European University Institute

DEPARTMENT OF POLITICAL AND SOCIAL SCIENCES

The Politics of a Broken Promise:

Risk shifting Reforms in Bismarckian Pension Policies

Furio Stamati

Thesis submitted for assessment with a view to obtaining the degree of Doctor of Political and Social Sciences of the European University Institute

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Examining Board

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Abstract

This thesis deals with a broken promise: namely, a broken pension promise. Looking at Italy and Germany in particular, it tells a story that is fairly common to retirement systems across the OECD. Over the last forty years, pension institutions have been facing major economic and demographic challenges. This 'affordability crisis' has slowly eroded the confidence of large segments of the population in the old pension contract, while paving the way for the anti-welfare rhetoric and initiatives of more than a conservative policy entrepreneur. Cost containment reforms took root and clamped down on pension spending and, what is more, on public responsibility for individual welfare after quiescence. As a result, pension income is lower and riskier now than was expected when today's pensioners entered the labour market. Most notably, it will be even more meagre and uncertain for tomorrow's retirees. By comparing the Italian and German reform patterns, this thesis suggests that answering the puzzle requires focusing on two sets of interrelated transformations: the prominence of so-called 'systemic risks' and the changing ways of political representation.

Risks hereby defined as 'systemic'first emerged in Western political economies in the 1970s, only to turn into a recurring malaise during the following decades (Streeck 2011). Unlike the risks central to the post-war welfare state model, they far outreach the individual level, being borne by the community or by society as a whole. Furthermore, those risks proved somehow resilient to traditional means of public intervention and management. Systemic risks, in sum, have originated a distinctive combination of functional and political effects, ultimately providing a functional as well as a political rationale to risk shifting reforms. Again, since the 1970s political representation has also changed. On the one side, the traditional mass party model has been replaced by new organisational forms, while new parties and party families have emerged, activating novel issues and cleavages. On the other side, industrial representation in the corporate arena changed as well, becoming less organised all over the industrialised world. Systemic risks, then, have further influenced transformations in both the electoral and the corporate arenas, further eroding the political consensus for expanding social responsibility and socialising risks.

It was, in other words, the co-evolution of problems and politics (to put it in Kingdon's terms) to lead popular and strongly institutionalised pension systems to challenge the basic tenets of their pension promises, although this common story played out very differently across different countries as a result of the action of national institutional filters (policy legacies and the functioning of the electoral and corporate arenas).

To my Family

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Acknowledgments

As Jakob Hacker said in a book I am just about to cite a lot, “in writing a book about risk, the greatest risk is getting lost”. It must be true, since, in writing this dissertation, I got lost again and again. Although I am the only person responsible for the worth of my wanderings, my thesis is not just an individual exercise, but an achivement for which I have many many people to thank.

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1. Introduction

This thesis deals with a broken promise: namely, a broken pension promise. Looking at Italy and Germany in particular, it tells a story that is fairly common to retirement systems across the OECD. The postwar pension model, bonding capitalism and democracy with a blend of public responsibility and intergenerational risk-sharing, is no more on policymakers' radar screens. Over the last forty years, pension institutions have been facing major economic and demographic challenges. This 'affordability crisis' has slowly eroded the confidence of large segments of the population in the old pension contract, while paving the way for the anti-welfare rhetoric and initiatives of more than a conservative policy entrepreneur. To the surprise of almost an entire generation of pension scholars, cost containment reforms took root and clamped deep down on pension spending and, what is more, on public responsibility for individual welfare after quiescence. In most countries that once boasted a generous and encompassing pension system, therefore, one can now find a mix of reformed and brand new institutions. As a result, pension income is lower and riskier now than was expected when today's pensioners entered the labour market. Most notably, it will be even more meagre and uncertain for tomorrow's retirees.

Even if some scholars and commentators happen to downplay the impact of the affordability challenge or to minimize its consequences, the adoption of some kind of subtractive reform should be no surprise. True, reforming pensions is difficult because everybody has a stake in it (Myles and Pierson 2001). Even in the United States, the motherland of neo-liberal economic ideas, Social Security is considered the third-rail of American politics (Weaver 2011). Those who dare to touch it just run towards an electoral shocking grasp. Precisely because everybody has a stake in it, however, there is no reason to believe that responsible governments in advanced capitalist democracies should let them go bankrupt whenever the reality of its crisis becomes apparent. It is easy to understand that, at least initially, national public opinions might have been sceptical about the state's sudden inability to live up to its latest pension promises. Even easier to imagine is the hostile reaction of voters and unions to the first cost-cutting (or 'subtractive') measures.

However, with the passing of time and the worsening of economic outlooks across the OECD, there is no reason to believe that pension stakeholders have not updated their beliefs about the affordability crisis. Moreover, as many scholars of social policy suggested, the very fact that subtractive measures have been taken or proposed by left-wing governments – hardly fond of welfare cuts per se – may itself bring the public opinion to a cognitive reorientation (on the 'Nixon-in-China' argument see Ross 2000). In sum, that many advanced welfare democracies may have reined in pension expenditure is certainly an intellectually fascinating phenomenon, but not a genuine conundrum. The counterfactual is that these political economies would have run lightheartedly towards some kind of pension default. This is not what we know about democratic policy-making: a form of government that, albeit imperfect, has been quite successful in guaranteeing the politico-economic survivability of its most important institutions (see Dahl 1982; Lijphart 1999).

Yet, breaking the pension promise is not a straightforward task. The simplicity of anti-crisis measures immediately disappears as soon as one looks beyond the magnitude of spending cuts and tries to account for the content of cost-containment packages in some detail (Arza and Kohli 2009). Packages of benefit cuts responsibly taken to save popular programmes for the sake of insurance and redistribution are simply nowhere to be found, not even in social-democratic Sweden. The strategy undertaken to save these pension systems has been a different and most unlikely one: to reduce not only their generosity but rather the amount of insurance and socialization of risks they provided. This is an outcome whose rationale is far less clear-cut. The final wage model that used to guarantee high replacement rates at retirement has been largely replaced by an average wage approach, much less forgiving toward periods of unemployment or underemployment. Pension benefits, once indexed to wages, are increasingly uprated in line with just prices, and sometimes even in an incomplete manner. Finally, even systemic risks related to demographic and macroeconomic dynamics largely outside individual control are shifted onto workers and pensioners (see Hinrichs and Jessoula 2012 for a comprehensive analysis of recent changes in the work-pension nexus).

Such a shift, not cost-containment per se, is the outcome that this thesis tries to explain. Why do we see these retirement-related risks being transferred onto individuals and families by the same social programs created to protect them? Is this just a consequence of the affordability crisis? Or is it to be blamed on conservatively minded elites, who took advantage of the latter to denature a policy they have always opposed (Hacker 2002)? Or, if not, what prevented pension policymakers and stakeholders to respond to the new economic constraints with a more progressive – and less individualised – distribution of the costs? Concerned more abstractly with explaining stability or change, the vast literature on pension reforms offers no clear-cut answers to these questions.

Subtractive reforms (and their outcomes) are conceptualised with highly generic terms, such as retrenchment (Pierson 2001) and risk privatization (Hacker 2008), but also recalibration (see Ferrera, Hemerijck and Rhodes 2000) or dualization (Emmenegger *et al.* 2012). All these concepts identify a combination of policy and political change, characterizing it against a normative evaluation of the status quo and of its defining features: stability or obsolescence, security or unsustainability, inclusion or exclusion. From this same literature we know that change, however defined, is difficult and unlikely, but that nonetheless it occurs (Schludi 2005). Moreover, we learn that complex negotiations determine which groups and demands should gain or lose from the reforms, sometimes bringing about more radical changes than initially expected (Natali and Rhodes 2009; Häusermann 2010). However, most contributions in the field contrast the changes and reforms they want to explain with the unrealistic counterfactual of stability (Overbye 2008); whereas, I contend, the most plausible alternative scenario would be a less path-breaking kind of institutional reform (see Ebbinghaus 2009). For this reason, they are of only limited use for explaining why and how policymakers decided to alter the social distribution of retirement risks.

1.1 The dependent variable

Intuitive at first sight, the idea of a risk being shifted – that is, redistributed within society – is nonetheless hard to define and operationalize. Jacob Hacker (2004; 2008) has been the first to introduce the terms 'privatization of risk' and 'risk shift'. The first can be interpreted as a very broad type of policy change, while the second indicates a resulting demise of public responsibility for individual welfare.[1] Hacker explains them as the result of perverse institutional incentives within the US polity and the agency of a well-organized conservative front within the national elite (Hacker 2008; see also Hacker and Pierson 2005).

Unfortunately, Hacker's analytical framework does not answer some fundamental questions that would help assess the plausibility of his argument. First of all, a wide literature clearly indicates that income volatility is not equivalent to risk. This goes without saying that changes and trends in its indicators are even harder to interpret in terms of risks or, more specifically, 'social risks'. Most notably, interpreting volatility increases as evidence of a risk shift implies a set of strong assumptions. The boldest of them is that, in principles, existing welfare institutions could have adapted to new challenges and demands, which implies that the 'risk shift' must originate in the realm of political choice (Hacker 2004:251). While I hold this claim dubious even in the US case, it is certainly untenable in any other advanced welfare state. Also the broader notion of 'privatization of risk' is too vague to help answering my question. Analysing changes in risk sharing within a single policy requires, in fact, a far more precise evaluation of parametric revision than the 'risk shift' literature

[1] The notion he proposes encompasses formal cuts as well as less visible forms of retrenchment and can be interpreted equally well as a policy trajectory or a political strategy. At the same time, Hacker uses the (rather loosely defined) term 'risk shift' to indicate the overall outcome of the 'privatization of risk' on the US welfare model. Thus, by 'risk shift' he actually means that public responsibility for the stability of income patterns is decreasing. Contrary to his own in-depth analysis, however, his definition makes little reference to changes in how welfare programs work.

provides. In order to carry out a comparative analysis, I need to take part with Hacker's conceptualization.

To begin with, I take a step back from outcomes to focus more closely on qualitative aspects of social legislation. In order to examine legislative innovations, I conceptualize two categories of ideal-typical subtractive reforms: 'Insurance-reducing' and 'Reward-reducing' (see Table 1.1). The former targets a specific financial guarantee offered by the policy (such as pension credits or price indexation) and implies an uncertain loss, determined for example by an automatic stabiliser. The latter, instead, consists of a sure and statutorily determined reduction in the financial return on contribution provided by the scheme. Coming as either higher payroll taxes or benefit cuts, reward-reducing reforms do not alter existing financial guarantees or program functions. In particular, they bear little or no impact on the indexation of benefits (at least in the long term, see below) and on the role of pension credits, statutory discount rates, or favourable wage-assessment rules in the accumulation and revaluation of contributions.

Table 1.1 – Functional and distributional targets of subtractive reforms

		Functional target (*reform category*)	
		Return on contribution (*Reward-reducing*)	Financial guarantees (*Insurance-reducing*)
Distributional target (*cost diffusion*)	Across-the-board (*diffused*)	*Retrenching*	*Risk-stabilising*
	Selective (*concentrated*)	*Levelling-off*	*Risk shifting*

Considering their distributional target (that is, the diffusion of their costs, set by the policymakers) it is possible to further distinguish between *Retrenching* and *Levelling-off* reforms within the 'Reward-reducing' category, and between *Risk-stabilising* and *Risk shifting* reforms within the 'Insurance-reducing' category.

The rationale of the four reform concepts will become clearer after discussing some idealtypical (that is, implausibly extreme) outcomes following their enactment. A most extreme form of *retrenching* reforms would be the abolition of social insurance and its reduction to systems composed by means-tested public benefits[2] and benevolent employer provisions. Radical *levelling-off* reforms would bring all the different existing rules down to a nationwide scheme[3] and complement it with

[2] Entitlement to the scheme (on the basis of citizenship or contributions) would then depend on the overall Beveridgean or Bismarckian orientation of the pension system.

[3] The level of horizontal redistribution in that scheme would then depend on the overall Beveridgean or Bismarckian orientation of the pension system.

(strictly regulated) mandatory private top-ups. While the recently introduced stabilizers of the German pension formula come close to the ideal type of *risk-stabilising* reforms, collectively investing public pension assets in the private market (as debated in the US under the Clinton administration) would also be a case in point.[4] Finally, a full-blown (and lightly regulated) privatisation of social insurance funds would best fit the *risk shifting* rationale. Nonetheless, the adoption of a notional defined contribution system coupled with strictly defined contribution top-ups (as in Italy) also comes close to the ideal type.

So, my own take on understanding the redistribution of retirement risks is to explain why policymakers have occasionally pursued innovative 'insurance-reducing' reforms rather than cost-containment through *retrenching* or *levelling-off* measures. Contrary to Hacker and other scholars, I am not trying to explain why these pension systems experienced some kind of subtractive reform or reduced their level of public responsibility for retirement. I think this question is simply too vague, trivial even, if posed outside the US case. This is especially the case of countries like Italy, where pension spending patterns had already become manifestly unsustainable by the 1980s.

Table 1.2 – Insurance-reducing reforms:

Policy settings / **Risk shift**	**Function**	**Examples of risk shifting reforms**
Shift of labour market risks	Accumulation	Benefits brought closer to past wage patterns;
Shift of investment risks	Revaluation	Benefits brought closer to past accruals and interest rate patterns;
Shift of depreciation and demographic risks	Dynamization	Delayed, reduced or negative indexation; Idyosincratic shocks on annuitization;

Still, the distinction above falls short of defining *risk-stabilising* and *risk shifting* reforms in full.[5] Table 1.2 illustrates how I reduced the complexity of the issue and which reforms I call 'insurance-reducing'. Taken together, they provide the operational definition of the 'retirement risk shift'. Leaving political risk in the background, I look for a conceptualization valid across public and private pension schemes. Within a Bismarckian system (see Ebbinghaus 2011), pensions depend on the accumulation of wage contributions and the way they are revaluated and made dynamic after quiescence. Contributions are affected by labour market-related risks such as unemployment,

[4] Regulatory details are very important when assessing reform outcomes on the basis of such a typology, and this holds so much more for both *Levelling-off* and *Risk-stabilising* reforms. The regulatory power of the state is assumed to be either unnecessary or very limited in idealtypical cases of *Retrenching* and *Risk shifting* reforms.

[5] What is, then, a risk shifting pension reform? Answering the question is complicated by the nature of risk itself (risks are difficult to define once and for all and set out clearly one vis-à-vis another) and the detailed typologies offered by pension economists. In the literature, retirement risks range from very specific notions (e.g. the currency risk faced by pension portfolios invested abroad) to vaguer concepts such as the 'political risk' of undergoing yet another reform.

underemployment, or belated employment and other uncertainties connected to the wage pattern. Revaluation and dynamization can instead be conceived as an investment in the promise made by the pension sponsor (the state or the employer). In all cases, risk shifting reforms do not just reduce pension spending. Most notably, they stabilize spending patterns. It should be clear by now that they achieve 'expenditure stability' by shifting the effects of uncertainty away from the aggregate (corporate or public) pension bill to individual pension benefits.

Basically, risk shifting reforms dealing with accumulation make benefit levels more dependent on the timing and direction of individual wage patterns. Similarly, risk shifting reforms dealing with pension revaluation make benefits more dependent on individual pension accruals and the interest rates used to keep them at pace with time. Risk shifting reforms dealing with pension dynamization are different and easier to grasp. In some instances, they tune down financial guarantees on the stability of pension income over time. This is the case of permanent reductions in price or wage indexation (temporary freezes are usually presented as emergency measures, more akin to ordinary benefit cuts).[6] Alternatively, a more explicit negative indexation is introduced, for example as a corrective for adverse demographic trends. Finally, both fluctuations in the market price of annuity products on the financial markets and the revision of annuity divisors[7] in defined contribution schemes are examples of idyosincratic risks posed on annuitization.[8]

Even if most real world reforms are a mix of both, I will show that either side of the trade-off activates a different politics of reform, with different opportunities for political blame avoidance and credit claiming. [9]

1.2 Argument of the thesis

Mono-causal theories are of little use to explain the occurrence of insurance-reducing reforms.[10] I contend that the answer to this key question is not traceable, for example, to the agency of

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[6] Here I depart from most studies, which consider reductions in indexation as mere delayed cuts.

[7] Especially if divisors are age based rather than cohort based.

[8] Annuitization means the operation of disbursing accumulated pension claims in a lifelong stream of monthly benefits. It is most commonly achieved by buying on the market an annuity commensurate to the accruals.

[9] For instance, I am well aware that, at one extreme, flat across-the-board cuts would severely impact benefit adequacy and old-age poverty levels. Scholars interested in these questions might find Hacker's approach more useful. To be sure, I am not arguing that 'retrenching reforms' do not imply a reduction in public responsibility for the social welfare of pensioners. What my conceptualization points at instead, is an overlooked trade-off in the politics of subtractive pension reforms. The first option in the trade off is to make pensions less generous by acting on benefit levels or the return on contribution. The alternative option is to make them more vulnerable to external shocks by writing off financial guarantees from the pension contract.

conservative policymakers or to the declining power resources of the traditional supporters of the welfare state. Nor it can be found looking solely at secular changes in the preferences of the general public – becoming more individualistic or risk-seeking – or simply at the impact of neo-liberal economic ideas on domestic policy processes. A plausible explanation must take into account functional pressures as well as political dynamics. If a sound understanding of the reform process is to be achieved, policymakers have to be represented as facing both opportunities and constraints, posed by a set of structural, ideational, and institutional factors.

Such a configurative reading, I acknowledge, is typical of neo-institutionalist theories of the policy process. Yet, this does not mean turning back to Pierson's 'New politics', with all its determinism and its concern with policy stability. By comparing the Italian and German reform patterns, this thesis suggests that answering the puzzle requires focusing on two sets of interrelated transformations: the prominence of so-called 'systemic risks' and the changing ways of political representation.

As regards the first, risks hereby defined as 'systemic' first emerged in Western political economies in the 1970s, only to turn into a recurring malaise during the following decades (Streeck 2011). Systemic risks do not only include high inflation, mounting public debt, and mass unemployment, but also increasing pollution, outstanding political corruption, and the outbreak of domestic political violence. Although these risks have substantively little in common, two key features hold them together. First, unlike the risks central to the post-war welfare state model, they far outreach the individual level, being borne by the community or by society as a whole (Beck 1992;

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[10] Functionalism, power resources theory, and the neo-institutionalist 'New politics of the welfare state' already have difficulties explaining why or when pensions undergo subtractive legislation. They remain even more silent on the particular success of risk shifting reforms. Less structural-deterministic arguments and actor-centred variants of neo-institutionalism offer a more sophisticated picture. However, their narratives are riddled by voluntarism and often reveal strong normative standpoints. Culturalist explanations, instead, would either point at the diffusion of an individualist ethos or to a persisting divergence based on national cultural specificities. Whereas the latter looks completely mistaken, the former interpretation could be true if politicians were inclined to claim electoral credit for large scale pension privatizations. Unfortunately, evidence runs in the opposite direction.

Business-centred explanations, including the Varieties of Capitalism (VoC) framework remind us of the subtleties of employers' social policy preferences and of the role of skill specificity in this matter. This approach looks very promising when dealing with changes in occupational pensions. Unfortunately, skill-specificity and firms' competition to secure the most productive workers seem irrelevant for the demise of DB plans in each country and, in the VoC case, completely at odds with evidence of cross country convergence. Finally, explaining the technicalities of pension policy change is obviously impossible without referring to the role and content of economic ideas. However, explanations resting solely on ideational arguments provide a far-fetched account. Most economic research, while sceptical of their generosity, acknowledges the market-correcting effect of traditional, risk pooling pension programs. Moreover, national debates show no evidence of new bipartisan beliefs systems or policy blueprints able to remove politics from the picture.

Finally, on could look for a more substantial embodiment of the neo-liberal agenda in the agency of International Organizations such as the IMF or the World Bank. Comparative scholars generally agree, however, that their influence has been rather weak in economically advanced countries. In sum, ideas always matter, and it is clearly the case for risk shifting reforms as well. However, one can trace their effects only through the filter of domestic processes of cooperation and conflict: factors that, on their turn, offer a greater causal leverage and a better explanation.

Holzmann and Jørgensen 2001). Consequently, the room for redistribution between individual winners and losers is rather limited or non-existent. Second, those risks proved somehow resilient to traditional means of public intervention and management, which thus came to be reinterpreted as replicators, not to mention causes, of the very ills they were meant to cure. Systemic risks, in sum, have originated a distinctive combination of functional and political effects, ultimately providing a functional as well as a political rationale to risk shifting reforms.

As regards the second phenomenon, once again since the 1970s, political representation has changed in both the electoral and the corporate arena. On the one side, the traditional mass party model has been replaced by new organisational forms, famously captured by the *catch-all* or the *cartel* models of party organisation (Katz and Mair 2009; 1995). Moreover, new parties and party families have emerged, bringing new issues into political competition or even activating novel political cleavages (Elff 2009; Bornschier 2009; Kriesi 2010). On the other side, industrial representation in the corporate arena also changed, as capitalism has become less and less organised all over the industrialised world. Organised labour and capital have lost a great part of their willingness and ability to advance politically crafted solutions to structural economic problems. Finally, systemic risks have decisively influenced transformations in both the electoral and the corporate arenas, further eroding the political consensus for expanding social responsibility and socialising risks.

It was, in other words, the co-evolution of problems and politics (to put it in Kingdon's (1995) terms) to lead popular and strongly institutionalised pension systems to challenge the basic tenets of their pension promises. Of course, this common story played out very differently across different countries, as a result of the action of national institutional filters (policy legacies and the functioning of the electoral and corporate arenas). What follows is a brief recognition of how each country features in the broader panorama of my thesis.

Italy is a strong supporting case for my argument. It features an occupation-based pension system characterized by high redistributive ambitions (generous benefits as well as strong financial guarantees) that has been recast by a mix of sweeping retrenching and risk shifting reforms. The two pillars of such processes have been the emergence of systemic risks, bringing about disenchantment with the functioning of the Italian state and welfare state, and the agency of two medium-sized parties with strong coalitional power and cross-cutting constituencies: Craxi's socialist party (1980-1993) and the regionalist Northern League (1994-2008).

Exploiting their peculiar credit claiming opportunities, unavailable to their catch-all competitors, these two parties called into question the features of the old pension contract that were most unfavourable to their core constituencies. They did so by decisively promoting risk shifting over retrenching reforms, and progressively discouraged risk pooling in the corporate arena as well. As a result, the Italian 'pension state' first lost the support of the socialists and then met the autonomist suggestions of a more composite Northern middle class. While trust in Italy's polity was getting lower and lower (a path leading to questioning unification itself), its redistributive patterns became discomforting for those same middle class constituencies it had contributed to create (Biorcio 1999). Past the critical juncture of the 1970s, risk pooling in the Italian pension system suffered a fatal political defeat, resulting in its outright collapse.

Alternative explanations focusing on Italy's exceptionalism (the country is often described as institutionally flawed and nearly irreformable) (Cotta and Isernia 1996; Ginsborg 2001) or on the equally exceptional reformist surge of the 1990s (see Ferrera and Gualmini 2004), fail to account for both the contradictions and the continuities of its reform pattern. My narrative, instead, elucidates how (and to whose advantage) the reforms played out in political competition, possibly filling a substantial gap in the literature on Italy. Second, my account also shows how systemic risks fostered popular dissatisfaction with Italy's post war socio-economic model, resulting in unexpected amounts of political capital for risk shifting pension reforms. In this account, even the initiatives of the so-called 'technocratic governments' of the 1990s fall within the context of a longer, slow moving adaptation of the Italian pension politics.

Germany features instead as a much milder case of risk-shift than Italy, both with regard to the public and private pillars of the pension system. In both sectors, German pensions started with far more conservative ambitions, both in terms of benefit levels and financial guarantees. A pioneer of pension spending cuts back in the 1980s, Germany adopted a more balanced mix of retrenching and risk shifting reforms. In comparative terms, the German pension system retained most of its original risk-pooling features, while considerably scaling down its social responsibility for status maintenance after quiescence (Hinrichs 2010; Rüb and Lamping 2010). These outcomes are neatly traceable to the far less disrupting impact of systemic risks on the German political economy and political culture as well as to the much greater resilience of its electoral and industrial organisations and practices.

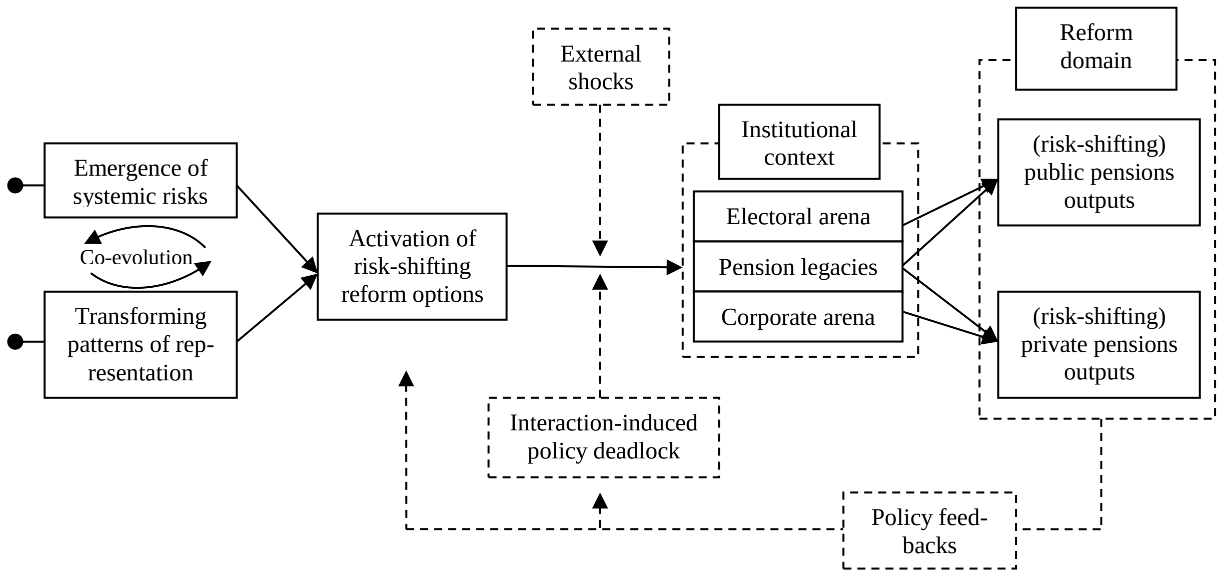
There is no doubt that the turbulence of the 1970s in Germany as well put in motion a major reconfiguration of mainstream party politics and the slow hollowing out of its peculiarly consensual industrial relations. The story is similar to the Italian case as one considers how the agency of the liberal FDP (Freie Demokratische Partei, Free Democratic Party), subject to strong competitive pressures, reshaped Germany's party system and political supply (Niedermayer 2010) or how the radical challenge of Die Grünen (the Western German greens) was later absorbed by the system and channelled in a path-breaking pension reform (Häusermann 2010). Acting as homologues of the Italian socialists and regionalists, the German liberals and greens sought an electoral advantage by calling into question the old patterns of risk distribution. While never campaigning in favour of a full-blown risk shift, the two parties decisively contributed to reducing the room for risk-socialising solutions to the affordability crisis. Finally, the surprising parallelism between the agency of the German greens and of the Italian 'leghisti' in revising the pension policy supply is also indicative of the far reaching consequences of slow moving transformations in the party system. So, whereas traditional people's parties – the old welfare supporters – strive for reducing their political responsibilities for social welfare, staging what Blyth and Katz (2005) called 'the political economy of the cartel party', their more radical competitors do not necessarily act as welfare populists. On the contrary, they instead bring about a new and even more effective critique of the old pension promise.

At the same time, the remarkable similarity of the two national reform patterns elucidates what really made Germany so different from Italy. First of all, one sees the opposing nature of the environmentalist and regionalist ideology, as well as the neater and more centripetal characteristics of political competition in Germany. Second, the greater continuity of the German political culture and the smoother inclusion of systemic risks in the German political supply is apparent, which produced more continuity in the politics, resulting in more continuity also at the policy level. On top of this, the functional – rather than dysfunctional – unfolding of national industrial relations, fairly well insulated the old private pension system from the reformist attempts of the red-green coalition (Estevez-Abe and Heinrich 2013). Putting both elements into perspective, one can conclude that the room for rewriting the old pension promise was much more limited in Germany than in Italy, both in the public and the private sector of the pension system.

In a nutshell, not only the nature of policy problems confronting these two pension systems have changed, but also the constellations of political actors meant to address them are now different than during the consolidation and expansion of the traditional welfare model. This thesis contends that both changing problems and changing politics occurred in such a way that insurance-reducing reforms have become easier than one would expect. In particular, changing the social distribution of retirement risks has become easier to do than enacting far less path-breaking sorts of cost-containment reforms. Notwithstanding endless decisional stalemates, the role of market-based provisions has been expanded, and the difference between them and public programs reduced. New political parties, challenging the ineffectiveness of the traditional party system, have managed to use risk shifting reforms of public pensions as a way to change redistributive dynamics unfavourable to their core constituencies. At the same time, organised capital and labour found it difficult to support the degree of cooperation and long term commitments required for firm-sponsored risk pooling.

While the final outcomes of this process vary widely in different political economies by virtue of their national institutions and legacies, the basic pattern, as represented in Figure 1.1, holds fairly well across the board.

Figure 1.1 – The pattern of (risk-shifting) pension reforms



1.3 Structure of the thesis

The thesis is structured in five chapters, including this introduction. Chapter 2 is divided in two main sections. The first provides a general introduction to the study and current setup of pension systems across the OECD, while the second discusses existing approaches to the study of risk-sharing and risk individualisation. Chapter 3, also divided in two country sections, offers an in-depth study of the pension reform patterns that emerged in Italy and Germany over the period 1977-2007, with an assessment of their consequences in terms of reward-reducing and insurance-reducing reforms. Chapter 4 contains the two analytical narratives, presented in a broadly comparative fashion. Chapter 5 offers conclusions.

2. Pension Policies and the Issue of Retirement Risks

Introduction

This chapter provides a basic primer for the study of comparative pension policies and for scholarly approaches to the issue of social risks. Accordingly, it is structured in two parts. The first provides descriptive statistics on relevant dimensions of OECD pension systems, such as their structure, financing, and generosity. It mainly relies on briefly commented figures to point to the specificities of the Italian and German pension systems.

The second part discusses several methodological and conceptual issues confronting the study of recent welfare reforms from the vantage point of the 'privatization of risk'. Looking mainly at the current American scholarly debate, it points to the lack of an effective measure of overall economic security and insecurity, and interprets it as a consequence of 'risk' being partly a social construction. This leads to reviewing two incumbent approaches to the study of risk: the economic-rationalist strand, which assesses risks with statistics, and the sociological strand, which focuses on the social processes selecting the goals on whose basis risks themselves are defined.

Both approaches, I argue, need to be taken into account for a sensible analysis of the evolution of the welfare policy and politics. Whereas the rationalist school offers a sound analysis of the problems experienced by the beneficiaries and sponsors of welfare programs and of their potential preferences, the sociological school is better equipped to study the politics of risk collectivization/privatization, which by no means consists of a public debate on the optimal distribution of 'volatility'. The paper concludes with some choices and assumptions underlying my comparison of the Italian and German case.

Over the last thirty years, most advanced industrial democracies have profoundly revised the social contract embodied in their post-war 'welfare state structures' (Pierson 2001; Gilbert 2002; Taylor-Gooby 2004). Recent scholarly contributions explain this international trend as a result of a new 'logic of international competition' as well as of socio-structural transformations and their bearing on electoral dynamics (Taylor-Gooby 2002; Schinkel 2009; Häusermann 2010). Although the noticeable amount of structural change occurred in the last decades has not (perhaps not yet) produced policy changes of comparable magnitude, not only are expansionary welfare trends now a thing of the past, but the generosity of individual entitlements has shrunk. In other words, expectations of a sudden fall in social expenditure or of a substantial stability of the old welfare arrangements have both been disappointed, while voters and policymakers have learnt to cope with the new scenario in ways previously unexpected (Alcock and Craig 2009, Giger 2011).

Even if it is safe to claim that total welfare spending has not decreased as much as conservative intellectuals and politicians campaigned for in the early 1980s, more nuanced analyses have shown that traditional welfare regimes have undergone both quantitative and, most notably, qualitative changes of undisputable magnitude (Esping-Andersen 2009; Palier 2010). A recent and influential stream of literature addressing similar social policy changes interprets them as a process of so-called 'privatization of risk' (Hacker 2004, 2006, 2008; Warren 2006; Orenstein 2009; on Italy see Marano and D'Antoni 2008). Namely, the approach suggests, social risks that were previously dealt with collectively are increasingly transferred on individuals and households, through an indirect, subterranean, form of privatization. Not surprisingly, the claim results in a broad research program, addressing (or at least involving) not just adequacy concerns for existing programmes or the emergence of previously unaddressed social risks, but also the changing notion of 'public responsibility' and the central role of 'risk' in post-industrial societies (Calhoun 2006).

The great relevance and scope of the risk privatization agenda involve, however, the cost of dealing with a much more complex and contentious 'dependent variable'. Evidence in favour of its basic thesis is commonly provided with survey data collecting individual perceptions of economic security, as well as with 'hard' measures of economic wellbeing. Among the latter, one can find various disaggregated per capita spending figures, social security replacement rates (current or foreseen), income mobility and volatility trends, or the likelihood of experiencing income shocks of a given magnitude. But, considering the changing nature of socio-economic risks and the policy trade-offs they pose, this fragmented and sometimes contradictory wealth of figures is unable to point at clear policy implications. Subjective perceptions are generally considered unreliable and inaccurate, if not biased, while measures are often ambivalent and inevitably dependent on counterfactual reasoning grounded in economic or normative assumptions. Partly as a consequence of this impasse, the risk privatization approach has not (yet) provided comparative political economists with a convincing narrative – not to mention an explanation – of recent welfare reforms.

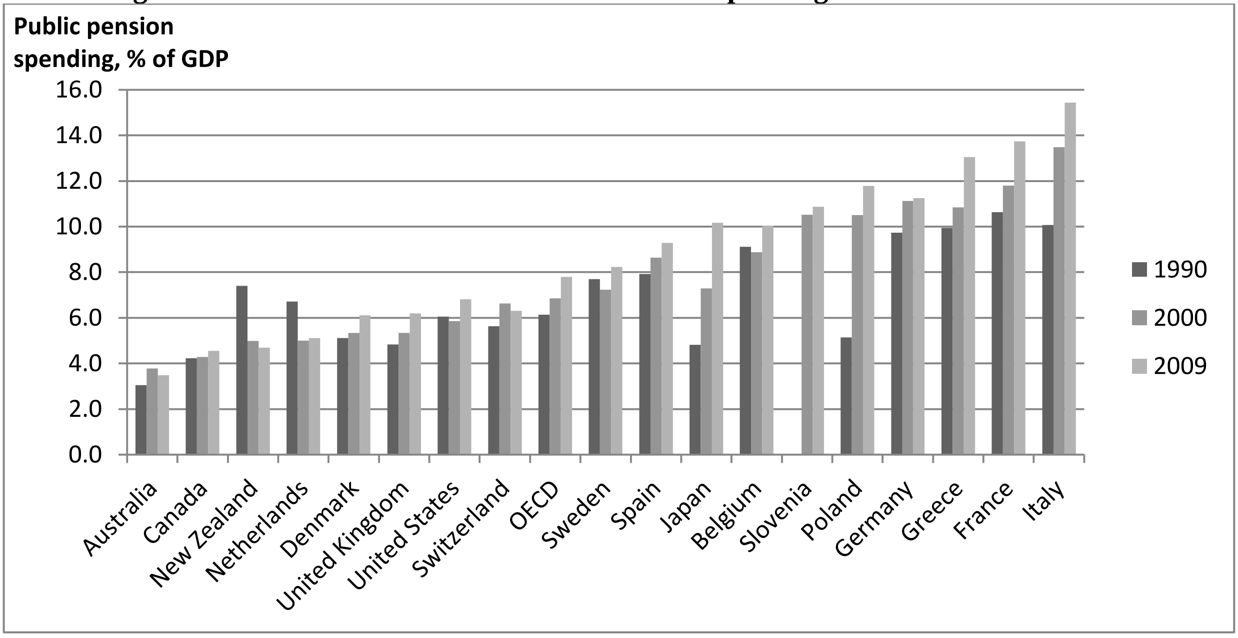
The aim of the present chapter is to provide an overview of the current problems by approaching the comparative study of welfare reforms from the risk privatization perspective, focusing on those related to defining the risk shift and then assessing its extent. Four problems seem particularly relevant. First, no standard indicator of risk socialization/privatization has been devised to facilitate its empirical assessment. Second, the most sophisticated figures capturing overall economic insecurity belong to the American scholarly debate and originate from a wealth of data that has little equivalent in other advanced political economies. Third, indicators of 'economic insecurity' are unable to measure risk privatization whenever intended as a risk shift from the public to the private sphere, unless one assumes 'insecurity' (or at least any increase thereof) can be fully displaced by public means. Fourth, proxy indicators of risk privatization do not play out in the policy debate in the same way as expenditure levels, the consequence being some kind of hiatus between, on the one hand, the analysis of the risk shift policywise and, on the other, the analysis of the underlying politics. The existence of these four problems, the chapter argues, urges for a new 'qualitative reorientation' based on the following rationale: a closer focus on single policy domains; a contextualized definition of 'risk privatization' calibrated on the specific policy goals of real-world case studies and their variation over time; a framework able to accommodate insights from the sociological study of risk alongside indicators of income volatility.

The first part of this section deals with the first two problems and provides a very short literature review, with particular focus on the recent scholarly debate in the US. The second discusses the last two problems, considering potential solutions by taking a step back and looking at the dichotomy between rationalist and sociological approaches to the study of risk. The third part presents a potential avenue to a 'qualitative reorientation' of the debate by discussing some of the conceptual and methodological choices I have made in my thesis. The final paragraphs reassess the core of the argument.

2.1 Pension policies and indicators across the OECD

Old age pensions are one of the most important components of contemporary welfare states (see Figure 2.1). Heavily expanded during the second half of the 20^{th} century across advanced industrial democracies, over the last 40 years their virtues, vices, and prospects have been the object of a heated international debate.

