



Project no. CIT1-CT-2004-506392

## **NEWGOV**

### **New Modes of Governance**

Integrated Project  
Priority 7 – Citizens and Governance in the Knowledge-based Society

**Pensions OMC's influence on national reforms**  
reference number: 1/D47

Due date of deliverable: December 2006  
Actual submission date: 27 February 2007

Start date of project: 1 September 2004

Duration: 48 months

Organisation name of lead contractor for this deliverable:  
**Observatoire social européen, David Natali**

[draft version]

<b>Project co-funded by the European Commission within the Sixth Framework Programme (2002-2006)</b>		
<b>Dissemination Level</b>		
<b>PU</b>	Public	X
<b>PP</b>	Restricted to other programme participants (including the Commission Services)	
<b>RE</b>	Restricted to a group specified by the consortium (including the Commission Services)	
<b>CO</b>	Confidential, only for members of the consortium (including the Commission Services)	

## Summary

This article seeks to analyse whether the pensions OMC is compatible with or useful for pension reform in two distinct institutional and political environments. Pension systems can be differentiated and indeed analysed along various dimensions, including institutional mechanisms used to cover the old-age risk or the actors involved in devising pension reform policies. In this article, we adopt the distinction made by Bonoli (2003) between two main clusters, social insurance systems and multi-pillar systems, differentiated according to the interaction between public and private pension schemes. We specifically analyse France as representative of the former and the Netherlands as representative of the latter.

## Contents

<b>I. INTRODUCTION</b> .....	<b>3</b>
<b>II. THE OPEN METHOD OF CO-ORDINATION: ASSESSING ITS INFLUENCE ON NATIONAL REFORMS</b> .....	<b>4</b>
<b>III. DIVERGENT REFORM TRAJECTORIES IN DIFFERENT PENSION MODELS? A MIXED EVIDENCE</b> .....	<b>7</b>
III.1. FRANCE: AN EXAMPLE OF THE SOCIAL INSURANCE MODEL .....	7
III.1.1. <i>Challenges</i> .....	8
III.1.2. <i>Reforms</i> .....	10
III.2. THE NETHERLANDS: AN EXAMPLE OF MULTI-PILLAR PENSION MODEL .....	11
III.2.1. <i>Challenges</i> .....	12
III.2.2 <i>Reforms</i> .....	13
<b>IV. NORMATIVE, COGNITIVE, AND PROCEDURAL DIMENSIONS OF THE OMC PENSIONS</b> .....	<b>15</b>
3.1 NORMATIVE DIMENSION .....	15
3.2. COGNITIVE DIMENSION .....	16
3.3 <i>Procedural dimension</i> .....	18
<b>V. (PRELIMINARY) CONCLUSION</b> .....	<b>19</b>
<b>VI. REFERENCES</b> .....	<b>22</b>

## Table of Figures and Graphs

TABLE 1. COMMON OBJECTIVES OF THE OMC ON PENSIONS .....	5
TABLE 2. REFORM RECORDS IN FRANCE AND THE NETHERLANDS .....	7
TABLE 3. PROJECTION FOR PUBLIC PENSION SPENDING (% OF GDP) .....	8

## I. Introduction

To assess the usefulness of European level co-ordination in the pension policy field, we try to answer some key questions. Is there in the present European context any evidence of convergence between countries with pension models? What kind of reform agenda does the pensions OMC propose?

The objectives of pensions OMC have been agreed around three axes. Around the “financial viability” axis, the aims are to raise employment levels (to reach 70% by 2010 and 50% among the 50-64 age group), to extend working lives, to ensure sustainable pensions in a context of sound public finances, to adjust benefits and contributions so as to share the financial consequences of ageing in a balanced way between the generations, and to ensure that private pension provision is both adequate and financially sound. Around the “adequacy” axis, the aims are to prevent social exclusion in old age, to allow people to maintain their living standards, and to promote solidarity between and within generations. Around the need to *adapt pensions to changing societal patterns*, the objectives are to adapt to more flexible employment and career patterns, to meet the aspirations for greater equality of women and men, to make pension systems more transparent and demonstrate their ability to meet the challenges, and to promote the broadest possible consensus regarding pension policies and reforms (CEC 2001). Is this agenda sufficiently precise for member states to take seriously as expert advice and on the other flexible enough to be adapted to national circumstances? This paper will provide valuable leads to these tricky questions, with reference to the first cycle of implementation of the Pensions OMC.

The paper refers to three different dimensions to look at to assess the (potential) influence of the OMC in the field. First, it analyses the normative dimension of the EU coordination. Pensions OMC has in fact provided a number of common goals for the member states, which combines both economic and social goals of pension programmes. Second, it looks at its cognitive dimension: the process represents a potential source of contextualized learning through the definition of a common set of indicators, the elaboration of national reports, followed by a peer review process. Finally, we assess the procedural dimension of the coordination of national pensions. We do refer to two aspects: transparency (open access to all the information and documents) and participation (equal opportunity to access to the process for all the actors with a stake in it).

Our analysis will reveal that there is some evidence of convergence (together with persistent differences) between France, representative of the social insurance systems and the Netherlands, representative of multi-pillar systems, which would suggest that the pensions OMC could be useful. However, we argue that its first steps have, from various perspectives, been too feeble to be effective. As a normative tool, it has not contributed substantially to the policy reform process in Member States, where reforms were ongoing or almost finalised when the pensions OMC was introduced. As a cognitive tool, the formal structures of peer review in OMC pensions are too weak to go beyond superficial exchanges. Furthermore, from a procedural perspective, the participation of key actors has been limited, as has public and parliamentary debates. We also argue that as far as it is not integrated into debates about policy reform at a sufficiently high level in the national context, it is unlikely to have any impact.

The first part of the article is a contextualised analysis of national reform in France, exemplifying social insurance systems and the Netherlands, representing multi-pillar systems. This provides concrete data to then be able to assess the relevance of pensions OMC with actual reform processes. The analysis reveals that the policy responses are fundamentally guided by national and institutional path-dependency. The second part, then, analyses the pensions

OMC, under which there is a (normative) consensus on the common EU challenges - to render the pensions systems financially sustainable, socially adequate, and adaptable to the changing reality of the labour market (i.e. changing working patterns and also the gender dimension).

In the light of the double analysis of pension reform processes of two structurally different pension models and the pensions OMC, the concluding part of the article assesses whether and if so, how, the pensions OMC could constructively contribute to national pension reform processes.

## II. The Open Method of Co-ordination: Assessing its influence on national reforms

The second half of the 1990s witnessed the emergence of non-binding strategies of coordination of employment and social policies at national level (in parallel with binding legislation). A complex mix of *soft* institutional ingredients were assumed to have some potential of conditioning the direction of change in the member states (Ferrera et al 2002).

Originally applied in the area of employment, at the Lisbon Summit of 2000, this new approach was extended to other policy sectors (in the social inclusion and social protection field) under the name of ‘open method of co-ordination’ (OMC). The main institutional ingredients of the OMC are common guidelines, national action plans, peer reviews, joint evaluation reports and recommendations (European Council 2000). None of these instruments has a binding character underpinned by legal enforcement powers. While providing policy actors with a relatively clear agenda, the mix of these ingredients leaves ample room for national contextualization.

The Open Method of Co-ordination (OMC) on pensions (and to a lesser extent the other OMCs on social inclusion and employment) is the specific process introduced to favour a coordinated response to common challenges. According to the typology proposed by Treib et al (2005, 13-14), where modes of regulation are defined in terms of their legal effects (binding/non-binding) and implementation (rigid/flexible), Pensions OMC represents a form of **voluntarism**: it is based on non-binding instruments (guidelines or objectives), with the indication of broad goals to be achieved rather than of specific reforms leaving it up to member states to provide their implementation.

The flexible and soft nature of this governing mode implies a multi-dimensional approach to the assessment of its influence. In line with some of the key contribution to the analysis of the process of coordination in the pension field, the paper does refer to three different dimensions (see Schludi, 2003; de la Porte and Nanz, 2004; Natali and de la Porte, 2004).

