Surviving The Pension Crisis
An Examination of the History, Demographic Changes, and Problems of Western Europe

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Thesis submitted to the McDonnell-Barksdale Honors College and to the Croft Institute for International Studies at the University of Mississippi
May 2003

I'd like to take a moment and thank a few people who have done so much for me throughout my life, especially the last four years.

To Jon Bon Jovi and the Bon Jovi gang,

You'll never see this dedication which is cool. I just wanted to thank you for the music. Without your music, writing my papers for my classes while studying abroad would have been intolerable. At least I was able to pause and burst into song periodically. Thanks!

To my best friend, Kat Riddell,

Thanks for being a rock while I was across the pond and putting up with my constant requests for your editing expertise, especially on this behemoth paper. Most importantly, thanks for being my friend. I can't imagine the last four years without you!

To my siblings, Catherine and Jared,

Thanks for being who you are and loving me. Life wouldn't have been the same without you harassing me. I love you guys.

To my parents, Amos and Frances Blakey,

Your guidance and wisdom has always been my beacon. You have guided me through countless problems and difficulties. You have loved me unconditionally. You have been my cheerleaders, always cheering for me, encouraging me, and hoping that I do the right thing. You have given me your time, you talents, and most importantly the drive to succeed. Without you, none of what I have accomplished in life, especially within the last four years, would have been possible. Thank you. I love you.

ABSTRACT
SURVIVING THE PENSION CRISIS:
An Examination of the History, Demographic Changes, and Problems of Western Europe

Social welfare began to develop in the nineteenth century and has traveled on a path of continuous development. One of the primary programs of social welfare in Europe is old age pensions. Recently, old age pensions have come under fire in Europe for a variety of assailants.

In this research paper, I examine a the history of social welfare in Europe in brief in order to provide a background to my exploration of the problems, especially demographic changes, that are exacting a heavy toll today on pension schemes across Europe. I specifically analyze the changes in society over the last century that has impacted a social insurance system based on an outdated idea of the labor market and family life. Data I have cobbled together shows pension schemes facing population explosions of pensioners across Europe. In the coming years, the explosion will drain schemes of their resources because societal changes have produced a sharp drop in the fertility and birth rates of the European nations, thus impacting the number of needed laborers in the work force. The dramatic decrease of workers in the labor market diminishes the intake receipts of pension schemes.

After examining the problems that lie ahead for European pension schemes, I examine the numerous reforms that are available to European governments to improve their pension systems. I also include Germany as a case study of pension scheme problems and reforms.

The information I provide in this paper, and my analyses of the problems and reforms, adequately support my idea that Europe's old age pensions are capable of being salvaged

and retained for future generations of beneficiaries.

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Most people of the industrialized world, including Western Europe, work hard. They function as an integral part of the labor market for most of their lives. They look forward to a day when they can retire and enjoy their so-called “golden years” or the “twilight” of their lives. As an active part of the labor force, they pay into government-established programs, pension schemes to be precise, that upon retirement will be released to them to be used as their income during the final years of their lives.

Western European nations all have old-age pension programs for their citizens. “[S]ubstantial cross-country variations in pension systems” exist among these nations, but they are all similar “in the sense that virtually all countries have legislated old age pension programs.”[1] While pension programs in Europe differ in formats, payments, designs, and policies, they are similar not only in the fact that they exist, but also in the fact that they all face similar problems in their abilities to function and make payments to current and future retirees.

The welfare states of Europe face a wide and varying number of problems that stem from demographic changes and other pressures that have begun to affect their pension programs. So serious are these problems and difficulties, that it is entirely possible that public pension schemes will fall into disrepair and become unsalvageable, igniting a firestorm of malcontent among the populace who paid into the funds and will not receive a penny of its investment, and those who were receiving pensions only to lose them altogether with the collapse of the pension systems. Fear of such a catastrophic event has caused

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[1] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 9

> the emergence of pension reform as a major issue in virtually all industrialized countries. This is not only a result of the expected demographic transition. In general, low rates of economic growth and high unemployment have affected pension schemes' receipts. In addition, in a number of countries, governments have responded to rising numbers of jobless people by allowing older workers to pre-retire. The combined effect of these two trends has been a swift worsening in pension schemes' budgets, which has put pressure on governments to act. In this respect, pension reforms can be seen as a reaction to an immediate economic situation rather than the anticipation of expected changes in populations' demographic structure.[2]

The pension programs of Europe are indeed in trouble. They have the potential to fail and collapse. Millions upon millions of European retirees and future retirees would thus lose all hope of obtaining their public pensions.

Such a bleak future is a reality that must be faced, but is not destined to happen. It is possible for governments to overcome the seemingly insurmountable odds they face. The pension programs of Europe can survive their current woes and troubles. In order to preserve their systems, European government officials must take action. They must examine the problems and pressures affecting their pension programs. They must examine all the possible solutions available for them to use, and perhaps even those solutions that appear to be impossible.

The purpose of this paper is to prove that pension programs in Europe are indeed salvageable and can be maintained for future generations of pensioners. In order to understand how the pension schemes came to their current states of disrepair, examinations of the welfare states' history, demographic pressures and changes, and problems facing pensions must be made. Once the problems have been established, the probable and possible solutions can be explored in depth. At the conclusion of this paper,

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[2] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 23

Germany's situation will be examined as a type of case in point to prove that pension systems and their benefits can be saved.

A History of European Welfare and Pension Programs in Brief

To better understand how pension schemes came into existence in Europe, a brief synopsis of their history must be explored.

The welfare systems of Europe have been growing and evolving for over a century.[3] Western Europe's national welfare programs have been continually built upon over the course of time. These schemes have survived wars, civil unrest, economic booms, and economic hardships ever since their inceptions. As one would imagine, welfare programs were formed and based upon circumstances and situations that are completely different from those welfare states are currently experiencing. Most of the European welfare states began to develop the most basic of social policies in the latter half of the nineteenth century during the Industrial Revolution. Some governments formulated welfare schemes as a way of pacifying the massive numbers of industrial workers and keeping demonstrations of civil unrest to a bare minimum.

The modern welfare programs in effect today developed as a result of World War II. In fact most of today's social welfare programs

> were introduced some decades ago, in a radically different socio-economic context. To a large extent, they are still based on old assumptions with regard to employment social demographic structures which are no longer true. The end of full employment, the decline of the family and the

[3] Kuhnle, Stein. "European Welfare Lessons of the 1990s," Kuhnle, Stein ed. <u>Survival of the European Welfare State</u>. Routledge: New York, 2000. pg 234

> increase in the proportion of older people are all trends which contribute to make traditional welfare arrangements inadequate.[4]

The post war economic boom is well documented in both social and economic literature. It was this economic boom that financed the welfare states' expansion, which sustained pension programs' during this period of enormous economic growth.[5] During the 1960s and early 1970s, welfare states continued to grow. At this time governments increased expenditure on social protection schemes (e.g. pension programs) and made them more comprehensive.[6] Pension scheme funds themselves were collected from the employed labor force and redistributed through pension benefits.[7]

However, like all good things, the expansion and economic growth of the European welfare states and their programs came to an end. The beginning of the end came in the mid-1970s with the OPEC crisis, which had a dramatic impact on economic programs, including welfare programs. Governments shifted their focuses in the 1980s to consolidating, cutting, and improving their welfare programs.[8] While economic downturns in growth such as the OPEC crisis explain why welfare states have experienced their share of problems, there is another, perhaps a more explanatory reason. Simply put, Europe as a whole was saturated. Economies can only grow to a certain

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[4] Bonoli, Giuliano, Vic George, and Peter Taylor-Gooby. European Welfare Futures Towards a Theory of Retrenchment. Polity Press: Cambridge, 2000. pg 120-121

[5] Bonoli, Giuliano, Vic George, and Peter Taylor-Gooby. European Welfare Futures Towards a Theory of Retrenchment. Polity Press: Cambridge, 2000. p 132

[6] Bonoli, Giuliano, Vic George, and Peter Taylor-Gooby. European Welfare Futures Towards a Theory of Retrenchment. Polity Press: Cambridge, 2000. pg 124

[7] Bonoli, Giuliano, Vic George, and Peter Taylor-Gooby. European Welfare Futures Towards a Theory of Retrenchment. Polity Press: Cambridge, 2000. pg 133

[8] Bonoli, Giuliano, Vic George, and Peter Taylor-Gooby. European Welfare Futures Towards a Theory of Retrenchment. Polity Press: Cambridge, 2000. pg 124

point, and when they reach that point, problems ensue. Bonoli, George, and Taylor-Gooby have stated that

> when an economy reaches maturity, with much of its population having managed to acquire a standard range of commodities, then the potential for expansion is bound to decline. In addition, changes in the rate of increase of labor and capital productivity are also responsible for lower economic growth...Lower increases in productivity, combined with a stagnation of the workforce, means a reduced potential for economic growth.[9]

With such a dramatic decline in the growth rates of gross domestic products, little doubt is left as to whether European pension programs are in a tenuous position.

Demographic Pressures and Changes Affecting European Pensions

Demography and the statistics it generates from careful studies of trends and a population's preferences matters to governments and intergovernmental organizations as well. Welfare states are taking close notice of their own demographics and the trends these numbers and figures seek to evaluate. Emmanuel Reynaud of the International Labor Office sees a continually increasing aged population as a major challenge to old age pension systems in Europe.[10] The European welfare states are in a precarious situation today – will they be able to continue to have functioning pension systems when the projected demographic changes become a reality in the near future? The following is an attempt to explore the different changes in demographics of the European social welfare states and how they will impact the welfare states' pension programs if the European governments do not take action to ensure smooth and continuous operations of

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[9] Bonoli, Giuliano, Vic George, and Peter Taylor-Gooby. European Welfare Futures Towards a Theory of Retrenchment. Polity Press: Cambridge, 2000. pg 133

[10] Reynaud, Emmanuel, "Introduction," in Hughes, Gerard and Jim Stewart eds. Pensions in the European Union: Adapting to Economic and Social Change. Kulwer Academic Publishers: Boston, 2000. pg 3

their social programs. Why are European age demographics changing? Demographers agree that the segment of older people in Western nations' populations will continue to rise over the coming decades as a result of rates of fertility being in a state of decline since the 1960s and increasing life expectancies having risen since World War II.[11]

Changes in the lives of European women pose great problems for the stability and continuance of their nations' pension schemes. Since the end of World War II, more and more women have shrugged off the traditional mantle of wife and mother and become active and contributing parts of the workforce. The single male breadwinner model, in many instances, has been replaced by the dual breadwinner model, as equality in the labor market is clearly evident. With a changing labor force should come a changing welfare system. Many welfare states have fallen short in this regard. They have failed to address the changing needs of society as family structures and gender relations have evolved due to women becoming active participants in the labor force.[12] Women are no longer being educated in the domestic arts; instead many are choosing to attend universities and earn advanced degrees.

