Pension Reform in Europe: Process and Progress

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The Rediscovery of Politics: Democracy and Structural Pension Reform in Continental Europe

Steven Ney

When reflecting on pension reform experiences, scholars and policymakers alike tend to dwell on the difficulties of reform, the irrationality of policymaking, and the barriers to structural change. To learn why structural pension reform is so difficult, some scholars concentrate on the fiscal and economic contexts of reform efforts (James and Brooks 1999), others analyze individual political behavior (Disney 1996), and still others look at the interaction of political constraints at different levels of governance (Pierson 1994, 1996; Pierson and Weaver 1993; Hinrichs 2000, 2001). Despite this variety in methods and approaches, the general and somewhat disturbing implication running through most studies is that democracies create nearly insurmountable barriers to structural pension reform. Not only do democratic polities provide few electoral incentives for embarking on pension reform, but pluralist politics also create ample opportunities for adversaries to hobble reform efforts. The common wisdom emerging from this line of argument is that the best that would-be reformers can hope for is an iterative process of incremental and piecemeal change. Because radical or structural pension reform is politically costly, any attempt to restructure pension systems fundamentally is tantamount to political suicide and, for all intents and purposes, impossible.

Based on empirical evidence from four continental European countries (Austria, France, Germany, and Italy),[1] this chapter suggests that democracies and democratic practices actually have enabled rather than constrained structural pension reform in Europe. Rather than look to macropolitical variables to explain pension reform processes (as do the political scientists reviewed in the first section below), this chapter will look very closely at the subpolitics of European pension policy networks. An analysis of European pension policy communities reveals that the reluctance to reform has more to do with the dominance of expert-oriented policy networks than with democratic politics. As explained in the second section below, these ideologically cohesive and organizationally integrated corporatist policy communities were successful at insulating policy networks from both parliamentary and public scrutiny. As a result, much of pension policymaking prior to the 1990s was incremental and piecemeal, geared toward maintaining the institutional status quo.

From about 1990 onward, however, new types of policy actors successfully challenged the ideological and political dominance of established pension policy networks in continental Europe. As these actors introduced new ideas and concepts into European pension reform debates (many of them critical of established pension systems), they broadened the scope of political conflict: European pension debates now feature competing accounts of the pension issue rather than one pension orthodoxy. Consequently, pension policymaking has become more contentious and conflictual because a far more volatile "garbage can" policy process is replacing the predictability of corporatist bargaining. In short, European pension policymaking has rediscovered pluralist politics. This rediscovery of principled policy conflict has coincided with structural reform measures in continental Europe.

The Politics of Pension Reform

Most commentators and observers agree that social policymaking is not as much fun as it used to be. Perpetual crises of social security budgets caused by increasingly competitive global markets, persistent unemployment, and demographic aging remind us that the heady days of welfare state expansion are most definitely over. Nowadays, social policy seems to be about adapting welfare states, including pension systems, to harsher economic climates. In practice, this has meant retrenching and reducing the generosity of welfare state provisions.

Under these new circumstances, pension reform in democratic polities has become a thorny, politically risky, and inherently divisive policy issue. Despite what seems to be overwhelming evidence in favor of incisive structural reforms, pension systems have proven remarkably immune to fundamental change. Finding that theories of welfare state expansion have not explained welfare state retrenchment[2] (Pierson 1994, 1996), political scientists have suggested that the observed resilience of welfare states may be related to the ways that contemporary democracies and their institutions are structured.

The Institutional Limits to Welfare State Retrenchment in Democracies

The political process of retrenching welfare states is not the mirror image of the process of expanding them. In fact, Paul Pierson (1994, 1996) argues that retrenchment is an altogether more treacherous exercise for two reasons. First, current retrenchment policies have dramatically different electoral implications than did the expansionary efforts of the past. Retrenchment involves imposing concrete losses on a specific group within the electorate. Because this is not likely to be popular with voters,[3] policymakers anxious about reelection will find that a "…simple 'redistributive' transfer of resources from program beneficiaries to taxpayers, engineered through cuts in social programs, is generally a losing proposition" (Pierson 1996, p. 146). Second, welfare state retrenchment takes place in different institutional contexts than did welfare state expansion. Over the past decades, social policymaking has given rise to networks of professional bodies and advocacy groups that design, administer, implement, and evaluate social policy. Not only may these interest groups be in a position to mobilize a substantial part of the electorate (for example, the "grey lobby" in the United States or unions in continental Europe), but they also may be able to obstruct policy implementation where they have a role in the administration of welfare state programs. As a result, rather than policymakers attempting to claim credit for expansive welfare state reforms, the "new politics of the welfare state" (Pierson 1996) is about shunting and avoiding the blame for unpopular benefit cuts to escape punishment at the hands of voters.

As a result of the institutional structures of contemporary democracies themselves, pension retrenchment is bound to be a thorny and precarious political project. Political scientists such as Paul Pierson (1994), Kent Weaver (Pierson and Weaver 1993), and Giuliano Bonoli (2000) have analyzed how patterns of formal and informal political institutions shape pension reform *strategies*. Democratic institutions regulate political participation and contestation by defining so-called veto points at which the political opposition may intervene in the policy process (Bonoli 2000; Ebbinghaus and Hassel 2000; Müller 1999). Bonoli (2000) argues that pension reform will be more difficult, require more complex governmental strategies, and lead to qualitatively different reform pathways in polities with many veto points (such as Switzerland or the United States) than in polities that concentrate political power in the hands of the government (such as the United Kingdom). Yet, political institutions do not determine pension reforms in any mechanical sense. Pierson and Weaver (1993) argue that political systems that concentrate power also focus accountability. With few institutional mechanisms for avoiding blame, begrudged voters will know exactly who is responsible and whom to punish at the ballot box (Pierson 1994, 1996). The fate of any particular reform, Pierson argues, will depend on whether the concentration of power outweighs the concentration of accountability. Formal political institutions, then, are important in the sense that they frame policy processes, regulate political contestation, and define feasible pension reform pathways (Pierson 1994). Their direct impact on pension reforms, however, remains ambiguous and complex.

In addition to formal political institutions, the design and structure of pension systems themselves create barriers for retrenchment. Here political scientists point to path dependency and institutional lock-in as crucial determinants of pension reform *options*. Whether a pension system operates along the lines of the social insurance model or of Beveridge's vision of social security makes a substantial difference to available policy alternatives and policy tools. For example, Bismarckian systems allow policymakers to manipulate contribution rates and noncontributory elements, whereas policymakers in Beveridgean systems can work with means-tested benefits and eligibility criteria (Bonoli 2000). More fundamentally, long-term financial commitments encoded in the institutional design of pension systems may lock policymakers into a specific reform trajectory. The most prominent example of institutional lock-in is the pay-as-you-go (PAYG) system. The accrued pension claims of present generations, observers argue, give rise to prohibitively high transition costs that prevent a wholesale shift to fully funded pensions (Hinrichs 2001; Pierson 1994). Beyond financing mechanisms, pension system designs also designate who is involved in running the pension systems and who has an interest in maintaining or changing the status quo. For instance, in continental European countries pension systems are located in a social space shared by governments, labor unions, and employers' associations (Ebbinghaus and Hassel 2000). Bi- and tripartite management regimes, such as in France, Germany, or Italy not only introduce veto points into the decisionmaking process; they also define stakeholders and their interests in the pension system.

In sum, the literature tells us that welfare state retrenchment and pension reform in democracies is difficult because

- they are likely to be unpopular with the electorate
- democratic polities provide ample opportunities for contesting unpopular policy (via veto points) or for punishing policymakers (via elections)
- the structures of welfare state institutions and pension schemes themselves rule out certain policy options from the outset, thereby narrowing the feasible set of policy alternatives.