First, the OMC is a **normative instrument**, in that it draws upon a catalogue of common goals, potentially supplemented by common guidelines. The formulation of common objectives aims to achieve a greater policy convergence between EU member states. It proposes common policy objectives that include both economic and social goals. Eleven objectives for pension reform have been agreed around three “pillars”: social adequacy, financial sustainability, and modernization (e.g. responding to changing socio-economic needs) (Table 1).

**Table 1. Common Objectives of the OMC on Pensions****Adequacy of Pensions**

(Member States should safeguard the capacity of pension systems to meet their social objectives)

1. Ensure that older people are not placed at risk of poverty and can enjoy a decent standard of living; that they share in the economic well-being of their country and can accordingly participate actively in public, social and cultural life;
2. Provide access for all individuals to appropriate pension arrangements, public and/or private, which allow them to earn pension entitlements enabling them to maintain, to a reasonable degree, their living standard after retirement;
3. Promote solidarity within and between generations.

**Financial sustainability of pension systems**

4. Achieve a high level of employment through, where necessary, comprehensive labour market reforms, [. . .];
5. Ensure that, alongside labour market and economic policies, all relevant branches of social protection, in particular pension systems, offer effective incentives for the participation of older workers; [. . .]
6. [. . .] take into account the overall objective of maintaining the sustainability of public finances. At the same time sustainability of pension systems needs to be accompanied by sound fiscal policies, including, where necessary, a reduction of debt. Strategies adopted to meet this objective may also include setting up dedicated pension reserve funds;
7. Ensure that pension provisions and reforms maintain a fair balance between the active and the retired by not overburdening the former and by maintaining adequate pensions for the latter;
8. Ensure, through appropriate regulatory frameworks and through sound management, that private and public funded pension schemes can provide pensions with the required efficiency, affordability, portability and security.

**Modernisation of pension systems in response to changing needs of the economy, society and individuals**

9. Ensure that pension systems are compatible with the requirements of flexibility and security on the labour market; that, without prejudice to the coherence of Member States' tax systems, labour market mobility within Member States and across borders and non-standard employment forms do not penalise people's pension entitlements and that self-employment is not discouraged by pension systems;
10. [. . .] Ensure the principle of equal treatment between women and men;
11. Make pension systems more transparent and adaptable to changing circumstances, so that citizens can continue to have confidence in them. [. . .] Promote the broadest possible consensus regarding pension policies and reforms. Improve the methodological basis for efficient monitoring of pension reforms and policies.

While the challenges and the policy responses suggested are not novel, it is the first time that they take on a relatively clear-cut institutional form at the European level<sup>1</sup>.

From a second perspective, the OMC is a **cognitive instrument**, learning has been signalled in much of the literature as an (or even the most) important feature in the generic and issue-specific OMCs. It is argued that the learning process engendered by one or several instruments – benchmarking, indicators, the exchange of best practices, peer review, iterative reporting – could lead to changes adapted to national contexts (Eberlein and Kerwer 2002; de la Porte and Pochet 2002). The European coordination should institutionalize intensive consultations among actors at various (European, national and regional) levels, and thus allow for mutual learning from their respective experiences. This dimension is related to the broader concept of deliberative democracy (de la Porte and Nanz, 2004). In it, learning occurs through processes of deliberation (or reasoning), understood as an epistemic ‘struggle’ of diverse perspectives in relation to a certain policy, and thus ensures a high quality of regulatory quality.

As Hemerijck (2002) and Schludi (2003) put it, it is an iterative learning process based on the periodic monitoring of national reports and the systematic search for comparisons and knowledge. This will enable national officials to enrich their existing understandings. We can thus distinguish three different types of policy learning:

- **‘learning with others’**, or ‘interactive learning’, based on joint processing and exchange of information and experience;
- **‘learning from others’**, with a large element of ‘lesson drawing’ and mimicking based on the observation of the experience in other countries;
- and **‘learning to learn’**, which consists of the creative use of benchmarking through the OMC or even outside it, but still inspired by the coordination process at the EU level.

From a **procedural perspective**, the OMC is heralded as a transparent and participative policy-making tool. It contains a series of recommendations on how to enhance democracy in Europe and boost the legitimacy of the institutions. The aim is to modernise European public action in order to increase the accountability of European executive bodies to the elected assemblies and open up the Union's decision-making procedures to allow citizens to participate in making decisions which concern them<sup>2</sup>. de la Porte and Nanz (2004) widely operationalised that concept. The paper looks at the key procedures related to the concrete implementation of the OMC in terms of two main dimensions:

- *Transparency*. This dimension of democratic governance means that all the actors with a stake in the process (and in the policy field under scrutiny) should have access to the different phases of the coordination and to the relevant information and documents. EU institutions have thus the duty to communicate about the ‘work-in-progress’ to the general public; and

---

<sup>1</sup> The main actors involved in devising these aims are the Economic Policy Committee (EPC) and the Social Protection Committee (SPC). The EPC is the preparatory working group for the Economic and Financial Affairs Council. It has been working on the issue of the financial viability of public finances in general and pension systems in particular for over a decade through a mandate attributed to it through Maastricht. The SPC, that reports to the Labour and Social Affairs Council, has been set up more recently. It was set up in conjunction with the OMC and began working on the issue of pension reform in 2001. The OMC is the only channel through which the SPC has a legitimate (political) mandate to suggest pension reform objectives.

<sup>2</sup> Here, as well as in the cognitive dimension, procedures are an important instrument for enhancing the democratic quality of the EU governance.

- *Participation*. This dimension of democratic governance means that citizens affected by decisions should have an equal and effective opportunity to make their interests and concerns known. This through articulation in the public sphere or through direct involvement of stakeholders or their representatives<sup>3</sup> (ibidem, 272).

### III. Divergent Reform Trajectories in Different Pension Models? A Mixed Evidence

Over the last two decades, pension systems across Europe have faced a series of common challenges, present in varying degrees in different contexts. Path-dependent institutions considerably influence policy responses to social and financial problems, producing different reform trajectories (Hemerijck 2002). From a European perspective, the attempt to co-ordinate national policies has to deal with these national peculiarities (Boeri 2001; Natali 2003b).

In the present section, we present the main aspects of recent reform trajectories in two countries belonging to two different regimes: social insurance and multi-pillar systems. For each case, we first analyse the key present and future challenges of pension programmes. Secondly, we show how each country has responded to these challenges.

The analysis of national pension reform is structured along the three over-arching objectives of pensions OMC: financial sustainability (dealing with the above-mentioned social budget problems), social adequacy (the ability to protect older people against social risks), and modernisation (or adaptation to changing societies) (EPC/SPC 2003). The analysis will reveal the diverging degree of urgency of challenges, as well as the different policy responses (summarised in Table 2 below).

**Table 2. Reform Records in France and The Netherlands**

France		The Netherlands	
<b>Adequacy</b>	Increased equity between occupational groups	<b>Adequacy</b>	Extension of pension coverage
<b>Financial Sustainability</b>	Cutbacks; Partial Funding	<b>Financial Sustainability</b>	Increasing Revenues; Suspended indexation; Partial Funding
<b>Modernisation</b>	Limited role for supplementary schemes; Contribution Credits (for atypical jobs) and 'buying back' option	<b>Modernisation</b>	Integrated financial markets; Extension of the second pillar coverage (to cover atypical jobs)

#### III.1. France: An Example of the Social Insurance Model

In Social insurance systems, the state provides the greater part of pension benefits through national and universal or occupational schemes based principally on social insurance (e.g. France, Germany, and Sweden). Here, the financing method is usually of a pay-as-you-go (PAYG) type. Current contributions paid by both employers and employees (or revenues

<sup>3</sup> Both Transparency and participation are mentioned in the OMC template provided by the European Council.

coming from current taxation) are used for financing current benefits. The high generosity and coverage, and the encompassing character of pension benefits reduce the need for supplementary and individual private schemes (Bonoli, 2003). From an institutional viewpoint, this cluster in fact consists of two different groups of countries: Bismarckian (or conservative-corporatist) countries, including France, Germany and Italy and universal systems (in Scandinavia). In the first sub-cluster, the main goal of pension programs is ‘revenue maintenance’ along occupation categories, while in *universal systems* it is the universal coverage of the old-age population according to the aim of equality and egalitarian redistribution. Benefits in the first case are contribution and/or earnings-related, while in the second they are flat rate. As regards the method of financing, it is largely based on employment-related contribution in Bismarckian countries, and on general taxation in universal systems (Palier 2001). Notwithstanding recent innovations reduced the cleavage between the two sub-models<sup>4</sup>, the different institutional roots has led to partly-different challenges. Hence, in this section, we analyse France as a typical example of conservative-corporatist countries belonging to the social insurance model.

