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Editors

Pension systems in the European Union: Variable patterns of influence in Italy, the Netherlands and Belgium.

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Abstract

The paper investigates how European welfare states respond to reform pressures arising from European integration. We examine the impact of two institutional variables that mediate the impact of reform pressures on national pension systems: the extent of public pension provision and the number of national political veto points. We argue that, all else equal, member states with few veto points and a relatively small public pension sector are the most likely cases of policy change in response to Europeanization, whereas member states with a high number of veto points and extensive public pension commitments are the least likely candidates for policy change. We test these arguments on four cases of Europeanization in three countries (Belgium, the Netherlands, and Italy).

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1 Introduction

The impact of European integration on national patterns of governance is a rapidly growing research area. Scholars have shifted from identifying the underlying dynamics of the European integration process to exploring the effects of EU membership on state-society relations, domestic policies and institutions (Héritier et al, 2001; Cowles et al, 2001; Börzel, 2002; Featherstone and Radaelli, 2003). Much of this growing literature focuses on direct pressures for national adaptation (directives, regulations, EC law) and policy areas that are open to EU influence because of the high level of EU competence (i.e. environmental policy). This paper takes a different approach by analysing both indirect and direct pressures for national adaptation in a policy area that is not yet very “Europeanized”: social policy.

We investigate the impact of two types of European adaptational pressure on public pension arrangements: EC gender equality law and the EMU convergence criterion concerning excessive budget deficits. The former represents strong, binding, direct pressure for domestic policy change, and the latter constitutes diffuse, indirect pressure for domestic adaptation. For both types of European pressure, we investigate cases in which adaptational pressure was significant, so that this variable is held constant across cases. To explain variable patterns of adaptation across cases, we rely on two variables central to the literature on welfare state change: program structure and the number of veto points. We hypothesize that countries with low levels of public pension provision and few veto points are the most likely cases of substantial policy change in response to European pressures. Conversely, countries with many veto points and extensive public pension commitments are the least likely candidates for policy change, even when European pressures are strong. We use process-tracing based on primary and secondary sources to test these hypotheses, and we find that our model succeeds in providing a broad explanation of outcomes in all four cases. However, the model performed better in explaining the two cases of adaptation to equal treatment law than in our two cases of adaptation to the demands of EMU membership.

The paper begins with a brief discussion of both the Europeanization and welfare state literatures. We then lay out our explanatory model based on program structure and veto points. The next two sections test the model for Belgian and Dutch adaptation to EC legislation concerning equality in statutory social security schemes, and Italian and Belgian adaptation to the Maastricht budget deficit target of 3%. We conclude with a discussion of the implications of our analysis for the Europeanization literature.

2 The Europeanization Literature

This study follows Risse et al’s (2001: 3) conceptualisation of Europeanization as a ‘process by which distinct structures of governance at the European level affect domestic structures and domestic politics’. Europeanization, here, emphasizes the role of European politics and institutions as an independent variable in domestic politics, and it refers to the processes by which domestic structures adapt to European integration. A key finding of the Europeanization literature is that member states respond differently to pressures created by European integration (Dyson, 2000; Cowles, Caporaso and Risse, 2001; della Porta and Caiani, 2006).

The "goodness-of-fit" hypothesis has dominated the field for more than a decade. This type of argument emphasises the ways in which the degree of ‘fit’ between existing national and new European rules shapes domestic political adaptation (Duina, 1997). Thus, ‘the extent and type of policy change which takes place in a member state depends [...] on the extent of legal adjustment that a country would have to achieve in order to close the gap between existing national policies and European integration’ (Héritier, 1997: 539). The underlying assumption here is that national resistance is often caused by poor policy fit between EU legislation and

existing national structures: the greater the misfit between EU and national policies, the more contentious the struggle to achieve correct and timely implementation will be. Conversely, when European rules demand only minor domestic policy modifications, thus not challenging traditional positions of institutional equilibria, it is unlikely that implementation will be difficult. A growing number of scholars have investigated the extent to which the fit between European and domestic structures explains the speed and correctness of the domestic implementation of EU rules, as well as the patterns of political contestation associated with national adjustment to European rules (Börzel, 1999; Knill and Lenschow, 1998; Falkner et al, 2005; Kaeding, 2006). Empirical results, however, have been mixed; by itself, the goodness-of-fit hypothesis does not adequately explain Europeanization results. As Falkner et al. argue, 'it is not the amount of policy misfit to be overcome that determines the implementation outcome' (Falkner et al., 2005: 342; 2007). In response, some scholars have proposed alternative explanations, such as governments' party political preferences (Treib, 2003) and institutional veto points (Haverland 2000).
We build on the central insight of this literature that European integration unleashes pressures for change that are mediated by domestic institutions and the domestic distribution of political resources. However, we want to go a step further by explicitly linking arguments about Europeanization to the broader literature in comparative politics and welfare state change. In our view, Europeanization is broadly similar to other pressures for change and can be analysed as such (see Anderson 2002). In other words, national responses to adaptational pressure are likely to be the result of political bargaining among actors with unequal resources within defined institutional settings, just as most other domestic political issues are.