Figure 2.1 – Recent Evolution of Public Pension Spending in Selected OECD countries



Source: OECD Pension Statistics

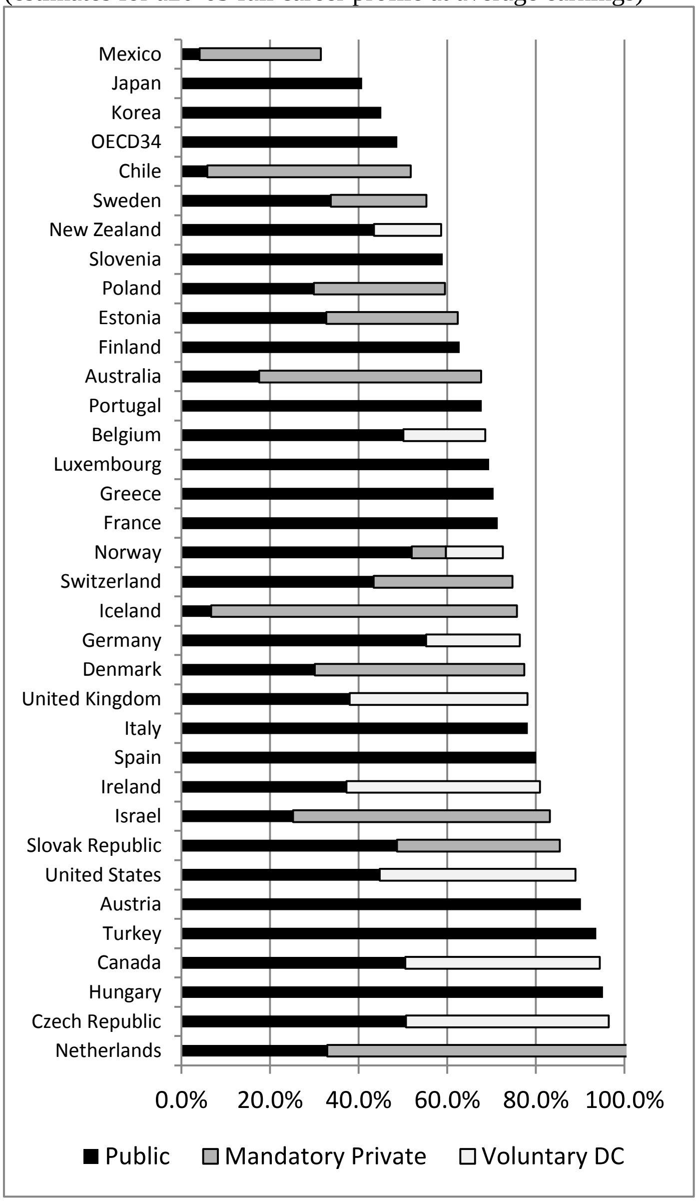
Table 2.1 – The 'Pension Grid': Pillars and Tiers

Pillars / Tiers	**Public pillar** (*State*)	**Occupational pillar** (*Employer*)	**Personal pillar** (*Individual*)
Voluntary (*topping-up*)	Premium reserves	Voluntary occupational plans;	Private pensions
(Quasi-)Mandatory (*earnings-related*)	Earnings-related pensions	Firm-level plans; Collective agreements	Collective insurance contracts; Private pension subsidies;
Statutory (*minimum income*)	Basic pensions; Minimum income in second-tier benefits	Contracting out to occupational schemes	Contracting out to private schemes
Basic security	Social benefits		

Source: Adapted from Immergut *et al.* 2007 and Ebbinghaus *et al.* 2011

Periodic scholarly publications and collections of official data have improved our knowledge and understanding of these systems and of their functioning. In the contemporary literature, pension systems are usually interpreted through a 'grid' of pillars and tiers (World Bank 1994; 2005; OECD

Figure 2.2 – Replacement Rates by Pension Pillar
(estimates for a20-65 full career profile at average earnings)



Source: OECD Pension Models

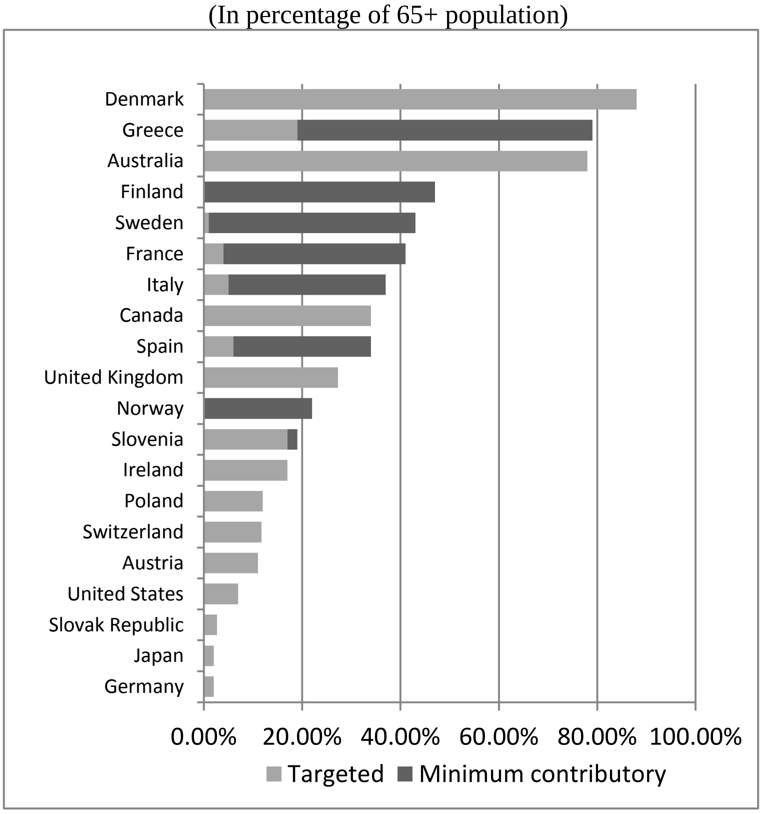
2013; Immergut *et al.* 2007; Ebbinghaus *et al.* 2011). Pillars distinguish who sponsors benefits (whether the state, the employer, or the individual himself), while tiers distinguish the statutory or voluntary nature of each scheme, and thus its contribution to basic security or supplementary topping up. Although some publications (see e.g. World Bank 2005) reach a greater level of sophistication and detail, Table 2.1 summarises the most common identification of pillars and tiers.

A highly important point to keep in mind, when dealing with this policy domain, is that not all pension systems were created equal. For instance, no pension system in the world covers all the cells in the table. In fact, most of them rely more on the public, such as Germany, or on the private pillar, such as the US (see Figure 2.2). Recently, most countries in the OECD have expanded their occupational and/or private pillars (what I will refer to as the private pension system), but some have mandatory benefits, while others rely on voluntarism. Finally, pension systems that have traditionally relied on generous public schemes most often did not draw a clear line between statutory minimum and mandatory earnings-related benefits. On the contrary, redistribution inside the scheme was sorted out according to political and normative objectives.

Pension systems were created differently because the social goals they uphold are very diverse. They range from poverty relief to the maintenance of status differentials, to the promotion of private savings and investments. To chart this variation, a distinction is commonly drawn between Bismarckian (also known as 'Social Insurance', SI) and Beveridgean systems. Going back to the particular type of pension program pioneered under Bismarck's chancellorship, the term Bismarckian indicates programs that share the following traits: financing by dedicated payroll taxes, organisation in line with existing occupational demarcations; proportionality between wages/contributions and benefits.[11] As an ideal typical concept, the Bismarckian category is defined in opposition to the Beveridgean one. Beveridgean systems typically rely on tax financing, focus on preventing poverty, and provide inclusive basic protection through targeted or universal benefits (see Figure 2.3).

In most economically advanced countries, old age insurance was established before the Second World War. Continental and Eastern European countries, together with the US and Japan, opted for the SI model and earnings-related benefits. The rest of the Anglo-Saxon world, Scandinavian countries, Switzerland, and the Netherlands turned instead to the Beveridgean alternative. After the war, when the political problem of including the middle classes in the system progressively emerged, all systems became more generous.

Figure 2.3 – Coverage of Minimum and Targeted Provisions in Selected OECD Countries (late 2000s)
(In percentage of 65+ population)



Source: OECD Pension Statistics

Western European Bismarckian systems turned more ambitious in terms of both coverage and generosity; in some cases even introducing minimum pension schemes or benefit guarantees. This is especially the case with Italy and France bending their 'Bismarckian means' to new 'Beveridgean goals' (Jessoula and Alti 2010; Palier 2010). Eastern Europe followed a different pattern: social in-

[11] It is worth underscoring that they are not intended as the pension policies of Esping-Andersen (1990)'s conservative/corporatist welfare states (the US and the Japanese pension systems are a variant of the Bismarckian model), nor do they refer in any way to Bismarck's own ideas or goals.

surance turned more universalistic under the socialist regimes and slowly became residual due to the lack of benefit indexation. The US and Japan, instead, favoured the expansion of generous employer sponsored benefits, putting in place what has been called the 'Bismarckian lite' variant of SI systems.

Among the Beveridgean systems, none across the OECD remained purely residual. Only a few (such as Ireland or New Zealand) remained purely universalistic, with lightly regulated market-based options. Most Beveridgean systems followed two major evolutionary patterns. The first brought Sweden, Finland, and Norway to top up their inclusive model of basic protection with occupationalist earnings-related schemes and, later, quasi-mandatory occupational benefits. These countries are commonly known as the 2nd generation of SI systems (see Table 2.2).

Table 2.2 - Pension Models in Europe

	Multi-pillar		**Social insurance (in transition)**	
	1st Generation	*2nd Generation*	*1st Generation*	*2nd Generation*
Public schemes' goal	Basic protection (poverty prevention)	Savings on earnings	Savings on earnings (some adequacy)	Savings on earnings (some adequacy)
Private schemes' coverage	Mandatory or quasi-mandatory	Mandatory	Voluntary	Mandatory or quasi-mandatory
Earnings-related schemes	(mainly) Private	Public/private	(mainly) Public	(mainly) Public

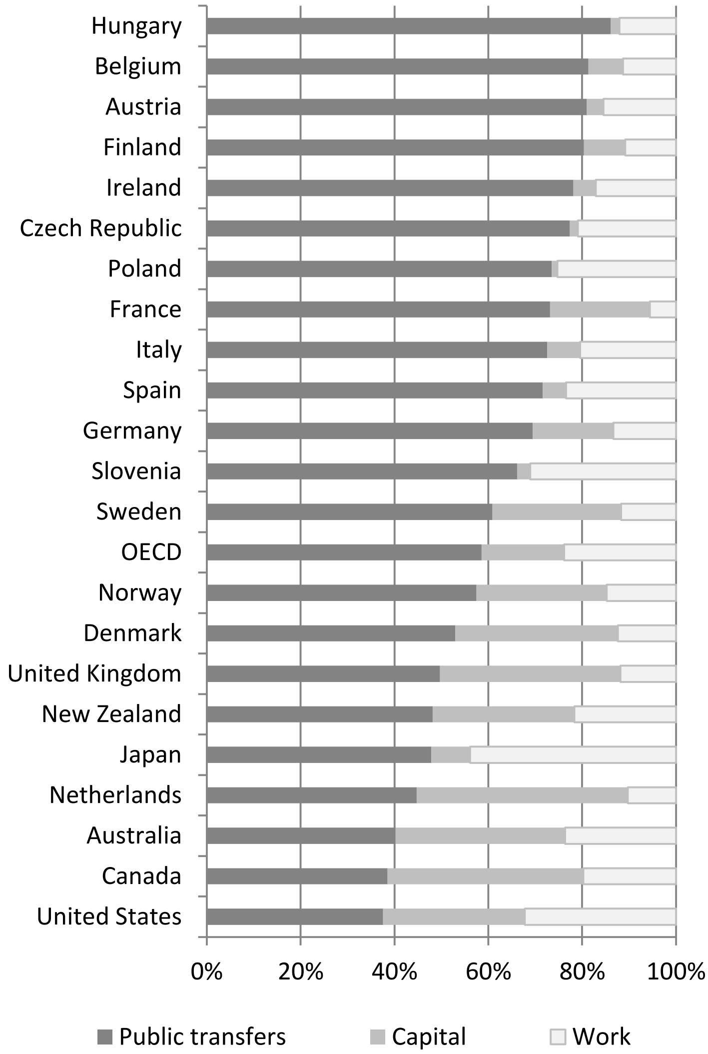
Source: Natali 2011

A second group of Beveridgean countries integrated middle-income constituencies by developing the private pension system. This is the case of the UK, Netherlands, and Switzerland, as well as (through more country-specific patterns) Denmark and Australia. They are commonly known as the first generation of multi-pillar systems (MP). Among MP systems, a second generation was identified as well. It consists of those Eastern European countries whose benefits had been levelled off to the subsistence level and which, during the transition from socialism to the market economy, developed their market-based provisions under the influence of the IMF and the World Bank. Most transition countries, therefore, present a second generation of MP systems.

Finally, since the mid-1990s a number of SI and MP countries, such as Sweden, Italy, Latvia, Poland, and more recently Norway, have profoundly reformed their statutory systems, introducing Notional Defined Contribution (NDC) pension rules. As I will discuss in detail in the country studies, the NDC model has quickly become the cornerstone of a new pension orthodoxy. Its rules index pension and contribution to real economic trends, while paying benefits whose value is conditional on the residual life expectancy of the beneficiaries. Contributing to an ever more complex pension 'ecology', NDC reforms have allowed substantial long term savings to the governments adopting them. Given a reinforced link between pensions and contributions and the shift of demographic costs on individual pensioners, NDC systems appear as hybrid in various respects. Their level of generosity ranks somewhere between SI and Bismarckian Lite systems, but their choices in terms of risk-sharing and redistribution are much closer to the individualisation typical of MP systems. Moreover, similarly to Bismarckian Lite and MP systems, the new NDC model heavily relies on state-favoured occupational and personal pensions, substituting direct public pension spending with indirect tax expenditures.

For most of the 20th century, pension policies have been a great success. They have attracted relentless political success and achieved previously unconceivable social goals. The elderly, long the epitome of social vulnerability, have become one of the richest and wealthiest social groups. The current after tax income level of a new retiree is 65% of his after tax income across the OECD, once all pillars and tiers are considered (Figure 2.4).

Figure 2.4 – Composition of Elderly (65+) Income

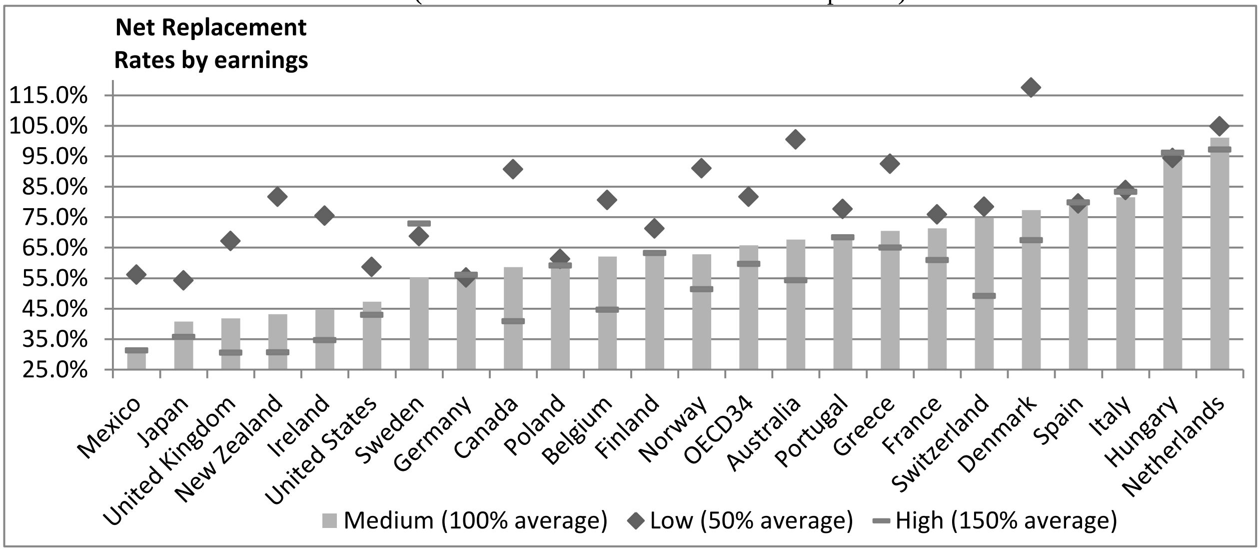


Source: OECD Income Distribution Statistics

As Figure 2.5 shows, cross-country variation does not regard only average benefit generosity, but also the progressivity of pension rules. Universalistic systems such as Ireland and New Zealand as well as the redistributive pension rules of Canada and the US tend to reward low income beneficiaries much more than high income profiles. According to OECD simulations, countries such as Germany, Poland, Italy, Spain, Hungary, and the Netherlands, regardless of their different pension regimes, tend to maintain the same replacement rates across the income spectrum.[12]

[12] In commenting this data, however, it is worth repeating here what will be a central concern of this thesis. Simulations such as those in Figure 2.5 are only valid once full careers and mildly optimistic economic and financial prospects are assumed. Unpredictable life circumstances and macroeconomic crises can undermine their validity. This includes ex-post measures of system progressivity whenever, as it is often the case, low incomes and career breaks happen to be correlated. Only a fine-grained qualitative analysis of pension rules can assess the generosity and progressivity of a pension system when the assumptions of 'standard careers' and 'settled times' are removed (see below).

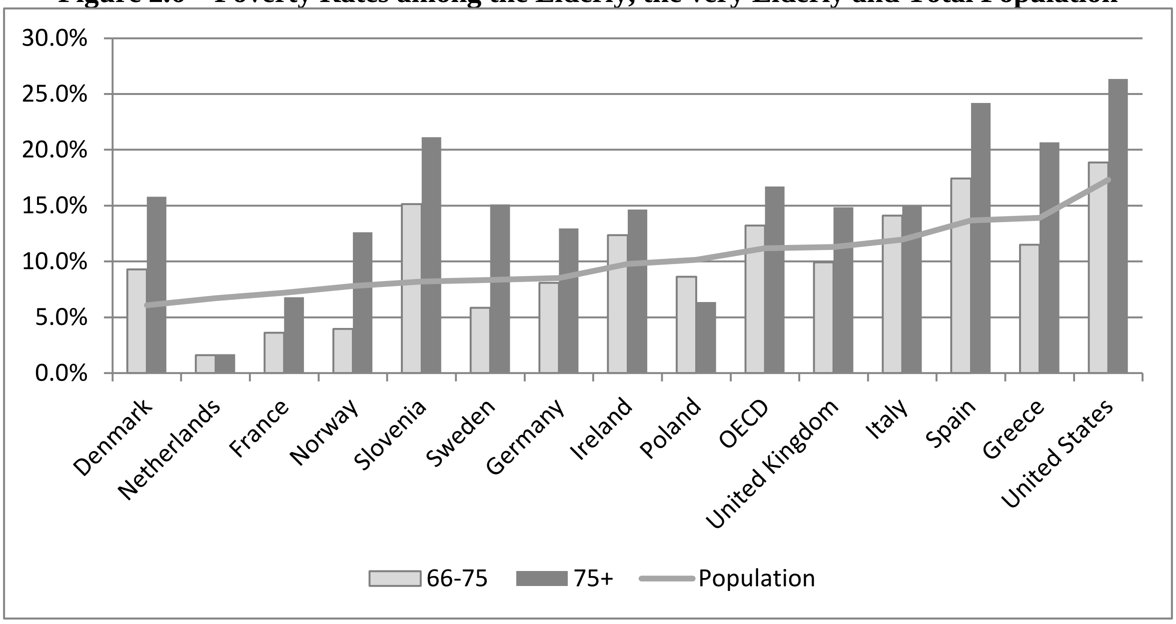
Figure 2.5 – Net Total Replacement Rates across the Earnings Distribution
(estimates for a 20-65 full career male profile)



Source: OECD Pension Models

On another account, with the only exception of Japan and a number of Eastern European countries, public and private pension benefits account for the greatest part of pensioners' disposable income. Only in Western Europe, except those countries with a substantial share of self-employment in the workforce, work after retirement is a matter of choice rather than necessity (Figure 2.6).

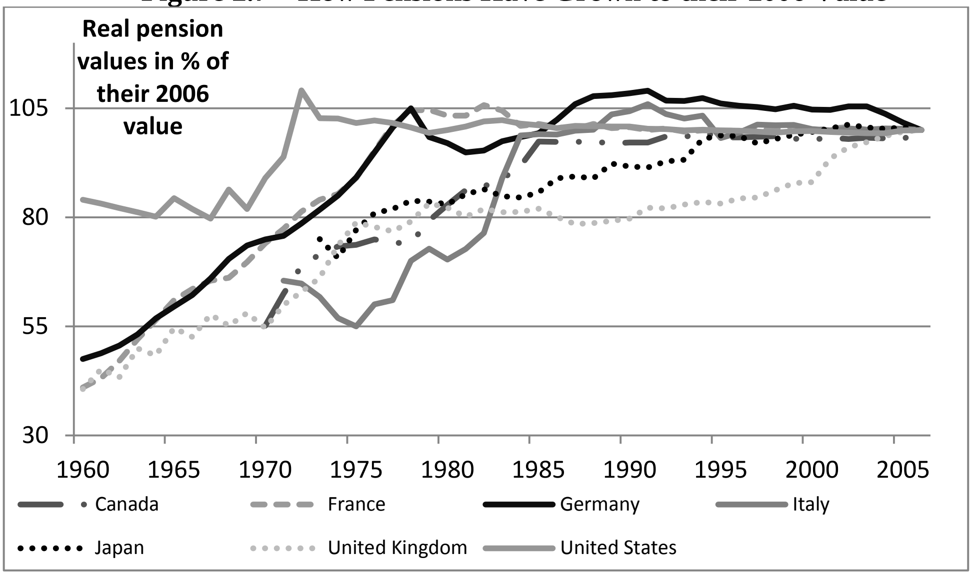
Figure 2.6 – Poverty Rates among the Elderly, the very Elderly and Total Population



Source: OECD Income Distribution Statistics, data for 2007

Although this goal was not equally important for every pension system in the developed world, the existence of statutory social protection for the elderly has reduced poverty rates differentials between the elderly and for the population as a whole (see Figure 2.6 for examples from the EU and the US). Indeed, as the lighter bars show, in many countries (and not necessarily the most universalistic) the 66-75 age group happen to be less exposed to the poverty risk of than population as a whole, at least before the recent crisis. Even if it conceals wide intra-country differences across the earnings distribution, this is the most impressive achievement of modern pension system. The darkest bars in Figure 2.6, relative to the population over the age of 75, can be read as a counterfactual to the effects of existing pension rules. In fact, these figure concern a population group which is far more vulnerable than recent retirees, to whose needs and demands contemporary pension systems are far less suitable.

Figure 2.7 – How Pensions Have Grown to their 2006 Value

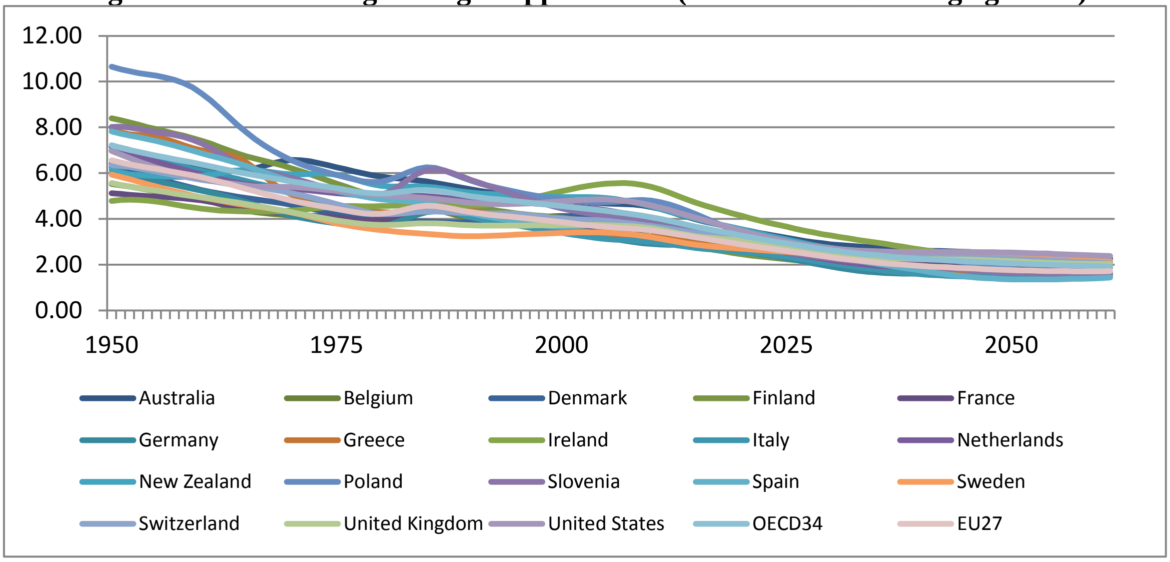


Source: Adapted from Whitehouse 2009

At some point, however, this picture of achievement and success began to crack. Powerful social and economic challenges began to hit postwar pension settlements hard, bringing about a real ‘affordability crisis’. As early as the 1970s, high inflation following the oil shocks of 1973 and 1979 made pension spending soar, driven as it was by the indexation rules introduced in the previous twenty years (Weaver 1988). In most countries, with varying effects due to the mechanisms in place and the severity of depreciation, pension benefits underwent two-digit increases, while slow economic growth and unemployment stifled the contribution bill. Before that critical juncture found its closure in the mid-1980s, pension benefit levels (across most pension regimes) jumped to real values very close to their actual ones (see Figure 2.7), paving the way for longstanding financial shortages in pension budgets.

The most direct challenge brought about by population ageing, however, was the marked increase in individual life expectancy since the 1950s. Coupled with declining fertility, low productivity increases, and labour markets turning inhospitable for the elderly, women, and young adults, demographic developments have dealt a fatal blow to the postwar pension model. The (early) retirement and inactivity of the older generation, soon to be the retiring baby boom generation, combine to create a gigantic burden that simply too few income-producers are there to shoulder. For a combination of demographic dynamics, policy choices, and the evolution of national labour markets, the proportion of inactive elderly over working age population has decreased everywhere. Trends are expected to converge downwards to a very narrow range between 1.40 and 2.40 by 2060 (Figure 2.8).

Figure 2.8 – Decreasing Old-age Support Ratio (Inactive 65+/Working age POP)

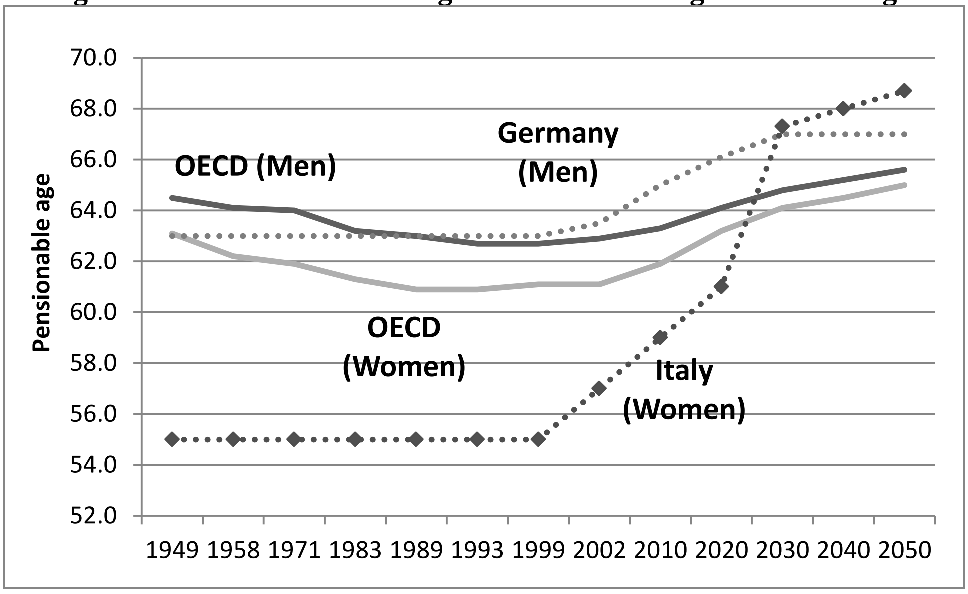


Source: adapted from OECD 2013, (selected countries, 1950-2060)

Since the outburst of high inflation in the mid-1970s, pension systems all across the OECD have tried to rein in expenditures and slow down the growth of unfunded liabilities. Other factors beside the stagflation of the 1970s and the ongoing demographic challenges have posed hurdles on their attempts. I already mentioned low growth and apathetic employment trends, but also increasing public debt – itself a consequence of the fight against inflation – and, more recently, persistently low interest rates, which have magnified the present value of large unfunded liabilities, corporate as well as public. Pension reform effects, however, are hard to measure. Aggregate data tend to hide changes in the structure of needs and demands for social protection, while individual figures also reflect the stratification of changes over time and the protection of individual acquired rights. Comparing old and new forecasts shows huge pension cuts, but changes in forecasting technology and assumptions are just too big to attribute the entire amount of change (or the lack thereof) to the new policy settings.

Figure 2.9 provides evidence of actual and projected changes in future retirement ages: a typical reward-reducing reform. Reversing the trend to lower retirement ages during the Golden Age of the 20th century, new reforms are meant to leave workers full time in the labour market until their seventies.

Figure 2.9 – A Reward-reducing Reform: Increasing Retirement Ages

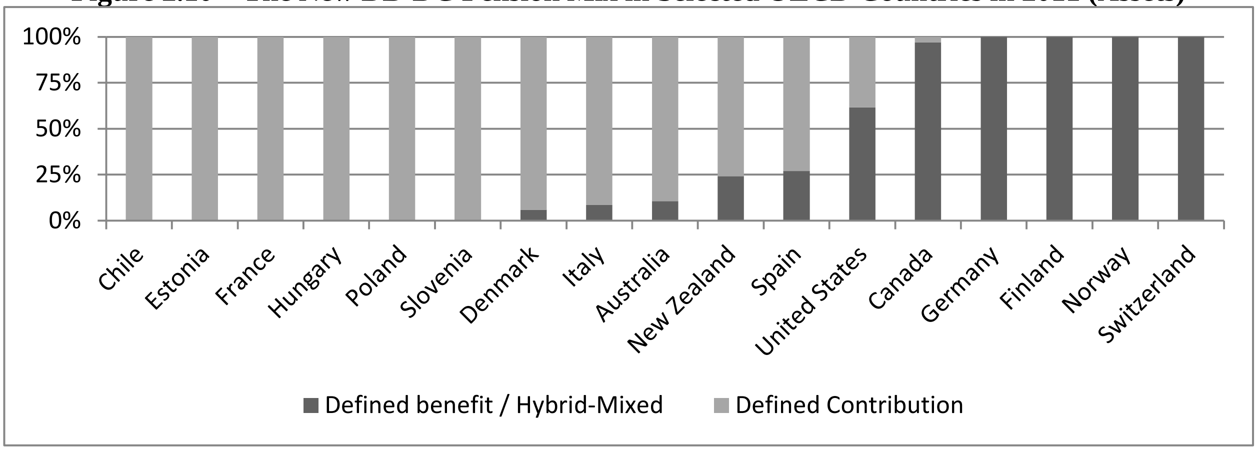


Source: adapted from OECD 2013

I turn back to Figure 2.7 above in order to give an empirical illustration of insurance-reducing reforms. In showing the great amount of depreciation risk that has been socialised by the old indexation rules, the graph also testifies an overall lack of adjustments since the mid-1980s. Part of this freezing of real pension values is certainly due to the lower inflation rates registered across the OECD area over the last 30 years. However, a great part of it is also due to the relentless transfer of the depreciation risk on individual beneficiaries. While cuts of this sort have sometimes been enacted as a short term equivalent to across-the-board benefit reductions, since at least the early 1990s they have been explicitly enacted as the long term removal of a financial guarantee. Pensioners, so the argument goes, do not deserve wage indexation – that is, protection from losses in the relative value of their benefits – because they do not further contribute to the growth of productivity. This boils down to saying that they deserve to become poor, at least in relative terms, as they enter their 'very old' age. Moreover, the generalised reception of this reasoning has also weakened the rational for simple price indexation, with countries like Italy adopting a 'progressive' form of benefit adjustments that only grants 100% price adjustments to the lowest benefits. This proposal was also advanced in the US by the Bush administration.

The shift of demography-related risks on individual beneficiaries is even harder to ascertain from crude data. On the one hand, the introduction of NDC benefits and similar negative revaluation/indexation rules already signals a step in this direction. However, many countries that did not adopt such radical reforms have also, more subtly, introduced similar automatic stabilisers in their pension formulas. A far more telling indication of the transfer of demographic, as well as depreciation risks on workers and pensioners is to be found in the private sector of the pensions system, in the shift away from defined benefit corporate pensions and towards defined contribution arrangements. As Hacker (2006) already pointed out in the US case, most defined contribution schemes do not provide anything like the old defined benefit provisions in terms of replacement rate, periodic adjustments, and protection against the longevity risk. Defined contribution provisions are typically more dependent on investment misfortunes and are usually not protected by a reinsured/tax-financed lender of last resort. Moreover, they do not provide any sort of indexation and, in addition, they either do not come as lifelong monthly payments (this is mostly the case in the US), or they take into account individual life expectancy in their actuarial calculations.

Figure 2.10 – The New DB-DC Pension Mix in Selected OECD Countries in 2011 (Assets)



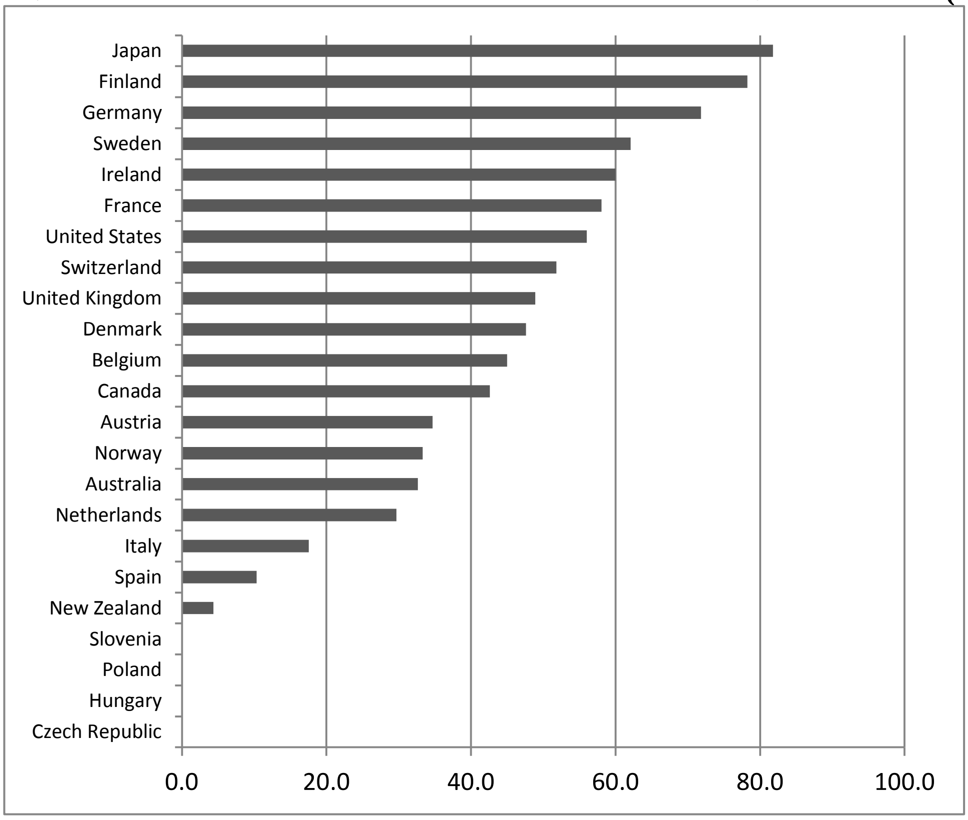
Source: adapted from OECD 2013

Although in a less dramatic fashion than in the US, such a risk shift has also taken place in most OECD countries. Even where defined benefit or hybrid forms endure (first and foremost in Germany, Japan, and the Netherlands), new rules and regulations have severely tightened the old financial guarantees.[13] While almost every corporate plan in the 1970s was of a defined benefit type (not least for the lack of today's form of actuarial calculations), Figure 2.10 shows the new mix of defined benefit and defined contribution schemes in terms of total pension assets.

[13] It is worth remembering that they have improved benefit portability and reliability at the same time.

While evaluating the pension mix in terms of assets gives a realistic account of the financial magnitudes at stake, this figure has one big shortcoming: it is greatly influenced by the accumulation of assets under the old rules. In other words, it tells (very roughly) whether the new trends have produced only marginal or also retroactive effects, but it tells very little about the new developments. This is especially true in the case of occupational pensions. A more satisfactory measure is given in the last graph (Figure 2.11), which shows, for selected OECD countries, the proportion of companies reporting the existence of defined benefit liabilities in their budget sheets. While not disregardful of liabilities accumulated in the past, this indicator is more truthful to the real landscape of occupational pensions and of the opportunity it gives to workers currently in the labour market.

Figure 2.11 – The New DB-DC Pension Mix in Selected OECD Countries in 2011 (Firms)



Source: adapted from OECD 2013

This subsection tried to offer a primer on OECD pension systems, their merits, challenges, and recent reforms. The use of this attempt stops where available international data begin to conceal the reality I am most interested in: the fate of financial guarantees in public and private pension systems. Jacob Hacker, in his path-breaking work on the Great Risk Shift occurred in the US (2006; 2008) as well as in his latest works, has discussed a number of indicators that are more relevant to the topic of this thesis. The following subsection will build on Hacker's work, as well as on the heated debate it sparked, in order to make some fundamental choices for the rest of the analysis.

2.2 How do you recognize a risk shift when you see one?

Although the field of comparative political economy welcomes any kind of methodology, it is fair to say that most researchers on the subject use to start their inquiries with a so-called 'empirical puzzle'. Many even start by running a substantial number of cross-tabulations or scatter-plots, filled with (rough) indicators relative to their favoured topic, looking for distributions, trends, or correlations that manifest cross-national variation within a recognizable global pattern. This is indeed the case of most research on the expansion, retrenchment, and (more recently) recalibration of social expenditure: in so doing, various indicators of the national 'welfare effort' in specific spending items can, with due care and the due caveats, be visualized and compared, while the most notable trends and outliers are highlighted and eyeballed. When the latter look at least partly at odds with state-of-the-art theories and explanations, the researcher has moved a first, tentative, step in the direction of his/her 'empirical puzzle'. Questions such as 'Why expenditure on a given item X is increasing (decreasing) in Y countries (but not in Z)?' or 'Why country K, that we know for epitomizing (being resilient to) phenomenon A has assumed this unexpected position/trajectory?' are common tokens of this category.

Unfortunately, the task of scholars interested in the privatization of risk is not so straightforward. Contrary to the examples above, it is not (or at least not yet) possible to rely on a set of indicators of choice, acknowledged for their ability to operationalize the risk shift or assess its extent. This is not to say that addressing the issue from a sound empirical standpoint is impossible: many pieces of relevant information can in fact be drawn from the huge wealth of secondary literature already produced to answer different research questions. The implication is instead that the assessment of risk privatization becomes more contentious and interpretative (in sum, less 'hard') than the typical measurements of traditional welfare studies. In this section, I will specifically address two aspects of such questions. First of all, I discuss recent attempts to quantify the amount of risk privatization and show that no measure of choice and no methodological standard have yet emerged. Second, I focus on the best indicators emerged in the US debate, showing that the chances to replicate them with the data collected in other contexts are, at the present stage, very limited.

2.2.1 Measuring risk privatization/income instability within countries

In the eight years since the publication of Jacob Hacker's influential article on 'privatizing risks' (2004), the seemingly intuitive idea of a risk shift (i.e. that risks and responsibilities are being transferred between social actors) has posed more difficult measurement challenges than initially expected. The persistent lack of a transparent, readily observable, empirical proxy for the concept of risk privatization has provided ground for questioning whether a risk shift has actually taken place (see Winship 2009) or whether the definition of risk shift is a case of 'concept stretching' (on the latter see Sartori 1970).