How have policymakers dealt with these institutional constraints? As a rule, Pierson (1994, 1996) argues, policymakers have tried to mitigate the electoral impact of imposing losses by either maximizing electoral margins or minimizing political opposition to the reform. Basing his argument on evidence from four countries,[4] he maintains that policymakers have applied any or all of three blame-avoidance strategies. First, policymakers and politicians have played off different groups in the policy community. Second, policymakers have pursued strategies of compensation by providing financial benefits to potential losers in retrenchment policies. Third, and most important, would-be reformers have lowered the public visibility of benefit cuts. For example, according to Pierson, policymakers can obfuscate retrenchment by formulating highly complicated reforms and burying the potential policy outcomes in technical jargon. Another strategy for blurring political responsibility, Pierson points out, is to delegate decisions to ad hoc commissions or to associate political opposition with retrenchment in consensus-based policymaking (Pierson 1994).

In Europe, Bonoli (2000) maintains, institutional contexts seem to imply specific political strategies. Unitary systems that centralize power, such as the United Kingdom, imply a bold political strategy of imposing unpopular pension reforms and absorbing the electoral impacts.[5] Conversely, governments in polities with many veto points, such as France or Switzerland, have to adopt more circumspect and inclusive approaches. Here, successful pension reform strategies are likely to diffuse blame by including political adversaries (such as labor unions or pro-welfare interest groups) in policy formulation and by featuring bargained outcomes among contending policy actors. This process, which Ebbinghaus and Hassel (2000) call "concertation," occurs when social partners trade quid pro quos (Bonoli 2000). Concertation reduces potential opposition to a reform by implicating political adversaries in the reform itself.

The institutional barriers to pension reform have not prevented it from occurring. However, changes to pension systems have come only after protracted, cumbersome, and iterative reform processes. Policymakers' need to avoid blame for unpopular pension reforms has made the adaptation of welfare states a slow and incremental process (Pierson 1996; Bonoli 2000; Hinrichs 2001). Moreover, until very recently (see below) reforms have moved well within the institutional logic of existing pension provision.

Democracies and Pension Reform

The most significant aspect of the "new politics of the welfare state" (Pierson 1996) is that successful pension reform requires the suspension of democratic mechanisms. Evidence from many European countries[6] seems to suggest that policymakers have used blame-avoidance strategies to pursue unpopular reform agendas. Obfuscation strategies have kept voters and opposing policy actors uninformed about the effects of reform proposals. Compensation, in turn, has bought acquiescence from powerful groups of voters at the cost of less concentrated interests. Concertation effectively has banished choice from the political system: consensual policymaking has implied that voters have been left with few real alternatives to governmental reform agendas (Nullmeier and Rüb 1993). As Pierson (1994) points out, retrenchment is an exercise in avoiding or even suppressing policy conflict. If, however, we understand democracy to be a system of political contestation (Dahl 1971), then blame avoidance amounts to circumventing the democratic policy process.

If this is true, the implication that democracies and pluralist politics rule out structural pension reform would be ominous. Reform-minded policymakers, it would seem, are stuck between a rock and a hard place. On one hand, pluralist politics condemns them to the "pension misery-go-round" of frustrating, never-ending reforms unless they can find ways around the democratic policy process. On the other hand, alternatives to pluralist democracies are even less appealing than is the pension misery-go-round (Pierson 1996).

This bleak conclusion, however, emerges from the way the literature emphasizes the point of decision in pension reform processes. This focus on decisionmaking is problematic for two reasons. First, pluralist democracies are specifically designed to diffuse political power at the point of decision. Institutional features, such as parliaments, the separation of powers, cyclical and frequent elections, or an independent judiciary, ensure that political power in democracies diffuses across many policy actors (Dahl 1961; Polsby 1981). Perhaps, then, it should not come as much of a surprise that imposing unpopular retrenchments at this point in the policy process is likely to be difficult. Second, and more significant, the point of decision in real policy processes may be more difficult to identify than the literature will have us believe. As Pierson (1994) points out, blame avoidance is also about breaking down one transparent point of decision into many less transparent decisions scattered across the policy process. Significantly, policy actors can affect outcomes by defining pension policy problems to suit their preferred solutions, thereby controlling pension reform agendas. Applying political power at the earlier stages of policymaking is a far more subtle activity.

A related weakness is the focus on behavioral aspects of pension reform. Pension policymaking is not only about maximizing individual or organizational utility functions. Political conflicts over the welfare state are also conflicts over fundamental ideas and values. The institutions from which pension reforms emerge give rise to specific norms, practices, and worldviews. When institutions and their members clash, so do the constitutive values and practices. Yet reforming pension systems is also a communicative process (Rein and Schön 1994). Parties to pension reform will rely on rhetoric and argument to persuade, cajole, and mobilize other policy actors (Fischer and Forester 1993; Rein and Schön 1993).[7] How different policy actors frame pension reform issues and the extent to which political adversaries can successfully challenge them will have a profound effect on policy outcomes.

The Subpolitics of Pension Reform

The previous section outlined how the general characteristics of pluralist democracies impose constraints on pension reforms, but that only tells part of the story. As Pierson (1994) points out, analyzing welfare state reforms means thinking about the consequences of big government. Another development associated with big government is the so-called differentiated polity (Rhodes 1997). Increasingly, policymaking in advanced industrial states has become specialized and fragmented. In almost all countries, states have taken on regulative responsibilities for an ever increasing spectrum of social activities. As these responsibilities have grown in number and in size, so too has the demand for specialized knowledge, technical advice, and policy delivery capabilities. This development has given rise to functionally segregated networks of institutions and policy actors that focus on particular social problems. In these networks and communities, policy actors define issues, set agendas, formulate proposals, and implement decisions. In the differentiated polity, policy (including pension reform) is made in policy communities.

Assessing the impact of pluralist democracies on pension reform implies that we examine these subcutaneous policy processes. As in other specialized policy arenas, pension reforms in Europe have emerged from relatively stable networks of experts, politicians, interest groups, and state agencies. What, then, has been going on in these policy networks to make pension reform so difficult? Moreover, to what extent have these policy networks enabled political contestation and participation in policymaking?

Pension Policymaking Prior to the 1990s: Consensus, Exclusion, and Nondecisions

European pension policy communities developed in the "golden age of the welfare state" (Pierson 1994). In the three decades following the end of World War II, expansion of European welfare states gave rise to specific structures and styles of social policymaking.

Although the particular institutional setups differed from country to country, many of these decisionmaking systems have been exclusive institutional networks insulated from both public scrutiny and other policy networks.

Institutional Actors, Network Structures, and Agenda-Setting. In Europe, pension system design has determined who participates in pension policymaking. In general, the more a pension system resembles the social insurance model, the more pronounced are the corporatist decisionmaking structures. Whether in the German and Austrian pension carriers (*Rentenversicherungsträger*), in the French supplementary pension schemes, or in the governing bodies of the Italian pension system, administration of pension schemes in continental Europe features some form of bi- or tripartite management regime (Linnerooth-Bayer 2001; Ney 2001; Bonoli 2000; Bozec and Mays 2001; Cioccia 2001; Antichi and Pizzuti 2000). As a result, continental European pension policy communities before the 1990s broadly conformed to the corporatist model of interest intermediation (Schmitter and Lehmbruch 1979). The institutional policy actors within pension policy networks reflected corporatist cleavages: as a rule, pension policy formulation and decisionmaking was a bargaining process limited to representatives from state, capital, and labor.[8]

A feature common to all European pension policy communities is their strong reliance on expertise. Apart from political elites, the pension policy issue has been the sovereign province of experts. In corporatist systems, pension expertise traditionally has emerged from the legal profession and, to a lesser but increasing degree, the economists' guild. In the United Kingdom and in Nordic countries, expertise relies more on economic theory and actuarial sciences than on law. In either case, requirements of technical expertise have erected high barriers to entry for would-be reformers. Consequently, the number of players has been rather limited: in most countries, the wider pension policy community consists of 20 to 30 policy-relevant institutions. When considering institutional actors who seriously impinge on pension reforms, this number falls to 10 to 15 (Ney 2001 and Mayhew 2001).