### III.1.1. Challenges

Since the early ‘90s, welfare policy has moved to the forefront of the political scene in France. A series of shortcomings (i.e. mounting deficits and perverse labour market effects) have led to the need for reforms (Palier 2003; Schludi 2003a).

First, French social protection (and pensions in particular) has been characterised by rising financial deficits produced by an increasing demand for welfare and declining rates of economic growth (Table 2 and 3). The ageing of population and the high degree of maturation of old-age programmes have been two factors that have contributed to put pensions under pressure. As well as in the other conservative-corporatist countries belonging to the social insurance model, *improving financial viability* of pension regimes had been put at the top of the political agenda since the 1980s (well before the start of the OMC at the European level).

**Table 3. Projection for public pension spending (% of GDP)**

	2000		2010		2030	
	Epc/ Spc	Oecd	Epc/ Spc	Oecd	Epc/ Spc	Oecd
France	12.1	9.8	13.1	9.7	16.0	13.5
France (after the 2003 reform) <sup>#</sup>	-	-	13.1	-	15.0	-
<b>Bismarckian Countries (within the Social Insurance System)*</b>	<b>12.6</b>	<b>11.3</b>	<b>12.7</b>	<b>11.6</b>	<b>15.7</b>	<b>16.8</b>
<b>Bismarckian Countries (within the Social Insurance System)* (after recent reforms)<sup>#</sup></b>	-	-	<b>12.7</b>	-	<b>14.8</b>	-
Netherlands	7.9	5.7	9.1	6.1	13.1	11.2
Multi-pillar System**	8.0	5.5	8.9	6.3	11.0	9.2
EU 15	10.4	-	10.4	-	13.0	-

\* the average level in France, Germany, and Italy;

\*\* the average level in the Netherlands, Denmark, and UK;

<sup>4</sup> We refer in particular to the Swedish reform adopted in 1998 (Schludi 2003a).

# national (instead of European) projections.

Source, Bonoli 2003; EPC/SPC 2003; EPC 2003.

In more general terms, financial imbalances are associated with a vicious circle (the ‘welfare without work’ syndrome in the words of Esping-Andersen 1996). On the one hand, the increase of unemployment figures since the 1970s, as well as lower economic growth, and a slower increase in wages, all contributed to reduce revenues and to put financial strains on pensions. On the other hand, the same difficulties were largely perceived to be the effect of the burden of social protection systems on the economic competitiveness in Europe. It was assumed that the high level of contribution had a negative impact on the cost of labour and in general on the country’s economic competitiveness, leading to a high rate of unemployment (8.9% of the labour force in 2002 against 7.6% in the EU and 2.5% in the Netherlands) and a relatively low employment rate (in 2001 62.8% of total employment rate against 64.1 in EU 15 and 74.1 in the Netherlands) (OECD 2003, EPC/SPC 2003). These factors put pressure on the financial sustainability of the pension system (Palier 2002; Rhodes and Natali 2003).<sup>5</sup>

Moreover, social protection schemes have been used as a response to labour market problems, e.g. through the expansion of early-retirement (as in the other Bismarckian countries) (Esping-Andersen 1996). This aggravated the vicious circle of the mounting financial imbalance.

The second challenge has been then related to the *adequacy* of pension benefits. In comparative terms (OECD and EU), France has proved successful in reducing the risk of poverty among the elderly and has been even more effective in enabling pensioners to maintain, to a reasonable degree, their living standard after retirement. The old-age replacement rate (the level of pension benefits in relation to previous earnings) in France was 64.8% in 1995, well above the OECD average level. The risk of poverty for elderly people was a little bit above the EU-15 level: 19% of people aged 65 or more were at risk of poverty in 1998 (against a 14% for people less than 65), while the average level in EU was 17% (against a 15% for people aged less than 65) (Blöndal and Scarpetta 1998; EPC/SPC 2003).

Notwithstanding this, the French welfare state has faced growing problems related to the emergence of new forms of social exclusion. The welfare state is characterised as unable to deal with those “[...] who do not have access to the system [...]” (Bonoli and Palier 1997; Palier 2002). For example, the inability to cover new forms of flexible jobs and then cyclical periods of unemployment has become (like in the rest of Europe) one of the key limits of present provisions. According to the EU definition, a further aspect of the adequacy problem is represented by inequalities between and within generations. In that respect, the French pension system is characterised by the existence of a very complex and fragmented net of schemes leading to the uneven distribution of benefits and costs. While private sector employees are covered by the *régime général*, public sector and public enterprises’ workers are covered by their own pension schemes. Basic benefits for the private sector are then integrated by complementary pension schemes that are compulsory, PAYG based, and organised by economic sector or by job type.

The perceived need to curtail public pensions (to improve the long-term sustainability) has led most political actors to propose a growing role for supplementary funded schemes to maintain

---

<sup>5</sup> A number of government reports were published in the 1980s and 1990s giving a pessimistic view of the long-term sustainability of pensions schemes (Palier 2003).

the same level of effectiveness (Palier 2003).<sup>6</sup> Consequently, the need to increase the social *adequacy* of pension programs has been at the top of the reform agenda as well.

The third challenge is linked to the need to adapt the pension system to changing societal patterns (*modernisation*). This partly overlaps with the adequacy issue as regards the need to cover new career profiles and to reduce inequities. In France, as well as in other Bismarckian countries, pensions were originally introduced for male full-time workers (the so-called male breadwinner model, Meyer 1998). The coverage is therefore optimal for someone who has worked from an early stage, full time, and without interruptions. Today's career profiles, however, are more varied, including extensive female labour market participation, and increasing number of part-time and temporary jobs, careers with long periods of interruption etc. Workers are more exposed to the risk of unemployment and at the same time require constant skill updating.

Moreover, the growing integration of financial markets is a further aspect of the modernisation problem. More open financial markets and increased capital mobility are expected to force governments not to increase taxation (Bonoli 2003). If the level of taxes is perceived as being too high by investors, they may decide to move their activities. This pressure is assumed to be particularly acute for countries like France where pensions are financed through contributions and general taxation (*social insurance cluster*). Where pension revenues are instead based on taxation, contribution, and profits from the investment of supplementary assets (multi-pillar systems) financial strains are assumed to be reduced. Hence, the development of the second and third pillars are increasingly proposed as a solution to the present limits in terms of both modernisation and adequacy and financial sustainability. In France, supplementary pensions are now marginal (but increasing) and funded schemes are not well developed, even if some professional groups have created voluntary supplementary pensions. The majority of French workers (especially those covered by the *régime général*) are not concerned by such schemes (Palier 2003).

### III.1.2. Reforms

In the last two decades, two main reforms dealt with the pension challenges faced by France: the Balladur reform in 1993 and the Raffarin reform in 2003. The Balladur reform had three main elements. A first measure consisted in setting up the FSV (*Fonds de Solidarité Vieillesse*). The aim was to charge non-contributory benefits (previously covered by the pension regimes, with resources obtained through contributions) to the national solidarity fund and finance them from general taxation. To reduce the system's costs, the criteria for measuring pension benefits were modified. The number of contributory-years needed to gain a full pension was increased (from 37,5 years to 40), as was the reference period for calculating the average annual (reference) wage. The reform also modified (in a more restrictive sense) the indexation criteria for calculating pension benefits (*cost containment*). As for the social protection administrative and financial organisation, the unions' position as managers of the system was guaranteed, allowing them to retain their key organisational resources. All these proposals were implemented for the private sector employees alone (Natali and Rhodes 2003).