Employment of the female population is inherently connected to the difficulties European pension systems

currently face and will continue to face in the future.[13] The massive influx of women into the labor force has put pressure on welfare states that were created for and centered

[11] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 15

[12] Pierson, Paul. "Post-Industrial Pressures on the Mature Welfare States," Pierson, Paul ed. The New Politics of the Welfare State. Oxford University Press: Oxford, 2001. pg 90

[13] Kuhnle, Stein. "Introduction," Kuhnle, Stein. ed. Survival of the European Welfare State. Routledge: New York, 2000. pg 5

around the single male breadwinner household structure.[14] Just how the shift from the Male Breadwinner Model to the Dual Breadwinner or Individual Model has affected European societies is illustrated in Table 2.1.[15]

Table 2.1 Dimensions of Variation of the Male Breadwinner and the Individual Models of Social Policy

Dimension	***Male Breadwinner Model***	***Individual Model***
Family Ideology	Celebration of Marriage	No Preferred Family Form
	Strict Division of Labor	Shared Roles
	Husband = earner	Father = earner/carer
	Wife = carer	Mother = earner/carer
Entitlement	Differentiated among spouses	Uniform
Basis of Entitlement	Breadwinner	Citizenship or Residence
Recipient of Benefits	Head of Household	Individual
Unit of Benefit	Household or Family	Individual
Unit of Contributions	Household	Individual
Taxation	Joint Taxation	Separate Taxation
	Deductions for Dependents	Equal Tax Relief
Employment and Wage Policies	Priority to Men	Aimed at Both Sexes
Sphere of Care	Primarily Private	Strong State Involvement
Caring Work	Unpaid	Paid Component

[14] Pierson, Paul. "Post-Industrial Pressures on the Mature Welfare States," Pierson, Paul ed. The New Politics of the Welfare State. Oxford University Press: Oxford, 2001. pg 94
[15] Sainsbury, Diane. "Gendering Dimensions of Welfare States," Fink, Janet, Gail Lewis and John Clarke. eds. Rethinking European Welfare Sage Publications: London, 2001. pg 124

Society is moving towards a gender equity household structure. This model has no gender-specific connotations as to who works inside or outside the home.[16] The traditional roles for women are toppling. Women today seek financial independence, which has benefited the welfare state in some ways and placed a greater burden upon it in others. Women provide another source of taxable income to fund the welfare state and its many programs.[17] With women employed in the labor market, the labor force has expanded which can help mitigate the difficulties for the pension programs stemming from the demographic transition.[18] The role of women in the labor market has had both a positive and negative impact on welfare systems. Despite this added benefit, women in the labor market have created new strains for the social welfare systems of Europe. It is true that they are now contributing to the public pension programs of Europe, because they are now active participants in the work force, but, they have caused a shift in resources that could go to programs like public pensions or to newer state-financed programs like childcare. A new cycle has developed in welfare programs. With its emergence, this cycle has become powerfully self-perpetuating, leading to "the creation of public social services [creating] both a supply of jobs for women and [facilitating] the movement of more women into paid employment, which in turn fuels political demands for more social services."[19] With this new cycle, they no longer are relegated to caring for children and the elderly because the gender revolution has profoundly impacted the

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[16] McDonald, P. "Gender Equity, Social Institutions and the Future of Fertility," Journal of Population Research 17 (1). 2001. pg 3

[17] Pierson, Paul. "Post-Industrial Pressures on the Mature Welfare States," Pierson, Paul ed. The New Politics of the Welfare State. Oxford University Press: Oxford, 2001. pg 95

[18] Bonoli, Giuliano, Vic George, and Peter Taylor-Gooby. European Welfare Futures Towards a Theory of Retrenchment. Polity Press: Cambridge, 2000. pg 131

[19] Pierson, Paul. "Post-Industrial Pressures on the Mature Welfare States," Pierson, Paul ed. The New Politics of the Welfare State. Oxford University Press: Oxford, 2001. pg 96

labor force.[20] Without a population of unemployed women to care for them, the aged are increasingly forced to rely on their pensions to maintain them. However, with women in the work force, a positive effect is evident. More laborers are paying into the pension schemes, increasing pension scheme receipts.

The inclusion of women in the work force is also tied directly to birth and fertility rates. Generally speaking, the birth and fertility rates across Europe are falling. Fertility rates have been in decline since the 1960s, while in contrast, life expectancy rates have been on the rise since World War II.[21] Peter McDonald sees a direct correlation of birth and fertility rates to the household structure models used by the European nations. Where the gender-equity/individual model has become an entrenched part of the social welfare state as it has in the Nordic countries, fertility rates have not dropped dramatically.[22] The opposite can be found in nations where the single male breadwinner model is still heavily relied upon by the state. Where the single male breadwinner model is still employed, earnings-based benefits are used and favor men, but can also favor women too; however they favor women only if they "are fully committed to work," which essentially precludes women who are mothers from working.[23] Women must choose between work and having a family.

Paul Pierson also sees a link between the falling fertility rates and women's participation in the labor market. Like McDonald, he points to women in the labor

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[20] Kuhnle, Stein. "Introduction," Kuhnle, Stein. ed. Survival of the European Welfare State. Routledge: New York, 2000. pg 5-6

[21] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 15

[22] McDonald, P. "Gender Equity, Social Institutions and the Future of Fertility," Journal of Population Research 17 (1). 2001. pg 5

[23] McDonald, P. "Gender Equity, Social Institutions and the Future of Fertility," Journal of Population Research 17 (1). 2001. pg 8

market as a leading factor in the fertility rate drops across Europe. However, he also indicates that "cultural change [and] the availability of birth control" are associated causes for the decline.[24] Part of the decline in fertility rates can also be attributed to economics. People often base their decisions on having children on their economic expectations, and the economic situations of their individual countries. The economies of Europe have had their highs and lows since World War II, thus impacting Europeans' decisions on having children.[25] The predictions for future fertility rates are indeed dire; however, they are not as calamitous as many sources would have people believe. Statistics regarding fertility are highly suspect. The rate of uncertainty concerning these statistics is very high because current projections are only reliable when looking at existing generations.[26] This limits the relative accuracy of forecasts for the future. Projections of fertility rates are relatively reliable until about 2015.[27] These fertility rates are reliable because they are based on populations already born and are expected to live until approximately 2015. Of course, even these rates are subject to change. The economies across Europe could improve and become more prosperous, and Europeans may decide to have children during these booming times, possibly increasing the fertility rates.

The declining birth rates in the European welfare states are in essence a bridge between the increased number of women in the workforce and the rapidly ageing

[24] Pierson, Paul. "Post-Industrial Pressures on the Mature Welfare States," Pierson, Paul ed. The New Politics of the Welfare State. Oxford University Press: Oxford, 2001. pg 96

[25] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 16

[26] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 17

[27] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 17

populations of Europe. There is no question as to whether or not people are living longer thanks to advances in health care. Over time, the elderly demographic has increased. Life expectancies are easier to predict and impact a population's age structure to a lesser degree because they concern the upper tier of the age pyramid.[28] With the fall of birth rates across Europe, the population demographics will continue to change, and the marked increase in the elderly demographic will only grow larger if birth rates do not increase. Pension systems will be directly affected by these demographic trends. International organizations like the World Bank are calling attention to this particular area of the welfare state. Declining fertility rates combined with increasing life expectancies and the ever-growing enlargement of the retired population are slated to cause "substantial increases in the cost of pensions" throughout the beginning decades of the twenty-first century.[29]

In 1960 the population of people 65 years and older was only 9.4 per cent of the European population, but in 1990 it was 13 per cent, a 3.6 percentage point increase.[30] Estimates of the population demographics have also been made for future years. Nearly one-fourth (23 per cent) of the OECD's population will be composed of the elderly – and this expected change in demographics will occur between 2010 and 2035![31] Table 2.2 depicts the projected percentages for public pension expenditures for selected countries

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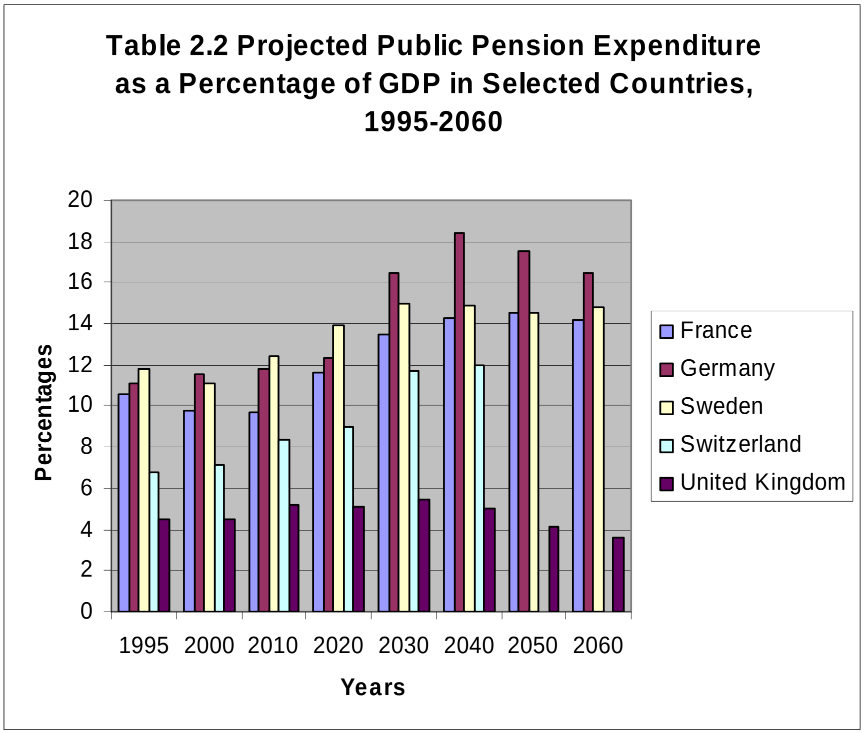
[28] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 16

[29] Hughes, Gerard. "Pension Financing, the Substitution Effect and National Savings," Hughes, Gerard and Jim Stewart eds. Pensions in the European Union: Adapting to Economic and Social Change. Kulwer Academic Publishers: Boston, 2000. pg 45

[30] Pierson, Paul. "Post-Industrial Pressures on the Mature Welfare States," Pierson, Paul ed. The New Politics of the Welfare State. Oxford University Press: Oxford, 2001. pg 93

[31] Pierson, Paul. "Post-Industrial Pressures on the Mature Welfare States," Pierson, Paul ed. The New Politics of the Welfare State. Oxford University Press: Oxford, 2001. pg 93

and clearly illustrates that expenditures will increase along with the increase in the aged population.[32]



An ageing population within the European welfare states will cause a variety of pressures on the welfare systems to emerge. Most of the European welfare states' pension plans operate "on a pay-as-you-go basis: current workers pay contribution that finance the previous generation's retirement."[33] With the rise in the elderly demographic, there will come subsequent rises in government spending as more and more people become entitled to their old age pensions; at the moment, these pensions account for two-thirds of the European Union member states spending.[34] It comes as no surprise that, as

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[32] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 18

[33] Pierson, Paul. "The New Politics of the Welfare State," World Politics 48, 1996. pg 175

[34] Schwartz, H. "Round Up the Usual Suspects: Globalization, Domestic Politics, and Welfare State Change," Pierson, Paul ed. The New Politics of the Welfare State. Oxford University Press: Oxford, 2001. pg 24, 26

people move from the middle age demographic into the elderly demographic, the expenses incurred to maintain them will increase. This fiscal burden will be felt by the exchequer if changes to pension benefits' generosity and coverage are not made.[35]

The past work of European governments on the welfare states is coming back to haunt them today. Increases in coverage and pension generosity of the past are now causing the fiscal and budgetary crises found throughout Europe. In the post-war period, the nations of Europe adopted new welfare programs to cover the social risks stemming from further industrialization; while they increased the benefits of their unemployment and pension and disability programs, they also began to make these benefits available to a greater portion of the population.[36] The ever-increasing elderly demographic has only just begun to take advantage of these benefits. The social welfare systems of Europe, with their generous pensions, have matured over the last forty years and "have greatly magnified the fiscal implications of demographic change."[37] An excellent way to view the impact of how the graying population is affecting Europe's pension systems is to use the old-age dependency ratio. The old-age dependency ratio compares the retired people segment of the population to the people of the working age population, which gives a rough estimate of how the aged population impacts social security finances.[38] It is unlikely that those who are paying into these pension systems now will ever see the

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[35] Castles, F.G. "Public Expenditure and Population Ageing: Why Families of Nations are Different," Clasen, J. ed. What Future for Social Security?, The Hague: Kulwer Law International, 2001. pg 146

[36] Pierson, Paul. "Post-Industrial Pressures on the Mature Welfare States," Pierson, Paul ed. The New Politics of the Welfare State. Oxford University Press: Oxford, 2001. pg 88

[37] Pierson, Paul. "Post-Industrial Pressures on the Mature Welfare States," Pierson, Paul ed. The New Politics of the Welfare State. Oxford University Press: Oxford, 2001. pg 88

[38] Concialdi, Peter. "Demography, the Labor Market and Competitiveness," Hughes, Gerard and Jim Stewart eds. Pensions in the European Union: Adapting to Economic and Social Change. Kulwer Academic Publishers: Boston, 2000. pg 17

money they paid into their pension schemes returned to them when they become eligible for these benefits without serious changes to the European nations' welfare schemes.

The change in demographics is being keenly felt, especially in the areas of the welfare state where it is most expensive, namely income maintenance programs like old-age pensions.[39] With fewer births and greater numbers claiming pension benefits, the European social welfare state faces a new and looming dilemma: who will pay for all of the old-age pensions necessary to maintain the 'Baby Boom' Generation? Of course, the answer lies in taxes imposed upon the post-war generation's children and perhaps even their own grandchildren. What can be done to prevent such a burden from being placed upon this small group of people? What is being done to retard the advancement of large payouts to the elderly in the forms of pensions and healthcare? The answer lies in the actions of the European governments.

The first step towards addressing this grave matter is being tackled by the national treasuries of the European states. These political bodies, "irrespective of country-specific demographics, use the supposedly ineluctable consequences of a graying population as a mantra to be invoked against all proposals for enhanced public spending."[40] In addition to governments not making increases in public spending, pension reforms are being implemented. Pension reforms are creating new "implications for the distribution of benefits and burdens along the lines of income, class, gender, and

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[39] Pierson, Paul. "Post-Industrial Pressures on the Mature Welfare States," Pierson, Paul ed. The New Politics of the Welfare State. Oxford University Press: Oxford, 2001. pg 94

[40] Castles, F.G. "Public Expenditure and Population Ageing: Why Families of Nations are Different," Clasen, J. ed. What Future for Social Security?, The Hague: Kulwer Law International, 2001. pg 141

age."[41] In short, these new reforms will impact the lives of people in extremely wide and diverse demographic groupings.