3 The Welfare State Literature

The mainstream institutional literature on comparative welfare state development emphasizes three variables for explaining policy change: the structure of political institutions; the balance of power among social groups; and the political effects of program structure. We will discuss each in turn.

<u>The structure of political institutions:</u> The central claim of arguments about the impact of institutions is that institutions provide the 'rules of the game' for political bargaining (Steinmo, Thelen, and Longstreth 1992). Rather than classifying political systems as parliamentary or presidential, much current research attempts to view political systems in terms of 'veto points' or 'veto players'. The key argument here is that national political institutions provide the context for political bargaining and policy-making. Political institutions do not determine outcomes; rather they shape the way the political game is played. This includes the manner of interest group access to the political process and how political actors define their interests. Policymaking requires that proposed legislation pass through several stages during which various political groups can try to block the proposed legislation or demand changes in content. The more veto points in the legislative process, the more likely legislation is to fail or be diluted because more political actors (interest groups; political parties; intra-party factions; the public in the case of referendum, etc.) have access to the decision-making process (Immergut 1992).

<u>Program Structure and Policy Feedback Effects</u>. The central insight of the 'new politics of the welfare state' literature is that the structure of existing welfare state programs influences the preferences and resources of political actors. Paul Pierson (1994) argues that the politics of retrenchment is very different from the dynamics of welfare state expansion. Whereas expansion policies are generally popular, retrenchment initiatives usually provoke public opposition. Thus retrenchment is politically difficult, largely because of the mobilizing

potential of interest groups and policy advocates that previous policies helped to create. The central claim of Pierson's new politics thesis is that retrenchment is a "distinctive and difficult enterprise" that is likely to involve political dynamics fundamentally different from those associated with welfare state expansion. Thus retrenchment involves a politics of "blame avoidance" rather than the "credit claiming" that characterizes the extension of welfare state policies. The upshot of the argument is that retrenchment is successful only when politicians are able to devise strategies that minimize popular opposition to proposed policy changes. Thus the new politics thesis portrays retrenchment as a politically risky process (Pierson, 1994, 1-2).

How does this basic insight apply to pensions? As Myles and Pierson (2001) argue, pensions are a classic case of path dependent change. Because pensions usually entail long-term, costly benefit commitments to large groups of voters, the structure of existing policies seriously constrains the prospects for reform. Moreover, the groups with a large stake in existing policies have an important impact on reform, not least because of the enormous political risks involved in scaling back and/or re-organizing pension arrangements (Pierson 1994; Weaver and Pierson 1993).

What does all of this tell us about the domestic variables that mediate adaptational pressures emanating from Europeanization? First, we know that political systems characterized by multiple veto points, or to use Tsebelis' terminology, political systems that empower multiple veto players, tend to reinforce the policy status quo. In other words, the more veto points there are, the more stable policy is. Table one provides a ranking of West European political systems that roughly follows the arguments laid out by Immergut and Tsebelis. Here, potential veto points are political parties (if there are multiparty coalitions); interest groups; second chambers of parliament; and subnational government units. While not a perfect measure of veto points, Colomer's (2002) 'institutional pluralism' rankings roughly approximate what we are emphasizing: the number of blocking opportunities provided by the political system and interest group structure. We use Colomer's pluralism index as a rough equivalent of 'veto opportunities." The higher the value on this index, the higher the number of veto opportunities. This means Germany ranks highest in terms of veto points, and the UK and Greece rank lowest. German institutions thus favour the status quo, while British and Greek institutions provide more opportunities for changing the policy status quo.

Table 1 Institutional pluralism in the Union's member states

	Party system	Bicameralism	President elected	Decentralization	Colomer index	One-party cabinets (%)	Veto players (Tsebelis) 1980s	Veto players (Tsebelis) 1990s
Germany	0	2	0	2	4	1.7	3	2
Spain	0	1	0	2	3	100.0	1	1
Finland	2	0	1	0	3	10.9	4	4
Austria	1	1	1	1	3	33.8	2	2
Belgium	2	1	0	0	3	8.3	4	4
Denmark	2	0	0	0	2	42.9	1	2
Italy	0	1	0	1	2	10.3	4-5	5
France	1	1	1	0	2	53.1	2	2
Netherlands	1	1	0	0	2	0.0	4	2-3
Portugal	1	0	1	0	1	43.0	2	1
Sweden	1	0	0	0	1	70.4	1	1
Ireland	0	1	1	0	1	53.9	1	2
United Kingdom	0	1	0	0	1	100.0	1	1
Greece	0	0	0	0	0	96.4		

Source: Colomer (1996: 13); *party system*: measured by the effective number of parties; *bicameralism:* two points to symmetrical bicameralism; one point to semi-presidentialism; no points to parliamentarism; *president elected*: one point to semi-presidentialism; no points to parliamentarism; *decentralization*: measured by the proportion of public expenditure in the hand of regional governments (R): two points to R>20%; one point to 20%$\geq R \geq$10%; no points to R<10%. Lijpart (1999: 110) *one-party cabinets (%):* proportions of time during which one-party cabinets were in power. Tsebelis (UCLA website) veto players.

