When is an Innovation? Recent Pension Reform in France, Germany, Italy and the UK

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Abstract

Innovation in social policy is difficult and innovation involving retrenchment is doubly difficult. Pressures from changes in population structure and in patterns of working life are often seen as demanding corresponding changes in European pension systems. This article reviews recent reforms in France, Germany, Italy and the UK. The evidence indicates that reform is indeed difficult, but that it is not impossible for nations whose welfare systems are often seen as highly path-dependent to achieve appropriate change. Changes by more obviously innovative governments may be substantial but not necessarily appropriate to the extent of the problems they face. Innovative capacity seems best understood in terms of the institutional structure of particular countries. It is important not to over-value innovation for its own sake, without taking into account its impact on the quality of welfare provision.

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Introduction

Seen from a broad-brush perspective, welfare states tend to look the same. When examined in detail they all look different. Thus Wilensky's path-breaking analysis of the factors influencing overall Welfare spending in 64 countries emphasized general economic development: "Economic growth and its demographic and bureaucratic outcomes are the root cause of the general emergence of the welfare state... in any systematic comparison of many countries over many years" (1975, p. xiii).

However, studies which try to examine the development of particular services in a relatively small number of countries tend to stress the role of factors specific to the countries. Immergut's analysis of the development of health care services in France, Sweden and Switzerland, for example, draws attention to the part played by institutional factors in facilitating professional opposition to attempts by government to gain greater control over the system . 'Specific institutional configurations establish strategic contexts for political contests that determine those interests that can be effectively expressed and which ones will prevail ... political institutions help to shape the definition of interests and their expression in politics" (Immergut, 1992, p. 5). Similarly, Daly concludes a recent examination of developments in relation to cash benefits in a number of European countries: 'the complexity and sociological richness of what is going on render debates about convergence or divergence in welfare states superficial and not very interesting' (1997, p.145). Welfare states are individuals. How can we produce general accounts of the forces that shape their growth?

The application of regime theory in comparative social policy has proved particularly fruitful in offering a way out of this problem. Drawing on the 'new institutionalist' perspective (for example, Evans et al, 1985) and on the social policy tradition concerned with the distribution of advantages and benefits from any policy ('who gets what, when, where and how'), Esping-

Andersen identifies ‘three highly-diverse regime-types, each organized around its own discrete logic of organization, stratification and societal integration’ (1990, p.3). Other writers have debated the existence of other regime types (for example Leibfried, 1990; Castles and Mitchell, 1990; Kwon, 1997). Esping-Andersen’s focus on social class - ‘class mobilization (especially of the working class)’ and ‘class-political coalition structures’ (1990, p. 29) - as at the heart of regime differentiation is also open to challenge (for example, Lewis, 1993; Orloff, 1993). However, the regime approach has proved enormously valuable in facilitating the development of comparative work because it allowes us to move beyond the separate analysis of each welfare state as a unique individual and provides a clear theoretical basis for the identification and differentiation of particular groupings.

Path-Dependency and Policy Feedback

The regime approach brings the issue of path-dependency to the fore. If regimes are to provide the foundation of explanation for the major differences between welfare states they must be seen as relatively stable over time. Skocpol and Amenta stress the importance of ‘policy feed-back’: ‘ social policies, once enacted and implemented themselves transform politics’ (1986, p. 131). Esping-Andersen argues that regimes ‘follow qualitatively different historical trajectories’ (1990, p.3) and that ‘the historical legacy of regime institutionalization’ is itself a major causal factor in the theory of welfare state development (p. 29).

The notion of policy legacies, trajectories or paths directed by feedback from decisions in the past that created the current institutional structure of welfare systems in influential in many accounts of current policy development. For example, Myles and Quadagno (1996) group recent developments in relation to pensions ingeniously by arguing that the institutional opportunities for change in the face of demographic and cost pressures provided three distinct pathways for reform: essentially, the ‘Bismarckian’ system (earnings-related benefits financed through contributions) responds by strengthening the relationship between pension entitlement and contribution record (France, Austria, US). Conversely, Beveridgean schemes tend to advance the role of means-tested benefits: flat-rate contributory schemes tend to erode the basic pension so that means-tested last-resort provison is more important (Norway, UK), while flat-rate non-contributory schemes (Australia, Canada) tend to introduce or expand means-testing in relation to the benefits they pay. It is difficult to confront the contributory principal directly, especially in the Bismarckian model, while the cut back or means testing of benefits that are not formally linked to what is paid is politically easier. Thus pension trajectories tend to diverge during the period of spending constraint as a result of their organizational structure, whereas they had tended to converge during the post-war period of expansion (see also Daly, 1997, p. 136).