The European welfare states are now taking it upon themselves to limit the coverage and the generosity of current pensions. Generosity is being reduced in two ways, "by indexing pension benefits to the rate of inflation rather than to the rate of increase of real incomes and by moving away from income maintenance principles to the earlier notion of a benefit in proportion to contributions."[42] Coverage has been limited by increasing the age at which the elderly become entitled to pension benefits.

In a World Bank study entitled Averting the Old Age Crisis, countless tables starkly illustrate just how much demography matters for the European welfare states. Using estimated averages derived from the OECD, the World Bank report shows that the nations of the OECD (including the nations of Europe) will have a population of people sixty years old and older that will increase dramatically over the next thirty years. The average will rise approximately three percentage points every ten years for the next thirty years before reaching 30.8 per cent of the OECD nations' total population![43] Table 2.3 illustrates in detail just how dramatic the projected increase in the sixty and older age demographic will be in the coming years.[44]

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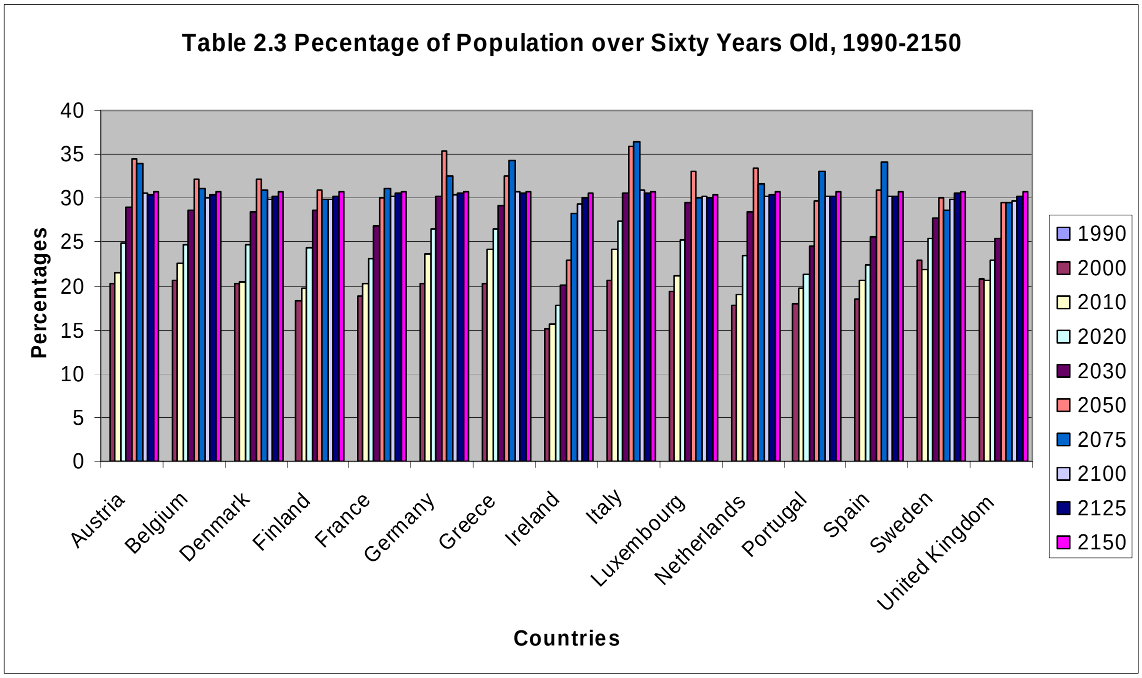
[41] Pierson, Paul. "Post-Industrial Pressures on the Mature Welfare States," Pierson, Paul ed. The New Politics of the Welfare State. Oxford University Press: Oxford, 2001. pg 103

[42] Castles, F.G. "Public Expenditure and Population Ageing: Why Families of Nations are Different," Clasen, J. ed. What Future for Social Security?, The Hague: Kulwer Law International, 2001. pg 149

[43] World Bank. Averting the Old Age Crisis. Oxford University Press: New York, 1994. pg 349

[44] World Bank. Averting the Old Age Crisis. Oxford University Press: New York, 1994. pg 349



Numbers like these put welfare state governments in an unenviable position. Do the current political figures of Europe make policy decisions that could eventually correct the problems posed by the changes in the national demographics that have the potential to be unpopular with their electorates, or do they implement temporary solutions that never solve the problem? Of course, this problem would then be passed on to the next generation that will most likely face an even greater challenge in maintaining the welfare state.

It is an undeniable truth that the European social welfare states face an onslaught of fiscal problems stemming from demographics. The changing demographics in the labor market like the increases in the number of people entitled to health care and income maintenance pensions and the falling number of people entering the labor force (stemming from decreases in the fertility and birth rates) are becoming a current and future financial burden for welfare states in Europe, and, for that matter, most of the industrialized nations of the world as well. If the welfare state is ever to remove itself form this quagmire, cuts in the generosity of the states' welfare programs and an increase in its intakes are the most likely government actions to be taken and must necessarily be made. However, the different age demographics across Europe are loath to see their respective governments carry out either of these changes.

Problems for European Pension Programs

The pension systems established in the past are crumbling under the pressure of the present. These systems enjoy great popularity among Europeans of the present and enjoyed popularity among the Europeans of the past; however, present Europeans are using a system based on the structures of Europe's past. Today, full employment is gone, families are shrinking and the populations of older Europeans is on the rise, the exact opposite conditions that surrounded the establishment of traditional welfare programs, including the pension schemes.[45] Indeed, the socio-economic conditions of the present are poles apart from those of the past. When pension schemes were established in the nations of Europe, the countries experienced full-employment and booming economies, whereas now there is massive unemployment and economies are facing difficulties.[46] With all of these changes, European pension schemes are confronted with a variety of problems that have the potential to cause their demise.

Possible solutions for the pension crisis taking place throughout the nations of Europe are limited. Most of the nations of Europe are already members of the European Union, and those nations who are not members are in varying stages applying for and

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[45] Bonoli, Giuliano, Vic George, and Peter Taylor-Gooby. European Welfare Futures Towards a Theory of Retrenchment. Polity Press: Cambridge, 2000. pg 121

[46] Reynaud, Emmanuel, "Introduction," in Hughes, Gerard and Jim Stewart eds. Pensions in the European Union: Adapting to Economic and Social Change. Kulwer Academic Publishers: Boston, 2000. pg 1-2

being granted membership. Whether they are current members of the European Union or eventual members, all nations are forced to be full members of the European Monetary Union (EMU), with the exception of Denmark, Sweden, and the United Kingdom who were able to option out of the single currency portion. An important economic criteria contained within the EMU is a stipulation that budget deficits be no greater than three per cent of member states' Gross Domestic Products (GDP).[47] With this constraint, deficit spending to finance and shore up the pension programs is no longer an option for the national governments of Europe.

The governments of Europe also face other economic problems concerning pension reforms aside from those concerning EU and EMU membership. Economic growth and expansion of the European economies are not happening currently. Globalization is occurring everywhere and affecting Europe's economies.[48] Companies and organizations can save money and cut costs by moving facilities to nations that offer lower labor costs and taxes. This results in lay-offs of employees, companies closing offices and factories, and reductions in contributions to the European public pension systems from the organizations and their employees. Thus, the labor markets are not expanding, rather, they are shrinking. This can be seen in the decline in the inflow of contributions corresponding to the "decrease in the numbers of employed active workers" and "because of stagnation or decreases in wage rates."[49]

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[47] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 7

[48] Reynaud, Emmanuel, "Introduction," in Hughes, Gerard and Jim Stewart eds. Pensions in the European Union: Adapting to Economic and Social Change. Kulwer Academic Publishers: Boston, 2000. pg 4

[49] apRoberts, Lucy. "Retirement Age: Public Policy and Employer Policies in Europe and the United States," Hughes, Gerard and Jim Stewart eds. Pensions in the European

Pension financing and expenditures rely heavily on economic productivity levels. When the economies of Europe experience high levels of productivity, participation levels in the labor markets are up, increasing the receipts for pension funds; and, in the process, possibly ameliorating the problems caused by demographic changes.[50] Currently, such a welcome change for the European economies and pension schemes is not happening and it is unlikely to occur in the near future. Unfortunately, a boom in production is difficult to predict and can not be relied upon to correct the pension schemes' problems. It is not even possible to estimate with any accuracy how much money in pension receipts an increase in production could generate. When predictions are made, social scientists base their projections on a consistent use of current legislation over the time period in question, all the while taking into account changes in productivity and the labor force, two factors that vary according to the socio-economic and political climates during the period.[51]

Early retirement has had a dramatic impact on the financing of old-age pensions. Countries on the continent have in the past manipulated people's decisions to retire from the work force. In the 1970s, Germany and France and other nations made changes to their public pension schemes that allowed people to retire earlier and receive better pensions.[52] This adjustment was carried out in response to the poor economic conditions

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Union: Adapting to Economic and Social Change. Kulwer Academic Publishers: Boston, 2000. pg 35

[50] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 14

[51] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 17

[52] apRoberts, Lucy. "Retirement Age: Public Policy and Employer Policies in Europe and the United States," Hughes, Gerard and Jim Stewart eds. Pensions in the European

brought on by events like the OPEC oil crisis. One of the difficulties governments were facing at this time was the dramatic rise in the rates of unemployment. The policy move, in giving benefits to early retirees, was used as an incentive for older workers to vacate their positions in the labor force, and therefore make room for young, unemployed workers to enter the labor market.[53] With early retirement, public pensions are facing a two pronged attack. The first prong is the reduced period in which employees make contributions to the pension schemes, impacting funding for the scheme.[54] The second prong is related to life expectancy and will be covered later in this section.

Demographic statistics for the future are incredibly difficult to predict when there are so many different variables that can affect the accuracy of the numbers and percentages that are produced. There are three key variables that affect pension scheme financing. Migration, fertility rates, and life expectancies are very sensitive to changes.[55]

Migration can have an enormous impact on pension schemes. In the post-war era, many of the countries of Europe, like France and Germany, openly encouraged the immigration of people from their former colonies and territories to their countries. The national governments did not have altruistic motives behind these invitations. Immigrants were brought in to fill empty spaces in the rapidly expanding labor markets

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Union: Adapting to Economic and Social Change. Kulwer Academic Publishers: Boston, 2000. pg 35

[53] apRoberts, Lucy. "Retirement Age: Public Policy and Employer Policies in Europe and the United States," in Hughes, Gerard and Jim Stewart eds. Pensions in the European Union: Adapting to Economic and Social Change. Kulwer Academic Publishers: Boston, 2000. pg 36

[54] Reynaud, Emmanuel, "Introduction," in Hughes, Gerard and Jim Stewart eds. Pensions in the European Union: Adapting to Economic and Social Change. Kulwer Academic Publishers: Boston, 2000. pg 4

[55] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 15

during the economic upswing at the end of World War II to support the economic boom of the post-war years. Many of these immigrants were expected to return home after a few years, but, the politicians' expectations did not become a reality. The immigrants stayed and continued to be members of the work force, a work force that was about to face hard economic times. The economies of Europe began to slow and eventually stagnated during the economic crises of the 1970s and impacted contributions to the pension schemes. While immigration proved to be beneficial for a short time, it has proven to be a problem in the long run with migrants trying to obtain pension schemes, but there are questions to the legality of pensions for them as many were not citizens of the nation in which they lived and worked. High levels of migration are not expected to occur in the future, since they typically take place during times of great labor shortages, and this would only happen if there was a dramatic improvement in the economic activities of Europe.[56] Such a possibility is unlikely to happen with the globalization of the national economies and the exportation of jobs abroad to lesser-developed countries (LDCs) that have cheaper labor supplies. While migration is having a negative impact on pension schemes now by increasing the population able to claim pension benefits, an economic upswing would mitigate the problems associated with the rising population of the aged by increasing the financial base to draw from to fund the pension systems to support the aged.[57]

Fertility rates are significant variables in the quest for accurate demographics. Generally speaking, fertility rates across the Western world are falling. In fact, the

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[56] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 17

[57] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 17

overarching trend in the fertility rates for the last hundred years has been one of decline.[58] However, there has been one increase during that time. The increase occurred during the years immediately following the close of World War II and the return home made by the men from the various fronts. This increase resulted in the “Baby Boom” generation, the generation that is beginning to strain pension programs today. After this brief period, fertility rates returned to their previous states of decline.