Turning to our program structure variable, we know that two characteristics of pension schemes are important for understanding the dynamics of policy change. First, the maturity of pension schemes is crucial. Myles and Pierson (2001) argue that the maturity of a public pension system is a critical variable influencing reform outcomes; the longer a country has had a pay-as-you-go (PAYG) pension system in place, the more difficult it is to reduce or privatise public pension commitments. Large, PAYG public pension schemes that cover all or most of the workforce generate commitments over many decades that are similar to property rights. In order for cutbacks or privatisation to be possible, current workers would have to pay twice: once for current pensioners in the public scheme and a second time for their own private pensions. Because the political costs of such a strategy are exceedingly high, major cutbacks or full-scale privatisation of public PAYG pensions is nearly impossible.

For countries with mature, PAYG public pension schemes (Germany, Sweden, France, Italy, the Netherlands), past policies are highly constraining; policymakers and affected social interests make their policy choices in a context in which large scale cutbacks and/or privatisation is nearly impossible. The main options available are "parametric" reforms that introduce changes within the existing public pension structure. For example, benefit formulae can be made less generous, contributions can be raised, partial privatisation can be introduced to supplement public benefits etc.

A second group of countries did not legislate earnings-related, PAYG public pensions during the decades immediately following World War II. This cluster includes Denmark, the Netherlands, Switzerland and the Southern European welfare states. Here there is usually a basic form of public provision, and earnings-related benefits are organized collectively, usually as occupational pensions negotiated as part of collective wage agreements (Myles and Pierson 2001). Although earnings-related pensions are organized by the market and not the state, the role of the state is still crucial in terms of regulation. For example, the Dutch regulatory framework establishes rules for investment and capital coverage, and the Ministry of Social Affairs can extend mandatory pension provision to entire sectors and branches in the economy. The result is a coverage level of about 92% (SER 2001). However, the provisions of specific pension schemes (premiums; benefit formula, indexing etc) are left to corporatist pension fund boards. In Switzerland, regulation appears even tougher; state regulation mandates a minimum rate of return, for example (Bonoli 2007).

The second aspect of program structure is closely related to the first: the size of the public pension schemes relative to private schemes. Basically, the argument here is that where mature public pension schemes dominate retirement provision, voters (both current workers and current pensioners) have a large stake in the status quo because public pensions are or will be the main source of their retirement income. This means that the stickiness of the status quo should be stronger in countries like Germany, Sweden, Italy, and Belgium, which all have comprehensive, mature, public pension schemes and relatively small or even insignificant private/occupational pension schemes. In contrast, countries like the Netherlands, Denmark and the UK have large private/occupational pension sectors (see table 2). These countries also have significant basic public pensions (less true for the UK), but about half to one third of retirement income comes from occupational pensions, so the status quo should less sticky because pensioners have other sources of income besides the public pensions.

Table 2 Public / private mix in pensions

	Share of public pensions in retirement income %, 1998 [a]
Italy	48.5 [b]
Germany	81.9
Sweden	71.1
France	68.3
Belgium	data not available
Netherlands	63.3
United Kingdom	60.8

a Source is Axel Börsch-Supan and Anette Reil-Held, Retirement Income: Level, Risk and Subsitution among Income Components, OECD Working Paper AWP 3.7. table 2.

b Many Italians past retirement age still work; income from earnings accounts for 27.2% of income in retirement, and asset income is 24.3%. Few have private pensions.

Table 3 summarizes the basic argument: member states with few veto points and relatively small public pension sectors (defined in terms of maturity and size relative to private and occupational pensions) are expected to be the most likely cases of policy change in the face of adaptational pressures from Europe. Countries with a high number of veto points and large public pension sectors are expected to be the least likely candidates for policy change. Countries with either many veto points and a small public pension sector OR few veto points and a large public pension system are expected to fall between these two extremes.

Table 3 Factors influencing the likelihood of policy change

		Veto points	
		low	high
Extent of public provision	low	*substantial change* Netherlands United Kingdom	Portugal ←Spain [b]
	high	Sweden	*little change* Germany Belgium ←Italy [a]

a Italy is difficult to classify because veto points are not as numerous as in Germany and Belgium.
b Spain is also difficult to classify for the same reason; Spanish public pensions are not extensive in absolute terms, but relative to private and occupational pensions they are.