The argument that the legacy of previous decisions about institutional structure is a strong influence on current development is somewhat depressing in the context of current debates about European welfare. First there are strong pressure for innovation in European social policy. Secondly the argument that regimes are stable and path-dependent implies that change will be difficult to achieve without abandoning the highly successful welfare state system which is Europe's chief legacy to the civilized world.

Central to this argument is Esping-Andersen's recent analysis of 'the possibility of welfare state failure that is, the edifice of social protection in many countries' is 'frozen in a past socio-economic order that no longer obtains, rendering it incapable of responding adequately to new risks and needs' (1996, p.2). 'the dominant picture is of a "frozen welfare landscape"... continental Europe represents the clearest case of the impasse' (1994, p. 23). If welfare states are unable to change, their stability will render them obsolete in world where the family structures and patterns of employment for which they were designed no longer apply, 'The cards are very much stacked in favor of the welfare state status quo.. This is nonetheless quite problematic since..a major overhaul of the existing..edifice must occur if it is meant to produce a positive-sum kind of welfare for post-industrial society' (1996, p.267).

Pitfalls to Retrenchment

One important study of attempt to change the direction of welfare policy is by Pierson. His work takes an extreme case - the self-consciously radical reforming governments of Thatcher in the UK and Reagan in the US. If these governments cannot shift policy in the direction they desire, it is unlikely that governments with a less powerful mandate or less clearly defined programme will succeed in doing so. He concludes that 'retrenchment is a ... difficult political exercise...on the whole, the challenges proved to be too much for both administrations' (1995, pp.1-2). Pierson distinguished between systemic retrenchment ('policy changes that alter the context for future spending decisions' - p. 15) - such as defunding, shifting public opinion, modifying welfare institutions or weakening interest groups - from programmatic retrenchment, which is understood as the cutback of particular programmes. The former may be more important than the latter in determing future developments in welfare and in ensuring that current programmatic changes are sustained over time. It involves a direct challenge to the path-dependency of policy. He argues that retrenchment is difficult: as a general rule of economic psychology, based on the endowment theory of Tversky and Kahneman (1981) and Thaler (1980), losses are felt more keenly than the equivalent gains are valued. Expansion typically benefits a particular group with the cost diffused through general taxation. The losses are spread while the gains are concentrated. In the case of retrenchment, the reverse is true: the gains (to taxpayers) are diffused through the population whereas a particular interest becomes keenly aware that it is damaged. The loss is highly visible and highlighted in such a way as to maximize the experience of damage? while the lower valuation of gains is reinforced by its widespread allocation. As a result of this phenomenon governments seek to minimize losses through strategies of obfuscation, division of opponents and compensation to buy off particular groups.

Nonetheless retrenchment is not easy. The Thatcher government in Britain succeeded in programmatic retrenchment in the case of pensions and housing, but not in relation to income support, health care and disability benefits. The Reagan administration was only successful in relation to housing expenditure (p. 143) In relation to systemic retrenchment, the Thatcher government is seen as having weakened some of the interest groups associated with state spending through civil service and administrative reforms, while the Reagan government had greater success, particularly in defunding the welfare state by making its tax base more visible and creating obstacles to tax indexation (p. 162).

Pension policy is a major area of debate in European countries, and proposals for reform typically involve retrenchment (Daly, 1997, p. 136). One recent study traces 55 Government reports on the future of pensions in EU member states in the past decade (CEC, 1996, p. 13) in addition to studies by international agencies such as the OECD (1988, 1994a) the IMF (Heller et al, 1986) and the EU (CEC 1995a, 1995b, 1996). The case for innovation is based principally on concerns about the future cost implications of pension schemes as a result of the commitments which currently exist, the way these will develop as schemes mature, demographic shifts which may influence the balance between the number of pensioners and the number of contributors or tax-payers financing the schemes, changes in the labour market associated with earlier retirement and hence a longer period on pensions, shorter working lives, more flexibility in work, at least for some groups, leading to interrupted employment records and possible exclusion from schemes dependent on work records.

Table 1 gives estimates of likely shifts in the demographic balance from 1995 to 2025. The ratio of over 65s to people of working age is estimated to increase by about 50 per cent over the next 40 years, with particularly marked increases in the Netherlands, Finland, Italy, Ireland and Germany. Such projections are subject to a wide margin of uncertainty and depend crucially on assumptions about fertility, migration and mortality. This uncertainty is indicated by the frequency with which projections are revised. For example the Commissariat du Plan estimated in 1991 that the ratio of over 60s to those aged between 15 and 59 would rise to 55 per cent by 2040. Four years later the estimate was revised to 63 per cent (CEC, 1996, pp. 64-5, p. 19). Similar examples can be found in other countries, and projections should be seen as giving an idea of the possible relative scale and direction of trends rather than precise estimates. However there is a considerable measure of expert agreement that real problems confront some at any rate of the European governments in relation to provision for older people over the next half century, with a probable increase in spending of between 30 and 40 per cent in most countries between 1980 and 2030 (CEC, 1995a, p.114). This area is a strong focus for policy reform.