As mentioned before, the introduction of women into the labor market as full-fledged members after the war and the fluctuating economic situation impacting economic expectations had a profound effect on the fertility rates of Europe, causing them to continue to decline. They also made it difficult to make precise predictions regarding the future of pension schemes. However, there is another factor making it difficult to cobble together correct statistics concerning fertility rates. The availability of contraceptives has also affected fertility rates.[59] With access to contraceptives, women are able to control when they have children and the number of children they have, and in this way alter the fertility rates. The World Bank and OECD have based their population predictions on the predication that fertility rates will essentially remain the same up to 2005 and then increase after that, and according to Giuliano Bonoli’s findings, they will finally reach a plateau in 2035 as seen below in Table 3.1.[60]

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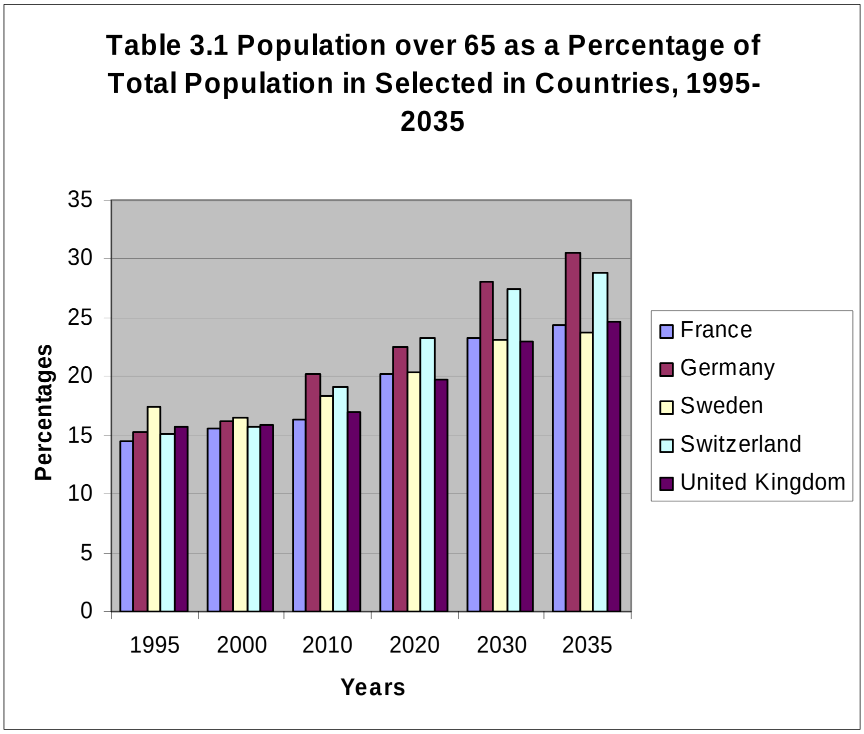
[58] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 16

[59] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 16

[60] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 16



With the availability of contraceptives and the lifestyle options women can choose from, it is difficult for demographers to formulate exact population demographics for governments to use to predict problems for the European welfare states' pensions. Yet, accurate predictions are vitally important. These statistics are the most pertinent factor pertaining to pension finances and their futures, but, as is evident, fertility rates are difficult to put together, and what statistics there are, are only reliable insofar as they relate to generations that have already been born.[61]

People are living longer today, and therefore life expectancies are increasing. This is one variable that is easier to predict and affects the age pyramid in its upper tier.[62] With continually improving health care and technological advances, it can be expected

[61] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 17
[62] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 16

that life expectancies will remain on the current path and go on to increase. In addition to people living longer, the aged population will have a longer period to claim pension benefits, putting another strain on the already stretched resources of the pension systems. The second prong of the attack on pension systems by early retirement is related to the increase in life expectancies. Early retirement and longer life expectancies result in an increase in the time in which pensions are paid out to recipients.[63] More importantly, greater life expectancies will cause significant problems in the near future. When life expectancy increases are combined with the Baby Boom generation's population, "the conjunction of these two phenomena will lead to an increase in the number of elderly people and in the proportion of elderly population as well."[64]

Pensions are costly. In fact, pensions are one of the most expensive programs to finance in the social budgets of Europe and one of the first places governments look to trim first during poor economic times.[65] Governments must make concentrated efforts to save these schemes. In Table 3.2 is an illustration of where selected European nations obtain their funding for public pensions.[66]

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[63] Reynaud, Emmanuel, "Introduction," in Hughes, Gerard and Jim Stewart eds. Pensions in the European Union: Adapting to Economic and Social Change. Kulwer Academic Publishers: Boston, 2000. pg 4

[64] Reynaud, Emmanuel, "Introduction," in Hughes, Gerard and Jim Stewart eds. Pensions in the European Union: Adapting to Economic and Social Change. Kulwer Academic Publishers: Boston, 2000. pg 3

[65] Bonoli, Giuliano, Vic George, and Peter Taylor-Gooby. European Welfare Futures Towards a Theory of Retrenchment. Polity Press: Cambridge, 2000. pg 30

[66] World Bank. Averting the Old Age Crisis. Oxford University Press: New York, 1994. pg 361

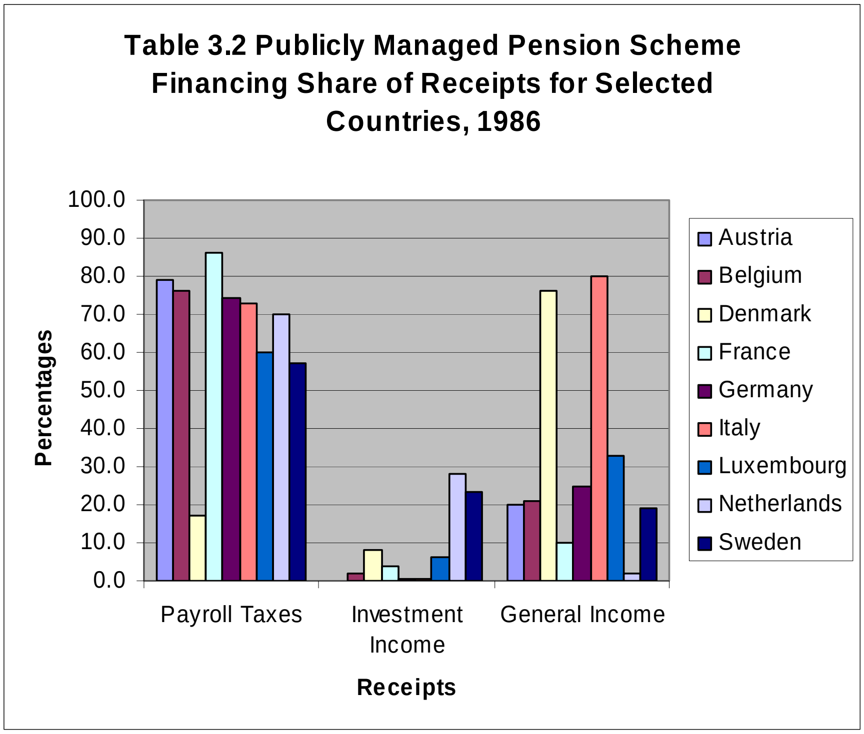

Table 3.2 Publicly Managed Pension Scheme Financing Share of Receipts for Selected Countries, 1986

Politicians and government officials must

> preserve an equilibrium between (a) meeting the constantly rising need and demand for welfare provision and (b) meeting simultaneous demands for limiting public expenditure while maintaining electoral acceptability. A complex web of interacting economic, political, social and demographic factors determine the ways in which governments attempt to bridge the gap between public revenues and public policy provision.[67]

Governments must also manage two contradictory forces. First, they must control the upward trend in the demand for social protection (a result of the increase in the aged population), face the structural differences in production within the labor market, address low economic growth which is having a negative effect on social expenditure, and cope with their inabilities to increase taxes in order to save the ever-increasing welfare

[67] Bonoli, Giuliano, Vic George, and Peter Taylor-Gooby. European Welfare Futures Towards a Theory of Retrenchment. Polity Press: Cambridge, 2000. pg 120

programs like pensions.[68] Despite trimming pension expenditures, European pensions are expanding. Of the OECD countries, Western European nations' old-age pensions experienced a 146 per cent increase as a proportion of the GDP because of changes in eligibility and benefits, and occupational and private pension scheme expansion between 1960 and 1985.[69] Expenditure will continue to increase as more and more aged people lay claim to their benefits. With the current ages used to regulate when employees are able to retire, an increase in pension expenditure will occur, and, with that increase in benefit withdrawals, an increase in contributions of a comparable rate will be needed to finance the increase in claims; the current system must be changed.[70] Governments are being forced to curtail these increases. Measures taken to curb these expenditures, like retrenchment efforts, are slow in taking effect. Retrenchment itself means "a cutting of expenses."[71] "Retrenchment initiatives adopted can be phased in only slowly," and this applies particularly for reforms that will only begin to make inroads into Europe's budgets for pensions in one or two decades.[72] Unfortunately for government officials, retrenchment is not a well-received solution for reforming the pension scheme problems. Politicians use retrenchment during times of economic decline and low growth rates.[73] It is not exactly their preferred method of reform. Unlike pension program expansion,

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[68] Bonoli, Giuliano, Vic George, and Peter Taylor-Gooby. European Welfare Futures Towards a Theory of Retrenchment. Polity Press: Cambridge, 2000. pg 119

[69] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 20

[70] Concialdi, Pierre, "Demography, the Labor Market and Competitiveness," in Hughes, Gerard and Jim Stewart eds. Pensions in the European Union: Adapting to Economic and Social Change. Kulwer Academic Publishers: Boston, 2000. pg 18

[71] Merriam Webster Online Dictionary at www.m-w.com

[72] Bonoli, Giuliano, Vic George, and Peter Taylor-Gooby. European Welfare Futures Towards a Theory of Retrenchment. Polity Press: Cambridge, 2000. pg 29

[73] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 36

retrenchment is not a measure supported by the public.[74] As a result of this lack of support, politicians must tread the thin line between saving pensions and losing political support from the electorate. When retrenchment measures are instituted, the reform is commonly in the form of reduced entitlements.[75]

In their efforts to reform pensions, governments face opposition from within their political systems. In the democracies of Europe, governments face various forms of opposition in which vetoes can be used to oppose pension scheme reforms. Proportional representation, referendums, and a balanced dual executive can work against governments in their attempts to make changes to the pension systems. Bicameral governments like those found in Italy, Belgium, the Netherlands, Germany, and Switzerland, add a second political body that must first approve reforms before they can be put into action.[76] Governments elected using proportional representation also face veto possibilities. In small European countries, like Denmark, Sweden, and the Netherlands, proportional representation leads to coalition governments composed of opposing parties who will compete against each other in the next election and could turn on each other and veto unpopular pension reform legislation in order to gain more votes for the next election.[77] France is different from most of its European neighbors; it has a balanced dual executive political system. The French Prime Minister is not formally

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74 Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 37

75 Concialdi, Pierre, "Demography, the Labor Market and Competitiveness," in Hughes, Gerard and Jim Stewart eds. Pensions in the European Union: Adapting to Economic and Social Change. Kulwer Academic Publishers: Boston, 2000. pg 19

76 Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 44-45

77 Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 45

required to gain the approval of the President for internal policy changes, but may be unable to carry out pension reforms without approval from the President if they are from opposing political parties, thus giving the President a veto point.[78] When possible vetoes of reforms seem imminent, some countries use strategies of integration.[79] Politicians incorporate the opposition's ideas and demands into the reforms to gain a wider base of support and to ensure the establishment of the reforms.

In the end, governments face numerous problems in forming any type of lasting reform. They face changing demographics, rising pension costs, poor economic times, political opposition, early retirement, and political limitations that all pose difficulties in reforming pension systems that were formed in different times with different economic conditions.

Germany: A Case in Point

Germany in one such example where pension reforms have been made upon feeling the pressures of demographic changes.

The question of whether or not the German public pension system is capable of being reformed is one of great interest and importance especially since Germany is one of the largest nation-states in the European Union. The following is an attempt to analyze the German pension programs, the problems posed by West Germnay's re-unification with the former East Germany, and the changes and the reforms the German government has made to address problems within the pension system. Also, an assessment of whether

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[78] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 46
[79] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 49

or not Germany will be able to reform its system of providing the aged pensions will be made.