How did these institutional actors relate to one another? Following Rhodes (1990, 1997) we can think of policy networks as systems of exchange and dependence between institutions. To fulfill policy goals, institutions depend on the resources of other organizations. In pursuing these goals, institutions interact, exchange, and bargain. The stronger these interorganizational resource dependencies, Rhodes argues, the more integrated and cohesive a policy network is likely to be.

In continental Europe, corporatist policy communities featured strong organizational interdependencies between institutional actors.

A key resource in pension policymaking was (and continues to be) credible pension knowledge (Reynaud 2000). Before the 1990s state actors and pension bureaucracies (such as the pension carriers in Austria and Germany or the state in France) operated and controlled all sites that produced legitimate pension knowledge. Whether it was pension expenditure statistics, demographic and financial projections, or forecasts about future developments in benefits and contributions, the source of credible knowledge resided within corporatist policy communities. In that way state bureaucracies could tie the corporatist partners into the bargaining process: Impact on pension policy required "credible pension data," which was available from a limited number of controlled sources (Nullmeier and Rüb 1993; Bozec and Mays 2001). In return, social partners provided political cooperation and compliance. A legitimate claim to governance thus strongly coincided with the control of superior access to pension knowledge.

These interorganizational resource dependencies gave rise to tightly organized, institutionally interdependent pension policy communities. Frequent interaction among individual policy actors with shared epistemic commitments led to the emergence of a highly selective, ideologically coherent, and institutionally interdependent group of policymakers (see also Nullmeier and Rüb 1993). By effectively insulating the issue area from other policy spheres and from other policy actors, pension policy communities managed to control problem definition, agenda-setting, and policy formulation.

Policy change occurred within narrowly delimited and carefully defined boundaries, if it took place at all. The close correspondence between pension provision and political decisionmaking implied that each attempt to reform pension schemes also tested the political viability of the corporatist bargaining system. So as not to upset the fragile balance of power between policy actors and to substantiate to external contenders the claim to superior knowledge, policymaking in continental Europe included extensive consensus-seeking (Ney 2001; Bozec and Mays 2001; Nullmeier and Rüb 1993). One way of achieving consensus was to control the emergence of conflict. By limiting the pension reform agenda to relatively innocuous issues, pension policy communities curtailed political conflict by either excluding or co-opting dissenting voices. Policy communities defined pension problems so that the solutions fell exclusively *within* the institutional logic of existing pension provision. The policy community a priori defined pension issues as technical ones amenable to managerial solutions. Typically, pension reforms in these countries emerged from an intricate bargaining process aimed at achieving consensus across every conceivable political cleavage in the pension policy community.[9]

Policy Processes and Democratic Institutions. Unlike what public choice models and concepts of blame avoidance would have us believe, democratic institutions have played a marginal role in European pension reform. In most European countries (with the exception of Norway), pension policymaking was thoroughly depoliticized and deparliamentarized, even during times of welfare state expansion.

In corporatist policy communities, such as the British pension policy network, pension reforms emerged from a myriad of ad hoc committees and commissions. These committees and commissions were set up by corporatist policy actors and served three basic political purposes. First, they allowed policy network participants to define the pension issue, set pension reform agendas, and control participation. Second, this "ad hocracy" provided venues for "partisan mutual adjustment" (Lindblom 1958) between corporatist policy actors. Third, and most important, these policy venues created a policy space institutionally remote from formal democratic institutions and public scrutiny.

On one hand, the sheer number of committees and commissions with varying degrees of importance made for an opaque policy process. Unless they were situated on the inside of the policy community, it was difficult for policy actors to reconstruct the origin and evolution of a particular pension reform.[10] On the other hand, because ad hoc committees and commissions were not subject to the same rules of public disclosure and access as were parliamentary committees, for example, corporatist policy communities could keep the public at arm's length. In countries such as Austria, Germany, and the United Kingdom,[11] there was more than a little truth to the popular image of decisionmaking in smoke-filled backrooms. Moreover, members of political parties within the corporatist policy communities (usually depicted as "social policy experts") acted as ideological and organizational gatekeepers. Rather than carrying new ideas into pension policy communities, these politicians often were more effective in keeping new concepts and approaches out of pension policymaking (Nullmeier and Rüb 1993).

By the time that a particular pension reform reached parliament, there was little left for parliamentarians to decide. Corporatist partners had closed the deals in the relatively safe confines of the ad hocracy and senior politicians relied on party discipline to avoid any embarrassment in parliament. Rather than exerting political control, parliament merely rubber-stamped pension reforms drafted in corporatist policy communities. For example, the passage of the German Pension Reform (PRA) Act of 1992 shows how the policy community outmaneuvered the *Bundestag*.[12] Not only did parliament have little time to process the PRA 1992 bill;[13] the ad hocracy continued to work on details of pension reform after its passage (Pabst 1999). Similar patterns emerged in the Austrian pension reform of 1985 when the social partnership decided upon the substantive content of the reform and relegated parliamentary ratification to a mere formality (Linnerooth-Bayer 2001).

Corporatist Policy Communities, Incremental Pension Reform, and Democracy. A closer look at the subpolitics of pension reform in Europe prior to the 1990s reveals that there may be a less robust relationship than previously thought between democratic institutions and incremental pension reform. Pension policy communities in Europe, the locus of pension policy formulation, have been anything but democratic. In continental European countries and to a lesser extent in the United Kingdom, policy communities have been small, selective, and highly cohesive policy networks based on specialized expertise. These networks dominated pension policymaking until (and in some case well into) the 1990s. By monopolizing credible expertise and technical knowledge as well as excluding potential contenders, these institutional networks effectively controlled policy conflict. Moreover, these tightly integrated policy communities insulated themselves from other policy networks, parliament, and public scrutiny. Despite functioning blame-avoidance mechanisms,[14] however, European pension reforms before the mid-1990s consisted of cautious and incremental retrenchments to existing pension systems. On the whole, reforms prior to the 1990s were parametric adjustments of existing institutional arrangements that did not seriously challenge the underlying organizational structure of public pension provision.

The reason why continental European polities in the past have eschewed structural pension reforms is related not to the structure of pluralist democracies but to the configuration of pension policy communities. As we have seen, pension systems in corporatist polities imply specific decisionmaking structures. These structures empower certain social groups at the cost of other groups. In this sense pension systems are more than a technical device for transferring income across generations. Rather, pension systems represent both a modus operandi and specific distribution of political power within the pension policy network. Any change to the pension system that moves outside the prevalent institutional logic of pension provision also challenges the decisionmaking system and the distribution of power, which in turn encodes a particular set of beliefs, enabling a fundamental policy conflict. The subpolitics of pension policymaking suggest, therefore, that pre-1990 reform efforts aimed at securing existing pension systems and their accompanying distribution of political power in the face of financial pressures. To defend pension systems, continental pension policy communities simply recalibrated existing institutional mechanisms (consensus policymaking, monopoly of knowledge, expert-driven policymaking, and so forth) to suit more austere social policy goals. If we are to believe the sociological systems theory that political power is the "currency" of political systems, then there is no rational basis for any political organization to relinquish it.[15] For this reason, it is in the most fundamental interest of pension policy community participants to limit pension reform to problems amenable to systemic palliatives. This maintains and reproduces the corporatist decisionmaking system in which all participants have a stake. In sum, it is not democratic institutions but rather the lack of democratic practices within pension policy communities that explains the absence of structural pension reforms in continental Europe prior to the 1990s.

Pension Policymaking in the 1990s: Expanding the Scope of Political Conflict

By the end of the 1990s, the picture had changed completely. Not only had the governments made decisive cuts to pension benefits, but nearly all countries had sought solutions outside established PAYG, defined-benefit pension systems.