Indeed, as one moves beyond the catchy intuition of a 'redistribution of risks' the concept of risk privatization is rather loosely defined. The recent popularity of the topic among academics may suggest its being still 'unsettled' ('quasi-concept'), as it moves between the public and the academic debate.[14] The term 'privatization of risk' may have been borrowed from outside political science, namely from epidemiology. In a 2001 article on the *American Journal of Public Health*, Beverly Rockhill denounced the 'privatization of risk (factor)' as a value turn in the field of epidemiology and public health, connected with the development of preventive medicine: a system based on the centrality of the 'personal risk factor profile' and the primacy of personal autonomy (and the correction of personal behaviour) rather than the promotion of public intervention (Rockhill 2001).

In turn, Jacob Hacker's original definition (Hacker 2004, but see also Hacker 2002) was developed within the broader attempt of refining theories of welfare retrenchment commonly associated with the predominant New politics of the Welfare State approach. Advancing a very well-known conceptualization of incremental modes of policy change (*layering, revision, drift,* and *conversion*) Hacker argued that the literature on retrenchment, with its exclusive emphasis on the budgetary effects of formal policy changes, had ignored processes of 'bureaucratic disentitlement' and lack of adaptation to new social risks, thus disregarding the question of adequacy and of the consistency between the current setup of social programmes and their long-standing ambitions. He therefore suggested taking a closer look at policy implementation and outcomes: the latter could then to be traced back to 'subterranean' forms of scaling back the welfare state, given that '…in principle, U.S. social policy could have adapted to changing realities.' (Hacker 2004: 251)

In other words, 'risk privatization' appeared as a bold theoretical construct, encompassing retrenchment and 'bureaucratic disentitlement', apparently minor moves towards marketization (for instance, the establishment of supplementary pensions) and even the inadequate or foregone socialization of new socio-economic risks. The new concept relied heavily on counterfactual reasoning and on very strong normative expectations on further expansions of social expenditure: both the

[14] The introduction of term is also quite recent: searching Thomson Reuters' *Web of Science Citation Database* for publications whose topic contains both 'privatization' and 'risk' returns less than 400 results (certainly including a number of false positives) and shows just one reference before 1992. The average occurrence of a published item is 10 to 15 times a year throughout the 1990s and early 2000s, rising to an average of 25 times a year since 2004. As far as quotations connected to the coupled terms are concerned, they rise smoothly but steeply from 0 in 1993 to more than 400 in 2011.

lack of new programmes to address the new challenges of a post-industrial society and the introduction of new programmes, whenever interfering with more traditional ones, could in principle be instances of risk privatization. Rather than being observed through some empirical proxy, whose behaviour could give raise to a classic empirical puzzle (*why more or less X than expected?*), risk privatization has to be traced and 'understood' in each specific case before explaining or understanding the causal process behind it. This is, to a large extent, the rationale of Hacker's historical analysis of the US case and of his interpretation of the conservative ideology promoting the risk shift.

The large scope of the concept, however, is a heavy burden for cross-country comparisons: in principle, the analyst has to carry out an in-depth preliminary assessment of risk privatization in each country, producing a counterfactual reasoning able to assess both the disruptive potential of new welfare schemes and the fiscal room theoretically available for addressing new social risks and demands. Such a complication might explain why, notwithstanding the interest in the topic, the comparative study of risk privatization is far less developed than the study of, say, welfare *dualization* (Emmenegger *et al.* 2012) or *recalibration* (Ferrera *et al.* 2000; Hemerijck 2006). Further attempts to refine the concept have offered improvements for its quantitative measurement in the US case, rather than sharpening the theoretical framework with a view to the comparative analysis of risk privatization across policies or regimes. The goal, instead, has been to produce a synthetic indicator of the level of economic risk experienced by individuals and families, in order to study its evolution over time.

In his subsequent and widely known book *The Great Risk Shift* (henceforth *GRS*), Hacker (2006) restated his approach to the privatization of risk moving from a more traditional empirical puzzle. Looking at indicators of economic instability, Hacker showed an increasing trend in the volatility of household incomes since the early 1970s. The pattern unfolded in a number of 'instability peaks' associated with the slowdowns of the early 1970s, 1980s, and 2000s, but also presented a huge spike during the economic expansion of the early-mid 1990s. After each spike, household economic instability was higher than in the preceding period, resulting in an upward secular trend. The latter revealed, according to the author, an increase in the amount of risk carried by individuals and families. Such an increase was meant to show the exhaustion of the old welfare programmes and progressive reduction of their adequacy. A nice empirical puzzle followed from the figure: how could the trend be explained? In line with the counterfactual reasoning above, the process of increasing inadequacy was interpreted as evidence of a risk shift, which was then traced historically in a number of policies (labour market, pension, healthcare, and family policies) and explained as a result of the agency of conservative policy entrepreneurs. This suggested that tracing the volatility of household income over time could provide a satisfactory overarching measure of economic insecurity and a useful proxy of risk privatization.

No doubt, Hacker's findings entered (and revitalized) the economic instability debate, sparked in the mid-1990s by the work of Peter Gottschalk and Robert Moffitt: two economists interested in the relation between earnings instability and inequality in the US (Gottschalk and Moffitt 1994; Moffitt and Gottschalk 1995). Over the last five years a new wave of contributions has appeared, mostly critical of Hacker's conclusions about the magnitude of the change that occurred in the 1990s. As a result, a revised version of *GRS* was published in 2008 (presenting figures more in line with the findings of the literature on earnings instability) and a new indicator was elaborated in 2010 by Hacker and a new team of co-authors. While an adequate discussion of the merits and methodological details of this literature vastly exceeds the limits of this chapter (see Hacker and Jacobs 2008 as well as Winship 2011 for excellent and highly accessible reviews), a quick look at the main points of agreement and disagreement will suffice two substantiate my first two claims that: (1) no standard proxy of risk privatization has been found; (2) the most sophisticated indicators devised so far can hardly travel outside the US.

As summarized by Winship (2009), economic instability can be measured by indicators of:

A) **absolute and relative social mobility** (on individual earnings see: Gittleman and Joyce 1995; Moffitt and Gottschalk 1995; Backer 1997; Daly and Duncan 1997; Fields, Leary and Ok 2000; Haider 2001; CBO 2007; Dynan, Elmendorf, and Sichel 2007; Jensen and Shore 2008; Kopczuc, Saez and Song 2010 ; on household income see also: Duncan, Smeeding and Rodgers 1993; Gottschalk, McLanahan, and Sandefur 1994; Gottschalk and Danziger 1999; Gittleman and Joyce 1999; Gosselin 2008; Gosselin and Zimmerman 2008; Hertz 2006; Carroll, Joulfaian, and Rider 2006; Nichols and Zimmerman 2008);

B) **dispersion of income (or earnings) across and within individuals** (see Moffitt and Gottschalk 2008; Dynan *et al.* 2008; Shin and Solon 2011; Dynarski and Gruber 1997; Cameron and Tracy 1998; Daly and Duncan 1997; Gosselin 2008);

C) **dispersion of transitory shocks to income (or earnings) across individuals** (see Gottschalk and Moffitt 1994 and 2009; Moffitt and Gottschalk 1995; Haider 2001; Mazumder 2002; Stevens 2001; Jacobs 2007; Blundell, Pistaferri, and Preston 2008; Daly and Valletta 2008; Nichols and Zimmerman 2008; Jensen and Shore 2008).

Indicators of each type have featured prominently in the recent risk privatization debate. In both versions of *GRS*, the assessment of the extent of the risk shift rests on two main indicators, both depending on strong modelling assumptions. The first is a measure of **across-individuals dispersion of transitory income shocks**: namely, the **volatility of real household income** for individuals aged between 25 and 61 (adjusted for family size). This indicator conceptualizes economic insecurity as the unpredictability of income levels (high or low) and living conditions. Following Gottschalk and Moffitt (1994), the figure is calculated using a simple **variance decomposition model**: total income variance is modelled as the sum of the variances of a permanent and of a transitory income component, which are estimated over a 5-year interval and assumed not to covariate. The transitory component measures instability, whereas the permanent one is meant to control for the long term effect of income inequality.

The second indicator is a measure of **absolute downwards social mobility**: namely, the likelihood of experiencing a 50 per cent or greater **drop in real household income**. Differently from the volatility estimates above, this indicator looks at economic insecurity as the chance of losing one's own habitual standard of living. It is calculated as the result of a **logistic regression** estimating the average individual's probability of incurring such a loss over a two-year interval, controlling for socio-demographic characteristics (such as the five-year moving average of family income or the exposure to risks such as single motherhood or divorce), individual fixed effects, and a time trend variable.[15]

Other than forcing a revision of Hacker's 2006 figures, the debate (see footnote 3 below) on how to measure economic insecurity and/or assess the risk shift called into question the theoretical assumptions and the methodological practices used to produce the indicators above, favouring also a more critical assessment of the pros and cons of the available datasets. While no stable consensus has emerged yet, four points at least are widely acknowledged:

1) Most studies indicate that individual earnings and (individual) family incomes have become more unstable over time, even if less than Hacker suggested, with wide variations across socio-demographic groups, and along a somewhat different pattern. Downward absolute mobility has in-

[15] The first indicator shows a mild but steady increase during the 1980s with a return to mid 1970s levels later in the decade; in the early 1990s, it skyrockets and scores a fivefold increase (before taxes) between 1974 and 1994, swinging back and forth towards its second-highest peak in 2002. Between 1974 and 2002, the figure after (before) taxes doubles (triples) in value. The trend of the second indicator slows down at the end of the 80s only to peak in the early 1990s; later on it experiences a substantial drop and then a reversal to a new high level, close to the historical maximum. The share of individuals experiencing the aforementioned shock rises from above 7 to above 16 per cent between 1970 and 2002. In Hacker 2008, income volatility in 2004 is less than double its 1973 value, with a peak in 1994. Values for the likelihood of a 50 per cent or greater income drop are halved, ranging from 4 to 8 per cent in between 1971 and 2004.

creased for male earnings during the 1970s, but stabilized since the early 1980s, while consistently decreasing for women over family. Turning to family income, the upward trend in variability has been slightly more pronounced.[16]

2) Differences among results depend to some extent on the selection of different datasets. Concerning the first point, income or earnings volatility can only be observed using longitudinal (panel) datasets. Three have emerged as the most widely used: the ***Current Population Survey*** (CPS, a quasi panel in which different groups of respondents are rotated over time), the ***Panel Study of Income Dynamics*** (PSID, the dataset of choice for most analyses), and the ***Survey of Income and Program Participation*** (SIPP, sometimes merged with administrative data from the record of the Social Security Administration). Each presents distinctive pros, cons and methodological challenges (in terms of the representativeness of the sample as well as of the consistency and accuracy of the data) which in turn influence the results in largely predictable ways.[17]

3) Many differences in the results also depend on operative choices, often connected to the peculiar characteristic of each dataset. Differences in matching (mostly between subsequent CPS waves and between the SIPP and SSA datasets) and trimming strategies (related to different top and bottom coding standards, as well as to the large impact on percentages and logged measures of minimal absolute changes in the lowest incomes) are held accountable for the main inconsistencies in the literature (see Gosselin and Zimmerman 2008, Hacker and Jacobs 2008, and Winship 2011 for discussions, or compare Dahl *et al* 2010 and Hacker *et al* 2010 for an example).[18] A methodologi-

[16] The dispersion of earnings changes, measured by changes in the variability of income between one year and the next, has followed countercyclical patterns with a secular increase in the 1970s. Finally, earnings instability, measured by the dispersion of transitory earnings shocks, has increased, with estimated increases in standard deviation ranging between 15 to 50 per cent. Instability grew mildly during the 1970s, accelerated in the first half of the 1980s, stabilized throughout the rest of the decade, moved up again during the 1990s, and assumed a less interpretable trend in the early 2000s.

Downward mobility of family income has increased during the 1970s and, according to some studies, during the 1980s as well; volatility between adjacent years increased during the 1970s, stabilizing (or moving inconsistently) afterwards. Dispersion of income shocks between the early 70s and the early 2000s is pictured as gradually increasing, rising by 20 to 60 per cent over the period. In general, most of the literature only partially supports the risk shift hypothesis, anticipating most of the increase in economic instability from the 1990s back to the 1970s and early 1980s.

[17] These features of the datasets are impossible to review within the limits of this chapter (see Gosselin and Zimmerman 2008 and Winship 2011 for an in-depth discussion). It will suffice to say that studies based on the CPS and the PSID are more likely to claim that economic instability has increased, with the CPS providing systematically higher levels for instability indicators and the PSID showing an increase in the dispersion of transitory earnings shocks across the last three decades. On the other hand, studies based on the SIPP typically find a flattening of earnings instability after the mid 80s; evidence on income instability is also heavily dependent on data treatment (see CBO 2007; Dahl *et al* 2010 and Orszag 2008 on the one hand and Hacker *et al* 2010 and Gosselin and Zimmerman 2008 on the other). Finally, Winship 2011 suggests that correctly addressing CPS and PSID data problems (and minimizing the impact of imputed income values) all datasets converge to the more cautious results of SIPP based studies.

[18] The dilemma posed by trimming is a thorny one. On the one hand, inaccurately reported/recorded observations could distort the analysis introducing abnormal levels of variation in some years (which becomes even more distortive if moving averages are used to smooth the trends). On the other hand, since the income of self-employed workers and small entrepreneurs can often assume very low or even negative values in at least one year, many observations could be

cally weak treatment of very low income observations (together with unaccounted changes in PSID methodology) is commonly called upon to make sense of the abnormal 1992 peak of instability emphasized in the first edition of *GRS*.

4) Last and most delicate is the issue of the modelling assumptions required to construct and interpret measures of economic instability. As shown by differences in the trends of earnings and income instability (especially when conditioning by socioeconomic group, as in Gosselin 2008) household income dynamics emerge as the result of various compositional effects: composition of families, of education, fertility, and employment patterns (especially for women), and of different income sources. Therefore, when decomposing permanent and transitory variance with Gottshalck and Moffitt's 1994 model, two highly unrealistic assumptions are required: either every household member is equally affected by the transitory shock, or that income composition remains static.[19]

All this considered, the attempt to devise an objective measure of economic insecurity, useful as an empirical (and possibly uncontentious) starting point for the study of the risk shift, has not produced the hoped for results. Many uncertainties remain concerning the true direction and extent of changes in economic instability, as well as their unfolding over time. More to the point, methodological and conceptual difficulties have arisen, casting doubts on the possibility to observe concepts of insecurity and risk without knowing more of the living conditions and the preferences of the observed individuals. When looking at changes in either the likelihood of an income drop and the dispersion of income shocks alike, the problem remains of how to avoid modelling assumptions that translate into unrealistic expectations of stability in presence of demographic or contextual changes (such as age-related income dynamics or the unfolding of the budget cycle).[20] Another open question is how to discriminate between voluntary and involuntary variations and foreseen versus unforeseen shocks, in order to distinguish conscious planning and self-insurance attempts from actual economic misfortunes. Unfortunately, not even a common standard has emerged yet to make good of what the data provide, in order to map variation consistently across time and space.

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deleted, obscuring the economic realities of these occupational groups (nonetheless crucial to assess the aggregate level of economic instability).

[19] More in general, when looking at changes in either the likelihood of an income drop and the dispersion of income shocks alike, the problem remains of how to discard unrealistic expectations of stability in presence of demographic or contextual changes (such as age-related income dynamics or the unfolding of the budget cycle). This also bears the question of distinguishing voluntary and involuntary variations and foreseen versus unforeseen shocks, in order to distinguish conscious planning and self-insurance attempts from actual economic misfortunes. Moreover, students or retirees may well be excluded from the model, but the effects of the inflows on family income should not yet be disregarded, or some sudden income shifts will not be interpreted correctly.

[20] Income usually increases with age (until retirement). Transitory shocks to earnings are better compared at similar points of the business cycle. When looking at family income, one would assume public transfers to step in during recessions. However, it is an untenable assumption that they can provide a full compensation for the economic downturn.

2.2.2 Measuring risk privatization/income instability across countries

Obviously, comparative scholars are also interested in the chance to replicate instability measures outside the US. The availability of longitudinal data at least as good for the task as the PSID is by far unmatched in other industrialized countries, so that scholars interested in the American case can integrate and cross-validate their figures and findings with multiple comparable datasets. This is rarely the case of other countries. Moreover, it implies that, in terms of finding an appropriate measure of insecurity/risk, US-centred literature is likely to remain state of the art for at least the near future. So what are the most accomplished measures developed to analyze income insecurity? How well can they travel to other countries? Here I will consider a measure for each type of indicator described above and assess which international datasets potentially offer material for approximating a replication (without claiming how well they would work in practice).

Looking at measures of **absolute downwards social mobility**, the most sophisticated measure in existence is the Economic Security Index (ESI) developed by Hacker and his co-authors (Hacker *et al* 2010). Turning to measures of **income dispersion of income within individuals**, Scott Winship (2009) has developed an innovative measure of 'pivot volatility' in order to focus on income 'churning' while excluding volatility increases due to upward or downward trends in income levels. Finally, looking at changes in the **dispersion of transitory shocks**, it is useful to look more closely at some operational choices by Gottschalk and Moffitt (1994 and 2009).[21]

A) The **ESI** represents the **share of individuals** who experience a yearly drop of 25 per cent or more in their real 'available household income' (excluding new pensioners), while also lacking an 'adequate safety net' for income replacement in the short term. The new index translates into explicit modelling choices, some of the assumptions implicit in previous analyses.[22] Data are collected

[21] The same authors have also devised a more developed method to disentangle the permanent and the transitory component, by looking at 'autocovariance structures' (the degree to which earnings are correlated across periods) and applying a so-called 'dynamic error components model' Adapting these models allows changes over time in components proportions, with the estimation of a fairly complex nonlinear model (Moffitt and Gottschalk, 1995; 2008). Complexity is not the only problem for such models, as they normally require a broad set of economic assumptions that (when data details and sample size allow their adoption) alter the nature of the measured object in fundamental ways.

[22] The 'available household income' is before tax and tax credits and adjusted for family size, debt burden, and annualized retirement assets (if the family head is older than 59) and it is reduced by out-of-pocket medical expenditures, including insurance payments. An 'adequate safety net' is defined as sufficient liquid wealth to absorb the income loss over the time that a typical individual would need to recover completely from a comparable shock. Since the ESI is just an index of aggregate vulnerability (not an estimate of the probability of a 'typical' family to incur a loss) there is no need to control for demographic characteristics other than family size, such as permanent income level and exposure to specific risks. It is particularly desirable that households' ability to self insure is finally taken into account, looking at medical insurance payments and liquid wealth deposits. Its improved grasp on the complexity of income volatility comes however at the cost of more complexity. Movements in the indicator can be produced by actual income drops, erosion of family wealth, or raising medical expenditures: if savings get eroded over time, the process can remain silent

from different dataset: primarily the SIPP, but also the Consumer Expenditure Survey (CEX, used to produce a reliable estimate of medical spending) and the PSID (used to assess the amount of wealth deemed sufficient for individuals to be self-insured).[23] The 2011 report shows that the trend in the ESI is rising since the mid 80s, moving up and down with the business cycle but leaving individuals more and more insecure with the passing of time. This evidence partially supports Hacker's claim of a risk shift taking place in the last decades.[24]

B) **Pivot volatility** (Winship 2009) is a descriptive measure of income movements within a short-term window (within-person dispersion) for the 'typical' individual. It involves no modelling assumptions and focuses on the frequency and extent of income reversals and eschews changes due to continuous income increments or decrements. It is constructed by looking at individual dynamics within a nine-year window, focusing on 'pivot years' (defined as years in which the direction of change reverses). Absolute percentage changes are computed on each side of a pivot year and averaged to measure the absolute change around each pivot; then, these 'pivot values' are averaged together to obtain individual pivot volatilities along the window. Finally, individual volatilities are averaged to produce an aggregate indicator, interpretable as 'the average across people of the average pre- and post-pivot percent change in earnings across possible pivot years' (Winship 2009:51).

C) Following Gottschalk and Moffitt's methodology (2009) the analysis of **shock dispersion** with a variance decomposition model requires choosing the length of the window (of years) over which the variance components (permanent and transitory) are calculated. If the window is too short, transitory shocks may have failed to disappear, bearing on the estimate of the permanent component. If the window is too long, changes in the permanent component could sneak in and the number of independent data points in the trends risks being too low. In consideration of the trade-off, studies employing this method usually pick moving (that is, overlapping for all but one year) windows of five to nine years.

Which kind of dataset is needed to make use of these state of the art indicators? At the most basic level, it has to come with household data and offer substantial background information. In consideration of findings above, the availability of data for the 1960s and 70s is crucial for a mean-

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for a while, only to become visible when the buffer is exhausted. The fact that PSID waves, used to operationalize the safety net, are conducted every two years can contribute to further swings in the indicator.

[23] Observations are discounted when they own an amount of liquid wealth equal to the cumulative income loss experienced, within the PSID, by a typical individual of the same socio-demographic group as he recovers from the shock. Since this period lasts several years, the PSID is necessary to follow it in its entirety.

[24] The ESI value, in percentages of the population, was 12.2 in 1985, 13.7 in 1992, and 17 in 2002, while expected to reach 20.4 in 2009. Although it must also be stressed that it dropped to figures between 12 and 13 per cent, with the only exception of the end of the Nineties, its minimal values show the same time trend than its peaks. In sum, recoveries did take place, but they came short of compensating previous increases in vulnerability.

ingful representation of income instability trends over time. A large sample size for the panel component, low levels of attrition, and the inclusion of consumption data are also desirable traits. Consistent data collection policies and, as far as surveys are concerned, oversampling rounds to keep cross-sectional representativeness are other defining characteristics of the ideal dataset. For large cross-country comparisons, the issue of similarity/comparability among datasets is also crucial. How do actual longitudinal data sources for the greatest world economies compare with this ideal standard? The question is particularly relevant now, as the US literature referenced above has highlighted the limits of even a 'top tier' dataset such as the PSID.

As explained by Jenkins (2007) in a recent review, available longitudinal datasets consist of administrative data collections (such as the Italian INPS or the US SSA), cohort surveys, and household surveys like the PSID. Datasets of the first and third kind are the only ones that allow inferences on both individual and aggregate dynamics. Administrative datasets cover for several years high proportions of the population of interest with no attrition problem, providing high quality income data (at least for individuals in the formal economy). However, they often come with very little background variables and, in some cases, with no type of household information, confining their use to the study of earnings dynamics only. All of the opposite, household surveys usually cover a restricted sample, may have limited or discontinuous coverage over time (respectively the case of time-limited surveys and rotated panels), and adopt peculiar compromises in terms of representativeness and following rules (maybe to emphasize/keep in sight a population subgroup of interest). On the other hand, they usually provide plenty of household and background information, including in some cases information on consumption.

Comparative longitudinal datasets are a natural place to start looking for data. The only native cross-country datasets, all too recent for an analysis of long term trends, are the ***European Community Household Panel*** (ECHP, started in 1994 and discontinued in 2001), the more recent ***EU-SILC*** (a rotating panels dataset started in 2004) and the ***Survey of Health, Ageing, and Retirement in Europe*** (SHARE), a cohort based survey started in 2003 focusing on the living conditions of the elderly. An authoritative source of data for this kind of analysis is the ***Cross-National Equivalent File*** (CNEF, Frick *et al.* 2007): a harmonized collection of existing panels now including the US PSID, the German SOEP, the British BHPS, the Canadian SLID, the Australian HILDA, the Swiss SHP, and more recently the Korean KLIP as well as the Russian RLMS-HSE. Another important feat of the CNEF is the presence of estimates for taxes and transfers, which allow a more detailed examination of the impact of public policies (data inconsistencies have been indicated in the CNEF version of the PSID, however).

A promising starting point, the CNEF rather reveals the limits of household surveys outside the US. Some concern the temporal dimension. Among the datasets above, excluding the PSID, only the pioneering SOEP was started before the 1990s (1984): the BHPS and the SLID started in 1991 and 1993, the RLMS-HSE and the KLIP in 1995 and 1998, whereas the HILDA and the SHP only begun in 2001 and 1999. This makes them unsuitable for the analysis of past trends and only the SOEP is able to produce indicators of pivot volatility or shock dispersion for the early 1990s. Furthermore, respondents of the SLID are rotated in such a way that the same individual is only covered for a maximum of 6 years.

Other issues concern the sample size. The SOEP is also the only dataset to come with a sizeable sample (about 12,500 households in the last wave) whereas the others score between 4,200 and 8,700 (the SLID namely scores more than 38,000, courtesy of its rotating sample design). Besides the surveys included in the CNEF two more should be added: the Italian Survey on Household Income and Wealth (SHIW), managed by Italy's central bank, and the Swedish Household Market and Nonmarket Activities (HUS). Both present a considerable time span (the SHIW runs since 1977, the HUS since 1984) but are ill suited for longitudinal studies because of the small size of their panel component and, in the Swedish case, also for the low frequency of its interviews.

Administrative (tax and social security) datasets offer very good basis for the analysis of earnings dynamics. This is the case of France, Italy, the Nordic countries, and of the UK to a lesser extent: all of these countries host administrative collections comparable to the SIPP for length (the first available observations date back to the early 1980s), representativeness, and high income data quality. The major hurdle on the way of employing them in household income analyses is their very narrow focus on the wage income of the employed population (tax data are generally more suitable than social security data in this respect) which makes difficult to infer any information on the family context and background. A very promising opportunity in the direction of more comprehensive databases is matching administrative datasets with one or more waves of household surveys: a common practice in Nordic countries that is becoming more and more frequent in the US given the recent turn from the PSID to the SIPP as the dataset of choice.

The EU-SILC is a precious resource from this point of view, as far as its national datasets store (under strict confidentiality causes) the fiscal/social security codes of the respondents. This implies that the national statistical and administrative agencies that have access to the full data version can, if willing, match administrative data with one or more waves of their national SILC survey (such as the 2005 version, with unique questions on the family of origin of the respondents), recovering at least time invariant or slowly variant variables for each respondent.[25] In any case, this kind of matching is not free from errors if the original panel has collected little information useful to reconstruct each respondent's family structure over time, or exempted from issues of cross-sectional representativeness when the starting date of the administrative dataset is more than 10 years from the date of the survey.

Keeping these data limitations in mind, one can conclude that the room for replicating the most effective indicators that emerged in the US debate on economic instability / risk privatization is narrow, at least for scholars interested in measuring trends supposedly originating in the 1970s. Even if it is likely that the structural transformations responsible for the increase in income instability took place a decade later than in the US in most Western countries, the analysis of trends starting at the end of the 1980s risks missing the most appropriate benchmark of the true extent of the changes that occurred. In this sense, it is worth stressing that measures of instability levels at specific points in time are particularly sensitive to data collection and preparation choices; whereas, when comparing trends across countries, such country-specific idiosyncrasies would mostly cancel out.

If the recently expanding supply of high quality and fairly well harmonized panel datasets is encouraging, the best chance to retrieve the long time series needed to analyze dynamics of economic instability relies upon the use of administrative data and their careful matching with household surveys (such as with SIPP+SSA datasets in the US). This requires, first of all, national waves dating back far enough to retrieve background information for the 1970s and 1980s. Provided the secreted versions of the surveys contain serial identifiers unique to each respondent, this seems to be the case of Sweden and Germany (and possibly Italy). Even more importantly, this move requires the active interest of the national administration and agencies in combining datasets by the use of sensitive information they alone can access. Unless these actors gain a stake in the production of better knowledge (and policy prescriptions) the only way forward is to refine the analysis of wage and earnings dynamics, which, however, entirely miss the insurance role of household pooling and familial redistribution.

To conclude, the search for a more appropriate and sensible measurement of levels and trends of income instability is certainly a very worthwhile and much needed task. Nonetheless, scholars have not yet been able to agree on a common indicator or standard to measure these phenomena. Moreover, the question whether income instability is a good proxy of socio-economic risk (not to mention a risk shift) is itself hotly debated and suggests more information and even more refined

[25] A dataset of this kind is the new Italian AD-SILC (see DdT and FGB 2012).

indicators such as the ESI are needed to pin down some counterfactual implications: How and how much income instability translates into consumption patterns and household well-being? How well can families self-insure? At what level instability becomes undermining for individuals and society? The data limitations reviewed above suggest that, at least in the foreseeable future, the comparative research is in no better position than US-based case studies to address the problems that plague this research program. Much will depend on the availability of the national bureaucracies and the ingenuity of scholars working with matching techniques.

This conclusion, not to be interpreted pessimistically, is perhaps sufficient to argue in favour of a qualitative reorientation of the risk privatization debate. Certainly, however, it does not prove that such a turn is at all necessary. Indeed, some may argue, the risk privatization approach is already predominantly qualitative, since its best contributions to the study of the welfare state (that is, the narratives provided by Hacker 2006 and Gosselin 2008) are qualitative. The only real improvement, the argument goes, truly is to pin the numbers down. Because I see the point of such a criticism, in the next section I will present a second critique that comes closer to suggesting that such a reorientation is necessary. I will contend that the difficulties encountered by the quantitative research and the strong normative underpinning of Hacker’s historical analysis are to ascribe to the limits of a notion of risk that equates it with volatility. The limits of this conceptualization have a bearing on both the measurement and the explanation of the risk shift, urging for a less abstract and more careful approach to real world policy changes in the empirical analysis.

2.3 ‘Measures’ of public responsibility: volatility or acceptability?

In this section I will substantiate the third and fourth claim advanced in the introduction and indicate the cause of the methodological difficulties discussed above in some conceptual aspects of the risk privatization debate. On the one hand, I suggest that indicators of aggregate ‘insecurity’ can measure a risk shift from the public to the private sphere only under the assumption that secular increases of insecurity can be fully offset by public means. On the other, indicators of ‘risk privatization’ like those described in the last section do not play the same political role than expenditure levels. As far as risk shifting reforms do not address directly the issue of distributing volatility among social actors, an exclusive focus on volatility as an outcome risks limiting our understanding of how the politics of the risk unfolds.

2.3.1 How well does volatility measure social risk?

To restate Hacker's starting point, given that the US dynamic economy and lightweight welfare state could have adapted to new social risks while expanding coverage for more traditional ones, the fact that incomes have become more risky in the last decades is directly traceable to the policy changes occurred in the realm of social insurance. Here is the sense of the risk shift. Therefore, measuring increases in income volatility roughly boils down to quantifying the translation of risk from public to private responsibility. Such a line of argument firstly presents the following question: assuming volatility could be measured with proper data and without error, how well would it capture changes in the exposure to old and new social risks?

The issue of the (degree of) overlap between volatility and risk is ground for some of the most fundamental critiques of Hacker within the risk privatization debate. Perhaps unexpectedly, one of the harshest criticisms has come from Peter Gosselin in one of the methodological notes of *Highwire*, one of the books more closely affiliated to *GRS*. In distinguishing his own approach from Hacker's, Gosselin (2008: 325-26) says:

> 'In interpreting income volatility primarily as a measure, I differ from others, such as Yale political scientist Jacob S. Hacker, who have written on this subject and who appear to treat it primarily as a previously unnoticed danger in its own right.'

Less surprising is a resonating judgement by Scott Winship, one of the starkest challengers of the risk shift thesis and of its quantitative methodology (2011:19-20):

> 'Model-based measures of "transitory variance", on the other hand, are not only dependent on specific model specifications, they measure a quantity that is a statistical construct and not observed or necessarily experienced by actual households from year to year. The key weakness of all these measures is that they cannot distinguish between anticipated or voluntary instability on the one hand and unanticipated or involuntary instability on the other. Measures of transitory variance can only claim to do so under strong model assumptions about "permanent" income and effects of economic shocks experienced by people. This issue remains a topic for future research.'

However, what is probably the clearest withdrawal from any essentialist interpretation income volatility as 'risk' has been put forward by Gottschalk and Moffitt (2009:2-3) the scholars who pioneered the research on income instability:

> 'Higher income instability is often described as representing an increase in risk that decreases individual or household welfare, as noted in popular accounts (Hacker and

> Jacobs 2008; Gosselin 2008). However, this conclusion must be approached cautiously. Some types of instability are the result of voluntary decisions by workers and families […] fluctuations in bonuses among highly paid analysts in the financial sector, do not seem like a source of individual risk that should be of much social concern. However, greater instability of earnings and income among low-wage and unskilled workers, where liquidity constraints are almost surely important, may well represent an increase in house-hold risk that is troubling. […] Finally, we note that instability of family income involves additional considerations beyond instability of individual earnings […] while instability of earnings primarily reflects changes in labor market factors, family income instability reflects a host of additional considerations.'

In sum, even authors belonging to different sides of the risk privatization debate seem to agree that volatility and risk cannot be equated without knowing more about the decisions and the characteristics of the risk-takers. What can be done to improve the fit between the concept of risk and measures of volatility? Most economists suggest looking at the volatility of consumption patterns in order to control for households' abilities to self-insure by smoothing income inter-temporally: a solution that would greatly increase the data availability problems described above. A complementary strategy, in light of the quotation from Gottschalk and Moffitt, is to look at volatility trends across subgroups of the population, focusing on peculiarities that may facilitate interpreting trends. Typically this is done by looking at different demographic characteristics or life events. The rationale here is not so much to reach a more accomplished overarching indicator, but to look empirically at the relation between income volatility and a set of predefined risks.

For instance, Gosselin 2008 and Gosselin and Zimmerman 2008 decompose income volatility in the US by family-earners groups, finding that two-earner families are able to diversify away some of the volatility experienced by the breadwinners. They also show figures across income level and generations, indicating that volatility increased much greatly for the working poor and less than average for families with a middle-aged head. Decomposing it for income type (wage, transfers, etc…), they show that among the main drivers of the increase in income volatility between the 1980s and the 1990s stand the greater income instability of public transfers. Finally, following Burkhauser and Duncan (1989) the authors control for downward mobility conditioning for seven life events interpretable as 'risks': separation/divorce; death of spouse; birth of a child; reduction of income as a consequence of retirement or disability; unemployment or illness of the family head; fall in work hours of the second earner. In so doing, they manage to show a secular increase in the association of each of these events with a 50% income drop (even if risks themselves occur less frequently than before).

None of these results is particularly surprising: the bottom line is that the most vulnerable social groups are very likely to suffer dire financial consequences when they experience unfavourable life events. At a closer look, however, this kind of analysis answers quite well to the problems highlighted in the three quotations. First of all, it does not treat volatility as a risk in itself, but as the manifestation of a (socially stratified) condition of social vulnerability. By separating risk and income volatility, the approach sidesteps the problem of looking at consumption data to assess households' ability to self-insure (in order to focus on misfortunes that outmatch their efforts). Second, by looking at both income volatility and socio-demographic characteristics, this kind of analysis offers the policy makers a wider choice of alternative social goals, other than reducing income instability as such, on universalistic premises. On the downside, however, it clearly (and less innovatively) focuses on a set of risks that are determined a priori, stepping back from Hacker's more ambitious attempt to reach beyond a backward-looking and formalistic conceptualization of risk.

To restate, Gosselin's answer to the challenge of operationalizing risk with volatility is to emphasize their distinction, interpreting the latter as an indicator of vulnerability to risk, rather than of risk as such. The analytical implication of this reasoning is that the increase in social vulnerability has not a single cause but it interacts unfavourably with increases in inequality. By conflating volatility and risk, Hacker comes instead to argue that the 'great risk shift' is the product of the agency of conservative policy entrepreneurs and of the 'personal responsibility crusade' they have waged in the last decades. Without conservatives moving US politics 'off center' (Hacker and Pierson 2006), he argues, the American welfare state would have remained faithful to its old ambitions and answered the incoming structural challenges. Apparently, the whole idea of a risk 'shift' (as opposed to a risk 'increase' or a 'vulnerability increase') rests upon this counterfactual. It is tempting to conclude that, although less innovative, Gosselin's approach finds at least a remarkable strength in being independent from similar bold pretensions.

Moreover, Hacker's assumption appears largely untenable as one turns to the comparative context. First of all, it could be argued that reforms Hacker himself describes as distinctively risk privatizing (such as the introduction of defined contribution pension schemes or the marketization of healthcare) are strongly correlated with the incumbency of Third-way centre-left governments and have been justified as attempts to modernize the welfare state (see Levy 1999; Liester 2004).

A way to reconcile the idea of a conservative backlash with risk shifting reforms enacted by the left is to emphasize the role of neoliberal economic ideas (Hall 1993) in marketing conservatives principles to the moderately progressives. However, turning for instance to the hotly debated issue of retirement, serious economic research has never neglected as such the insurance function of traditional pension systems based on intergenerational transfers and predefined benefit levels (see for instance Beetsma and Bovenberg 2009, Gottardi Kubler 2011). Its main policy prescription was to find a more flexible balance with a greater ability to diversify systemic risks (such as ageing, unemployment, or economic stagnation). This suggests that, even if neoliberalism has certainly a role in the diffusion of risk privatizing reforms, there is no way to say that recent economic thinking is so unequivocally close to the conservative agenda that it could rewrite from afar the policy programs of the left.

Second, it could be argued that, alongside quantitative retrenchment of existing programmes, risk shifting reforms have been introduced in response to fiscal crises or unfavourable economic or demographic dynamics such as de-industrialization or population ageing (Hemerijck 2006). How to take into account the role of politics under this alternative scenario? Are there alternatives to the risk shift or, at least, alternative venues to it? Questions of this sort lead us to the fourth claim advanced in this chapter: namely that the exclusive focus on volatility may mislead the interpretation of the politics of risk privatization.

2.3.2 Volatility and the politics of social risks

All in all, the impression is strong that figures such as those presented by Gosselin (and the conceptualization of risk they imply) are more in tune than Hacker's with conventional policy debates on the scope of public responsibility and its role in exerting a 'welfare effort'. Even if providing a more fragmented kind of evidence than aggregate measures of income instability, this alternative research design provides not only more interpretable results, but also a clearer indication of when (and perhaps whether) an increase in volatility is likely to represent a situation of social concern.

There is no doubt that, all over the advanced political economies, the debate on welfare reforms is at least as interested in qualitative aspects (modernising and strengthening the distributive principles embodied by the welfare state) as it is in purely quantitative ones (the generosity and fiscal impact of welfare provisions). Therefore, it makes perfect sense to distinguish, on the one hand, quantitative interventions with little effect on the basic goals and principles of existing welfare institutions from, on the other, qualitative changes with potentially little fiscal impact. There is, however, a subtle difference in the role played by quantitative indicators of social welfare in each case. When the debate focuses on quantitative aspects, measures of welfare effort such as coverage and expenditure levels are a powerful lens to interpret the policy debate and advance hypotheses on the preferences of actors such as interest groups, the political left and right, as well as unions and employers. As institutionalist studies of welfare expansion have shown, however, when more qualitative issues are at stake, such as entitlement principles (citizenship, career record, or need) or funding strategies (payroll taxes or the general revenues), the lines of conflict and coalition building get blurred and become difficult to identify ex ante (see Baldwin 1990; Ferrera 1993).

