in favour of individual pensions. In fact the Christian-Democrats, were concerned that such a system might discriminate against married couples, which they regarded as unacceptable (Darbelley, TSR 10/6/95).

Consequently, the 1990 pension reform bill was seen by many as a disappointing reform package, especially by women's organisations and by women MPs in the Social Democratic and Liberal Democratic parties. The bill was nevertheless adopted by the upper chamber of Parliament, the Council of States in March 1991. According to the standard procedure, it was subsequently examined by the Parliamentary Commission for Social Security of the National Council (the lower chamber) in April 1991. Some members of the Commission were clearly unsatisfied with the bill, as it did not include provision for individual pensions regardless of marital status nor contribution-sharing between spouses. As a result, the Commission requested the Federal Office for Social Insurance (OFAS) to produce a report which would explore the technical issues involved in the introduction of a contribution-sharing system. The report was to be based on the three proposals made by the Federal Commission for Women's issues (1988), by the PRD (1988) and by the Socialist Party jointly with the Unions (PSS/USS 1987).

The report was published in August 1991 (OFAS 1991) and was debated by the Commission in September of the same year. It did not make practical proposals but provided simply a comparison of the three documents published in 1987/88 and outlined a number of problems, such as provision for couples with one member abroad, which could not be treated satisfactorily by any of the three systems suggested. On that occasion, two members of the commission, Gret Haller (PSS) and Lili Nabholz (PRD) suggested setting up a working group with the task to elaborate a viable proposal for the introduction of a contribution-sharing system. The working group included MPs of the main political parties[16] and convened seven times. It produced a final report that was published in March 1992 (*Groupe de travail 'splitting'* 1992).

This document was examined by the social security commission of the National Council which on that basis was going to draft a new version of the pension reform

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[16] The composition of the working group was a enlarged form of the "magic formula" of the Federal Council (government). It included 2 PSS, 2 PDC, 2 PRD, 1 UDC , 1 AdI, 1 Green Party , and 1 PLS. The President was Heinz Allenspach (PRD) who was also president of the Social Security Commission and the two MPs who initiated the debate on the Splitting system within the Commission (Gret Haller and Lily Nabholz) were also member of the working group.

bill that would have been subsequently submitted to parliament. What happened within the social security commission is not entirely clear since the proceedings of the commission's debates are not disclosed. Nevertheless, by looking at the debates that took place afterwards in Parliament (which, in contrast are transcribed and available for consultation), one can reconstruct the dynamics of decision-making within the Commission with a fair degree of approximation. This is of great importance, since it was there that the proposals which subsequently became law were first elaborated.

The president of the Social Security Commission presented its final report in parliament in March 1993 (BOAF. CN 103, 9/3/93). The proposal picked up heavily from the work of the *Groupe de Travail 'splitting'* which had been published the previous year. The new version of the bill included the notion of an individual entitlement to a pension regardless of gender and of marital status. As suggested in the papers published by the main political parties in the late 1980s, the contribution records of two spouses while married was to be summed, divided by two, and counted half for each of the two spouses. In order not to penalise one earner couples, a generous credit for couples with children was introduced. In addition, however, the report included provision for raising the retirement age for women from 62 to 64.

There was substantial agreement among the main political parties on the introduction of a contribution-sharing system for contributions paid by spouses. Only the Christian-Democrats were somewhat sceptical initially, but by 1993 they came to accept the predominant view. The government, which in its 1990 bill argued that the introduction of a contribution-sharing and individual pensions was premature, rallied to the majority's view and accepted the substantial changes made by parliament. The position of the Federal Council on the changes adopted by parliament was expressed by Flavio Cotti as follows:

> 'The Federal Council welcomes the changes introduced by the National Council, except some reservation with regard to the question of raising the age of retirement for women. However, if Parliament decides to

take this stance, the Federal Council is not going to oppose it' (BOAF. CN, 103, 6/3/1993).

A major problem which occurred as a result of the introduction of contribution sharing for married couples, was that one-earner couples were going to end up with two individual pensions which when combined, could be lower than a current couple pension.[17] However, in each of the three initial reports and subsequent proposals, provision was made to reduce the incidence of the abolition of a couple pension. There was an overall agreement on the view that the best way to do that was through the introduction of a contribution credit for persons who are not engaged in paid work in order to take care of children or relatives. The three initial reports, however, came up with three different proposals as to how the credit system should work. The joint report PSS/USS (1987) argued that the contribution credit should correspond to at least the contribution amount paid on a salary equal to three times the minimum pension (in 1992 Sfr 32,400 p.a.), as long as the couple has at least one child under the age of 16. The Commission for Women's Issues, in contrast, suggested a 20% increase in the retirement pension for people who have taken care of children or relatives for at least 15 years. For shorter periods the amount would be reduced correspondingly (CFQF 1988). Finally, the Liberal-Democrats, although in favour of the principle, suggested to leave to the Federal Council the task of working out the details of the credit system. The *Groupe de Travail 'Splitting'* (1992: 9) picked up the proposal made in the PSS/USS joint report, which was carried through by the social security commission , accepted by parliament and is now law.

The most controversial issue, however, was certainly that of retirement age. As the overall aim of the pension reform was to achieve gender equality, it was generally accepted that equality should have been applied to retirement age as well as to other areas. However, in the 1990 pension reform bill, the government argued that given the persistence of substantial discrimination in the labour market at the expense of

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[17] A couple pension corresponds to 150% of a single person pension. If the contribution record of the husband is split between the two partners, they will receive a pension worth 50% of a single person pension each. As there is no supplement for being a couple, one earner-couples would be disadvantaged.

women (wages, access to occupational pensions, and so forth)[18], the difference in retirement age was justified for the time being, and the issue would have been dealt with in the next (the 11th) revision of the AVS pension scheme (FF, vol.2, 1990: 1-231). This reflected to some extent the position of the Christian-Democrats, who also argued in favour of a common retirement age of 64 to be phased in within the context of the 11th AVS revision (PDC 1988: 11). In contrast, the joint PSS/USS report (1987) suggested the introduction of a flexible age of retirement between 62 and 65, for both sexes. Early retirement would be possible without reductions in the level of the benefit, but conditional upon giving up work (at least 50%). Finally, the Liberal-Democrats advocated a common retirement age of 65, with provision for early retirement from the age of 62, but with a reduction of 6.8% in the level of the benefit for each year of anticipation. The choice was justified with the need to achieve savings in the light of the expected increase in pension expenditure due to demographic ageing (PRD 1988). Finally, the Federal Commission for Women's Issues, which included members of all the above parties, suggested by a weak majority, to raise the age of retirement for women, but did not specify at what age; and introduce provision for early retirement from the age of 60, with a reduction in the level of the benefit equal to 6.8% per year of anticipation (CFQF 1988).

The *Groupe de travail 'splitting'* did not take a position on the issue of retirement age. This would not have been within its mandate. In fact, it was within the social security commission of the National Council that the final arrangement (65/64) was adopted[19]. As mentioned above, it is not possible to have access to the proceedings of Parliamentary commissions. However, by looking at the positions expressed before the examination of the proposals by the commission, and at the parliamentary debate which followed the presentation of the final report on the 6th of March 1993, it is possible to find out what the debates might have been like within the commission.

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[18] While occupational pension coverage for men is virtually universal, only about 80% of women are currently covered (OFAS 1995b). This is because women are more likely to earn less than the limit above which occupational pensions become compulsory. With regard to gender-based wage discrimination, see Bauer 1994.

[19] The Commission was composed of 29 members of the National Council. Its president was Heinz Allenspach (PRD) who was also president of the umbrella organisation of Swiss employers (UCAPS) The Commission accepted the final report with a majority of 23 to 3 (and 3 abstentions)

During the parliamentary debate, a number of conservative MPs[20] suggested that the bill be referred back to the Commission (or to the Federal Council) for consideration of a flat rate benefit. This would have eliminated the relationship between contributions and benefits and thus the need for a complex splitting system and contribution credit. The majority of the National Council, however, agreed to keep the Commission's proposal as a basis for discussion.

The vote was carried out on an article by article basis, without encountering any serious problem, with the exception, of course, of the issue of whether or not to raise retirement age for women. The report adopted by the majority of the Commission had argued that:

> 'the constitutional article on gender equality requires that the age of retirement be the same for man and women' in addition, 'since the proposals made by this Commission eliminate differences based on gender [...]. one cannot deny the need for equalising the age of retirement for men and women [...] . Finally , there is no doubt that because of demographic ageing a balanced budget for the AVS is not guaranteed in the long term' (BOAF. CN. 103, 9/3/93, pp. 222).

The Commission gave basically two reasons for raising the age of retirement for women: compliance with the constitutional requirement of gender equality and achievement of some savings in view of the predicted worsening of the contributors/beneficiaries ratio within the state pension scheme. The decision to adopt a retirement age of 64 for women, however, was not taken unanimously. In fact, the National Council had to vote four different proposals on this issue. Besides the majority proposal which was included in the final report, there were three minority proposals. The first was supported by the Socialists and consisted of a flexible retirement age for men and women between 62 and 65, without reduction in the level of benefit but conditional upon giving up work. It was the same proposal which had been presented in the joint document PSS/USS published in

[20] This was the case of Walter Frei (PDC), Hugo Wick (PDC) and Toni Bortoluzzi of the ex-farmers' party (UDC)

1987. The second minority proposal was supported again by the Social-Democrats and by a Christian-Democrat. In case of the first minority proposal not being accepted, it requested to leave thing as they are, i.e. to have a differentiated age of retirement for men and women at 65/62. There was a third minority proposal, which came from the right-end of the political spectrum. It was supported by MPs of the UDC (ex-farmer's party) and by some right-wing MPs of smaller parties and intended to equalise the age of retirement at 65. Unsurprisingly, the National Council chose the majority proposal, which in some respect, however, represents a compromise between the different options examined. It should be noted, in fact, that the then majority party, the PRD initially supported a common retirement age of 65, but within the Commission it was decided to adopt a 65/64 arrangement.

The bill was then examined by the upper chamber, the Council of States, where it was subject to some minor changes, and was subsequntly debated a number of times in both chambers until the two could agree on a common version. The decision of the USS to call a referendum because of the increase in the age of retirement for women was made clear from the beginning, i.e. when the commission's proposal was presented in the National Council. As a result, both chambers tried to devise a new compromise which could have persuaded the trade unions to abandon their plans to call a referendum. First, in the Council of States, it was decided to adopt a smother transition period. For the first 4 years after the adoption of the new law, it was going to be possible to retire at 62 without any reduction in the benefit, and for the next 8 years, to take early retirement from 62 with a reduction of 3.4% per year of anticipation. The full reduction rate of 6.8% (actuarially determined) would be in force only 12 years after the adoption of the pension bill. (BOAF. CdE. 104, 8/6/94, pp. 546-612). The compromise was accepted also by the National Council, but was not regarded as sufficient by the unions, who persisted on the idea of calling a referendum. A second attempt to avoid the referendum was made within the Social Security Commission of the National Council. A majority of the Commission's members suggested to differentiate in retirement age for women, according to whether one was still working in the five-year period before 62 or not. If that was the case, then retirement would have been possible at 62 without reduction until 2005, and thereafter at 63, always without reduction. This last attempt to reach compromise, despite its complexity, did not manage to persuade the unions either. As a result, the PRD and the PDC, whose members had approved the proposal made by the commission, withdrew their support and the amendment was eventually abandoned.

The referendum represented a big issue, especially within the left, because the new law included provision on gender equality that the left (both the PSS and the unions) had been backing for a long time. The introduction of a generous credit for taking care of a child or a relative was also seen as an important social advance, since it constituted a powerful recognition of the unpaid caring work carried out mainly by women. The other side of the coin was, of course, the increase in retirement age for women to 64, which was seen as unacceptable by the trade unions and by the PSS. This was against what the left had been arguing recently, i.e. that there should be a tendency towards lowering the age of retirement, in order to free up jobs for the unemployed. The left, as seen above, was in favour of a flexible retirement age between 62 and 65, regardless of sex and without reduction in the level of the pension. This combination of elements which were strongly supported and other elements which in contrast were powerfully opposed in a single bill constituted a big dilemma for the left (Interview USS 3/5/96). Referendums, in fact, can only be called on an entire bill, not on parts of it.

A last minute attempt to find a way round was made in Parliament in September 1994. The trade unionist and Socialist MP Christiane Brunner, speaking on behalf of a minority of the Social Security Commission, proposed to split the pension reform into two different acts. One included the articles on contribution credits and on contribution-sharing for couples, while the second was only on the increase in retirement age. This would have made possible to call a referendum only on retirement age, without taking the risk, in case of rejection, to postpone the introduction of gender equality, perhaps indefinitely. The proposal was repelled by the two other main parties (PDC and PRD) and was defeated, although it managed to attract the votes of some Liberal-Democrats and Christian-Democrats (BOAF. CN. 104, 21/9/1994 pp. 1342-1368).

The above analysis of the policy-making process in the area of pensions shows quite powerfully the centripetal pressure exercised by the referendum threat. Up to the last days before the final vote by Parliament, concessions were made to convince the unions to drop their plan to call a referendum, though unsuccessfully. This, in spite of the fact that acceptance by parliament of the bill did not represent a problem for the right-wing majority. In addition, upon closer scrutiny, the policy-making process which led to the adoption of the 1995 pension reform, contains various elements of compromise between the different actors. The shape of final legislation was influenced by the proposals made by the Socialists and the Liberal-Democrats, with the exception, of course, of retirement age. The latter was imposed by the right-wing majority, and constituted, perhaps, a compromise between the PRD, who supported immediate equalisation at 65 and the PDC who advocated equalisation at 64 in the next reform. The fact that the new retirement age of 65/64 will be phased in over a 12-year period supports this interpretation. The 1995 pension reform was not adopted consensually, nevertheless, the fact that each relevant actor had managed to get some of its priorities included in the proposed legislation, was going to strengthen the bill *vis-à-vis* the referendum challenge.

The referendum

The decision to call a referendum was taken jointly by the federation of Swiss Unions (USS) and by the Christian unions (CSC). For the USS, the inclusion of an increased retirement age for women could not be accepted. In fact, the general trend in USS pension policy was towards a reduction in retirement age. The USS (together with the PSS) had previously collected signatures for an initiative which proposed, among other things, the introduction of a flexible retirement age for men and women between 62 and 65 without reduction of benefit, but conditional upon giving up work[21]. For this reason it was not conceivable for the unions to accept an increase in women's retirement age. On the other hand, however, if the bill was to be defeated in a referendum, also the improvements of provision for women would have been rejected, and these had been long advocated by the unions. To avoid this

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[21] The vote on the USS/PSS initiative took place on the same day as the pension reform referendum (25/6/96). The proposal and was rejected by 72% of voters.

dilemma, the USS and the CSC decided to collect the 50,000 signatures needed to call a referendum, but at the same time, to call a second referendum (initiative) with the aim of introducing, after the possible defeat of the pension bill in the referendum, what they regarded as the 'good' elements of the 1995 pension reform, i.e. contribution-sharing and credits (interview USS 1/5/96).

A similar dilemma faced the leadership of the Socialist party. They too were against raising retirement age for women, but this was not the point any longer. In fact, the referendum was going to be on the whole bill, so that a division within the party emerged as to whether the good elements of the reform outweighed the bad ones, or vice versa (PSS 1995). The situation of the PSS was further complicated by the fact that the minister responsible for social security was now Ruth Dreyfuss, a Socialist, who had to comply with the majority view of the government. Her view on the issue was the following:

> 'It is most unfortunate that the issue of raising women's retirement age has been tied to the improvements of the pension reform [...] I keep on thinking that this measure was not needed in this reform. Nevertheless, my support for the reform is based on a conviction that the positive elements of the reform outweigh the negative ones' (Dreyfuss, in TSR 1995).

The leadership of the Socialist party decided to deal with the dilemma by consulting party members. Some 30% of them took part to a ballot, of whom 66% were in favour of the reform (*Sécurité sociale* 2/1995: 59). The result was that the official voting recommendation of the PSS was to accept the 1995 pension reform.

For other parties and organisations the decision on whether to support or not the referendum was a fairly straightforward one. In general, all other main parties had supported the reform in Parliament, so that they were going to recommend to back the pension bill to their supporters. Similarly, the two main employers associations (the UCAPS and the USCI) favoured the new pension bill. Women's organisations were divided, those more left-wing oriented being against and their right-wing counterparts being in favour of the pension bill. The overall picture before the referendum, was one where the unions were mainly alone in fighting the pension bill. Nevertheless there was some concern among federal authorities that the bill could be defeated in the referendum. According to a civil servant, there was concern that conservative-catholic voters might join the unions in rejecting the proposal, as the conception of the family on which the new law was based did not reflect traditional views on gender roles (interview OFAS 25/4/96). Concern for the outcome of the referendum was also reflected by the important campaign launched by the federal office of social insurance through its periodical *Sécurité sociale*. Almost half of the 2/1995 issue addressed the pension reform, and included articles by Ruth Dreyfuss and Walter Seiler, then director of the office, in support of the bill.

The vote took place on the 25th of June 1995. The turnout was of 40.4%, which is the norm[22] and saw a relatively clear prevalence of those in favour of the bill (60.7%). There were cantonal variations though, as the bill was accepted in all German-speaking cantons but was rejected in four out of six French-speaking cantons and in the Italian canton. According to an opinion poll carried out just after the vote, the best predictor of voters behaviour was not language but party preference. Among those who said they supported one of the three right-wing government parties (PRD, PDC and UDC), the proportion of yes voters was some 10 percentage points higher than the average (Vox 1995). The survey inquired also about the reasons given for voting yes or no in the referendum. The results are reported in table 5.4.

[22]Depending on the year, the average turnout at referendums is between 35% and 45% (Kriesi 1995: 114).

Table 5.4. Reasons for accepting or rejecting the 1995 pension reform in the referendum (spontaneous replies, multiple answers were possible)

REASONS FOR VOTING 'YES'	%	REASONS FOR VOTING 'NO'	%
1. It is a general improvement	25	1. Higher retirement age for women	59
2. Higher retirement age for women	10	2. Unemployment	20
3. Gender equality	17	2. It is a drawback	10
4. Contribution splitting	14	4. Was not necessary	3
5. Contribution credits	15		
6. Savings	6		
7. Recommended by government	8		

Source: Vox 1995

As table 5.4 shows, the main division in the electorate was between those who believed that the positive aspects outweighed the negative ones on the 'yes' side, and those who believed the opposite on the 'no' side. The reasons given by a clear majority of 'yes' voters concern the improvement side of the bill (items 1,3,4 and 5). According to the poll, only a minority would have supported the bill regardless of the presence of these improvements (items 2,6 and 7). The bill would have encountered stronger opposition if it had not included elements which were widely regarded as improvements.