4 Adaptation to European Pressures for Change

4.1 Belgium, the Netherlands, and the implementation of EC Directive 79/7/EEC

In 1978, the European Council adopted a directive requiring the member states to remove all provisions in statutory social security schemes that violated the principle of equal treatment between men and women. The directive prohibited member states from discriminating in terms of access, the calculation and payment of contributions, and the calculation of benefits. The directive created substantial adaptational pressure for member states with 'breadwinner' based social security schemes that excluded married women (because a breadwinner benefit was available only to the husband) or unmarried women (because the assumption was that they would get married at some later point and benefit from their husbands' benefits). The deadline for transposition was December 19, 1985.
Here we look at two cases in which adaptational pressure was high because public pensions were organized on the breadwinner principle (Netherlands) or because pension entitlement rules were different for men and women (Belgium). We assume that adaptational pressure is held constant, so the main difference between the two cases is that the Netherlands is a case of 'likely change' because of few veto points/small public pension sector and Belgium is expected to be a case of 'limited change' because of multiple veto points and an extensive public pension scheme.

<u>Belgium</u>
The Belgian political system displays multiple veto points because of federalism, a strong linguistic cleavage, and a multiparty system. Public pension provision dominates; the occupational pension system is relatively underdeveloped ,and only the relatively affluent have access to private pensions. This means that organized interests with a stake in the status quo have strong preferences, and the political decision-making system offers many opportunities for blocking legislation (Anderson, et al. 2007).
Belgium was slow to transpose Directive 79/7 EEC. Even after the transposition deadline had passed, Belgium still had legislation in place that included different benefit formulae for men and women (40 years of contributions for women and 45 for men) and different retirement ages. Indeed, Belgium failed to transpose on time, and the ECJ found Belgium in violation of EC law in 1986. The Christian Democratic/Liberal government responded by trying to harmonize retirement ages for men and women, as well as the benefit formula, as part of its "St. Anna Plan," a package of budget consolidation measures. Discussion focused on whether to increase women's retirement age to 65 or lower men's to 60. Unions vigorously

opposed increasing women's required labour market participation from 40 to 45 years for a full pension, as well as the higher retirement age for women. When the government consulted the social partners through the NAR (institutionalised bipartite council for negotiation which needs to be consulted on social reforms), the NAR (including the employers) took the same position as the unions. The NAR's rationale for rejecting the reform was the problem of high benefit dependency among employees older than 50. Increasing the retirement age from 60 to 65 would create funding shortfalls in other social benefit schemes (*De Standaard*, 14 and 19 January 1987). Moreover, unions argued that more favourable rules for women should remain in place because of gender discrimination in the labour market.

Soon after the government announced the details of the St. Anna plan in May 1986, the socialist trade union FGTB/ABVV responded with widespread demonstrations. The Christian trade union ACV/CSC was less confrontational but nevertheless joined the socialist unions in criticising the plan. The government backed down somewhat and proposed minor changes to the S^{t}. Anna plan in June, but the unions were not placated. The government modified the plan again (such as postponing the decision on statutory retirement age and the benefit formula for women) after another series of talks with the social partners, but the unions stuck to their opposition. After this round of concessions, the unions abandoned their strikes in the summer, and on 16 July 1986 the government enacted the watered down S^{t}. Anna Plan in a series of Royal Decrees. The question of the equalization of retirement ages, as well as a standard benefit formula for men and women, was not solved, however, and both would remain on the decision agenda for the next ten years.

The issue lay dormant until 1990, when the introduction of unisex rules for a flexible retirement age in 1990 was intended to prevent another challenge by the European Court of Justice (ECJ). In 1990, the government introduced a flexible retirement age that made men's and women's retirement age de facto equal. However, the benefit formula was still different for men and women (40 years of contributions for women and 45 years for men). This was considered discriminatory. Belgium wanted to keep the lower number of contribution years for women, but financial concerns meant that Belgium could not afford to apply this rule to men. The Minister of Pensions continued to argue that the 1990 legislation satisfied European legal requirements; at the same time, there was much public speculation, especially in the press, that the European Court would rule against Belgium because of different contribution periods for men and women (Anderson et al. 2007, 328). In July 1993 the European Court found Belgium in violation of directive 1979/7 concerning equal treatment in social security and instructed Belgium to change its legislation (*Le Soir*, January 6, 1995).

Belgium's EMU aspirations provided the political capital necessary to introduce the changes that had hitherto proven so difficult. In April 1996, the four largest parties in the Cabinet requested special powers from Parliament in order to adopt legislation enabling Belgium to meet the most difficult Maastricht convergence criterion: the 3% budget deficit target. The "Social Framework Law" adopted in July 1996 increased the reference period for women's pensions from 40 to 45 years. A second law passed on June 19, 1996 dealt with women's retirement age. The government agreed to gradually raise women's retirement age to 65 starting in 1997 so that by 2009 the retirement age is 65. Every three years it goes up by one year. In order to minimize negative effects, the rules for the minimum pension were relaxed somewhat (Anderson et al. 2007).