Historically, Germany was the first welfare state. Chancellor Bismarck laid the foundations for the welfare system in the late 1800s, foundations that have been steadily built upon over the years. The German welfare state is quite expansive. According to Richard Parry, there are five branches of social insurance in the German welfare system: sickness; industrial accidents; old age, survivors, invalidity; unemployment; and long-term care, with more pillars being created over time.[80] The two largest of these social insurance branches in the welfare system are old-age pensions and health care. Together, these two branches consume approximately half of the budget for welfare expenditures.[81]

Bismarck promulgated pensions for specific political reasons. The pension scheme was designed to contain the labor movement, as well as to gain the support of the growing working class population, but was not intended to improve the conditions of the workers.[82] As time passed, the German pension system expanded to cover more than just the industrial workers. After World War II, the expansion of the pension scheme gradually grew to include more workers than just industrial workers.[83] In addition to expanding coverage, the pension scheme also matured. Eventually, it "was financed by contributions shared equally by employers and employees (with a state subsidy); it

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[80] Parry, Richard. Lecture from October 22, 2002 at the University of Edinburgh.

[81] Leisering, Lutz. "Germany: Reform from Within," Alcock, P. and G. Craig eds. International Social Policy. Basingstroke: Palgrave, 2001. pg 167

[82] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 10

[83] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 12

granted earnings-related benefits; and entitlement to a pension was based on having paid contributions" thus enabling retirees to maintain their pre-retirement status.[84]

Since the pension scheme is so expansive, it would seem a natural conclusion that during times of fiscal crisis it would suffer, and suffer it has. A series of economic problems plagued Germany from the 1970s to the 1980s and effectively ended the German economic miracle that emerged from the ashes of World War II. The West German government began to cut costs in response to increasing expenditures and deficits stemming from insurance funds.[85] Another response to the worsening economic conditions in West Germany was to make conditions favorable to older workers to retire thereby making space for younger workers to enter the market. To do this, measures were taken to make available income for pensions at earlier ages and make that income more generous.[86] With the OPEC crisis of the 1970s, the government implemented cutbacks in an attempt "to contain costs [and] sought to make entry into early retirement less attractive for workers and firms."[87] Then in 1990 re-unification took place between West and East Germany. This act caused even greater problems for an already straining German welfare state.

With re-unification, even more people were included in the West German welfare system, and thus the pension system. The unemployment rate skyrocketed as a result of

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[84] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 10
[85] Clasen, Jochen. "Social Insurance in Germany: Dismantling or Reconstruction?" Clasen, Jochen ed. Social Insurance in Europe. Polity Press: Cambridge, 1997. pg 71
[86] apRoberts, Lucy. "Retirement Age: Public Policy and Employer Policies in Europe and the United States," in Hughes, Gerard and Jim Stewart eds. Pensions in the European Union: Adapting to Economic and Social Change. Kulwer Academic Publishers: Boston, 2000. pg 35
[87] Manow, Philip and Eric Seils, "The Employment Crisis of the German Welfare State," West European Politics 23 (2) pg 148

the merging of the two Germanys into one unified nation. Approximately 40 per cent of East Germans lost their jobs between 1990 and 1993.[88] East Germans then joined the pension and unemployment funds established in West Germany, which brought "strong upward pressure on social insurance rates and downward pressure on benefits."[89] To ensure that the system of welfare continued to function, large-scale financial transfers from the West to the East were needed. The transfers from the West to the East were made possible by the federal government's increasing contributions from the German people, instead of raising taxes.[90] Lack of competition was the main reason for financial disaster in East Germany. The East German currency was of a lower purchasing parity than the DM, which replaced the East German currency; this led to many East German business going out of business with great rapidity, and it is reflected in the unemployment rates from 1990-1993.[91]

As if unification did not pose enough problems for the German welfare state, it has had to face pressure from its own population. Germany is facing a variety of changes in its demographics. The German population and family structures are now quite different from those of the past and pose a challenge to the state's welfare system. Changes in population demographics have begun to emerge, namely "the ageing of the

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88 Clasen, Jochen. "Social Insurance in Germany: Dismantling or Reconstruction?" Clasen, Jochen ed. Social Insurance in Europe. Polity Press: Cambridge, 1997. pg 72

89 Bonker, F & H. Wollmann. "Stumbling Towards Reform: The German Welfare State in the 1990s," Taylor-Gooby, P. ed. Welfare States under Pressure. London: Sage. 2001 pg 81

90 Clasen, Jochen. "Social Insurance in Germany: Dismantling or Reconstruction?" Clasen, Jochen ed. Social Insurance in Europe. Polity Press: Cambridge, 1997. pg 72

91 Leisering, Lutz. "Germany: Reform from Within," Alcock, P. and G. Craig eds. International Social Policy. Basingstroke: Palgrave, 2001. pg 148

population."[92] These changes will most certainly affect contribution rates and tax revenues collected to finance welfare services. According to Jochen Clasen, "the increase in the number of social assistance claimants is seen as a sign of a dysfunctional insurance system."[93]

The social policy development of the German welfare state is one that hinges on continuity, maintaining the pay-as-you-go system of insurance, and the federal structure of government and the large political parties' (CDU and SPD) fostering welfare state expansion.[94] It was this self-same pay-as-you-go system that facilitated a fairly rapid adoption of pensions in East Germany that were on the same level as pensions in the West.[95] With unification, the German government still felt fiscal strains. Even if these unification pressures subsided completely, the post-unification German government must still face the demographic shifts in its population which will cause greater increases in pension costs and expenditures; increases like these will work as a type of domino effect, causing cleavages between those who are working to supply the tax revenue needed for the pension welfare programs, and the much larger group of people who receive these benefits - pensioners and retirees.[96]

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[92] Bonker, F & H. Wollmann. "Stumbling Towards Reform: The German Welfare State in the 1990s," Taylor-Gooby, P. ed. Welfare States under Pressure. London: Sage. 2001 pg 80

[93] Clasen, Jochen. "Social Insurance in Germany: Dismantling or Reconstruction?" Clasen, Jochen ed. Social Insurance in Europe. Polity Press: Cambridge, 1997. pg 75

[94] Leisering, Lutz. "Germany: Reform from Within," Alcock, P. and G. Craig eds. International Social Policy. Basingstroke: Palgrave, 2001. pg 164

[95] Schmal, Winfried. "Contributions and Taxes for Financing Public Pension Expenditure: Looking for an Adequate Structure of Finance," Hughes, Gerard and Jim Stewart eds. Pensions in the European Union: Adapting to Economic and Social Change. Kulwer Academic Publications: Boston, 2000. pg 197

[96] Pierson, Paul. "The New Politics of the Welfare State," World Politics 48, 1996. pg 167

Unfortunately, changes to the welfare state in Germany are difficult to implement due to the government's political structure. Leisering points out that the three-tiers structure of the German government (central, state and municipal) is one where each level of government has its own individual legislative, fiscal and administrative powers, and often conflicts arise.[97] With a complex political system, problems in bringing about reforms for the welfare state are bound to continue to emerge. Lutz Leisering believes it is the highly fragmented German political system and its many veto players that make it so difficult to bring about real changes and reform for the welfare state.[98]

Jochen Clasen is another academic who places blame for the state's inability to reform on the three-tier German political system. He draws attention to the state's coalition government, claiming that it also causes difficulties in reform and that real "structural reform would have to find a majority within a center-right or center-left coalition government."[99] In order to make changes to the pension system, agreement must be reached between the different political parties. To reach agreement and reform the pension system, "strategies of integration" are used, and "the incongruent majorities in the two chambers of parliament [devise] legislation able to attract support from the opposition party."[100] Without agreement from the opposition, reforms often fail. The

[97] Leisering, Lutz. "Germany: Reform from Within," Alcock, P. and G. Craig eds. International Social Policy. Basingstroke: Palgrave, 2001. pg 169

[98] Leisering, Lutz. "Germany: Reform from Within," Alcock, P. and G. Craig eds. International Social Policy. Basingstroke: Palgrave, 2001. pg 178

[99] Clasen, Jochen. "Social Insurance in Germany: Dismantling or Reconstruction?" Clasen, Jochen ed. Social Insurance in Europe. Polity Press: Cambridge, 1997. pg 77

[100] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 49

government's limited ability to maneuver pension reforms into place forces it to come to a consensus or negotiate solutions and reforms.[101]

Indeed, Germany faces a host of problems when it comes to reforming its pension system. These problems pose great difficulties to the German government in its ability to maintain public pensions. As stated before, as a member of the European Union's European Monetary Union (EMU), Germany is fiscally limited in possible responses to the impending pension crisis. Deficit financing of its old-age pensions is out of the question. Being a member state of the EMU, Germany is not able to have a budget deficit greater than three per cent of its GDP.[102] Not only has the EMU forced Germany to monitor its deficit and keep it within the bounds of the EMU's limits, but it is forced to look for ways to keep its deficit within these confines. Reducing public expenditure is just such a way. Pensions are an area of the welfare state that consumes a large chunk of the budget set aside for social expenditures.[103] It makes sense that pensions be one of the first areas to be reformed and expenditures curtailed, especially with the onset of the increasing demographic of retired people, which is predicted to reach thirty per cent of the population by 2035.[104] Unfortunately, one particular solution for the pension crisis in Germany will not work. Targeting pension benefits is not a likely solution in Germany. The German system of pension entitlement is done through contribution payments and "is regarded as a near-property right;" making pensions income- or means-tested has the

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[101] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 45
[102] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 7-8
[103] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 8
[104] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 8, 15

possibility of working "as a disincentive to save for their [the people of Germany] own retirement.[105]

However, hope for reform is not lost. There are those who believe a reformation of the German welfare state is taking place and have taken notice of reforms being made.

The German welfare state began to change its social welfare programs in response to the strains that it started to feel from its changing demographics. From 1975 to 1990, the then-West German government began a process of cost consolidation and cuts when insurance fund expenditures and deficits started to mount.[106] During the 1980s, the West German government sought to cut back and contain its costs for social welfare programs by implementing legislation like the Early Retirement Act (Vorruhestandsgesetz) that made early retirement unattractive for both businesses and their employees, but this program expired in 1988.[107] With the expiration of the Early Retirement Act came the Pension Reform Act one year later in 1989. This widely supported piece of legislation brought about several changes to the pension portion of the German welfare program. "Lower replacement rates, an increase in retirement age, and increased contribution" were designed by the act to create budgetary savings, however the Pension Reform Act did not reform the generous German pension system.[108]

Lutz Leisering is an optimist who sees reform coming from within Germany. He points to "a mobilization of the existing intermediate institutions - non-state and non-

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[105] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 26
[106] Clasen, Jochen. "Social Insurance in Germany: Dismantling or Reconstruction?" Clasen, Jochen ed. Social Insurance in Europe. Polity Press: Cambridge, 1997. pg 71
[107] Leisering, Lutz. "Germany: Reform from Within," Alcock, P. and G. Craig eds. International Social Policy. Basingstroke: Palgrave, 2001. pg 148
[108] Pierson, Paul. "The New Politics of the Welfare State," World Politics 48, 1996. pg 168

market institutions like social insurance" - as "characteristic of German social policy."[109] This mobilization can be seen in the new roles of intermediate agencies. Corporate actors are playing a role in the health sector through mediums like "sickness funds and monopolistic doctors' associations."[110] Real changes and reforms are, indeed, possible, as evinced by a second change to the system. "New links to private provisions and agencies (rather than mere 'privatization') especially in the field of long term care, old-age pensions and ageing social assistance" are beginning to emerge in Germany.[111] In short, Leisering sees changes in and reform of the German welfare state as being evolutionary.

What type of action is the German government taking to ensure the continuance of the public pension system? Since pensions are earnings-related and done on a contributory basis, reforms are designed to strengthen the existing relationship between contributions and benefits.[112] The German government has taken great steps towards reform. A well-known reform is the so-called 1992 Pension Reform (Rentenreform).[113] Several comprehensive reforms were made in this piece of legislation including a

> move from an indexation of pensions to gross earnings, to an indexation to average net-earnings; a gradual re-increase in the retirement age and

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[109] Leisering, Lutz. "Germany: Reform from Within," Alcock, P. and G. Craig eds. International Social Policy. Basingstroke: Palgrave, 2001. pg 177

[110] Leisering, Lutz. "Germany: Reform from Within," Alcock, P. and G. Craig eds. International Social Policy. Basingstroke: Palgrave, 2001. pg 177

[111] Leisering, Lutz. "Germany: Reform from Within," Alcock, P. and G. Craig eds. International Social Policy. Basingstroke: Palgrave, 2001. pg 177

[112] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 41

[113] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 157

> higher deductions in the case of early retirement; an extension of credits for child-rearing; and a one-time increase in the federal grant.[114]

The Rentenreform was a landmark piece of legislation; it garnered support form across the political spectrum. With the exception of the Greens, all of the parliamentary parties backed the reform, which was also supported by trade unions and businesses.[115] This system was designed to increase the government's expenditure on pensions and thus contributions from the citizens, causing Germans to have reduced net earnings resulting in reduced pension payments with the goal of bringing about "an equitable share between workers and retirees in bearing the cost of population aging."[116] All of this was done by simply manipulating the mechanisms of the pension benefits indexation.