Table 1: Population 65 and Over as a Percentage of the Population aged 15-64

	1995	2015	2025	2025/1995 in %
Austria	22	27	33	50
Belgium	24	29	37	54
Denmark	23	28	31	35
Finland	21	29	37	76
France	24	29	36	50
Germany	23	31	37	61
Greece	23	31	34	48
Ireland	18	22	29	61
Italy	23	34	38	65
Luxembourg	20	25	30	50
Netherlands	19	27	33	74
Portugal	21	25	28	33
Spain	22	29	33	50
Sweden	27	31	35	30
UK	25	27	33	32
EU	23	30	35	52

Source: CEC, 1995b, p.42

In order to make progress it is necessary first to define the notion of innovation. We are here interested in *changes which resolve an identified problem* and also *achieve a degree of permanency* in its solution. It is difficult to be confident that policy shifts which are vulnerable to swift reversal will resolve a long-term problem. Thus Pierson's distinction between programmatic and systemic shifts is important. Genuinely innovative shifts must redefine the policy agenda in such a way as to reduce substantially the possibility of reversal. The essence of the claim of a 'frozen welfare landscape' is that innovations which resolve the problems confronting current welfare arrangements are peculiarly difficult because the pattern of interests which is advantaged by current arrangements is able to influence policy debate such that reform is impossible: policy feedback in Skocpol and Amenta's terms stifles change. The case of pensions involves substantial policy changes affecting large numbers of people and considerable sums of money. It constitutes a good case for further examination of the theory.

We will consider recent pension reforms in France, Germany, Italy and the UK - the four largest European Union member states accounting for about two-thirds of the EU population and three-quarters of the GDP. Pierson argues that the UK has been successfully innovative in pensions policy, while Germany tends to stability (1996, p 162 and 170). France and Italy are often seen as countries which find reform extremely difficult (Hantrais, 1996, p. 67; Ferrera, 1993; Niero, 1996, p. 132). In all four there have been a number of major reforms and proposals for reform since the mid-1980s. We will review developments in each country in turn and then attempt to draw conclusions about the success of reform in achieving a resolution of the defined problem that appears likely to be stable over time and, more generally, about the relationship between innovation and path-dependency.

France

The French pension system is complex. Private sector employees have a two-tier pay as you go system - the *régime général,* which pays about a third of all pension benefits (with a separate basic scheme for farm workers) plus supplementary occupational schemes. In some cases third-tier *régimes surcomplimentaires,* typically funded, exist. Self-employed are covered by a basic occupational scheme and sometimes a second tier scheme. Public sector employees receive pensions from *'régimes speciaux'.* There is also a minimum income for those over 65 paid from the *Fonds de Solidarité Vieillesse.*

The different schemes vary in contribution rates, retirement ages and formulae for calculating pensions, although there is currently a process of simplification. There are about 120 basic schemes and 400 supplementary ones. Individuals are typically entitled to pensions from several schemes -the OECD estimates that someone who has worked the required number of years 'receives on average a pension from 2.8 schemes, 1.5 from a basic scheme and 1.3 from supplementary schemes' (1994b, p. 81). Pension rates improved rapidly during the 1960s, 1970s and 1980s and the standard of living of the retired population is now officially seen as having reached that of workers (CEC, 1996, p. 60).

The cost of the schemes provoked concern in the 1980s, particularly fueled by demographic predictions and by the impact on the funds of policies which effectively lowered the age of retirement on full pension from 65 to 60 between 1983 and 1985. The reduction in retirement age proved extremely popular (Hantrais, 1996, p. 64). By the end of the 1980s about three quarters of workers had left the labour market before statutory retirement age (Guillemard, 1993, p. 69). A white paper in 1991 made three main recommendations designed to reduce the commitments of the schemes: that pensions should be indexed to prices or to wages net of social security contributions; that they should be calculated on the best 25 years salaries and that the number of years of contributions required for a full pension should be raised from 37.5 to 41 or 42 (Government of France, 1991). The paper calculated a notional average gross contribution rate necessary to keep schemes solvent. This was put at 19 per cent in 1990, and would rise to about 26 per cent by 2010 and to between 31 and 42 percent (depending on the assumptions made about demography, unemployment and participation) by 2040. It was estimated that the reforms would allow contributions to remain stable up to 2010.