To summarize, Belgian adaptation to Directive 77/7/EEC was extremely slow, incorrect, and incomplete. Only after the ECJ found Belgium in violation of EC law twice was the government able to introduce the necessary changes. Moreover, it was the extraordinary policy-making opportunity provided by the run-up to EMU that facilitated the passage of legislation. It seems obvious that the multiple veto points in the Belgian political system provided opportunities for opponents to block policy change. And given the importance of the public pension in the retirement packages of most Belgian women, there was massive opposition. Unions promoted the cause of women and prevented two governments from making their planned changes.

Netherlands

Dutch political decision-making institutions are relatively centralized but the multiparty system produces multiparty cabinets. However, the Netherlands scores high on the Colomer scale, so we classify it as having few veto points. In terms of the structure of the pension system, two characteristics are relevant here. First, the Dutch public scheme provides a flat-rate (but relatively generous) benefit, and second, mandated occupational pensions provide the rest of retirement income for most people. The public pension (AOW) provides about half of retirement income and occupational pensions and private pensions provide the rest.[1] The low number of veto points and the relatively small size of the public pension sector make the Netherlands a case of 'likely" policy change according to our model.

The structure of the Dutch public pension scheme, like the Belgian, conflicted with the provisions of Directive 79/7/EEC on equal treatment in statutory social security schemes. Both the financing and the benefit structure of the AOW had been based on the breadwinner principle since its introduction in 1957. Only breadwinners paid AOW contributions (even if the spouse was employed), and at retirement the breadwinner (usually the husband) received a benefit intended for both spouses, while singles received an individual benefit (Anderson 2007).

Although the AOW's breadwinner structure attracted little criticism before the publication of the 1979 EU directive, Dutch policymakers set out quickly to modify existing social security schemes. The process was far from smooth: it took five years, and the government nearly missed the transposition deadline. In contrast to other parts of the social insurance system that violated EU equality law (like the breadwinner provisions in the unemployment insurance scheme), bringing the AOW in line with EU law did not require additional AOW pension spending and did not result in *direct* benefit cuts. There was, however, one distributional problem: some pensioners would receive smaller AOW pensions because of the indirect effects of the changes.

The governing coalition, Lubbers I, (Christian Democrats, CDA; and Liberals, VVD) decided to simply divide the AOW benefit for couples in half and pay an individual benefit to both spouses. Couples in which both spouses had reached the pension age experienced no losses. The question of how to deal with couples in which one spouse had not reached retirement age, however, proved to be very difficult.

In July 1981, the State Secretary for Social Affairs and Employment asked the Social Economic Council (SER) for an advisory opinion about how to adjust the AOW to conform to European law. The cabinet had already expressed its preference for a new AOW benefit structure giving single pensioners 70% and spouses 50% of the current benefit for married breadwinners. Married pensioners whose spouse was younger than 65 (and not entitled to the newly individualized benefit) would receive a supplement. In its advice, the SER sided with the cabinet but emphasized that the solution should be revenue-neutral (SER 1984).

The cabinet introduced its legislative proposal in late 1984. There was little disagreement about the core elements of the legislation (dividing the AOW benefit in two for couples, etc.) but it was difficult for Parliament to agree on what to do about AOW pensioners with a spouse younger than 65. In the old system, an AOW breadwinner pensioner included a benefit for the spouse, even if he/she was younger than 65. In order to prevent income losses for this group, the proposed legislation included a supplement for the spouse younger than 65. The difficult issue was how to treat spouses younger than 65 with earned income. If the younger spouse was not the breadwinner then he/she paid no AOW premiums and the spouse received the full AOW couple's pension. The original bill provided a 50% supplement (dependent on the income of the younger spouse) for AOW pensioners supporting a spouse younger than 65. After opposition, the income test was suspended for three years (*Financiële Dagblad*, 19 January 1985).

1 See Anderson (2007) and Haverland (2001) for details.

One of the governing parties, the VVD rejected income-testing of the supplement, proposing instead that pensioners with spouses younger than 65 receive the full AOW pension, regardless of the spouse's income. The Labour Party (PvdA) opposed this solution, arguing that it discouraged employment for the younger spouse. Instead, the PvdA proposed a longer transition period (five years) during which AOW pensioners with spouses under 65 would receive the full couple's benefit (*Financiële Dagblad*, 31 January 1985). The CDA and PvdA later agreed to modify the proposal by increasing the amount of income (of the younger spouse) not subject to the income test (*Financiële Dagblad*, 1 February 1985). The VVD responded with an amendment to exempt AOW spouses younger than 57 from the income test, but this attempt failed because of lack of support. On March 1 the Second Chamber adopted the CDA-PvdA version of the bill (*Financiële Dagblad*, March 2, 1985).[2]
The First Chamber nearly blocked the Second Chamber's compromise bill. Members of both the CDA and PvdA fractions in the First Chamber opposed the legislation because of the negative financial effects for AOW households with a spouse younger than 65 (*Financiële Dagblad*, 21 March 1985). The First Chamber finally approved the legislation.
To summarize, Dutch transposition of 79/7/EEC was slow, and the potential negative consequences for some households nearly prevented a compromise solution. Broadly speaking, the relatively low number of veto points in the Dutch system facilitated adaptation; interest groups did not take to the streets to protest potential losses for some households, as in Belgium. Consistent with our expectations about the effects of program structure, politicians appeared unwilling to risk punishment by voters; indeed, politicians tried to find a solution that would have few if any negative financial consequences for voters. However, this expectation applies to both pension systems dominated by public provision and systems (like the Dutch) in which public provision provides roughly half of retirement income. This suggests that even multi-pillar pension systems, which combine both public and private provision, are prone to the same sorts of political constraints that overwhelmingly public systems are.