The leaders of this process have been Poland, Italy, the United Kingdom, and Norway.[16] The Polish pension reform of 1997 effectively terminated the Bismarckian-style pension system (Góra 2001). Under the new system, workers under the age of 40 will make contributions into both a notional defined contribution public pillar and a fully funded pension scheme (Perek-Bialas, Chlon-Dominczak, and Ruzik 2001). Similarly, Italian policymakers have established fully funded pension schemes at firm level (Cioccia 2001; Reynaud 2000). In the United Kingdom, the cuts to the State Earnings-Related Pension Scheme (SERPS) in the mid-1980s and the tax incentives for private pensions have led to a considerable shift toward private pension provisions (Mayhew 2001). In Norway, despite expansion of the universalist elements of the pension system, there has been considerable growth in private pensions: between 1982 and 1996 the proportion of old-age income from private pensions increased from 16.4 percent to 21.6 percent (Ervik 2001).

Even in continental European countries, policymakers have implemented alternatives to established social insurance systems. In Germany, the most recent reforms have created a voluntary pension pillar based on credit reserve (CR) funding and located in the private sector (Rehfeld 2001). Similarly, the Thomas Law of 1997 in France created the legal and organizational framework for private sector pension provision. Only Austrian policymakers have not moved outside the institutional logic of the social insurance system (Linnerooth-Bayer 2001).

What has triggered these reforms? If the form and practices of policy communities constrained structural pension reform prior to the 1990s, we should look for and expect to find changes at the level of European pension policy communities. Indeed, throughout the 1990s European pension policy communities became less cohesive and more diverse in terms of membership, structure, and practices.

New Policy Actors and Old Interorganizational Ties. In the last decade there has been an influx of new institutional actors into most European pension policy communities. These new actors have challenged dominant ways of thinking about pension reform, and the institutional ties characteristic of European pension policy communities have begun to loosen.

The most prominent new interest groups to enter the European pension policy communities have come from the banking and insurance industries. This trend is most visible in the United Kingdom and in Poland where pension reform created a formal space for increased industry involvement in policymaking. To a lesser extent, the same is also true in continental Europe. In France, Germany, and Italy, the private financial sector has increased its attempts to influence pension reform outcomes by adopting more proactive policy strategies and circumventing established corporatist channels of policy interaction (Ney 2001; Bozec and Mays 2001; Ervik 2001). Even in Austria, where corporatist interest mediation remains strong, the private sector is becoming increasingly active in providing pension-related products (Linnerooth-Bayer 2001).

Another significant addition to pension policy communities in many European countries is the media. Throughout the last decade, all countries have revealed a change in both the frequency and content of articles about pension reform issues. Media coverage tends to describe the issue as an impending financial crisis: The emphasis is on the inequitable distribution of burdens across generations. Metaphors such as "the tidal wave of old age" (Norway), the "struggle of the generations" (Germany), and the "demographic time-bomb" (ubiquitous) underline the alleged urgency of policy action. In general, the media are quick to criticize policymakers for inaction. In continental countries, the media equate parametric reforms with governmental weakness, agency capture, and electoral cynicism: The failure to reform pension systems radically (such as a shift to a fully funded financing mechanism) reflects the inability of policymakers to rid themselves of old-fashioned corporatist dogmas, and their unwillingness to jeopardize the grey vote" (Bozec and Mays 2001; Ney 2001).[17]

At the level of political elites, the 1990s have brought about a reshuffling of political allegiances. Political parties no longer mirror corporatist cleavages. Rather, many major political parties in Europe are split internally among competing approaches to pension reform. Moreover, in continental European polities, supporters of conventional social policymaking rapidly are disappearing from the political map. In Germany the purge of old-style social policy experts from both major parties (most important, from the German Social Democratic Party) has been particularly noticeable. Similarly, an entire generation of politicians in Italy was wiped out by the *Mani Pulite* inquiries. The same process has occurred to a lesser degree in Austria and France. In those countries, traditional social democratic values weathered the ideological upheavals of the 1990s far better than in Germany or the United Kingdom. The shift of the union's traditional allies toward the center of the political spectrum has meant that the unionized labor movement can no longer count on uncompromising political support from socialist or social democratic parties.

The new policy actors have come replete with innovative ideas and approaches to pension policymaking. In many cases, new actors in the policy communities have established competing sites of knowledge production. For example, the significance of think-tanks increased throughout the 1990s. The independence of think-tanks varies, but most are close to a particular policy position or political party. For example, Demos in the United Kingdom is (somewhat unfairly) said to be close to "New Labor," the Copernic Foundation in France leads the intellectual charge on the neo-liberal "culture of *Bercy*," and the *ZeS* in Germany is close to a conventional German social policy approach. Other think-tanks have more concrete institutional ties to policy actors: the *Deutsches Institut für Altersvorsorge* is nominally independent but receives funding from the Deutsche Bank Group, and Deutsche Bank Research is a department of the banking corporation whose mission is to inform the Deutsche Bank's board of directors (Ney 2001).

How have these changes affected pension policy communities? The diversification of participants has helped loosen formerly cohesive interorganizational ties at two levels. First, the new entrants have challenged the cognitive monopoly of conventional pension knowledge. Not only are they in a position to interpret pension data within the conventional pension paradigms,[18] but they have also brought novel approaches to the pension issue. In many European countries, generational accounting and internal rate of return comparisons have questioned conventional pension policy lore (Ervik 2001; Ney 2001; Bozec and Mays 2001). There is no longer one dominant pension truth but several alternative and competing ones. In a real sense, the transformation of pension policy communities has created scientific uncertainty.[19] More methodological pluralism implies that policy actors will come to different conclusions about the efficacy and effects of pension reform. Increasingly then what policy actors choose to believe depends on where they stand in the pension policy community. The growing plurality of ideas has (re)politicized pension knowledge.

Second, both the additions to the pension policy community and the changing socioeconomic conditions of the 1990s have fractured corporatist interaction. Increasing international competition and changing forms of accumulation and employment have transformed the political outlook of pension policy actors. In general, employers and employer organizations have become decidedly indifferent toward national social policymaking (Ney 2001). Tight labor markets, perceived global competitive pressures, and access to global markets imply that employers and enterprises no longer rely as strongly on cooperation and compliance from other social partners, specifically unions. Consequently, private sector policy actors throughout the 1990s have become increasingly assertive in terms of their own perceived interests and increasingly recalcitrant relative to union demands. This tendency is most marked in Germany, and less so in France and Italy. In Austria, however, employers are still relatively cooperative but have become far more proactive (Linnerooth-Bayer 2001).

Common Challenges, Conflicting Solutions: Advocacy Coalitions, Policy Stories, and Agenda-Setting. The influx of new members and ideas into European policy communities has widened the scope of political conflict for pension policymaking. As a result, pension policy debates have become more polarized and divisive. Formerly cohesive pension policy communities have split into conflicting "advocacy coalitions" (Sabatier and Jenkins-Smith 1993). These coalitions consist of institutional and individual policy actors who rally around distinctive sets of beliefs about a particular issue area. In general, at least three different sets of beliefs have guided European policy actors in constructing conflicting "policy stories" about pension reform.

Policy stories are rhetorical devices designed to convince, cajole, and persuade opposing policy actors and provide a rhetorical rallying point for allies (Stone 1988; Fischer and Forester 1993). This, however, does not mean that policy stories are mere fiction or conjecture (as protagonists of opposing policy stories will claim). Rather, policy stories allow policy actors to be *selectively* objective: the stories provide a narrative, framed by fundamental normative beliefs about social organization, that selectively highlights certain aspects of a policy issue while de-emphasizing other aspects (Douglas 1982; Thompson, Ellis, and Wildavsky 1990; Rayner 1991; Thompson, Rayner, and Ney 1998). The aim of a policy story is to construct a plausible, credible, and legitimate argument in favor of a particular course of action. Contending policy stories start from differing initial assumptions, provide specific interpretations of pension policy problems, and offer particular policy solutions. In this way, policy actors arrive at very different solutions for common policy problems.