Ten years later, the Raffarin reform was only secured after a policy trade-off with part of the labour movement. The reform finally adopted consisted of a mix of cost-containment meas-

---

<sup>6</sup> During the 1990s, major preoccupations on future sustainability of pension programmes were shared by experts and political leaders. Since the end of that decade, however, public reports commissioned by the government highlighted an increasingly opposed debate, as shown by the diametrically opposed conclusions of the Charpin report and that of the Copernican Foundation in 1999 (Palier 2003).

ures, benefit improvements (e.g. more generous indexation), concessions to particular categories of workers, equity-improving provisions, and a consolidation of the unions' co-management role. New and more rigorous measures to reduce costs (extending the contributory period for all workers from 37.5 to 40 in 2008, and subsequently to 41.9 years in 2020) were justified in terms of introducing greater equity between private and public-sector pensions (*intra-generational equity*) and between generations (the retirement period remaining proportional to working years, see EPC 2003). Earlier retirement for workers who started work in their mid-teens was protected from the reform, as were the generous entitlements of certain *régimes spéciaux*, notably those covering metro and railway workers. Civil service pensions would continue to be calculated on the basis of the last six months of employment (instead of the last three years originally planned by the government), and employers' old age pensions contributions were increased. In terms of greater equity, the pension guarantee for low-paid workers was raised from 75 per cent of the minimum wage in the original draft to 85 per cent in the final version of the reform. A new compulsory supplementary scheme for public-sector employees will be managed jointly by the social partners as a public fund. New provisions were then introduced to favour the development of a 'third pillar' of individual pension savings schemes, built on those established by the Fabius Law in 2001 (Jolivet 2003). Finally, a better coverage of new careers was introduced through contribution credits and the 'buying back' option, that is the possibility to purchase missing contributions of years spent studying (more *adequacy and adapting to changing needs*). In the civil service years worked part-time will count as full-time years, while women civil servants will receive a one-year pension contribution bonus for every child (Table 1).

While Raffarin has claimed credit for success in ensuring the passage of a difficult reform, some trade unions have stressed that its final provisions do provide for greater social justice and equity, while also making the system more sustainable. Nevertheless, as argued by the OECD and the Economic Policy Committee, the government's new reform is insufficient in itself to rescue the French pension system (Natali and Rhodes 2003). But as with Balladur, Raffarin's pension plan is part of an ongoing process, and a significant step towards a more comprehensive reform.

### **III.2. The Netherlands: An Example of Multi-pillar Pension Model**

Multi-pillar systems are characterised by the fact that the state has the sole responsibility for basic entitlements. The public pillar aims to prevent poverty, while additional benefits are provided by supplementary occupational schemes and/or private arrangements. Countries with such arrangements include the Netherlands, Denmark and UK. The financing methods are thus mixed: on the one hand, public pension programs (first pillar) are based on PAYG basis, on the other hand supplementary schemes (in the form of pension funds, group insurances or book reserves) (second pillar) and individual saving schemes (third pillar) are typically funded. Current revenues are saved and then used to finance future benefits.

Contrary to social insurance countries, mostly based on public PAYG systems financed through social contributions, and a low level of funding, the Dutch case integrates public and private schemes (Visser and Hemerijck 1997). There, the pension system is based on the above-mentioned three pillars: public flat-rate provisions resting on the residence criteria (first pillar), fully funded occupational pensions financed through social contributions, managed by social partners and whose regulations are defined in collective bargaining (second pillar), and finally private and individual saving schemes (third pillar). The second and third tiers are particularly developed in the Netherlands, representing a major source of capital (Kremers 2003). The public pension tier represents around 50% of income sources of the eld-

erly, the second pillar being 30%, and the individual savings 10% (van Riel, Hemerijck, and Visser 2003). Compared to the other European countries, the Dutch case shows well developed pension funds: pension assets being in 2001 as big as total GDP.

### III.2.1. Challenges

In recent years, the challenges faced by multi-tier systems only partly overlap with those in social insurance systems. The Dutch pension programmes have usually been perceived as less vulnerable to financial strains than their European counterparts (Table 1). Firstly, in the last decades there have been less dramatic demographic trends than in social insurance countries. In the Netherlands, the old-age dependency ratio (people over 65 compared to the 26-64 age group) was 21.9% in 2000, around 5% lower than the EU 15 average (ECP/SPC 2003). The same kind of trajectory is foreseen for the near future, with a 23 % increase against 25 % for EU-15 between 2000 and 2050. Compared to that of Bismarckian countries, the Dutch population, as well as that of the other multi-pillar countries, is relatively young.

Secondly, the peculiar composition of pension schemes' revenues is also identified as a feature that renders the pensions system more robust in terms of financial sustainability. They are based not only on general taxation and/or contributions, but also on profits deriving from the investment of assets. This last factor is assumed to improve the financial viability of pension funds, all the other variables been equal. In addition, large pension assets have been in the Netherlands a source of capital invested domestically and thus have supported the domestic stock market and companies (Bonoli 2003).

Recent developments, however, prove that this view must be relativised. First, although the anticipated increase of the old-age dependency ratio in the Netherlands is not as strong as in other EU countries, it is nevertheless forecast to increase, and to impact pension expenditures. The EPC (2003) identifies population ageing as the most important factor favouring the increase of pension spending. Projections reveal a growth of pension spending caused by ageing equal to 5.4% of GDP between 2000 and 2050, while it is 6.4% for EU countries. Moreover, while countries like France are supposed to face a huge decrease of the benefit level (-3.6% of GDP), pension benefits in the Netherlands will be stable (0.2%), thus representing a financial burden.<sup>7</sup>

Second, as regards the financial viability of pension funds, investment strategies usually imply a risk for present and future pensioners: assets are partially invested in fixed income bonds and loans, while a large and growing part are invested in equities and real estate. The average rate of return, thus, depends on stock market prices. When stock markets grow, investments pay off; when stock markets fall, pension funds are under financial strains and losses are to be shared between employers, employees and pensioners (van Riel, Hemerijck, and Visser 2003). The fall of stock exchange prices since the year 2000 has led to a huge decrease of the average rate of return in equities and therefore also of the pension coverage. This effect has been exacerbated by the shift of the portfolio composition of pension funds: while at the beginning of the 1990's the share of investments in equities, real estate, and bond represented 36% of the total, a decade later it was 80 % (van Riel, Hemerijck, and Visser 2003).

Concerning the impact of pension assets on domestic capital markets, then, it has declined in the last decade: in 1992 only 14% of these financial resources were invested abroad, increased dramatically to 67% in 2001.

---

<sup>7</sup> In line with the analysis of van Riel, Hemerijck, and Visser, this is the effect of the formal indexation of first-tier benefits to minimum wages (and these in turn to general wages) and thus to productivity growth.

As regards the *adequacy* issue, according to recent figures proposed by the EU, the Netherlands has fared quite well in combating old-age poverty. People aged 65+ in 1998 had a low risk of poverty: 7% (against 11% for people under 65), compared to the EU average EU of 17% for the 65+ age group (EPC/SPC 2003). OECD data, however, shows that the average old-age replacement rate (the level of pension benefits in relation to previous earnings) was 45.8% in the Netherlands in 1995 (Blöndal and Scarpetta 1998) for the public pillar of the pension system.<sup>8</sup> Moreover, old-age benefits have been frozen in the last two decades. Despite the formal indexation to minimum wages (in turn related to contractual wages), the value of public pensions has declined compared to the average standard of living. This is because of two reasons: firstly, minimum wages have been frozen (to cut public spending), and secondly, contractual wages usually lag behind actual wages. For instance, the last consists of supplementary earnings not included in collective contracts. The indexation of pensions to contractual wages was mostly suspended during most of the 1980's and in the period 1992-95. It allowed to put pension spending under control, but reduced the adequacy of benefits (Kremers 2003).