Legislation was introduced in 1993, applying mainly to the basic scheme (42 per cent of total pension expenditure). These based uprating on prices not wages, shifted the calculation to the 25 best years, raised the number of years contribution for a full pension to 40 and trasferred responsibility for welfare pension expenditure from the funds to tax finance administered by central government. More recently, the General Planning Committee has made further projections based on rather more pessimistic assumptions than those used in 1991, particularly about dependency ratios (Commissariat Général du Plan, 1995). These consider three scenarios. The first projects pensions spending assuming the 1993 reforms had not taken place. The average contribution necessary to maintain the schemes in equilibrium is expected to rise from 10 per cent in 1990 to 32 per cent in 2015 and 48 per cent in 2040. The second scenario analyzes the impact of the reforms and estimates that rates will increase to 28 per cent in 2015 and 41 per cent in 2040. The third scenario assumes the extension of the reforms to all schemes, with a rise to 24 per cent by 2015 and 34 per cent by 2040.

These estimates are of course subject to uncertainty in their basic assumptions, but do give an idea of the significance of the pressures on the schemes. It seems reasonable to conjucture that the projected costs would be difficult to sustain. OECD analysis reinforces this picture, stating that the 1993 reforms will be adequate to preserve the balance of the general scheme until 2010 but thereafter the increase in numbers of elderly people and decline in the working population will lead to a 'rapid erosion of the financial soundness of the pension scheme' (OECD, 1995, p. 41). In this context further proposals for reform were made in the Plan Juppé, presented to the French parliament in November 1995. The discussion of this plan below draws heavily on a detailed analysis by Bonoli (for example, 1997) and Bonoli and Palier (1996).

The plan provided an angenda for social policy reform. The main points were:

> restructuring of the healthcare system through the creation of region budget-holding and planning bodies, the increase of health insurance contributions for unemployed and retired people to bring them closer to those paid by people in work, amalgamation of the existing four health insurance schemes into a universal scheme and the introduction of tax finance into health care provision through an increase in the CSG (a tax levied on all forms of income, originally introduced as a crisis measure in the early 1980s and used in 1991 to fund Family Allowances).
>
> feezing of family benefits in 1996, their taxation in 1997 and means-testing in 1998.
>
> the reform of the public pension schemes (régimes speciaux) through introduction of the same reforms as applied to the régimes généraux in 1993.
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> introduction of a new tax to repay the accumulated debt of the social security system, an amendment to allow Parliament to vote on the social security budget and greater state representation on the borads which run the social security schemes.

These reforms had two objectives - to solve the financial problems of the schemes and reduce state spending, and also to extend state power over them in the process begun with the transfer of responsibility for poor reflief pensions to the tax-financed central government in 1993. The various funds which constitute the French social insurance system are managed by the social partners not the state. The administrative change in health care, the changes in the constitution of social security boards, together with the extra powers of Parliament and the shift towards state taxes rather than contributions set by the management of the funds secure a much greater capacity for government to influence the development of the schemes. It is noteworthy that the pension reform is to be carried out by a special Commission set up for the purpose and not directly by government in response to the semi-independent position of the funds.

The plan provoked strong protests including a national rail strike and an underground strike which paralyzed communications in Paris, a postal workers and teachers strike and demonstrations involving over 2 million people, mainly state sector workers. The plans for public sector pension reform on 1993 lines were withdrawn although the changes to administrative practice remain. Some of the measures to restructure the state-run railways were modified and the protest movement lost its impetus. The current government, led by the socialist prime minister Lionel Jospin, is continuing with the policies of the revised Juppé plan, including the means-testing of child benefits, despite the very strong opposition of the trade union movement in France to any diminution in its power over the social security benefits it can deliver to workers. Thus government did not succeed in the immediate objective of pension reform and the prospects are for a gradual rise in pension contributions, accelerating markedly in the early years of the next century.

The question that arises is whether the stronger state representation on the boards, the use of taxes levied by Parliament rather than increased contributions levied by the funds to pay the debts of social security funds and the fact that Parliament can now scrutinize social security budgets will put the government in a position where changes can be forced on the schemes to ensure their future solvency. In relation to policy innovation in pensions, French governments in the 1990s have not so far succeeded in implementing measures that resolve the defined problems of future commitments and high contribution levels in the next century. However they have achieved structural changes that offer the possibility of setting debates about social security on a new path, although whether this constitutes systemic retrenchment in Pierson's terms is as yet unclear. From one perspective they form part of a 'frozen welfare landscape' but from another, the potential for reform exists in a way it did not before.