Common Challenges. Despite ideational diversity within and across national pension policy communities, policymakers in most European countries perceive general policy challenges similarly.[20] First, policym akers and experts in all countries understand demographic aging and the unfavorable future development of dependency ratios to be the root cause of the pension problem. Policymakers in all countries point out that demographic imbalances will place considerable financial strain on existing pension systems in the future. Second, policymakers in all countries point to the social, economic, and political developments commonly referred to as globalization. Increasingly, economic agents—enterprises or individual workers—compete in global markets. For many policymakers this implies that future societal wealth will depend on costs and competitiveness. Moreover, European policymakers point to changes in household structures and employment patterns. Increasingly, the male-breadwinner model and lifelong employment are becoming the exceptions rather than the rule. In the future, pension systems will have to cope with such issues as discontinuous employment histories (whether for spells of unemployment, training, or maternity/paternity leave).

Although there is rough agreement about general problems, the interpretation of policy challenges has given rise to conflicting policy stories. Differing constructions of the pension issue have divided national pension communities in similar ways.

The Crisis Story: Intergenerational Fairness and Efficiency. In general, advocacy coalitions emphasizing intergenerational equity seek to expand the scope of political conflict. The fundamental problem, advocates argue, is that defined-benefit PAYG systems are in dire financial straits.

The socioeconomic and demographic developments of the last 20 years have squeezed public PAYG pension systems in three ways. The first financial pressure emerged from demographic aging. Increasing longevity and falling fertility rates mean that the dependency ratio in most European countries will increase sharply after about 2010 (OECD 1998). Proponents of the crisis story contend that this will lead invariably to a steep and unsustainable increase in social security costs for workers and firms. Globalization of goods and financial markets creates a second squeeze on pension systems. In the future, global markets will reward those economies with low production costs. However, current public PAYG systems, replete with generous pension benefits, are likely to drive production costs to unsustainable levels. Crisis story proponents maintain that this inevitably leads to unemployment, contribution evasion by younger workers, and a loss of international competitiveness. In all cases, pension systems will lose revenue. The third squeeze originates in the fundamental flaws of existing European public pension systems. Almost all European countries feature generous provisions for early retirement. Falling labor market participation rates show that European workers are eager to take advantage of early retirement provisions (Gruber and Wise 1997). Given increasing longevity and demographic aging, however, early retirement adds to the already daunting financial burdens of public PAYG systems. Advocates emphatically conclude that the crisis is upon us now and the need for decisive policy action is acute.

What should policymakers do? Advocates of the crisis story favor pension reforms that reduce social insurance costs and urge policymakers to look for alternatives to public PAYG systems. Policy actors have suggested diverse ways for reducing the expenditure of public PAYG schemes, including increasing the retirement age, abolishing early retirement, reducing replacement rates, and cutting redistributive elements within pension systems. It is significant that advocates of this policy story suggest that pension provision be made more transparent by erecting institutionally distinct pension pillars that would fulfill different functions of old-age protection (that is, poverty alleviation, long-term savings, and coinsurance). In ideal circumstances, pension pillars should be located in institutions best suited to fulfill assigned functions; redistribution would be a public task whereas long-term savings would best be managed by the private sector (World Bank 1994). Advocates of the crisis story maintain that pension reform should aim to diversify old-age income provision.

The institutional location of this advocacy coalition differs among European countries. The most obvious raconteurs of the crisis story are "Washington consensus" economists, the banking and insurance industries, and market-oriented politicians (such as Silvio Berlusconi in Italy or Guido Westerwelle in Germany). Less obvious but far more politically significant is the growing support for the crisis story in social-democratic parties across Europe. Arguably, one of the defining features of "New Labor" in Britain, France, and Germany is that left-wing politicians are taking the crisis story seriously. Moreover, throughout Europe the media have been particularly receptive to arguments about intergenerational equity. This trend is probably most pronounced in Germany and Italy where the media have more or less subscribed to the crisis scenario (Cioccia 2001; Ney 2001). Yet, even in Austria and France, the media have reported on the crisis story, albeit somewhat more cautiously.

The Social Stability Story: Social Peace and Intergenerational Solidarity. Advocacy coalitions focusing on social stability generally limit the pension issue to technical problems. Here the issue is how best to adapt and fine-tune existing systems to meet demographic and socioeconomic challenges. As the argument goes, demographic aging and socioeconomic change require judicious and measured social management by competent experts. Given the central role and proven track record of existing pension systems in securing social stability and intergenerational solidarity, the main challenge is to keep those institutional mechanisms intact. Doing so, advocates argue, includes securing the public's trust in the pension system by providing stable and reasonable replacement rates. Proponents of the stability story suggest that the real problem is that particular policy actors systematically have undermined trust in existing pension systems.

The advocacy coalitions arguing for social stability emphasize the need for judiciously balanced fine-tuning and adaptation to secure the long-term viability of existing pension systems. The catalog of proposed reform measures is extensive and differs widely among and even within countries at different points in time. The leitmotiv is to rely on the organizational resources of established PAYG systems without changing the basic institutional identity of the pension system. In general, reform proposals have suggested increases in contributions, retrenchment of benefits, and reductions of redistributive elements in public PAYG pension schemes. Unlike among advocates of the crisis story, the aim of reform options here is to obviate the need for substantial private sector involvement in pension provision. Private pension provision should be no more than a supplement to public provisions.

In continental countries advocates for the stability story still represent the pension policy establishment. Typically located in key positions within the administrative structure of the PAYG pension system, proponents of the rational management approach still command considerable influence over pension policy debates. But in several continental European countries the cognitive and policymaking authority of the pension "expertocracy" has become shaky. Particularly in Italy and, to a lesser extent, in France and Germany more market-oriented discourses have undermined the cognitive and policymaking status of the established pension policy communities, which have not been able to avert partial or total shifts toward private sector provision. In Austria, where ideas of rational management still dominate pension reform debate, the debate concerns the rational management of pension cuts rather than pension system expansion.

The Social Justice and Equality Story. The advocacy coalition stressing social justice and equality applies a holistic view to expand the pension issue beyond economic or technical considerations. In this arena pension schemes are part of a socioeconomic system that, in general, is highly inequitable. By relying on standard, male-dominated patterns of employment, existing public and emergent private sector pension schemes penalize marginal and vulnerable social groups, including the working poor, families, women, foreigners, people with special needs, and people living alternative lifestyles. Demographic aging and globalization are likely to exacerbate existing social problems of inequality. Pension reforms need to be a part of a general societal reform agenda.

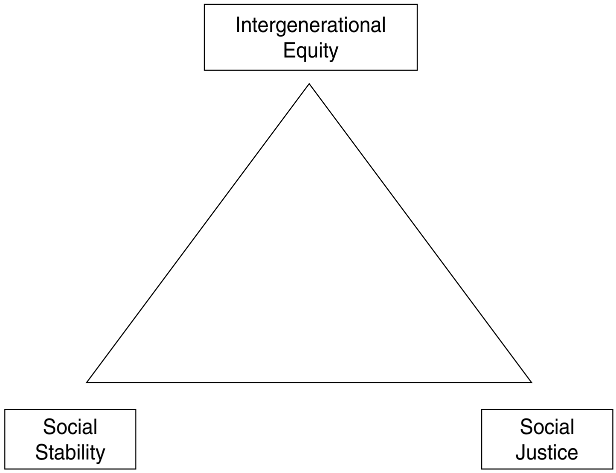
The policy options proposed by advocates of social justice and equality aim at leveling inherent social inequities. Pension reforms, they argue, need to recalibrate old-age income provision to enable individuals to fully determine their own destinies. This means that pension benefits should free the aged from both patriarchal state intervention and the vagaries of capital markets. To realize this degree of individual self-determination, pension benefits should provide an adequate level of old-age income to all citizens, regardless of labor market participation or nationality. Advocates propose to increase redistribution among different social groups: higher pensions need to fall so that lower pensions can increase. Moreover, proponents of this policy story urge policymakers to harmonize different pension systems (and thereby abolish occupational privileges) and to increase coverage of the pension scheme to all citizens, regardless of national or labor market status.