4.2 EMU and Adaptational Pressure

Our second case of European pressure for reform is EMU. In terms of fiscal discipline, the Maastricht convergence criteria--later formalized in the Stability and Growth Pact-- create a powerful constraint on national policy choices (Kurzer 1993, Featherstone 2004). Market actors use the convergence criteria as a critical information shortcut when they make their investment decisions because governments themselves use them to guide policy. To the extent that pension schemes are perceived to contribute to unacceptable budget deficits, there may be pressures for pension reform in order to cut costs and restore budget balance. Implementation of the pact rests primarily on two pillars: the principle of multilateral surveillance of budgetary positions and the excessive deficit procedure.
This type of European pressure for reform differs from the binding constraints of EC law. In the run-up to EMU, the member states had to meet the Maastricht convergence criteria in order to 'qualify' for participation in the Eurozone, and the 3% budget deficit limit was a key constraint. However, member states were free to take whatever measures they deemed necessary to achieve the target; they could choose any combination of spending cuts and tax increases, as long as the target was met. Our expectation here is that in the member states facing substantial pressure to cut deficits, pension reform should have been a natural target because pension spending is typically the most expensive program in public budgets.
We focus on two countries that faced substantial pressure to reduce their deficits in the run-up to EMU: Belgium, and Italy. Both countries had deficits between 5 and 10% of GDP so

2 The final version awarded the full couple's AOW pension to the pensioner over 65 with a spouse under 65 without her own income. If the younger spouse had her own income, the supplement for the spouse was proportionally reduced.

they had a long way to go before they met the 3% target. Both countries adopted ambitious plans to reduce public spending, and surprisingly, pension reform was a key goal in both countries.

Italy

We classify the Italian political system as a case of moderately low veto points. Like the Netherlands, Italy has a score of 2 on the Colomer institutional pluralism index. As we noted earlier, public pension provision dominates retirement income, although many over the age of 65 continue to work. An important feature of the pension system was that the weakness of the pension system were widely acknowledged. In addition, there were many calls for reform in the 1980s where pensions, in particular, have figured prominently in debates about how to restore public finances (Sbragia 2001; Anderson 2002; Ferrera and Jessoula 2007).
In comparison with the other two case studies, Italy spends the highest proportion of GDP on pensions (see table 4). In 1960, pension spending was 5% of GDP, and grew to 14.9% of DGP in 1990. By 1999, Italy was spending 15.7 of GDP on pensions (Franco 2000). This high level of spending, combined with low fertility and already high levels of public debt made pension reform the centrepiece of reforms.

Table 4 Italy: public deficit (as %GDP)

year	Public deficit as %GDP
1993	-9.4
1994	-9.1
1995	-7.6
1996	-7.1
1997	-2.7
1998	-2.8
1999	-1.8
2000	-0.3

Source: OECD Economic Outlook, various years.

The years 1992-1997 saw several substantial reforms. The 1992 reform passed under the Amato government was one of the most important and had three broad aims: cost containment, reducing fraud and inefficiency and removing dysfunctional program aspects. The Amato reform came after decades of inaction and was the first major attempt to reduce pension expenditure. In brief, it increased the minimum contribution period from 15 to 20 years, tightened rules of seniority pensions and increased the retirement age for men (65) and women (60) in the private sector by five years. In addition, it included provisions for the gradual harmonisation of public and private sector pensions, introduced a more restrictive benefit formula and a shift from a wage indexing to price indexing, and increased contributions (Ferrera and Gualmini, 2000). Although the Amato reform was important for promoting harmonization and cost containment, its impact was limited because of long phase-in periods (Ferrera and Jessoula, 2007, 433).
It was, however, not before the 1995 Dini government that Italy continued its reform efforts in line with the first Amato reform package. Although the 1994 Berlusconi reforms intended to tackle issues such as seniority pensions, the level of benefits for older workers and the pension of current retirees, the reforms did more to promote the interests of employers than unions. Not surprisingly, the reforms failed (Ferrera and Jessoula 2007, 435).
In 1995, the Dini government adopted another major reform package. This ´revolutionary´ package (Ferrera and Gualmini, 2000) was more ambitious that previous legislation in three

respects: stabilising pension spending as a proportion of GDP, reducing inequity and removing labour market disincentives. On May 8, 1995, the government signed a formal agreement with the unions, which later polled workers to get their approval of the reform draft (Baccaro 2002). More specifically, it included, starting in 2013, the switch from defined benefits to defined contributions, standardization of public and private sector pension regulations, the gradual abolition of seniority pensions and the introduction of a flexible retirement age (Ferrera and Jessoula 2007).