In this respect, the measures of income volatility and mobility reviewed above, when intended as rough indicators of a reduced scope of public responsibility for social welfare, can be said to occupy a middle ground. On the one hand, the whole idea of a risk shift points to an entirely redistributive question: risk has been moved from the state and the employer to the family. One could then easily imagine a conflict line as clear as Hacker describes, with the political left and its usual allies trying to keep risk on the shoulders of 'strong' economic actors, and the economic right striving for the opposite, with centrist parties sticking to their time-honoured preference for a 'mixed' welfare state. On the other hand, however, the risk shift is by definition a 'subterranean process' where figures of volatility, difficult in themselves to conceptualize and measure, are hardly as fungible for political mobilization as the size of expenditures and benefits. Aggregate spending indicators are suitable for crude international comparisons, whereas measures of welfare generosity, when made public, give an intuitive measure of the adequacy of social programmes vis-à-vis their stated goals. Moreover, the perception that family income has become more volatile is generally not complemented by the impression that public budgets or firm profits (save perhaps some multi-national quasi-monopolists) have become correspondingly less so.

On the contrary, reactions in the political debate are arguably no different from those I quoted from the academic publications. The ambition to stabilize household incomes regardless of their level enters a number of normative trade-offs, most of which are nothing new but have grown more compelling in the face of mounting budget pressures. Such trade-offs include first and foremost the level of taxation and public debt or the labour costs necessary to support extensive systems of social protection. In addition, they concern the level of social mobility as well as the scope of economic opportunity and meritocracy that is compatible with a society where incomes (including earnings from self-employment and household firms) are statutorily kept from changing. Then comes the issue of configuring social shock absorbers that do not interfere with the mobility of the workforce across firms and sectors (and nations, for instance within the EU) and can work equally well for the stable careers typical of manufacturing and the more flexible work patterns of the service economy.

Finally, recent studies in the political economy of welfare (Cusack and Iversen 2005, Häusermann 2010) as well as in the evolution of European party systems (Kriesi *et al.* 2008) suggest that in societies that are growing more and more unequal over time, different social groups (identified by their age, occupation, or region of residence) may well be available to accept different levels of volatility in order to reach their desired level of absolute income. From this point of view, the question of the nature and limits of public responsibility cannot plausibly be reduced to a distributive conflict on the amount of volatility borne by different societal actors. More to the point, it is highly unlikely that in such a multi-dimensional policy domain, the only apparent line of conflict may be that between the supporters of welfare expansion and the conservative wagers of a 'personal responsibility crusade'.

What can then be done at the methodological and conceptual level to lay the foundation of a more sensible understanding of these thorny policy dilemmas? On the basis of what I argued before, it is possible to suggest that the problem could be lessened by reducing the emphasis on volatility; for instance by adopting, like Gosselin, a more traditional focus on a predefined set of social risks. This involves a more empirical and less normative understanding of the explicit goals of existing programs, while looking at very specific (rather than highly abstract) outcomes (including volatility) over the appropriate time horizon (very short for unemployment benefits but very long for pensions, for example). These issues will be discussed more in depth in the next part of the chapter.

In concluding this section, instead, attention must be paid to the crucial challenge posed by the choice of defining a priori the set of risks and goals against which to measure 'volatility'. The problem is precisely which risks and goals should be eventually considered, among the many that are possible to imagine. On the one hand, the question is made methodologically problematic by its apparent normative implications on the one side, and, on the opposite side, by the pending risk of misunderstanding the ultimate goals of social programs that exist in specific historical contexts (a danger which is implicitly present in Hacker's counterfactual reasoning as well). On the other hand, this is the framing of the problem that possibly comes closer to understanding policy debates concerning welfare reforms, allowing for the analytical framework that best contextualizes and fits the policy problems and solutions under analysis.

A possible way out of the conundrum is to complement the analysis of risk based on the notion of volatility with one focusing on the sociological question of how social risks and insurance goals are selected. This task can be fulfilled by reconsidering the relationship between risk and volatility in the light of the so-called 'sociology of risk' (see for instance Beck 1992; Douglas and Wildawsky 1982; Giddens 1990; Luhmann 1993; see also Taylor-Gooby and Zinn 2006). It is already worth stressing that the point here is not to suddenly shift the frame of reference to a 'constructivist' understanding of risk, thus removing the problem of quantification from the picture. On the contrary, the point is to get right both 'the numbers' and the set of 'risks' or 'life events' used to put volatility in context, perhaps decompose it, and (possibly with better and more comparable indicators) relate it back to the social and political choices that have produced them.

Adding the sociological perspective to the picture allows contextualizing the centrality of volatility in a 'rationalist' tradition in the study of risk: a tradition that draws on the work of the economist Frank Knight (1921) and is by far the dominant one in the hard sciences and in economics. The 'rationalist' approach is based on the distinction between uncertainty, experienced at the individual level, and risk, intended as a calculable statistical construct that follows the rules of the calculus of probability. Within this camp, risk is usually defined as 'expected harm', thus formally as the damage times the probability of the negative event (Royal Society 1992). The traditional definition has, however, recently been challenged inside the very rationalist field. The search for a more neutral conceptualization, faithful to the ambivalent nature of risk, has led the International Organization for Standardization (ISO) to define it as 'the effect of uncertainty over goals' (ISO 2009). Yet, this seemingly intuitive notion is possibly incomplete, at least for the political scientist, as far as it does not raise any question about those 'goals'. Confronting the goals on the basis of which risk itself is defined is precisely the main concern of the sociological approach. It is also the reason why I believe it can fruitfully contribute to the risk privatization debate.

The label of 'sociological approach' to risk commonly refers to three distinctive schools of thought, all interested in the historical evolution of the concept of risk, that developed almost independently during the 1980s and the 1990s, in the wake of a widespread loss of public confidence in the authority of experts and in the effectiveness of public risk management. The first school, the socio-cultural approach, was established in the US by the work of Mary Douglas and Aaron Wildawsky (1982). The second strand covers the macro-theories of modernization and individualization advanced by sociologists such as Ulrich Beck (1992), Zygmund Bauman (2000), and Anthony Giddens (1990, 1998), as well as by the philosopher Niklas Luhmann (1993). Finally, the third consists of the 'governmentality' approach that has developed drawing on the original work by Michel Foucault (1991). Each of these perspectives offers a peculiar but comprehensive framework to study the interplay between risk, politics, and society over at least the last century of its evolution. Here, rather than attempting an insufficient overview of their specificities, I will focus on their commonalities and on the intuitions useful to refresh the risk privatization debate.

Although in different ways, all of the three approaches emerged to shed new light on the controversies between scientific knowledge and public (laymen) concerns, beginning with a refutation of the dichotomy between 'objective risks' and 'subjective risk perceptions'. On the basis of this common interest, the three perspectives have formulated alternative definitions of risk that recognize it as a peculiar type of 'social construction': one which happens to be shaped and structured by 'objective' social realities (such as technological revolutions, power dynamics, and changes in social organization and in the productive system). Providing in insight that could be usefully applied to the measurement and interpretation of income volatility, sociological theories interpret the rationalist approach's epistemological limits and lack of political appeal in the light of this 'dual reality' of risk. Moving from this distinctive understanding, the sociological camp looks at the connection between the empirical phenomena and the normative implications that concern the issue of risk and public responsibility. The three sociological schools confront this task by recasting the question of why experts and laymen have different perceptions of risk into the question of why exposure to different risks happens to be more or less 'acceptable' in different historical contexts. Of course, they provide very different answers to the question and interpret differently the transformations and the actors behind changes in the social significance of risk. Such differences, however, are not the point of my contention: as effectively summarized by Taylor-Gooby and Zinn (2006), there is one broad lesson to be learnt from the sociological perspective, and it is that: '…risk is not just an objective entity but also a specific way of understanding society and placing a value on particular approaches to opportunities and dangers.'

Common within the sociological approach is also associating the issue of acceptability with that of choice, and therefore responsibility. Douglas and Wildawsky (1982) and their followers link acceptability and choice through what they call the 'forensic functions of risk': mechanisms that allow societies to cope with uncertainty through the attribution of individual accountability and culpability and the identification of somebody responsible for the harm. Governmentality scholars relate the individualization of risk to the success of the neo-liberal agenda and of the specific forms of social control it purports.

Finally, risk 'society theorists' such as Beck and Giddens (Beck *et al.* 1994) suggest that secular processes of modernization and individualization have led to the emergence of a new distinctive kind of risks, characterized as catastrophic, systemic, and increasingly recognized as self-inflicted side-effects of other human endeavours (that is, *choices*). In simple terms, this awareness is seen as producing a loss of confidence in the collective management of risk and a more self-critical and proactive stake in the issue ('reflexivity'), which translates in a more individualistic approach to matters of risk and responsibility (that is, *choice*).[26] Luhmann even suggests that (manmade) risk is

[26] Beck and Giddens differ, however, in their explanation of 'reflexivity' as a consequence of macro-institutional changes (Beck) as opposed to socio-cultural ones (Giddens).

only distinguished from (natural) danger when harm can, rightly or wrongly, be traced back to a single critical decision: by virtue of the persuasiveness of this (pseudo)causality, he argues, risk has become the only category under which modern societies are able to think of their future and face the challenges ahead.

In all cases (and reaching well beyond the limited field of socioeconomic risk) the notion of acceptability points at the existence of a politics of risk that does not revolve solely around distributive implications, but also around identities and norms. It suggests that public responsibility for risks that are commonly associated with marginal or culpable minorities may become less acceptable within a given society, even if they touch on everyone to some extent. Or, by contrast, it points out that members of the middle and even of the working class might fear pervasive risks like overtaxation and public debt, which bring about certain losses out of their control, more than individual life events they feel they can 'do something about'. In other words, within societies riddled by both 'individual uncertainties' and 'systemic catastrophes' pre-existing social fissures and identities, widespread losses of trust in institutions or politics, and the evolution of cultural norms may create unexpected reserves of political capital for a renegotiation of public responsibility. This has implications not only for how risk privatization is explained but also for how it is measured and interpreted: 'volatility' is an important indicator, but it only reveals its significance through the lenses of 'acceptability'.

It is easy to see that, from this common ground, sociological theories of risk offer many tools to expand and put in context Hacker's thesis of a privatization of risk, pulling it out of the specificity of the US case and even out of its own assumptions. While governmentality theorists would probably draw closest to Hacker's focus on the agency of conservative policy entrepreneurs, proponents of the socio-cultural school could shed light on the most complex interaction between distributive and value-related issues influencing the politics of risk and public responsibility. On its turn, the *risk society* framework may give a more plausible interpretation of how post-industrialism is reconfiguring social mobilization and political competition for equality and security, creating rival claims within the left and giving new political appeal for the welfare residualism of the economic right.

More to the point of the present chapter, sociological theories of risk also give suggestions of a conceptual and methodological nature. First of all, they give definitions of risk that complete the rationalist understanding of risk as an objective statistical construct. Their bottom line is: risk is dual, partly an objective reality and partly a social construction. Second, they argue for a more sophisticated qualitative approach not because indicators are imperfect, but because they remain contentious (and basically not interpretable) absent an analytical framework aware of this 'dual nature'.

Finally, they leave to the political scientist the task to avoid exercises of abstract measurement, while defining with greater precision which risks are identified and politicized, as well as how they map onto the most salient cleavages in each national social fabric. My impression is that a qualitative approach modelled on these suggestions can win back to the comparative study of risk privatization a number of opportunities that *GRS* and its quantitative follow-ups have ignored.

2.4 'Tweaking' the qualitative framework: the case of Bismarckian pension policies

In the previous sections I argued that the expansion of quantitative studies in the research on the privatization of risk, while addressing a crucial and worthwhile empirical issues, shows at best a mixed record. While state-of-the-art indicators of income instability in the US debate already reach beyond what non-American datasets would allow for other countries, the lack of a transparent measurement and of a shared methodological standard weakens the evidence supporting the empirical puzzle at the basis of the 'risk shift' thesis. At the same time, this same evidence fits the risk privatization story only under strong (or at least case-specific) assumptions and becomes tricky to interpret otherwise, not lastly because indicators of income instability, unlike measures of 'welfare effort', play little role in the political debate. I tried to trace back these problems to a conceptual fallacy: the reliance on a definition (or, better, a 'notion') of risk that is commonly used in the hard sciences and in economics, but which has often proved itself ill-equipped for the study of risk in the political and social sciences. Thus, I indicated in the sociological theories of risk and in their notion of 'acceptability' the insights on whose basis risk should be reconceptualised, in order to complement a rigorous analysis of volatility with an improved qualitative framework, more suitable for cross-national comparisons.

In this section I will briefly present the research design I adopted in this dissertation. The overview will describe my puzzle, research strategy and casing, while focusing on the way I assess and, where possible, quantify retirement 'risk shifts'. It will address neither my hypotheses of explanation, the way I test them in the thesis, nor my country narratives and causal argument, which are not directly relevant to the topic of this chapter.

The puzzle. To start with the basics, my research departs from a question that is equivalent to Hacker's in the first pages of *GRS*: why, during the last decades of economic change and increasing uncertainty, democratic political economies have been enacting welfare reforms that have shifted on individuals and families risks and responsibilities that were previously socialized and dealt with collectively? To substantiate this generic question I provide, for most of the economically advanced countries, several pieces of evidence pointing in the direction of (1) an increase in economic vulnerability of broad sectors of the population (2) a decrease in the share of public to total social expenditure and (3) a list of reforms aimed at introducing markets or market processes in the provision of welfare benefits. I then position myself within the research agenda on the privatization of risk and declare my interest in qualitative changes in the distributional principles embodied by existing welfare states, rather than in expenditure cuts and retrenchment. Nonetheless, I make explicit my dissatisfaction with the quantitative turn in the North American debate and point to what I see as a blank spot in the literature. Namely, I point to a comparative historical analysis (Mahoney and Rueschemeyer 2003) of risk shifting reforms able to connect Hacker's research on the changing social distribution of risks (which I find convincing policywise, but weak on matters of politics) and European analyses of welfare 'recalibration' under the shadow of economic crisis (which I find questionable policywise, but intriguingly sophisticated when dealing with politics).

Research design. From a broad methodological point of view, my thesis is not particularly innovative and follows the traditional research design of American historical institutionalists such as Skocpol, Immergut, or Steinmo (see Steinmo 2007 for a review). Minoritarian in the methodological camp, this approach privileges the historical understanding of the specificities of each case study over more variable-oriented comparative perspectives. Therefore it deviates from the most popular 'Mill's methods approach' promoted by scholars such as Lijphart (1971) in two fundamental respects: (1) cases are selected along the distribution of the 'dependent variable' as (weaker or stronger) instances of the same phenomenon; (2) no explanatory variable is isolated with a most-similar or most-different criterion in order to result as 'the effect, or the cause, or an indispensable part of the cause, of the phenomenon' (at least, not by virtue of the comparison alone). It is the task of the historical analysis to connect the dots and weight the hypotheses with the available evidence as well as counterfactual reasoning.[27] In order to improve my casing, I also rely on a 'hard case logic' (Gerrings 2008), insofar I selected cases where (1) reforms of any kind are made 'most difficult' by veto-heavy law-making processes; (2) subtractive welfare reforms are made 'most difficult' by the

[27] In sum, this methodology turns to the heuristic power of process tracing and historical analysis (which can indeed be understood as a most-similar comparison over time) to discriminate between a number of equally plausible hypotheses. To achieve this goal, the cases must capture a great amount of variance both in the phenomenon to be explained and in the potential explanatory factors. For this reason, this strategy is often labelled 'diverse cases' (Gerrings 2008).

institutional legacies in place; (3) risk privatization is made 'most difficult' by the endemic presence of an institutionalized compromise between risk pooling and social stratification.[28]

Casing. On the one hand, the hard case logic suggests the study of pensions (allegedly the hardest social policy to reform), in particular of Bismarckian pension systems (where risk pooling and social stratification are bounded in an occupationalist compromise, see Schludi 2005), in veto-heavy economically advanced democracies (where legislative blockages, dynamics of political competition, and adaptive expectations over the role of the welfare state make subtractive reforms politically painful). On the other hand, the kind of historical comparison described above urges to maximize the variation among the cases, both in terms of risk privatization (proxied *ex ante* by the number of subtractive pension reforms undertaken) and in terms of the political and economic environment more in general. Ideally, this further requirement would be best fulfilled by the choice of four cases: Italy, Germany, Japan, and the US. This thesis focuses on the first two cases as a first step in this direction. For these two cases, I analyze the period 1978-2007, looking at policy changes in entire pension systems, in both publicly and privately sponsored schemes.

Risk privatization as the *explanandum*. Taking advantage of my case selection strategy, focused on policies rather than national welfare systems (not to say welfare regimes), I approach risk privatization by taking a closer look at: (1) the specific functioning of each pension policy; (2) the underlying goals of retirement policy in each country; (3) their variation over time.[29] My perspective is obviously informed by the reflections offered in the previous sections, even if the discussion of quantitative techniques is less extensive than here. I conceptualize risk privatization as a sequence of policy changes or a 'policy trajectory': a matter of changes over time, rather than levels. Unsurprisingly, I also characterize each of the policy changes that bring the trajectory about as a '(downward) risk shift'. A risk shift is defined as a reduction of one or more of the conditional financial guarantees offered by the policy at time t-1. In other words, a risk shift is defined in func-

[28] With the third point I intend that I excluded cases where strongly universalistic policies could suffer a pressure to converge to international averages (e.g. healthcare in Sweden), as well as cases where the progressive residualization or privatization of social welfare could be interpreted as a cumulative policy feedback (e.g. food stamps in the US).

[29] While points (1) and (2) may resemble Peter Hall (1993)'s concept of policy paradigm (equating risk privatization with a 'paradigmatic change'), it is worth stressing that: (1) I am not assuming any hierarchy or strong correlation between policy goals and policy means/settings, nor that the former are more change resilient than the latter; (2) I am not looking at economic ideas (namely at the shift from the Keynesian to the neoliberal orthodoxy) as the sole or the main driver of changes in the policy goals. On the contrary, I consider the problem of risk acceptability in the light of the *risk society* approach above, arguing that changes in social organization and the increasing relevance of systemic risks have been creating political room for a more decentralized management of risk. It is my contention that such a political room is first opened by the appearance of systemic crises such as stagflation, public debt, or mass unemployment, and then reinforced by the loss of trust in public management and politics that arises in the face of prolonged policy failures (neoliberalism being here as much as an effect than a cause). However, the way political opportunities for decentralizing the management of risk (by which I mean room for innovation rather than openings for a conservative agenda) translate into actual policy change rests on country specific factors, such as the role of political competition and the quality of industrial relations.

tional terms, as the weakening of an internal 'shock absorber' targeted to a specific event (a shift from wage to price indexation being a typical example). To sharpen their connotation, 'risk shifts' are also defined in opposition to quantitative 'retrenchment', identified (in an admittedly ideal-typical fashion) with across-the-board expenditure cuts (good examples are generalized cuts in the revaluation of pension contributions, as well as increases in payroll taxes with no benefit increment).[30]

Assessing the risk shift. The main implication drawn in the last section of the chapter is that it is futile to produce measurements of the 'risk shift' without making explicit which risks are shifted, thus which risks experience a reduction in the financial guarantee associated with them. Financial and economic studies have come up with very long and detailed lists of 'risks' associated with the functioning of pension programmes. These catalogues are ingenious in suggesting many things that could 'go wrong with pensions', but of limited use for understanding the relation between risk and social goals. In order to conflate them, I started from the alleged social goal embodied in Bismarckian pension systems: namely, status maintenance in the phase of quiescence for all those who qualify as 'workers'. This general ambition has been realized in highly country-specific ways, which matter for both the generosity and the guarantees of these pension systems. The ability of a pension system to maintain status is frequently measured by its replacement rate.[31] However, changes in the replacement rate are inadequate indicators of a risk shift as I define it. On the one hand, they may result from both across-the-board cuts and the reduction of certain financial guarantees; on the other, they ignore that the likelihood of achieving a full career may have dramatically changed over time (see Hinrichs and Jessoula 2012; on Italy see Berton *et al.* 2009).

So I pose a further qualification and consider three different dimensions of financial guarantee: *accumulation*, *annuitization,* and *dynamization*. With '*accumulation'* I consider whether the program offers financial guarantees against the vicissitudes experienced on the labour market (such as contributory credits for high education, childbearing, unemployment…). With '*annuitization'* I consider whether the program offers financial guarantees against events occurring at retirement (this is the case when retirees pay a premium to convert their contributions in a monthly pension benefit, or when pension income is conditioned to current economic and demographic scenarios). Finally, under the tag '*dynamization'* I look at the financial guarantees offered against events occurring after

[30] Although drawing a line between the two is sometimes tricky (especially when horizontal cuts are targeted to specific occupations) the distinction helped me to map more precisely the policy menu of contemporary pension reforms.

[31] Replacement rates it offers, after a full career, at the moment of retirement (the ratio between pension income and the last wage paid to the new retiree) and then in various periods after retirement (the ratio between the current pension income of the same retiree and the last wages paid to new retirees in the same occupation).

retirement, such as indexation to inflation or wage growth (or, conversely, at the introduction of negative indexations to economic or demographic trends). A (downwards) risk shift occurs when, by the revision of a program or its substitution with another one, one or more of these financial guarantees are weakened.[32]

Empirics. The empirics needed for assessing the extent of the risk shifts come from a close examination of pension laws and reform bills, and of their effects on the functioning, regulation, and relative importance of public and private pension schemes. For instance, even if it is often the case in practice, I make no a priori assumption that public schemes offer more risk pooling than private or occupational ones or that defined contribution programs are necessarily more risk privatizing than defined benefits one: I just look at how they really work and what they actually promise. Although my assessment is mainly qualitative, it does not mean that the effects of the various 'risk shifts', once identified and distinguished from across-the-board cuts, should not be quantified. This can be done very well by looking at the expected savings of the pension sponsors, or by the effects on the replacement rates *ceteris paribus*, as economists and political economists would do for retrenchment as well.

Quantification. In the light of my critical assessment of the quantitative debate, it is nonetheless clear that a measure of how recent reforms have made replacement rates sensitive to individual fortunes and to economic or demographic developments would be a preferable indicator of the extent of the risk shift. Particularly telling is to examine how career profiles previously entitled to the same replacement rate become stratified on the basis of vicissitudes undergone individually or at cohort level. The main issue with this quantification strategy is that since pension reforms produce their effects only far into the future, the necessary data do not exist yet. Luckily, the problem is not without a solution. First of all, even if to a very small extent, this exercise can be done with the estimates provided in official publications. Second, micro-simulations appear as a powerful ally for pension scholars. In fact, a number of recent contributions have shown the potential of using them to assess individual level outcomes of current policies in the remote future (see for instance Meyer and Riedmüller 2007). Compared to the analysis of current income dynamics, pension income micro-simulations resemble the analysis of earnings and employment patterns. The method also allows researchers to control for different assumptions and explicitly model counterfactuals. The biggest challenge for this approach is to develop reliable estimates of employment transitions and unemployment spells that can be used to model future lifetime earnings. Great steps forward in this direc-

[32] As long as the concept of financial guarantee has been clarified, here I will not go into the technical details of how specific policy settings reallocate responsibilities between pension beneficiaries and pension sponsors.

tion are currently being moved courtesy of innovative datasets and economic modelling tools such as the Italian T-DYMM (DdT and FGB 2012) which remain, however, out of the scope of this work.

Concluding remarks

In this chapter I have argued that the research program on the privatization of risk, after the publication of *GRS*, has experienced a quantitative turn, trying to reassess and improve Hacker's contentious finding that the instability family income had experienced a marked secular increase and a huge peak in the early 1990s. I advanced four claims to comment on the conceptual and methodological implications of this new stream of literature, arguing that not only a common quantitative standard is still missing, but also that state of the art indicators for the US case are difficult to replicate in other contexts and that their interpretation rest on arbitrary assumptions and may mislead the understanding of the politics of the risk shift. In support of my critical appreciation, I offered an overview of the US scholarly debate, of the datasets available for the comparative analysis, and of the main criticisms moved against Hacker's original analysis. In trying to interpret these difficulties I argued that the qualitative differences between US datasets and those available for other advanced countries are a problem with only limited solution.

Focusing instead on more interpretative and analytical problems, I also contended that the issues above might be the result of a shortcoming in the (implicit) definition of risk upheld in this debate. I thus moved to analyzing the alternative conceptualization common to the sociological theories of risk, arguing that it may provide a firmer starting point for a revised qualitative framework of this research program, more suitable for the comparative analysis and less centred on North American specificities. Finally, I presented the analytical framework of my dissertation, which deals with the privatization of retirement-related risks in two countries: Italy and Germany.

In conclusion, I believe that researchers interested in the comparative analysis of risk privatization should reconsider and redesign the tools offered by the existing literature. The quantitative approach is very sophisticated and boasts contributions from various social sciences, but it has probably grown to the limits of the notion of risk it has adopted. It seems logical now to turn back to the qualitative analysis to overcome these limitations and find new ways to combine rigorous and standardized indicators with an in-depth understanding of each national trajectory.

3. Italy and Germany: the reform process and the risk shift

Introduction

This chapter provides a comparative outlook of pension reform patterns in Italy (Section 3.1) and Germany (Section 3.2) over the period 1977-2007. Its goal is to give an in-depth presentation of the timing, content, and nature of the transformations undertaken by the two systems under study. Basically, the point of its exercise is to define, in each case, the phenomenon to be explained as a sequence or mix of different reward- and insurance-reducing reforms. The following chapter will concentrate on the causal narrative that brought about the changes here detailed.

Comparing the Italian and the German reform process reveals a number of similarities between the timing and content of the two reform patterns. However, a striking difference is also confirmed nearly at any step of this chapter's fine-grained policy analysis. This difference boils down to the following point, which is a major piece of the puzzle posed by comparing the two cases. On the one hand, alongside the respective reform processes, both Italian and German policymakers adopted all of the four types of reforms discussed in Chapter 1. On the other hand, the extent to which retirement risks have been individualised has systematically varied. Starting from a situation of high generosity and extensive risk-socialisation, the Italians have relentlessly pushed the system towards risk individualisation, by concentrating their subtractive efforts on the financial guarantees of the system and by privileging a selective approach. The Germans faced instead less generous and, at least to some extent, less risk-socialising rules. When forced to reform their pension system, however, they stubbornly – sometimes even creatively – pursued strategies that were both less selective and less disruptive of most of the old financial guarantees.

Although the present thesis is not primarily concerned with explaining variation, as it rather focuses on the emergence of a risk shift in both cases, this difference is an important piece of information to take into account. First, as this chapter tries to show, understanding this key point is crucial for a correct assessment and understanding of the phenomenon to be explained. Second, as it will be apparent in the following chapter, the difference is intimately related to how the politics of risk distribution has unfolded in the two cases.

3.1 Italy: the breakdown of risk pooling

By the end of the 1970s, Italian policymakers had built a comparatively generous pension policy. The public pension system was nationwide and centrally administered by a public agency: the National Institute for Social Insurance (INPS). Notwithstanding various attempts to introduce more universalism, public pensions stuck to the Bismarckian occupationalist approach since they were introduced in 1919. Correspondingly, pension rights were typically earned by a family breadwinner through seniority of work. They were meant to maintain pre-retirement differentials in professional and socio-economic status. Occupational pensions were almost nonexistent. The most common firm-sponsored scheme with effects on savings and retirement income was the 'seniority indemnity': an unusually extensive severance pay scheme inherited from fascist corporatism.

If the Bismarckian orientation of Italian pensions withstood the test of time, much of the original setup was nonetheless transformed between 1945 and 1976 (see Table 3.1). The financing of

Table 3.1 – Outlook of the Main Pension Reforms: 1919-1980

Acts and Laws	Main provisions and effects:
D.Lgt n. 603/1919	Introduction of a mandatory public pension scheme with a dedicated fund.
R.d.l. 636/1939	Extension of mandatory insurance among the employees. Introduction of a differentiated retirement age for men (60) and women (55) and of a survivors'pension.
D.Lgs.lgt 177/1945	Introduction of a PAYG component. Definition of a pension minimum and of a tax-financed integration.
L.n. 633/1950	Extension of mandatory insurance to all private employees, regardless of income.
L.n. 218/1952	Reform of the PAYG component and of the 'integration to the minimum'.
D.p.r. n.17 & 20/1956	Reform of the earnings related formula for public employees and introduction of early retirement options
L.n. 1047/1957	Extension of mandatory insurance to agricultural self-employed and sharecroppers.
L.n. 463/1959	Extension of mandatory insurance to artisans.
L.n. 1561/1960	Adoption of a final wage formula for the seniority indemnity scheme.
L.n. 230/1962	Extension of the seniority indemnity to temporary contracts.
L.n. 1338 & 1339/1962	Expansion of minimum levels and defined contribution benefits for artisans and private employees.
L.n. 9/1963	Pension minimum increase. A new DC scheme for agricultural self-employed and sharecroppers.
L.n. 903/1965	Introduction of seniority pensions for private employees.
L.n. 604/1966	Extension of the seniority indemnity to every end of service circumstance.
L.n. 613/1966	Extension of mandatory insurance to shopkeepers.
L.n. 238/1968	Introduction of an earnings-related formula for private employees.
L.n. 153/1969	Expansive reform of the new earnings-related formula, elimination of the residual capitalized component, introduction of a social pension for seniors not eligible for a work pension, indexation of pensions to wages and prices.
L.n. 160/1975	Expansive reform of indexation for private employees: indexation to wages in the manufacturing sector.
L.n. 177/1976	Expansive reform of the earnings-related formula for public employees.

Source: Adapted from Ferrera 2006: 77, Jessoula 2009: 136; 141.

benefits changed. In order to cope with the economic and administrative losses caused by the war, capitalized funds were first integrated (1945) and then progressively displaced (until 1969) by a pay as you go (PAYG) system. The system also opened up to more universalistic and anti-poverty ambitions. As some commentators put it, Beveridgean goals were pursued by adapting the existing Bismarckian means. Coverage was extended to the large self-employed component of the workforce (agricultural labourers and sharecroppers, artisans, and shopkeepers) between 1957 and 1966, while a residual social security scheme was introduced in 1969 for the elderly who failed to earn a work pension. Early retirement, previously available only to civil servants, was extended to private employees on less generous terms (1965-69).

With the major Brodolini reform of 1969, the old contribution based rules for private employees was replaced by a 'final wage' defined benefit formula that assessed pensionable income over the last 5 years of contribution. Wage indexation, also introduced in 1969, was further expanded in 1975. Finally, in 1976, civil servants obtained a reform of their pension rules on very generous terms. Occupational pensions long remained underdeveloped outside the financial and banking sector, crowded out by generous severance payment schemes. In the private sector, the seniority indemnity scheme was expanded along the 1960s, until it became a real 'final wage' allowance, available as a lump sum under any circumstance leading to contract termination.

As a starting point for my analysis, Table 3.2 offers a synthetic outlook of the system's setup in the early 1980s (later referred to as 'the status quo'). The table shows that Italian public pensions were far from universalistic and far more fragmented than in core Bismarckian countries such as Germa-

Table 3.2 – The setup of the Italian Pension System at the Beginning of the 1980s

<table>
<tr><th rowspan="2"></th><th colspan="2">Eligibility</th><th rowspan="2">Contributions (% gross wage)</th><th colspan="2">Benefits</th><th rowspan="2">Indexation</th></tr>
<tr><th>Age</th><th>Seniority</th><th>Wage-assessment</th><th>Formula</th></tr>
<tr><td colspan="7">PUBLIC PENSIONS:</td></tr>
<tr><td>Social pension</td><td>65</td><td>-</td><td>-</td><td colspan="2">Means testing</td><td>Periodical increases</td></tr>
<tr><td>Private workers</td><td>Women:55
Men:60</td><td>35</td><td>16,86% Employer
7.15% Worker</td><td>Best 3 out of the last 10 years</td><td>Seniority/40 * 80% (The so-called '2%')</td><td rowspan="3">Inflation + wage growth</td></tr>
<tr><td>Public employees (State)</td><td>65</td><td>20 (15: wives and mothers)</td><td>5.60% Worker</td><td>Last month</td><td>Seniority/40 * 94.4%</td></tr>
<tr><td>Public employees (others)</td><td>60</td><td>Women: 20
Men:25</td><td>5.70% Worker</td><td>Last month</td><td>Seniority/40 * 100%</td></tr>
<tr><td>Self-Employed</td><td>Women:60
Men:65</td><td>-</td><td>A modest fixed sum</td><td colspan="2">Defined contribution
but usually minimum pensions</td><td>Inflation</td></tr>
<tr><td colspan="7">SENIORITY INDEMNITY (PRIVATE EMPLOYEES ONLY, LUMP SUM)</td></tr>
<tr><td>Private workers</td><td colspan="2">Any termination of contract</td><td>By the employer</td><td colspan="2">1 month of last wage * years of seniority</td><td>Not applicable</td></tr>
<tr><td colspan="7">PRIVATE PENSIONS:</td></tr>
<tr><td colspan="7">Occupational pensions: slightly more than 200 pension funds at firm level with different tax treatment</td></tr>
<tr><td>Cadres and managers</td><td colspan="2">Age 60-65, seniority 10-15</td><td>4-5%</td><td>Last month</td><td>Various formulas, earnings related</td><td>Usually none</td></tr>
</table>

Source: Jessoula 2009; INPS 1993.

ny or the Netherlands. The rules for civil servants were much more generous, especially in terms of early retirement opportunities, where a ‘baby pension’ option allowed mothers and wives to retire after just 15 years of service. Private employees, on the other hand, received a seniority indemnity equal, in most cases, to 1 month of their last wage for each year of seniority (since 1960, although inequalities still remained across sectors). Cadres and managers in banking, public utility, and insurance companies used to enjoy pension integration schemes, typically of a defined benefit type.

Italy’s comparatively large self-employed workforce was a peculiarity. Self employed workers are usually difficult to integrate in Bismarckian systems. Their more volatile and less traceable earning patterns is sensitive to high contribution-tax rates, since no employer is there to take on a share of the burden, and they leave ample room for tax avoidance. Their inclusion in the core of the pension system certainly was a major example of Beveridgean goals pursued with Bismarckian means. It also reflects another peculiarity of the Italian society in the post-war years. Thanks to the existence of two political subcultures (a catholic or ‘white’ one in the North-East and a socialist or ‘red’ one based in the regions of the centre), self-employed constituencies were core supporters of all of the three major parties (DC, PSI, and PCI), which held their interests in high consideration.

For all these reasons, before the reform of 1990, the self-employed were covered by a public retirement program, but were also subjected to a pre-war DC system and a low tax rate. Still, they were rarely penalized by the DC rules at retirement. In most cases, in fact, very little was paid into the system, in exchange for either a minimum pension or a supplemented work pension. In other words, tax financing used to step in, providing the self-employed with a much higher pension wealth than the total value of their lifetime contributions. The opaque and regressive character of this redistribution and its perverse incentives to avoid the contribution-tax were meant to become key sources of criticism and disaffection towards the system.

The attentive reader may now object that, in such a fragmented system, risk pooling must have been limited. Indeed, the purest case of risk pooling is a nationwide universal system of the Scandinavian sort: a policy option that was never seriously considered in Italy. Although the pension architecture was not the most favourable to risk pooling, there is no doubt that the Italian system sheltered workers and pensioners from the risks detailed in Chapter 1. Following the same approach, Table 3.3 shows (in the case of private employees and civil servants) how labour market and investment risks were distributed between the insured population and the pool. The table makes clear how responsibilities for keeping the pension promise were concentrated on the pool.

Table 3.3 – Risk pooling in the Italian public pension (late 1970s, public and private employees)

Policy settings / Risk shift	Functions and rules	Level of protection	Pros (+) and Cons (-)
Labour market risks	**Accumulation**: Min. vesting period:15 years; Earnings assessed on last wages; Figurative credits and options to buy in and redeem extra years;	High	+ Strong protection against occasional gaps at the cost of excluding short careers; + Protection from long periods of 'raising through the ranks' in the early career;
Investment risks	**Revaluation:** Final wage model; 2% or more of the assessed wage for each year of seniority; Integration to a minimum level;	High	+ The final wage model works like a very strong form of revaluation of past contributions; + Length of seniority is the key variable;
Depreciation & demographic risks	**Dynamization:** Indexation to inflation and wage growth;	High	+ Full protection of real pension income and of relative income position vis-à-vis the actives.

Source: own elaboration.

Looking at accumulation, all employees were treated equally once they had reached the 15 years of seniority that qualified them as 'workers' rather than dependent family members. Thanks to the final wage approach of the DB formula, workers were protected from the negative impact of wage instability or a long period of low earnings in their early careers. In terms of revaluation, the system was clearly far removed from a strict actuarial logic. The key variable was not the total amount of contributions paid into the system, but the length of seniority. So, the final wage model acted as very strong form of revaluation, putting on the pension sponsor the entire financial responsibility of filling the actuarial gap. The choices in terms dynamization were also very favourable. Pension income was not only protected in real terms, i.e. against inflation, but also in relative terms, that is against productivity increases and real wage growth. The level of protection was thus high in all of the three dimensions considered in the table.

In sum, pension rules gave the public pension sponsor a lot of responsibility for absorbing negative shocks, but little resources from within the system were available for financial coverage. The combination of high replacement rates, normative fragmentation, and universalistic aspirations (at odds with the Bismarckian model) severely curtailed the room for internal redistribution. Moreover, the final wage model and high replacement rates had the effect of concentrating resources on steeper careers, regardless of individual income levels. Concentration on steep wage patterns favoured the career profiles of public and para-public employees, who also benefited from more generous rules. Workers thus received vicious incentives to seek for early retirement opportunities and to misreport their earnings early in their working history.

Policymakers and pension administrators found two solutions to the problem. The first was to externalize the costs on the general revenues, as a way of achieving indirectly that universal pooling of resources that was prevented by the stickiness of the Bismarckian blueprint. The second practice was that of cross-financing deficits in the funds of politically strong categories by disbursing the surpluses available in other schemes. Most often this practice implied a transfer from the main fund of private workers (FPLD) to those of the self-employed and of employees in public utilities and state-owned enterprises. Redistribution from less to more privileged funds and from flat to steep careers was regressive and, over time, fuelled a sentiment of distrust and mutual vindication. Finally, cross-financing did not take into account the possibility of unfavourable economic or demographic prospects. On the contrary, it increased the system's vulnerability to exogenous shocks, making it structurally dependent on transfers from the state budget.

Against this backdrop, and given the abuses of Italian-style risk pooling, there is little surprise that policymakers were tempted to shift some risks on workers and pensioners. The first risk shifting measures came to the fore during the long and inconclusive policy debates of the 1980s. While other European countries such as Germany (see the next Section), Sweden and the Netherlands started to revise and restructure their pension systems, Italy was unable to define a clear and consensual reform agenda. On the one hand, the private sector's seniority indemnity was abolished and substituted by the *Tfr*, a mandatory severance payment scheme meant to assume a paramount role in the future development of supplementary pensions. On the other hand, preretirement was widely used to support the restructuring of Italian industries. Eventually, the reform of 1990, which started as an attempt to rationalize, harmonize, and stabilize the pension system, turned into the swan's song of pension expansion. Abandoned its restructuring ambitions, it merely provided the self-employed with earnings-related and early retirement rules similar to those of the FPLD, but without increasing their contribution taxes.