Conversely, among 'no' voters, the main reason for opposing the bill was, overwhelmingly, the increase in women's retirement age (59%). Items 2 and 3 in fact refer to the same reason, as an increase in retirement age is expected have an impact on unemployment. The 'unholy' alliance between the left and Catholic-conservative voters, feared by federal authorities, did not take place. Only 3% of 'no' voters rejected the bill on grounds that it was not needed, the only item which might imply a preference for the traditional vision of the married couple upheld by the pre-reform system.

Data from table 5.4 suggests that an increase in retirement age for women, adopted independently from the improvement side of the bill would have been at a much higher risk of being defeated in a referendum. What made possible the only retrenchment element of the reform was its combination with a series of improvements. This conclusion must be taken carefully, though, because we have no guarantee that respondents replied with their genuine motives. Possibly, they might have followed the recommendation of their party or group of reference and subsequently rationalised their choice backing it up with a sensible argument[23]. However, the fact that, always according to the same opinion polls some 30%[24] of voters who said they identified with one of the three right-wing government parties voted against the bill, lends support to the hypothesis that an increase in women's retirement age would not have been accepted if not accompanied by improvements.

5.4. KEY ELEMENTS OF THE 1995 PENSION REFORM

As anticipated in the previous sections, the 1995 pension reform includes three main elements: the introduction of a contribution sharing system for married couples, of contribution credits for informal care providers, and the increase in women's retirement age. In this section, I will look at the details of these measures.

Contribution sharing system

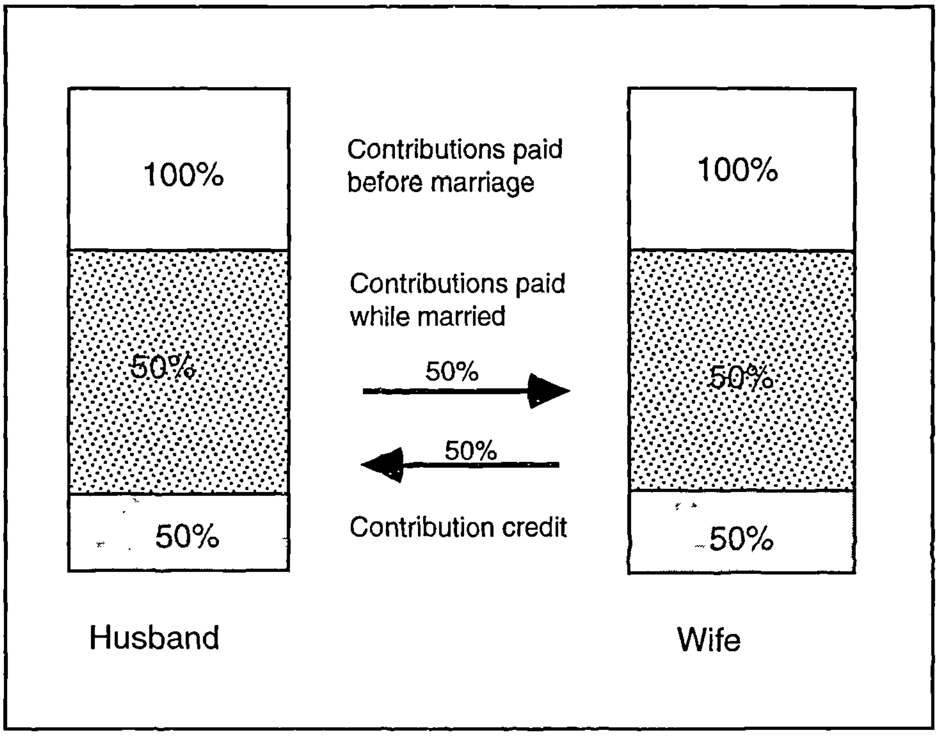
This is perhaps the most innovative and element of the 1995 pension reform. The basis of the sharing system is the introduction of an individual entitlement to a pension regardless of gender and marital status and the computation of half of contributions paid by a married couple for each spouse individually. This implies the abolition of the couple pension, as from now on each of the two spouses will be entitled to an individual pension. The way the splitting system works is shown in figure 5.1. Contributions paid before marriage are counted 100% for each of the

[23]The validity of this interpretation depends also on the reliability of opinion poll results. Interestingly, the proportion of 'yes' voters found in the opinion poll (59.5%) is very close to the actual referendum outcome (60.7%). This is not always the case as differences of up to 10 percentage points can be found. This suggests that respondents had relatively strong views on how to vote and felt that their choice was legitimate, which arguably strengthen the findings of the opinion poll.

[24]This is a rather high rate of 'party indiscipline' among referendum voters. According to a study the average percentage of voters who do not follow party recommendations in referendums is of 12.5% (Papadopoulos 1996: 30)

two spouses; contributions paid by either of them during marriage are counted 50% for each, as well as contribution credits.

Figure 5.1.: The Contribution sharing system



There were two main problems with the introduction of contribution sharing and the abolition of a couple pension. On the one hand, one-earner couples were going to be penalised, because instead of a couple pension worth 150% of the husband's entitlement, they were going to receive two individual pensions, each based on 50% of the husband's contribution record, which in any case was going to be lower than a former couple pension. On the other hand, the new system was going to favour two earners couples, as again a couple pension of 150% of the husbands entitlement was going to be replaced by two individual pensions worth up to 100% of the husband's entitlement (assuming similar career pattern and earnings between the two).

Two elements were introduced to deal with this issue. The situation of one-earner couples was improved with the introduction of a relatively generous contribution credit for those providing informal care, while it was decided to introduce a ceiling for couples with both spouses receiving a pension corresponding to 150% of the maximum pension. Since the ceiling is based on the maximum pension, this measure affects mainly couples on high earnings. It should be noted that one-earner couples without children and which are not taking care of elderly or disabled relatives are in fact disadvantaged by the contribution sharing system.

Contribution credits

Contribution credits are granted to persons with children or providing other sorts of informal care (for instance to an elderly or a disabled relative). The amount credited corresponds to the contributions paid on a salary equal to 3 times the minimum pension, or 54% of average earnings. The credit is granted irrespective of whether the carer(s) give(s) up work. In the case of children, the credit is granted for as long as the household includes persons below the age of 16. Like actual contributions, the contribution credit is split between the members of a couple (see figure 5.1).

It should be noted that the impact of the credit is higher for one-earner couples and for couples with low earnings. As earnings increase, its impact decreases. In the case of a couple in which both members earn 107% of average earnings or more, contribution credits do not add anything to their pension entitlements, because both spouses receive the maximum pension anyway.

Retirement age

The retirement age for women was raised from 62 to 64. This will be achieved over a relatively long transition period. The new pension legislation came into force in January 1997, but until 2000 women will be able to retire at 62 without any loss in the level of their benefit. Between 2001 and 2004 the standard retirement age for women will be 63, but it will be possible to retire at 62 with a reduction of 3.4% in the level of the benefit. Between 2005 and 2008 the standard retirement age for women will be 64, though it will be possible to retire at 62 or at 63, always with a 3.4% reduction of the pension per year of anticipation. The transition period will end in 2009. Then the retirement age will be 64, and early retirement will still be possible, but with a reduction of 6.8% in the level of the benefit, which corresponds to the actuarially determined rate. Early retirement is possible for men as well, though with a reduction rate of 6.8% per year of anticipation since its introduction.

The fact that the increase in women's retirement age is going to be phased in over a relatively long period of time means that the financial impact of the 1995 pension reform will be an increase in expenditure for the first few years. In fact, the improvements (contribution sharing and credits) come into force immediately. Nevertheless, by 2009, when the standard retirement age for women will have reached 64, the overall impact of the reform will be to generate annual savings of Sfr 142 million (at 1993 prices), which corresponds to 0.6% of 1993 outlays. During the transitional period, however, additional costs are expected to amount to some Sfr 9 billion (OFAS 1995a: 82-83). In the long run, thus, the overall impact of the reform is cost neutral.

5.5. CONSENSUS DEMOCRACY AND THE POLITICS OF WELFARE RETRENCHMENT

One of the key questions emerging from the analysis of the Swiss case is whether it is possible to reach viable compromises on the adoption of retrenchment measures of social insurance schemes. As seen above, the extent and the degree of influence that institutions allow to external interest, means that the Swiss political machine can function conveniently only if policy-makers are able to generate a generalised consensus on their policy proposals. In the past, during the expansion phase of the AVS pension scheme, it was certainly easier to achieve consensus among the relevant actors. Between 1950 and 1979, the AVS scheme was reformed nine times. These reforms consisted mainly of improvements in the generosity of the scheme. Interestingly, out of nine reforms, only one (the 9th) was challenged by a referendum. The other reforms were adopted without serious controversy and in four cases by unanimous vote in both chambers of parliament. Improvements in the quality of pensions were highly popular with the electorate, so that it was in the interests of political actors to be associated with these widely supported reforms.

In contrast, the current phase of retrenchment takes place at a time when the public has got used to high standards of welfare provision. Policy-makers find it difficult to reconcile the level of public expectation with budgetary constraints. As a result, retrenchment policies tend to be more unpopular than expansion ones. As Pierson put it, retrenchment constitutes 'an exercise in blame avoidance' (1994:2). The politics of retrenchment is different from the politics of expansion also with regard to the impact it has on broad coalition formation patterns. In the past, the overall popularity of measures aimed at improving the coverage of social programmes was a powerful incentive for political actors to be part of the pro-expansion coalition. Policy-makers of different orientations had a clear interest in being associated with widely supported reforms, as this made electoral reward likely. In contrast, when policy change entails unpopular measures it is rational for actors who want to maximise their public support to abandon the pro-retrenchment coalition. This mechanism, which certainly played a role in the process which led to the adoption of the 1995 pension reform, is of crucial importance in the Swiss context, where, because of the institutional structure, policy change requires the support of large coalitions of parties and interest groups.

As seen above (5.1), the Swiss inclination for consensual politics has been widely interpreted as the result of a particular institutional environment, which grants to minorities the opportunity to intervene at various stages of the law-making process. If this interpretation is correct, the inadequacy of the standard consensus building procedure to deal with current issues in the area of social policy, cannot be dealt with through the introduction of a majoritarian form of policy-making. Swiss institutions, in particular the referendum, do not allow a majority government to rule effectively. As a result, it becomes relevant to address the question of what will replace the consensual approach to policy, if its most widespread alternative, majoritarian policy-making, does not seem to be an available option for Switzerland?

The analysis of the process which led to the adoption of the 1995 pension reform is instructive in this respect. The standard decision-making procedures were unable to produce a compromise which could be regarded as satisfactory by all key actors. The 1990 pension bill, subsequently radically reviewed by parliament, constituted the minimum common denominator of the objectives of the main political actors. The government, because of its composition (ministers belonging to 4 different parties), and because of the well established practice of taking decisions collegially, seems to have been unable to come up with anything more than the minimum change required in order to comply with the constitutional article for gender equality. The result was that while being acceptable to all relevant parts, the bill was widely regarded as unsatisfactory, as it did not include provision for individual pensions regardless of gender and marital status. After 1990, the pension bill became the responsibility of parliament, which, in comparison to the government, is a much more majoritarian institution. There, within the Social Security Commission of the National Council, a more far reaching version of the reform was elaborated. But consensus was lost. Change was brought about by a short-lived coalition between the Socialists and the Liberal-Democrats, who agreed on the principle of introducing a contribution sharing and credit system. Nevertheless, they disagreed on whether or not additional cost should be compensated by an increase in women's retirement age. The result was that while the first part of the new pension bill, i.e. contribution splitting and credits, were supported by virtually all political parties, its second part, the increase in women's retirement age to 64, was imposed by the right-wing majority.

The two measures, however, were included in a single piece of legislation. As a result, the left was unable to challenge the one element of retrenchment, the increase in women's retirement age, without taking the risk of undermining the parts of the bill it supported. The combination of elements of retrenchment and expansion in a single piece of legislation was imposed by the right-wing parliamentary majority against the will of the left. This strategy, of combining different components in a single act, can be regarded as a substitute for consensus. The bill, in fact, included a retrenchment element which satisfied the right-wing majority. At the same time, however, it also comprised widely supported expansion measures. The result was that in the referendum, the combination of these two elements was likely to be supported more widely than the simple adoption of a higher retirement age for women.

The opinion poll carried out on the referendum (Vox 1995, see above table 5.4) indicates that only 10% of those who voted 'yes' did so because they supported a higher retirement age for women. In contrast, at least 59% of those who voted 'no' did so because they were against that measure. This suggests, quite powerfully, that it would have been much more difficult for the majority to get an increase in retirement age alone accepted in a referendum. The combination of measures of different nature in a single reform contributed to widen its support basis, and thus to its success at the polls. In addition, this strategy proved an effective tool for blame avoidance for the right-wing majority, who were able to avoid to be identified as retrenchers. In fact, media exposure of a bill is highest during the referendum campaign. At this stage, retrenchment advocates can focus their support on the popular parts of the bill, and do not need to a openly argue in favour the unpopular ones. This is precisely what happened in the referendum on the 1995 pension reform. The right-wing majority was able to campaign in favour of the reform, without explicitly supporting the increase in women's retirement age. It is instructive to point out that the organisers of a televised debate on the pension reform referendum were unable to find a speaker who would argue in favour of raising retirement age for women *per se* (TSR, 10/6/95). Those who were responsible for the introduction of this measure in the bill were now arguing that perhaps a higher retirement age for women was not particularly desirable, but, as it was part of a wider reform, it had to be accepted since the remaining measures were highly positive and badly needed.

It seems thus, that despite the change in the direction of policy, institutions are still exerting a significant impact on Swiss policy-making. The pressures for consensus remain strong. This was shown by the several attempts made to avoid the referendum and, perhaps, also by the apparently odd decision to chose a retirement age of 65/64, which still does not comply with gender equality. When the referendum became inevitable, then the right-wing majority had to maximise the chances of winning it, hence their refusal to go along with the proposal of dividing the reform into two different pieces of legislation and take separate votes. The combination of expansion and retrenchment within a single piece of legislation proved an effective strategy for the right-wing majority to deal with the uncertainty constituted by the referendum and to obtain the adoption of an element of retrenchment.

Chapter 6

FRANCE: THE SEARCH FOR AN ELUSIVE CONSENSUS

As far as theory is concerned, France is probably the most interesting case among those covered by this study. Policy-makers unintentionally created ideal conditions for testing hypotheses concerning the determinants of pension policy and the factors that favour or hamper success in pension reform. In the space of only two years, two very similar plans for pension reform were put forward. The first one concerned only private sector employees and was successfully transformed into law in summer 1993. The second one, in 1995, consisted of the extension of the same measures to public sector employees. It generated a massive wave of strikes, mainly among rail workers, and as a result the government was forced to withdraw its plan.

In this chapter, I try to answer the question of why two very similar plans for the reform of pensions generated such different public reactions. In line with the theoretical approach adopted in this study, particular attention is paid to institutional factors, though other possibile explanations are also considered.

6.1. INSTITUTIONS AND PATTERNS OF POLICY MAKING

Political scientists have generally considered France as a country where policy-making is characterised by a substantial degree of centralisation. Typically, public policy is decided at the top with little or no negotiation with external interests. In his comprehensive study of interest-group politics in France, Wilson has pointed out that, albeit with some exceptions, the relationship between the state and organised interests in France is characterised by 'a power situation of a state capable of resisting interests and proceeding with its own ends regardless of group pressures' (Wilson 1987: 238). This view is reflected in the literature on corporatism, which typically views France as a counter-example. Lijphart and

Crepaz, in their review of expert opinion on the degree of corporatism in various countries, found that France is most often considered as one of the least corporatist countries (1991: 240). Tripartite negotiations between employers, trade unions and the government in the areas of social and economic policy did not develop in France as they did in other European countries.

The absence of corporatist practices in France has been explained with reference to the asymmetry of power between, on the one hand, the state and organised interests on the other (Kriesi 1994; Merrien 1991). As seen in chapter 2, a key pre-condition for corporatism is a relatively balanced power relationship between the various institutional and socio-economic actors which interact in the policy-making process. Such balanced relationship cannot be found in France. Historically, the modern French state is the result of a long cumulative process of power concentration within the top level of the bureaucratic apparatus. (Badie and Birnbaum 1979). Economic development was to a very large extent instigated by the state, during both the industrial revolution and the post war boom. After War World II, planning was adopted as a standard instrument of economic policy and had, until the mid-1970s, an effective impact on the French economy (Hall 1986: 140ff). In addition, the existence of a relatively large state owned industrial and financial sector has further increased the grip of the state on society and on the economy. Finally, the creation in 1945 of a specialised school (ENA - *Ecole Nationale d' Administration*) where virtually all top civil servants are educated, guarantees a community of background and views among bureaucrats.

It should be stressed that the use of the term 'state' instead of 'government' is not incidental. Power is not always concentrated in the hands of the government, as substantial influence is exerted by a few top layers of officials within the civil service. While carrying out the interviews needed for this study, I was impressed by the ease with which high rank officials of the Ministry of Social Affairs were openly critical of current government policy. To some extent, the impression they gave was that they believed themselves to be the ones who knew what needed to be done in order to deal with the relevant issues. They considered themselves to be aware of the general interest, while all other actors, like trade unions, employers and politicians, were seen to be after their own. This attitude is in sharp contrast with what I was able to observe in Switzerland and in the UK, where the obedience and respect of civil servants for the respective governments seemed much more substantial .

On the other hand, organised interests cannot match the impressive level of power resources available to the state. First, with regard to labour, France has one of the lowest unionisation rates in the Western world. While the exact number of unionised employees is not known, it is believed to be between 10% and 14% of the workforce (Join-Lambert 1994: 110). In addition, the labour movement is divided along ideological lines. As a result, there are five major national federations of trade unions, which operate independently from each other. The divisions reflect the political spectrum. Starting from the left, the *Confédération Générale du Travail* (CGT) is of Communist inspiration. *Force Ouvrière* (FO) originated from a division within the CGT in 1947 and constitutes its non-Communist component (it is sometimes referred to as CGT-FO). The *Confédération Française des Travailleurs Chrétiens* (CFTC) is a federation of Catholic unions. Finally, the *Confédération Française Démocratique des Travailleurs* (CFDT), emerged from a division of the CFTC and constitutes the non-religious component. In recent years it has been much more cooperative with the government than its counterparts. Finally, there is also a federation representing managers (CFE-CGC *Confédération Française de l'Encadrement - Confédération Générale des Cadres*).