Germany

The German pension system consists of basic schemes providing pay as you go earnings-related contributory pensions to all employees and some self-employed workers and occupational schemes providing supplementary pensions to some employees. Statutory pension insurance, covering about 80 per cent of employees and accounting for about three-quarters of spending on security in old age (Schmöhl 1993, p. 40), and civil service pensions are the most important basic schemes. Projections of very substantial pressures on the scheme by the end of the first quarter of the next century led to reform in 1992. The main reasons for concern were a decline in the retirement age and in fertility rates and an increase in life expectancy. The ratio of pensioners to workers was projected to double between 1990 and 2030 from 59 to 118 per cent and the combined employers' and employees' contribution to increase from 19 to 36 per cent (the pension funds also receive a tax subsidy equivalent to about 4 per cent of contributions).

The changes had two objectives. Future commitments to pension spending were to be reduced by a phased increase in retirement age for men and women from 63 and 60, respectively, to 65; abolition of flexible early retirement schemes and the introduction of a penalty for those who take pension between 62 and 65, a reduction in the contribution credits for time spent unemployed or in higher education, and the linkage of pension uprating to net rather than gross wages. However, improved contribution credits for years spent in child-rearing (up from 2 to 3) and the upgrading of pensions for low earners will increase spending somewhat. The reforms will also increase revenue by linking federal contributions to employees contributions and introducing a 'self-regulating' mechanism whereby contributions (plus federal subsidy) are set at a rate which will cover next year's pension spending and maintain a reserve sufficient to meet one month's pensions. The reforms were subject to lengthy negotiation and commanded a broad range of political consensus, being supported by all political parties except the Greens and by employers' organizations and trade unions. The measures to improve pensions for time spent out of the labour market in child-rearing and for low earners were necessary to ensure SPD support.

The impact of the changes can be assessed by projecting the effect on combined contributions. The projected contribution rate falls by 3 per cent for 2010 and thereafter the effect is more marked with a fall by 10 per cent by 2030 (Social Security Advisory Board, 1989, quoted in CEC 1996, p. 68).

However, further pressures emerged from reunification. Confidence in the stability of the consensus underlying welfare policy is indicated by the decision to pursue 'social union' - a phased national extension of the West German social security scheme, involving large transfers to the East (Lawson, 1996, p.41). East and West German pensions differed substantially, the former tending to be lower, particularly in the case of widows, since women tended to have greater labour market participation in their own right. In the case of women, the social union legislation 'did little to facilitate employment prospects and in some ways backtracked towards traditional dependencies' (Lawson, 1996, p. 41).

East German pensions had been revalued in 1990 and 1991, resulting in an average increase of 60 per cent within a year. The extension of the 1992 Act to the East resulted in large transfers equivalent to about 10 per cent of the contribution revenue raised in the West. These financed about 45 per cent of East German pension spending (CEC, 1996, p. 67). The additional pressures on the fund are likely to grow more severe. A projection by the Federal Government carried out in 1995 indicates that the contribution rate will rise by between 1 and 5 per cent by 2009 (depending on labour market participation) and thereafter increase further (Rentenversicherungsbericht der Bundesregierung, quoted in CEC, 1996, p. 69). A report by Deutsches Bundesbank argues that social contributions are already very high and the situation is likely to deteriorate further as a result of reunification: 'the present pension system cannot be maintained in the long run unless further perceptible adjustments are made' (1995, p. 29, quoted in CEC, 1996, p. 68).

In 1996 early retirement schemes were substantially cut back, the increase in retirement age phased in more rapidly and training credits reduced. A commission was set up to evaluate further reforms. Proposals in late 1997 to increase the contribution rate to 21 per cent were opposed by the SPD and alternative proposals to shift the extra financial costs onto Value Added Tax were initially opposed by the junior coalition partner, the FDP, but finally accepted. President Hundt of the National Employers' Confederation has called repeatedly for social security cuts including a reduction of the pension replacement rate (Süd-Deutsche Zeitung, 3.12.97). Various plans to cut state deficits in view of the Maastricht Treaty requirements have been defeated in the upper house of parliament in

1996 and 1997, mainly through SPD opposition to packages which involve restructuring state spending and tax cuts with insufficient protection for weaker groups. In fact, Germany can meet the treaty requirements as a result of an increased growth rate and changes in accounting practice. But it is widely accepted that little progress in social reform can be made before the 1998 national elections.

The German reforms modified the system to meet the problems identified at the end of the 1980s and made some changes relevant to the pressures resulting from reunification. The German pension scheme will require further modification to meet the demands of the next century, particularly as a result of the additional costs of provision in the Eastern Länder. It is unclear whether the consensus that has sustained policy-making so far will be maintained. There has been no substantial shift in the organization of German pensions or in the policy agenda that surrounds them, so it is impossible to identify innovation in the sense of a qualitative shift in pension policy making - systemic retrenchment. However. it may be that the corporatist framework of German policy-making has retained its ability to construct a consensus so that stable solutions to problems are possible without innovation in this sense. The flexibility that this system contains despite its considerable inertia is illustrated by the introduction of an innovative social care insurance scheme in 1995, while other European states continue to debate solutions to the problem of financing care for frail older people. The frozen welfare landscape' does not necessarily imply an incapacity to carry out appropriate pension reforms.