The social justice and equality policy story languishes at the margins of most European pension policy debates. In continental countries, its most vociferous proponents are the German and Austrian Green Parties. Despite the German Green Party's government participation, however, proponents of this discourse have had only a limited impact on current German pension reform plans. In Austria the Greens are consigned to an opposition role at both governmental and policy community level: their impact on pension reform has been negligible. In France, Italy, and Poland policy arguments about social justice barely exist.[21]

Policy Stories and Policy Conflict. The policy stories outlined above provide principled narratives that help policy actors make sense of the pension issue. By providing policy actors with cognitive and normative maps, the conflicting policy stories define and delimit a discursive sphere in which policy debate takes place. This space outlines the borders of legitimate argument in the policy community: policy stories determine what counts as a fact and what types of arguments are out of bounds. We can visualize this in terms of a triangular policy space (see figure 3.1).

The relationship between contending advocacy coalitions is one of inherent conflict (Sabatier and Jenkins-Smith 1993; Rayner 1991).

Figure 3.1 The Triangular Policy Space



Within this discursive policy space, advocacy coalitions will clash over correct definitions of the pension issue, appropriate policy responses, and suitable policy instruments. Their members will beseech other policy actors and the public. Agenda-setting then becomes an argumentative process refracted through such institutional factors as the distribution of power and resources in policy communities.

How has policy conflict developed in continental European pension debates? The main fault line in most systems runs between the proponents of the crisis and the social stability stories. Policymakers and experts in these countries stylize the conflict as a struggle of economic policy against social policy; a clash among CR, defined contribution and PAYG, and defined benefits; and a battle between the ideals of liberal markets and rational social management. In continental Europe dominant policy actors have either co-opted the social justice policy story (as in Austria and Germany) or have stonewalled it completely (France and Italy).

Moreover, the degree and level of conflict between the warring factions on the continent differ from country to country. In France and Germany, the level of conflict is extremely high because the pension reform debate has become a proxy for more fundamental governance issues. In Sabatier and Jenkins-Smith's (1993) words, the clash between advocacy coalitions concerns "deep core" and "policy core" beliefs—that is, the fundamental structures of social insurance pension schemes and the corporatist decisionmaking system. With decision stakes so high, the current debate in these countries has deteriorated into a "dialogue of the deaf" (Sabatier and Jenkins-Smith 1993) or an "intractable policy controversy" (Rein and Schön 1994). Pension knowledge has become a rhetorical resource. Policy actors no longer can solve disagreements by recourse to facts because the facts have become an integral part of an advocacy coalition's rhetorical strategy. This is the "repoliticization" of pension knowledge. What seemed to be an objective fact a decade ago now reveals a fundamental political bias. Indeed, the form of political interaction has become less than genteel because policy debates are characterized by mutual recriminations and accusations. Each side accuses the other of irresponsibility and dubious ulterior motives. On one side, policy actors claim that unions and governments merely want to save their own political necks by burdening young workers (see Ney 2001; Cioccia 2001; Bozec and Mays 2001; Linnerooth-Bayer 2001). On the other side, contending policymakers conjure up images of destitute pensioners and class warfare for the sake of short-term profits that line fat-cat employers' pockets. In short, agreement—let alone consensus—is unlikely.

In Italy and Austria, in turn, political conflict over pensions is at a more moderate level. In Italy financial crisis helped policymakers convey the necessity and urgency of reforms (Cioccia 2001; Ebbinghaus and Hassel 2000). In Austria pension policy debates do not yet concern fundamental issues of old-age income provision (Linnerooth-Bayer 2001).

Policy Processes and Policy Outputs: Garbage Cans and Structural Reforms. The 1990s have witnessed the partial break-up of corporatist pension policy communities. Shifts at political levels and more general socioeconomic changes have made pension policy communities more diverse both in membership and ideas. As a result, pension policymaking in Europe has become a more contentious, conflictual, and pluralist activity. Although pension reform is a national legislative issue and policy communities have become more open, parliaments still play a relatively minor role in decisionmaking. Pension policymaking, now as in the 1980s, takes place in a gray and informal area located in the anteroom, or front yard of the formal parliamentary process. This gray area consists of a multitude of informal, ad hoc commissions, committees, hearings, policy advisory groups, and expert round tables whose membership and policy relevance reflect the political power constellations within the pension policy community.

Given the informal and ad hoc nature of the pension policy process, recent changes have introduced political uncertainty into pension policymaking. Conflict in pension policy communities not used to political confrontation has made reform a precarious affair. Whereas the corporatist system of interest mediation carefully regulated who interacted with whom, where, when, and—most important—about what, policy interaction in the last decade has occurred in increasingly unpredictable ways.

Pension policy communities, particularly in continental European polities, have not kept pace with the shifting and uncertain alliances at the policy elite level. In Austria and Germany present government coalitions (conservatives and ultra-rightists in Austria, Social Democrats and Greens in Germany) would have been unthinkable only a few years ago. In both polities governments have circumvented corporatist decisionmaking structures. In Germany the present government has kept the traditional pension policy establishment at arm's length (Ney 2001). In Austria policymakers simply invented new policy venues to keep pension reform from the sway of the powerful Austrian social partnership (Linnerooth-Bayer 2001). In Italy the replacement of the entire post-war party system has given rise to vulnerable and volatile new political alliances on both the right and left of the political spectrum (Cioccia 2001; Antichi and Pizzuti 2000). The result of these developments has been the emergence of a structural disparity between political elites and the pension policy community: in the former we find a more fluid configuration that rapidly adjusts to changes, whereas the latter features relatively inflexible structures geared toward securing continuity.

The expanding scope of political and ideational conflict has suspended the implicit rules of policy engagement in pension policy communities. Policy conflict and competition on "knowledge markets" successively have eroded those policy norms that secured consensual decisionmaking in policy communities, and policy actors in continental European countries have not agreed on a new set of rules that could regulate the more conflictual policy sphere. Indeed, in countries such as Austria, France, and Germany these rules are an integral part of heated policy conflict.

Rather than conforming to rational models of policymaking, pension policy processes are becoming more similar to "garbage cans" (Cohen, March, and Olsen 1972; Kingdon 1984).[22] Whereas corporatist policy communities tightly regulated policy streams, the influx of new members and new ideas allowed the streams to drift. As a result European pension policymaking has become far more vulnerable to forces beyond the immediate control of policy communities. For example, although overall pension reforms in the 1990s generally have moved systems away from unitary provision and toward diversity, during the decade there were spectacular failures. In Austria the failure of the 1995 pension reform led to the collapse of the coalition government. The German Pension Reform Act of 1999 (*Rentenreformgesetz 1999*) arguably hastened the demise of the Kohl era and then was overturned by the incoming coalition government between the German Social Democrats, the SPD, and the German Green party only a year after it was adopted. In Italy the Berlusconi government failed to implement planned reforms because of the defection of the ultra-right-wing coalition partner, the *Lega Nord*. The pension policy process in Europe, it would seem, has become more volatile.

In continental European countries the development toward a more unpredictable policy process has culminated in a spate of reforms that have moved beyond the institutional logic of social insurance pension provision. In all social insurance countries except Austria, reforms have created the legal and organizational basis for fully funded private sector old-age income provision. Although these fully funded pillars are relatively modest compared with private provision in, say, Norway, Poland, or the United Kingdom, they nonetheless mark a departure from established pension reform policy patterns.