Pension reform continued throughout the 1990s. Under Gerhard Schroder's government coalition, measures were taken to improve the fiscal situation of the pension scheme for the short term and the introduction of a private pension pillar, designed to supplement the public pension pillar of the German pension scheme, was made.[117] At first, this new private pension pillar was met with dissent. After careful re-working by

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[114] Bonker, F & H. Wollmann. "Stumbling Towards Reform: The German Welfare State in the 1990s," Taylor-Gooby, P. ed. Welfare States under Pressure. London: Sage. 2001 pg 84

[115] Bonker, F & H. Wollmann. "Stumbling Towards Reform: The German Welfare State in the 1990s," Taylor-Gooby, P. ed. Welfare States under Pressure. London: Sage. 2001 pg 84

[116] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 157

[117] Bonker, F & H. Wollmann. "Stumbling Towards Reform: The German Welfare State in the 1990s," Taylor-Gooby, P. ed. Welfare States under Pressure. London: Sage. 2001 pg 87-88

Minister of Labor Walter Riester, the pillar was eventually established after incentives were added to induce the German people to make use of it.[118]

The economic problems of the mid-1990s forced significant changes to the pension reform plans of 1992. Three important changes by the federal government were implemented: an accelerated phase in of the Rentenreform's retrenchment measures from 2012 to 2004, demographic weighting of pension benefits, and increasing the pension scheme's federal subsidy.[119] Demographic weighting is a direct response to increasing life expectancies and the explosion of the aged population. Using this method, the percentage of average earnings (earnings over the course of employment) will be reduced from 70 to 64 per cent to counter the projected demographic pressures.[120] The federal subsidy aspect of reforms will come from a one percentage point increase in the Value Added Tax (VAT) and will include improved contribution credits (from 75 to 100 per cent of the salary's average) for people who have caring responsibilities.[121]

Despite the opposition from political parties not members of the coalition German government, and from the German people, the pension system is on its way to righting itself. Reform is inevitable, and as Frank Bonker and Hellmut Wollmann state, it "is now well underway, even though constraints on executive authority and political confrontation

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[118] Bonker, F & H. Wollmann. "Stumbling Towards Reform: The German Welfare State in the 1990s,"

[119] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 158

[120] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 158

[121] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 158

are still strong."[122] The German government is indeed capable of reforming its system of pension benefits to hold up under the demographic pressures of the increasing aged population, as it has proved over the course of time. It is resilient and has faced a phalanx of economic blows, only to recover and continue to function. Is the German social welfare state capable of reforming itself? The answer to that question is an unequivocal yes. Germany has reformed its programs and systems in the past and it will continue to do so as long as there is a demand for a continuation of the programs amongst its citizens. The German people are counting on social welfare programs being there to support them when their time comes to claim their benefits, and the German government cannot afford to fail in its efforts to reform the welfare state.

Germany is just one example of European social welfare states making an effort to lessen the impact of changing demographics on their welfare programs. However, on the whole, what is Europe doing to correct these problems?

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[122] Bonker, F & H. Wollmann. "Stumbling Towards Reform: The German Welfare State in the 1990s," Taylor-Gooby, P. ed. Welfare States under Pressure. London: Sage. 2001 pg 98

Possible Solutions for Systems in Crisis

The nations of Europe have come to realize that their pension schemes must be salvaged. Pension programs and their benefits are expected by the people of Europe to be there for them when they retire. As stated before, demographic and pension expenditure projections are very much unreliable because key variables in factoring the numbers are held constant. Yet, these figures are significant because "these trends are generally regarded by governments as compelling reason for reforming their pension systems."[123]

It is crucial for European governments to explore every option, to debate every possibility, and to find the best available solution to reform their pension schemes and save one of the most highly regarded social expenditure programs in all of the European welfare states. In short, changes and reforms are necessary, and

> a majority of western European countries have taken steps to reform their public pension schemes. Generally, these changes consisted of reductions in the generosity and/or scope of public pensions, with a view to reduction current and future expenditure. The measures adopted vary quite substantially across countries. For instance, they range from the

[123] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 19

> introduction of incentives for individuals to provide privately for their retirement, to increases in pensionable age, or changes to the indexation mechanisms of existing pensions. On occasion, more complex measures have been taken, which affect the pension formula in various ways, generally with the effect of reducing the average level of benefits.[124]

There are numerous possibilities for governments to consider in their quests to make their pension schemes viable for present and future beneficiaries. It is a good thing that there are so many solutions for such an enormous problem. Each government must pick and choose the solution or solutions that best fit its pension schemes - there is no universal solution for the salvation of the multifarious European pension schemes.[125] The following is an exploration of solutions governments have used in the past and reforms they can and are using to preserve pensions.

Government officials began to realize that changes to the pension systems were needed in the 1980s. During the 1980s and 1990s, governments made small adjustments to social security programs in the form of cutbacks on expenditures, but these reforms may be beneficial in the years to come as the demographics change and pension claimants increase.[126] When the European economies experienced economic downturns, European officials responded by manipulating the pension schemes. The manipulations came in the guise of early retirement availability to older employees, which worked to funnel new workers into vacated positions to reduce unemployment. This solution led to

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[124] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 23

[125] Schmal, Winfried. “Contributions and Taxes for Financing Public Pension Expenditure: Looking for an Adequate Structure of Finance,” Hughes, Gerard and Jim Stewart eds. Pensions in the European Union: Adapting to Economic and Social Change. Kulwer Academic Publications: Boston, 2000. pg 197

[126] Kuhnle, Stein. “European Welfare Lessons of the 1990s,” Kuhnle, Stein ed. Survival of the European Welfare State. Routledge: New York, 2000. pg 234

poor economic conditions and had a negative effect on pension schemes. While early retirement facilitated the entry of younger workers into the labor market and their removal from unemployment lists, it had the negative effect of adding more older people to the lists of pension beneficiaries before they were originally supposed to claim their benefits. Because of this change, there was a "swift worsening in pension schemes' budgets, which has put pressure on governments to act."[127]

There are two important criteria that must be examined by governments before they begin to reform pension schemes. First, authorities must consider population aging, retirement, competitiveness, pension financing, economic growth, and the pensions themselves.[128] Officials must examine all of these variables and the possible changes to them that time and specific reforms might have on them. Next, they must see which groups will be affected by the changes and who will pay into the pension schemes. Gerard Hughes has cited C. Gillion's conclusions in his paper, "Pensions in the European Union: Adapting to Economic and Social Change." Using Gillion's conclusions, Hughes cited five specific population segments that are intrinsically linked to pension schemes: taxpayers, beneficiaries, older workers, women and unemployed workers.[129] Based on Gillion's work, "Aging Population: Spreading the Costs," Hughes distinguishes the effects these groups would have and would experience themselves:

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[127] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 23

[128] Reynaud, Emmanuel, "Introduction," in Hughes, Gerard and Jim Stewart eds. Pensions in the European Union: Adapting to Economic and Social Change. Kulwer Academic Publishers: Boston, 2000. pg 2-3

[129] Hughes, Gerard. "Pension Financing, the Substitution Effect and National Savings," Hughes, Gerard and Jim Stewart eds. Pensions in the European Union: Adapting to Economic and Social Change. Kulwer Academic Publishers: Boston, 2000. pg 56-57

1. Taxpayers: If there are no changes in the structure of pension programs or the provision of benefits any additional costs could be met by increasing income tax or social insurance contributions.

2. Beneficiaries: Another way of absorbing some of the increase in pension costs would be to control the growth in benefits by indexing them to net take home pay or price rather than to average gross industrial earnings.

3. Older workers: An increase in the age of retirement would reduce the number of beneficiaries at the same time as it would increase the income of the social insurance fund. The present retirement age was chosen at a time when the health status and life expectancy of the elderly were considerably worse than they are now.

4. Women: Female labor force participation rates in some OECD countries are low by international standards. Policies to increase them would serve to broaden the tax base, out of which pensions can be paid, and reduce the number of dependents.

5. Unemployed: The tax base could also be broadened and the number of dependants reduced by lowering unemployment. There is considerable scope for increasing the ration of workers to retirees in the European Union because the unemployment rate is so high.[130]

If all of this were carried out, then it would be possible to reduce the burden on the pension programs of Europe that stem from the changes in demographics, especially the aging population.

One possible option to solve the problem of financing pensions for the increasing aged population is to manipulate the age at which people can claim their benefits. If older employees remain active in the labor market for a longer period of time, pension receipts will increase. Older workers will continue to pay into the pension schemes, increasing the schemes' receipts. In addition to increasing the receipts, an older age for claiming pensions will cut back on the number of claimants, reducing the number of new pension

[130] Hughes, Gerard. "Pension Financing, the Substitution Effect and National Savings," Hughes, Gerard and Jim Stewart eds. Pensions in the European Union: Adapting to Economic and Social Change. Kulwer Academic Publishers: Boston, 2000. pg 57-58 -- Hughes' information from Gillion, C. "Aging Populations: Spreading the Costs," Journal of European Social Policy 1, No. 2, 1991. pg 107-128

recipients. This solution will only work so long as employers co-operate. However, governments can not regulate employers' policies. This could cause enormous problems for those nearing retirement. Companies and firms could lay-off older workers and hire whomever they choose to replace them.[131] They can lay-off workers before they are able to claim their pensions, if the pension age is raised. There are other problems that would stem from an increase in the age for receiving pension benefits. Using an increased pension age to solve the pension crisis will cause an inevitable delay in the labor cycle. Younger workers will be unable to replace retiring older workers at a faster rate at a time when it is increasingly difficult for young workers to enter the labor market.[132] Keeping older workers in the labor market for longer periods of time could also affect the European nations' GDP. Older workers tend to become less productive and less flexible as they age, which could affect companies and industries' outputs "and have a detrimental impact on a country's economic competitiveness."[133]

As mentioned before, retrenchment is another possible solution to the pension crisis. This particular method is used when there is declining or low economic growth.[134] Retrenchment efforts are designed to streamline costs and make administrative expenditures more efficient. However, savings using retrenchment are minimal, but have a negative impact on pensioners. Administrative costs for pension schemes are

[131] apRoberts, Lucy. "Retirement Age: Public Policy and Employer Policies in Europe and the United States," in Hughes, Gerard and Jim Stewart eds. Pensions in the European Union: Adapting to Economic and Social Change. Kulwer Academic Publishers: Boston, 2000. pg 35
[132] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 26
[133] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 26
[134] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 36

comparatively low when compared to other social spending programs, which leads to little room for savings and causes cuts to be made elsewhere, namely in the generosity of pension benefits. Retrenchment, while cutting costs and reducing benefits to provide pensions for all people of pensionable age, hurts those who need the full amount of their pensions. Yet, the negative blow of such a solution on pensioners can be lessened.

By combining retrenchment with other improvement measures, European governments can mitigate the impact the cuts will have on pensioners.[135] There are other measures that have some merit economically in solving the pension problem. Governments could transfer some of the burden of providing pensions for their citizens by shifting a portion of it to the private sector.

Private provision for pensions would be easy for the governments to establish. Governments would adopt a "do-nothing" attitude towards the public pension problems. Governments would do nothing to fix the difficulties affecting pension schemes. Government inaction would cause its citizens to begin to experience "dissatisfaction with state provision due to rising expectations (and not to declining quality)" and work as a "force behind the expansion of private provision."[136] By not fixing the current and impending problems facing pension programs, governments will in essence push those who can afford to pay into private pension funds towards availing themselves of this option. Using this maneuver, a "social protection gap" would be created, and it would

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[135] Bonoli, Giuliano, Vic George, and Peter Taylor-Gooby. European Welfare Futures Towards a Theory of Retrenchment. Polity Press: Cambridge, 2000. pg 138

[136] Bonoli, Giuliano, Vic George, and Peter Taylor-Gooby. European Welfare Futures Towards a Theory of Retrenchment. Polity Press: Cambridge, 2000. pg 47

work to facilitate the move of some Europeans to make use of private pension funds to replace their income during the years after their retirements.[137]

Important international organizations like the World Bank support the idea of pushing citizens to use privatized pension funds. The World Bank believes that state-funded pension schemes should be drastically reduced in a government effort to support "privately funded occupational and personal pension plans."[138]

However, governments should not jump to using this seemingly infallible solution to their pension worries. Governments run the risk of possibly incurring even higher costs by encouraging the use of private pension schemes than they might have without doing so. First, governments must make conditions favorable for the use of private pensions. Encouraging this type of voluntary program would involve governments heavily promoting private pensions "through fiscal or other subsidies."[139] To make circumstances acceptable for privatized pensions to thrive, governments will have to ensure favorable tax treatments for these particular programs.[140] European authorities will have to forego heavy tax receipts for these funds for a period of time or possibly forego taxing them entirely to give people the necessary incentives to make use of private pension funds, instead of relying on public pensions. Governments would lose a large source of tax revenue if they exercise this option. They must first look at how much they

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[137] Bonoli, Giuliano, Vic George, and Peter Taylor-Gooby. European Welfare Futures Towards a Theory of Retrenchment. Polity Press: Cambridge, 2000. pg 46

[138] Hughes, Gerard. "Pension Financing, the Substitution Effect and National Savings," Hughes, Gerard and Jim Stewart eds. Pensions in the European Union: Adapting to Economic and Social Change. Kulwer Academic Publishers: Boston, 2000. pg 45

[139] Bonoli, Giuliano, Vic George, and Peter Taylor-Gooby. European Welfare Futures Towards a Theory of Retrenchment. Polity Press: Cambridge, 2000. pg 155

[140] Hughes, Gerard. "Pension Financing, the Substitution Effect and National Savings," Hughes, Gerard and Jim Stewart eds. Pensions in the European Union: Adapting to Economic and Social Change. Kulwer Academic Publishers: Boston, 2000. pg 56

stand to lose financially by supporting a program of pension privatization and then how much they stand to gain by implementing privatization, before a final decision can be made. Governments have already tried private provision in the 1980s and 1990s, and the ratio of private pension provision to state provision has risen since private pension funds were established.[141] Success using private pensions is thus very possible.