As far as the *modernisation* of Dutch pensions is concerned, the challenge of new career profiles has been particularly significant. As already stated for France, this challenge partly overlaps with the adequacy issue. The incidence of part-time jobs to total employment was at the beginning of 2000s around 38%, while the average level in EU countries was around 18% (Visser 2002). In general, new forms of career, especially flexible jobs that are associated with medium and long-term instability, are increasingly important. Then, because flexible jobs concern women (more than men), their development represents a source of gender-inequality (Bonoli 2003). Visser (2002) has observed that in just one generation there has been a deep change in the Dutch labour market: female labour force participation sharply increased together with the increasing availability of part-time jobs. In the 1970s, 30% of women of working age participated in the labour market; at the end of the 1990s, the female employment rate was around 60%. At the same time, the female share in total employment increased from 25% in 1977 to 39% in 1999. In 1998, 68% of all employed women worked part-time, compared to 45% in 1981. In particular, 41% of Dutch women with children under the age of 10 worked part-time in 1996 (three times the European average) (Visser 2002; 2003). These flexible jobs are usually less protected than traditional full-time ones in terms of social protection rights, particularly under the second and third pillars (EPC/SPC 2003).

The multi-pillar nature of Dutch pensions has finally produced important and peculiar consequences on the ability of pension programs to deal with the growing integration of international financial and capital markets. The financing of pensions being related to profits of industries in which pension assets are invested, the pressure from financial markets not to raise taxes was expected to be less dramatic (Bonoli 2003). As already noted, however, the recent decline in stock markets has put further financial pressure on pension funds.

### III.2.2 Reforms

Given different problems, *multi-pillar* systems have shown a peculiar reform trajectory. In the Dutch case, after decisive legislative changes already in the 1980s and early 1990s on early retirement and disability benefits, no innovative reforms on old-age pensions were put in place, but a number of minor changes have produced important consequences for different

---

<sup>8</sup> To assess the overall adequacy of pension programmes in multi-pillar systems, the role of supplementary schemes needs to be added. In that respect, the theoretical (and combined) replacement rate in the Netherlands is at 70% (van Riel, Hemerijck, and Visser 2003).

problems.<sup>9</sup> Governments since the 1980s decided to increase the tax and contributory base by improving employment.

As to the financial viability of pension schemes, it has been achieved by broadening the revenue base and by cost-containment as well. On the one hand, a constellation of endogenous and exogenous factors, together with the '*Jobs, jobs and more jobs*' strategy, have produced important consequences in the labour field: reduction of unemployment rates (from 5.5% of the labour force in the period 1990/2000 to 2.5% in 2002), increased employment level (from 64.7% of the working age population to 74.1% in 2001), more older people and female participation in the workforce (the former being 39.6% in 2001 against 38.8% at the EU-15 level, and the latter 65.2% against 55% at the EU-15 level) through the reduction of early retirement and disability programs, and the development of part-time jobs (OECD 2003; EPC/SPC 2003). On the other hand, the Conditional Indexing Adjustment Act of 1992 allowed indexation to be suspended in case of a rapid rise in the number of benefit recipients as a percentage of the employees. That was the case in the period 1992-95 (van Riel, Hemerijck, and Visser 2003).

As regards the adequacy of pension programmes, concerning the modernisation of the labour market, different measures have been implemented. At the beginning of the 1980s, governments started to end discrimination of working married women in both disability and old-age provisions. In the first pillar, pension rights were individualised, unrelated to earnings, and based on citizenship. In the second pillar, hour limits to enter occupational pension funds were ended by the 1990 Pensions and Savings Act. Since 1994, it has been illegal to exclude part-time workers from supplementary schemes. All this has led to a decline of the employees without coverage from 11% in 1986 to 4.5% in 1996 (Visser 2002). Notwithstanding these legislative measures, low-pay flexible occupations (concerning young people and women in particular) were still weakly protected by the second pillar against the risk of temporary (or long term) inactivity (Bonoli, 2003).

The *1997 Covenant* between the government and social partners represents the most important intervention on pensions in the last years. First of all, present and future financial strains have been implicitly faced through the introduction of policy measures to reduce public deficit and debt. In 1998, as a consequence of decreasing debt and savings on interest payments, a public pension saving fund was introduced to tackle future growth of pension spending. As regards supplementary fully-funded schemes (second pillar), there have been a series of measures directed to reduce costs by limiting the impact of wage increases on pension benefits, to improve labour force participation, to reduce the impact of early retirement, and to extend pension coverage to more flexible jobs without further pension costs. Supplementary schemes (second pillar) now cover more than 90% of the workforce (Anderson, 2002).

Following general elections in January 2003, the new ruling coalition (composed by the Christian Democratic Party and Liberals) has proposed but not yet adopted further austerity measures in social protection programs.

---

<sup>9</sup> The alarming growth of sickness and disability pension benefits' spending forced the government to introduce a major reform in 1992/93. A set of new measures had an impact on lowering benefits and tightening eligibility criteria (Visser and Hemerijck 1997; Anderson 2002).

## IV. Normative, Cognitive, and Procedural Dimensions of the OMC Pensions

The comparison of recent reform records in two pension clusters reveals mixed evidence, confirming some degree of convergence, although national pathways remain distinct in terms of actors and institutions. In theory, then, there is room for direct co-ordination of national schemes in line with broad reform goals, such as those proposed under the pensions OMC. We will analyse each of these dimensions below, when possible by confrontation with the national level development.

### 3.1 Normative Dimension

As we shall see below, the main policy goals, as well as challenges, assume peculiar features in each system. Also, the analysis of pension reform in France and the Netherlands reveals that the second and third axes of pensions OMC objectives – adequacy and adaptation to changing societal patterns – overlap and are difficult to single out.

The objectives around the need to maintain the *financial sustainability* of pensions systems originate from the economically oriented players. Member countries are to raise employment levels (to reach 70% by 2010), to extend working lives, to ensure sustainable pensions in a context of sound public finances, to adjust benefits and contributions so as to share the financial consequences of ageing in a balanced way between the generations, and to ensure that private pension provision is both adequate and financially sound. Such a broad objective has been declined into different concrete strategies at the national level. Major reforms have been implemented in *social insurance* countries (as shown by France), where the challenge of ageing has been identified as acute. These are new and more restrictive indexation measures and the increase of the retirement age, together with new provisions to favour the growth of supplementary fully-funded schemes (Table 2). In line with the proposed reform line under pensions OMC, pension spending is expected to decrease in the next decades. The Raffarin reform, for instance, will reduce public pensions from 16% of GDP to 15% in 2030. This trend, by contrast, will negatively affect the average level of pension benefits: in France, they will be reduced by 3.6% of GDP between 2000 and 2050, against a 2.8% decrease of the GDP in the EU (EPC 2003).

By contrast, in the Netherlands, as an example of *multi-pillar* systems, no major old-age pension reforms have been introduced. As a consequence of less dramatic demographic trends and only partial maturation of old-age pension programs, policy makers have adopted path-dependant reforms to touch the revenue side as well as the benefit side of the financial sustainability issue. However, where financial problems were particularly alarming (e.g. disability pensions), decisive interventions were implemented already in the 1980s (Green-Pedersen 2002). New measures mainly consisted of the increase of the active population through new forms of jobs (increase of revenues) and of the rationalisation of pension programs (reduction of costs). The freezing of indexation mechanisms contributed to put old-age spending under a certain control. Notwithstanding new provisions, future financial strains are expected and highlighted in the context of the pensions OMC because of the increase of the old-age dependency ratio and to a lesser extent the stability of old-age benefits. Recent projections show an increase of 0.2% of GDP between 2000 and 2050 (ECP 2003).