The real u-turn occurred in the 1990s (see Table 3.4): pension expenditure was substantially cut and risk consistently shifted on the insured population. The reforms produced many effects, among which one can list benefit cuts and spending stabilization, normative and institutional harmonization, transition towards a multi-pillar pension architecture, and a higher average effective retirement age. Some laws even contained minor expansive provisions, increasing minimum pensions and modernizing the pension credits regime. Pensioners were spared by many cuts and future pensions, at least after an uninterrupted career, remained in the high tier of international standards. However, pension also became less certain and unpredictable, as a result of an unopposed risk shift. The introduction of a new notional defined contribution (NDC) formula in the

Table 3.4 – Outlook of Main Pension Reforms and Reform Proposals: 1980-2007

Bill Number/Year:	Main provisions and effects:
Scotti Package*	Proposal for the harmonization of schemes and payroll taxes and higher retirement age;
L.n. 297/1982	Abolition of the seniority indemnity and creation of the *Tfr* as a defined contribution end of service scheme, with a guaranteed return;
D.l. n.463/1983 *L.n. 638/1983*	Introduction of means testing for minimum integrations;
De Michelis Package*	Proposal to raise retirement age to 65 and for: disincentives to early retirement, a 40-year requisite for seniority pensions, the assessment of earnings on the last 10 years; Proposal for the gradual transition to a three pillar system: income limits for the first pillar, voluntary occupational and private pensions;
Cristofori Package*	Proposal to extend private workers' rules to all private and public employees and to phase out of baby pensions; to equalize minimum pension between private employees and the self-employed; to extend to 20 years the minimum vesting period; to raise women's retirement age to 60 and give incentives to men to stay at work until 65; Proposal for the creation of private integrative funds;
L.n. 140/1985 *L.n. 141/1985*	Improvements of civil servants' and minimum pensions and rule harmonization for self employed and private employees starting in 1988;
Formica Package*	New proposal to introduce a unique retirement age at 65, disincentives to early retirement, a 40-year requisite for seniority pensions, and a 20-year min. vesting period; Proposals to develop complementary pensions, financed through the *Tfr* and supported by fiscal incentives;
L.n. 67/1988 *L.n. 544/1988*	Retroactive abolition of the income limit on assessed earnings;
Donat Cattin Draft*	New proposal identical to the De Michelis Package; Proposal for the introduction of a mandatory occupational pillar financed by the *Tfr*;
L.n. 233/1990	Extension of the earnings related formula for the self-employed, based on the last 10 years;
Marini Draft*	Proposal for the phasing out of baby pensions, for a unique retirement age at 65, and for a 20-year minimum vesting period;
Amato Reform *L.n. 438/1992* *L.dg. 421/1992* *D.lgs. n. 124/1993*	**Reform of public pensions:** gradual raise of retirement age to 65 (men) and 60 (women) by 2002; increase to 20 years of the minimum vesting period by 2001; earnings assessment over the last 10 years with a seniority of 15 or more and on the entire career for new entrants, with a low revaluation rate; higher payroll taxes for employees and self-employed, indexation to prices (curbed in 1992 and suspended in 1993); suspension of early retirement options in 1993 and phasing out of baby pensions; limits to the concurrent drawing of wage and pension income; **New framework for voluntary complementary pensions:** occupational and sector-wide as well as private; option to use up to 10% of wage (including employers' contributions) to finance integrative pensions, using part of *Tfr* (new entrants: all of it); freezing of the pre-existing funds; new taxes on private pensions.
D.lgs.n. 373/1993	New option to ignore up to 25% of least paid years (if below 80% of career average earnings);
D.l.n 509/1994	Privatization of the public funds for the professionals;
Berlusconi Package*	Proposals to freeze seniority pensions until 1996 and then reduce them by 3% for year of anticipated retirement; revaluation temporarily (1996-2000) reduced from 2% to 1.75% with 15 years or more of contributions; indexation to expected inflation with one year lag; Proposals for eliminating the 15% upfront tax on contributions, reaching fiscal neutrality among new pension funds and for a new regulatory framework;
L.n. 724/1994	Raise in retirement age anticipated to 2000
Dini Reform *L.n. 335/1995*	**Reform of public pensions:** Freezing of seniority pensions in the first half of 1995 and adjustments postponed to January; introduction of a new 'age+seniority' quota requirement for seniority pensions; harmonization of the revaluation coefficients (2% for everybody); generalized increase of contributory rates, introduction of a wage cap at 132M liras (≈ 70,000€); replacement of the social pension with a means-tested 'social benefit'; tightened requisites for disability pensions; **NDC system:** Introduction of a new contributory formula on top of the old system (complete in 2035) with a flexible retirement age (57-65), no minimum pension, a new scheme for atypical workers, credits for care activities and a preferential treatment for demanding jobs; **Reform of private pensions:** More generous tax rates and credits for complementary pensions; contributions made deductible up to 2.5M liras (≈ 1300€) or 2% of income if TFR is used; upfront tax eliminated; flat tax on gains; cooperatives' workers made eligible for private pensions; more flexible enrolment and transfer across funds; amendments to the regulation of privatized professional funds; Proposal for the extension of *Tfr* to new civil servants to finance private pensions;

Continued →

Table 3.4 – *(continued)* **Outlook of Main Pension Reforms and Reform Proposals: 1980-2007**

Prodi Reform *L.n. 449/1997*	Tightening and equalization of seniority pensions (by 2004); reduction of indexation for higher pensions; gradual increase of payroll taxes to 19% for atypical and self-employed; partial reintroduction of the addition between pension and work income; Proposal for the extension of *Tfr* to new civil servants to finance private pensions;
L.n. 133/1999 *D.lgs 47/2000*	Improvement and extension of tax deductions; Recognition of individual insurance contracts (PIPs) as pension vehicles;
L.n. 448/2001	Minimum pensions raised to 516€ for 13 months for the over 70;
Maroni-Tremonti Reform *L.n. 243/2004* *D.lgs. n. 252/2005* *D.lgs. 42/2006*	**Reform of public pensions:** Super-bonus incentive to postpone retirement (2004-2007); reduction of the windows for seniority pensions and stricter 'age+seniority' quotas in 2008 (so called "big step"); abolition of the flexible retirement age in the contributory system (65 men, 60 women); 3%-5% reduction of contributory rates for new entrants (not enacted); legislative framework to sum contributions to different public schemes; **Reform of private pensions:** Silent assent formula for devolving the *Tfr* to complementary pensions from 2008; creation of a residual fund in the INPS for workers with *Tfr* but without an occupational fund (INPS 1); tax deductions and improved access to credit for firms losing *Tfr* deposits; elimination of the wage limit to contribute to private pensions; extension of tax deductions, even without the use of *Tfr*; optional use of *Tfr* to finance PIPs and increased portability; reduction of taxes to 15% minus 0.3% for each year after 15th (min 9%) ;
D.l.n 279/2006 *L.n.296/2006*	Silent-assent conversion of *Tfr* anticipated of one year Creation of a second fund in the INPS (INPS 2) to collect the *Tfr* of workers who voice to keep it in the firm, when the firm has more than 50 employees.
Damiano Reform *D.lgs. 28/2007* *L.n.127/2007* *L.n. 247/2007*	**Reform of public pensions:** Spreading out of the "Big step" in yearly "small steps" until 2012 and a further step in 2013, reaching quota 61+36; increase of the contributory rate 23% for atypical workers, (26% by 2010); bestowing of a 14th month for lowest pensions in 2007 and 2008; stop of indexation for pensions 8 times higher than the minimum; improvement of the framework for contributory merging; introduction of a new windows for old age pensions; Automatic revision of the coefficients of the Dini reform every three years; **Reform of private pensions:** Implementation of European Directive 2003/41/CE to regulate and supervise complementary pensions of European interest.

Source: Adapted from Ferrera 2006: 77, Jessoula 2009: 136; 141. *Indicates a failed reform

public system was coupled with the development of a legislative framework for supplementary provisions, funded DC and tax-subsidized voluntary. Eventually, the reforms of the following decade fine-tuned the new risk shifting pension architecture. They continued pursuing cost containment through a combination of retrenchment and risk shifting measures (see Table 3.5).

Compared to Table 3.2 above, Table 3.5 shows that the risk shift was brought about by two transformations of the Italian pension policy. A first change was a redefinition of the pension welfare mix, with a greater role of the market and reduced state responsibility. Here the risk shift is due to the fact that firm and market based provisions, tailored on individual profiles or at best on narrower risk pools, provide little risk pooling and redistribution in their pension contracts. So, the transfer of responsibility from the state to the market also implied an implicit shift of retirement risks from the state to individual beneficiaries. The true extent of the risk shift, however, crucially depends on the contents of private pension regulation and cannot be assessed merely on the basis of a change in the welfare mix.

Table 3.5 – The setup of the Italian Pension System after the 2007 reform:

	Eligibility		Contributions (% gross wage)	Benefits		Indexation
	Age	Seniority		Vesting period	Formula	
PUBLIC PENSIONS:						
OLD REGIME (EARNINGS-RELATED): WORKERS WITH MORE THAN 18 YEARS OF CONTRIBUTION IN 1995 AND PRO-QUOTA						
Social pension	65		-	Means testing		Periodical increases
Private workers	Women:60 Men:65	Age+seniority quotas system	23.81% Employer 9.19% Worker	Last 10 years with at least 15 years of seniority in 1992; Entire career for new entrants, with an option to discard the worst years.	Seniority/40 * 80%	Inflation
Public employees (State)	65		22.67% State 9.19% Worker		Seniority/40 * 94.4%	
Public employees (others)	60				Seniority/40 *100%	
Self-Employed	Women:60 Men:65		Various: ≈20%		Seniority/40 * 80%	
NEW REGIME (NDC)						
Social allowance	65		-	Means testing + residence in Italy		Periodical increases
Private workers	Women:60 Men:65		23.81% Employer 9.19% Worker	Whole career	Accruals revaluated at 5-year moving average of GDP growth rate * a coefficient related to life expectancy	Inflation
Public employees			22.67% State 9.19% Worker			
Self-Employed			Various: ≈20%			
Atypical			24.72%			
TFR (LUMP SUM)	Any case of end of service		7.41% Worker (0.5% to INPS)	6.91% wage*year of seniority, revaluated at a rate equal to 1.5+0.75% inflation.		Not applica-ble
PRIVATE PENSIONS:						
Closed Funds	By occupational category		Employer's contri-bution (but not for all PIPs) + part of TFR + voluntary, tax deductible up to 5.164.57 Euros	Funded and Defined contribution (also defined benefit for self-employed)		Usually none
Open Funds	None, or variable in case of collective subscription			Funded and Defined contribution		
PIPs	None					
Pre-existing funds	Age 60-65, seniority 10-15		4-5%	Last month	Various, earnings related	

Source: Jessoula 2009; www.inps.it.

A second and more significant change has taken place within both the public and private pillars of the Italian pension system. The risk shift within public pension programmes occurred through parametric revisions of the old rules (increases of the vesting and of the earning-assessment periods and noticeable cuts in indexation) and the introduction and later revisions of the NDC pension formula since 1995. As I showed in Table 3.4 and discuss below in more detail, the NDC system contained many elements of risk privatization. They included: assessment of earnings along the whole career, revaluation of contributions linked to current macroeconomic trends, individualization of the demographic risk, and price indexation of benefits (likely to produce a 'vintage pension syndrome').[33] However, Dini's success in 1995, compared with Berlusconi's failure in the previous

[33] A vintage pension syndrome is a loss of relative purchasing power that price indexed benefits experience when real wages grow. So, even if purchasing power is protected in absolute terms, the relative position of retirees in the income distribution is dragged down towards the poverty level, as they become relatively poorer within a richer society.

year, demonstrated how appealing risk shifting reforms were for politicians, vis-à-vis more direct retrenchment. The vicissitudes of the following legislature (1996-2001) proved once more the rooting of risk shifting reforms in the Italian pension politics. Centre-left governments had to abandon their ambitions to modernize welfare spending and adopt progressive reforms. Concertation with the social partners similarly ended in mutual distrust. The Italian pension agenda was thus reoriented to short-term cost containment. Adequacy was pursued merely by expanding and liberalizing the pension market.

On the private side, risk shifting reforms begun in 1982 with the introduction of *Tfr*, which was redeployed later on to help financing the new funds. Also in this case, the regulation of supplementary pensions involved a considerable risk shift from the sponsors to the beneficiaries of the new schemes. The *Tfr* itself contained a risk shift: it meant the passage from a DB scheme connected with a wage escalator system to a DC plan with a small law-defined guaranteed return (see Table 3.5). Real *Tfr* returns, however, turn negative whenever inflation is above 6% (since the reform of 2000, tax effects may raise this threshold as net income increases). In 1982, inflation in Italy was about 16%.

The 1993 supplementary pension framework froze in place the small DB system that predated the reform. Pre-existing funds have been allowed to restructure and enter the new system since 2005. The *Tfr* remained the only mandatory scheme, contributions to which were made available to the new funds with a matching contribution from the employer. Since 2007, the transfer of *Tfr* money to the new funds occurs by 'silent consent'. All the other supplementary provisions (closed and open funds, as well as personal plans)[34] were funded, voluntary (even when set up by collective agreements), and tax-favoured (contributions are tax deductible up to € 5.164.57 since 2005). As for regulation, the new schemes mandatorily followed the DC principle, although closed funds for the self-employed could adopt a DB formula. As opposed to the norms on *Tfr*, the state had no obligation to intervene in case of firm bankruptcy and no guarantee was originally envisaged on investment returns. Only in a particular case (when financing occurred by silent transfer within the framework of the 2007 reform) the law mandated *Tfr* return was set as a minimum guarantee, thanks to the constitutionally protected status of acquired rights. The supply of life-cycle investment plans has recently become common, but is not law-mandated.

[34] Closed funds ('fondi chiusi o negoziali') were non-profit organizations collectively available to specific occupational groups (identified by sector, firm, or territory). They had to outsource investment functions to third-party managers. Open pension funds ('fondi aperti') - established and managed by banks, insurance or investment companies - were instead occupational-private hybrids, which could be freely joined, collectively or individually. Available since 2000 and heavily reformed in 2005, private insurance plans (PIPs) were the core of the third-pillar and levied no contribution-tax on the employers.

Table 3.6 – Risk pooling (or the lack thereof) in the Italian pension system (late 2000s)

Policy settings / Risk shift	Functions and rules	Level of protection	Pros (+) and Cons (-)
PUBLIC PENSIONS (NDC SYSTEM):			
Labour market risks	**Accumulation** Earnings assessed on entire career; More figurative credits for child rearing and maternity; Option to buy in (ex: part time) or redeem (education) extra years;	Low	+ Figurative credits (although most of the new credits are buy-in and actuarial); - No protection against occasional gaps; - No protection from long periods of 'raising through the ranks' in the early career;
Investment risks	**Revaluation** Yearly revaluation of accruals according to economic trends; No more min. integration supplements;	Low	- The revaluation mechanism may create vertical segmentation among retirees; - No minimum/positive return guarantee;
Depreciation & demographic risks	**Dynamization** Indexation to expected inflation; Annuity divisors linked to demographic prospects;	Low	- Risk of vintage pension syndrome; - No floor to the effect of the coefficients; - Periodical revisions of the divisors creates further vertical segmentation;
PRIVATE PENSIONS:			
Labour market risks	**Accumulation** Accruals fund individual accounts; No guarantees against bankruptcy;	None	- Strict DC logic;
Investment risks	**Revaluation** Investment in a portfolio of bonds and stocks; No minimum return guarantee (except silent-assent transfers of *Tfr*)	Almost none	- No mandatory requirement for a life-course approach (multi-cohort): workers close to retirement are exposed to high investment risk; - A minimum return guarantee equivalent to the *Tfr* exists only for silent transfers;
Depreciation & demographic risks	**Dynamization** Usually none or actuarially neutral; Annuitization is usually included; In some cases the demographic risk is individualized as in the public system.	Almost none	+ Annuitization is usually included in the management cost of the scheme.

Source: own elaboration.

These last passages testify that the new NDC+DC configuration, endorsed for different reasons by different political actors, had become the pivot around which the pension policy revolved, at least before the global crisis of 2008. Nonetheless, it is apparent that the centre-right found more room to introduce cuts in the public system and increase the scope of private provisions, than the centre-left found to improve adequacy for the most vulnerable occupational profiles. How did this all affect the distribution of risks within the pension system?

Table 3.6 compares the distribution of risk in the post-reform scenario with the one in place under the status quo (in Table 3.3 above). The comparison shows that the combination of a smaller and stricter public pillar and of an increased reliance on the market has shifted various risks on the individuals, making substitution rates dependant not just on productivity and employment growth, but also on financial returns and life expectancy (see Marano and D'Antoni 2008). Some of these risks come as certain costs with uncertain recipients, as in the case of the periodical revision of the annuitization divisors that revaluate individual accruals in the NDC system. Some others, most notably financial market risks, are intrinsically uncertain: they imply a change in the return/risk profile of retirement income which may result in a profit or a loss compared to the status quo scenario. The only sure thing is that total pension income has become more uncertain.

Before I turn to the analytical narrative, I can offer a more realistic picture of the changes being studied with a quick look at the outcomes of risk shifting reforms. Evaluating a reform on the basis of outcomes is tricky. This is especially the case of pension reforms, were outcomes are mostly assessed by simulations. So my intention here is not to conclude about the extent of the risk shift, which I believe is already evident by looking at the legislative outputs. Rather, my aim in these final paragraphs is to show two things: public pensions are lower and more uncertain; private pensions have developed in a way that further reinforces the traditional segmentation of the public pillar. Data and estimations for the public pillar refer to the state of legislation in 2007 and ignore the most recent reforms, which are dealt at the end of the Italian narrative in Chapter 4.

Table 3.7 –Net Replacement Rates Projections for Old and New Public Pensions* (as of 2007)

Worker's profile**	2005 (old system)	2015 (transition)	2030 (transition)	2045 (NDC only)	2060 (NDC only)
"Typical" Employee** (age 60/ seniority 35)	78.7	69.8	60.9	58.5	57.3
Employee (age 65/ seniority 35 / Average productivity)		74.4	68.3	65.5	63.8
seniority 30 / Average productivity	69.1	65.0	59.6	58.0	56.4
seniority 40 / Average productivity	88.2	87.7	77.4	72.8	71.2
productivity -0.5%		89.0	82.1	79.3	77.8
productivity +0.5%		87.6	74.0	67.7	66.1
"Typical" Self employed** (age 60/ seniority 35)	87.0	66.6	48.2	45.8	44.9
Self-employed (age 65/ seniority 35 / Av. productivity)		69.8	53.3	50.6	49.4
seniority 30 / Average productivity	76.6	59.2	46.5	45.4	44.3
seniority 40 / Average productivity	97.4	99.4	63.7	55.7	54.6
Productivity -0.5%		101.3	68.1	61.3	60.3
Productivity +0.5%		97.5	59.6	50.7	49.6

*Figures for public employees are about 1% higher up to the phasing out of the pro rata formula (see MdT 2002). Atypically employed workers have similar contribution patterns than the self-employed.

**Only women could exit the labour market on these terms after 2015 according to the 2007 legislation.

Source: RGS 2009

As regards public pensions, the slow transition chosen in 1995 for the implementation of the NDC reform allows to compare the effects of the old and the new rules under the same assumptions. In the figures below, short term pension projections follow the old rules; the new ones (as of 2008 legislation) start to kick in over the medium long term. Table 3.7 provides a selected outlook of the projections calculated by the Italian RGS (Ragioneria Generale dello Stato: the state's General Accounting Office) in 2009 for a number of career profiles.

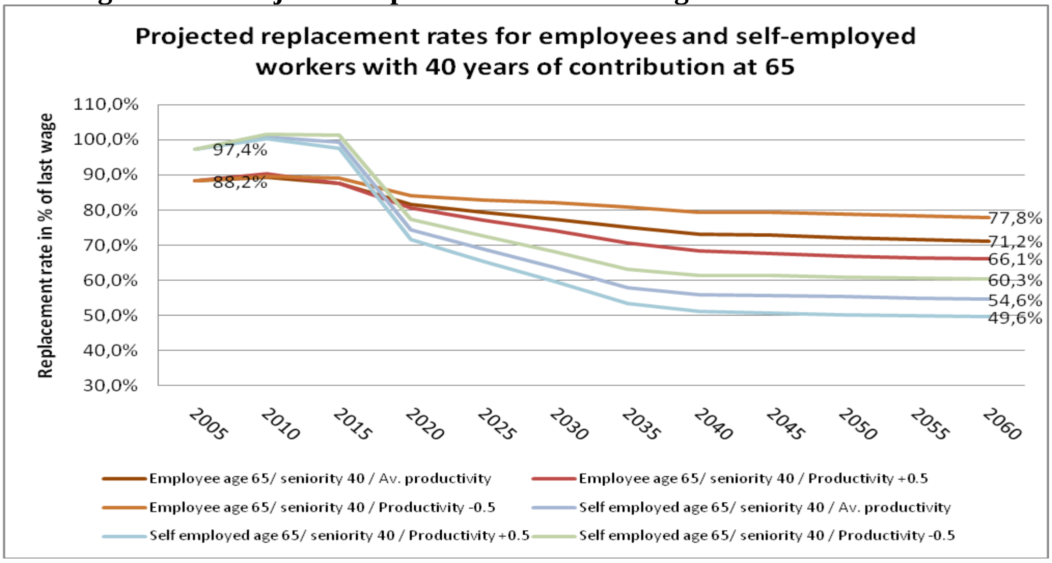
The projections show two things. First, future replacement rates are lower for every profile, including typical employees and self-employed. Second, under the post reform rules, differences in productivity growth and employment type are increasing. Assuming uninterrupted careers and the same final wage for each case, the greater variability in the replacement rate results from individual characteristics such as age of entrance in the labour market, occupation (the difference between employment and self-employment is more subtle in a service economy), gender and, exceptionally for the time of the transition, year of birth. This means that social stratification among workers moving across different occupations and sectors (as well as across different cohorts) will be higher than for the previous generation. This goes without factoring in the effects of recent labour market liberalizations, whose evaluation reaches far beyond the limits of this work. On the combined effects of pension and labour market reforms see Hinrichs and Jessoula 2012 and T-DYMM 2012.

In sum, before the austerity packages in the 2008-2012 period, typical workers expected to retire according to the old rules until around 2015. At the time, they were still considered eligible for early retirement after 40 years and for a benefit calculated on the last 10 years' average wage, with a 90% or higher net replacement rate. For public and private employees, the amount would have been supplemented by a lump sum severance payment and, eventually, by a small integrative pension.

The expectations of a worker who entered the labour market at the end of the 1990s and would retire around 2030 were very different. He could expect to retire at 65 or later with a lower public pension (at best, a net replacement rate close to 55%), which would mirror all the up and downs and the blank spots of his career and carry some of the country's demographic risk. At retirement, he will either receive his severance payment or a supplementary pension, provided he was wise and lucky enough to choose the right pension provider and a good investment portfolio. Just by looking at the length of the two descriptions, the simplicity of the old rules stands out in the face of the whole set of assumptions and caveats necessary to give even a rough estimate of future replacement rates. The only commonality between the two profiles is that they are equally vulnerable to the vintage pension syndrome.

Another shortcoming of the new system was its inability of providing an adequate pension to self-employed workers. I have already pointed out that their full inclusion within a Bismarckian pension system was ambitious, eventually leading to the disastrous reform of 1990. Still, projections regarding the self-employed are also useful to get a sense of the future pension prospects of

Figure 3.1 – Projected Replacement Rates during the Pension Transition



Source: Own calculation on RGS 2009

atypical and precarious workers. Continuous career profiles with increasing wage patterns, still defined as ‘typical’, are in fact becoming less and less common. Finally, it must be noted that the most recent austerity packages have partly closed the gap in the direction of retrenchment, increasing the contribution tax rates and harmonizing retirement ages across occupations and genders.

Under the 2007 legislation, a self-employed worker retiring in 2060 would have obtained a pension 20% lower than an employee with the same age, income pattern, and final income. Projected differences were even more penalizing on the basis of gender, partly because of differences in the retirement age and partly because of career breaks due to pregnancy and child rearing. The increase in pension volatility due to differences in wage patterns and occupational statuses is more clearly represented in Figure 3.1, which portraits the increased differential in replacement rates related to more or less steep wage dynamics.

In a nutshell, the average wage model implied by the NDC system averages out lifetime incomes, providing steeper patterns with lower replacement rates. The outcome is often justified as a progressive development, by assuming that steeper careers are the result of ‘go getting’ and personal success. Such was the case of a society in which blue collars had rather flat wage patterns and white collars used to rise through the ranks as they aged. In today’s labour market, however, this kind of averaging out is particularly punishing for weaker career profiles. The problem resides in the lack of any progressivity in the formula. Pensionable income averages out wages regardless of their absolute levels, equally affecting the rich and the poor, with negative effects on pension adequacy for the latter. As a result, holding constant seniority and final wage, workers who slowly rose through the ranks from an atypical employment status would be penalized, while colleagues who had a more favourable start would receive a higher pension. Relaxing the assumption of continuous careers, available simulations of mixed employment patterns revealed the emergence of huge income differentials that systematically hit women and low income workers (see Berton *et al* 2009 and Raitano 2007). ISG simulations (2009) showed that even a single childcare break (and similarly every break uncovered by figurative contributions) could lower replacement rates from 63% to 48%.

Finally, looking at the 'vintage pension syndrome', official simulation (ISG 2009) showed that real wage growth was expected to erode net replacement rates by 15% in relative terms 10 years after retirement. In other words, because of real wage growth, a pensioner 10 years into retirement would receive a (price-indexed) benefit 15% lower than a new retiree with his same work biography. So, for a given work profile, a replacement rate of 63% in 2046 would be equal to 54.8% of the wage of the cohort retiring in 2056. Such welfare losses are unknown and unpredictable to the individual. They depend on productivity growth after one's retirement. The problem is that, without wage indexation, they are not pooled between generations anymore. The consequence is to create a gap between older and younger retirees and, eventually, inequalities among cohorts of retirees living under different macroeconomic conditions.

Regarding supplementary pensions, they apparently mirror the old and new cleavages of the public sector. Employment is the main dimension of stratification. Adherents in 2010[35] were 3.83 million private employees (72.8% of total members), 140,000 public employees (2.67%), and 1.29 million self-employed workers (24.6%). Participation rates for each category were: 27.8%, 4%, and 23% (COVIP 2011). The high participation of private workers confirms the successful use of the *Tfr* as a bridge to a multipillar pension system, especially when compared with equivalent indemnities for the civil servants. Most public employees in the complementary system are education workers, as their scheme (ESPERO) was the first among the few that have been activated. However, ESPERO has less than 88,000 members over a catchment area of 1.2 million people.

In turn, the self-employed, participate almost as much as private employees, but in different funds. About 49% of private workers are in closed funds, while the remainder is evenly distributed among the other funds. As opposite, almost 33% of the self-employed are in open funds, and more than 65% are in personal plans. As a matter of fact, the lack of closed funds sponsored by their own

[35] The lack of private pension reforms after 2007 allows using the latest available data.

associations has made the self-employed more reliant on the third pillar (Natali and Stamati 2011). Finally, atypical workers find it arduous to participate, as they combine interrupted careers, low wages, and the lack of *Tfr* (Jessoula 2009, 2012). As an exception, outsourced workers (about 500,000 people) are entitled to *Tfr* contributions whenever their contractor is a private firm. This peculiarity allowed the creation of a closed fund for them, named FONTEMP, in April 2011.

Sector of employment and firm size are other sources of stratification. Traditional sectors with strong unions (like chemicals, metalwork, and public utilities) muster high levels of participation, while services and small firms lag far behind. In particular, firms with less than 20 employees total 50% of the Italian workforce but only 14% of plan members; firms employing 1,000 or more cover on sixth of the workforce but more than twice as much of subscribers to the funds.

Age and gender matter as well: workers younger than 35 have a 17% participation rate, whereas those between 45 and 64 reach 34%. Workers aged between 35 and 54 (57% of the work-force) weight on total subscribers for two thirds, while the average plan member is 44, three years older than the average worker. In 2010, women's participation rate was 24%, 4 points lower than men's, who are 65% of the adherents. The bias in gender and age is exacerbated among self-employed plan members: 71% of them are males and the average age is 47. Looking at the regional divide, Southern workers are underrepresented among plan members (20% for 26% of the workforce), while Northern ones are overrepresented (54% of the workforce but 59% in the pension market). These differentials become -9% and +10% when closed funds alone are considered.

As for profitability, capitalization has been consistently positive until 2008, with both open and closed funds earning about 4.5% a year on average. The financial crisis had no major impact, given the immaturity of the new pillars. Moreover, by the end of 2010, most funds had recovered from the losses, although data for 2011 showed a new slowdown. The crisis has also not halted membership growth, slightly below 6% in both 2010 and 2011. PIPs nearly doubled their membership since 2009, becoming the most diffused type of fund. Closed funds, also because of the effects of the crisis on the labour market, have lost about 2% of their members. Still, assets have grown about 20%, with notable increments among closed funds and PIPs.

Summing up, the analysis so far suggests that an extensive risk shift occurred in the Italian pension system. Major distributional consequences are also to be expected in the near future. The empirical correlates between low wages, discontinuous careers, and lower social protection put careers with long periods of atypical employment at risk of social exclusion. Retirement income security is now a problem not only for the lowest income quintiles, but also for the employed middle class.

Certainly, convinced proponents of the NDC formula argue that what happens on the labour market cannot be blamed on the pension system. However, the way the reformed pension system works really is to blame on the decision to redistribute risks away from the state. And it is precisely because vulnerable categories were put even more at risk that policymakers could obtain huge pension savings while claiming that 'typical workers' were not to be worse off.

How that was achieved, and for what reasons, will be treated in the next chapter.

3.2 Germany: spreading losses, spreading risks

This section studies how Germany reformed its pension system with a combination of reward-reducing and insurance-reducing interventions. This case is of theoretical interest for the thesis because, while facing similar challenges, Germany's approach to the distribution of retirement risks widely differed from Italy's. If the latter was a case of a radical transformation, with a large and encompassing shift of retirement risks, Germany features instead as a far less pervasive orientation to risk shifting reforms.

True, the redistributive ambitions and the financial guarantees of the German system have always been comparatively 'conservative' and fiscally prudent (Hinrichs 1998; Schmähl 2007). And yet, as it will be shown below, the main parameters of German public pensions – e.g. benefit indexation as well as the so-called 'general basis of valuation' (*allgemeine Bemessungsgrundlage*) and later the 'actual pension value' (*aktueller Rentenwert*) – could have well undergone a deeper risk shift. Instead, what occurred to them is more akin to a risk-stabilizing reform, where risks are shifted, but on the insured population, rather than on individuals as such. Moreover, during the financial crisis, some of the most important insurance-reducing measures were further transformed, becoming even more similar to retrenching reforms.

A similar point holds for the configuration and regulation of occupational pensions. New defined contribution schemes have indeed been introduced, on the premise that the private pension market had to expand in order to compensate the planned reductions in public benefits. Most notably, this is the case of the private *Riester pension* (*Riesterrente*) in 2001, as well as the *Basisrente* (also named *Rürup-rente* after their main proponent, the economist Bert Rürup) in 2004. However, such policy changes did not result, as in Italy, in a legislative step back from defined benefit schemes or in a US-like landslide away from the old corporate pensions. On the contrary, occupational pensions in Germany have been strengthened and their role inside the pension system revamped. While many concerns exist on the equality of their distribution and on their effectiveness in terms of status maintenance (Schmähl 2007), German occupational schemes are a model of effective public-plus-societal fund regulation and of industrial relations acting as a 'source of social solidarity' (Trampusch 2009) and risk-pooling (Ebbinghaus *et al.* 2011).

Looking at reward-reducing reforms, they occurred in Germany much more often as *retrenching* than as *levelling-off* reforms. The former – typified by linear cuts with no prejudice for existing financial guarantees – feature in the German case as frequent increases in retirement age or replacement rate cuts such as those enacted in 1989 or 2001. Compared to Italy, the room for levelling-off reforms – the selective elimination of preferential treatments for certain categories – was narrower in the less fragmented German system. Therefore, they are limited to minor issues in the reforms of civil servant pensions, to measures of administrative harmonisation, and to the introduction of a gender neutral tariff for Riester pensions (*Unisextarife*).

Turning to insurance-reducing reforms, when compared with Italy (and with most European states, including Sweden) Germany clearly stands out for the prominent role of risk-stabilising measures in its reform pattern. In a nutshell, risks have indeed been shifted from pension providers (public and private) to the insured population, but with a striking extent of pooling and collectivisation. It is my contention in this chapter that the risk-stabilising ideal type may provide an insightful understanding of the complex revisions of public benefit indexation all along the 2000s. Similarly the idea of risk-stabilisation captures well how the private pension system and its regulators have given a 'German twist' to the worldwide shift from the defined-benefit to the defined-contribution model.

Finally, as far as purely risk shifting reforms are concerned, the overall redistribution of pension responsibilities for status maintenance within the German pension mix has indeed (and not surprisingly) produced a retirement risk shift. In fact, the remarkable level of solidarity achieved in Germany's market-based pension system still falls far short of putting the old public pensions and the new private schemes on equal footing from the perspective of risk distribution.[36] Moreover, other reductions in the rate of indexation and the abolition or sharp reductions of pension credits for education and unemployment definitely fit the notion of risk shifting reforms. At the same time, countervailing initiatives such as the continual expansion of federal subsidies, the introduction of new credits for childcare and rearing, as well as some recent reforms made during the global crisis

[36] This is even more important as one considers that the strengthening of the private pension pillar has occurred in Germany with a rather explicit 'carving-out' from the public system.

should also not be disregarded. In fact, they all add up to the peculiarity of the 'broken promise' within the German case.

3.2.1 German pensions: policy change and risk redistribution

Bismarckian Germany pioneered the introduction of mandatory old-age insurance for blue-collar workers with the *Disability and Old Age Insurance Act (Invaliditäts- und Altersversicherungsgesetz)* of 1889 (Schulze and Jochem 2007).[37] Invalidity insurance for the central state's civil servants had already been introduced in 1873 (*Reichsbeamtengesetz),* while diverse local legislations used to cover those employed at the local level (*Länder*) until the reform of 1937. Occupational pensions for private-sector employees (*Betriebliche Altersversorgung*, or *BAV*), sponsored since the 1850s by 'welfare capitalist' firms such as Siemens and BASF, predated the statutory system (Mayer 1994; Queisser 1996). As shown by Baldwin (1990), the opposition of the bourgeois front and the hesitancies of the left watered down Bismarck's paternalist project, greatly limiting its generosity and scope. Public pensions were updated in 1911 by the *Reichsversicherungsordnung*, which also introduced survivors' benefits for widows and orphans. In the same year, the *Versicherungsgesetz für Angestellte* – implemented in 1913 and further revised in 1924 – established a dedicated scheme for private white-collar employees.[38]

The German pension model, based on fully funded, earnings-related, and occupationally segregated benefits, faced serious challenges over the following thirty years. Shattered by the hyperinflation of 1923-24, pension funds had to be revalorised by a publicly financed system. During the Nazi dictatorship, pension self-management was abolished and funds were obliged to invest in treasury bonds in order to support the war economy. Robert Ley, the Nazi union (DAF) leader even proposed the shift to a universalistic approach (*Staatsbürgerversorgung*): the proposal mostly failed, but favoured the inclusion (with an opt-out clause and favourable contribution rates) of artisans in the white-collar scheme in 1938 (*Handwerkerversorgungsgesetz*). By the end of the war, the pension funds were depleted. While the Allied were divided on the issue, the Soviets swiftly introduced a unified, tax financed, and universalistic social insurance system in the soon-to-be DDR (Baldwin 1990).[39]

[37] At the time, old age was considered a special case of invalidity (Mayer 1994).

[38] The separation let the new scheme out of the federal grant available to the old one (Schulze and Jochem 2007).

[39] Mandatory insurance for blue- and white-collar workers was managed by the unions, while that for cooperative workers and the self-employed left to the Ministry of Finance (for further details see below) (Schmähl 1990; Mayer 1994).

The reform process stalled in West Germany until Adenauer took care of the issue in 1957.[40] In the meanwhile, inflation and the currency reform of 1948 had imposed great losses on German pensioners and workers (including the artisans who had opted out from the statutory system). The reform of 1957 brought about a substantial reformulation of the old pension contract (Schmähl 1998; Hinrichs 1998). Universalism briefly dismissed, German policymakers had to find a way to expand coverage and benefit levels within the existing occupationalist architecture (Baldwin 1990). As mentioned above, the new 'generational contract' was based on PAYG financing as well as on workers and pensioners sharing the advantages of an increasing productivity. In the new statutory system (*Gesetzliche Rentenversicherung,* or *GRV*), redistribution was meant to be intergenerational and inter-temporal, while only limitedly intra-generational. Such was the nature of the new 'dynamic pension'. It was calculated as a function of an individual part and a general basis of valuation. The former mostly reflected individual positions in the 'wage hierarchy', while the latter factored in the current economic situation, being also responsible for the indexation of benefits to gross wage (Mayer 1994; Schmähl 1998; Hinrichs 1998).

In order to reintroduce self-management in the system, the reform provided for the elections of representatives of the social parts within the public agencies responsible for managing public pensions (Mayer 1994). It also reintroduced – with broader options for cross-financing and state subsidies – the administrative separation between the (otherwise fully harmonised) funds for blue and white collar workers. Here, the two relevant pieces of legislation were the *Angestelltenversicherungs-Neuregelungsgesetz – AnVNG* for white collar employees and the *Arbeiterrentenversicherungs-Neuregelungsgesetz – ArVNG* for blue collar workers.

Whereas the self-employed were a far smaller part of the workforce than in Italy (one fifth against more than one third), also in Germany a key problem was that of deciding how and to what extent they had to be included in the general system. Countering the influence of the unions with intense lobbying on the FDP and a cross-pressured CDU, the artisans requested and obtained a merger

[40] Meagre Soviet-style universalism had no chance of success in West Germany. As the experience of the *Versicherungsanstalt Berlin* (VAB) had demonstrated in 1945, the appeal of universalistic plans was constrained not only by the memory of the old Nazi plans, but by financial shortages as well. The constituencies created by the old Bismarckian institutions were pitched against the prospect of sharing losses in the modest flat-rate system initially proposed by the Allies. Divided in their preferences and approach the occupying governments were unable to overcome strong resistances from German unions and associations (see Baldwin 1990: 186-201 for a detailed account).