On the employers' side, interest representation is more integrated, as the only division is between large companies belonging to the *Conseil National du Patronnat Français* (CNPF) and small and medium size firms (CGPME). The CNPF, however, because it represents companies with a wide range of different and possibly conflicting interests, is effective only in defending basic and common interests of French employers. That is why large firms rely more on individual lobbying rather than representation through the CNPF. The result is of course a substantial weakening of the institution (Kriesi 1994).

France thus, with a strong state and a weak and fragmented system of interest intermediation, lacks the preconditions needed in order to establish corporatist practices. Organised interests are consulted selectively, and their position is not seen as a basis for negotiation. Policy is imposed by the central government. Among the consequences of this approach to policy-making is the inability of the government to exert some sort of control over the reactions of the public to its decisions. This, coupled with an extraordinary mobilising capacity of the trade unions, explains the relative frequent occurrence of protest movements, which on occasions have been rather effective in forcing the government to abandon unpopular policies.

This analysis of French politics refers to broad and general trends, and it is accurate on that level. However, if one looks at the details of different areas of policy and of various combinations of political contingencies, one will find that this interpretation of the way French politics works, needs to be somewhat nuanced. In the following sections, it will be argued that there are two particular instances, both relevant to the understanding of pension reform politics, in which the interpretation reviewed above does not seem to be entirely satsifactory. This is the case when the two key institutions of the French political system, the presidency and parliament, are controlled by different parties; as well as within the area of social security policy.

The politics of cohabitation

In the French political jargon, the word *cohabitation* refers to a situation in which the President of the Republic and the Prime Minister belong to two different parties. The fact that Parliament and the President are both elected directly and in two different polls makes this possible. The likelihood of having a majority in Parliament and a President belonging to the opposition party is further increased by the fact that presidential and general elections do not occur at the same time and have different political cycles. Parliament is renewed every 5 years while presidential elections are fought every 7 years. The result is that between the two contests there may be substantial swings in public opinion, which can result in a situation of cohabitation.

Since the establishment of the Fifth Republic, cohabitation has occurred three times: first, between 1986 and 1988 with Mitterrand President and Chirac Prime Minister; second, between 1993 and 1995 with Mitterrand President and Balladur Prime Minister and finally, since May 1997 with Chirac President and Jospin Prime Minister. On all these occasions, the power of the French President has been substantially reduced. When President and Prime Minister belong to the same party, it is the former who plays the key role in deciding policy. Prime Ministers are chosen by the President and, since the latter is the key figure within his or her party, there are good chances that the person selected will be supported by parliament. In case of incompatibility emerging between the two figures, the President can always sack the Prime Minister. The result is that, in what is regarded to be the 'normal' situation, the President is the one who decides the orientation of government policy.

The balance of power is reversed when the two figures belong to different parties. In that case, the President has very little influence on the selection of a Prime Minister. Although formally it is always the President who makes this decision, in practice he or she is forced to choose the candidate supported by the majority of parliament. The result is that in times of cohabitation, it is in fact the Prime Minister who determines the general orientation of government policy (Duverger 1987; Bigaut 1995). This was precisely what happened in 1986-1988, when Jacques Chirac was Prime Minister. The latter adopted a series of typically right-wing social and economic policies, such as privatisation of state owned companies and welfare retrenchment. Some of these policies proved extremely unpopular, and certainly contributed to his defeat in the 1988 presidential election. The first cohabitation ended in 1988, when Mitterrand won a second term in office and called an early general election which gave a majority to the left.

This situation was repeated after 1993, when the right-wing coalition won that year's general election. There is little doubt that when Balladur became Prime Minister, a key concern for him was to avoid a repetition of what had happened in 1988. In fact, being himself a presidential candidate for the 1995 election, he could not afford to adopt unpopular measures and thus take the risk to alienate public support. This combination of contingent factors resulted in a situation in which the standard law-making process became impractical for the French government. To impose policies from the top, possibly against the will of external interests, entailed a considerable element of risk. As one commentator put it:

> 'The decision of the Prime Minister [Balladur] to run for President in the 1995 election acted as a brake on the government's action. [...] Edouard Balladur was in a position in which he could not upset too large sections of public opinion. He had to avoid a return to popularity of the Socialists and the loss of legitimacy of his candidature.' (Bigaut 1995: 9)

In fact, during the two years he spent in office as Prime Minister, Balladur renounced to impose controversial measures on a number of occasions. For instance, when the government tried to reduce the level of the statutory minimum wage for young unemployed people a trade union-led protest movement forced the withdrawal of the relevant bill. The same happened with a reform in the education system which would have expanded the private sector as well as with a plan to restructure the state-owned airline *Air France*. In sum, during his term in office, Balladur tried to avoid conflict as much as possible, and seemingly renounced the centralised approach to policy-making that is typical of France. As will be seen below, this particular contingent situation, cohabitation coupled with the upcoming Presidential election, played an important role in determining the government's approach to pension reform.

***The politics of* sécurité sociale**

The structure of the French social security system is relevant to understanding why policy-makers decided to follow a given path to pension reform. To some extent, the position of the different actors within the system determines what their interests are, and creates opportunities for negotiation that do not exist in other countries. A key element in this context is the fact that social insurance in France is managed jointly by the social partners. This affects in a significant way the trade unions - government relationship in matters of social insurance reform. While in most other countries the controversy between government and trade unions concerns mainly the level of provision, in France the issue of who controls the system is also one of paramount importance. Here I will concentrate on the implications of this particular institutional design on the politics of social security. A more detailed description of the French pension system is provided in the next section.

The French social protection system can be characterised as a dual welfare state. Its main component is a wide-ranging social insurance system, referred to as *Sécurité sociale*[1]. It is almost entirely financed through employment-related contributions and provides earnings-related benefits. *Sécurité sociale*, in theory at least, works according to the principles of social insurance, which implies a relatively strong connection between what one pays into the system (contributions) and what one gets out of it (benefits)[2].

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[1] *Sécurité sociale* provides coverage for health care, basic pension and family benefits. Unemployment insurance was set up at a later stage (1959) and is not part of the social security. Its organisational structure, however, is very similar to that of the main system, as it is also managed jointly by the social partners, contribution financed and grants contributory benefits.
[2] For an informed discussion on the principles of social insurance, see Clasen 1997

The second component of the French welfare state, which is referred to as *solidarité nationale*, consists of non-contributory schemes, generally designed to cater for those who have been unable to build up an adequate contribution record. The distinction between the two systems, however, is more theoretical and normative than real. Social insurance schemes have been amended numerous times since 1945, and currently contain elements of both components. This is especially the case with health insurance, where coverage is granted on a non-contributory basis to a number of disadvantaged categories (such as long-term unemployed people), and with the family benefits scheme, which since 1978 has lost its insurance character and now grants universal and means-tested benefits only .

The same is true for pensions. While the bulk of pension expenditure goes to contributory benefits, there are a number of exceptions to the social insurance principle. For instance, older people who do not have a sufficient contribution record to be entitled to what is regarded as an adequate pension, are eligible for an income-tested minimum pension (*minimum de vieillesse*). In addition, there are measures such as contribution credits granted to unemployed persons and parents raising children which are also considered to be alien to social insurance.

Of crucial importance here, is the fact that the social insurance system (*Sécurité sociale*) is managed jointly by employees' and employers' representatives. This is what was agreed in 1945, when the existing system was set up. At that time, it was the trade unions (particularly the CGT, which was dominant) which insisted for this type of arrangements (Guillemard 1986). Since then, the trade unions have always shown a strong attachment to joint management by employers and employees. This is understandable. First, to take part in the management of social security gives the unions an important degree of visibility and of legitimacy in the eyes of public opinion. It has been argued, in fact, that the managerial role played by the unions in social insurance somewhat compensates for their relatively low unionisation rates (Rosanvallon 1995: 81). Second, and not unimportantly, social insurance schemes constitute an important source of employment for trade unions' members.

In contrast, the non-insurance component of the French welfare state (*solidarité nationale)* is considered to be the responsibility of the government. In fact the two systems are generally seen as two different sets of policies, which have to be kept separated. For instance, according to Rosanvallon:

> 'Social insurance should be distinguished from *solidarité nationale* [non-contributory element]: this cry is becoming one of the most widespread platitudes of the end of this century. Everything, from administrative constraints to philosophical uncertainties, is pulling in that direction' (Rosanvallon 1995: 82).

The two components are regarded as two coherent and independent sets of elements. For instance, social insurance has to be strictly contributory, grant earnings related-benefits and is to be managed by the social partners. *Solidarité nationale*, in contrast, is financed through general taxation, managed by the government, and grants non-contributory benefits. This is a relatively widespread normative perception, which, as seen above, is not always strictly followed.

The implementation of the distinction between the two systems, however, becomes problematic because of its political implications[3]. As argued elsewhere (Bonoli and Palier 1997a), governments of different political orientations, have tried to increase their control over the social insurance system. To some extent, increased state control over the system is seen by the government as a precondition for the adoption of successful cost containment measures. Needless to say, such moves are strenuously resisted by the trade unions, who might risk to loose their influence in the management of the system. The conflict between trade unions and the government for the control of the social insurance system has been going on for at least a decade. However, it seems to have reached its climax in recent years, particularly during the 1995 wave of strikes against the Juppé plan, which among other things included provision to extend the control of government over the social insurance.

The organisational structure of French social insurance, and particularly the managerial role played by the unions, has some important implications for the politics of pension reform. First, since social insurance is widely seen as something belonging to the realm of employment (as opposed to a state policy),

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[3] In this respect, France is not a unique case in Europe. In particular debates in Germany on the relative roles of social insurance and non-contributory provision refer to a similar notion of a strict distinction between the two components. There the presence of non-contributory elements within the social insurance system is regarded as a 'alien provision' (*Fremdleistungen*).)

trade unions find it easier to mobilise public opinion on matters relating to social insurance than is the case in other areas of public policy. This undoubtedly puts considerable pressure on the government to adopt a more cooperative approach to reform in the area of social insurance than is the case in other areas of public policy. Second, and most importantly, trade unions have a clear set of demands with regard to the control and the management of social insurance. This allows some additional scope for negotiation and creates the opportunity for non-zero sum games to take place. For instance, the government can trade retrenchment in the level of provision with concessions on the management side of social insurance. As will be seen below, this is precisely what happened in the 1993 pension reform, and arguably what made it politically feasible. A similar *quïd pro quo* was not sought in 1995, hence the failure of Juppé' s attempt to reform public sector pensions.

Policy-making patterns and pension reform

The analysis of pension reform in France put forward in this chapter is based on the hypothesis that two institutional factors played a substantial role in determining the government's approach to change and the fortunes of government policy. First, cohabitation, coupled with the upcoming presidential election, persuaded the right-wing Balladur government to adopt a relatively cooperative stance in the 1993 reform as far as the unions were concerned. Second, the fact that social security is managed by the unions (jointly with employers) gave him the opportunity to trade cutbacks in provision with guarantees concerning the control of the system.

The situation was reversed in 1995 when the Juppé government tried to extend the measures adopted in the 1993 reform to the public sector. The right-wing majority then controlled both the presidency and parliament. With the next general election scheduled for 1998, the government was under no pressure to negotiate with the social partners over the content of pension reform, and it did not. The result, however, was a massive protest movement that eventually forced the government to renounce its plans for public sector pension reform.

6.2. THE FRENCH PENSION SYSTEM[4]

The current structure of the French pension system is characterised by an impressive degree of fragmentation along occupational lines. Its origins go back to 1945, when French social reformers, under the influence of the Beveridge report, set out to create a comprehensive and universal social security system (Kerschen 1995). Their explicit intention was to develop a scheme which would have incorporated all the existing ones, thereby achieving the goal of universality. This ambition, however, proved to be an excessive one. A separate scheme for farmers was accepted from the beginning, given the different socio-economic profile of this group[5]. In addition, immediately after the introduction of the *Régime général,* it became clear that groups already covered by pension arrangements, mainly public sector employees, had no intention to join the newborn social security system, and were allowed to maintain their own. Similarly, various groups of self-employed who felt economically secure enough on their own, declined to join the general scheme (Baldwin 1990: 252-287)

As a result France has a pension system which distinguishes between four large collectivities: waged employees in industry and commerce who are covered by the *régime général* (65%); farmers (3%); public sector employees (20%) and the self-employed (12%). The last two groups, moreover, are further fragmented according to employer or profession. Within the public sector, for instance, there are separate schemes for civil servants; local government employees; miners; rail workers; electricity and gas employees. In general, with the exception of miners, public sector employees enjoy a more generous treatment than their counterparts.

In order to reduce the impracticality of pension fragmentation, a system of 'inter-regime compensation' was introduced in 1974, which consists of actuarially determined cash transfers from schemes with a favourable demographic profile towards those which are worse off. In practice the *régime général* subsidises schemes such as the ones for farmers or for miners, which currently have among

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[4] The following description refers only to basic pensions. In addition, however, most French workers are covered by a second tier of provision known as '*régimes complémentaires*'. Since pension reform affected only basic pensions, these are not treated here. For a good presentation of second-tier pension in France, see Reynaud 1994).

[5] According to Dupeyroux and Prétot (1993: 113), among the key reasons for having a separate scheme for farmers were the unfavourable demographic profile; the individual quality of farming, and the slower growth rate of incomes relative to industry and services, which implies that farmers are unable to contribute to a social insurance system on the same basis as other professions. The scheme, in fact, is heavily subsidised.

their members more retirees than contributors. These cash transfers, however, are supplemented by government subsidies for schemes which have been particularly disadvantaged by socio-economic developments, particularly by low wage growth. (Chatagner 1993: 53; Reynaud 1994: 12).

The régime général (general scheme)
All private sector employees (except in agriculture) are covered by the *régime général.* The scheme is financed through employers' and employees contributions and provides earnings-related benefits. Contributions are 14.75% (employer: 8.2%; employee: 6.55%) of gross salary, with a ceiling[6]; and an additional contribution of 1.6% of gross salary without ceiling for the employer only. With regard to benefits, before the 1993 reform, a full pension of 50% of reference salary was granted to those who had paid contributions for 37.5 years (now 40 years). For shorter contribution records the pension is reduced correspondingly. The reference salary was calculated on the basis of earnings over the last 10 years (now 25).

Retirement age is at 60 for both men and women. However, someone with an inadequate contribution record can go on working until he or she fulfils the qualifying conditions for a full pension, or reaches 65. Those who retire at 65 are entitled to a full pension regardless of their contribution record. For shorter contribution periods, the pension is reduced by 5 percentage points for each missing year. Longer contribution periods, however, are not compensated with higher pensions since the 50% replacement rate is considered as the maximum level. (Dupeyroux and Prétot 1993: 50 ff.).

In addition to contributory pensions, the *régime général* provides means-tested coverage for older persons whose income is below around 55% of an average net wage (Join-Lambert 1994: 365). The means-tested pension, known as the *minimum vieillesse*, is a key source of income for the very old (over 80) and for lone elderly women. Althought it is managed by the *régime général*, the minimum pension is granted regardless of the former occupation of the recipient. Means-tested pensions are used mainly by workers who, because of the late introduction of old age insurance were unable to build up an adequate contribution record. As younger generations have started reaching retirement age,

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[6] The ceiling is set at around 120% of the average net wage (Joint-Lambert 1994: 301)

the number of beneficiaries of the *minimum vieillesse* has fallen dramatically from 2.5 million in 1960 to 1.3 million in 1990 (Livre Blanc 1991: 62).

The régimes spéciaux (separate schemes)

As seen above, the existence of separate schemes comes from the fact that a number of occupational groups who already had pension coverage in 1945, when the current social security system was created, declined to join it. In fact, these schemes constitute the legacy of the first efforts in the area of provision for retirement. Like in other industrial countries among the first groups covered by a pension arrangement were the civil service, seamen, rail workers, gas and electricity workers, and so forth. Separate schemes, which are generally more generous than the general scheme, have not been incorporated into it. At the end of World War II there were some 160 of them. Currently there are about 100, of which only 15 accept new members. Altogether, separate schemes have 4.4 million members and provide pension coverage for some 3 million retirees (Reynaud 1994: 12).

Pension formula and qualifying conditions vary according to the various schemes, but they are generally more generous than it is the case in the general scheme. For instance, the scheme for civil servants uses the last salary as a reference salary, and the pension is calculated as 2% of reference salary per year of contribution. The full pension, granted after 37.5 contribution years, corresponds thus to 75% of the last salary, well above the 50% granted by the general scheme (Reynaud 1994: 12)[7] . Retirement age can also be lower than in the general scheme. For instance, train drivers of the national railways company (SNCF) and of the Parisian underground (RATP) retire at 50; some employees of the national electricity and gas companies at 55 (Dupeyroux and Prétot 1993: 106).

Pressures for change

Concern for the medium and long term financing of pensions emerged as a political issue in the mid-1980s. This was the result of actual deficits in the social security budget but also the consequence of long term demographic projections produced by the statistical service of the French government in 1986. For the first

[7] It should be noted that public sector employees are not covered by a second-tier pension arrangement. The combined replacement rate of first and second tier provision for private sector employees is around 70% for a full contribution record.

time these projections looked at the expected impact of ageing on pension expenditure until 2025. Their conclusion was rather bleak: in 2025, in order to keep the scheme balanced, contributions had to be increased by 170% or, alternatively, benefits had to be halved (Ruellan 1993: 911-912). This report marked the beginning of a long pension debate, characterised by a series of subsequent official reports, mandated by governments of different political orientation, which lead to the 1993 pension reform. These reports are discussed in the next section.

The existence of deficits in the social security budget, which are mainly due to the health insurance and old age pension branch of the system, is seen as a short term problem which has to be solved rapidly. The social security schemes, which are not included in the general government budget, cannot borrow to finance current expenditure (Hirsch 1993: 52). In the past, in case of a budget deficit, the equilibrium between receipts and outlays was generally restored by increasing contribution rates. For instance, in 1986, the employee contribution to the basic pension scheme was raised by 0.7 percentage points; a year later by another 0.2 percentage points. In 1990, the ceiling on employers' contribution is removed for 1.6% of salary, though compensated by a reduction in their payment to the family benefits scheme (Oudin 1992: 146-154).

More recently, as governments became unwilling to raise additional revenues through contribution increases, a practice has been introduced whereby the governments lends to the social security system the funds needed to cover their expenses. The debt thus accumulated by the system, however, must be repaid. In fact, as will be seen below, one element of the 1995 Juppé Plan is an additional tax meant to repay the debt of the social security system.

Table 6.1. Deficit of the basic pension scheme, *régime général*, in FF billion.