Arguably, the widening of pension policy communities and the expansion of the scope of political conflict have provided the discursive and institutional space for placing structural reform proposals on European policy agendas. Moreover, these types of changes, which Pierson (1994, 1996) calls "systemic retrenchments," are likely to have a significant effect on future pension reforms. If institutional path dependency structures pension reform options, then the changes to policy networks and policy communities in the 1990s are likely to influence pension policymaking in the future. Pluralization of pension policy communities has created a new type of playing field for European social policymaking. It is significant that structural pension reform is an integral part of this new field.

Conclusion: Democracy and Structural Pension Reform

Pension reform in the last decade and a half has introduced diversity to both pension systems and policymaking. In terms of reforming actual pension systems, differing initial conditions and institutional path dependency have led to a host of different pension reform measures across Europe. However, two general reform trends emerge in almost all European countries:

- reform has streamlined public pension systems by tying benefits closer to contributions
- reform has provided space for the development of private sector forms of old-age income provision.

These trends imply a shift in responsibility for old-age security. Increasingly, European states are divesting themselves of pension provision obligations. Private sector providers enthusiastically have agreed to help with the responsibility for old-age income. In a very real sense, pension reforms are creating a viable role for private sector pension provisions by lowering expectations about the level of future public pension benefits.

These developments should come as a bit of a surprise. Analyses of pension reform politics generally point out that structural and radical pension reforms in mature democracies are improbable to impossible. The structures and practices of democratic institutions inherently militate against departures from the status quo. Because the electorate fears losses (the negativity bias) and politicians seek reelection (the vote motive), any form of welfare state retrenchment, let alone structural pension reform, is an unattractive political proposition. To cut welfare state benefits, democratic structures and practices (that is, majority voting) force policymakers to avoid political responsibility by diffusing blame. Whether through obfuscation, compensation, or concertation, pension reforms imply suspending democratic practices in one way or another. The best would-be reformers can hope for are incremental, piecemeal, and iterative reforms of the pension misery-go-round. As Katharina Müller (1999) points out, analysts who

> "... *do* focus on the political viability of cutbacks, consider only cautious retrenchment: when Pierson and Weaver (1993) explore how moderate cutbacks of public pension schemes can be made politically feasible ... a radical reform of old-age security is ruled out" (p. 44, original emphasis).

A closer look at the subpolitics of functional pension policy domains, however, tells a somewhat different story. Particularly in continental European countries, social insurance–type pension systems gave rise to ideologically coherent, tightly integrated, and highly cohesive corporatist policy networks. Based on claims to superior expert knowledge, these policy communities successfully insulated themselves from democratic institutions such as parliaments and from public scrutiny. Within the model of corporatist intermediation, the social insurance institutions implied specific governance structures, created policymaking capabilities, and distributed political power among policy actors. As a result, pension systems became synonymous with a specific mode of decisionmaking: Any reform of pension systems also implied a potential redistribution of power and policymaking capabilities. For this reason reform efforts necessarily remained well within the social insurance paradigm.

Throughout the 1990s corporatist models of interest intermediation were replaced by a more complex and more conflictual policy process. In Europe, pension policy communities have become less integrated and more populous. New policy actors, such as those from the banking and insurance sectors, as well as personnel changes at the level of political elites have introduced new ideas and concepts. Increasing ideational diversity, however, has been synonymous with greater scientific uncertainty and policy conflict. Whereas pension policymaking before the

1990s was based on consensus across corporatist and political cleavages, pension reform in the 1990s was characterized by increasingly hostile political conflict. In many countries, pension reform debates have become intractable policy controversies in which knowledge and credible pension data are merely rhetorical resources.

Significantly, however, the breakdown of corporatist decisionmaking structures has created space for alternative pension reform ideas. By the end of the 1990s, almost every continental European country had taken its first steps along the road to fully funded private sector pension provision. The pluralization of political contestation, the expansion of the scope of political conflict, and widening policy participation have enabled, not constrained, structural pension reforms.

It would seem, therefore, that the general argument that democracies tend to rule out structural pension reforms requires some qualification. Although it is undoubtedly true that welfare state retrenchment is unpopular with some policy actors and that democratic polities provide ample opportunity to contest unpopular policy, it would be rash to conclude that democratic institutions and practices per se impede pension reform. And although thinkers like Paul Pierson (1994, 1996) and Giuliano Bonoli (2000) provide us with compelling accounts of how democratic institutions shape policy outcomes, the politics of welfare state retrenchment are decided not only in the very public arenas of parliaments and elections. Rather, because advanced democratic polities are what Rod Rhodes (1997) calls "differentiated polities," policy processes and policy debates in functional policy domains are crucial for any pension reform. In the past in continental Europe these policy subsystems have been neither particularly pluralistic nor democratic: as we have seen, relatively small networks of experts successfully dominated agenda-setting by excluding rival pension reform proposals. Only when the grip of these networks over pension policymaking loosened in the 1990s did structural pension reform enter the policy debate in many European countries.

This does not mean that imposing welfare state retrenchments has become easier for European policymakers. In fact, proposals for structural reforms of European pension systems continue to cause quite vociferous and acrimonious policy conflict as well as the mobilization of political opposition. The only difference now is that structural reform proposals are receiving more serious attention from policymakers than such proposals did even a decade ago. What this does mean, however, is that the macrolevel characteristics of democratic polities, such as the cognitive biases of European electorates, majority voting, or the structures of formal political institutions, may be less important in determining policy outputs than theorists like Pierson or Bonoli wish to believe. The institutional and cognitive resources for defining and framing pension issues within pension policy communities may enable policy actors to exert an unduly restrictive influence over the policy process as a whole.

Does this mean that European pension policymaking is now happily democratic? Not necessarily. At present, European pension policy communities and processes are in flux. It is unclear what the new equilibrium will look like or, indeed, whether there will be a new equilibrium. Although European pension policy communities have moved toward polyarchy in terms of political contestation and inclusion (Dahl 1971), there is still a considerable democratic deficit.

First, the beneficiaries of changes in policymaking structures and styles have been governments and state bureaucracies. In a very real sense, increasing the diversity of actors and ideas has increased the strategic options open to governments. The breakdown of corporate-style consensual policymaking has emancipated governments from the strictures of epistemically uniform pension policy experts. Rather than one pension truth, policymakers now have the choice of several plausible policy stories. Because credible pension knowledge no longer resides solely within the corporatist pension policy community, there are far more scientifically sound pension policy options among which to choose. For governments with vague and broad ideological commitments (such as those of most major European parties), more ideational and institutional diversity means an increase in potential strategic alliances. This, in turn, means more governmental leverage on potential partners because governments are less constrained (ideologically and in terms of credible pension knowledge) by policy actors' demands. Increasing governmental autonomy in agenda-setting and policy formulation is not necessarily the same thing as increasing popular control over pension policymaking.

Second, pension experts (who now tend to disagree more than they agree) still execute pension policymaking predominantly in the front yard of the parliamentary process by pension experts. Although an increase in diversity and conflict is desirable from a democratic perspective, democracy also implies the existence of institutional mechanisms for peacefully resolving policy conflict. As evidence shows, the parliamentary front yard is far more suitable to corporatist consensus-seeking than to the resolution of intense and fundamental policy conflicts. If the pension policy process in Europe is to be democratically accountable, policymakers will have to design suitable political venues equipped with the institutional means for resolving fundamental policy conflict.

Third, the high level of divisive policy conflict now evident in many continental European countries is probably not conducive to pension policymaking. The risk is creating policy deadlock (wherein policy conflict gets in the way of necessary reform) or vicious policy cycles (in which successive new governments overturn the pension reforms of their predecessors). Moreover, deadlock at the level of the policy community empowers state bureaucracies and central government by suspending the regulatory function of policy communities.