A supplementary pension is also an excellent option for European pensioners. These specific pensions "provide a source of income in retirement that prolongs the income earned during the beneficiary's working life."[142] Paying into this type of pension fund would help alleviate any financial strains reduced pension receipts stemming from other pension reforms (like retrenchment measures) may cause pensioners. Governments could encourage workers to pay into these pensions by offering possible tax breaks or other types of incentives.

Institutional reforms could also be implemented to save Europe's pension schemes. The institutional make-up of the European welfare systems plays an important role in determining the possible solutions to the pension crises. Rules governing the different styles of welfare states and their pension schemes "are likely to affect the economic adequacy and the political appeal of the various possible measures that can be

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141 Bonoli, Giuliano, Vic George, and Peter Taylor-Gooby. European Welfare Futures Towards a Theory of Retrenchment. Polity Press: Cambridge, 2000. pg 155

142 Schneider, Jacques-Andre. "Supplementary Pension Plans and Collectively Agreed Schemes," Hughes, Gerard and Jim Stewart eds. Pensions in the European Union: Adapting to Economic and Social Change. Kulwer Academic Publishers: Boston, 2000. pg 173

used to contain pension expenditure. In this respect, pension scheme design constitutes an important independent variable of pension policy."[143]

Targeting benefits for pensioners is an example of an institutional reform. To target pension benefits, governments would have to establish the criteria to determine who gets public pensions and how much of a pension they get. European officials would make state provided pensions "limited to an income- or means-tested pension which would be paid only to those who have been unable to build up a sufficient amount of savings to finance their own retirement"; this option works in Denmark, but not in Germany, which will be explored later in this paper.[144]

When governments have changed pension program benefit rules, they have often tried to keep them from being apparent to their electorates. Changes in the indexation of pension funds and benefit calculations, which, incidentally, avoid looking like retrenchment measures, are changes that have low visibility among the public and have been used by the British government and the governments of Italy and Sweden, respectively.[145]

Manipulations of benefit formulas have been used to some extent in Italy, Sweden, Switzerland, and Austria. There are three variables in benefit-determining formulas that can be altered by governments. Reference salary, qualifying period, and accrual factor, which is itself "the proportion of the relevant earnings that is replaced by a

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[143] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 13
[144] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 26
[145] Bonoli, Giuliano, Vic George, and Peter Taylor-Gooby. European Welfare Futures Towards a Theory of Retrenchment. Polity Press: Cambridge, 2000. pg 31

pension per contribution-year."[146] In addition to manipulating benefit formulas governments can change the indexation mechanisms for pension benefits. France, the United Kingdom, Germany, and Switzerland have all changed their indexations in some way or another. Indexation itself involves both the value of flat-rate and earnings-related benefits, as well as the calculation of the reference salary in earnings-related.[147] Pension schemes' institutional designs make them "a powerful determinant of reform, in the sense that it limits the number and the range of possible options, and it points policy-makers looking for political feasibility in some pre-determined directions...[but] institutional features become relevant only in so far as they make some solutions more politically attractive than others."[148]

Solutions for the pension scheme crisis of Europe are numerous and varied. However, governments are limited not only by their institutional framework, but also by the international organizations they are members of, namely, the European Union. As members of the European Union, Western European nations and eventually most of the Central and Eastern European nations will be constrained by the EU and EMU's laws. Being members of this organization severely limits the prerogatives of national governments in how they solve their pension woes. As European integration continues, governments will be forced to follow these rules and regulations, causing "a dwindling

[146] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 27

[147] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 41

[148] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 41-42

autonomy of national states in the realm of social policy-making."[149] Everything national governments do to preserve and fix their crumbling systems for pension benefits must line up and support EU/EMU policies. At this point,

> national social policy is now strongly embedded in the European Union's attempt to facilitate the Union and the member states to remain or become competitive economies. The criteria for entry into the EMU have forced national governments to follow more radical adjustment policies than those that seemed electorally safe from the politicians' short-term perspective.[150]

Solutions will vary among European nations, but will be linked to EU/EMU policies. What is an undeniable fact is that Europeans want their pensions and want the pension problems solved and the future of pension schemes ensured and stabilized. And they will continue to vote against those people, programs, and organizations that pose any type of risk to their beloved pension benefits.

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[149] van Kersbergen, Kees. "The Declining Resistance of Welfare States to Change?," Kuhnle, Stein. ed. Survival of the European Welfare State. Routledge: New York, 2000. pg 22

[150] van Kersbergen, Kees. "The Declining Resistance of Welfare States to Change?," Kuhnle, Stein. ed. Survival of the European Welfare State. Routledge: New York, 2000. pg 27

A Final Word

Pension programs are in danger of failing, there can be little left to doubt regarding this matter. Equally true is the fact that pension programs and their benefits are wildly popular with Europeans. Public pensions have "solid basic support from voters and major political parties."[151] With such firm and unwavering support from the people and the multitude of options governments have for reform, the pension schemes of Europe will survive their current woes. They have no choice. While much of the survival of pension systems relies on the intelligent use of the available solutions by governments, the future of pension programs depends on more than just the reforms that are used. Survival of European public pensions depends "the willingness of the working population to share part of its income with retirees."[152]

Each government must make decisions regarding how to reform and maintain a pension system that will continue to function well into the future. They will walk a fine line between improving the systems and making them worse. Politicians must work hard to make politically, socially, and fiscally sound choices. They must work hard to find and implement solutions that are within the bounds of national and European Union laws. They must formulate solutions that are socially acceptable. To make matters even more difficult, the national politicians have to institute reforms that are fiscally sound, no small

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[151] Kuhnle, Stein. "European Welfare Lessons of the 1990s," Kuhnle, Stein ed. Survival of the European Welfare State. Routledge: New York, 2000. pg 235

[152] Bonoli, Giuliano. The Politics of Pension Reform: Institutions and Policy Change in Western Europe. Cambridge University Press: Cambridge, 2000. pg 20

feat when they must work within the frameworks of their own national legal system and the international legal system of the European Union.

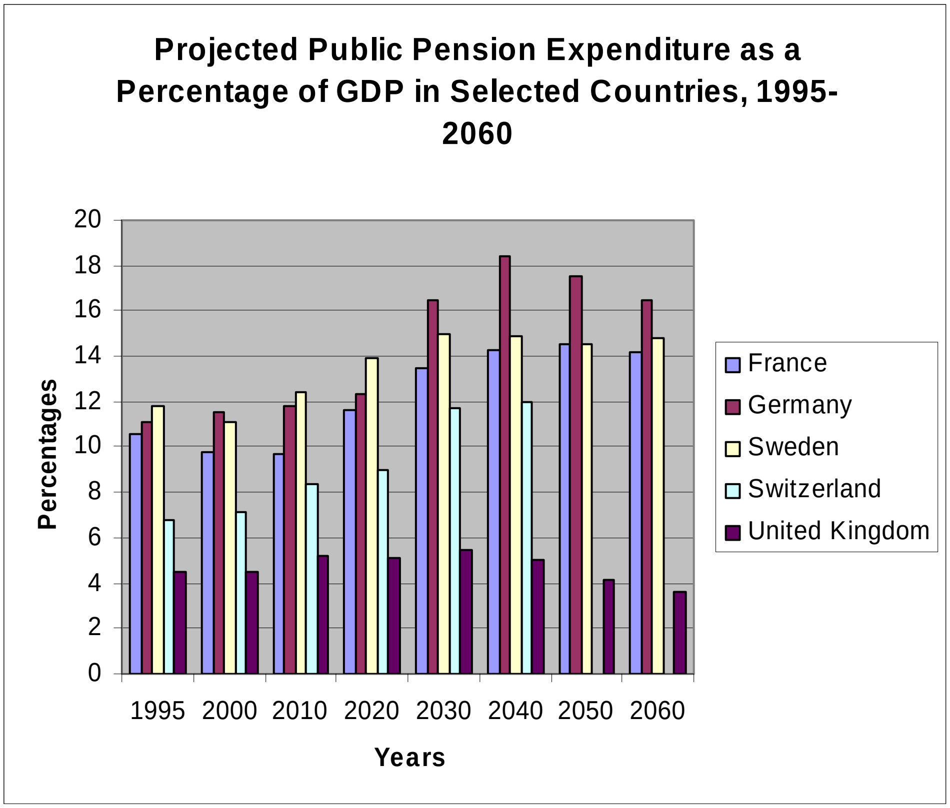
Can Europe’s pension programs be saved? Can future generations of pensioners count on receiving pension benefits upon retirement? Will the pension programs themselves receive enough income from the working population to continue to provide pensioners with their benefits? It is possible that these questions could be answered with an affirmative. However, to obtain positive answers, governments must have accurate information and carefully weigh and consider all of the possible outcomes and ramifications the chosen reforms will have on their citizens and economies.

Pension programs across Europe will continue, they may not thrive, they may not be perfect, but they can continue to function with the institution of proper reforms. The ultimate test of these reforms will come when the whole of the “Baby Boom” generation reaches pensionable age and begins to collect its benefits, and how much stress this occurrence will impose on reformed pension programs.

APPENDICES

Appendix A Population Tables

A.1

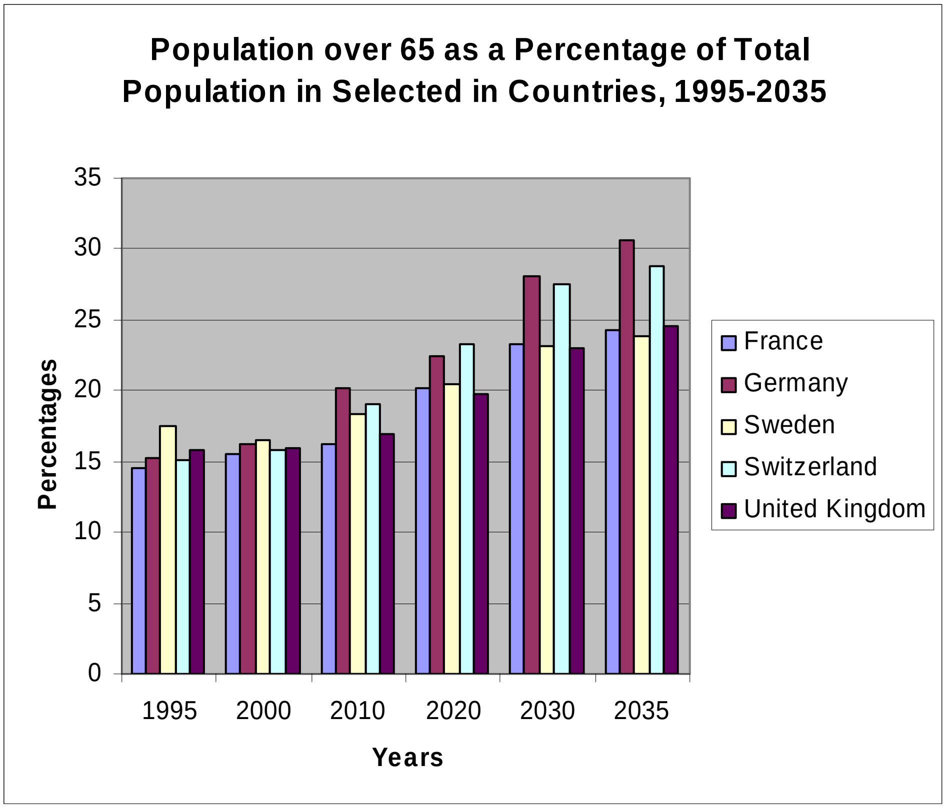


A.2

Projected Public Pension Expenditure as a Percentage of GDP in Selected Countries, 1995-2060