1989	1990	1991	1992	1993	1994	1995	1996
4.6	6.6	18.7	17.9	39.5	12.8	14.7*	14.4*

*: projection

Source: French Government 1995

Beside budget deficits, an important pressure for reform was certainly the expected impact of demographic ageing on pension expenditure and on the viability of the French pension system as a whole. The White Paper on pensions, published by the government in 1991, provides a review of projections based on a number of different assumptions with regard to fertility, labour force participation rates in the 55-64 age group, and unemployment. For each scenario, the paper gives the contribution rate needed in order to keep the budget balanced, if pension legislation remains unchanged. The projections refer to an hypothetical universal pension scheme The result can also be read as the weighted average of contribution rates of the different basic schemes.

Table 6.2. Contribution rates needed to finance pension expenditure, based on pre-1993 legislation (% of gross salary, combined rate for employers and employees)

Fertility rate 1.8				
LFPR	stable after 2010		increasing after 2005	
Unemploym.	high	low	high	low
Year				
1990	18.9	18.9	18.9	18.9
2000	21.1	20.7	21.1	20.7
2010	26.2	25.1	25.5	24.4
2020	33.4	32.1	31.0	29.9
2030	39.9	38.0	35.1	33.9
2040	41.9	40.5	36.3	35.1
Fertility rate 2.1				
LFPR	stable after 2010		increasing after 2005	
Unemployment	high	low	high	low
Year				
1990	18.9	18.9	18.9	18.9
2000	21.1	20.7	21.1	20.7
2010	26.0	25.0	25.3	24.3
2020	32.2	31.0	29.9	28.9
2030	36.4	35.1	32.5	31.4
2040	36.7	35.4	32.0	30.9

Key to table 6.1:

- Fertility rates refer to an average in the 2005 - 2030 period
- LFPR: Labour Force Participation Rates for the 55-64 age group. Stable = 39.2%; increase = 54% in 2040.
- Unemployment: Low = 4.5% between 2005 and 2010 and 3% after 2030
High = 8% between 2005 and 2010 and 6% after 2030

Source: Livre Blanc 1991: 96

Table 6.2 shows a rather bleak picture for the future of pensions in France. Even in the best case scenario the combined contribution rate to finance basic pensions will be somewhere in the region of 30% of gross salary. The model does not take into account increases in productivity because, being based on pre-1993 legislation, it assumes that increases in wages will be offset by corresponding increases on the benefits' side (according to pre-1993 legislation benefits were uprated according to gross wages).

Since the mid-1980s, and particularly in the early 1990s, financial pressures to reform the basic pension scheme have become rather strong. In comparison to other countries, and particularly the ones reviewed in this study, what is striking is the fact that in France pension reform did not anticipate an expected deficit in a pay-as-you-go pension scheme. In contrast, reform came after a decade of budget deficits. To some extent, this is due to the fact that unlike in Britain or Switzerland, in France the basic pension is virtually entirely financed through contributions and does not receive substantial government subsidies. Under such circumstances it is more difficult to have a balanced budget, especially during a recession. However, the different approach adopted in the three countries is arguably related to variations in institutions and political situations.

6.3. THE PENSION DEBATE IN THE 1980s AND EARLY 1990s

There is an apparent contradiction in French pension policy-making from the mid-1980s onwards. On the one hand, there is an agreement among all major political parties (with the exception of the Communists) that cuts are needed in order to restore the financial equilibrium of the basic scheme, let alone to guarantee the viability of the system in the future. On the other hand, no saving measure is adopted until 1993. In contrast, contribution rates are increased regularly. The reasons behind this contradiction belong to two different but related areas.

First, governments of different political persuasion havebeen equally afraid of the public's reaction to a pension reform (Ruellan 1993). Opinion polls show the comparatively high level of popularity of public pensions in France (Ferrera

1993b: 34), and the attitude of the general public toward the social security system has been characterised as one of strong emotional attachment (Palier 1991). In addition, it is well known that French trade unions, despite their low degree of representativeness, can have a substantial mobilising capacity. Like public opinion, and perhaps more, trade unions are likely to oppose cutbacks in the area of pensions. In this context, it is understandable that a pension reform is considered to be an extremely sensitive political issue. Of course, pension reforms are politically dangerous exercises everywhere, but given the proven vehemence of France's informal protests, governments were perhaps less inclined to risk political capital on a pension reform than some of their counterparts.

Second, politicians willing to embark on a pension reform are likely to wait for the most appropriate timing. Like all potentially unpopular policies, cutbacks in pensions are easier to implement when there is no upcoming important election. While this is a common feature to all democracies, France has the specificity of having a double electoral cycle: as seen above general elections take place every 5 years whereas presidential ones are fought every 7 years. The result is a narrowing down of the size of these windows of opportunity when pension reforms can be forced through with reduced political risk. Since the mid-1980s, French voters have been asked to elect a parliament three times, in 1986, 1988, 1993, and a President twice, in 1988 and 1995. The two-year lag between the two political cycles means a reduction in the period of time available to 'safely' implement unpopular measures.

The result is that between 1985 and 1993, one can count at least seven official reports on pensions, all of which give policy recommendations, which, incidentally, are surprisingly similar. In fact, it seems that these reports, produced by various commission have a double objective. To some extent, they have to test the political feasibility of given options for reform. On the other hand, however, they create the impression that the government is actually doing something to guarantee the current and long-term viability of the pension system, without putting much political capital at stake. Interestingly, over the same period, the employee contribution rate rose from 4.7% in 1984 to the current 6.55%, and an additional employer's contribution of 1.6% without ceiling has been introduced in 1990.

The emergence of pension reform as a political issue

According to Ruellan (1993: 912), it is a report commissioned by the Socialist Prime Minister Laurent Fabius in 1985 that marks the beginning of the official debate on basic pensions reform. The report (CGP 1986), published in June 1986, took a fairly pessimistic view of the future financial problems of French pensions. Its main conclusion was that an increase in retirement age was inevitable. With regard to other possible measures, the report rejected as impractical proposals to move from a pay-as-you-go system to a funded one. In contrast, a shift from defined benefits towards defined contributions, through an increase in the period over which the reference salary is calculated, was viewed more positively. Similarly, the removal of non-contributory provision from the insurance based scheme was also given some consideration, as this would ease the financial pressure on it. Some of these suggestions were going to be extremely influential in the upcoming debate on the reform of basic pensions.

After the change of government in 1986, the newly appointed Minister for Social Affaires, the Gaullist Philippe Seguin, followed his predecessor and mandated another study, with very similar terms of reference, i.e. 'to make suggestions so as to ensure a satisfactory equilibrium of the general scheme's basic pension in 2000-2005' (Ruellan 1993: 912). One of the objectives of this second report (Schopflin 1987) was to test the political feasibility of various proposals, including those suggested in the previous one. The task of writing it, in fact, was given to a Commission which included representatives of both employers' and employees' organisations. The result was a watered-down version of the first report. The increase of retirement age was seen as something that could be done, but in a flexible way. With regard to a possible extension of the period over which the reference salary is calculated, the Commission could not reach an agreement. Concerning benefit uprating, it was suggested to use a mixed index, combining changes in earnings and prices.

The* Etats Généraux *of social security

The pension issue was brought up again at the '*Etats généraux de la sécurité sociale*', a major convention on the future of social security organised by the Chirac government in 1987. The declared objective of this exercise was to initiate a national debate on the options for reform of the social security system. The debate was lead by a 'Committee of wise men', appointed by the Prime Minister, who had the task of consulting a wide range of relevant interest groups and, through postal submissions of evidence, the public at large. Much emphasis was placed on the government's intention to develop a reform process based on the inclusion of the various interests and of the population. In the words of the Prime Minister 'It belongs to the French people to get the information and to express views on a problem that affects them all [...]. Together they will have to suggest the direction for the future. It is only through the concertation of all of us that we will succeed in saving our social security' (Chirac 1987). At that time, the government discourse was characterised by a strong emphasis on the need for consensus. The unilateral imposition of what were nevertheless seen as necessary measures was ruled out both by the Prime Minister and by the Minister for Social Affairs on various occasions (Palier 1991: 46).

A number of reasons explain the choice of a non-conflictual strategy by the Chirac government, some of which have already been anticipated above. First, there was a general preoccupation with the possible reaction of the trade unions and of the public to a reduction in pension entitlements. But there was more than that. The convention was only a few months away from the 1988 presidential election in which Chirac intended to run. Obviously, the time was not particularly favourable for the adoption of unpopular policies. In addition, in 1986, the government tried to impose a reform of the higher education system which would have allowed a bigger role for the private sector. The proposal was met with significant resistance by students' organisations which managed to set up a relatively strong protest movement, with strikes and demonstrations in the streets of Paris and other big cities. After serious incidents broke out between demonstrators and the police, the government accepted to withdraw the bill. The whole event was regarded as a major setback for the government and for Chirac's personal image, particularly because he had allowed riot police to intervene against the students. A few months later, moreover, in early 1987, Chirac had to withdraw plans to reform the civil service in the face of mounting criticism.

The result of these setbacks was a change in the government's attitude to policy-making. In the official discourse, much emphasis was placed on the notion of '*décider autrement*' (to decide in a different way), which referred precisely to a consensual approach to policy-making. The *Etat Généraux* of social security provided an excellent opportunity for the government to improve its image just one year before the presidential election. According to Palier 'The prime minister hoped that thanks to this wide ranging debate, he could avoid new social conflicts as he could not afford to be seen as the only responsible person for unpopular measures in the area of social security' (1991: 50).

The final report produced in autumn 1987 by the 'Committee of wise men' included a section on pensions (Comité des sages 1987). Despite the solemnity of the exercise, however, the proposals made were not significantly different from what had been suggested on previous occasions. As far as retirement age was concerned, it was argued that an increase was inevitable. A shift towards a defined contribution system was seen positively as well as an extension of the qualifying period for a full pension. Finally, with regard to uprating, the 'wise men' argued in favour of net wages. Nevertheless, with a presidential election only a few months away, the Prime Minister and Presidential candidate Jacques Chirac had more pressing things to worry about than a risky pension reform. As a result no action was taken on that occasion.

The Socialist approach to pension reform (1988-1992)

The first consequence of Mitterrand's victory in the 1988 presidential election was to call an early general election which gave a relative majority to the Socialists. With the external support of the Communist party, the left was able to govern France for another 5-year term. With regard to pension policy and more in general to social protection, the task of producing a framework for reform was given to the *Commissariat Général au Plan.*[8] A report was published in June 1989 which picked up many of the measures suggested by its predecessors. More specifically, it argued in favour of benefit uprating based on net wages; to extend the reference period for the calculation of a pension from the 10 to the 25 best years; to extend the qualifying period for a full pension from 37.5 to 41.25 years; and, finally, it suggested to change the pension formula from 50% of gross wage to 60% of net wage. The removal of non-contributory benefits from the old age insurance scheme was considered but discarded because it was seen as impractical. (CGP 1989).

[8] The *Commissariat Général au Plan* (General Planning Commission) is a peculiar French institution. It was set up in 1946 and had the task to produce a five year plan which would guide the government's actions in the broad area of economic policy. The Plan is seen as an important institution in the period immediately after World War II, but has lost influence in more recent years. Currently, the documents produced by the Planning Commission are little more than contributions to a general debate (Jobert 1981; Hall 1986: 140ff).

The report was met with mixed reactions. First, as far as the trade unions were concerned, the moderate CFDT, in its official response, did not comment on individual proposals but argued against raising retirement age, even if this was to be done through an extension of the qualifying period for a full pensions. It suggested that the purchasing power of retirees should evolve in parallel to that of the working population, and 'express[ed] regret that the commission decided to drop proposals for removing non-contributory elements from the old age insurance scheme' (CFDT 1989). More solid opposition to the CGP report came from the more radical FO. In its official response it argued against each saving measure suggested. It concluded that 'It is absolutely unacceptable for *Force ouvrière* to reduce the pension entitlements of salaried workers and retired people, as suggested in the CGP report' (FO 1989). Total dissatisfaction with the CGP report was expressed also by the Communist CGT, which '... reject[ed it] and calle[ed] on salaried employees and retired people to fight with determination the proposals.' (CGT 1989). In contrast, the report was welcomed by the employers' association (CNPF 1989). Nevertheless, the approval of employers was of little use to a Socialist minority government, who needed the votes of the Communists and did not receive support from within the labour movement. In these conditions, a successful pension reform was almost unthinkable. On the other hand, the financial pressures on the social security budget were growing, and the pension scheme accounted for a substantial part of it.

The following step was the publication of a White Paper (Livre Blanc 1991) on the reform of pensions, which, again reiterated the suggestions made in the previous reports. In particular, it argued for the extension of the qualifying period for a full pension to 42 years and the reference salary to be calculated on the basis of the best 25 years. Benefit uprating, it was suggested, should be made on the basis of inflation, but with a clause (not specified in the report) saying that pensioners were to profit from economic growth.

The task of testing the political feasibility of the proposals mentioned in the White Paper was given to a commission set up by the Ministry for social affairs. After consultation of the relevant interests, mainly employers' and employees' organisations, the commission produced a report which rejected much of what had been argued in the White Paper. The extension of the period over which the reference salary is calculated to 25 years was rejected, and instead of prices the report suggested net wages as a basis for the uprating of pensions. Only the extension of the qualifying period was accepted, but to 40 years instead of 42. The report (Mission Cottave 1992) mentioned again the suggestion of removing non-contributory elements from the insurance scheme. In addition, for the first time, it was suggested to modify the scheme for private sector employees only (*régime général*), and to leave the public sector for a later reform. The reactions of the trade unions this time were fairly positive, as the report was based to a large extent on their requirements (*Le Monde* 16/1/92, p.15).

On the basis of this last set of proposals, the Minister for Social Affairs set up a second consultation in early 1992 (Mission Bruhnes). Basically the results of the first consultation were confirmed. In addition it was suggested to devolve the task of setting contribution and uprating rates to the administration board of the basic pension scheme, composed of representatives of the trade unions and employers. This indicates that there might have been some scope for compromise between the government and the unions. The latter were prepared to accept reductions in the generosity of pension entitlements if these were compensated by more autonomy for the social partners in the management of basic pensions and by the removal of non-contributory benefits from the insurance scheme (which would reduce the financial pressure on it). However, the two actors were still far apart with regard to the size of such reductions and to the issue of uprating.

At that stage, the only element of the reform which seemed able to attract a sufficient level of support was the removal of non-contributory elements from the old age insurance scheme. For the government, it had the advantage of reducing the deficit that every year appears in the social security budget, though the cost would simply be transferred from there to the general government budget. For the trade unions this measure had the advantage of transforming the basic pension in a pure social insurance scheme. This removed state money from the scheme and by the same token state influence on it. The result was the prospect of increased autonomy and legitimacy for the management of old age insurance by the social partners, which was clearly in the interest of the trade unions.

A bill setting up a tax-financed fund designed to pay for non-contributory benefits was presented in Parliament in November 1992, as a first step towards a pension reform. The bill was nevertheless defeated at the first reading: the right rejected the proposal as an 'accounting lifting' since it did not produce actual savings, but only shifted some pension expenditure from the social security to the general government budget. Similarly the PCF declined its support since 'the new measure could open the way to a two-tiered system in retirement' (*Le Monde* 12/12/92 p. 1) While the general election was approaching a final attempt to deal with the pension issue was made in early 1993, but it failed to gain the agreement of the trade unions.

6.4. THE BALLADUR GOVERNMENT AND THE 1993 PENSION REFORM

The 1993 general election gave an overwhelming majority to the right-of centre coalition. A controversial pension reform could easily have been pushed through in parliament. Nevertheless, the upcoming presidential election made this prospect unlikely. The RPR leadership was extremely wary not to repeat the mistakes of 1986-1988. Then, the attempted imposition of controversial measures resulted in a loss of popularity of the Chirac government and ultimately contributed to his defeat in the 1988 presidential election. In fact, between 1993 and 1995, the Balladur government renounced to impose controversial measure on a number of occasions (Bigaut 1995: 9). In the area of pensions, however, the government managed to push through a reform which had been in the waiting for almost a decade, and which all its predecessors failed to implement. In fact, to the surprise of French commentators (*Le Monde* 30/8/1993, p.1; Ruellan 1993) the 1993 reform went through relatively smoothly, both in parliament and as far as the trade unions' and public opinion's reactions were concerned.

To some extent, this came as a result of the impressive electoral victory of the right-wing coalition, which, at least, guaranteed the compliance of parliament to the government proposals. By contrast, the previous Socialist government, having to rely on the external support of the Communists, was in a much less powerful position. In addition, the fresh landslide victory gave the right-wing coalition a strong legitimacy in the eyes of the public, which made the organisation of an informal protest certainly more difficult. In July 1993, when the reform was announced, Balladur was still in his honeymoon period with the French electorate.

Beside these contingent factors, what certainly played a role in explaining the unexpected success of Balladur's pension reform, is the approach adopted in policy-making. The final content of the reform was decided only after intense negotiations with the trade unions (interview, Ministère des Affaires Sociales, 20/12/96). It is true that the proposal put forward by the government reflected to a large extent the suggestions made in the White Paper, which had been heavily criticised by various trade unions. In addition, however, the government was prepared to include elements that were likely to be more acceptable to the unions. In particular, it was planned to set up a tax-financed fund run by the government, which would finance all non-contributory benefits in the area of old age pensions.

The effect of such a fund is twofold. First, by removing non-contributory elements from the insurance scheme, it relieves the financial pressure on it. Second, it marks a clear distinction between social insurance and non-contributory provision. As seen above, this had been a key demand of some trade unions. The separation of these two components of pension provision, in fact, meant the recognition and acceptance by the government of the managing role played by the social partners in social insurance.

This measure, as seen above, had been advocated by the CFDT (1989) and was also likely to be acceptable to FO. In fact, according to a civil servant who took part to the negotiations with the social partners, these two confederations were a privileged target in the government's effort for concertation. In his own words:

> It was important for us to gain the approval of the CFDT because we knew that FO and the CGT would be hostile anyway. ... We needed at least the neutrality of the other confederations. It was also important to avoid that FO would adopt too a violent position. In fact they were against, but did not react as they did in 1995 against the Juppé plan. They did not mobilise their members saying that the new legislation was shameful. (interview, Ministère des Affaires Sociales, 20/12/96)

The government proposal was subjected to a vote at the administration board of the CNAV, which is composed of representatives of employees and employers. The two elements of the reform, cutbacks and the creation of a tax-financed fund for non-contributory benefits, were dealt with separately. With regard to the saving measures, only employers and the Catholic unions CFTC were in favour. In contrast, the creation of a solidarity fund was approved by CFDT, FO, CFTC, and employers (CNAV 1993). This vote did not have any legal consequence, but gave a clear indication to the government with regard to the likely reaction of the various unions to the new legislation. On this basis, the government decided to go ahead, and the pension reform was adopted on the 22 July 1993 (law) and on the 27 August (decrees). The new pension legislation came into force at the beginning of 1994, albeit with a transition period for some of the measures.