The “*adequacy*” objectives emanate from the socially-oriented players. These are to prevent social exclusion in old age, to allow people to maintain their living standards, and to promote solidarity between and within generations. In Bismarckian countries belonging to the *social insurance* system, as shown by the French case, different measures have been introduced to

counter the negative effects of financial reforms of pension systems on adequacy. These include contribution credits for periods of inactivity and the possibility of ‘buying-back’ missing contributions. Aside these measures, the inequity issue has been in the political spotlight. The French case demonstrated that the trade-off between cost-containment measures and new provisions to increase equity between occupational groups (e.g. between public and private sectors) can be decisive to maximise the pro-reform consensus. Policy-makers used the inequity issue (in particular, the need to reduce inequities between private sector and public sector employees) as a justification for cost-containment measures (Natali and Rhodes 2004).

In *multi-pillar* systems, the measures to improve adequacy have essentially sought to increase the coverage of second pillar systems to include atypical career patterns. Unlike the French case, in *multi-pillar* countries, flexible jobs are still not fully protected for periods of inactivity. This has produced intra-generational inequity, with a big gender differentiation (Visser 2002). The government has at different intervals introduced new provisions to improve old-age coverage for part-time jobs.

The third axis of pensions OMC is around the need to *adapt pensions to changing societal patterns*. The objectives under this axis represent both economic and social concerns. They are to adapt to more flexible employment and career patterns, to meet the aspirations for greater equality of women and men, to make pension systems more transparent and demonstrate their ability to meet the challenges, and to promote the broadest possible consensus regarding pension policies and reforms (CEC 2001). The integration of financial markets represent a considerable challenge to social insurance pension programs, as reflected in the French case. In the Netherlands, representative of multi-pillar systems, by contrast, the weight of social contributions is not alarming, and the presence of pension funds transformed global capital markets into an opportunity (Green-Pedersen 2002). The Dutch case, however, shows that this institutional architecture is not problem-free. As mentioned for the adequacy pillar, high rates of atypical (especially part-time) jobs that characterise the labour market in the Netherlands are associated with social risk in terms of the capacity of the pension programme to protect against poverty.

This analysis on the normative dimension of the pensions OMC has shown that its objectives are relevant, but also that reforms have been on-going well before the introduction of pensions OMC. Its impact on national debates and agendas of pension reform are questionable. Up to now, it has produced consensus (at least among governmental elites of member states) to strive towards common goals.

### 3.2. Cognitive dimension

From a cognitive point of view, we look at some aspects of the OMC that may have ‘learning capabilities’ – i.e. the capacity to engender learning, in line with our interpretation of learning: with others, from others, and ‘to learn’.

First, concerning benchmarks and ‘**learning with others**’, there are few that give clout to pensions OMC, although there is an on-going work to develop this dimension in the indicators working groups of the SPC and the EPC. Those that are more developed and also more visible essentially reflect economic objectives<sup>10</sup>. Schludi (2003b) argues that economic

---

<sup>10</sup> These include the quantitative objective to achieve a 50% employment rate among the age group 50 to 64 (visible essentially through the European Employment Strategy), and also the provisions of demographic structure, in particular old-age dependency ratios or the long-term increase in pension outlays as a share of GDP.

benchmarks are also more likely to be debated in the public sphere since they “... provide relatively condensed information about a country’s relative performance. A wider audience (including the mass media) will find it much easier to grasp such information than more complex qualitative assessments of a pension system’s output.” He further argues that solidarity objectives, mainly of qualitative nature, are much more difficult to quantify, to assess and to compare. That is why the OMC on Pensions lacked (for the first years) common ‘social’ indicators.

Some political factors have also contributed to that lack of commonly agreed indicators for all the objectives. As shown by Natali (2006), the issue has been at the centre of huge confrontation between representatives of member states in the interested committees. A clear example is represented by the struggle about the definition of the common ‘adequacy’ principle and its relative indicators. Both were not uncontested. While Anglo-Saxon countries defined it in terms of ‘poverty prevention’, continental European countries (those with Bismarckian roots) proposed a broader interpretation of that goal and did reference to the aim of public programmes to grant pensioners ‘the same living standard of that of the active part of the population’. Both statements were introduced in the common objectives (1st and 2<sup>nd</sup> sub-objectives). France, Belgium, Germany and Italy coalesced to add a broader interpretation to the adequacy principle.

All along the first cycle of the process implementation, a related contrasted issue concerned the identification of the right indicators linked to the ‘adequacy’ goal mentioned above. The ISG easily agreed on context indicators (e.g. on population ageing) and on those to assess the risk of poverty for the elderly (on the base of the work done in the Social Inclusion OMC). Yet, it was more difficult to find a compromise on indicators linked to objective 2. Again, Anglo-Saxon, Scandinavian, and Continental European countries confronted each other (Caussat and Lelievre, 2004).

Yet, some progress have occurred. According to the agenda proposed in the co-ordination process, the Indicator Sub-Group (ISG) of the Social Protection Committee (SPC) has published a series of interim reports dealing with that challenge. Much of the effort of the ISG focused on the definition of theoretical replacement rates (the ratio of an individual’s average pension to his/her average income before retirement), as a correct indicator to measure the income situation of the elderly population.

Second, as for ‘**learning from others**’, the peer review session devoted to the presentation and discussion of the National Strategy Reports (NSRs) is two days long and there is no specific peer review programme for the exchange of “best” practices as there is for labour market policies (<http://peerreview.almp.org>). It consists of brief presentations and discussions among civil servants. The real value of this exercise for the exchange of best practices is questionable as no issues could be discussed in-depth. At best, it could be a forum for the (superficial) exchange of ideas.

As far as the third aspect of the cognitive dimension, ‘**learning to learn**’, two recent events in France seem to be consistent with a broad influence from the EU. The first was a meeting of trade unions leaders from five European countries at a conference on the issue of pension reform. It was organised by the French Cfdt and Cgt confederations in Paris in January 2003. At the same time, the French Minister of Social Affairs did a ‘European tour’ to meet his colleagues/peers in Germany, Sweden, Finland, and Spain to compare different national experiences. Both of these events happened outside the pensions OMC. What is more, the French government has been active in developing parallel forms of communication. As proved by the interview with a civil servant of the EU Commission (DG Employment):

“we know that the French members of the Social Protection Committee have developed bilateral exchanges on pensions (but also social inclusion and health-care) with their colleagues from Italy, Spain (in these countries at least under right-wing governments) and UK (a sort of OMC on a bilateral base)” (Interview, Brussels, 03/02/05).

Then, the first joint Council-Commission report, assessing how Member States fare in pension reform compared to the (normative) objectives of the pensions OMC, puts emphasis on the main problems they face. In the report, both social and economic objectives are reflected. The implicit recommendations<sup>11</sup> made in the report reflect the different levels of urgency faced by the countries in their pension reform priorities. For France, the issue of financial sustainability was assessed as being very critical, whereas for the Netherlands it was assessed as being more moderate, but nevertheless an issue to address in the longer term. As to social adequacy, the inequity of the corporatist dimension of the French system was highlighted, suggesting that it was necessary to re-balance the treatment of workers belonging to difference schemes. For the Netherlands, inequity was not assessed as being as striking due to the comparatively high level of the basic pension and the supplementary coverage by the occupational pension schemes that cover most of the population. However, the risk of poverty among women having part-time working arrangements throughout their careers, a prominent feature in the Netherlands, was highlighted. The report does take due account of existing structural aspects of the systems in suggesting further steps, and these are in general in line with the ongoing national dynamics. Thus, the OMC does in practice present some capacity to take account of differences, while urging the Member States to strive towards common goals. However, the extent to which these reports are actually integrated into national reform agendas is feeble (de la Porte, 2003).

### 3.3 Procedural dimension

If the pensions OMC – objectives, peer review, joint report - is not visible in the national arena, it is not likely to have any impact. This is where the *procedural dimension* of the OMC comes in as an important feature for the success of the OMC. In theory, it seeks to be transparent and to involve a broad range of actors (European Council, 2000), but in practice both of these dimensions have been weak. The first and only round of national reports presented by the Member States to date were in most cases written by central governmental actors, with varying degrees of inter-departmental co-operation. There is no requirement to involve other actors in the process - social partners participated in line with national traditions and practices (de la Porte, 2003).