In essence, policymakers face two general options:

- They can *remove the pension issue from the public sphere*. Policymakers can institutionally insulate the pension issue from policy conflict and thus create an independent pension institution that stands above the political fray (for example, the Polish Office of the Plenipotentiary). This strategy is problematic, however, for several reasons. First, the credibility of the institution will depend on finding a common problem definition on which all actors can agree. The 1990s, however, have seen a dismantling of common and consensual definitions of the pension issue. Second, this strategy implies a return to exclusionary and democratically unaccountable pension policymaking. Apart from being undesirable from a democratic point of view, the strategy assumes that actors can agree on whom to exclude from policymaking. Again, recent developments provide no indication that such a consensus is emerging. Another way to remove pension reform from political conflict is to privatize the issue. By shifting the management of pensions into the private sector, commercial secrecy would replace public accountability. This strategy is likely to prove difficult because the transition is likely to be the subject of heated political conflict causing policy deadlock. In short, policymakers may never reach their goal. And given that private sector pension providers are not interested in providing redistributive benefits, even the most sweeping privatization (see, for example, proposals by the U.S.-based Cato Institute) would leave a residual element in the public sphere.
- They can *further expand the scope of conflict*. An alternative strategy for policymakers is to shift the pension issue from the informal expert-dominated gray area it now inhabits into the full glare of public scrutiny. This would imply expanding access to pension policymaking and pension policy deliberation to an increasing number of sociopolitical influences. Although this would enhance democratic decisionmaking, inevitably it would decelerate the pension policy process. Moreover, creating a more open and therefore more conflictual policy sphere requires an institutional framework that constructively channels ideological policy conflict. Parliaments traditionally have provided the institutional framework for peacefully resolving policy conflicts in democracies, but given the current suspicion many citizens in Europe harbor toward the parliamentary process, this strategy may need to include citizens directly in the pension reform policy process.

Whatever policymakers choose to do, pension reform in continental countries is unlikely to fade from the agenda in the near or even medium future. Neither, I suspect, is policy conflict likely to disappear. Policymakers' current methods of reform are likely to alienate citizens from pension policymaking and, by extension, from politics in general. Avoiding the breakdown of trust in policymaking will mean thinking about reforms to the pension policy *process* as much as to the actual reform. In short, policymakers need to look for ways to further democratize pension reform.

Notes

1. The empirical evidence was collected during the first phase of the PEN-REF project. The project actually analyzed pension reform processes in seven European countries (Austria, France, Germany, Italy, Norway, Poland, and the United Kingdom). Although the main emphasis here will be on the four continental European social insurance systems, the analysis will point out interesting differences to the other countries.

2. Williamson and Pampel (1993) identify five different approaches to explaining welfare state expansion. These include the industrialism perspective, the social democratic perspective, the neo-Marxist perspective, and the state-centered explanations (for a brief overview, see also Müller 1999).

3. Voters may "suffer" from Prospect Theory's negativity bias, which makes them fear losses more than they value gains (Pierson 1994, 1996; see also Kahnemann and Tversky 1981) or, as Hinrichs (2001) points out, the electorate may more readily empathize with pensioners than with the unemployed or the disabled. Moreover, in many countries of continental Europe workers perceive accrued pension claims as earned rights (Hinrichs 2000); in many cases, pension claims have the legal status of quasi-property.

4. Germany, Sweden, the United Kingdom, and the United States (Pierson 1996).

5. This, Bonoli argues, is indeed how the Thatcher government introduced the 1986 Social Security Act, although Paul Pierson (1994) would probably take issue with this finding. The Thatcher government, he argues, was not nearly as successful in "rolling back the boundaries of the state" as it had claimed to be. Pierson recounts several instances in which the conservative government shied away from incisive welfare state cuts for fear of the electoral backlash. Part of the success of British pension reform in the 1980s, both Bonoli and Pierson agree, occurred because the decision to introduce private pensions went with the grain of the overall structure of British old-age pension provision.

6. This is both empirical evidence to which the different theorists refer (Pierson 1994, 1996; Bonoli 2000; Bonoli and Palier 2001; Hinrichs 2000) and evidence from the PEN-REF project (http://www. iccr-international.org/penref).

7. Pierson (1994) himself hints at these less tangible but nonetheless important aspects of pension reform: "Far more than in an era of welfare state expansion, struggles over social policy become struggles over information about causes and consequences of policy change" (p. 8).

8. The more universalist systems in Norway and the United Kingdom, in turn, produced different kinds of policy communities. In these two countries central government administers

pension provision. Unlike in social insurance countries, unions and employers' representatives do not have a favored status in policymaking: in effect, they are ordinary interest groups. Although the (atypically) strong role of the Norwegian parliament in pension policymaking provides an access point for unions in Norway, British unions have had little influence on pension reform (Ervik 2001; Mayhew 2001). Furthermore, given sizeable private sector pension provision in the United Kingdom, the pension industry was also an important policy actor. Consequently, universalist systems have given rise to less rigid decisionmaking structures.

9. In fairness, this tendency was less pronounced in different continental European countries. Whereas consensus politics featured most strongly in German-speaking countries, pension policymaking in France and Italy was more divisive and aggressive.

10. Which, of course, diffuses and avoids blame.

11. Albeit for different reasons. British bureaucracy is notoriously secretive (Rhodes 1997).

12. For a more detailed account, see Nullmeier and Rüb (1993) or Pabst (1999).

13. The bill was introduced to the *Bundestag* in October 1989 with a view to passing the bill well before Christmas. Incidentally, the *Bundestag* passed the bill on the ninth of November, about an hour before the German Democratic Republic authorities announced the opening of the inner-German border.

14. Functioning with differing degrees of efficiency in different continental European countries. If pressed, one could rank continental European countries from most efficient to least as follows: Austria, Germany, Italy, France.

15. Moreover, contrary to what public choice theories assume, there is also no reason to assume that organizations and individual policy actors seek political power for sinister reasons. Power is a means of getting things done in politics as money is a means of getting things done in the market. It is a systematic prerequisite for meaningful action.

16. Roughly in that order.

17. In Austria media attention has been less sustained and has concentrated more on particular reform issues.

18. A simple explanation here may be the increased accessibility of computing power. Nullmeier and Rüb (1993) point out that in the 1980s, the Federal Republic of Germany's labor ministry was the only location with sufficient computing power to crunch credible numbers. In the 1980s, the ministry performed all calculations of alternative pension reform plans. Although this nominally remains the case (see Ney 2001), credible if not necessarily legitimate projections now emerge from a number of different sources.

19. In a social constructivist rather than engineering sense.

20. One explanation may be that the definitions of current pension problems emerged from cohesive policy communities in the past. This also would dispel the idea that current reforms are problem-driven in any way. The problems for which recent reforms are supposedly the solution have been known in pension policy communities for a long time (see Nullmeier and Rüb 1993).

21. The Norwegian and British pension systems, however, institutionalize egalitarian principles, albeit to considerably different degrees. In Great Britain the basic state pension provides equal benefits to all contributors at comparatively low rates of wage replacement. In Norway the basic universal pension benefits are more generous and eligibility is independent of labor market participation. Consequently, policy arguments in the social justice and

equality vein have more of an impact on policy debates than in continental countries. Whereas, however, the British debate is about ameliorating old age poverty in an essentially market-oriented context, the Norwegian debate is about granting fundamental social rights.

22. Briefly, the "garbage can" or "multiple streams" approach claims that policymaking emerges from a highly complex and chaotic process. At any one time, so the argument goes, three independent streams run through the political system. The first stream contains all of the potential policy problems that rattle around in a polity. The second stream consists of policy solutions to a host of existing and putative policy problems. The last stream, the political stream, determines the status of a policy issue. Its components are the national mood, the constellation of organized political forces, the composition of government, and the drive for consensus-building (bandwagoning, bargaining, and so forth). The upshot of the argument is that an issue can only reach the policy agenda when all three streams meet. That depends not only on the activity of policy entrepreneurs who try to link solutions to problems (or vice versa) but also on a host of unpredictable factors (such as catastrophes, crises, swings in public opinion, and so forth). When the streams meet, a policy window opens for a limited amount of time through which policy actors can launch a particular policy (see Kingdon 1984).

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