The content of the 1993 reform[9]

The changes adopted in 1993 fall under two categories. First a '*Fonds de solidarité vieillesse*' has been created, which has the task of funding non-contributory benefits. Second, in line with the proposals made in the White paper, the qualifying period for a full pension is extended from 37.5 to 40 years; the period over which the reference salary is calculated, is extended from the best 10 years to the best 25. These measures, which affect the *régime général* only, are being introduced gradually over a ten-year transition period. Finally the uprating of benefits is based on prices (as opposed to earnings) for a five-year period.

The *Fonds de solidarité vieillesse* (FSV) is a new institution which has the task of financing non-contributory benefits. It provides pensions for retired people with an inadequate contribution record, but it also compensates social insurance schemes for the contribution credits they grant to unemployed people and other groups of people who are not engaged in paid employment. In addition, the FSV has the task to repay the debt accumulated by the social security system. It is financed by an earmarked tax[10], which was raised by 1.3 percentage points on that occasion and by duties on alcoholic and non alcoholic drinks (Chadelat 1994).

With regard to the uprating mechanism, the law has been modified so that it is now possible for the government to fix the amount of uprating by decree. Under previous legislation this decision had to go through parliament. At the same time, the government has adopted a decree that for a five-year period links the uprating of pensions to consumer prices. In fact, this had been the case before, since 1987

[9] The relevant pieces of legislation are: law No. 93-936 of 22 July 1993; and the decrees No. 93-1022 and No. 93-1023 of 27 August 1993. The law sets up the new '*Fonds de solidarité vieillesse*' (see main text) and makes provision for allowing decision concerning uprating of pension to be made by decree. The two decrees change the pension formula and the uprating mechanism.

[10] The FSV is financed through a tax called '*Contribution sociale généralisée*' (CSG). The CSG is a new form of tax that was introduced in 1990 at a rate 1.1% and is earmarked for non-contributory benefits. It is levied on all sorts of income (not only wages) and is proportional. Despite the use of the term '*contribution*', the CSG is considered to be a tax rather than a social insurance contribution (the French equivalent of contribution is '*cotisation*').

pensions had been uprated according to prices, with *ad hoc* legislation being passed by parliament every year (Ruellan 1993: 919).

In the long term, the impact of the reform on pension expenditure could be quite substantial. According to projections by the administration of old age insurance scheme (CNAV), without the 1993 reform contribution rates in 2010 would have had to be increased by around 10 percentage points. With the reform, if uprating according to prices is maintained, this figure could be between 2.73 and 7.26 percentage points (see table 6.3)

Table 6.3. The impact of the 1993 reform on pension expenditure (increase in contribution rates needed to cover current expenditure)

	Scenario 1: expansion			Scenario 2: contraction		
	pre-1993	post 1993 legislation		pre-1993	post-1993 legislation	
	Uprating: wages	Uprating: prices	Uprating: wages	Uprating: wages	Uprating: prices	uprating: wages
2000	3.95	2.02	3.49	5.19	3.64	4.70
2005	5.39	2.00	4.30	7.89	4.87	6.67
2010	8.23	2.73	6.25	12.45	7.26	10.13

Note: scenario 1, expansion assumes that the number of salaried employees will grow by 1% until 2010 and that average yearly real wage growth will be of 1.5%. Scenario 2 assumes no growth in the size of the workforce and a 1% real increase of wages.

Source: Ruellan 1993: 921

The 1993 reform will have an impact on the amount of pensions as well and on actual age of retirement. Because of the extension to 40 years of the qualifying period, it is expected that some employees will delay their retirement in order to receive a full pensions despite the reform. The extension of the period over which the reference salary is calculated will have an impact on the level of pensions. The impact of this measure is a reduction in benefits by 7-8% for high salaries, but does not affect those on the minimum wage, as they receive the minimum pension, which has not been modified by the reform (Ruellan 1993: 922).

6.5. THE REFORM OF PUBLIC SECTOR PENSIONS: THE JUPPE PLAN

The measures adopted in the 1993 pension reform affected only the *régime général*, which covers employees in industry and commerce. Given the differences in entitlement rules, and the particular socio-demographic profile and working conditions of some categories within the public sector (miners, rail workers) it was decided to deal with the two issues separately as early as 1991 (Mission Cottave 1992). Perhaps, the real reason, which was nevertheless absent from the official discourse, was that politicians were afraid of the possible consequences of such a move. At 26%, the rate of unionisation is considerably higher in the public than in the private sector (Quid 1996: 1553). In addition, public sector employees had shown on more than one occasion to be particularly effective in generating protest movements.

Financial pressures on separate schemes, however, are quite substantial. For instance, in the pension scheme for rail workers employment-related contributions cover only about a third of expenditure. The rest is made up of transfers from other schemes on and of government subsidies (*Le Monde* 2/12/95, p.8). Financial problems, coupled with the more favourable conditions enjoyed by members of this scheme, were the key reasons put forward in order to justify a reform of the rail workers scheme, as well as of other public sector schemes. The debate on reforming public sector pensions, however, did not come to the fore until after the 1995 presidential election, presumably for the reasons mentioned above.

In May 1995, the newly elected President Jacques Chirac appointed as Prime Minister Alain Juppé, the former foreign affairs Minister and most senior figure in the Chirac camp. Chirac's electoral campaign was regarded as surprisingly left-wing. He spent considerable time emphasising notions of social cohesion, and with regard to the financing of social protection, his position was that economic growth would have solved that problem, and thus that cuts were not needed. He also favoured wage increases, which would have 'painlessly' increased social protection receipts (see, for instance, *Le Monde* 25/3/95, p.7). The fact that his main opponent, Edouard Balladur, was preaching austerity measures to restore sound state finances, certainly played a role in Chirac's choice of a campaign strategy.

Initially, electoral promises were honoured. In June 1995, the statutory minimum wage was increased by 4% and the minimum pension by 2.8%, well above the rate of inflation , of 1.8% in 1995. (*Le Monde* 24/6/95, p. 6). Towards the end of the summer, however, there were signs of a change of direction in government policy. Prime Minister Juppé announced a major reform of the social security system, of which the details still had to be worked out (*Le Monde* 31/8/95, p. 5). Both Juppé and Chirac made clear that they intended to deal with the structural deficit of the social security budget and not to act through minor adjustments in order to secure a balanced budget for the current year only. This came up in the description of the sort of questions that, according to Alain Juppé, had to guide the debate. As he put it:

> 'I intend to ask a number of "strong" questions on the future of social protection, which is expensive and unjust [...]. Are all French people equal in front of retirement? No, they aren't. There are 600,000 French men and women who are not covered by health insurance. [...] 75% of social protection receipts come from employment-related contributions. It is a unique situation in Europe and the result is that our firms are truly disadvantaged' (Juppé, quoted in *Le Monde* 31/8/95, p. 5)

This quotation makes reference to a number of notoriously politically sensitive issues. Inequality in front of retirement refers precisely to the more generous conditions enjoyed by public sector employees, especially after the 1993 reform that affected only those working in the private sector. Moreover, the quotation shows concern with the basic structure of the French welfare state, which relies to a large extent on contributory social insurance and is managed by the social partners. As seen above, the shift from the present arrangement towards a state managed and tax-financed one is a major source of disagreement between the government and the unions. The inclusion of such controversial proposals in its agenda had the effect of reducing the scope for a concerted solution.

This time, however, the government was not after consensus. The political situation was certainly favourable to a major reform, if not ideal. The government had an overwhelming majority in parliament. The next general election was almost three years away and the presidential one is scheduled for 2002. In addition, the adoption of austerity measures could be justified by the need to comply with the requirements for monetary union[11]. This was an additional asset in the hands of the government, since European integration remains widely supported by the French public. Against such a favourable background, the government might well have decided that it was strong enough to take on the unions. This, at least, is what appears from the analysis of the policy-making process.

The preparation of a reform plan for social security continued until November 1995. During that period there were contacts with trade union officials and political parties both at the national and at the regional level. The content of the plan, however, was kept secret until the day it was presented to Parliament. The issue of reforming public sector pensions was seen as an extremely sensitive exercise. According to press reports, the Minister responsible for public sector employment[12], concerned with the possible consequences of such a move, had managed to convince the Prime Minister to drop plans for public sector pension reform. In fact, trade unions were informed, on a non-official basis, that this controversial item was not going not be part of the final version of the plan. The change of direction by the government was apparently decided on the night before the publication of the report. Alain Juppé needed the support of his predecessor and fellow party member, Edouard Balladur, who had criticised the government for its lack of commitment to sound state finances. In order to secure the support of the Balladur camp, Juppé included plans to set up a commission which would have made proposals as to how to restore the financial viability of public sector pension schemes. (*Le Monde* 21/12/95, p. II).

The 'Plan for the reform of social protection', or in short the Juppé Plan, was presented in Parliament on 15 November 1995. It was a declaration of intentions covering all areas of social security. It did not include actual legislative proposals, but provided an agenda for the implementation of a number of measures, some of which were already specified in their details. These are its main points:

- Introduction of a universal health insurance scheme;

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[11] Among the Maastricht criteria for monetary union, it was the 3% of GDP limit on government budget deficit that constituted a problem for France. According to the government, in order to comply with this requirement, cuts were needed in various areas of social protection.

[12]Jean Puech, Ministre de la Fonction Publique

- the reform of public sector pension schemes (*régimes spéciaux*), through the establishment of a commission that within four months will make proposals so as to ensure the financial equilibrium of these schemes, such as the extension on the qualifying period for a full pension to 40 years;

- family benefits are frozen in 1996 and will become taxable in 1997;

- partial shift of health insurance financing from contributions to taxation (CSG, see above fn. 10)

- increase of health insurance contributions for unemployed and retired people by 1.2% in 1996 and in 1997 (at that time at 1.4%, or 5.4 percentage points below the standard contribution rate for those in work);

- introduction of a new tax, levied at a rate of 0.5% on all revenues earmarked for the repayment of the debt accumulated by the social security system;

- a constitutional amendment which allows Parliament to vote on a social security budget.

(source: French government 1995)

The plan was viewed by French and international commentators as a major restructuring of the social security system. It did in fact contain a number of measures that were bound to be extremely controversial. Obviously, the reform of public sector pension was one of these. In addition, however, there were a number of structural changes that did not directly affect the level of protection, but that were geared towards removing, in part at least, the control of the social partners over the system. This was the case, for instance, of the tabling of a constitutional amendment allowing more power to Parliament; the increase in the use of taxation in financing, as opposed to employment related contributions, and the introduction of a universal health care scheme. What these measures have in common, is that they contribute to the change of the original Bismarckian nature of the French social security system. This was regarded as unacceptable by the trade unions, who had forcefully opposed similar measures in the past.

Unsurprisingly, the reactions to the Juppé plan were mixed. First, among the unions, CGT and FO condemned the whole programme, and called a one day strike in the public sector. Other trade unions took a less radical position. The CFDT agreed with much of what was said in the plan, with the exception of public sector pension reform. In contrast, employers were satisfied with the proposed measures. The Socialists, initially, were divided. Through their official spokesperson, they condemned the plan, though it was not entirely clear on what grounds since it included proposals that had been put forward by them only a few years earlier. In fact, some more outspoken party members took a different stance. A former health care minister, Bernard Kouchner commented that: 'it is an ambitious and courageous plan, which picks up many of our proposals' (*Le Monde* 17/11/95, p.12). The Socialist leader, Lionel Jospin, was able to unite the party only a few days later. The line adopted was to attack the method of the government's approach, imposition without concertation, rather than the content of the plan which in fact was not too distant from what the Socialists had been arguing for in the past.

The protest movement started a few days later, on 24 November. Initially it was mainly employees of the national rail company SNCF and of the Parisian underground (RATP) who went on strike. The level of participation, however, was rather impressive. The strikers were able to literally bring the country to a halt. The rail and underground workers strike lasted for some three weeks, and during that period it was virtually impossible to reach central Paris from the suburbs in less than 4 to 5 hours. Obviously, losses for the French economy were substantial. In the following days, other groups of public sector employees joined the transport workers in the strike. It was mainly the case of post-office employees and teachers. In parallel, students took the streets as well, not against the Juppé Plan, but in order to ask for more financial resources in education. The result was a gigantic, incoherent but still growing protest movement, perfectly in line with the French tradition of unorthodox political actions. The protest reached its climax on 12 December, when some 2 million people were reported to have taken the streets in various French cities (*Le Monde* 21/12/95, p VI).

The national leadership of the main trade union federations were obviously quick to join and to encourage the protest movement against the Juppé plan. What they regarded as unacceptable, however, was not only the presence of cuts in public sector pension schemes, but the explicit intention of the government to increase its grip over social security, and by the same token to reduce the unions' influence on it. This motive was particularly strong in the case of *Force Ouvrière*. As its leader, Marc Blondel, put it:

> '[the Juppé Plan] is the biggest theft in the history of the French Republic. It is the end of the *Sécurité sociale*. By deciding that Parliament is going to direct social protection, it robs the FF 2,200 billion made up of contributions paid by employers and employees. We were told that we needed to act in order to save social security, but they are taking it away from us' (*Le Monde* 17/11/95, p.12).

This interpretation of the Juppé Plan must be seen in the context of the ongoing struggle for the control of social security between the government and the unions discussed above. The inclusion in the plan of measures aimed at removing the control of the unions over the system, certainly contributed to their determination to oppose it. The Juppé plan attacked a number of different interests, mainly public sector employees and trade unions, so that the formation of a strong coalition against it was made possible. The result was, that the government was forced to step back on some of the measures. On the 10 December, Juppé announced the withdrawal of plans for public sector pension reform, though the remainder of the plan was maintained. In addition, plans to restructure the SNCF were re-negotiated with rail worker unions, so as to allow a longer period to restore a balanced budget in the company. The protest movement gradually faded away, leaving the national trade union leadership unsatisfied since the measures aiming at increasing the governments' control were maintained.

6.6. INSTITUTIONS AND THE POLITICS OF PENSION REFORM IN FRANCE

The previous sections have described the process that lead to the adoption of the 1993 pension reform and to the presentation of the Juppé plan to the French parliament. The two exercises share a number of similar elements, as they both include potentially controversial elements of retrenchment in pension provision. The part of the Juppé plan concerned with public sector pensions, in fact, envisaged the implementation of some of the measures adopted in 1993 for the private sector, namely the extension of the qualifying period for a full pension to

40 years. Given the similarity of the two exercises, what is striking is the very different way in which these two reforms have been met by the unions and by public opinion at large: overall acceptance in 1993 and a massive protest movement in 1995. Why?

There are a number of possible answers to that question. First union density within the public sector is significantly higher than among private sector employees. The rate of unionisation of the French workforce is somewhere between 10% and 14% , but it reaches 26% within the state sector (Join-Lambert 1994: 110). The difference in unionisation rates might explain the success of the protest movement, even though 26% is still a comparatively low rate by European standards. In addition, this explanation is of little use if one needs to account for the different reactions of interest groups, rather than for the outcome of informal protest.

A second explanation relates the vehemence of the protest movement generated by the Juppé plan to the fact that it came at a time when the direction of the SNCF was engaged in difficult negotiations with the unions for restructuring the loss-making national railways company. The conjunction of this event with the prospect of seeing pension entitlements reduced, created a climate of general dissatisfaction among rail workers, who were thus more determined to take on the government (*Le Monde* 21/12/95, p.III). Considering the fact that the rail strike was the centrepiece of the protest movement, this explanation does certainly bear some relevance.

A third possible interpretation refers to the fact that the public saw the Juppé plan as a betrayal of the electoral promises made by Jacques Chirac just a few months earlier. During the presidential campaign, in fact, Chirac denied that retrenchment measures were needed in the area of social security, arguing that economic growth alone would have sufficed to restore the financial viability of the various schemes. The Juppé plan, which envisaged substantial cuts in family benefits and public sector pensions, was seen by many as a complete reversal of Chirac's policy in the area of social security. According to an opinion poll commissioned by the newspaper *Le Monde* on the day the Juppé plan was announced, 68% of those interviewed felt that 'this reform of social security did not comply with the promises made by Jacques Chirac during the presidential campaign' (*Le Monde* 17/11/96, p.8).

These factors certainly contribute to explain the different reactions provoked by the 1993 pension reform and by the 1995 Juppé plan. As seen above, however, the two events were also characterised by very different patterns of policy-making. In line with the theoretical approach adopted in this study, it can be argued that this difference in policy-making patterns relates to the different institutional configurations at the time when the reform was decided: cohabitation in 1993 and the same coalition controlling both presidency and parliament in 1995. The result was that in 1993 the government was under pressure to negotiate with the social partners and particularly with the unions. In 1995, the substantial level of power concentration in the hands of the executive did not create the conditions favourable to negotiation. Arguably, the government felt strong enough and thought it could act without the approval of the labour movement.

The 1993 reform, in fact, combined some retrenchment measures with the creation of a new solidarity fund. This fund did not affect the overall level of provision, but resulted in the transfer of expenditure on non-contributory pensions from the old age insurance scheme to the general government budget. This move was seen positively by the unions, since it meant that the insurance scheme was going to be under less financial pressure and that the risk of seeing their managerial role questioned was reduced. To some extent, it can be argued that the Balladur government in 1993 traded a reduction in pension entitlements with a concession on the management side of social insurance. The creation of the FSV also constituted a guarantee that the government accepted the managerial role played by the social partners, shown by the fact that it took action to reduce the financial pressure on the pension scheme.

According to an official of the CNAV (old age insurance scheme):

> The introduction of the *Fonds de Solidarité Vieillesse* was a skilful move, because it reduced the deficit of the old age insurance budget in a way that was acceptable to the trade unions. It showed that the State was making an effort. In fact the FSV had been carefully designed in order to be able to attract the approval of the social partners (interview, CNAV, 19/12/1996).

The 1993 pension reform cannot be seen as a case of concertation between the government and the unions. The latter, with the exception of the Catholic CFTC, maintained their rejection to the cuts introduced by the new legislation. A fully concerted solution, in fact, would have been extremely unusual in the French context. Nevertheless, the government did, as mentioned in the above quotation, make an effort in the direction of what was demanded by the unions. That effort arguably played a role in securing, if not their approval, at least the unions' acquiescence.