In the end, the combined effect of these measures resulted in the cancellation of at least one fourth of net pension liabilities with the accumulated pension liabilities decreasing from 389% of GDP to 278% of GDP. Mainly three reasons put pension reform on the top of the political agenda (Anderson, 2002). First, the weakness of the Italian pension system were well-known and there was widespread doubt that the pension system could meet its future obligations without massive increases in contributions. Demographic trends alone were predicted to increase spending by 50% between the early 1990s (14%) to 2040 (23%). Second, the collapse of the party system in the wake of political scandals in the early 1990s (Tangentopoli scandal) created a window of opportunity for reform. But most important, the 1992-1995 reforms were substantially influenced by the EMU process. The deadlines for achieving the EMU convergence criteria created considerable pressure on the Italian authorities. According to one analyst, ´the misfit between Italian public finances and the Maastricht requirements was widely considered the most significant in the European Union´ (Sbragia 2001, 80). Indeed, it was widely feared that Italy would not qualify for the first round of EMU. Because of the very high mass and elite support for Italian EMU participation, the adaptational pressures from EMU were ´extraordinary´. As Ferrera and Gualmini argue, (2000, 204) ´the deadlines fixed at Maastricht in February 1992 forced Italy to make an immediate and radical effort to reform and correct its public finances in order to halt the growth of public debt.´

In sum, the success of the Italian pension reforms hinged on mainly two political factors. First, there was widespread agreement that the Italian pension system required significant reform. When pension reform began to be seen as an important element in Italy's quest to qualify for EMU, this helped to change preferences on the part of both the governing elite and the social partners. Unions were crucial actors in this process because their consent was considered indispensable. The potential benefit of Italian EMU participation, among others, persuaded union leaders to accept substantial reforms (Baccaro, 2002). Second, the collapse of the Italian party system at the end of the 1980s/beginning 1990s allowed reform-minded politicians to overcome traditional parliamentary obstacles. The Italian government negotiated directly with the social partners and convinced the unions of the benefits of adjustment and long-term advantages of sound finances in particular. The growing debt burden of the Italian state would not only threaten EMU entry but also divert more and more resources from social insurance spending. In sum, adaptational pressures from EMU and persuasion through a negotiated policy making style helped unions to accept pension cuts in order to reduce debt payments by the state and to enable political actors to overcome the otherwise considerable electoral risks associated with pension reform.

<u>Belgium</u>

The link between pension reform in Belgium and the goal of qualifying for EMU is less well-known than the Italian case, but the two cases share striking similarities. In both cases, qualifying for EMU was defined as a national project requiring extraordinary policymaking. To borrow from Kingdon (2003), EMU created a huge window for reform.

Qualifying for EMU dominated Belgian politics in the mid-1990s. Like Italy, Belgium suffered from recurring budget deficits since the 1970s. Between 1975 and 1990 general government net lending hovered between 5 and 10% of GDP. More ominously, net general government debt as percent of GDP reached the 100% mark in the mid 1980s and reached 124% of GDP by 1994. In order to qualify for the third state of EMU, Belgian governments would have to substantially change fiscal policy.

The Dehaene II government (Christian Democrats and Socialists) took office after early elections were held on May 21, 1995 to strengthen the government's budget consolidation efforts.[3] Two core elements of the government's strategy were social security reform and a new law on competitiveness. By this time, the Prime Minister Dehaene acknowledged the serious decline in the pension system's earnings replacement function. In order to compensate for the declining value of the public pensions, employees and employers were encouraged to improve supplementary pensions. At the same time, the campaign to qualify for EMU would provide the government with the political resources necessary to secure approval for several of its pension reform goals.

In April 1996 the cabinet requested "special powers" from Parliament in order to legislate framework laws in three areas: government finances; modernization of social security; and employment). The government's strategy was obvious: this fast-track procedure would sidestep direct opposition and speed up decision-making. The framework laws contained the broad outlines of policy, with the details specified in royal decrees. In concrete terms the government requested permission to take all necessary measures needed in order to reduce the deficit to 3% and to guarantee the financial balance of the social security system, including pensions. The opposition's criticism of the government's strategy had little effect, and discussion of the three laws in the lower chamber began on June 12. Six weeks later the lower chamber had approved all three framework laws.

There were two main framework laws. First, the "EMU Law" gave the government until August 31, 1997 the authority to adopt a broad range of fiscal policy measures necessary to enable Belgium to join EMU as long as low-income groups were protected and the measures did not conflict with efforts under way to modernize other parts of the social security system. Second, the "Social Framework Law" included measures to modernize the social security system so that it more effectively combined the goals of social insurance and solidarity, This included measures to strengthen the financing side, introduce alternative methods of financing, improve administration and reduce fraud. The right to the minimum pension was also expanded. The framework law gave the government the power to take any and all decisions it deemed necessary to reach these goals.