	1995	2000	2010	2020	2030	2040	2050	2060
France	10.6	9.8	9.7	11.6	13.5	14.3	14.5	14.2
Germany	11.1	11.5	11.8	12.3	16.5	18.4	17.5	16.5
Sweden	11.8	11.1	12.4	13.9	15	14.9	14.5	14.8
Switzerland	6.8	7.1	8.4	9	11.7	12	N/A	N/A
United Kingdom	4.5	4.5	5.2	5.1	5.5	5	4.1	3.6

A.3

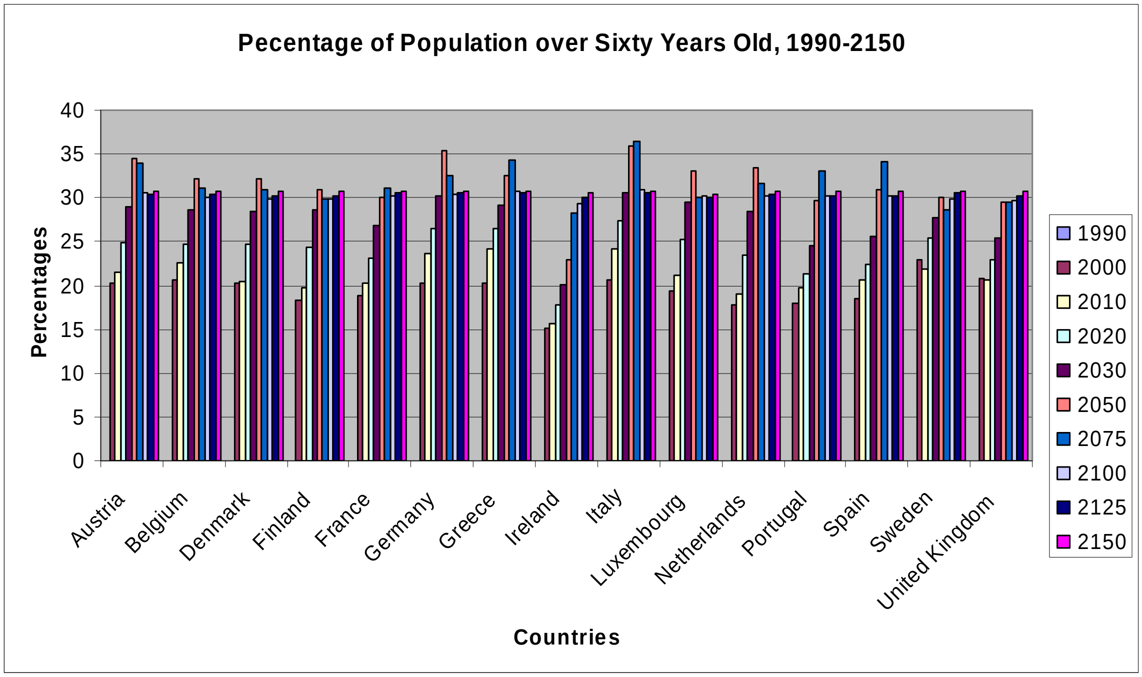


A.4

Population over 65 as a Percentage of Total Population in Selected Countries, 1995-2035

	1995	2000	2010	2020	2030	2035
France	14.5	15.5	16.3	20.2	23.3	24.3
Germany	15.2	16.2	20.2	22.5	28.1	30.6
Sweden	17.5	16.5	18.4	20.4	23.1	23.8
Switzerland	15.1	15.8	19.1	23.3	27.5	28.8
United Kingdom	15.8	15.9	17.0	19.7	23	24.6

A.5



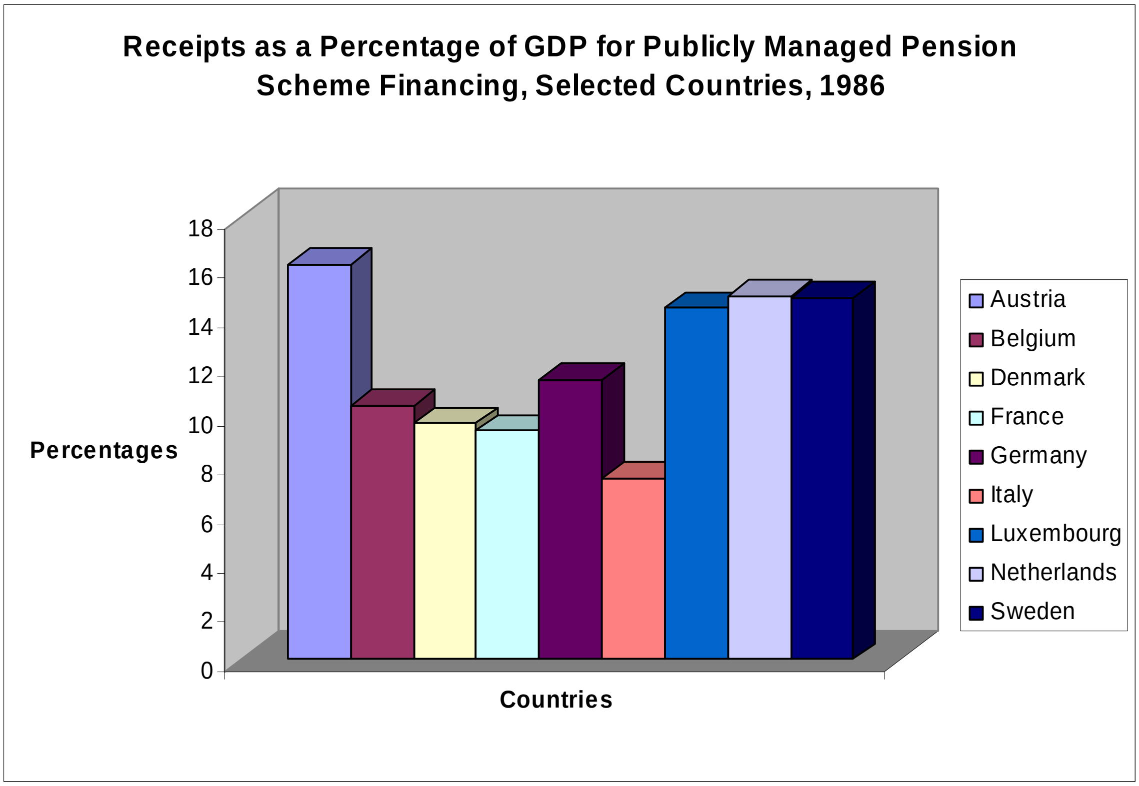
A.6

Percentage of Population over Sixty Years Old, 1990-2150

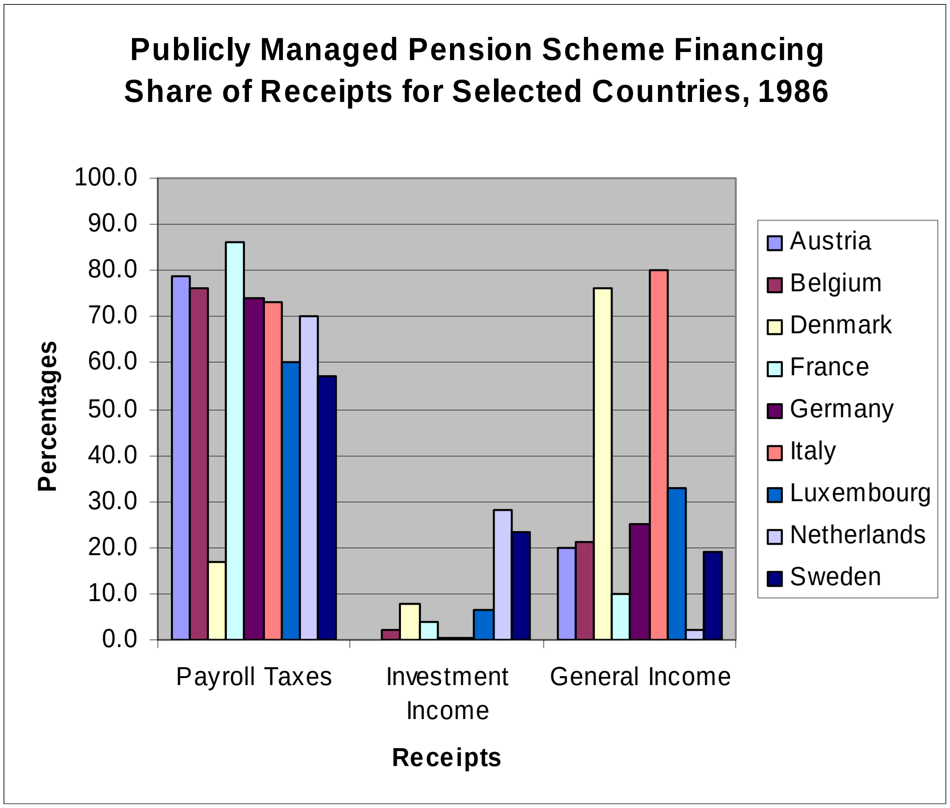
Economy	***1990***	***2000***	***2010***	***2020***	***2030***	***2050***	***2075***	***2100***	***2125***	***2150***
Austria	20.2	21.5	24.9	28.9	34.5	33.9	30.6	30.4	30.7	30.9
Belgium	20.7	22.5	24.8	28.7	32.2	31.2	30.1	30.4	30.8	31.0
Denmark	20.2	20.4	24.8	28.4	32.1	30.9	29.9	30.3	30.7	30.9
Finland	18.4	19.8	24.4	28.7	30.9	29.9	29.8	30.3	30.7	30.9
France	18.9	20.2	23.1	26.8	30.1	31.2	30.3	30.5	30.8	31.0
Germany	20.3	23.7	26.5	30.3	35.3	32.5	30.4	30.5	30.8	31.0
Greece	20.2	24.2	26.5	29.1	32.5	34.4	30.7	30.5	30.8	31.0
Ireland	15.2	15.7	17.8	20.1	22.9	28.2	29.4	30.1	30.6	30.9
Italy	20.6	24.2	27.4	30.6	35.9	36.5	30.9	30.5	30.8	31.0
Luxembourg	19.3	21.2	25.3	29.5	33.0	30.1	30.2	30.1	30.4	30.5
Netherlands	17.8	19.0	23.4	28.4	33.4	31.7	30.2	30.4	30.8	31.0
Portugal	18.0	19.8	21.4	24.6	29.7	33.0	30.2	30.3	30.7	30.9
Spain	18.5	20.6	22.4	25.6	30.9	34.2	30.3	30.3	30.7	30.9
Sweden	22.9	21.9	25.4	27.8	30.0	28.7	29.9	30.5	30.8	31.0
United Kingdom	20.8	20.7	23.0	25.5	29.6	29.5	29.7	30.3	30.7	30.9

Appendix B: Economic Indicator Tables

B.1



B.2



B.3

Publicly Managed Pension Scheme Financing, Selected Countries, 1986

		Share of Receipts from:		
Country	***Receipts as a Percentage of GDP***	***Payroll Taxes***	***Investment Income***	***General Income***
Austria	16.1	79.0	0.2	20.0
Belgium	10.3	76.0	2.1	21.0
Denmark [a]	9.6	17.0	7.9	76.0
France	9.3	86.0	4.0	10.0
Germany [b]	11.4	74.1	0.6	25.0
Italy [c]	7.4	73.0	0.4	80.0
Luxembourg	14.3	60.0	6.4	33.0
Netherlands	14.8	70.0	28.3	2.0
Sweden	14.7	57.0	23.4	19.0

a	More than 50% of total pension spending is on universal or flat means-tested pensions
b	Year referred to is 1989
c	This refers to main scheme only

Appendix C: Miscellaneous

C.1

Dimensions of Variation of the Male Breadwinner and the Individual Models of Social Policy

Dimension	***Male Breadwinner Model***	***Individual Model***
Family Ideology	Celebration of Marriage	No Preferred Family Form
	Strict Division of Labor	Shared Roles
	Husband = earner	Father = earner/carer
	Wife = carer	Mother = earner/carer
Entitlement	Differentiated among spouses	Uniform
Basis of Entitlement	Breadwinner	Citizenship or Residence
Recipient of Benefits	Head of Household	Individual
Unit of Benefit	Household or Family	Individual
Unit of Contributions	Household	Individual
Taxation	Joint Taxation	Separate Taxation
	Deductions for Dependents	Equal Tax Relief
Employment and Wage Policies	Priority to Men	Aimed at Both Sexes
Sphere of Care	Primarily Private	Strong State Involvement
Caring Work	Unpaid	Paid Component

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