In contrast, the Juppé plan included nothing that could be seen as a move towards the unions' requests. In addition, it represented a clear attack against the FO union, who had been among the keenest supporters of an health insurance system managed by the social partners and with little state intervention, not least because it had traditionally presided over the national health insurance fund. As a civil servant put it 'the Juppé plan was a slap in the face for FO, who had been claiming a strict separation between insurance and non-contributory provision' (interview, Ministry of Social Affairs, 19/12/1996). The Juppé plan, by envisaging the creation of a universal health insurance scheme; the parliamentary vote on the social security budget; and the introduction of taxation as a means to finance health insurance, took a series of measures that contributed to undermine the traditional role of the social partners in social insurance management. All theses measures which are currently being implemented, tend to increase the state's control over the health insurance system.

The Juppé plan, thus, not only did not include provision that was at least acceptable to the unions, but it suggested a number of other measures that were against what large sections of the labour movement had been arguing throughout the previous decade. However, to receive the unions' approval was not a priority for the government. The Juppé plan, in fact, was drafted under total secrecy. There was not consultation with the relevant interests and trade unionists learned about the contents of the plan together with the rest of the nation, when Juppé presented it in parliament (interview, *Force Ouvrière*, 20/12/96). Arguably, the government did not want to engage in lengthy negotiations, which carried the risk of failure as had happened to many of their predecessors. The balance of power in parliament, the unity of the executive (President and Prime Minister belonging to the same party) and the fact that the next election was some 3 years away, probably persuaded the government that it could afford not to negotiate.

The comparison of the two French reforms is instructive in so far as it sheds light on the impact of institutions on policy. This can be observed on two different levels: the first concerns the institutional design of pension arrangements while the second relates to the structure of formal institutions[13]. With regard to the first level, a crucial feature of the French basic pension scheme, and more in general the whole social security system, is the fact that it is managed jointly by representatives of employers and employees. As seen above, this has been the source of a long standing conflict over the control of social insurance between the trade unions, who largely benefit from their managerial role, and governments of different political persuasions. In the 1993 reform, this particular institutional setting created an opportunity for compromise. The unions accepted a reduction in pension entitlements also because they received a guarantee that their managerial role in the area of pensions would not be questioned. In a state run system, such as it exists in Britain, such an opportunity would not have been available.

The second level refers to the impact of constitutional structures on policy. As seen above, the existence of two distinct and non-coordinated electoral cycles (presidential and general elections do not occur at the same time and have a different frequency), reduces the length of the periods in which unpopular policies can be adopted relatively safely. In addition, the division of executive power between a President and a Prime Minister makes possible the occurrence of cohabitation, i.e. a situation in which the two figures belong to different parties. In such conditions, the level of power concentration in the hands of the executive is substantially reduced. In 1993 cohabitation put pressure on Balladur to negotiate with the unions; in 1995 that pressure was not there.

The French case highlights the interest of looking at the interplay of institutional factors and electoral results. Depending on the latter, the French constitutional structure can provide strong concentration of power or fragmentation. When assessing the impact on policy of given institutional features, thus, it seems essential to consider a relatively extended period of time, as depending on a number of other factors (in the French case of electoral results) the effect of institutions can change.

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[13] The distinction between these two levels in the impact of institutions on policy is generally mentioned in neo-institutionalist studies of social policy, see Pierson 1994; Myles and Quadagno 1996; and chapter 2.

Chapter 7

INSTITUTIONS, POWER CONCENTRATION AND PENSION REFORM

The previous chapters have highlighted the existence of strong and contrasting pressures which are affecting the functioning of pension systems in industrial countries. As seen in chapter 1, population ageing is expected to result in a substantial increase of pension expenditure over the next 20 to 30 years. In addition, this development is coupled with a profound structural transformation of the world economy, as a result of which it is becoming increasingly difficult for governments to raise the funds needed to finance increased spending on social programmes. Current and future changes, thus, are likely to affect both the demand for pension provision, which is going to increase, and the ability to finance that demand which, in contrast is likely to decrease (George and Taylor-Gooby 1996).

Generally, however, these socio-economic pressures are coupled with strong popular support for existing pension arrangements (Ferrera 1993b; Taylor-Gooby 1995). As pointed out by Pierson the temporal quality of pension schemes means that virtually everybody in industrial societies is either a pensioner or will become one in a more or less distant future (1996b). In addition, the availability of relatively generous pension provision in most industrial countries has created strong expectations among the general public concerning how much their pension will or should be worth once they reach retirement age. As a result, to cut back on a truly universal programme like old age pensions is a political gamble.

Governments are thus caught between these two strong pressures: on the one hand socio-economic and demographic change is pushing them towards reducing social protection standards for the aged; on the other hand, the popularity of current pension arrangements means that every move in that direction is putting them at risk of electoral punishment or of informal mass protest, which can prevent them from adopting planned legislation, as happened with the 1995 French pension reform (see chapter 6).

In this context, it seems essential to address the issue of what are the factors that affect a government's ability to impose cuts in the area of pensions, in spite of the strong level of popular support enjoyed by these schemes in most countries. The initial aim of this study was to look for these factors in the constitutional order of each country covered. During the research work, however, it became increasingly clear that constitutional structures, though important, were not the only factor affecting the political feasibility of a pension reform.

In addition, it became also clear that the relationship between constitutional structures and governments' ability to impose cuts, was not one of simple linearity. In general, studies which had looked at this relationship tended to address the question of whether a constitutional system concentrating power in the hands of the government, would be an asset or an impediment for the reform of welfare policies (Pierson 1994; Weaver and Rockmann 1993).

What emerged from the present study, is that constitutional structures have a substantial impact on the way governments go about reforming their pension systems, but they are not necessarily related to success or failure in this exercise. The level of power concentration available to a government seems to be a powerful determinant of the policy-making strategy used in order to adopt a pension reform. This, in turn, has an impact on the shape of the reform itself.

The structure of this chapter is based on this understanding of the relationship between constitutional structures and pension reform. In particular, the chapter attempts to answer the two questions outlined above:

- What sort of policy-making strategies are governments developing in order to deal with the pension problem?

- What is the impact of strategy selection on the shape of policy change in the area of pensions?

In order to deal with these questions, policy-making strategies for adopting pension reforms have been analysed in three countries, Switzerland, France and Britain, which are known for having developed very different patterns of policy-making: more consensual in Switzerland; more confrontational and majoritarian in Britain; and somewhere between the two in France. The comparison of pension reforms in these three countries has highlighted the mechanisms that influence the selection of a given policy-making strategy for the successful adoption of a pension reform, as well as the possible repercussions of strategy selection on the shape of a given reform. This chapter begins by discussing the different strategies observed in the three countries. It then looks at what are the likely determinants of strategy selection and at how the latter is likely to affect the shape of a pension reform.

7.1. POLICY-MAKING STRATEGIES IN PENSION REFORM

In the previous chapters, the analysis of the processes that have led to the adoption of pension reforms in the three countries, has shown that generally governments were well aware of the potential for controversy embodied in the pension reform issue. In all three countries, the adoption of measures that, for various reasons, were seen as needed by the respective governments has been accompanied with other measures that in contrast were not particularly in line with their priorities, but were nevertheless adopted with the objective of increasing the political feasibility of the reform. These measures were more or less targeted at groups likely to oppose reform. Among the four instances reviewed, the attempted reform of French public sector pensions in 1995 is possibly the only one in which cuts were not coupled with measures aimed at 'sweetening' their negative impact. This might help to account for the fact that the French government was eventually forced to withdraw its plans as a result of a massive protest movement.

In contrast, on the three other occasions reviewed here, governments did adopt a policy-making strategy which was clearly aimed at increasing the political feasibility of otherwise unpopular reforms. In the case of the Swiss and of the French 1993 reform, this was in the shape of an inclusion of the trade unions into policy-making, mainly by meeting some of their key demands. Instead, the British 1986 reform did not rely on inclusion as a means to reduce the political cost of reform. As seen in chapter 4, the policy-making process was dominated by the government, and more particularly by the Secretary of State for Social Services, and very few concessions were made to external interests. The only exception was the decision to drop plans for the abolition of the state scheme SERPS. On this issue, however, there was a division within the cabinet, the Treasury being fiercely opposed to the scrapping of the programme. As a result, one cannot say for certain whether the government's change of direction constituted a concession to external interests or was simply the result of internal divisions. In Britain, thus, the policy-making strategy for making its pension reform feasible was not based on concessions to external interests likely to oppose change.

Perhaps one of the crucial features of the 1986 British pension reform, is the fact that it did not affect the whole population, as it is generally the case in pension reforms. A division in the British pension system between those who are covered by the state scheme and those who are members of occupational pension plans, allowed the government to target its saving measures on a given section of the population only. Many British employees, mainly middle class, who have access to occupational provision were *de facto* unaffected by the changes adopted in 1986. The saving measures and the transfer from the state to the market concerned only the part of the population covered by SERPS.

As a result, the government was able to achieve substantial long term savings; to make some progress towards its vision of popular capitalism; and at the same time to reduce the risk of electoral punishment, since a large section of the population was not directly affected by the change. Moreover, the decision to introduce an additional fiscal encouragement, the so called '2% bribe'[1], reduced the potential for dissatisfaction among those who, in contrast, were directly affected by the changes. The result was that the new personal pensions proved extremely popular, and despite the opposition generated by the 1986 reform, the Conservatives were able to win the general election the next year. The strategy adopted by the Thatcher government, which exploited a division in provision for retirement, proved successful in avoiding the possible negative electoral impact of cutbacks in pensions.

In the Swiss case the cuts affected a universal scheme, the basic pension, which made it impossible to use a policy-making strategy based on divisions in the pension system. In contrast, the Swiss right-wing parliamentary majority, decided to combine within a single piece of legislation, an increase in retirement age for women together with other measures likely to improve the position of women in the basic pension. The latter, which included the introduction of contribution credits for years spent taking care of a child or a relative and the sharing of

[1]This was an additional rebate in social security contributions for employees who took out a personal pension between 1988 and 1993 (see chapter 4).

contributions between spouses, had long been a key demand of the left and of the trade unions.

By combining these two types of measures within a single piece of legislation, the right-wing majority was able to generate support for the 1995 pension reform from various sections of the political spectrum, including the left, who would otherwise have opposed plans to increase retirement age. As seen in chapter 5, the inclusion of expansion and retrenchment measures within a single piece of legislation, proved instrumental in making the changes acceptable to the electorate. The reform, in fact, was supported by the main political parties including the Socialists, which facilitated its acceptance in the referendum of June 1995.

In France, the attachment of the general public to existing pension arrangements and the absence of a tradition of cooperation between the state and the labour movement made pension reform a particularly thorny issue. Former Socialist Prime Minister Michel Rocard was quoted saying that pension reform was an issue capable to bring down more than one government. In this respect, a consensual reform, possibly negotiated with the trade unions, would have been extremely difficult. As seen in chapter 6, such a solution was in fact well beyond the ambition of the Ministry of Social Affairs negotiators who had to prepare the 1993 reform. Instead, their priority was to avoid the sort of informal protest that the French trade unions have repeatedly shown to be capable of. In sum, the Balladur government in 1993 was not after the approval of the labour movement. The acquiescence of its more radical sections was what it could hope for.

As a result, the 1993 pension reform, which included cuts to the main basic pension scheme (the *régime général*, covering private sector employees) was adopted together with a new 'Old age solidarity fund', which in fact constituted a significant step towards meeting the unions' demands in the areas of financing and management of the basic pension scheme. The new fund, which is tax-financed, is intended to pay for the non-contributory elements (such as means-tested pensions) provided by the insurance based scheme. By taking responsibility for this sort of provision, the government *de facto* recognised the social partners as the legitimate actors for the management of the contributory elements of the insurance scheme. This had been one of the key demands of the most radical sections of the labour movement (see chapter 6).

In contrast, the 1995 attempt at reforming public sector pensions did not include elements aimed at generating support for it or at appeasing opposition. In fact, cuts in pension provision for public sector employees were combined with other measures which constituted an attack on the trade unions' position within the social security system. These consisted mainly in an increased role for the state in the management of social security. In addition, plans for public sector pension reform were published at a time when a restructuring package for the national railway company (SNCF) was being negotiated. The outcome was concentration of dissatisfaction among rail workers and trade unionists in general, which resulted in one of the most impressive protest movements France has seen after 1968. The government was thus forced to drop its plans for the reform of public sector pensions. The lack of a policy-making strategy such as that used in France two years earlier or in the Swiss and British pension reforms, certainly helps to account for the government's failure on this occasion.

With one exception, thus, the pension reforms analysed in this study have been accompanied by a policy-making strategy clearly aimed at making them more acceptable to the public or to key political actors, such as the French trade unions. In general, the aim of these strategies was to increase the political feasibility of reforms which, because of their nature were bound to generate controversy. To some extent, it seems that the choice of a given strategy (or the choice not to have a strategy) is influenced by various national institutional features, such as the structure of the pension system or the constitutional order and the pattern of the relationship between the state and organised interests. The relative weight of the different factors is discussed in the next section.

7.2. DETERMINANTS OF STRATEGY SELECTION

The research hypotheses spelt out in chapter 2, argued for a relationship between power concentration and the sort of policy-making strategy a government is likely to follow in the adoption of a pension reform. In particular, it was expected to see confrontational policy-making when power concentration with the executive is strong and a more substantial inclination to *quid pro quos* when power concentration is weak. In addition, it was also argued that contingent political factors, such as the proximity of an important election, could play a role in the choice of a given policy-making strategy.

These two general hypotheses are broadly confirmed by the analysis of pension reforms in the three countries covered. However, in the light of the findings presented in chapters 4 to 6, it is possible to reformulate these hypotheses in a more precise manner, and to shed some light on what are the mechanisms that link a given feature of the institutional and political context with a given strategy. In particular, it seems that there are five key factors likely to influence the choice of a given strategy: the constitutional structure; the existence of a corporatist tradition; the electoral cycle; electoral results; and power configuration. Not all of these factors are in fact equally relevant in all of the three countries. As stated in chapter 2, the high level of institutional variation encountered in this study, makes it virtually impossible to formulate general hypotheses unless they are at a relatively high level of abstraction (such as power concentration favours a confrontational approach to pension reform). In order to capture the details of the mechanisms that link institutional and political contexts to pension policy-making, the discussion of these factors is sometimes limited to one or two countries.

Constitutional structures

The three-country sample which includes the UK, France and Switzerland was selected in order to assess the impact of their very different constitutional structures on the policy response to a similar problem: pension financing. As seen in chapter 2, political scientists regard Switzerland and the UK as the two ideal types of fragmentation and concentration of power respectively, France being somewhere inbetween. As seen in chapter 2, the impact of constitutional structures on the expansion of social policies has been analysed by Immergut (1992) and by Huber *et. al.* (1993), who have found that systems which concentrate power with the executive are more likely to develop comprehensive and generous welfare states.

While the role of constitutional structures on the expansion of the welfare state has been explored, their impact on the current phase of retrenchment remains unclear. According to Pierson, theoretically at least, there is no strong case for believing that a constitutional structure which concentrates power with the executive is more successful in adopting retrenchment policies. In his view, such a structure concentrates both power and accountability and thus makes electoral punishment more likely (Pierson 1994: 34). This view is confirmed by the present study. On the basis of the three-country sample analysed here, it seems that constitutional structures do not directly affect the political feasibility of reform. Reform have succeeded in Switzerland and in the UK, two opposite models as far as constitutional structures are concerned. In France, the extent to which its formal institutions allows minorities access to policy-making, depends to a substantial extent on power configuration. When the same party or coalition controls both Parliament and the Presidency, power concentration is strong. When in contrast the two institutions are dominated by different camps, power is fragmented. As seen in chapter 6, power concentration did not favour the adoption of reform, presumably because government officials felt that the inclusion of concessions to the trade unions were not needed given their position of strength.

In sum, in line with Pierson's findings, there is no evidence of a relationship between constitutional structures and political feasibility of pension reforms. Constitutional structures, however, are not irrelevant to welfare reform. Their main impact is on the type of policy-making process that governments decide to adopt in order to reach their goals in pension policy. In countries where formal institutions provide for minority-access to policy-making and encourage power-sharing, new pension legislation was drafted after negotiations with external interest-groups, particularly the trade unions. Both the Swiss reform and the French 1993 reform, adopted when President and Prime Minister belonged to different camps, included elements which were clearly geared towards meeting some of the unions' demands, and as a result at gaining their approval or acquiescence. In contrast, the British 1986 reform and the French 1995 pension reform did not take into account the preferences expressed by the representatives of labour.

Constitutional structures help to account for policy-making patterns. When these favour power concentration, policy-making is likely to exclude the demands formulated by external interests. In contrast, when formal institutions allow minorities access to policy-making, pension reforms are designed so as to take into account at least some of their demands. Most likely different patterns of policy-making will have an impact on the shape of reform. This second element of the causal chain that links constitutional structures to pension reforms, however, is discussed below (7.3).

Corporatist traditions

Within the three country-sample analysed in this study, only Switzerland has a relatively strong tradition of corporatist policy-making. As seen in chapter 5, trade unions, employers and other relevant interests are generally included in the initial phases of the policy-making process. In contrast to other corporatist countries (Sweden, Austria), corporatist practices in Switzerland did not result in high levels of state intervention in the economy (Katzenstein 1985), and that is arguably why Switzerland is not always included in lists of corporatist countries (Lijphart and Crepaz 1991). Social policies, however, have traditionally always been negotiated with the social partners in a truly corporatist manner and the left-wing parliamentary minority has often managed to influence legislation in this field. According to Kriesi (1995) social policy is the area in which the Socialist party has the biggest impact on policy outcomes. France and the UK, in contrast, are usually viewed as typical cases of non-corporatist policy-making. The former being characterised by a strong asymmetry of power between the state and organised-interests and the latter being seen more as a pluralist country.

Because it includes only one corporatist country, the sample selected is not particularly suitable to test hypotheses regarding the relationship between a corporatist tradition and current policy-making in the area of pensions. However, what appears from this analysis is that, as hypothesised in chapter 2, the existence of well-established corporatist practices is associated with a more inclusive approach to policy making, as is the case in Switzerland. In contrast, in France and in the UK, two non-corporatist countries, organised-interests were not included into policy-making. Even the 1993 French reform cannot qualify as a case of corporatist policy-making. Some sections of the labour movement did not formally accept the measures adopted, though they refrained from taking industrial action. Policy-making then was not characterised by the inclusion of organised-interests in the definition of policy, it only included some concessions aimed at buying their acquiescence.

With the proviso that it should be tested in a larger number of corporatist countries, the hypothesis put forward in chapter 2 still holds, although a more systematic test is needed in order to ascertain its accuracy.