Table 3.8 – Outlook of the Main Pension Initiatives in Germany: 1881-1976

Year	*Act* and main provisions and effects:
1850s	First occupational pension schemes introduced by firms such as *Siemens*, *BASF*, and *Gutehoffnungshütte*;
1854	*Preußische Knappschaftsgesetz:* Mandatory pension insurance for Prussian miners;
1873	***Reichsbeamtengesetz:*** Pension insurance for the federal civil servants;
1881	Kaiser Wilhelm I announces the introduction of a social insurance system *(Kaiserliche Botschaft)*;
1883-84	Mandatory accident and health insurance for blue collar workers in the private sector;
1889	***Invaliditäts- und Altersversicherungsgesetz:*** Mandatory invalidity and old-age insurance for private blue collars;
1911	***Reichsversicherungsordnung:*** Update of blue-collars mandatory insurance; ***Versicherungsgesetz für Angestellte***: Mandatory insurance for private white-collars up to an income ceiling (1913);
By 1920s	Nationwide extension of mandatory old age insurance for miners;
1923-24	Hyperinflation in Germany. Publicly funded revaluation system for the pension funds;
1924	***Angestelltenversicherungsgesetz***: Reform of white-collars mandatory insurance;
1929	*Versorgungsanstalt des Bundes und der Länder* (VBL): quasi-mandatory supplementary paygo scheme for public sector employees other than civil servants;
1936	Proposal for a universalistic *Staatsbürgerversorgung* by the Nazi labour organisation DAF; Introduction of an option to voluntarily join the white collars' pension fund;
1937	*Beamtengesetz:* Harmonisation of Länder civil servants pension rules;
1938	*Handwerkerversorgungsgesetz*: Mandatory inclusion of artisans in the white-collar scheme, with an opt-out option;
1939-45	Abolition of self-management; Mandatory investment of fund assets in treasury bonds;
1945-47	Soviet pension reform in Berlin and then in East Germany: introduction of a unified universalistic system;
1948	Currency reform: losses for "funded" pension claims; higher private insurance premiums; *Sozialversicherungsanpassungsgesetz:* emergency and solidaristic measures (e.g. minimum and indirect pensions);
1949-52	*Lastenausgleich* : "Equalisation of burdens" allowance compensating war victims;
1956	Pension reform proposals advanced by the government and the opposition;
1957	***Angestelltenversicherungs-Neuregelungsgesetz*** and ***Arbeiterrentenversicherungs-Neuregelungsgesetz***: Introduction of *paygo* earnings-related pensions, indexed to gross wages; Merger of artisans' capital fund within the new statutory systems; opt-out only after 15 years of membership; New rules for disability benefits; Harmonisation of rules among the separated funds for blue and white collar workers; Reserve fund to cover one year worth of expenditures (after ten years); *Altershilfe für Landwirte*: Pension scheme for agricultural labourers; ***Beamtenrechtsrahmengesetz***: Framework law on civil servants' pensions; *Soldatenversongungsgesetz*: Regulation of pensions for military and judicial personnel;
1961	Federal subsidy to cover the budget shortages of the agricultural labourers' scheme; Social aid *(Sozialhilfe)* for "special circumstances" or "continuous maintenance assistance";
1962	Reorganisation of the provisions for independent artisans;
1964-67	Reform of cross-financing between the blue and white collars' funds;
1965	*Volksversicherung* plan by the Social-democrats
1966	Report of the Social Inquiry Commission;
1969	Reserve fund able to cover up to 3 months worth of expenditures; Abolition of the affiliation income ceiling for white collar workers; Temporary introduction of a "transfer-of-land pension" for small farms *(Landabgaberente);*
1971	Introduction of a voluntary supplementary pension scheme (FZK) in East Germany;
1972	***Rentenreformgesetz***: Introduction of an option for the self-employed to voluntarily join the statutory pension system; "Flexible" exit at 63 (women, disabled, unemployed, miners: 62) with seniority requisites but no reductions; Incentives to delay exit until 67; Low pension revaluation (*Rente nach Mindesteinkommen*) and level safeguard (*Rentenniveausicherungsklausel)*; Benefit indexation anticipated by 6 months;
1973	Automatic adjustment of the payroll tax-rate for agricultural labourers;
1974	***Betriebsrentengesetz***: Regulation of four types of voluntary occupational and private pension funds; Mandatory adjustment to inflation at least every three years, guarantee of non-decreasing benefits; Insolvency protection through the *Pensions-Sicherungs-Verein* (*PSV*)
1976	**Failed reform of statutory pensions**; *Erstes Ehereformgesetz*: Reform of the marital law and of survivors' pensions rules in case of divorce;; Reform of civil servants' pensions following the new (1971) federal competences;

Sources: Menzies 1974; Baldwin 1990; Mayer 1994; Häusermann 2010; Ebbinghaus *et al.* 2011.

Reforms taken after 1945 refer to West Germany, where not indicated otherwise. 'Big' reforms are **bolded**.

of their funded scheme with the workers' new PAYG program. Farmers got instead a more redistributive and weakly earnings-related separate scheme (*Sozialhilfe für Landwirte*), soon to become heavily subsidised by the state (since 1961). Finally, the *Beamtenrechtsrahmengesetz* and the *Soldatenversongungsgesetz* included federal employees, military professionals, and judges, who were in dedicated '*Versorgung*' schemes: that is, final wage systems entirely financed by the employer (in this case, by the federal state, through the general revenues) (see Menzies 1974; Baldwin 1990; Mayer 1994).

Pension politics and policymaking during the 1960s were fuelled by the search for more advanced equilibriums.[41] The year 1961 saw the establishment of the federal fund to the farmers' scheme as well as of the *Social aid* scheme. In 1962, the provisions for independent artisans within the system were reorganised, while a round of reforms enacted between 1964 and 1967 redesigned the rules concerning cross-financing across the schemes. In the meantime, shopkeepers and even part of the liberal professions had developed an interest in pooling risks with the workers (Baldwin 1990). After the 1965 SPD plan for a *Volksversicherung* and following the report of the *Sozialenquete Kommission* in 1966, both concerned with extending coverage to the middle classes, the creation of a more encompassing scheme had become a shared item on the agenda. This was the dawn of West Germany's much renowned 'pension consensus'.[42]

The 'big' reforms of 1972 and 1974 completed the framework of Germany's post war pension system, henceforth termed as the 'status quo'. The *Rentenreformgesetz* of 1972 introduced the option for all of the self-employed to join the statutory pension system and coupled it with favourable rules concerning the payment of retroactive contributions.[43] It also introduced a 'flexible' retirement option at 63 years old (62 for women, disabled or unemployed workers, and miners) available after meeting category-specific seniority requirements. Most notably from a risk distribution perspective, the reform also established two guarantees: a 'pension commensurate to the minimum income' (*Rente nach Mindesteinkommen*) and a 'pension level safeguard clause' (*Rentenniveausicherungsklausel*).[44] Both were meant to be reformed already in the 1980s.

[41] Part of this reorientation was certainly due to the Bad Godesberg turn of the Social Democrats in 1959. As argued by Baldwin, the latter implied for the main party of the German left a turn to a 'catch-all' pension approach: 'A *Volkspartei* […] required a *Volkspension*' (Baldwin 1990:279).

[42] Speeding up in this direction was not limited to West Germany. In 1971 the DDR adopted a general voluntary supplementary pension scheme (*FZK*), alongside the 28 integrative funds already available to several professions.

[43] In a curious – but revealing – twist of fate, the 1972 saw a red-yellow majority adopting a bill substantially amended by the CDU. The key difference rested in even more liberal terms for independent workers to opt-in.

[44] The former revaluated up to 75% of the yearly average wage the contributions of individuals with at least 25 years of membership – including most types of pension credits – but low wages (for instance because of part-time employment). The latter commanded legislative action whenever the 'reference pensioner' (that is, an individual covered

An unusual detour in a province jealously garrisoned by the social partners, the 1974 *Betriebsrentengesetz* (or *BetrAVG*) was the first legislative attempt to regulate occupational provisions in the private sector. This consensual and rather depoliticized piece of legislation was a response to the uncertainties created by the first oil crisis.[45] The *BetrAVG* confirmed the traditional voluntary approach and gave judicial recognition to the pre-existing rules, while also increasing benefit levels (Häusermann 2010; Ebbinghaus *et al.* 2011). It specified further conditions preventing the cancellation of unvested pension claims and mandated the establishment, beginning in 1975, of a reinsurance fund called *Pensions-Sicherungs-Verein* (*PSV*) as a guarantee of last resort in case of firm bankruptcy (Mayer 1994; Ebbinghaus *et al.* 2011).[46]

In 1976, the new law on civil servants' pensions and the reform of survivors' pensions finally completed the post-war system, ending the expansionary phase. In the same year, the first serious attempt to reduce pension spending failed and a watered down version was enacted with the 20^{th}

Table 3.9 – The setup of the German Pension System in the late 1970s (main schemes)

	Eligibility		**Contributions (% gross wage)**	**Benefits**		**Indexation**
	Age	Vesting period		Assessed wage (AW)	Formula	
SOCIAL ASSISTANCE:						
Sozialhilfe	Need plus regionally determined requirements		None (tax-financing)	Fixed sum, regionally determined		Ad hoc increases
PUBLIC PENSIONS:						
GRV	65 with at least 15 years or 63 with at least 35 years (60 years in certain cases)		9% Employer 9% Worker (+federal subsidy)	[Seniority*Pension type]*[sum of relative income position*general basis of valuation]		Gross wages
Farmers	65	15 years	Dependent on the federal subsidy	None; benefits based on seniority and civil state	Min level*[6.7%*(yrs btw. 1^{st}-15^{th})+3%*(yrs up age 65] (*1.5 if married)	In line with *GRV*
Civil servants and soldiers	Usually 65 (45-68)	5 years	100% Employer (tax-financing)	Final wage (last 2 yrs)	AW*[35% (first 10 yrs)+ 2%*(yrs btw. 11^{th}-25^{th}) + 1%*(yrs btw. 26^{th}-35^{th})]	Gross wages (civil servants)
OCCUPATIONAL PENSIONS:						
Private sector	Usually 60	Age 35+; seniority 12+	By the employer (+tax incentives)	last 3-5 years (DB only)	DB,DC, or fixed-sum	Periodical (at least triennial)
VBL (Public sector)	As in the *GRV* (integrative pension)		100% Employer (tax-financing)	Final wage (last 3 months)	DB: up to 70-75% AW	Gross wages (civil servants)
PRIVATE INSURANCE PLANS:						
Life insurance	Price		Voluntary	Defined contribution: lump-sum or annuities		Profit-sharing

Source: Menzies 1974; Mayer 1994; Ebbinghaus *et al.* 2011

by 40 years of contributions paid at the average wage) received a pension less than 50% the current average wage for two months in a row. Unsurprisingly, both provisions were particularly useful for women.

[45] Firm restructurings and closures forced the employers to severe medium-term labour relationships, putting many employees still in their waiting period at risk of losing a substantial amount of unvested contributions. In addition, the insolvency of many firm-sponsored plans also endangered the pension prospects of their more senior colleagues. At the same time, new rulings of the Federal Labour Court (*Bundesarbeitsgericht*) were reaffirming the property status of pension contributions and the need for clearer rules.

[46] Financed by employers' social contributions, the PSV is administered by an association called *PSVaG* (*Pensionssicherungsverein Versicherungsverein auf Gegenseitigkeit*).

Pension reform law (*20. Rentenanpassungsgesetz*, or *20.RAG*) in 1977.[47] The failure of the 1976 attempt and the conditions that led to the adoption of the *20.RAG* are an important turn in Germany's pension policy trajectory, so they appear at the beginning of section 3. For the moment, however, greater focus is needed on how the German pension system worked in the late 1970s and how it redistributed retirement risks.

Table 3.9 summarises the main features of the most important pension schemes in the West-German pension system of the late 1970s.[48] Compared with Italy, the German version of pension occupationalism stands out for its greater homogeneity. Workers and white collar employees in both the private and the public sector, together with artisans and the other independents who opted in were covered by the same rules. Early retirement for participants with long careers was mainly limited to cases of invalidity and was always dependent on meeting an age requirement.

The overall level of generosity was also lower. The formal standard exit age was set at 65, while the standard pension (*Eckrente*) of a fictional *GRV* member earning the average wage during a 40-year career would result in a 60% gross replacement rate. Pensions used to be only partially taxable in Germany, so this came close to a 70% net replacement rate. The self-employed workforce – far less numerous than in Italy and yet of similar concern to the policymakers – was included in the system at favourable terms (e.g. the retroactive contributions) but, with the notable exception of farmers, was not covered by dedicated and highly subsidised funds. Civil servants, about one-third of the public sector workforce, were the most privileged. Their replacement rate was set at 75% of their final wage after 35 years (with fully taxable benefits, however) up to a high income ceiling. Moreover, they enjoyed a wide fan of category-specific retirement ages, ranging from age 41 for military pilots to age 68 for senior judges.

Finally, the German system provided a more balanced pension mix than Italy's (see Table 3.9). The lower replacement rate opened room for private pension supplements, while the more developed economic structure allowed for a stronger occupational and individual system. Back in the 1970s, every type of supplementary pension offered something more than a naked defined contribution formula. While the most common pension vehicles, the 'direct pension commitments' (*Direktzusage*) and the 'support funds' (*Unterstützungskassen*) were defined benefit schemes, externally funded plans such as 'superannuation funds' (*Pensionskassen*) and 'direct insurances' (*Direktversicherungen*) also made explicit pension promises, either earnings-related or flat (Mayer

[47] The *20.RAG* is better known as *Gesetz zur zwanzigsten Rentenanpassung und zur Verbesserung der Finanzgrundlagen der gesetzlichen Rentenversicherung*.
[48] This chapter does not deal with the self-managed PAYG funds of the liberal professions (Baldwin 1990) and their evolution.

1994:150).[49] [50] On a different account, the very low popularity of extra contributions to the *GRV* in the mid-1970s can be explained as a result of the higher statutory benefits and broader coverage (after the 1972 reform) as well as by the fact that the benefits generated by those voluntary payments were non indexed (Menzies 1974).

Overall, the complex German system still was less opaque than Italy's. This does not mean that

Table 3.10 – Occupational provisions in West Germany after the 1974 *BetrAVG* (1976)

Funds: / Features:	Coverage (in % of all private funds)	Funding	Sponsor	Formula	Tax deductions	Reinsurance / supervision
Direct pension commitments (*Direktzusagen*)	51.2%	Book reserves	Employer (Internal)	DB (IRR:6%)	Yes	*PSV*/No
Support funds (*Unterstützungskassen*)	33.6%	Internal, flexible	Employer (Internal)	DB	Yes	*PSV*/No
Superannuation funds (*Pensionskassen*)	7.2%	External	Employer (and employee)	DB/hybrid	Yes	No (until 2002)
Direct insurances (*Direktversicherungen*)	8.0%	External	Employer (and employee)	Hybrid	Yes	No (until 2002)
Voluntary or additional contributions to the *GRV*	0.0%	PAYG	Employer (and employee)	DB (not indexed)	Fully taxed	Not applicable
Supplementary public-sector pension agency (*VBL*)	Quasi-mandatory	PAYG	Employer (and employee)	DB	Yes	Not applicable

Source: Menzies 1974; Mayer 1994; (adapted from) Ebbinghaus *et al.* 2011

general revenues were unnecessary to finance the system, or that the incentives to work for a long period and pay contributions regularly were perfectly defined; it merely means that the Germany pension legacy was less problematic. The central state used to cover about 20% of *GRV* expenditures with a federal grant (*Bundeszuschuss*), but this redistribution was less regressive, given the lower benefit level and the greater homogeneity of social contribution rates. And even if several pathways to early retirement were available (and they were just about to be expanded in the early 1980s), the average effective exit age was fairly in line with the formal requisites: about 63 for blue-collar workers and slightly below 62 for the white collars. Finally, the choice of assessing wages against the yearly average and monetising benefits through a wage indexed 'general basis of valuation' gave further advantages to the system. Most notably, it avoided vertical segmentation across

[49] Differences among these pension vehicles, briefly reviewed here, are excellently described in Ebbinghaus *et al.* 2011. In *Direktzusagen* employers finance their pension commitments promises with book reserves (*Pensionsrückstellungen*) with no legal separation from firm and pension assets. *Unterstützungskassen* are legally independent bodies available to employers to cover their pension (and unemployment support) promises (employees maintain their benefit claim against the firm). *Direktversicherungen* are individual or collective contracts negotiated by the employer with an insurance company on behalf of the employees. *Pensionskassen* are a special type of insurance company, established by one or more employers to manage pension assets and liabilities. See also Queisser 1996: 12-15; Mayer-Brown 2009; Estévez-Abe and Heinrich 2013.

[50] Taking a West-German perspective, the reader may be willing to understand the 1982 Italian *Tfr* as a non-annuitized mixture of the first three vehicles, although with a stronger defined contribution connotation.

cohorts, while reducing the premium on steep wage patterns (typical of final wage formulas) and thus the incentive to elude contributions in the first years of employment.

If the degree of risk pooling provided by the German occupational pension system was high by international standards, the ambitions of its statutory system were rather conservative, as suggested above. In particular, the assessment of pensionable earnings over the entire career was one of the strictest rules of Germany's 'purebred' Bismarckian approach. It nonetheless included, especially after the 1972 reform, an appreciable number of financial guarantees (see Table 3.11).

Table 3.11 – Risk pooling in the German public pension system (late 1970s, *GRV*)

Policy settings / **Risk shift**	**Functions and rules**	**Level of protection**	**Pros (+) and Cons (-)**
Labour market risks	**Accumulation:** Min. vesting period: 15 yrs (integrations for the young disabled, credits); Wage assessment over the whole career; Figurative credits and options to redeem years spent in higher education (subject to the *half-coverage* requisite);[51] Child-rearing credits for women;	Medium	+ Strong protection against occasional gaps at the cost of excluding short careers; + Credits count against the vesting period; + Wide fan of pension credits; - Full career wage assessment lowers replacement rates; - Restrictions on credits availability (the *half-coverage* requisite);
Investment risks	**Revaluation:** Full career wage model (revaluation of the first 5 years); 1.5% revaluation rate (1.0% for reduced working capacity); *Rente nach Mindesteinkommen*;	Medium	+ Extra revaluation of the first 5 years of employment; + Additional extra revaluation for long careers with low wages; - Lower revaluation for reduced working capacity;
Depreciation and demographic risks	**Dynamisation:** Indexation to gross wages; *Pension level safeguard clause*.	High	+ Full protection of real pension income and of relative position vis-à-vis the actives; + Additional guarantee against short term deviations in relative income positions.

Source: own elaboration.

The retirement consequences of labour market risks were cushioned by child-rearing credits, integrative periods for the young disabled, and various figurative credits.[52] Like in Italy, a minimum vesting period of 15 years discriminated between workers and non-workers, concentrating protection on the former at the expenses of shorter careers. Unlike in Italy, however, the assessment of earnings over the whole career and the so-called 'half-coverage' (*Halbbelegung*, see footnote 51) prerequisite for some credits reduced the risk pooling ambitions of the system. The former deep-

[51] It required that at least half of the assessed contributions had effectively been paid during employment.

[52] *Ausfallzeiten* credits were available for periods of illness and for up to 13 years spent in higher education. *Ersatzzeiten* credits made up for contribution gaps due to socio-political events (war, exile, persecution). Insured unemployment was a full contribution period until 1983, when it became an *Ausfallzeit.* Figurative 'supplementary periods' (*Zurechnungszeiten*) were available to disabled workers younger than 55 and counted against the vesting period. These three types of credits were all conditional on the *half-coverage*. Credits for child rearing (*Kindererziehungszeiten*) were not subjected to the *half-coverage* and granted one year of figurative contribution for each child. Mothers of five were entitled to a low pension, even if they were not enrolled in any statutory scheme.

ened the income gap at retirement by lowering the replacement rate against the last wage. The *Halbbelegung* further lowered replacement rates, while also making difficult to meet the vesting criteria for a pension in the first place.

Pension rules concerning the revaluation of contributions took equally good care of investment risks. First of all, calculating pensions through a 'general basis of valuation' (see Table 3.9 above) meant to revaluate contributions in line with gross wage growth. Second, two forms of extra revaluations were available. The former considered the contributions paid in the first five years of employment as if they had been paid on a wage equivalent to at least 90% of the average. The second revaluation, the *Rente nach Mindesteinkommen* introduced in 1972 (see footnote 44), adjusted upwards to 75% of the average wage any lower contribution made by individuals with at least 25 years of insurance (figurative credits included). The negative element in this picture was the lower revaluation rate used in case of reduced work capacities (*Erwerbsunfähigkeit*), one third lower than the norm. Finally, dynamisation rules – arguably the 'pride' of German pensions – dealt very effectively with capital depreciation and demographic risks, which were fully covered by the gross wage indexation of the 'general assessment base'. Furthermore, the reform of 1972 had introduced an additional guarantee over the short term: the *Rentenniveausicherungsklausel* (see footnote 44 again) that required the government to take action whenever a 'standard pension' (*Eckrente*, see above) would fall below 50% of the current net average wage for two months in a row. The combination of the two rules made German indexation one of the strongest in Europe.

In sum, even if not as ambitious as the Italian quasi-Beveridgean system (with its minimum pensions and final wage model), the allegedly non redistributive German system provided a surprising amount of risk pooling. The overall set of financial guarantees was distinctively concentrated on dynamization rules, while being more cautious on accumulation and revaluation. This reflects the explicit concern for status maintenance of German policymakers as well as the moderate generosity of pension spending in the country.

Table 3.12 – Outlook of the Main Pension Reforms and Reform Proposals: 1977-2007

Year	*Act* and main provisions and effects:
1977	***20.Rentenanpassungsgesetz*** (20.RAG): Postponed indexation and contribution increases; Reduction from 3 months to 1 in the coverage period of the pension reserve fund; Limits to childrearing benefits and reductions in medical services available to pensioners;
1978	***21.Rentenanpassungsgesetz*** (21.RAG): Temporary reduction of pension indexation and introduction of fixed adjustments until 1981; Individual payments for pensioners' health insurance; Lower age for disability pensions: 61(1979), 60 (1980) (*5. Rentenversicherungs-Änderungsgesetz:*)
1981	New mandatory fund (*KSK*) for artists and publicists. (*Künstlersozialversicherungsgesetz);*
1981-82	*Pension level safeguard clause* replaced by the principle of parallel wage and pension dynamics;
1982	*"Operation 82": Arbeitsförderungs-Konsolidierungsgesetz* Reduction of pension contributions for military personnel and civil servants; Restrictions on rehabilitation and early retirement due to unemployment (*Arbeitslosenruhegeld*);
1983	***Haushaltbegleitgesetz 1983*** Pension adjustments delayed by 6 months; Insured unemployment credited as *Ausfallenzeit*, tighter rules for uninsured/supplementary periods; Further reduction in pension contributions for military personnel and civil servants; Reduction of figurative payments to the health insurance;
1984	***Haushaltbegleitgesetz 1984*** Reduction of the vesting period for old age pensions at 65 from 15 to 5 years; Tighter requisites for exit due to *Erwerbsunfähigkeit* (at least 3 years contributions over the last 5); Reduction of survivors' pensions lump sum payments in case of remarriage; Revision of the contribution rules (*Beitragsbemessung*) for one-off pay periods; Full integration of sickness benefits in statutory contributions; Update of pension adjustments; *Preretirement Act 1984* Legal framework for collective agreements activating pathways to early retirement since age 58;
1985-86	*Hinterbliebenenrenten und Erziehungszeitengesetz 1985* Harmonisation of gender differences in survivors' pension rules (esp. on additional incomes); Phasing in (by 1990) of child-rearing credits (*Kindererziehungszeiten*) for mothers born before 1921 (1 year credited at 75% of the average wage since January 1986); Increase in the federal subsidy;
1988	Introduction of a part-time retirement option and of public subsidies for job replacements;
1989	***Rentenreformgesetz 1992 (RRG92)*** [See box 4.1] Changes in the structure of provisions (e.g. new point system formula; part time pension); Elimination of the "federal guarantee" (*Bundeszuschuss*) and introduction of a new federal loan (*Liquiditätshilfe*) linked to the level of social contributions; Downgrade of benefit indexation from gross to net wages; Progressive (by 2012) increase in retirement ages, disincentives to early retirement; Elimination of the *half-coverage*, tighter rules for crediting/revaluation, more credits for child-rearing; Replacement of the *Rente nach Mindesteinkommen* with a stricter system of "minimum earning points for low pay" (*Mindestentgeltpunkte bei geringem Arbeitsentgelt*), for contributions paid before 1992;
1990	Pensions in the former DDR are converted to DM and indexed to wage increases in the New Länder;
1991	***Rentenüberleitungsgesetz:*** The new Länder are included in the West-German pension system; Wave of unemployment and early retirement in the Eastern states;
1992	New rules for civil servants' pensions: final wage times 1,875% for each year of seniority (75% replacement rate after 40 years); reductions for early exit as in *GRV* (*Beamtenversorgungsgesetz 1992*). Implementations of most provisions in RRG92
1996	Pensions agency and Social Ministry joint research project: "*Altersvorsorge in Deutschland 1996*"; Ministerial Expert Commission on pension insurance (so-called "Blum Commission"); *Altersteilzeitgesetz, Gesetz zur Förderung eines gleitenden Übergangs in den Ruhestand, Beitragsentlastungsgesetz*, and ***Wachstums- und Beschäftigungsförderungsgesetz***: Discontinuation of early retirement due to unemployment (at 60) and new rules on part-time exit; Faster increase in exit ages (since 1997) and phasing out of early retirement without reductions;

Continued →

Table 3.12 - *continued* **– Outlook of the Main Pension Reforms and Reform Proposals: 1989-2007**

Year	*Act* **and main provisions and effects:**
1996 (cont.)	Faster increase of women's standard retirement age (65 by 2004); Standard retirement for severely disabled people increased from 60 to 63; Cuts to the pensions for foreign residents (*Fremdrenten*); Reduction of credited periods of high education from 7 to 3 and only up to 75% of average wages; Lower extra revaluation for starting years: from 4 to 3 years and only up to 75% of average wages; Capping of federal spending on rehabilitation;
1997-98	***Rentenreformgesetz 1999*** (most provisions apply to both GRV beneficiaries and civil servants): A new "demographic factor" lowering the "standard" replacement rate from 70% to 64% by 2030; Expansion of crediting for child-rearing (from 75% to 100% of average wages); Reductions extended to early retirement due to disability (*Erwerbsminderungsrente*), no more early retirement due to labour market conditions, benefits made proportional to reductions in work ability; Standard retirement for unemployed workers increased from 60 to 63; Early retirement and part-time pension options limited to individuals born before 1952 (since 2000); Increase of the federal grant thanks to a 1% VAT increase from 15% to 16% (since 1998); New capitalized reserves for civil servants at federal and *Länder* level, financed by 0.2% retentions on salary and pension adjustments, disbursable since 2018 (*Versorgungsrücklagengesetz*); New rules on civil servants' pay, pension, and sum of pension incomes (*Dienstrechtsreformgesetz*);
1999	***Rentenkorrekturgesetz:*** Abolition of the demographic factor in the *GRV* (**not** for civil servants); Suspension of the new rules for early retirement due to disability and laxer rules on rehabilitation; Changes in the calculation of the federal grant; *G. zur Neuregelung der geringfügigen Beschäftigungsverhältnisse/G. zur Förderung der Selbständigkeit:* Statutory (with opt-out) insurance for atypical workers (*geringfügig Beschäftigte*) below DM 630; Clearer demarcation between employment and self-employment; ***Haushaltssanierungsgesetz:*** Pension adjustment to net wages suspended for two years (2000-01); Eco-tax on fossil fuels earmarked for the pension budget; contributions reduced to 19.3% for 2000; Reductions in the federal grant; Appointment of the "Riester Pension Commission";
2000	*Gesetz zur Reform der Renten wegen verminderter Erwerbsfähigkeit*: Introduction of a new disability benefit (*Erwerbsminderungsrente*) and reform of entitlement rules; Gradual increase to 63 (since 2001 for cohorts born after 1941) in the standard disability exit age; Gradual restrictions on the crediting of *Zurechnungszeiten* for the new disability pensions since 2001; New collective agreement on VBL (since 2002) (*Tarifvertrag über die betriebliche Altersversorgung der Beschäftigten im öffentlichen Dienst*, *ATV*): Defined benefit system retroactively replaced by a point system based on income and wage; Benefits increased by 1% on yearly basis; Disability and survivors' pensions, as well as retirement ages broadly follow *GRV* rules; Access to tax incentives and earnings-conversion for voluntary pensions; Since January 2002, contributions equal 7.86% (6.45% employer;1.41% employee) plus a 2% flat tax on the employer; 4%, (2% employer, 2% employee), plus 1% flat tax in the New Länder;
2001	***"Riester Reform"*** (most provisions apply to both GRV beneficiaries and civil servants) [See box 4.2]: ***Altersvermögensergänzungsgesetz (AvmEG)***: public benefit cuts and 20% cap on contributions; ***Altersvermögensgesetz (AVmG)*****:** reform of private pensions and new private *Riester Rente*; New rules on rehabilitation services *(Sozialgesetzbuch Neun SGB IX);* New rules on survivors pensions *(Gesetz zur Verbesserung des Hinterbliebenenrechts);* Reduction of the reserve fund to 80% of monthly expenditures *(Gesetz zur Bestimmung der Schwankungsreserve in der RV der Arbeiter und der Angestellten)*;
2002	*Beitragssatzsicherungsgesetz (BSSichG)*: Increase of the contribution rate by 0.4% (to19.5%) and of the incomes threshold for contribution; Decrease of the reserve fund from 80% to 50% of monthly expenditures; Federal Constitutional sentence on pension taxation (3rd June) required new legislation by January 2005; Appointment of the Rürup and the Herzog pension commissions; Reductions in social contributions for low wage jobs between €400 and €800; Launch of the second "*Altersvorsorge in Deutschland*" (AVID 2005) study;

Continued →

Table 3.12 – *continued (2)* **– Outlook of the Main Pension Reforms and Reform Proposals: 1989-2007**

Year	*Act* **and main provisions and effects:**
2003	Reports of the Rürup and Herzog commissions ***2. und 3. SGB VI-Änderungsgesetz***: Suspension of the adjustment of pensions in 2004; Shift of long term care and health insurance contributions on pensioners; Reduction of the federal subsidy (about €2 billion for 2004) (*Haushaltsbegleitgesetz 2004*); Reform of part time pensions, of unemployment benefits, and of refunding of figurative credits to the *GRV*; Reform of *Sozialhilfe*, with a new, less strict, means-tested benefit for the elderly (*Grundsicherung im Alter*);
2004	***RV-Nachhaltigkeitsgesetz:*** Introduction of *Nachhaltigkeitsfaktor* with reductions up to a minimum 46% benefit level; Increase to 63 years of the minimum age for claiming a part time pension or for early retirement due to unemployment of the old-age pension since January 2006; Pension indexation linked to the growth of the actual contribution bill, suspension of adjustments in 2004; Full abolition of credit points for periods of higher education; Increase in retirement age for unemployed and partial pension from 60 to 63; Reduction of the reserve fund from 50% to 20% of monthly expenditures (*Nachhaltigkeitsrücklage*); ***Alterseinkünftegesetz:*** New rules for the taxation of pension benefits; Introduction of gender-neutral tariffs for *Riester-Rente* (*Unisextarife*); Specification of the criteria for the certification of *Riester-Rente* vehicles; Cuts to civil servants' "special pension payments" (*Haushaltsbegleitgesetz* 2004) Gradual integration of statutory pension institutes: only 2 Federal and 14 Regional Institutes by 2008 (*Gesetz zur Organisationsreform der gesetzlichen Rentenversicherung*);
2005	No adaptation of pension benefits (*Rentenwertbestimmungsverordnung 2005*); Stricter rules on the timing of paying contributions (*Beitragsentlastungsgesetz 2005*);
2006	*Haushaltsbegleitgesetz 2006* Further progressive reductions in the amount of the federal subsidy; Elimination of some contribution-free holidays and further cuts to civil servants' "special payments"; Increase of the pension contribution for atypical employees from 12% to 15% since July 2006; Planned cuts to the federal subsidy for 2006 and since 2007 (*Entdynamisierung*); No adaptation of pension benefits (*Gesetz über die Weitergeltung der aktuellen Rentenwerte*); Lower contributions from insured unemployment (*Gesetz zur Änderung des SGB XII und anderer Gesetze*); Replacement of *Ich-AGs* with *Gründungszuschuss* benefits, with no pension insurance (*Gesetz zur Fortentwicklung der Grundsicherung für Arbeitsuchende*); Pension contribution rate at 19.9% for 2007 (*RV- und BA-Beitragssatz 2007*); Exclusion of very low paid jobs from the calculus of the current pension value (*Gesetz zur Änderung des Betriebsrentengesetzes und anderer Gesetze*); Since January 2007, enrolment of newly appointed civil servants', judges, and military personnel into a capitalised Federal Provident Fund, financed by contributions and managed by the German Central Bank (*Erste Gesetz zur Änderung des Versorgungsrücklagengesetzes*).
2007	***RV-Altersgrenzenanpassungsgesetz:*** Retirement ages gradually increased by 2 years between 2012 and 2029 (1 month a year until 2024, 2 months a year afterwards): from 65 to 67 for old age; from 63 to 65 for disability; from 45 to 47 for survivors; early retirement with reductions at age 63 with 35 years of contribution (40 since 2024); New exit option without deductions at 65 after 45 years of insurance; Provision for a 4-year report on employment opportunities for older workers since 2010; Cuts to the pension for foreign residents; Introduction of a (catch-up factor) *Nachholfaktor* smoothing the cuts imposed by the *Nachhaltigkeitsfaktor*; Pension values increased by 0.54%, *Nachholfaktor*'s implementation (*Rentenwertbestimmungsverordnung*); ***Dienstrechtsneuordnungsgesetz 2007*:** Gradual (2012-29) increase from 65 to 67 of the standard retirement age for civil servants; retirement at 65 without reductions after 45 years of contributions; retirement at 63 with reductions up to 14.4%; Revision clause to guarantee the parallel evolution of *GRV* and civil service rules; *Gesetz zur Förderung der betrieblichen Altersversorgung:* Tax and payroll tax exemptions to the "earnings-conversion option"; Vesting age for occupational pensions lowered from 30 to 25 years since 2009; Increase to €300 of the Riester pension child allowance since January 2008;

Source: Mayer 1994; (adapted from) Ney 2001 and Schluze and Jochem 2007; Häusermann 2010; Ebbinghaus *et al.* 2011; ASISP 2009; http://dejure.org. ; http://www.sozialpolitik-portal.de/ ; **'Big' reforms are** bolded**.**

3.2.2 Reward-reducing and Insurance-reducing reforms between 1977 and 2007

Starting from these premises, the reforms of the following 30 years have summed up to a major policy change in terms of risk distribution (see Table 3.12 below for a synopsis). As in Italy, the first risk shifting measures were bundled with less transformative 'retrenchment', with broader opportunities for early retirement (e.g. the 1984 *Pre-retirement Act*), and even with occasional expansion in coverage and generosity (e.g. the creation of a scheme for artists in 1981). The political shift towards the centre-right radically changed the terms of the pension debate. Nullmeier and Rüb (1993) aptly characterised this development as a reorientation of policy-making away from the logic of the 'social state' (*Sozialstaat*) and towards that of the 'security state' (*Sicherungsstaat*). In other words, and more in line with the argument of this thesis, the threat of systemic risks pushed social policies on the defensive. Policy goals changed from including more risks and population groups into the system to consolidating the system by reducing its functions and ambitions. With the 1985 reform of survivors' pensions this reorientation became manifest. A law that should have improved women's standing in the social security edifice soon turned into a 'levelling-off' kind of measure, which far diminished their chances to receive decent old-age protection.

At the same time, policymakers willing to reduce spending levels while avoiding counter-mobilisations began to find insurance-reducing reforms easier to introduce than across-the-board cuts. Political blame avoidance can explain, but only to some extent, why policymakers turned away from visible and widespread cuts to more complex, uncertain, and selective initiatives. A handbook example of this gradual shift has been the frequent suspension or downgrading of benefit indexation. The suspension of benefit indexation was adopted as a less visible surrogate for minor benefit cuts, not yet as the deliberate removal of a financial guarantee. However, it slowly managed to call into question the legitimacy of gross wage indexation in a country like Germany, where pension were subjected to a favourable tax treatment.

Similarly, technical and obscure revisions in the regime of figurative credits favoured a shift in the weighting of social protection from high education and unemployment towards family care. The old distinction between workers and non workers, sanctioned by the 15-year vesting period and the *Halbbelegung* rule both came undone during the 1980s. For sure the change was motivated by sound gender equality concerns. Financially, however, the result was to facilitate entitlement to low pensions, barely (if at all) above means-tested anti-poverty protection, while concentrating public savings on workers with less continuous employment records.

Box 3.1: Provisions of the *Rentenreformgesetz 1992 (RRG92)* of 1989:

Measures dealing with financing and provisions:

- Rationalisation of the pension formula (**Point System**);

  *Monthly benefit = Individual points*pension type*pension value*
- Update of survivors' pensions to the new rules (with almost no change);
- Expanded part-time retirement options;
- Reform of the pension "federal guarantee" (*Bundeszuschuss*) as an interest-free loan (*Liquiditätshilfe*);
- Great increase in the state subsidy: from 0.7 to 2.3 billion Deutsche Marks for 1991;
- Automatic link between the minimum reserve, individual contributions, and the federal subsidy;

Retrenching measures:

- Gradual (between 2001 and 2012) 2-year increase of standard exit ages, standard exit for women at 65;
- "Actuarial" disincentives (incentives): -0.03% (+0.05%) replacement rate for month of early (late) exit;

Measures dealing with ***accumulation***:

- Cancellation of the *Halbbelegung* and crediting of all "justified" non-contributory periods (*Anrechnungszeiten*) and incomplete contributions (*Gesamtleistungsbewertung* system);
- Progressive (by 2004) reduction from 13 to 7 of the credited years of high education, *Zurechnungszeiten* credited until the age of 60 (instead of 55), *Ersatzzeiten* limited to before January 1992;
- Retroactivity and expansion of *Kindererziehungszeiten*: 1 year before 1986, 3 years since January 1992;
- New child-rearing credits (*Berücksichtigungszeiten*): 10 figurative years for each child (no overlaps) at 75% of the average wage, valid against the vesting period and severable among parents;

Measures dealing with ***revaluation***:

- Replacement of the *Rente nach Mindesteinkommen* with "minimum earning points for low pay" (*Mindestentgeltpunkte bei geringem Arbeitsentgelt*): 150% revaluation for contributions paid before 1992 (but only up to 75% of the yearly average wage), provided at least 35 years of contribution (credits included);
- Changes in the extra revaluation of the first employment years: max 4 years at 90%, limited to periods of vocational training for beneficiaries older than 25;
- Lower credit value in case of illness/unemployment (80%, by 1998) and vocational training (75% by 2004);

Measures dealing with ***dynamisation***:

- Downgrade of benefit indexation from gross to net wages;

Source: Mayer 1994; Hinrichs 1998; Ney 2001; http://www.sozialpolitik-portal.de/

The measures included in the 1989 *RRG92* (see box 4.1) were indicative of this slow emergence of an insurance-reducing agenda from less elaborated retrenching initiatives. The most relevant forms of crediting for medium/high work pensions (education, unemployment, and early years) were reduced in their ability to support both the accumulation and the revaluation of pension claims. While retrenching measures on retirement ages and benefit values (in case of early retirement) were introduced or (at least) scheduled in the near future, most of the cuts insisted on a stronger link between contributions and benefits. Finally, dynamisation was also reduced. The extra guarantee on short term fluctuations was lifted as early as in 1982, with the adoption of a new distributive criterion of parallel evolution between disposable wage and pension incomes. The downgrade of indexation from gross to net wages provided for by the *RRG92* completed this shift of depreciation risks on individual pensioners and workers. Surprisingly, most pension cuts were enacted across the two separate schemes for workers/employees and civil servants.