In devising policy proposals at European level, the SPC is to contact European level social partners « in an appropriate way » : thus it is not a legally binding provision. Likewise, the provision for social partner consultation is not mandatory for the EPC either. The UNICE (*Union des Confédérations de l'Industrie et des Employeurs d'Europe*) has set up a social protection working group, that in the area of pensions, is particularly interested in the development of a single market for complementary pensions. The European Trade Union Confederation (ETUC) has also set up a social protection working group. In February 2003 it officially published a position on the joint report of the Commission and the Council on safe and sustainable pensions. Several points were highlighted. Firstly, the risk of subordination of social objectives to the higher profile and more strategic budgetary and economic ones. Sec-

---

<sup>11</sup> The recommendation tool, used in the Broad Economic Policy Guidelines and the European Employment Strategy, is not used in pensions OMC.

only, it called for focusing on financial stability not only for the public systems, but also the private regimes based on capitalisation (Natali, 2004).

As to the participation of civil society organisations, the European Older People's platform, AGE, communicates (voluntarily) communicated its position to national governments and European institutions formally through written positions and informally through personal contacts with members of the EPC and SPC. However, neither European level representative organisation of social partners or civil society participate (even as observers) in the meetings of the EPC and/or the SPC. Contrary to national pension reform processes, often flooded by media attention and public debate, pensions OMC is not mentioned in the media or the object of public debate. Exploratory research on media coverage indicates that there has been no mention at all of the process.<sup>12</sup>

Concerning parliamentary involvement, there is no requirement to keep the EP informed and the role of the European Parliament in relation to the OMC is unspecified (EP, 2003). The article on the social policy co-ordination process of the draft of the Constitutional Treaty, does however mention the need of keeping the EP informed of the OMC progress. At the national level, while some parliaments have now discussed the open method (in general), there is no evidence of political debate on the OMC pensions. There is, apart from those involved, little awareness of its existence. Crucially, the political actors involved in the composition and implementation of the national pension reform agendas did not participate in the pensions OMC and do not at this stage take it as a serious policy agenda. The redaction of the national reports, which should represent the transposition of the European level objectives to the national level, does not involve all or even most of the players with an interest in pension policy. Instead, a limited number of governmental actors write the reports, which suggests that it is above all a technocratic rather than a political and iterative process.

Procedural shortcomings show that ultimately the OMC adopted for pension policy does not represent the core institutional arena for discussing, proposing, and assessing pension reforms in EU members. The interaction between different players both at the national and European level is usually outside that process. This is confirmed by the example of French policy making in the last year as well as by the in-depth analyses of the French and Dutch cases, respectively representing the social insurance and multi-pillar systems. At the European level, the OMC only brought the socially-oriented actors into the debate on pension reform. The economic actors, notably the EPC and Ecofin, derive their mandate mainly from the Treaty and the Growth and Stability Pact. The pension forum set up by the European Commission in 2000 for debating the portability of pension rights within the EU among social partners was not initiated as a result of the OMC, but the legal directive on that issue (de la Porte and Pochet 2003; de la Porte and Nanz 2004).

## V. (Preliminary) Conclusion

The parallel analysis of pension politics that we undertook in this article reveals the complexity and national rootedness of pension reform, in terms of structures and key actors, leaving little room for the European level. The study of France as representative of Bismarckian countries (in the *social insurance* system), and the Netherlands, representative of the *multi-pillar* system has exposed different reform records in the last period. Common challenges interact

---

<sup>12</sup> Dominique Jadot of the documentation centre of the *Observatoire social européen* has analysed Le Monde (France), La Libre Belgique (Belgium), the Financial Times (United Kingdom) and The Economist from the beginning of the pensions OMC - 2001.

with national welfare institutions inherited from the past and thus produce different trajectories of policy innovation. The countries under scrutiny also reveal different degrees of success of the strategies adopted to respond to the main pension problems. It is important to underline that the recent reform process has not been influenced by the co-ordination at the European level normatively, cognitively or procedurally. Notwithstanding a broad consensus on key challenges (i.e. to ensure that pension systems are financially sustainable, adequate and well adapted to changing societal patterns), differences exist on their precise forms in different contexts, as revealed through the in-depth analysis of the French and Dutch cases. This is especially true for the strategies adopted to deal with new career profiles: through contribution credits and the ‘buying back’ mechanism in France, and through the extension of supplementary schemes’ coverage in the Netherlands. Yet, crucially, the two countries do converge as far as the overall policy direction, along the three axes of the pensions OMC. The pensions OMC could thus only support Member States in their reform efforts if the reports, that do already integrate these differences to some degree, change from reports on past activities to forward-looking policy documents. However, given that the next cycle of reporting in pensions OMC is not due until 2006, and that it will then be closer integrated with the Broad Economic Policy Guidelines (BEPG), this is unlikely to occur.

From a normative perspective, the eleven objectives of the pensions OMC are not entirely off the hook – indeed they emerge from the recognition of existing challenges and broad reform needs. However, presenting all objectives as desirable in all cases, although some in the shorter term and others in the longer term, could be perilous. This is exacerbated by the fact that the existing benchmarks are currently economically biased, casting aside the socially-oriented objectives as second-class aims. The joint report adopted in 2003 has put more emphasis on the objectives with quantified benchmarks. Recent projections shown in the last EPC report on the impact of population ageing on public finances re-enforces the economic bias in pensions. The emphasis is clearly on the success of recent reforms (and even those adopted during the first cycle of the OMC pensions) for the reduction of the financial strains in the future, with much lesser concern with the social adequacy of pension programmes. The average level of pension benefits is expected to decrease in EU countries (especially in the social insurance cluster), and this is taken for granted. To ensure a better balance between the economic and social objectives, benchmarking would need to be further developed, especially to reflect the social objectives of the pensions OMC. Otherwise, the process will not be able to overcome the present asymmetry between economic and social actors and discourses.

From the cognitive perspective, the structural features of the OMC in this area are weak and are in actual fact over-ridden by initiatives for learning by other important actors in the national context, notably social partners, in the view of achieving specific aims. These last efforts can be however, interpreted as the effect of what we have called ‘learning to learn’. More emphasis should be put on learning within each pension cluster. A sort of ‘reinforced co-ordination’ could be implemented through longer and more effective peer review sessions. In that sense, the core values already defined in the main common headings for all EU members should be concretely applied to single pension models, and enhance the normative impact of the process. Very broad and vague goals could be transformed into more precise recommendations (if not quantitative targets) to individual member states that belong to a particular pension cluster.

In procedural terms, there is no public debate and no involvement of key actors. The first round of national reports was clearly not the result of an iterative learning process and not particularly transparent. This lack of participation undermines the OMC pensions as a normative tool, and can also help to explain its limited effectiveness as a cognitive tool. To have

some bite from both a normative and cognitive perspective, it would ultimately have to be attractive for actors involved in pension reform in the national context. A first step towards that could be the integration of pensions OMC with the mainstream co-ordination processes around the Broad Economic Policy Guidelines (BEPG). This is also supported jointly by the European level social partners, as long as the specificity of the pensions OMC is maintained (Communication CES, UNICE, UEAPME, CEEP 2003). If it were included, as is planned for 2006, with the economic co-ordination cycle, then high-level political actors could begin to consider it, from a normative perspective, to boost national pension reform or to introduce new measures. It would in conjunction with this have to become more visible in the public sphere, propagated to a great extent through the media and also discussed in national parliamentary arenas. This participative re-enforcement could increase its effectiveness not only from a normative perspective but also as a cognitive tool. However, there is the risk of reproducing the existing economic bias due to the greater strength of the economic players, discourse and benchmarks, propagated not only through the OMC, but through other processes, notably the Stability and Growth Pact.