The electoral cycle

The electoral cycle seems to have played an important role in the French case. On various occasions the proximity of an important election delayed the adoption of a pension reform. The fact that France has two parallel electoral cycles, for presidential and parliamentary elections, has reduced the amount of time available to policy-makers to 'safely' implement unpopular policies. In 1993, the proximity of the 1995 presidential election acted as a deterrent on the government in the adoption of a confrontational stance *vis-à-vis* the unions. The requirement not to upset public opinion or influential actors prior to a crucial election provided an incentive for the government not to seek confrontation with the unions.

Interestingly, in 1997 many commentators (*Le Monde* 14/5/97) explained the decision of President Chirac to call an early general election with reference to electoral cycles. Since he was committed to joining the EMU and as a result to reduce public spending, Chirac intended to adopt a series of unpopular measures, possibly including cuts in social programmes. By calling an early election, Chirac hoped to avoid the political risk involved in the adoption of unpopular measures in the year preceding a general election. For this strategy to work, however, the right-wing coalition had to win the 1997 election, which it failed to do.

Electoral cycles, thus, seem to be playing an important role in the reform of the French welfare state. To some extent, this is related to the existence of the double, electoral cycle in that country, though more in general increases in politicians' sensitivity to the public mood when an important election approaches is a basic rule of representative democracy.

With regard to Switzerland and Britain, however, the electoral cycle explanation does not seem to be particularly relevant. In the Swiss case, the impressive level of stability in electoral outcomes (the government has had the same party composition since 1959) might have contributed to reduce politicians' anxiety for re-election. In the case of Britain, the asymmetric character of the pension reform meant that the 1986 SSA was not necessarily unpopular with a substantial section of the electorate.

Electoral results

The impact of constitutional structure depends to a large extent on electoral results[2]. A set of formal institutions which concentrates power with the executive, might have a different impact on policy-making patterns if no party obtains a majority. Between 1998 and 1993 the Socialist minority government of France, committed to adopt a pension reform, was unable to find allies to get its legislation approved by parliament. Of course, electoral results are to some extent related to electoral laws, and thus to constitutional structures. The British first-past-the-post electoral system favours the party with a relative majority and by the same token makes coalition or minority government a relatively infrequent event. In contrast, in countries with proportional representation like Switzerland, or with a two-round plurality system (France) coalition governments are virtually the rule.

Electoral results, however, are not determined by electoral laws only, and deserve thus to be treated as an independent variable in their own right. The fact that a government can count on a substantial majority in parliament, certainly strengthens its position vis-à-vis external interests, and thereby reduces pressure to negotiate with them. This was in fact the case in the four pension reforms reviewed in this study. In all cases the party or the coalition supporting retrenchment in the area of pensions could count on a substantial majority in parliament. As a result, it is difficult on the basis of the sample selected here to assess the importance of this factor. As in the case of the hypothesis which links corporatist traditions to inclusive pension policy-making, the one concerned with electoral results cannot be conveniently tested with the present sample.

Power configuration

Like electoral results, power configuration is also likely to affect the impact that the constitutional structure has on policy-making. This is particularly true in the case of France. In 1993, the presidency was still controlled by the Socialists, while it was the right-wing that dominated parliament. In contrast, in 1995 both institutions were controlled by the right-wing coalition. As seen in chapter 6,

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[2] This view reflects the findings of Immergut: 'to understand how these institutions work in practice, we must add the de facto rules that arise from electoral results and party systems. [...] The effective power of a political executive and the dynamics of executive-legislative relations depend on the partisan composition of the various houses of parliament, on whether the executive enjoys a stable parliamentary majority, and on whether party discipline is in force' (Immergut 1992: 27).

these two different patterns of power configuration were associated with different approaches to policy-making: more inclusive in 1993 and more exclusive in 1995.

While formally, the person responsible for deciding the course of policy is the Prime Minister, the President enjoys an important degree of legitimacy in the eyes of public opinion. If he or she disagrees with actions taken by the government, the President can sack the Prime Minister or call an early election. With these constraints, Prime Ministers are likely to be reluctant to embark on a politically risky action such as enforcing a pension reform against the unions' will, unless they are sure of the President's approval. In 1995, Prime Minister Juppé was publicly supported by President Chirac, and managed to resist to unions' demands for some three weeks. If all this had occurred when Mitterrand was President, it is difficult to imagine that the latter would not have intervened in one way or another against his political opponents in government.

As seen in chapter 6, the sharing of executive power between two different camps arguably constituted a pressure for the Balladur government to seek trade unions' acquiescence to its pension reform. It seems thus that when different parties, or coalitions of parties, control the various key democratic institutions, governments are more inclined to adopt concerted solutions. The impact of power configuration, however, depends itself on the constitutional structure of a country. Only if this provides for power sharing among different institutions does power configuration become a relevant factor. In the British case, since the two relevant institutions for policy-making, Parliament and the Government are almost by definition controlled by the same camp, there is virtually no opportunity for power-sharing to take place. In Switzerland, because of its symmetric bicameral parliament, power configuration can play a role, for instance if the two branches of parliament were to be controlled by different majorities. However, since the establishment of democracy both chambers have always been controlled by the same right-wing majority.

The determinants of exclusive-inclusive policy making: a summary

The above discussion suggests that there are a number of different factors affecting policy-making strategies adopted by governments to enact a pension reform. To some extent, the constitutional structure and the existence of a corporatist tradition, with the proviso that the latter would need additional testing, seem to be the key factors determining patterns of policy-making. The three other factors, electoral cycles, electoral results and power configuration, can alter the relationship between formal institutions and policy-making patterns. As mentioned above, if in a country with a constitutional structure that concentrates power with the executive (such as the UK), no party manages to achieve an absolute majority in parliament, power concentration will be substantially reduced and the government more inclined to include external interests into policy-making.

The discussion presented here has been summed up in table 7.1. The 5 factors are treated separately and in relation to the four reforms analysed. For each reform, the table indicates whether a given factor contributed to increase power concentration or to reduce it (fragmentation).

Table 7.1. Summary of key determinants of policy-making strategies in the area of pensions and their effect in four instances.

	UK 1986	Switz. 1995	France 1993	France 1995
Constitutional structure	Concentration	Fragmentation	Concentration	Concentration
Corporatist tradition	Concentration	Fragmentation	Concentration	Concentration
Electoral cycle	Fragmentation	Fragmentation	Fragmentation	Concentration
Electoral results	Concentration	Concentration	Concentration	Concentration
Power configuration	Concentration	Concentration	Fragmentation	Concentration
Policy-making strategy	Exclusive	Inclusive	Inclusive	Exclusive

It appears from table 7.1. that when a relatively large number of factors favour power concentration, external interests (particularly the labour movement) tend to be excluded from pension policy-making. Conversely, when a relatively large number of factors reduce power concentration, external interests are included in the definition of pension policy to a larger extent. To be sure, this does not mean that policy-making patterns are predetermined. As the table shows, all the pension reforms analysed, with the exception of the French attempt of 1995, were adopted in contexts characterised by a mix of power concentration and fragmentation. Nevertheless, it seems that exclusive policy-making occurs only when a large number of the factors identified favour power concentration and vice versa. There seems thus to be an association between the five factors identified and the pattern of policy-making adopted.

7.3. THE IMPACT OF POLICY-MAKING PATTERNS ON PENSION REFORM

The second hypothesis that guided this study, was that different patterns of exclusion/ inclusion in policy-making will result in pension reforms which differ on one or more dimensions. When a government can afford not to include the demands made by external interests, then the policy outcomes are likely to better reflect its priorities. Conversely, when majorities need the support of minorities and external interests, reforms will be less radical and/or will include some form of *quid pro quo.*

The analysis of pension reforms in three countries carried out in this study points in some given directions with regard to the dimensions which are likely to be most significantly affected by policy-making patterns. First, it appears that the reforms studied did not occur at the same stage in the evolution of the 'pension problem'. In some instances reform tended to anticipate predicted demographic change, on other occasions, instead, it was a response to recurrent budget deficits. Second, the scale of the various reforms appears to vary as well. Although, as will be seen below, to measure the extent of welfare retrenchment is not a straightforward task, it seems appropriate to distinguish reforms according to their significance. Third, sometimes reforms have included demands formulated by the left or the unions, and in such instances the overall direction of reform has been affected. These three dimension seem to be related to the policy-making patterns which have characterised the adoption of given pension reforms. The following discussion will attempt to show how for each of them

Timing

The notion of 'timing' of a pension reform refers to when, in the development of the pension problem, a reform is adopted. British and Swiss reforms have introduced cuts in view of anticipating an expected financial problem. In contrast

France intervened after various years of deficits in the basic pension scheme budget. To some extent, this difference is related to the different patterns of pensions financing in the three countries. In France, the basic scheme is financed almost exclusively through employment related contributions; in Switzerland it receives also a substantial subsidy from the federal government; in the UK, in contrast, the borderline between the pension scheme and the general government budgets is not well defined, so that it is not possible to identify a 'pension scheme budget deficit' as is the case in France.

Theoretically, one can expect countries which can afford to exclude external interests to be better able to anticipate predicted financial imbalances. Conversely, governments which tend to include minorities are more likely to react to financial imbalances rather than to anticipate them. The rationale of this hypothesis lies with the different credibility status granted to predicted and to actual budget deficits. If the socio-economic pressure for reform is an expenditure projection, it will be more difficult to convince actors which support current pension arrangements that cuts are needed. In contrast, when a pension reform is put forward by the government after a few years of recurring deficits, it will be easier for it to persuade external interests that such a reform is inevitable.

In relation to this hypothesis the evidence presented in chapters 4 to 6 is inconclusive. Swiss and British reforms, both of which anticipated predicted budget imbalances, were adopted with different policy-making patterns. In the case of Switzerland, however, the inclusion of the trade unions and of the Socialists in pension policy-making did not concern the increase in retirement age (the only element of retrenchment in the Swiss reform). On that point, as seen in chapter 5, the left was in disagreement with the right-wing majority, which suggest a link between anticipation and exclusion of external interests.

In the case of France, in contrast, the fact that the 1993 reform came after various years of recurrent budget deficits, did not manage to convince the most radical sections of the labour movement (CGT and FO) that a pension reform such as the one put forward by the government was needed. As seen in chapter 6, although these two federations of trade unions did not take on the government through informal protest, they did not support cuts either. The Italian case is perhaps more interesting in this respect. There, the 1995 pension reform was adopted with the support of the trade unions who agreed on a series of saving measures, which they regarded as inevitable because of the current (as opposed to predicted) financial difficulties of the pension scheme budget.

While the relationship between reform timing and policy-making patterns might need to be explored more systematically, it seems that when governments intend to act in anticipation of a predicted worsening of pension schemes finances, they are likely to have difficulties in convincing external interests of the inevitability of pension reform, and as a result to include them in policy-making. This is more likely to occur when reforms are adopted not in anticipation but as a reaction to actual budget deficits.

Scale

Patterns of policy-making can have an impact on the scale of pension reform. If external interests are included, retrenchment-minded governments are more likely to show moderation in their approach. In contrast, if they can afford to act without the support or acquiescence of external interests, their reforming ambitions can be fulfilled to a larger extent. To measure the scale of welfare retrenchment, however, is probably just as difficult as it has been to measure the size of welfare states. After a few decades of comparative studies of welfare state development, there is a relatively widespread agreement on the fact that a purely quantitative approach is simply inadequate to account for the diversity found among welfare states (see, for example, Esping-Andersen 1990; Ferrera 1993a). Similarly, in order to assess the size of welfare retrenchment in a country or in a scheme, one cannot rely on a purely quantitative approach, such as looking at changes in expenditure (Pierson 1994: 15).

In order to test the 'scale' hypothesis, however, it is essential to identify one or more criteria which allow us to discriminate between reforms according to their significance. As argued elsewhere (Bonoli and Palier 1997b) it seems appropriate to distinguish between welfare reforms that reduce expenditure through localised cuts and those which, by creating new constituencies or destabilising existing ones, affect the politics surrounding a given scheme. This distinction is of crucial importance for the medium- and long-term implications of welfare reforms. In the first case, localised cuts such as changes in the benefit formula or in the indexation method, though they can generate substantial savings, can be reversed and do not necessarily have an impact on the long term developments of a given scheme. In contrast, structural change that modifies the politics of a scheme is more difficult to reverse and can open up the way to further retrenchment.

The British 1986 Social Security Act certainly constitutes a powerful example of reform which affects the politics of pension policy. First, it has created a new and fairly large constituency, i.e. private pensions holders which have a set of given stakes in the new pension system. For example, since their pensions will depend on the return of their invested capital they are likely to oppose legislation which might have a negative impact on capital gains (such as increased taxation, or, more in general, policies which are not appreciated by investors). Second, the changes have removed a relatively important number of contributors, many of whom were relatively young, from a pay-as-you-go system. This, in the future, is likely to exacerbate possible financial difficulties in that scheme and thus make further retrenchment more likely. Third, the devolution from the state to the private sector of responsibility for the retirement pensions of some 5 million people has substantially reinforced the stakes that insurance companies and financial institutions have in the pension system. As a result, these actors are likely to oppose any measure which might reduce their ability to achieve substantial profits in the area of pensions.

Swiss and French reforms, in contrast, did not have a substantial impact on the politics of pensions. Changes in retirement age (Switzerland) and in the indexation and benefit formula (France) created some disappointment, but did not affect the power relationship between the various actors and constituencies that structure the politics of pensions. The failed 1995 French public sector pension reform would not have modified political equilibria either, since the measures planned were the same as those adopted in 1993 for private sector employees. However, as seen in chapter 6, on that occasion, together with cuts in pensions, the government adopted a series of measures aimed at reducing the extent of control of the social partners on the health insurance scheme. This second series of measures, in contrast, did modify political equilibria, by strengthening the influence of the state and reducing that of the trade unions on future decisions concerning health insurance. As seen in chapter 6, this was one of the key factors that prompted the unions' hostile reaction.

Interestingly, of the four reforms reviewed here, the two which included elements likely to affect the politics of the relevent schemes were decided without concertation with external interests (UK and France 1995). In contrast Swiss and French 1993 reforms, which were adopted after negotiations with the unions and included elements geared towards meeting some of their demands, did not significantly influence political equilibria. It seems thus that reforms which alter the fundamental structure of a scheme, and thereby modify the politics surrounding it, are more likely to be implemented by governments which can afford to exclude external interests from policy-making.

This result could have some important implications for the future of the welfare state. First, since structural change is more likely in countries with a strong concentration of power with the executive, it seems plausible to assume that even if current socio-economic conditions persist, we are unlikely to see convergence among welfare states. Instead, what this hypothesis would suggest is the persistence of the basic features of current welfare arrangements in countries where power is fragmented (such as Switzerland, possibly Germany) and their possible abandonment in countries where power is concentrated with the government (UK). The accuracy of this hypothesis, however, depends on the political orientation of the relevant governments, and particularly on the interpretation they make of the pension problem. Possibly the new left-wing governments of Britain and France will have different views from their right-wing predecessors on the sustainability of current welfare arrangements.

Quid pro quos

Besides timing and scale of policy change, the analysis of four pension reforms in three countries has pointed out that when policy-making is inclusive, policy outcomes tend to combine saving measures with either elements of expansion (Switzerland) or elements which meet the demands of key actors (the trade unions in the 1993 French reform). To some extent this observation is rather obvious. In fact, the inclusion of external interests in policy-making is often made by making concessions to those actors who favour existing arrangements. Nevertheless, *quid pro quos* are not the only possible way to include external interests. An alternative strategy could be that of reducing the amount of cuts planned after negotiations with the trade unions. However, this second approach was not used in either of the two relevant instances covered by this study.

While moderation in cuts might be an effective strategy for governments wishing to reform their pension systems without upsetting public opinion or key political actors, there are a number of reasons to believe that the inclusion of *quid pro quos* is a more effective tool to reach the same goal. Both in the case of Switzerland and France 1993, the concessions made to the left and to the unions concerned a long lasting request of the latter.

In the Swiss case, the unions and the Socialist Party had been arguing for an improvement in the situation of women in the basic pension scheme for more than a decade. In such a context, to oppose reform, and thus to reduce the chances of the new pension legislation to be adopted, would have put the left in a difficult situation with public opinion, with the risk of being held responsible for the possible failure to improve women's situation in retirement. Through its strategy of combining elements of retrenchment and expansion within a single piece of legislation, the right-wing majority managed to secure sufficient support for its reform plans and to win the referendum.

In the French case, the 1993 reform also included an element which was known as being palatable to the trade unions. The creation of a new 'Old age solidarity fund' intended to finance non-contributory pensions, was *de facto* a recognition of the division of tasks between the social partners and the state, the former being responsible for social insurance and the latter for non-contributory provision. Such a distinction had been one of the key demands of the labour movement in the previous years, since it provided a guarantee that they would continue to fullfil their managing role in old age branch of social insurance. To oppose this legislation, would have been against the very self-interest of the unions' leadership.

In this respect, the inclusion in pension reforms of carefully selected elements able to attract the approval of key actors (France 1993), or the combination of elements of expansion and of retrenchment within a single piece of legislation (Switzerland), has certainly contributed to strengthen the potential support of otherwise politically difficult reforms. Possibly, given the impressive level of controversy generated by the pension reform issue, the combination of retrenchment with *quid pro quos* might be a pattern for the future of pension policy in countries which lack the level of power concentration needed to impose new legislation without the support or acquiescence of external groups.

The sort of *quid pro quos* that are likely to be adopted in different countries seems to be related, among other things, to the institutional design of the scheme that is being reformed. Different institutional structures are likely to provide different opportunities for *quid pro quos*. For example, the trading of cuts with guarantees on the management side the pension scheme which occurred in the 1993 French reform, would not be an available option in countries where the labour movement is not involved in social insurance management. The next stage of the present discussion, thus, is to identify what sort of institutional opportunities for *quid pro quos* exist in different pension systems.

7.4. PENSION SCHEME DESIGN AND OPPORTUNITIES FOR *QUID PRO QUOS*

There are at least two reasons which suggest that the institutional design of a pension scheme has an impact on the sort of *quid pro quos* that are available to policy-makers to gain trade unions' support or acquiescence for their pension reform plans. First, the interests and the stakes that the various relevant actors have in a scheme, depend to a large extent on the role they play within that scheme. As seen in chapter 6, the French trade unions, who are involved in the management of the whole social security system, have consistently shown a strong attachment to their role. Second, depending on the structure of the scheme, some groups are likely to fare better than others. As a result those who are disadvantaged can be convinced to support retrenchment if they see their position improved.