Italy

Italian state pensions are earnings-related and financed on a pay as you go basis. The INPS (National Social Security Institute) accounts for just over 70 per cent of pension spending and administers four major and about 40 minor schemes for private sector and most self-employed . There are substantial differences between the schemes, particularly between those for self-employed and for employees. The state administers rather more advantageous provision for public sector workers directly, accounting for about 25 per cent of spending (Niero, 1996, p. 119; CEC, 1996, p. 76). Pension spending rose rapidly from the 1960s, due to demographic changes, the inclusion of self-employed , pension uprating at or above the level of wage increases and the introduction of 'seniority pensions', which permitted private sector workers to claim full pension after 35 years contributions and public sector workers after 25 years. This measure was extremely popular but put heavy demands on the schemes. In addition disability pension schemes were introduced in the 1960s and 1970s and expanded rapidly. These schemes were particularly subject to clientelistic abuse, especially in the South (Ferrera, 1985). Pension rates are relatively generous - by 1980 the pension for a manufacturing sector worker was about 70 per cent of earnings compared for 53 per cent in Germany or 40 per cent in France (Kangas and Palme, 1989).

A number of reports from the late 1970s onwards by academics and by the Treasury, the INPS and the State Accounting Office projected strong financial pressures and stressed the need for reform. The indexation system was revised in 1984 as an anti-inflation measure which reduced the pressure on the scheme, temporally. However, it proved impossible to secure support for any of the schemes proposed by successive Ministers for Labour and Social Security in the 1980s, and pensions benefits were substantially increased, particularly for self-employed , in 1990. Further projections in 1991 by the IMPS and the Accounting Office pointed to 'alarming trends' (CEC, 1996, p. 76) and in 1992 a major reform of the pension system was implemented. This reform applied equally to all state pension schemes with the intention of reducing fragmentation between the different schemes.

The reform was designed to hold future public pension expenditure constant as a proportion of GDP. The main points were: a phasing in of a five year increase in retirement age to 60 for women and 65 for men; an extension of the period for calculating pensionable earnings ultimately to the whole of working life; a requirement for a longer minimum period of contribution for scheme membership; public sector seniority pensions to require 35 years contributions; and pension updating by price rather than wage indices, although government retained the discretion to use the wage index if it chose.

These reforms were initially seen as containing pension commitments. A report by the IPNS in 1993 calculated that pension expenditure, which would have grown from 7.9 per cent of GDP in 1995 to 9.2 per cent by 2010, would instead fall to 6.8 per cent if price indexation was maintained, or only rise to 8.0 per cent if pensions were updated by reference to wage increases. The Accounting Office in 1994 estimated that the ratio would have risen to 10.1 per cent of GDP by 2025, but would now only rise to between 6.3 and 9.2 per cent, depending on updating (CEC, 1996, Table Il.9a). However, these reports were replaced by more pessimistic projections by both institutions in 1995. These took into account revised demographic estimates and an increase in the utilization of seniority pensions and put the ratio of pension spending to GDP by 2025 at about one per cent higher than previous projections.

Further reforms were enacted in 1995, designed to contain pension spending and to curb early retirement. The main points were: the calculation of pensions on contributions paid over the whole working life and by reference to life expectancy at the age of retirement and general economic growth; the gradual abolition of seniority pensions; the reform of welfare pensions for the elderly; and new incentives for private second-tier funded pension schemes. Life-expectancy at retirement age and the performance of the economy are to be taken into account by multiplying capitalized lifetime contributions by a coefficient which is calculated by reference to age at retirement, demographic prospects and the relation between earnings growth and GDP growth. There is provision for revising the coefficients at 10 year intervals so that the growth of the economy and demographic changes which have created problems for pensions in the past can be taken into account. Projections by the Accounting Office, which show that without the reforms pension spending would have grown from 8.2 per cent of GDP in 1995 to 9.1 per cent by 2030, indicate that it will remain constant until that year if GDP and wage growth average two per cent a year, provided that coefficients are updated to take into account economic growth and demographic changes. If the coefficients are not updated spending will continue to rise to 8.9 per cent of GDP by 2030 (SEC, 1996, p. 81). Political decisions to revalue the coefficients are therefore crucial to the success of the reforms in containing spending, just as the continued commitment of government to indexation by prices rather than wages was required to achieve the savings projected from the 1992 reforms.