## VI. References

- Anderson K. (2002): “The Europeanisation of Pension Arrangements: Convergence or Divergence?”, in C. de la Porte and P. Pochet “ Building Social Europe through the Open Method of Co-ordination”, Bruxelles, PIE-Peter Lang, pp. 251-284.
- Blöndal S. and Scarpetta S. (1998): “The retirement decision in OECD Countries”, OECD Economic Department Working paper, n.202.
- Boeri T. (2001): “Social Europe : dramatic visions and real complexity”, Discussion paper for the *Centre for Economic Policy Research* , London.
- Bonoli G. (2000): “The Politics of Pension Reforms: Institutions and Policy Change in Western Europe”, Cambridge, Cambridge University Press.
- Bonoli G. (2003): “Two Words of Pension Reform in Western Europe”, *Comparative Politics*, July, pp.399-416.
- Bonoli G. and B. Palier (1997), ‘Reclaiming Welfare: the Politics of French Social Protection Reform’, *South European Society and Politics*, 1, 3, pp. 241-259.
- Caussat, L. and Lelièvre, M. (2004), “Construire des Indicateurs Européens de Pensions: une entreprise qui relève les particularités nationales des systèmes de retraite”, *Solidarité et Santé*, Paris, Drees, 2/2004, pp.7-27.
- CEC (2001), Communication from the Commission “Supporting National Strategies for Safe and Sustainable Pensions through an Integrated Approach”, COM (2001) 362 of 3 July 2001.
- CES, UNICE/UEAPME, CEEP (2003) : « Lettre commune streamlining – position des partenaires sociaux européens sur la communication de la Commission sur la rationalisation de la coordination ouverte dans le domaine de la protection sociale », septembre.
- de la Porte C. (2003), “Is Open Method of Coordination on pensions credible?”, in Gabaglio, E. and Hoffmann, R. (eds.) (2003), *European Trade Union Yearbook 2002*, European Trade Union Institute, Brussels, pp.313-328.
- de la Porte C. and Nanz P. (2004): “A Deliberative-Democratic Mode of Governance? The Cases of Employment and Pensions”, in *Journal of European Public Policy*, , pp. .
- de la Porte, C. and Pochet, P. (2002), “Public Pension Reform: European Actors, Discourses and Outcomes”, in de la Porte, C. and Pochet, P. (eds.), *Building Social Europe through the Open Method of Co-ordination*, P.I.E.-Peter Lang, Brussels, pp.223-250.
- Eberlein B. and Kerwer D (2002): “Theorising the New Modes of European Integration”, *European Integration Online Papers, EIOP*, vol.6, n.5.
- Economic Policy Committee (2003): “The Impact of Ageing Populations on Public Finances: Overview of Analysis Carried Out at the EU level and proposals for a future work programme”, Brussels.
- Economic Policy Committee and Social Protection Committee (2003): “Joint Report by the Commission and the Council on Adequate and Sustainable pensions”, Brussels.
- European Council (2000) Lisbon European Council, Presidency Conclusions, 23-24 March 2000.
- European Parliament (2003), Report on “Analysis of the open coordination procedure in the field of employment and social affairs, and future prospects” by the committee on employment and social affairs, Rapporteur Miet Smets A5-0143/2003 of 30 April 2003.

- Esping-Andersen G. (1996): “Welfare States without Work: the Impasse of Labour Shedding and Familialism in Continental European Social Policy”, in G.Esping-Andersen (eds) “Welfare States in Transition.National Adaptations in Global Economies”, London, Sage.
- Ferrera M., Matzaganis, M. and Sacchi S. (2002), “Open coordination against poverty: the new EU ‘Social Inclusion Process’”, *Journal of European Social Policy*, vol. 12/3, pp. 227-239.
- Green-Pedersen C. (2002): “The Politics of Justification”, Amsterdam, Amsterdam University Press.
- Hemerijck A. (2002): “The Self-transformation of the European Social Model(s)”, in G.Esping-Andersen et al. “Why We Need a New Welfare State”, Oxford, Oxford University Press, pp.173-215.
- Jolivet, A. (2003), ‘France: Latest Developments in Pension Reform’, *EIRO-Online*, June.
- Kremers J.J.M. (2003): “Pension Reform Issues in the Netherlands”, in M.Feldstein and H.Siebert “Social Security Pension Reform in Europe”, Chicago, The University of Chicago Press, pp.291-316.
- Meyer T. (1998): ‘Retrenchment, Reproduction, Modernization: Pension Politics and the Decline of the German Breadwinner Model’, *Journal of European Social Policy*, vol.8 (3), pp.195-211.
- Myles, J. and P. Pierson (2001), ‘The Comparative Political Economy of Pension Reform’, in P. Pierson (ed.), *The New Politics of the Welfare State*, Oxford, Oxford University Press, pp. 305-333.
- Natali D. (2003a): “The Role of Trade Unions in the Pension Reforms in France and Italy in the 1990’s: New Forms of Political; Exchange ?”, *EUI Working Paper*, n.3/03.
- Natali D. (2003b): “La dimension sociale de l’intégration européenne: divergence des modèles d’Etat Providence et coordination future”, *Synthèse n.104* published on ‘Lettre de la Fondation Schuman’, Paris, n. 135/September 2003.
- Natali, D. (2004), *La MOC Pensions : un résumé historique (2000-2004)*, Working Paper for kick off workshop (25 March 2004) in the research project on the OMC in pensions and European Integration, *SERVICE PUBLIC FEDERAL SECURITE SOCIALE*.
- Natali, D. and de la Porte, C. (2004), “OMC Pensions: What role for Europe in Co-ordinating the reform of different pension systems? The cases of France and the Netherlands”, in Jorgensen, H., Baerenstern, M. and Monks, J. (eds.), *European Trade Union Yearbook 2003/2004*, European Trade Union Institute, Brussels, pp.255-282.
- Natali D. and Rhodes M. (2004): “Trade offs and Veto Players: Reforming Pensions in France and Italy”, *French Politics*, 2(1), March (forthcoming).
- Natali, D. (2006), « Le Pensioni nell’Europa a 25 : il coordinamento delle strategie di riforma », working paper for URGE (Unit for the research on European governance), n.1/06, Moncalieri, Turin, Italy.
- OECD (2003): “Employment Outlook”, Paris.
- Palier B. (2001): “Beyond Retrenchment: four problems in current welfare state research and one suggestion how to overcome them”, in J.Clasen (ed.) “What Future for Social Security?”, The Hague, Kluwer Law. International, pp.105-120.
- Palier B. (2002), *Gouverner la sécurité sociale*, Paris: Presses Universitaires de France.
- Palier B. (2003) : “Facing the Pension Crisis in France”, in in G.Clark and N.Witheside “Pension Security in the 21<sup>st</sup> Century”, Oxford, Oxford University Press, pp.93-114.

- Rhodes M. and Natali D. (2003): “Welfare Regimes and Pension Reform Agendas”, Contribution to the Conference on ‘Pension Reform in Europe: Shared Problems, Sharing Solutions’, London School of Economics and Political Science, 5<sup>th</sup> December.
- Schludi M. (2003a): “Politics of pension reforms: The French case in Comparative Perspective”, *French Politics*, 1(2), pp. 199-224.
- Schludi M. (2003b): “Chances and Limitations of ‘benchmarking’ in the reform of Welfare State Structures – The case of pension policy”, Paper presented at the Amsterdam Instituut voor Arbeid Studies, May 2003.
- Treib, O., Bahr, H. and Falkner, G. (2005): ‘Modes of Governance: A Note towards Conceptual Clarification’, EUROGOV working paper, N. 2/05.
- Van Riel B., Hemerijck A., and Visser J. (2003): “Is there a Dutch Way to Pension Reform?”, in G.Clark and N.Witheside “Pension Security in the 21<sup>st</sup> Century”, Oxford, Oxford University Press, pp.64-92.
- Visser J. (2002): “The first part-time economy in the world: a model to be followed?”, *Journal of European Social Policy*, vol.12, n.1, pp.23-42.
- Visser J. and Hemerijck A. (1997): “A Dutch Miracle, Job Growth, Welfare Reform and Corporatism in the Netherlands”, Amsterdam, Amsterdam University Press.