In this respect, it seems that the distinction between pension schemes of Bismarckian and Beveridgean inspiration (see chapters 1 and 2) might bear some relevance with regard to what are the sort of *quid pro quos* that are likely to be demanded by the trade unions, or by other relevant pressure groups, and conceded by governments. The sample selected for this study includes countries which reflect the principles either model[3]. However, because in the British case the government did not include elements aimed at meeting the demands of the unions (nor of other external interests), it is difficult on the basis of this study to identify

[3] France reflects many features of the Bismarckian model. Switzerland, because it has a ceiling on benefits, does not exactly respect the Bismarckian principle of equivalence between contributions and benefits, but comes nevertheless nearer to the Bismarckian end of the spectrum in so far as entitlement and financing are concerned. Britain, comes closer to the Beveridgean model.

opportunities for *quid pro quos* in Beveridgean countries. In contrast, the presence of two Bismarckian-leaning countries in the sample makes possible the identification of likely patterns of *quid pro quos* in such countries.

Quid pro quos *in Bismarckian countries*

As pointed out elsewhere (Bonoli *et al.* 1996), trade unions in Bismarckian countries tend to view insurance based pension schemes as some sort of collective insurance plan covering all salaried employees (and the self-employed if included). As a result they generally disagree with governments when they use insurance-based schemes for general social policy purposes, such as poverty alleviation in old age. This is not only the case in France (see chapter 6) but also in countries like Germany and Italy. For instance, the German trade unions oppose their government's decision to apply a non-contributory eligibility criterion to social insurance benefits in the former GDR after the unification (ibid. 8). Similarly, in Italy, in the negotiations which led to the 1995 pension reform, a key demand of the labour movement was that the state take financial responsibility for the non-contributory elements of the insurance-based pension scheme (*La Repubblica* 14/3/95).

There are two possible reasons behind this common position of trade unions in Bismarckian countries. First, the exclusion of non-contributory elements from the main scheme, means a stricter correspondence between the contribution-payer community and the beneficiaries. This reduces the size of the transfer of resources from workers to other categories and increases the financial capacity of insurance-based schemes. Second, since in Bismarckian countries the trade unions are generally involved in the management of social insurance, a strict separation between non-contributory and insurance-based provision constitutes a *de facto* acceptance of their role. This second factor is especially strong in France.

In this respect, the institutional design of pension schemes of Bismarckian inspiration offers governments the opportunity to trade concessions on the separation between insurance-based and non-contributory provision with a reduction in the generosity of pension provision. This combination of measures aiming in different directions is likely to attract the support or the acquiescence of the labour movement. This strategy was adopted successfully by the French government in 1993 and could be adopted in Germany as well. The compromise is likely to satisfy both governments and unions. The former, without additional spending (expenditure is simply transferred from the social insurance to general government budget) is able to secure at least the acquiescence of the labour movement; the latter see financial pressure on insurance-based schemes reduced and as a result further retrenchment less likely. This sort of *quid pro quos*, however, has the disadvantage of being available only once. When the separation between insurance-based and non-contributory provision has been fully achieved, scope for such compromises is exhausted.

The Swiss case points in another possible direction for *quid pro quos* in Bismarckian countries. Since in these systems, entitlement to benefits is based on the payment of work-related contributions, groups with discontinuous employment patterns fare generally less well than those with 'standard' careers. This is particularly the case of women. As seen in chapter 5, this was the case in Switzerland. The situation of women in retirement, however, can be improved through the introduction of contribution credits and/or contribution sharing between spouses/partners. Both measures take into account the peculiarity of women's career patterns, by compensating for periods of inactivity. Bismarckian pension schemes, although they were designed with the male breadwinner model in mind, can be corrected and made more responsive to women's needs.

Progress towards gender equality in retirement can be also be used by governments to obtain support or acquiescence of progressive groups to their plan for pension reform. Generally, left-wing parties and trade unions are particularly sensitive to the issue of gender equality. If given the opportunity to achieve this objective in provision for retirement, these groups might accept cuts in the overall generosity of a pension schemes which they would otherwise oppose. This is precisely what happened in Switzerland in the 1995 pension reform.

The Swiss case, however, is rather peculiar because the level of gender inequality before the reform was rather significant (see chapter 5) and seen as unacceptable by large sections of the population. Possibly, the sort of *quid pro quo* seen in the Swiss case is more likely to occur when discrimination against women is strong. Countries which have already taken steps towards gender equality are obviously less likely to reach a compromise on pension reform in this way.

7.5. INSTITUTIONS AND THE POLITICS OF PENSION REFORM

Recent studies of the politics of welfare retrenchment have shown that there are two ways in which institutions have an impact on policy-outcomes (Pierson 1994; Myles and Quadagno 1996). First, the institutional structure of the relevant schemes affects the position of the various actors in relation to reform and points in some given directions if savings are to be achieved. Depending on pension scheme institutional design some reforms are likely to be less painful than others, and as a result more politically feasible. Second, formal institutions provide the rule of the game of policy-making, in pensions as well as any other area of public policy. Political actors have access to decision-making to a variety of degrees depending primarily on the constitutional structure of their country.

This study intended to deal with the second link, hence the selection of three countries with very different constitutional structures and policy-making patterns. Nevertheless, as the above discussion shows, the two elements of the institutional link cannot be treated separately, for they constantly interact in influencing the course of pension policy. Constitutional structures might put pressures on governments to seek a compromise acceptable to the unions, but pension scheme design affects the actual shape of such a compromise. If the objective of research is to shed light on the relationship between constitutional structures and policy outcomes, the institutional structure of the scheme reformed is an essential additional variable.

Constitutional structures, however, remain a crucial determinant of the course of pension policy. Pension reforms, because of their universal character (a change in pension policy affects virtually the whole population of a country), affect distributional mechanisms in which virtually every individual has a stake, and is likely to fight in order to preserve it. In this respect, the extent to which individuals, groups and political actors have access to policy making is a key element in the determination of given policy outcomes, as is the government's capacity to resist to external pressures. Access to policy-making and resistance to external pressures, of course, depend to a substantial extent on constitutional structures.

This relationship is perhaps most obvious in the Swiss case, where through the referendum system Swiss voters can challenge legislation which they regard as unsatisfactory. Almost any group can threaten to challenge new pension legislation at the polls. If the measures proposed are unpopular, then there is a substantial risk of defeat. The result is that the ruling majority is not particularly capable to resist external pressures. That is why the right-wing majority has been inclined to negotiate the content of reform with external groups and to include measures likely to reduce the potential unpopularity of pension cuts. When agreement became impossible, then the strategy was to combine retrenchment and expansion elements within a single piece of legislation, so as to strengthen the pension reform's chances to survive the referendum challenge

The British government has a much stronger capacity to resist external pressures during policy-making, but is more vulnerable to electoral punishment. In the British electoral system a relatively minor swing from the governing party to the opposition can make the difference from being in power or not. For this reason, the key preoccupation of British policy-makers was probably not so much the political feasibility of reform, but its likely electoral repercussion. By choosing a retrenchment option which affected only a section of the population, and by reducing its short term negative impact through tax concessions (the '2 % bribe), the Thatcher government managed to neutralise the electoral threat.

In France, the capacity of the government to resist external pressures varies according to power configuration: it is much stronger when President and Prime Minister belong to the same camp. When this was not the case, in 1993, the government accepted to include some of the trade unions' demands in its new pension legislation. These concessions were related to the management of the basic pension scheme and were relevant for the trade union leadership but not for the general public. Unlike in the British and Swiss cases, the French government was not trying to appease public opinion (possibly also because it had just achieved a landslide victory) but was after union acquiescence. The popularity of pensions with the public, however, arguably played a role in France as well, since it constitutes an asset for the trade unions when they decide to set up informal protests.

Constitutional structures, however, are not the only factor affecting governments' capacity to resist external pressures. As seen above, at least four other elements[4]

[4]These are: the existence of a corporatist tradition; electoral cycles; electoral results, and power configuration.

have affected power concentration and policy-making patterns in the three countries studied. Some of them, have little to do with constitutional structures and institutions. The existence of a corporatist tradition depends primarily on the strength of the labour movement, and thus on socio-structural factors. Electoral results, though related to institutions (through electoral laws) depend on a wide range of other factors. The impact of institutions, thus, should not be exaggerated, and in particular, should not be considered as a fixed and constant feature. As the French example has shown, a combination of electoral concerns and power configuration prompted the government to adopt a less uncompromising stance than what is usually allowed by French formal institutions.

Formal institutions, and particularly constitutional structures, are an important factor in determining the course of policy. This is particularly true in the case of pensions, because of their universal character. However, the impact of formal institutions cannot be appreciated if these are looked at out of their social and political context. It is the analysis of the interaction between formal institutions, social structures, political contingencies and pension scheme design that best accounts for the observed patterns of retrenchment in the area of pensions.

Conclusion

Like most doctoral dissertations, the present one has gone through a number of phases during which its goals, its ambitions and its central arguments have somewhat evolved. The initial objective of this study was to explore the link between constitutional structures and the political feasibility of welfare retrenchment. The idea behind this was to show that retrenchment was easier in countries where constitutional structures concentrate power. That is why I decided to cover countries like France, Switzerland and Britain, known for having very different constitutional structures.

However, as I started gathering information on pension reforms in the three countries, I realised that the relationship between constitutional structures and welfare reform was much more complex that I had assumed initially. In addition, I had the chance to read Paul Pierson's book '*Dismantling the Welfare State*', which argued that the relationship between formal institutions and retrenchment was not a linear one. Formal institutions which concentrate power, by the same token, concentrate accountability. As a result, their overall effect on welfare reform remains uncertain. This view has been confirmed by the present study, as reforms have succeeded in both Switzerland and Britain, two opposites as far as constitutional structures are concerned, and have failed in France, which is somewhere between the two.

As I continued in my research work, I realised that the initial question could be fruitfully expanded. Instead of simply asking whether constitutional structures had an impact on the feasibility of retrenchment policies, I began to look at the shape of given welfare reforms, and at other non-constitutional variables which were likely to affect them. In particular, I realised that constitutional structures *alone* explained rather little: their relevance depended on a number of other factors such as electoral results, the relationship between the state and organised interests, and so forth. The subject-matter soon became more complex that I initially thought it would be.

These problems emerged at various stages of the research work, so that while on the one hand I was becoming aware of the complexity involved in this study, on the other I was having access to increasing amounts of information concerning policy-making processes and on pension reform politics. This made my job easier, as after the completion of the empirical work, the theoretical links between independent and dependent variables emerged very clearly from a simple comparison of the three case studies. To have highlighted some theoretical links, can be regarded as the key contribution of the present study to the ongoing debate on the current transformation of welfare states.

Key findings

This study has explored the question of whether formal institutions and in particular constitutional arrangements have an impact on social policy reform in the area of pensions. On the basis of a new-institutionalist understanding of public policy-making, these institutional structures are seen as imposing limits on the content of pension reform. Radical and unilateral reforms have been put forward only in contexts of strong power concentration. In contrast, institutions which provoke fragmentation of power have tended to be associated with reforms that have included some of the demands formulated by external interests, in general by the trade unions.

This was very clear in the case of Switzerland. There, a constitutional structure that encourages power-sharing and provides veto points to unsatisfied minorities has produced a pension reform which combines element of retrenchment and of expansion. In the Swiss 1995 reform, the key saving measure was to increase the retirement age for women from 62 to 64. This was fiercely opposed by the Socialist Party and by the labour movement, who had been arguing in favour of a reduction in the age of retirement in order to reduce labour supply and unemployment. However, the parliamentary right-wing majority decided to include, within the same piece of legislation, provision for contribution credits for informal carers and a contribution-sharing system for married couples. These two measures are going to affect mainly women and are meant to compensate the loss due to a higher retirement age for this group. More crucially, however, contribution credits and contribution-sharing had been among the key demands of the left and of the labour movement in pension policy for a few years. The result was that the left did not oppose the pension reform which managed to survive the referendum obstacle and is now law. Without the inclusion of such *quid pro quos*, the government would certainly have had more problems in getting its legislation accepted at the polls.

In France this study has looked at two pension reforms, adopted under different political circumstances. As seen in chapter 6, the French constitution can provide the opportunity for executive power-sharing, which occurs when the presidency and parliament are controlled by different parties. The 1993 reform was adopted in this situation of fragmented executive power, and the result was that it included provision for the creation of an 'Old age solidarity fund', which met some of the trade unions' demands. In 1995, with the election of Jacques Chirac to the presidency, power fragmentation gave way to a unified executive. In this context of strong power concentration, the French government put forward plans for a second pension reform, which did not include any significant concession to the labour movement. In response, the latter managed to set up an impressive mass protest movement which eventually forced the government to drop its plans.

Finally, the British case displayed both a strong level of power concentration and a reform which did not include any significant *quid pro quo* for external interests. Moreover, the savings brought about by the 1986 pension reform were de facto targeted on a section of the population only: those who did not have access to occupational pensions. Many voters, mainly middle class and thus more inclined to support the Conservative party, did not experience any loss because of the changes in legislation. As a result of this strategy, the government managed to minimise the risk of being electorally punished.

The comparison of these three case studies points in a number of directions with regard to the identification of theoretical links.

First, what best accounts for patterns of inclusion and exclusion in policy-making is not the constitutional order of a country alone, but its interaction with a number of other features such as electoral results, political cycles and government - unions relationships, or, on an abstract level, the factors likely to affect the level of power concentration with the executive. On this basis, this study has shown that strong power concentration tends to be associated with exclusive policy-making and with unilateral pension reforms. In contrast, pension reforms adopted in contexts of power fragmentation, tend to include *quid pro quos* for groups who oppose cuts in pension legislation, and to be more balanced in their distributional outcomes.

Second, the timing of reform seems to be related to the level of power concentration. When the latter was strong, retrenchment-minded governments have been able to adopt reforms designed to anticipate predicted (as opposed to current) financial problems (UK 1986). In contrast, in contexts of power fragmentation it has proved more difficult for governments to anticipate expected financial difficulties. Generally, reforms have been adopted after a few years of recurring deficits in pension scheme budgets (France 1993).

Third, power distribution has had an impact on the scale of change brought about by the relevant pension reforms. Profound changes in pension legislation, particularly those likely to affect distributional and political equilibria surrounding a given scheme, have succeeded only in contexts of strong power concentration. Particularly, the UK 1986 reform has altered the politics of pensions in a substantial way. First it has weakened the constituency supporting SERPS; second, it has created a new, fairly large constituency, personal pension holders, with their own set of interests in pension policy, and finally, it has reinforced the stakes that the financial sector has in the pension system. In contrast, power fragmentation tends to be associated with incremental change and with strict path dependency. Cuts included in the Swiss and in the 1993 French reforms, did not affect in a significant way political equilibria. The relationships between the various actors with a stake in pension policy remains unchanged.

These findings suggest that particularly radical and unilateral reforms may not be 'politically feasible' in countries where constitutional arrangements encourage power fragmentation. This could simply mean that in these countries the adaptation process of welfare states will take longer, but will eventually produce the same results obtained in countries with strong power concentration. However, the fact that power fragmented system tend to combine retrenchment with expansion, could result in an alternative path to adaptation, which combines the requirements of economic competitiveness with responses to emerging needs. Trading cuts in provision with an improvement of women's treatment (as it happened in the Swiss reform) could be an example.

If consensus does produce qualitatively different results from confrontation, perhaps the expected convergence in social policies due to common socio-economic pressures will not materialise. While in the past the main obstacle to convergence has been politics, there are strong reasons to believe that in the current and future phase of welfare restructuring this key role will be played by formal institutions. As socio-economic pressures due to ageing and globalisation intensify, the room for manoeuvre allowed to left-wing parties in government diminishes. As a result, although recently the left has been very successful in a large number of European countries, the sort of policies adopted when in government are not significantly different from those enacted by their right-wing predecessors. The result is a change in the configuration of welfare politics: the classical opposition left-right is being replaced by a confrontation between governments (regardless of political persuasion) and the labour movement. This is increasingly clear in countries like Italy and France (currently ruled by left-of-centre governments), and will possibly emerge in Britain, although the traditionally strong relationship between the Labour Party and the unions might mitigate this shift. As the political orientation of governments looses relevance as a determinant of the direction of policy, the role played by formal institutions is likely to become more visible.

The limits of the present study - Directions for future research

With regard to independent variables, this study has concentrated mainly on institutions. These, however, are not likely to be the only factor behind current and future change. As acknowledged throughout this study, socio-structural factors, like the strength and the mobilising capacity of trade unions, seem to be playing a substantial role in the current process of welfare state restructuring. Like constitution-based power fragmentation, a strong and well integrated labour movement can provide a formidable obstacle for governments committed to cut back on welfare provision. The trade unions' ability to set up and sustain mass protest, however, depends also on the popularity of welfare arrangements and on people's perceptions of the state's obligation towards them. These factors refer to the cultural level, and arguably would need to be analysed as well.

A second limitation lies with the small number of countries covered. Possibly, in order to ascertain with more accuracy the relationship between constitutional structures, patterns of power distribution and social policy reform, one would need to investigate it in a larger number of instances, and in a wider number of countries. In addition, given the fact that this analysis has covered only pensions, additional research should try to establish whether these findings are sector-specific or can be generalised to other areas of welfare.

Finally, this study, together with an increasingly large number of other ones, has tried to contribute to a wider research effort, which consists in the exploration of the relationship between institutions and policy-outcomes. This is certainly relevant to current debates on the future of the welfare state. However, it seems that if analysis were to be limited to institutions, our understanding of current change would be at best partial. After having looked at socio-economic, at political and now at institutional explanations of social policy change, I believe that a possibly fruitful next step is to look at the impact of cultural factors on welfare policy.

Intuitively, there seems to be substantial cross-national differences in the perceptions of the relationship between the individual on the one hand; and the state, the market and the family on the other. Particularly, variations concerning what is regarded to be the reasonable obligations an individual attributes to each of these three agencies. A recent study has shown the existence of substantial cross-national differences in what is regarded to be an appropriate level of family obligations in various European countries (Millar 1996). This sort of research could be applied to the relationship between the individual and the two other agencies: state and market. Perhaps this might help to account for why Continental Europeans seem to be prepared to resist welfare retrenchment to a larger extent than Britons or Americans

This study has tried to contribute to the debate on the current transformation of welfare states, by highlighting some mechanisms that relate constitutional structures to policy outcomes in the area of pensions. However, I hope that it will also be understood as a invitation to pay more attention to the politics of pensions when reform is being considered. The pension problem is at least as much a political problem as an economic one, and it is pointless to look for solutions on an abstract level without taking into account country-specific degrees of political feasibility. Any discussion on the future of pensions should be informed by what we know with regard to the acceptability of different measures by various actors and in different institutional contexts.

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