The Italian pension system imposed substantial pressures on public spending which developed rapidly over the 1970s and 1980s. The reforms that have been carried out offer the prospect of holding these pressures roughly constant for the medium-term future. The experience of attempts at reform in the 1980s illustrates the difficulty of an unstable coalition government in securing a sufficient measure of consensus on reform in a system which contains a number of different schemes serving different interests. The reforms which are now in place appear likely to contain the expansion of pension spending. However, future governments will be required to face the problem of making decisions on the updating coefficients which may prove unpopular at the time with those who are retired or are due to retire shortly. Thus programmatic changes in the Italian pension system have been secured, with considerable difficulty, but these changes appear to be vulnerable from a systemic perspective.

The UK

The reforms in the UK are often regarded as innovatory: 'the Thatcher government succeeded in radically reforming British pension policy' (Pierson, 1995, p. 64). Before the 1986 reforms, the British pension scheme contains three main components - a flat rate tax-financed basic scheme, an earnings-related component financed from contributions (SERPS) and a means-tested supplementary pension for those on low incomes. There were also in excess of 100,000 occupational schemes covering nearly half of all employees, and mostly funded. Employers could contract their employees out of SERPS provided that certain conditions were met and in practice this applied to virtually all middle class and state sector workers and some other groups. In 1980, indexation of the flat rate pension, which had been linked to whichever increased more rapidly of wages and prices since 1973, was restricted to price rises only. As a result the pension has fallen from 31.7 per cent of average male earnings in 1981 to 25.4 per cent by 1990 (DSS, 1990, pp. 281-92).

The Thatcher government was concerned about future pension commitments as part of its political project of achieving a reduction in the overall size of the state. Special reviews of every aspect of social security were commissioned in 1984 and the pension proposals, produced in mid1985, envisaged that SERPS would be phased out over 15 years, to be replaced by mandatory private funded occupational or personal pensions. However these proposals were vigorously opposed not only by opposition parties and trade unions, but also by employers' organizations and the private pension funds themselves, whom the government had seen as their natural allies. The reasons for opposition were the problems involved in providing funded pensions for those with low or intermittent earnings and the double payment involved in supporting the phasing out of the existing pay as you go SERPS scheme, since people would also be required to contribute to funded pensions under the new scheme. The extra costs to employers (which included the state) were put at an extra £2 billion a year (Pierson, 1995, p. 61). The government had miscalculated in its attempts to construct an enduring centre-right consensus that might prevent a future government reversing its pension reforms. The policy proposals were substantially modified. The 1986 Act was designed to expand private provision by making SERPS less attractive and setting up new deregulated private schemes for portable pensions. The target rate for SERPS was cut from 25 to 20 per cent of relevant earnings, the pension was to be based on revalued lifetime earnings rather than the 20 best years, surviving spouses' pensions were cut to half rather than all of the deceased contributor's pension and contracting out from state to private provision was made easier with an additional rebate of two per cent of earnings for those who did so before 1994.

The changes encouraged the expansion of personal pensions, which grew rapidly up to the early 1990s, when membership leveled out. Occupational pensions remain roughly constant. The proportion of pensioners in non-state funded schemes of variable quality has grown from just over half to just under two-thirds in less than a decade (see table 2). The Government Actuaries department estimated in 1986 that without the reforms and without a government subsidy the contribution rate necessary to secure funding would have risen from 14.5 per cent in 1990 to 18.5 per cent by 2030 with a subsequent fall to 15 per cent by 2050, assuming that the basic pension continued to be indexed to prices. Were the earnings link to be restored, it would rise to 27.3 and then fall to 24.2 per cent. Taking the reforms into account, rate changes were projected from 15.2 to 14.3 and then 10.4 per cent on the first assumption and from 16.5 to 23 and then 19.7 on the second. A later report in 1990 based on assumptions about more rapid increases in the retired population put the rates by 2030 and 2050 between 3 and 4 per cent higher (Government Actuary, 1990).

Table 2: Contributors to UK Pension Schemes, 1986/7 to 1994/5 (millions)

	1986/7	1990/1	1994/5
SERPS	10.3	7.7	7.6
Occupational	8.5	9.2	8.2
Personal	3.1	4.8	5.6
% pensioners in funded scheme	53	65	65

Source:Burchardt, 1997, p. 24.