The role of EMU membership was a crucial factor allowing the government to gain passage of social insurance and pension reform. As the Governor of the Central Bank, Fons Verplaetse, put it: "if Belgium misses the train for the European common currency, the unity of the country is endangered." (de Weerdt, 1997)

Table 5 Budget deficit: reference value: -3.0% of GDP

	1995	1996	1997	1998	1999	2000	2001	2004 [a]
Belgium	-4.2	-3.7	-2.1	-0.8	-0.5	0.1	0.4 (0.2)	0.4
Italy	-8.2	-7.0	-2.7	-2.8	-1.7	-0.6 (-1.8)	-2.6	-2.8
EU15	-5.3	-4.1	-2.5	-1.7	-0.7	0.9 (-0.3)	-0.9	-2.6
Euro area	-5.3	-4.2	-2.6	-2.2	-1.3	0.1 (-1.0)	-1.6	-2.7

a Figures based on www.eurostat.eu and economic forecasting by the Commission, autumn 2003. The exceptional revenue from UMTS licences had a significant impact on some Member States' budget deficits in 2000-2002. In these cases, the figure between brackets indicates the deficit without this additional revenue.

3 This was the first election after the constitutional reform. New laws such as those on the reduced assembly size of parliament, three new regional parliaments, and separate competences between federal and subnational levels of government had come into force in the past period.

5 Discussion

Obviously our four case studies are not a complete test of the model, so our results are only suggestive. The case studies show that our model of domestic adaptation to European pressures for change is only moderately successful in explaining outcomes. The two cases of domestic adaptation to the requirements of Directive 79/7/EEC broadly confirm our expectations. The multiple veto points of the Belgian political system and the entrenched and influential interests attached to the public pension system made policy change difficult and slow. Only after Belgium was hauled into European court on two occasions were the necessary changes made. This suggests that even when European adaptational pressures are very strong, domestic institutional variables may still impede and/or slow down policy change. Our expectation for the Dutch case is broadly confirmed; domestic adaptation was correct and punctual, but the processes of negotiating adaptation was fraught with difficulties, largely because of potential negative financial consequences for some households. The low number of veto points and the more limited extent of public provision in the Netherlands should have facilitated adaptation because the preferences of organized interests should not have been as intense as in Belgium and the political system offers fewer veto opportunities. We find that this explanation only explains part of the Dutch story.

We argued that our model should be capable of explaining domestic adaptation to both strong/direct pressures for change as well as indirect/diffuse pressures for change such as those created by the Maastricht budget deficit limit of 3%. Our two cases of domestic adaptation to the deficit target demonstrate the limits of our model. In the Belgian case, our model predicts less adaptation than actually occurred because the Belgian political system is full of veto points, and the maturity and scope of the public pension system mean that organized interests have intense preferences about preserving the status quo. In other words, we should not have seen as much pension reform in Belgium. The Italian case also causes problems for our model. Although not as veto-prone as Belgium, the scope and maturity of the public pension system should have made reform more difficult for vote-seeking politicians afraid of electoral risks.

How do we reconcile these findings with our model? The obvious answer is that the run-up to EMU was an extraordinary episode in the history of European integration, and basically the only period in which the EMU constraint is likely to substantially influence domestic fiscal policies. Indeed, the recent weakening of the Stability and Growth Pact at the behest of Germany and France confirm this line of argument. This suggests that the reform pressures emanating from EMU in the years immediately prior to 1998 are unlikely to be repeated. To be sure, EMU is still a constraint, but it is a shadow of its former self.

6 Conclusion

What do our findings suggest for the study of domestic adaptation to Europe? First, we want to emphasize the value of using carefully constructed theoretical arguments drawn from the literatures on comparative politics and public policy to explain domestic adaptation to European integration. If our goal is to understand how national governments adapt policies and practices to European requirements, however these are defined, it makes sense to start by asking what the existing literatures in specific policy fields or areas have to say about change. For social policy this means looking at the welfare state literature; for environmental policy this means drawing on insights from existing studies of national environmental policymaking. It is not clear from the existing Europeanization literature that there is any added value in constructing ad hoc explanations for domestic adaptation. And if national adjustment is basically a domestic political game, it makes sense to use our existing models of institutional change to explain adaptation to Europe.

We think that our analysis demonstrates the utility of drawing on existing explanations of policy change, even if our results were not always in line with expectations. We have shown that our model broadly explains the dynamics of change in the Belgian and Dutch implementation of Directive 79/7/EEC and is partially successful in explaining the Italian and Belgian pension reforms in the run-up to EMU.

Finally, we want to stress the importance of comparing national adaptations to different kinds of European pressures. If our models of domestic adaptation are any good, they should be able to explain not just the transposition of directives, but also the ways in which member states adapt to the requirements of the Stability and Growth Pact, the completion of the internal market, and other types of reform pressures.

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