The new approach of the black-yellow coalition was consolidated by the reforms of the 1990s, which increasingly weakened the pension consensus with the SPD, until its breakup with the unilateral reforms of 1996 and 1997. The *RRG99* was a further crucial step in the emergence of a risk shifting pension agenda. This step rested on two main features: first, a wide but ineffectual consensus on expanding the role of private pensions; second, the shift on the insured population of the systemic risk of population ageing. Seen in this light, the reform of 1997 and its (almost complete) reversal by the new red-green majority in 1998 reveal to the analysis the exhaustion of the previous reform trajectory and the emergence of a policy deadlock.

In the face of mounting budgetary pressures and increasing employers' discontent, however, the red-green coalition was soon meant to change its ways. Alongside other innovative pieces of legislation, three major reforms were enacted during the two red-green legislatures (1998-2005): that of disability benefits in 2000, the so-called Riester reform of 2001 [see box 4.2]; and the 'sustainability law' (*RV-Nachhaltigkeitsgesetz*) of 2004. Together with the profound transformation of the VBL scheme set out in 2000 by the new collective contract of public sector employees (*ATV*), the three reforms summed up to a drastic policy change, that many commentators interpreted as a 'paradigm shift'. The disability reform was a move back to the tightening of early retirement and disability benefits rules previously enacted by the centre-right. The new *ATV* retroactively replaced the old PAYG defined benefit system with a contribution financed point system, severing the previous connection (*Gesamtversorgung*) between *GRV* and *VBL* benefits for public sector blue- and white-collar workers.

There is no doubt that the 2001 Riester reform (*AvmEG* and *AVmG*) as well as the 2004 'sustainability law' (also known as Rürup reform) are the most important examples of insurance-reducing reforms in Germany. The former introduced an automatic stabiliser (the *Altersvorsorgeanteil*, better known as *Riester-Faktor*) linking contribution rate increases and/or benefit cuts to changes in the contribution bill. Moreover, it established a new voluntary private option in the German pension system: the Riester pension. Well protected by international standards, but still less guaranteed than the old defined benefit schemes, Riester pensions were ingeniously 'carved out' from the statutory system. This was realised by means of a tax- and contribution-free earning-conversion option and of a corresponding figurative reduction in the current values of public bene-

Box 3.2: Provisions of the *Riester Reform* of 2001 *(AvmEG* and *AVmG)*:
Measures dealing with financing and provisions: Introduction of a new "pension splitting" among spouses; A new tax-favoured, voluntary private, capitalised defined contribution supplementary "Riester pension"; New certification for private pension schemes eligible for tax incentives and earnings-conversion; Improved information from the statutory pension scheme; New basic security for the elderly, without mandatory resort on children's support; Civil servants' pension coefficient reduced by 0.54% in 8 steps between 2003 and 2017 (max replacement rate: 71.75%): half of the reductions cumulated in new pension reserves (discontinuation of the previous 0.2% contribution until 2018); access to tax incentives for additional contributions on voluntary basis;
Retrenching measures: Stabiliser linking benefit levels and contribution rates to fluctuations in the contribution bill (*Riester-Faktor*); Reform of survivors' pension with stricter entitlement rules;
Measures dealing with ***accumulation***: Maximum education periods capable of consideration raised from 3 to 8 years; Introduction of a child component in the calculation of survivors' pensions; Legal entitlement vis-à-vis the employer to a tax-exempted earnings-conversion (*Entgeltumwandlung*) of up to 4% the monthly wage to finance certified occupational pensions, including the new DC *Pensionsfonds*; New tax incentives/subsidies and child allowances to finance the new certified pension schemes;
Measures dealing with ***revaluation***; Crediting of child-rearing (higher assessment in case of part-time employment, low pay or career breaks); Up to 3 years of education credited as contribution time, up to 5 more years as *Anrechnungszeiten*;
Measures dealing with ***dynamisation***: Suspension of benefit adjustments to inflation for 2001.

Source: Schludi 2005; Schulze and Jochem 2007; http://www.sozialpolitik-portal.de/

fits. Three years later, the Rürup reform introduced one more factor in the pension formula: the 'sustainability factor' (*Nachhaltigkeitsfaktor*), an even more effective version of the 'demographic factor' proposed by the centre-right in 1997. Alongside this risk-stabilising measure, the Rürup reform also eliminated pension credits for periods of higher education, expanded the set of supplementary pensions, and further tightened the *Riester-Faktor*.

Finally, with the formation of a grand-coalition government in 2005, the German reform pattern path dependently reverted to a more balanced mix of retrenching and risk shifting reforms. Due to the new rules, low growth and inflation resulted in no pension adjustment for the years 2005 and 2006, while rules for contribution and unemployment credits were tightened.

On the one hand, a number of important pension reforms occurred in 2007. Some of them consolidated the choices made in the early 2000s. The ‘Civil Service Reorganisation Act’ (*Dienstrechtsneuordnungsgesetz* 2007) extended most of the new provisions to civil servants, while providing for further rule harmonisation vis-à-vis the *GRV*. Since 2007 (2008 for the new *Länder*), newly hired civil servants, judges, and the military personnel have been enrolled in a fully funded, actuarially fair ‘Federal Provident Fund’, financed by social contributions (*Erste Gesetz zur Änderung des Versorgungsrücklagengesetzes*).[53] New regulations for occupational pensions (*Gesetz zur Förderung der betrieblichen Altersversorgung*, 2007) prolonged the tax and payroll tax exemptions granted to the ‘earnings-conversion’ option introduced in 2001. In continuity with previous legislation, Riester’s pension child allowance was increased (to €300, as of 2008) and the minimum age required for vesting occupational pension claims lowered (from 30 to 25, since 2009).

On the other hand, however, the ‘Pension Insurance Retirement Ages Adaptation Act’ (*RV-Altersgrenzenanpassungsgesetz*) for 2007 took a step away from the insurance-reducing approach. Firstly, it turned back to retrenchment by mandating a 2-year increase in the standard retirement age (from 65 to 67 for old age, see Table 3.12 above for the details). Secondly, and most notably, it introduced in the pension formula a new ‘catch-up factor’ (*Nachholfaktor*) meant to smooth yearly fluctuations in benefit values as they are produced by the ‘sustainability factor’.[54] It follows that the new factor has important risk-distributive implications, acting as a political guarantee on how losses are distributed. On top of this, the *Nachholfaktor* served as a prelude to the introduction of a new ‘pension guarantee’ (*Rentengarantie*, see Section 4 below) in 2009 to protect statutory pensions from nominal cuts (Börsch-Supan, Gasche, and Wilke 2010; ASISP 2010).

3.2.3 Risk-distribution settlements in the reformed German pension system (as of 2007)

Table 3.13 summarises the effects of the thirty years of reform briefly reviewed in the last section. A comparison with Table 3.9 above shows how benefits have been lowered and made more contingent on specific economic and demographic developments. While public sector pensions have

[53] The goal of the new legislation was to provide civil servants with a funded pension proportional to their final income and with an actuarially sound contribution regime. While the nature of the scheme remains blurred, this indicates a defined benefit system with a flexible contribution rate. From an institutional perspective, this change is the long term evolution of the capital-funded reserve for civil servants first established by the *Versorgungsrücklagengesetz* of 1998.

[54] The new parameter was meant to prevent lowering the previous year’s nominal pension values due to demographic developments. Losses not enforced due to low or null benefit growth would then be made up for as soon as a new pension increase would take place. I see this smoothing and de-linking of pension cuts from fluctuations in the contribution bill as a step back from the logic of risk-stabilisation to the logic of retrenchment, through the introduction of a new guarantee. Instead of shifting risks on the insured population as soon as negative circumstances arise (as the *Riester-Faktor* and the *Nachhaltigkeitsfaktor* would command), the new version of the pension formula acts counter-cyclically, delaying cuts in order to fulfil the political goal of preventing nominal benefit reductions.

undergone the greatest innovations (funding and the creation of capitalised reserves), their terms and conditions have largely been harmonised to the general rules valid in the *GRV*. The role of oc-

Table 3.13 – The setup of the German Pension System after the reforms of 2007 (main schemes)

	Eligibility		**Contributions (% gross wage)** (E)mployer;(W)orker	**Benefits**		**Indexation**
	Age	Vesting period		Assessed wage (AW)	Formula	
SOCIAL ASSISTANCE:						
Grundsicherung im Alter	Retirement age + need (less strict test than *Sozialhilfe*)		None (tax-financing)	Fixed sum, higher than *Sozialhilfe* (and no costs for close descendents)		Periodical increases
PUBLIC PENSIONS:						
GRV	65→67 and 5+ yrs; 63→65 and 35+ yrs (reductions); 65 with 45+ yrs (no reductions)		E: 9.95%; W:9.95% (+federal loan)	Individual Earning Points*Pension type*Accrual factor*(Actual pension value*Stabilisation factors)		Gross wages (minus the effect of stabilisers)
Civil servants and soldiers	Usually 65→67 with 5 years Harmonisation to the *GRV*		Tax-financing (old); 28%-38% (new fund)	Final wage (last 3 yrs)	AW*[≈1.8*seniority] (up to 71.75%)	
OCCUPATIONAL PENSIONS:						
Private sector	Set in contract (norm. 61)	Age 25and 5+yrs; or immediate (with *Entgeltumwandlung*)	By the employer + "*Entgeltumwandlung*" + tax incentives	last 3-5 yrs (DB only)	DB,DC, or fixed-sum (guaranteed non-negative return)	Gross wages (firm), Min:1%/year
VBL (Public sector)	As in the *GRV*		E:6.45%+2%,W:1.41% (East: 2%+1%;2%) +"*Entgeltumwandlung*"	Point system as in *GRV* (West); capital funding (East)		At least 1%/year
PRIVATE INSURANCE PLANS:						
Riester-Rente	Private or public employment Paid at 60		Child allowance, tax incentives/subsidies	DC, guaranteed non-negative return (2.25% for some contracts)		Profit-sharing
Basisrente	Tax-payer status; Paid at 60		Voluntary,tax incentives	DC, guaranteed non-negative return		
Life insurance	Price		Voluntary	DC: lump-sum or annuities		

Source: Schulze and Jochem 2007; BMI 2009; DBV 2011; Ebbinghaus *et al.* 2011

cupational pensions has been strengthened with new options and tax incentives. Finally, two new individual market-based schemes, the *Riester-Rente* and the *Basisrente* (or *Rürup-Rente*), have been established and regulated in order to compensate for cuts in public pensions, shifting to the market a share of public responsibility for welfare in the old age.

As regards risk distribution, once again a downward shift occurred in a threefold direction: within the public system, within the private system, and by means of a shift from the former to the latter. The shift within the public system was due to the adoption of new automatic stabilisers and the reduction of certain pension credits and favourable regimes of revaluating contributions (see Table 3.14). The shift within the private system is evident from the expansion of private insurance options, from the greater role of employee contributions in financing occupational pensions (through the earnings-conversion option, or *Entgeltumwandlung*) as well as the overhaul of *VBL*. Against this backdrop, the shift of social responsibility from the public to the private side of the pension system (brought about by reward- and insurance-reducing reforms alike) also had risk shifting implications. In fact, as one could easily expect, new and reformed regulations of firm-

Table 3.14 – Risk pooling and individualisation in Germany's reformed pension system (as of 2007)

Policy settings / Risk shift	Functions and rules	Level of protection	Pros (+) and Cons (-)
PUBLIC PENSIONS (*GRV*):			
Labour market risks	**Accumulation:** Min vesting period lowered at 5 years; Cancellation of educational credits; Expansion of child-rearing credits; Insurance for atypical jobs;	Medium	+ Reorientation of protection towards weaker career profiles; - The lowest work pensions risk paying less than the social assistance level; - Lower contribution rates for the atypicals;
Investment risks	**Revaluation:** Point system based on full career with limited extra revaluations (after 1992); Uniform revaluation for old age/disability; Lower values for figurative credits;	Low	+ The point system's assessment of relative income positions reduces vertical segmentation among different cohorts - No minimum guarantees for work pensions;
Depreciation & demographic risks	**Dynamisation:** Indexation to gross wages minus negative indexation to shocks to the contribution bill, due to occupational and demographic trends, and carve-out contributions (loss limitation at 46% of average wages); Catch-up factor to avoid nominal cuts;	Medium	+ Anti-cyclical smoothing of pension losses; + Costs spread on the entire insured population, except for the lowest benefits; + No vertical segmentation or "vintage pensions"; - High likelihood of missed adjustments; - Work pensions approach social assistance levels;
PRIVATE PENSIONS (OCCUPATIONAL AND INDIVIDUAL):			
Labour market risks	**Accumulation:** Vesting at 25 with 5 years; Immediate vesting of earnings-conversion; Strong role of collective contracts;	Medium	+ A balanced mix of risk pooling and portability; - Shift of financing burden from employers to employees;
Investment risks	**Revaluation:** Survival of old-style DB schemes; Return guarantees on DC schemes ranging between 2.25% and 0% (non-negative); Protection in case of firm bankruptcy; Comparatively prudent regulations;	Strong	+ One of the widest sets of guarantees in the OECD; - New subscriptions are mostly limited to the DC world;
Depreciation & demographic risks	**Dynamisation:** Occupational benefits cannot fall in nominal terms; At least 1% if sponsoring firm is healthy; Mandatory profit-sharing for market-based provisions;	Medium	+ Annuitization included in the pension contract; - Adjustments may fall behind inflation;

Source: own elaboration.

sponsored and individual retirement schemes fell far short from offering the same level of protection available in the old public system.

Looking more explicitly at how risks have been redistributed, Table 3.14 proposes an evaluation of the risk shift in the reformed German pension system. As regards accumulation of pension credits within the statutory system, the overall picture is that of a rebalancing of protection from strong to weak careers.[55] Workers who could have hoped for a more substantial monthly check are

[55] With the benefit of hindsight, this change can be characterised as a shift of protection from well educated men and the occasionally unemployed to unmarried women. In the presence of a more lax tax-financed scheme such as the 2003 *Grundsicherung im Alter*, however, this change produces two largely overlapping guarantees on low pension profiles.

now more exposed to unpredictable employment circumstances, especially if their professional career had a late start. Decreasing protection for the long-term unemployed and the low contribution rates for the recently covered atypical workers are other problematic elements in the new picture. In terms of revaluation, a reduction of protection is evident. Two main features stand out. The first, positive, is the ability of the German point system, due to its assessment of relative income positions, to avoid vertical segmentation between cohorts who lived periods of economic expansion as opposed to stagflation.[56] The second, negative, is the removal of the income guarantees that held long-time contributors with low incomes separate from social assistance recipients who had never paid into the system. Finally, in terms of dynamisation, the German system is once again peculiar. Unlike NDC systems like Italy's, where demographic and economic risks are mostly distributed in the phase of accumulation, the German point system deals with those circumstances as it updates benefits.[57] On the one hand, this determines that costs of pension adjustments are equally spread on the whole insured population of workers and pensioners, while exempting low-income pensioners. As a result, the 'vintage pension syndrome' is also avoided. While socially appealing, this strategy comes at the cost of systematically eroding pension adjustments, further reducing the gap between social assistance and the work pensions of former low-pay workers. Over time, this status loss may undermine trust in the statutory system and even stimulate contributory evasion, especially among atypical workers.

A brief look at accumulation, revaluation, and dynamisation on the private side of the German pension system, easily reveals its comparably high level of protection. While in terms of the accumulation of pension claims, German regulators seem to have found a good balance between the conflicting aims of risk pooling and portability, the system also offers top-tier protection from investment risks. Also, unlike defined contribution plans such as the 401k in the US, annuitization is provided by default by German non-public schemes. On the downside, the actual evolution of the reformed private pension system is less promising than its rules may suggest. The generous system of benefit revaluation is anyhow unable to deal with even the risk of inflation. Moreover, voluntary pension claims are most often accumulated thanks to employees' contributions, as opposed to the old norm of full financing by the employer. Finally, the recent expansion of subscriptions is mostly limited to the defined contribution world. So, while defined benefit schemes were not prohibited as in Italy and did not collapse like in the US, they still remain as unattractive to employers as they were after the reform of 1974.

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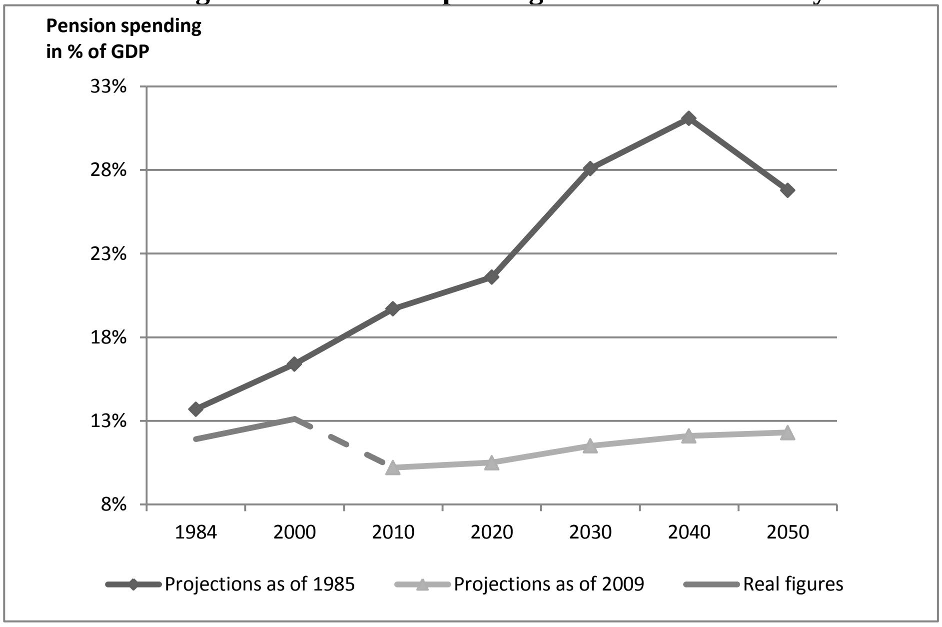
[56] The reader may remember that one of the limits of the 1992 Amato reform in Italy was the inability to manage this problem in an economic efficient and politically acceptable way (see Pizzuti 1998).

[57] This difference also makes Table 4.7 less straightforward to compare with Table 3.6 in the previous chapter.

Figure 3.2 - Pension Spending Forecasts in Germany



Sources: OECD 1988; EC 2009;OECD SocEX (real figure for 1984); Eurostat (real figure for 2000)

Before turning to the narrative that explains this reform process, a quick look at outcomes (actual as well as forecasted) can reinforce with quantitative evidence my analysis of legislative outputs. First and foremost, reforms since the mid-1980s have achieved large savings. Projections from the mid-1980s expected the system to face a 'pension peak' (*Rentenberg*) beginning in the early 2020s. Following Schludi (2008:49), Figure 3.2 compares old spending projections made by the OECD (1988) with the European Commission's Indicator Subgroup (IGS 2009). OECD projections show very clearly the impact of the 'pension peak' and the savings obtained by the reforms of the 1980s. Most of the reduction between the expected values for year 2000 and the actual spending figure is to ascribe to the *RRG92*, whose estimated savings range in the vicinity of 100 billion DM (Schulze and Jochem 2007). If differences in their methodology and assumptions do not allow a true quantitative comparison, these figures nonetheless show how German policymakers managed to alleviate fiscal pressures on the pension budget.

From an aggregate perspective, the financial impact of the reforms can also be inferred by changes in the contribution and replacement rates. In 1987, official estimates by *Prognos* indicated that, in the absence of policy change, the contribution rate needed to balance the pension budget was meant to double by 2030 and, in the worst case scenario, to reach 43.4% by 2040 (Mayer 1994). According to an oft-cited IMF study by Chand and Jeager (1996), the equilibrium contribution rate (inclusive of the federal subsidy, equal to about 15% of all pension inlays) was expected to grow from 22.6% in 1996 to 41.6% in 2050, as a result of worsening demographic prospects. Without considering the Riester and Rürup reforms, Galasso (2006) forecasted for 2050 an equilibrium contribution rate ranging between 32.6% and 37.7%. As regards the effects of the most recent reforms, Börsch-Supan and Wilke (2004) have calculated a 2% long term reduction of social contribution rates (from 28% down to 26% by 2040) as a result of the Riester reform, further lowered by an extra 2.5% due to the 2004 reform.

In terms of benefit generosity, OECD (2009) estimates for the reforms taken since 1990 indicate a reduction from 66.6% to 61.3% in the net replacement rate of a future 'standard pensioner' (the *Eckrentner*, identified by a full time 45-year career at the average wage) who entered the labour market in 2006. Reference to the statistical construct of the *Eckrentner*, however, conceals a number of adequacy issues within the reformed system (see Riedmüller and Willert 2007; Geyer and Steiner 2009). As reported by Hinrichs (2012: 46), in fact, the gap between the average pension and the 'standard pension' has increased since the 1990s, from 94.5% in 1990 to 75% in 2009. The reasons for this widening gulf are due to both institutional and structural transformations.[58] Combined with the removal of existing guarantees on the revaluation of contributions, these changes may push even continuously employed workers well below the poverty line, if their lifetime wage ranked below 50% of the average. As a result, the average worker of 2030 would need a full time career of almost 33 years to reach a pension level in line with means-tested protection; almost 50 years of work would be required instead to individuals earning two thirds of the average (Steffen 2010; Hinrichs 2012).[59] While this is a telling example of what is concealed by average cost/benefit statistics, the German pension system is more solidaristic when dealing with other kinds of risks.

Table 3.15 - Gross Replacement Rates for Different Career Patterns (2046)[60]

	Gross Replacement Rates (2046, as of 2007 legislation)			
	Base case	***10 yrs after retirement***	***1 yr childcare break***	***3 yrs childcare break***
Germany	34%	34%	39%	37.6%
Italy	63%	54.8%	48.3%	47%
Sweden	39.5%	35.1%	39.3%	39%

Source: adapted from ISG 2009, pp. 20; 43; 103.

ISG 2009 estimates for 2046, for instance, confirm the analysis in Table 3.15 with respect to the role of child-rearing credits and benefit indexation. Table 3.15 reports ISG simulations on future

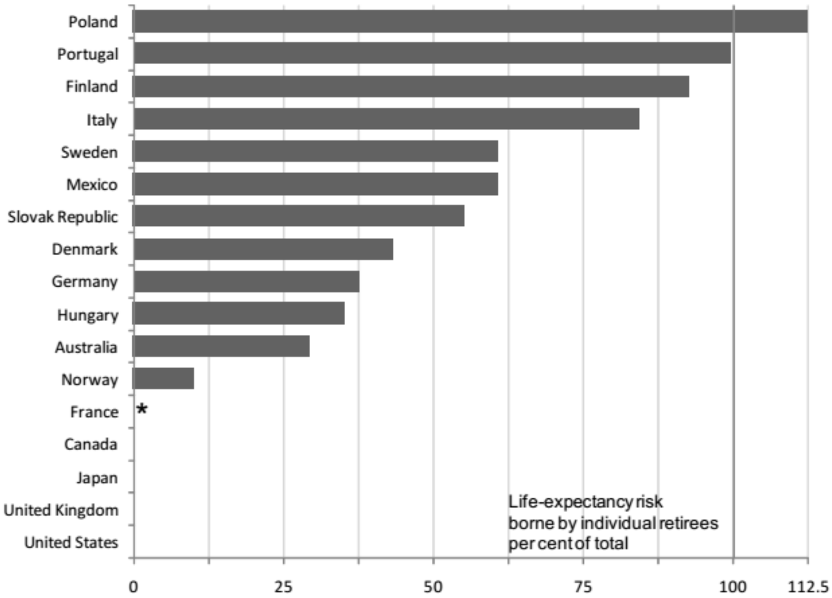
[58] As regards the former, Mika and Baumann (2008) showed a 25% fall in replacement rates for the same work biography between the 1939 and the 1955 cohorts. The latter are instead related to the expansion of atypical employment and self-employment, to the decreasing share of fully insured jobs (from 75% of the workforce in 1991 to 68% in 2005), as well as to the tighter rules for crediting discussed earlier (Hinrichs 2012).

[59] An unlikely event, since evidence suggests that low wages are correlated to shorter careers (Hinrichs 2012:44).

[60] Gross replacement rate figures tend to underestimate the value of German pensions and to ingenerate confusion between actual replacement rates and average benefit levels. ISG simulations are unique in the risks they consider, but unfortunately they are only expressed in gross terms.

gross replacement rates in Germany, Italy (see Section 3.1 above), and Sweden; it covers the cases of a standard worker, a pensioner already retired for ten years, and a worker with one or three years of childcare breaks. Figures in the table show that no benefit erosion occurs in Germany ten years after retirement. While this problem exists to some extent in Sweden, it features substantially in the more generous but riskier Italian system. As regards childcare breaks, the German system tends to compensate a lower wage in absolute terms with a slightly higher replacement rates, whereas the Swedish system simply pools the risk away. Once again, the 'risk of parenthood' has more dramatic consequences in Italy, mostly due to the gendered pension rules still in place in the 2007 legislation.

Figure 3.3 – Demographic risk shift in selected OECD countries



Source: Whitehouse 2007:12.

In addition, German pension rules are also milder at distributing demographic risks than most pension systems across the OECD, which have adopted automatic stabilisers for demographic risks. As shown by calculations by the OECD economist Edward Whitehouse (2007), German rules (as of 2007) shifted on pensioners about 37% of a simulated demographic shock, whereas Sweden would transfer it for about 60% and Italy for about 80%. Most notably, this less individualised management of demographic risks occurs without compromising the long term stabilisation ability of the German system. As suggested by Börsch-Supan *et al.* (2010), even considering the impact of the benefit level guarantee established in 2009, German automatic stabilisers tend to revert to their long term reference values within the time-span of a decade or so.

The last descriptive step to be taken before closing this first section is a brief review of non-public pension outcomes. The following paragraphs will provide evidence in support of my claim that the evolution of private and occupational pensions in Germany is a case of moderate risk shift.

In the words of a senior economist at OECD, Juan Yermo, 'only a few countries like Germany, the Netherlands and Japan have experienced some resistance to the decline in the number and coverage of defined benefit plans that has affected other countries... [but] …even in these countries, it is not clear how long their popularity will last' (Yermo 2007: 62) As evidenced by the analysis of pension legislation in the previous subsection, the German non-public pension mix underwent a shift away from the defined benefit and towards a hybrid defined contribution approach, which nonetheless show strong institutional continuities with the past.

Supplementary pensions in Germany have long been characterised by high coverage (traditionally around 60%) and a low share of total pension income (less than 5% on average). Such a peculiarity reflects the generally accepted ambitions of these schemes: to provide the most loyal employees with 'public sector' replacement rates and to fill the pension gap (*Versorgunglücke*) of high-income individuals outreaching the pensionable earnings level (2.1 times the average wage) (Schmähl and Böhm 1994). The coverage issue was more complex, however. Already by 1971 a survey of occupational pensions had scaled down this statistic to 30%, with a very unequal distribution. Concerns over this point sparked the 1974 regulations, which nonetheless fell short of reversing a downward trend (Menzies 1974). Official coverage figures fell from 60% in 1973 to 48% in 1981 (Mayer 1994), stabilising around 50% until the reforms of the 2000s (OECD 2005).

Table 3.16 – The occupational pension mix in Germany, late 1980s to late 2000s

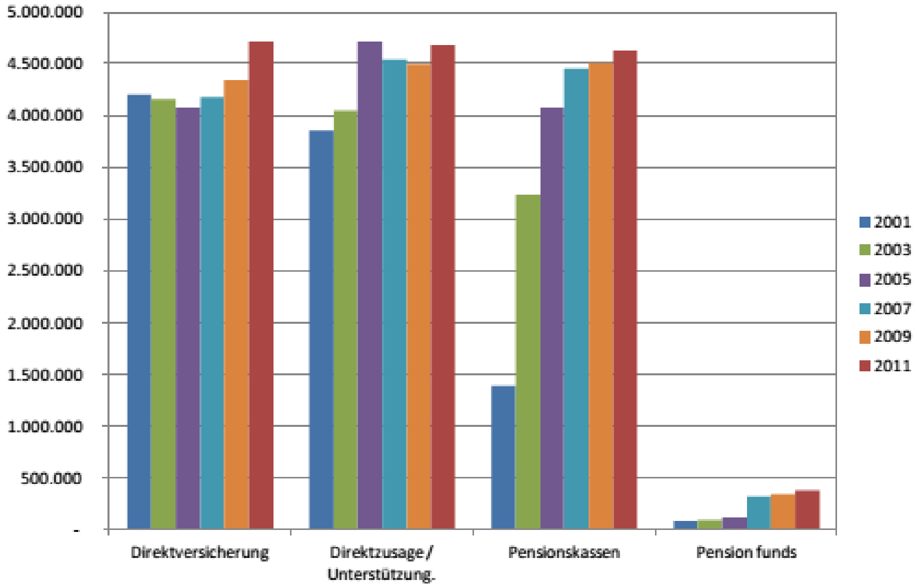
Share of / Pension vehicle:	Assets* (1993)	Employees* (1990)	Companies* (1990)	Companies+ (1988)	Assets# (2008)	Active members§ (2007)
Direct promises	56.3%	54.1%	12.8%	53.2%	54%	34.4%
Support funds	8.7%	13%	1.6%	14.8%	3.2%	
Direct insurances	12.1%	14%	68.9%	45.5%	8.2%	31.6%
Pensionskassen	22.9%	18.9%	28.3%	8.6%	23.6%	32.7%
Pension funds	-	-	-	-	3.2%	2.3%

Sources: Quiesser 1996(*); Schmähl and Böhm 1994(+); Aegon 2010(#); own calculations on BMAS 2009(§)

Looking at assets and members (Table 3.16), more than half of the occupational pension mix was composed by defined benefit direct promises and support funds. In the late 2000s, the situation was almost unchanged in terms of assets, but much more balanced in terms of active members. This illustrates that recent pension changes have mainly occurred at the margin: that is, leaving in place more mature defined benefit schemes, revamping the role of the old pension funds (*Pensionskassen*), and with a slow expansion of the newest ones (*Pensionsfonds*). Figure 3.4 provides a graphical representation of membership trends, showing that the old occupational schemes adapted readily to the new regulations, and that defined benefit schemes also began to grow again after the reforms.

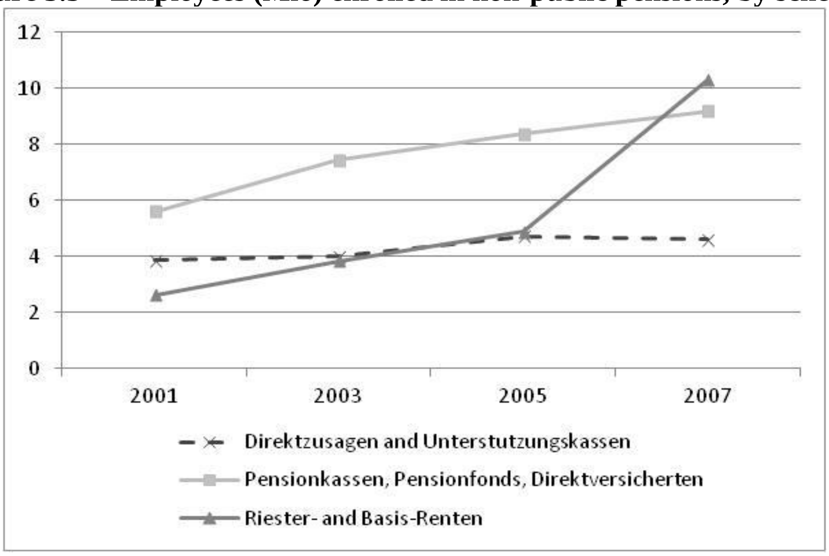
Figure 3.5 extends a similar elaboration to the entire private pension system, showing recent trends for (hybrid) DC funds (grey line), Riester and Rürup private pensions (bold line), and defined benefit plans (dotted line) until 2007. Whereas *Basisrenten* reached no more than 600,000 contracts, Riester pensions steadily grew from slightly more than 2 to more than 10 million subscribers in just 6 years, almost reaching 14.5 million in 2011 (Hinrichs 2012). Such a great success can be partly explained considering the generosity of subsidies and tax incentives, with expenditures and foregone tax income equalling €11 billion (0.4% of GDP) in 2008 (Ebbinghaus *et al.* 2011).

Figure 3.4 – Employees enrolled in occupational pensions, by scheme type



Source: Estevéz-Abe and Heinrich 2013:38

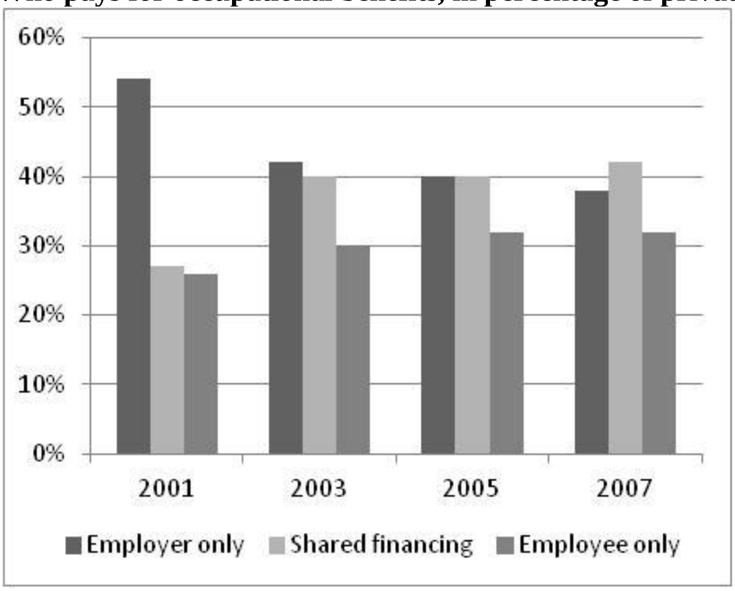
Figure 3.5 – Employees (Mio) enrolled in non-public pensions, by scheme type



Source: own elaboration of BMAS (2009) data.

Alongside the shift just illustrated between pension vehicles and across occupational and private schemes, a more subtle shift has taken place in the prevailing funding practices (Figure 3.6). Exclusive financing by the employer, previously the norm, has become less and less common, leaving the first post to shared-financing and falling down to just six points more than full financing by the employee (36% vs. 32 in 2007). Scholars such as Schmähl (2007) and Hinrichs (2010) pointed out that this shift in the burden of retirement savings deviates from the normative principle of splitting pension financing equally among employers and employees. While this is certainly the case of private pensions – although with the robust concourse of the federal budget – and of *Entgeltumwandlung* in individual contracts, 'salary conversions' in collective contracts have successfully slowed down the trend of decreasing employers' responsibility (see below).

Figure 3.6 – Who pays for occupational benefits, in percentage of private firms (2001-07)



Source: own elaboration of BMAS (2009). Figures may total more than 100%, as they consider firms with multiple funds.

The uniformity of coverage is another important dimension for evaluating how non-public pensions distribute risks across population groups. While estimates vary widely among different surveys, existing evidence also suggests that the occupational pension mix traditionally depends on firm sector and size. Looking at data from the late 1980s, Schmähl and Böhm (1994) showed that defined contribution *Pensionskassen* were rather uncommon. They mainly worked as a secondary option for large firms, otherwise more interested in earnings-related plans financed by book reserves, such as final pay schemes diffused in the chemical, banking, and insurance schemes. Flat-rate benefits were especially common in small and medium enterprises, and the same held for externally managed *Direktversicherungen*. More broadly, occupational pensions were relatively less diffused in small-sized manufacturing companies and medium-sized service-sector firms.

Although less detailed than for Italy, official disaggregated data on regional (East-West) and gender gaps seem to indicate that inequalities in pension coverage closely mirror pre-existing inequalities in income and participation. Instead, as a result of the new fund expansion in the last decade, differences in coverage between firm sector and size have been reduced. BMAS data in Estevéz-Abe and Heinrich (2013) show that only 30% of firms with less than 10 employees currently offer firm-sponsored pensions, as opposed to 84% among firms with 1000 employees or more. Weakly covered sectors such as health services and consumer goods have almost doubled their provisions, catching up with more strongly covered sectors, such as finance and durable goods. 85% of small and medium firms offered some form of supplementary pensions in 2010. Among them, according to Allianz data (Aegon 2010) direct insurances (82% of firms) and *Pensionskassen* (54%) were the most utilized vehicles for schemes funded by salary conversions, whereas direct promises (73%) and direct insurances (33%) were the vehicles of choice for employer-financed plans. Only 7% of sampled firms relied on the new *Pensionsfonds* in case of employer-financed schemes, increasing to 17% in case of salary conversions.

In sum, although unable to fully absorb the social impact of public pension cuts, the non-public pension system in Germany manifested an unexpected amount of dynamism. With special reference to occupational pensions, one of the reasons for this outcome, as I will show in section 3, is the way the social partners interacted and took ownership of the new rules. If the shift to a funded defined contribution model in the VBL and civil servants' scheme speak for the ability of the government to introduce sweeping change when it acts in its double role of regulator and employer, legislating private sector pension reform is invariably more complicated. As many scholars already suggested (Schludi 2005; Natali and Rhodes 2008; Estevéz-Abe and Heinrich 2013), the 'salary-conversion' option was appealing to both the unions and the employers. While the latter appreciated the carve-out setup of the new mechanism as a means to lower indirect labour costs (Estevéz-Abe and Heinrich 2013), labour representatives were interested in a powerful and flexible tool 'to reinvigorate the dwindling impact of collective bargaining agreements in the German system of industrial relations' (Schludi 2005: 160-61).

So, as in the Italian case, German unions were eager to take up new tasks in negotiating and managing supplementary pensions, but they faced more options (defined benefit schemes had not become illegal) and more effective institutions (German social councils and negotiating practices). Therefore, unlike in the US case, the unions have not been pushed out from corporate pension decision-making and have contributed to sustaining a greater level of risk-pooling without neglecting the issue of portability, for instance through multi-employer plans. In the field of occupational pensions, the main example of industrial relations acting ‘as a source of solidarity’ (Trampusch 2009) is the establishment of sector-wide pension plans. Because ‘salary conversions’ effectively belong to the field of wage negotiations, the financing of occupational pensions fell under the scope of collective agreements and the authority of work councils. So, in a process that Wiß (2008) saw as a case of ‘organised decentralisation’ (see Traxler 1995), many such plans have been negotiated in German collective agreements since 2001. Collective agreements in less unionised sectors, such as in the agriculture, food/catering, and tourism, are extended *erga omnes* by the Labour Ministry on request of the social parts.

A good example of consensual practices comes from the metalworking sector, where in 2001 the social partners established *Metallrente*: an independent fund, open to metalworkers and workers from other sectors for more than 20,000 client firms (25,000 in 2013). Administration is jointly managed by representatives of the union *IG Metall* and the employers’ organisation *Gesamtmetall*. Employers contribute €319 per year per employee. Covered vehicles are pension funds, direct insurance plans, superannuation funds and, since 2006, also collectively negotiated Riester-products. Similar examples of multi-employer pension institutions exist for several hundred-thousand workers in the construction (*SOKA BAU*), media (*Zukunftsfonds Medien*, originally established in 1926), hotel (*Hogarente*), and chemical industry (*Chemie Versorgungswerk*), where employers still provide a substantial amount of funding (see Ebbinghaus *et al.* 2011 for a review).