Further reforms in 1995 envisaged the phasing in of an increase in women's pensionable age to 65 by 2020 and that the rules governing the calculation of earnings on which the SERPS pension is based would be made more stringent. The net effect of these reforms is to reduce projected SERPs spending by about 25 per cent by 2020 and by nearly half by 2040. On the price indexation assumption the equilibrium contribution rate rises from 17.7 in 2000 to 17.2 by 2030 and then falls to 14 per cent by 2050. On the assumption of indexation to earnings the corresponding figures are 19, 25.4 and 25.3 per cent.

ln 1997, a Labour government was elected with an overwhelming majority. Pensions policy is again under review. The manifesto promises include updating of the basic pension at least in line with prices, the establishment of a new second tier stake-holders' pension and the retention of SERPs with special arrangements for carers. In the first year basic pension updating has been held to price inflation, indicating that a restoration of the earnings link is unlikely. Policy debate focuses on the new stake-holder arrangements which will be funded schemes, probably with an element of contributor involvement in management, as advocated by the Minister for Welfare Reform (Field, 1996). Attempts to ensure that the reversal of the cuts to SERPS are included on the policy agenda have been firmly rejected by the Labour leadership.

The reforms of the 1980s and early 1990s appear to have succeeded in effecting a fundamental shift in the pensions debate in the UK. The cuts in the basic pension through changes to indexation constitute the major part of the reforms in financial terms, reducing the projected contribution rate required for the scheme by about 8 per cent in 2030 and 11 per cent in 2050. The longer price indexation remains in force, the less important these pensions become as a component in pensioners' incomes and the correspondingly greater the financial implications of any reform designed to reverse this. This policy shift can be seen as systemic in Pierson's terms. This change plus the cuts to SERPS have succeeded in shifting policy towards funded pensions, where the focus of current policy debate lies. It is particularly striking that this has been achieved despite the fact that the move towards funding appears to have reached a plateau in the early 1990s and that scandals surrounding the 'miss-selling' of personal pensions to individuals encouraged to opt out of SERPS when it was not in their interests to do so, which emerged in the early 1990s. This problem is estimated by a government inquiry to affect nearly one million people, mainly older workers who were sold personal pensions by agents eager for commissions, although their contributions would have insufficient time to generate an adequate fund (Goode Committee, 1994, Nobles, 1994). New Labour pension plans are likely to increase the proportion of pensioners in funded schemes further, so that a return to pay as you go funding is unlikely.

The British changes may be seen as meeting a defined concern about spending commitments successfully - in fact creating a situation where state pension contributions will actually fall after the year 2000, assuming price indexation, and where most people will be looking to non-state provision for security in retirement. The innovation also appears successful in securing the conditions for its own security. A reversion to pay as you go funding is no longer on the agenda and unlikely to return. An interesting feature of the UK context is the fact that the projected rises in contributions assuming no reform to the original state scheme are relatively low, and substantially lower that those achieved by many continental schemes after far-reaching reforms. The basis of the innovation has to be seen as ideological and political rather than practical.

Conclusion

This brief review of the differential success of efforts to achieve reforms in the most substantial areas of state welfare spending in the four biggest European welfare states bears out Pierson's central argument that welfare reform involving retrenchment is particularly difficult. However, it also shows that in order to understand the capacity of welfare systems to resolve the problems they face, developments on several levels must be taken into account. The assumption that absence of institutional change signals path-dependency is not always supported. Reform in the UK, widely seen as highly innovative, has almost certainly changed the future path of pensions policy-making, but in doing so has succeeded in resolving a problem that did not exist. The financial pressures from future contribution rates were mild compared to those in other systems. France by contrast faces the most serious pressures from future commitments, even after the 1993 reforms, but the changes to the institutional structure may constitute a shift to a new path in pension policy-making. In Germany, reform of pension arrangements without institutional shifts appear to have tackled the demographic pressures, but there must be some question about how successfully the new pressures resulting from reunification will be resolved. In Italy, government has carried out reforms which will contain future spending, provided that future governments take advantage of the opportunities offered by the new legislation.

The evidence supports two points. First, it is misleading to equate innovation with the capacity to resolve the exogenous problems that a system confronts when policy change may also be driven by political ideology. Secondly, it is not clear that major European welfare states offer the spectacle of a frozen welfare landscape that is incapable of accommodating to new pressures. Some countries can adapt within their existing institutional structure. The crucial issue appears to be the institutional structure within the country. Thus government in France encounters obstacles to reform resulting from a structure which devolves responsibility for social security to funds run by the social partners, but appears able to move in the direction of reform by setting in train changes to this structure. The strong corporatist arrangements in Germany also make reform slow, but allow consensus to be built around policy changes that facilitate stability. The strong commitment to the occupational structuring of welfare in Italy and the instability of government have delayed reforms repeatedly and it is unclear whether future governments will continue to implement current provisions designed to resolve the problem of rising pension costs. The centralization of government power and the established private pension interests in the UK permit government to engineer a shift which relegates state pensions and pay as you go funding to a declining role in security in old age. This returns us to the initial point of this paper, that welfare states are at one level unique, and that any categorization should take into account the institutional structure as well as social elements such as class structure and output measures such as degree of defamilialisation or decommodification.

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