Finally, an important counterexample to consensual practices should also be mentioned. Since the 1980s, German firms quoted in international stock markets have been forced by market-based accounting standards to transfer pension assets and liabilities to tax-favoured ‘contractual trust agreements’ (*Kapitalanlagegesellschaften*) or CTAs (Estevéz-Abe and Heinrich 2013). These internationally recognised vehicles improve the position of the firm vis-à-vis Anglo-Saxon accounting standards, but are still recognised as book-reserve funds in Germany, which entails less stringent regulations and a notional 6% discount rate for future liabilities. Moving from book-reserve financing to a CTA is an employer’s decision outside works councils’ scrutiny. By 2007, all of the top 30 German listed companies (DAX 30) have relied on CTAs or similar vehicles to provide external funding for about 66% of their outstanding pension liabilities (OECD 2007: 60). As an additional piece of evidence in support of the adaptability of German occupational pension settlements, this potentially disruptive option actually strengthened the viability of German defined benefit funds. By providing a ‘decompression chamber’ with flexible rules and hybrid accounting rules, German regulators softened international pressures on employers to de-risk. Smart regulation – itself a by-product of a tradition of consensual and pragmatic industrial relations – is one main reasons behind Germany's 'private pension *Sonderweg*' and its moderate risk shift.

4. Understanding the Politics of the Broken Promise

Introduction

This chapter presents, in a broadly comparative fashion, the analytical narratives of the Italian and the German case. Its goal is to provide evidence and give a more structured form to the argument already outlined in various passages of the chapters above. It is structured in two sections, one for each case. Each section introduces the reader to the main institutions and actors in the respective national political system and industrial relations. Then, each provides an analytical narrative organized in three periods, individuated in order to best fit the unfolding of the reform process. A short note on the most recent reforms follows in both cases. Each section is concluded with some essential remarks.

4.1 *Italy: chronicle of an announced self-defeat*

> ‘And yet not by chance we put side by side pension and environmental issues: in both approaches it is necessary to acknowledge that decisions taken today are not just our own concern, but also future generations'; that the resources used (and often wasted) are not just our own, but also belong to those who will come next. Actually, choices made in the present will fall, as Prophetic curses, on the "children of the children", who will have to shoulder - on top of their individual share of a skyrocketing public debt - the costs of a social security we meant to grant to ourselves, with no guarantee at all they would receive anything similar when their turn will come.’
>
> Giuliano Cazzola – *Le Nuove Pensioni degli Italiani*, pp.8-9

> ‘The fiscal malaise had grown in Italy during the 1980s, due to increasing tax rates and the parallel erosion of the relation between electors and parties. However […] mobilising the fiscal protest seemed unrewarding and very risky to the main Italian parties. The Lega Nord could instead act as the policy entrepreneur of fiscal protests, easily framed within the battle in favour of Northern Italian regions' economic interests and against *partitocracy*'s squandering and clientelistic policies. [...] The anti-tax campaigns of the Lega Nord were very far from Thatcher's and Reagan's neo-liberalism. The *Carroccio* combined requests for lower taxes with a protectionist orientation [...] Blue-collar workers, small entrepreneurs, artisans, and retailers could find a new unity in the fight against taxation by a colonial state that was wasting the resources of the northern regions to help the Mezzogiorno.’
>
> Roberto Biorcio – *La Lega Nord e la Transizione Italiana*, pp.70-71

This section studies how the retirement risk shift unfolded in the Italian case. Italy is a relevant case for it shows how a pension system where many risks are pooled can be radically transformed, when substantial changes in party politics and industrial relations meet strong and enduring structural pressures. At the end of the 1970s, Italy had developed a pension system that, while selective and socially stratified, contained strong financial guarantees sheltering beneficiaries from most retirement risks. Thirty years later, Italy presented a pension system where most of the same risks impinged on individual beneficiaries. The following sections try to explain this remarkable transformation.

Whilst many explanations have been advanced for the substantial reform of Italian pensions in the face of a formidable affordability crisis, the changing distribution of risks is considered (at best) a side-effect of rescuing the system from its own excesses. When the risk question takes centre stage, however, a far less benign picture emerges of how Italy adapted to its new policy context. A focus on risk distribution reveals that the breakdown of risk pooling as known in the old system was produced by two factors: the emergence of systemic risks (impossible to pool together) and the changing constellation of welfare stakeholders. The Italian approach to the risk shift can thus be explained as a result of the country’s inability to respond effectively to a number of challenges of systemic proportions. The latter include the stagflation of the 1970s, the mounting stock of public debt in the 1980s, and the challenges of entering the Euro area in the 1990s, and performing competitively within it in the 2000s.

My main contention is that the increasing relevance of systemic risks did not just bring about a rationale for the risk shift. More than that, it gave rise to sentiments of anxiety and distrust in the public opinion and to new societal demands concerning the functioning of the Italian state and its control of the economy. This is a major, although often neglected, channel of systemic adaptation for the Italian 'pension state'. The new demands entered Italy's fragmented political system and, in different phases, were taken on by its more entrepreneurial actors. Chief among them I see, in different phases, the Italian socialist party (PSI) and by the regionalist Northern League (LN), who turned themselves into agents of policy innovation.

Compared to the more cautious and blame avoidant attitude of the main parties of the political system – the Christian democrats (DC) and Communists (PCI) prior, and later Berlusconi's centre-right and the various centre-left coalitions – these smaller third parties decidedly advocated specific pension reforms. In doing so, they borrowed strength from the peculiarities of their electoral support basis and, eventually, from their ability to cross-cut political cleavages. Acting in the best interest of those electoral constituencies they most openly claimed to represent, these parties contributed to the risk shift as they tried to build a more selective and less redistributive pension system.

Finally, as the reforms they facilitated or promoted also redefined how supplementary pillars redistributed retirement risks, organized capital and labour also played an important role. Their willingness and ability to support risk-pooling institutions and practices within employer-sponsored schemes ultimately determined the extent of the risk shift in supplementary pensions. In this sense, I will show how the progressive deterioration and increasing contentiousness of Italian industrial relations weakened the less risk shifting occupational funds while consolidating the role of private pension provisions. As a result, Italy developed its new multi-pillar pension system: supplementary pensions make up for lower public benefits, but neither the public nor the private pillars provide financial guarantees comparable to those offered in the past.

The analytical narrative in this chapter musters evidence on the role of three mechanisms connecting the risk shift to the structural and political transformations I mentioned above: path dependency, policy learning, and political competition. As regards path dependency, Italian pension stakeholders shared a basic consensus on the fundamental architecture of the post-war pension system. They also recognized that existing retirement programs were politically and financially impossible to close, defund, or privatize. This shared understanding naturally oriented subtractive reforms towards a narrower policy menu of less radical subtractive reforms.

Contrary to the expectations of the 'New Politics' approach, however, learning and competition also played a major role. By channelling structural and political pressures into the policy making process, these two corrective mechanisms fostered and shaped policy innovation, preventing an enduring policy deadlock. On the one hand, the crises that hit Italy in the 1970s and the 1990s indeed activated processes of policy learning and centripetal dynamics of shared knowledge and consensus building. In some cases, convergence on specific revisions has been remarkable, unprecedented, and hardly predictable. Nonetheless, competitive pressures and centrifugal forces precluded a fully functional and consensual outcome. Italy's pension politics remained ridden by old and new cleavages and inequalities. Politicians, unable to claim credit for further expansions of pension rights and spending, started to compete on their ability to shelter or compensate from the cuts the social interests they regarded as electorally strategic. At the same time, contentious industrial relations did not favour the development of a robust employer-sponsored pillar, contributing instead to the increasing individualization and privatization of supplementary pensions.

The Section is structured as follows. The first part introduces the main institutions and actors in the Italian political system and industrial relations. The second provides the analytical narrative, organized in three periods: 1976-1991; 1992-2000; 2001-2007. It is followed by a short note, which briefly presents the reforms enacted during the crisis and evaluates their consistency with the previous reform process. Finally, the Section is concluded by some essential remarks.

4.1.1 Institutions and actors in the Italian political system

Polity features

Italy is a parliamentary regime. The President of the Republic is mainly a figure of Constitutional guarantee and is elected by the Parliament every seven years. The Parliament is composed of the Chamber of Deputies (630 members) and the Senate of the Republic (325), elected together every five years. They follow different rules for active and passive electorates, but have the same legislative prerogatives, according to the so-called 'perfect bicameralism'. The Senate is an important veto point in a system of check and balances, but it does not represent sub-national levels of government. Regarding the latter, the most important is the regional one. The 1948 Constitution envisaged 20 regions, but regionalization only occurred in the mid-1970s. It was electorally and administratively reformed in the 1990s and revised in a federalist direction in 2005.

The Chambers entrust a government with a confidence vote. Confidence can be revoked or can be lost if the cabinet asks for a confidence vote on a given bill. Elections in the so-called First Republic (1945-1992) were governed by a proportional electoral law. During the so-called Second Republic, a mixed majoritarian-proportional system was first in place between 1993 and 2005; then it was again substituted by a proportional system with a majority premium. During the First Republic, MPs were voted according to an open-list formula with multiple votes. The system was useful for party currents to strike their intra-party balance; however it was extremely porous to clientelism and exchange voting. The mixed system adopted a 75% plurality and a 25% closed-lists system; the proportional law enacted in 2005 is also based on closed-lists.

The executive and the legislative process

The government is led by a Prime Minister appointed by the President of the Republic after consulting party leaders. The governments of the First Republic were typically short-lived. Their politics and policies were thus characterized by ‘sharing out agreements’ among heterogeneous coalition partners and, occasionally, parties supporting the government without being represented in the cabinet (‘external support’). Changes in the electoral law as well as in the internal regulations of the government and the Parliament gave more power to the executive and the Prime Minister during the Second Republic. Nonetheless, to guarantee the approval of their draft bills and speed up Parliamentary procedures, governments usually rely upon budget laws and delegated (delegation laws and legislative decrees) or emergency (decree-laws) legislation.

The standard legislative process is, in fact, long and easy to jam. It usually starts with the presentation of a draft bill from the government or a single MP in one of the two Chambers. The bill is later transferred to the competent Committee of the same Chamber, where it is prepared to be approved by the assembly. Committees usually produce their opinion on a draft bill and send it to be revised and voted by the assembly (*sede referente*). On more complex issues, they can amend the bill with an in-depth discussion (*sede redigente*) and send the new version to the assembly for approval. In rare and sensitive cases, such as the 2004 pension reform, Committees can themselves adopt a bill without Parliament approval. The Chamber and the Senate must approve bills in the same version. Two readings and a further conciliation chamber are available to obtain the assent of both Chambers on the bill, before its either signed or sent back for revision by the President of the Republic. The Labour Committee of the Chamber has traditionally been a key veto point for Italian pension reforms, where overlapping networks and iron triangles of party experts, bureaucrats, and union representatives shaped future pension laws.

The party system during the First Republic

The Italian political system is so dominated by political parties that, during the First Republic, it was labeled ‘partitocracy’, that is a degenerate form of party government. Lightly regulated and generously financed by the state, the parties were given immense control over the Italian state structure by the Constitution (which they wrote). Strong political linkages with the unions and other organization in civil societies used to give them firm hold on Italian society. A large degree of party control on the economy, the media, and the state bureaucracy widely empowered them.

The result was the emergence of a wicked form of consociativism - particularly evident in welfare and pension politics – approximating a cartel-party system. The end result was, however, a progressive loss of their rooting in the Italian culture and society. This detachment from the public opinion foreran the collapse of the old party system in 1992-93, after the fall of the Berlin wall and the ‘Clean Hands’ corruption investigation. In the Second Republic, a new generation of parties arose from the ashes of the old one (politicians’ turnover was not equally drastic, however). These new parties enjoyed far less power, not least because of large liberalization and the Europeanization of Italian policy-making. Nonetheless, partitocracy gained a new footing beginning in the late 1990s.

Intra- and inter-party dynamics remarkably changed between the First and the Second Republic. The key features of the First Republic were: the centrality of the DC; the informal deal it made with smaller pro-system parties (the liberal PLI, the republican PRI, the social-democratic PSDI, and the socialist PSI) to keep the Communists out of the government (the so-called ‘conventio ad excludendum’). Also excluded from any coalition was another anti-system party: the neo-fascist MSI. The key features of the Second Republic have been instead: the redefinition of the political right under the leadership of Silvio Berlusconi; the transformation of the left in a fully integrated pro-system force, willing and able to compete for government offices in a scenario of regular alternation to power.

Christian Democracy (DC) in brief

The DC, founded in 1944 by former members of the outlawed Popular Party (PPI), was the largest party of the First Republic. Born as a catch-all party, the DC had a cross-class appeal and never was a traditional mass party. It held the centre of the party system as the leader of the pro-system front, which supported capitalism, liberal democracy, and Italy's geopolitical stand within the Western block. Expression of Italy's anti-fascist Catholic subculture, it was close to the Vatican and to the employers, but also to the most important agricultural organizations and to the Catholic part of the workers' movement, especially the Catholic trade union CISL. The Christian Democrats were also entwined with the state bureaucracy and the system of public agencies and enterprises. During the political phase known as 'centrism', they reacted to their competitive disadvantage vis-à-vis the PCI in terms of social rooting, by establishing a symbiotic relation with Italian state structures.

This plurality of interests within the DC produced vibrant internal conflicts, often driven by personal rivalries. Party cohesion was also affected by increasing inequality between the most strongly Catholic areas of the country: the dynamic North-east (the so-called 'white zone') and the more backward South. With the development of an industrial district-based economy in the 'white zone', the interests of the North-east and the South started to grow apart. Widespread clientelism and patronage became endemic beginning in the 1980s and scattered the Christian Democrats after the Tangentopoli scandals broke out. The DC ceased to exist in 1994, when it was refounded as a new PPI. The rightmost currents split, formed the Christian Democratic Centre (CCD) party, and allied with the new centre-right block. So began the 'Christian democratic Exodus' inside the new two-pole system, which played out as the major source of political instability of the Second Republic.

The Communist Party (PCI) in brief

Founded in 1921, the PCI was instead the biggest Communist party in post-war Europe and the second biggest party in Italy. It was a mass party organized according to the Leninist principles and enjoyed wide support among the working classes (including the left-wing trade union CGIL) and among part of the intellectual professions. It was a cohesive, endowed with considerable economic and intellectual resources, and it occasionally boasted charismatic and inspiring leaders. Its close ties with the USSR and its revolutionary ideology formally made it an anti-system party. However, it was crucially involved in drafting the Republican Constitution and, beginning in the late 1960s, participated in policy-making from the opposition. Moreover, thanks to its formidable electoral strength in the areas of the red subculture, the PCI managed to acquire a vast government experience at the local level, where the 'conventio ad excludendum' could not be applied.

Especially following the regionalist reforms of the 1970s, this more pragmatic culture contributed to the reinforcement of social-democratic and moderate fractions within the party. As a result, its sensitivity to the emergence of new challenges and systemic risks increased. The PCI thus became more available to cooperate with pro-system parties and even supported DC governments from the outside (1976-79). So, the Communists slowly began to move towards the centre of the political system. The process gained momentum with the ‘turn’ of 1992, when the PCI was re-founded as a Democratic Party of the Left (PDS), becoming the largest force of a new centre-left.

The Socialist Party (PSI) in brief

Last among the major parties was the socialist PSI. It was the remainder of the Socialist Party of Italian Workers of 1893 after the split of the Communists in the 1920s and the Social-Democrats in the 1950s. It was more closely tied to the socialist components of the CGIL and UIL unions and to the urban middle class of the centre-north. Its position of minor party between the DC and PCI visibly complicated its political competition strategies and contributed to its high degree internal fragmentation. Before reneging any further relation with the Soviet block after the invasion of Hungary in 1957, the PSI was partly anti-system and an ally of the PCI. Later, it moved closer to the DC until it entered the government in 1963, inaugurating a crucial phase in the development of Italy’s social and labour policies: the so-called centre-left period (1963-1974). When the crisis of the late 1970s and the new political strategies of the DC closed that phase, the Socialists turned again to the left. This revealed, however, to be a poor strategy. The reason stood not only the newly found strength of the PCI, but also in the progressive erosion of the social rooting of the PSI, more similar to a network of professional politicians and intellectuals than a typical mass party.

Under the leadership of Bettino Craxi, the PSI contributed to preventing the complete end of the *conventio ad excludendum*, isolating the PCI and pushing it further to the left. With Andreotti and Forlani, leaders of the two conservative DC fractions, Craxi concluded instead an *entente* labelled CAF (from the initials of the three leaders). The PSI thus formed a fully-fledged party cartel with the DC and its centrist allies, setting up the final phase of the First Republic: the Pentapartito (5-party alliance, 1980-1993). Willing to conquer the more reflexive part of the Italian middle class with its appeals for a new modernization of the state, the PSI crucially contributed to the reform of Italian pensions. The *Tfr* reform, the idea of a multi-pillar system, and finally the Amato reform all originated within PSI’s ranks. However, the party was even more interested in the distribution of spoils and on rewarding its Southern constituencies with clientelist practices akin to the DC’s.

Wasted by the corruption scandals that invested Craxi and his entourage, the party almost disappeared in the 1994 elections. Its forces split and joined both camps of the new political system.

Political competition during the First Republic

Political competition in the First Republic resulted from the identities and cleavages just reviewed in the previous paragraphs. It has traditionally been interpreted with two models: Sartori's 'polarized pluralism' - as a case of his theory of parties and party systems - and Galli's notion of 'imperfect bipartitism'. The two models are briefly discussed here, for they assist in contextualizing the mechanisms of learning and competition within the dynamics of party competition.

Sartori focused on the presence of four cleavages (pro-system vs partly anti-system; partly anti-system vs fully anti-system; confessional vs secular; left vs right) and of many parties with high ideological distance. He concluded that in polarized pluralist systems political competition is tripolar and takes place between a pro-system centre and two opposed anti-system forces. In such a system, he expected political competition and voting behaviour to be primarily centrifugal, rather than centripetal. As a result, the pro-system centre would stretch its policy positions towards both the left and the right, while the anti-system parties would move even further away. Economic and social policies would consequently become irresponsibly expansive, paving the way for a major economic and political crisis. Applying this thesis to the development of the Italian welfare state, Ferrera (1993) showed that it has great explanatory power, if policy legacies and corporatist fractures are also taken into account. In Ferrera's account, irresponsible expansion did not translate into generous universalistic solutions, but made fiscal room for a spiralling course of selective concessions. As shown by the many small reforms in Table 3.1, time after time, each occupational group was benefited by a status-increasing revision of its pension rules.

Galli was more interested in explaining cases where centrifugal forces failed to manifest. He was also less pessimistic than Sartori about the ability of the PCI to fully become a pro-system party. In particular, against the tripolar interpretation, he stressed the asymmetry between the large PCI on the left and the small to non-existent MSI on the right. Galli then concluded that Italy's chaotic party politics was less a matter of a tripolar structure and more the result of a lack of alternation to power within a largely bipolar system.

Galli's objections were integrated in Sartori's model by Paolo Farneti's 'centripetal pluralism' model (1993). According to Farneti, centripetal and centrifugal forces are not forced to either dominate each other or balance out, but may also coexist. One has therefore to distinguish the dominant political dynamics from the subordinate ones. Farneti agreed with Sartori in defining the Italian political competition as predominantly centrifugal. However, he also emphasized the constancy and strength of centripetal forces. Partly anticipating the core intuition of the Mair and Katz's cartel party model, Farneti attributed centripetal subordinate dynamics to the interest of party leaderships for keeping state resources under (their) control. So, while he also saw the centrist pole at risk of watering down its ideology, Farneti did not think this would make the political centre collapse. At least as long as it could expand while keeping public resources under control, the centre would rather grow stronger.

Looking at the first part of the period under analysis (1976-1991) through the lens of Farneti's model helps understand the constraints posed on consensual solutions. Building upon existing centripetal tendencies, one can hypothesize, the systemic crisis of the late 1970s favoured a rapprochement of the pragmatist fractions of the PCI and the DC. This would explain the establishment of two cabinets of so-called 'national solidarity' (July 1976 – March 1979), led by the DC with the external support of the PCI. However, centrifugal competitive pressures led to the breakup of the bipartisan experience and the formation of the five-party alliance. The consolidation of the new political centre, however, favoured the presentation of new electoral lists, connected to the movements and the issues emerged during the late 1970s. Environmentalist and autonomist demands featured prominently among them.

Farneti's approach is also interesting insofar it focuses on party agency under competitive pressures, which is useful in understanding the reaction of the PSI. Formerly the only party of the left that could enter a government coalition, the PSI was at risk of becoming irrelevant as the DC and PCI started to get closer. Under this formidable threat, the PSI changed its leadership and organizational model, reorienting its policy platform towards a modernizing agenda. The agency of the Socialists, formerly a cause of the expansion and Beveridgean ambitions of the Italian welfare state, became a fierce opponent of egalitarianism and excessive state aid (*assistenzialismo*). While keeping an eye on the preferences of its petit-bourgeois constituencies, the PSI chose to compete against the DC and in favour of state and welfare state transformation. But it chose to do so from within the five-party alliance and not from a leftist stance. The crucial contribution given to the reforms and reform debates from 1982 to 1993 testifies the new activism of the PSI.

The Second Republic (until 2008): transition to nowhere?

After a decade of ineffectual constitutional and economic reform attempts, the five-party coalition lost most of its electoral support; at the same time, the fall of the Berlin wall had deprived the PCI of its ideological reference point. A long frozen party system abruptly changed in just a few years. Eager to take on government responsibility, the Communists made a decisive turn towards social democracy. In February 1991, the PCI was re-founded as the Democratic Party of the Left (PDS), while its leftmost fraction split-up, establishing the Communist Re-founding Party (PRC). Environmentalist parties and, since 1990 also the regionalist Lega Nord (LN), gained a stable representation in the Parliament. Eventually, the Clean Hands investigations beheaded the DC and the PSI bringing the old party system to its collapse.

The debacle of the old party system introduced important discontinuities in Italian politics. First, public trust in the political system was at a historical low and the parties sought to rejuvenize it by introducing a new electoral law. Second, technocratic figures, especially top-level officers of the Bank of Italy like Carlo Azeglio Ciampi and Lamberto Dini, became key political figures. Even the MSI abandoned any anti-system stance, merging with shards of the former DC and rebranding itself as Alleanza Nazionale (AN). Eventually, Silvio Berlusconi entered the political game. A media tycoon formed in Craxi's shadow, in just a few months Berlusconi had created a brand new, highly professionalized, catch-all-party, centred on his personal charisma and resources: Forza Italia (FI). The new party occupied the electoral void left by the DC and PSI, whose former electorate was still unavailable to let the government in the hands of the post-Communists. With the left coalition one step away from the government, Berlusconi deployed FI as a stepping stone for 'reinventing the Italian right'. He built a very unpredictable coalition with the CCD, the post-Fascist AN, and with the LN, which used to be considered as just a protest party with anti-system, secessionist traits. Berlusconi's new centre-right won the elections in 1994, 2001, and 2008.

In the party system of the Second Republic the political centre remained fragmented and in flux, but it never ran as an independent political force after being defeated in the 1994 election. The PPI entered the centre-left camp in 1995, after a split-up that saw another post-DC force (CDU) joining the centre-right. As a result, the new bipolar dynamic created a large and heterogeneous centre-left, ranging from neo-Communist parties to post-DC offshoots with neo-liberal economic stances. Between 1996 and 2007, the political centre-left experienced a chaotic transition towards a new organizational form, in order to find a unifying platform and the strength to compete with the centre-right. Romano Prodi's 1996 Olive Tree coalition included within the centre-left other post-

DC fragments and the party of the technocrat Lamberto Dini (Italian Renewal, RI), while securing the electoral desistance and the external support of the post-communists.

After Prodi's victory at the elections of 1996 and the early fall of his cabinet in 1998, a hectic phase of splitting and merging begun. The Party of Italian Communists (PdCI) split from PRC in 1998. The same year, Antonio Di Pietro, a very popular former prosecutor of the Clean Hands investigations, founded his own anti-corruption party: Italy of Values (IdV). Also in 1998, the PDS embraced Tony Blair's 'Third way' principles and united into the Democrats of the Left (DS) with a number of minor social-catholic forces. In March 2002, the PPI and other post-DC offshoots unavailable to join in the DS found common ground with Dini's RI and formed the Daisy (DL); within the centre-right, the CDU and the CDD responded in December by merging together within the Union of Christian and Centrist Democrats (UDC). Finally, the centrist UDR and UDEUR, established to support or join the centre-left coalition, were progressively absorbed by the centre-right.

The centre-left coalition was the most penalized by this situation of fluidity, especially for the disappointing record of the 1998-2001 years. Therefore, Berlusconi's coalition won again in 2001. Three years later, the centre-left reorganized in the Olive Tree Federation (formed by DS, DL and shards from the socialist and republican camps), again under Prodi's leadership. The new entity joined the IdV and the Greens in the Great Democratic Alliance (GAD, later renamed The Union) and won the 2006 elections by a narrow margin. Between July 2006 and April 2007, the DS and the DL merged into the Democratic Party (PD), losing the leftmost fraction of the DS (Democratic left, SD). In October 2007 the PD held its first primary elections and, after the early fall of the troubled Prodi government, formed an electoral coalition with the IdV alone. 'The Left, the Rainbow, the alliance of SD with the Greens and the neo-Communists, ran instead on the left.

In November 2007, FI and AN responded to the PD by merging into the People of Freedom (PdL). Partly as a consequence, the centre-right took a nationalist-conservative turn, opening up to new post-Fascist forces. The following year, Berlusconi's front won the first elections of the Second Republic to be held with a fully proportional formula. For the first time in Republican Italy, the communist left was out of the Parliament.

In sum, as this quick review suggests, the party politics of the Second Republic revolved around two main poles, but was also characterized by the instability of centre and of the far left. Moreover, dynamics internal to the coalitions and the parties confused the transition to a fully bipolar system. The latter only seemed to be completed, with the establishment of the PD and PDL, under the wrong – proportional – electoral law. However, with about twenty parties or supporting lists within each coalition and about thirty non aligned parties, the 2008 elections warned that something unintended had happened in the party system. Within a few years, the breakthrough of Beppe Grillo's 5 Star Movement (M5S) and the return to a tripolar mode of competition after the 2013 elections would show that the transition was not concluded, but rather aborted.

Political competition in the Second Republic

To conclude, in the early 1990s, the political system had finally opened up to vibrant demands for change, coming from the public opinion as well as from increasing sectors of the elite. Not without a radical vein, the centre-right reinterpreted these demands in populist tones; the centre-left was instead more pro-establishment and especially pro-European. However, both the right's and the left's agendas have been largely watered down during Italy's unaccomplished transition. For this disappointing result, the contentiousness of coalitional politics and the uncertain identities and organizational profiles of the new parties should certainly be blamed. In this sense, within the discontinuity, there is much continuity with the past.

The most notable of these continuities surely regards the dynamics of party competition. Namely, the Second Republic was, just like the First, characterized by centripetal and centrifugal forces. In the Second Republic, competition for the government was centripetal: both coalitions could in fact reasonably expect to win. Actually, they did, in a regime of alternation to power. However, political dynamics within the coalitions (and in some cases also within the parties) were markedly centrifugal. In this sense, both the mixed system and the 2005 proportional electoral law have been giving the parties inconsistent incentives. First they were pushed to join in a coalition. Once inside, however, they were pulled into distinguishing themselves from the line dictate by the leader, threatening vetoes and asking for compensation. This dynamic resulted in a far more complex political system and in far weaker governments than initially expected. Policy-making was also influenced by the lack of cohesion, becoming more selective and less able to impose mutual sacrifices. As I will try to show in the following sections, this exerted a major impact on the choice between retrenching and risk shifting reforms, tilting the balance in favour of the latter.

4.1.2 Analytical narrative: understanding the self-defeat

Before the 1995 NDC reform, Italian pensions were characterized by the coupling of Bismarckian institutions with Beveridgean goals and by a general disregard for the costs of the system

(Jessoula 2009).[61] The combination of high replacement rates, normative fragmentation, and universalistic aspirations limited the room for cross-financing the schemes, quickly posing a heavy burden on the state budget.[62] Furthermore, redistributive patterns in the system were maze-like and regressive. The final-wage model and the high replacement rates privileged workers with steeper wage patterns, regardless of income level. This approach suited well the profiles of civil servants and private employees in public industries and services, who also benefited from the most generous rules. It also gave workers bad incentives, leading them to retire as soon as possible and to misreport their earnings early in their career.

The evolution of Italy's troubled pension system is certainly the result of a number of structural traits. Among them, one can list the relatively large share of self-employed workers in the labour force, the historically low employment rate (even during the economic boom of the 1960s), as well as the late industrialization process and the economic inequalities between the North and the South, whose combined effect conditioned the 1969 reform. Most notably, however, Italian pensions were first and foremost the product of its political and industrial relation system. Throughout the so-called First Republic (1945-1993), the fragmentation of the original pension system was reinforced by two factors: the predominantly centrifugal direction of political competition and the strong ties between the major parties and specific occupational groups. In addition, the contentiousness of Italian industrial relations intensified pressures on the public pillar. On the one hand, it prevented the development of a proper occupational pillar for supplementary pensions. On the other, it compromised the unions' ability to act unitarily and formulate pragmatic requests to the state, contributing to an indiscriminate expansion. In both the electoral and the corporatist arena, policy learning and pragmatic problem solving only took place for short periods (Jessoula 2009; Ferrera *et al.* 2012).

[61] The financing of benefits changed: the original capitalized funds were first integrated (1945) and then progressively displaced (by 1969) by a PAYG system. Between 1957 and 1966, coverage was extended to the large self-employed component of the Italian workforce (agricultural labourers and sharecroppers, artisans, and shopkeepers). Early retirement, previously available only to civil servants (20 years of service, 15 for wives and mothers), was extended to private employees on less generous terms (1965-69). The 1969 reform introduced wage indexation, a residual social security scheme for works who failed to earn a work pension, and a new 'final wage' DB formula for private employees, which assessed pensionable income over the last five years of contribution. In 1976, civil servants obtained a new, very favourable, reform of their pension rules. Finally, in 1990, DB benefits and early retirement options were extended to the self-employed as well, but keeping a very low tax rate.

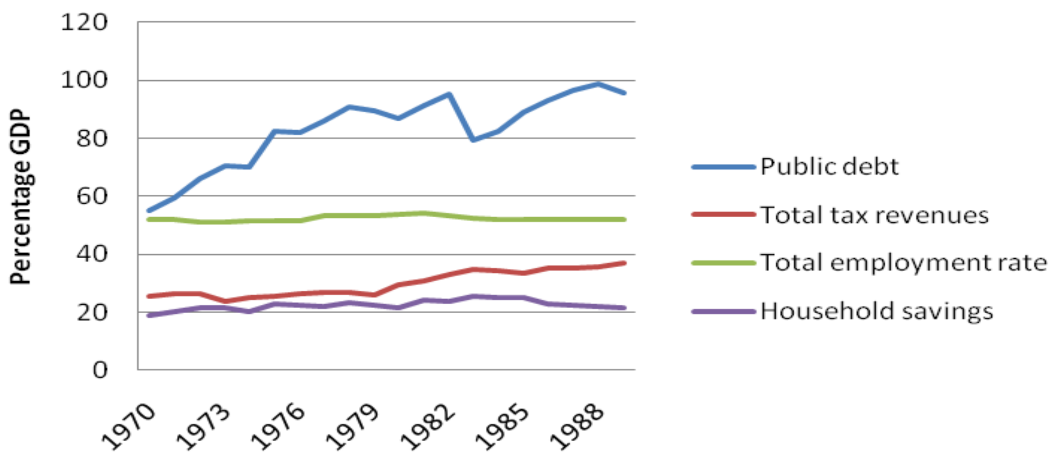
[62] Most often this practice implied a transfer from the main fund of private workers (FPLD) to those of the self-employed and of employees in public utilities and state-owned enterprises.

Stagnation and retrenchment attempts: 1976-1991

Even though pensions in Italy have always been very popular and, by far, the biggest component of the national welfare state, their flaws have been widely acknowledged since the late 1970s. The inconclusive debate of the subsequent decade also made it clear that the pension status quo was not sustainable given the rapid ageing of Italian citizens. In addition, the long negotiations and many proposals of the 1980s unveiled a set of issues on which consensus was easier to reach.[63] Still, profound disagreements between the Socialists and the Christian democrats inside the government and increasing tensions within the corporate arena prevented any major subtractive reform.[64]

In December 1978, Italy under the Andreotti government decided to join the European Exchange Rate System (ERM), turning back to a rigorous monetary policy that, together with wage moderation enforced by the unions, drastically reduced inflation. The phase of national solidarity suddenly ended, as the social and industrial structure had already started to change. Italy's fragmented industrial structure was revitalised by processes of productive decentralisation and regionalisation, which stabilised employment and growth rates in the export sector, notwithstanding the deep crisis of public industries. By the mid-1980s several industrial 'districts' of excellence emerged, mainly in the Centre-North, which brought Italy among the top industrialized countries. However, they also decisively contributed to increasing regional disparities. At the social level, the greatest transformation was the emergence of a broad middle class formed by skilled industrial

Figure 4.1 – Italy: Main Macroeconomic Trends 1970-1990



Source: OECD data.

[63] I refer in particular to: longer vesting periods, the harmonization of pension rules between employees and self-employed workers, and the development of supplementary pensions (see Jessoula 2009).

[64] Deteriorating relations within the corporate arena prevented any consensual solution for two pressing concerns: decentralizing pay settings and replacing the wage escalator system.

workers, urban self-employed and white collar employees. The economic potential of this broad social group was revealed by the rise in household savings, which contributed to finance unsustainable levels of public spending with large purchases of government bonds.

The political system moved rapidly, trying to cope with the new scenario. The agreement between the DC and the PCI broke up, leading to a new season of mutual exclusion and to the attempt of the PCI and the PSI to create a new left pole in 1979. The shift of the DC on more conservative positions changed the role of its minor allies at the centre of the political system, making them more independent and increasing their coalitional power. At the same time, the unions revised some of their positions, becoming more pragmatic and paving the way for a neo-corporatist experiment in Italy. A cure for the Italian syndrome of 'imperfect bipartitism' seemed to be at hand. Conversely, the unimpressive results of the left at the national elections in 1979 frustrated the ambitions of the PSI to become strong enough to pull the communists fully into the camp of European social-democracy (see Table 4.1). At the opposite, the defeat brought about a radical transformation within the socialist party. Under the leadership of Bettino Craxi its political platform was completely revised. Craxi anchored his renewed PSI to the centre of the political system, with a specific interest in economic policy reforms.

Table 4.1 – Election results (%) in Italy: 1972-1987

Election year	DC	PCI	PSI	MSI-DN	PSDI	PRI	PLI	Turnout
1972	38.80	27.20	9.60	8.70	5.10	2.90	3.90	93.21
1976	38.70	34.40	9.60	6.10	3.20	3.20	1.30	93.39
1979	**38.30**	**30.38**	**9.81**	**5.26**	**3.84**	**3.03**	**1.94**	**90.62**
1983	32.93	29.89	11.44	6.81	4.09	5.08	2.89	88.01
1987	34.31	26.58	14.26	5.91	2.96	3.70	2.10	88.83

Votes for the Chamber. *Source:* Ministry of Internal Affairs

The reconfiguration of party relations favoured a more critical approach to labour compensation issues. A so-called 'income policy' remained on top of the agenda for the rest of the decade. Pension expenditure, at the time already above 10% GDP, slowed down thanks to the reduction of indexation agreed upon with the unions in 1978 but did not remain outside the radar of the decision makers. The fear of inflationary pressures was evident in the official economic documents of the early 1980s. Two main interventions to put expenditures under control were attempted in this period: a failed attempt to reorganize the public pension system and the transformation of the seniority indemnity into the *Tfr*.

The first was initiated by package, agreed between the Labour minister Enzo Scotti and the unions in 1979, which was converted into a draft in January 1980 and discussed in the competent Parliamentary Committees. As shown in Table 3.4 (page 61), the project mainly adopted a reward-reducing approach, combining retrenching and levelling-off reforms. It included, in fact, the unification of the various pension schemes and regimes, the harmonization of contributions for private employees and civil servants and the increase of retirement age to 65 for men and 60 for women. At first, the examination of the proposal was slowed down by the instability of the two Cossiga governments, which suffered from increasing tensions within the DC and between the latter and its bourgeois allies. After two years of examination in the Labour and Pensions Commission of the Chamber, the draft was discussed in summer 1982 in the General Assembly, together with no less than 24 other proposals of an expansive nature. Times were not yet ready for a change and, as in the past, no party could resist the political incentive to promote the economic interest of some micro-category within its electoral basin. No political subject existed and no political capital was available, which could support a reward-reducing reform package characterised by unpopular and visible interventions. After two days of very tense confrontation, the discussion was postponed again. The bill was left pending until the following elections and therefore remained unaccomplished.

The failure of this path-changing reform attempt can be traced back to the same political transformations which had made it possible in the first place. Over the previous three years, Craxi's PSI had begun to break with its Marxist roots and gain consensus in the North, especially in Lombardy and in Milan, where Craxi – born in Sicily – had built his political career and network. The PSI re-invented itself as the advocate of financial business, small and medium enterprises and, more in general, of the 'unprotected middle classes'.[65] From its new position at the centre of the political system, the PSI started to steal votes away from both the major parties. A new alliance between the PSI and the DC was signed with the appointment of the Forlani government and then continued with the two executives led by Giovanni Spadolini, secretary of the PRI.

The economic priorities of the government had changed as well. The greatest concern shifted from inflation to trends in public debt. The Treasury minister of the Fanfani government, the DC member Beniamino Andreatta, was one of the first advocates of a healthier macroeconomic management. He appointed a Commission, chaired by the economist and pension expert Onorato Castellino, to provide a first official forecast of the future levels of pension expenditure. As I have indicated above, the participation of Castellino in the policy debate shifted the terms of the discussion

[65] Quote coming from my interview with Giuliano Amato, former Prime Minister, collaborator of Craxi and Vice-president of PSI.

towards an appreciation of more individual responsibility and actuarial neutrality. The final report of the Commission argued that pension expenditure would have reached 20% GDP in the year 2000 and that the inequalities of treatment, in terms of the spread in the rates of return on contribution of the different categories were unacceptable. In addition, a strong industrial conflict (with the new government openly supporting the position of business) opened on wage escalator mechanisms, which were supposed to be incompatible with the monetary restrictions required by the ERM. Influenced by the new scenario, the public debate on the new 'income policy' revealed that the cooperative atmosphere of 'national solidarity' was over once and for all.

The most contentious pension reform issue was, at the time, the reduction of disparities between the regimes. Mindful of the agreement between Scotti and the unions, the PCI and the radical parties at its left insisted on the creation of a unique homogeneous scheme for the entire workforce. The PSI supported the introduction of a similar solution, with some exceptions, only for entrant workers, but the DC and its bourgeois allies (supported by the MSI from outside the government) were entrenched in defence of what they labelled 'pension pluralism' against the threat of collectivization. At the end of the 1970s the proposal enjoyed a considerable popularity, but its momentum faded due to many delays staged by the parties in government, the opposition of business and professional organizations, and withdrawal of UIL's support.

The transformation of the seniority indemnity into the *Tfr* was a different story. The reform of 1st June 1982 created *de facto* (even if it was not recognized as such) the first mandatory occupational scheme for all private employees with a defined contribution formula. The *Tfr* was very popular among business, as it also constituted a convenient form of internal financing that was extremely precious for the dynamic reality of small and medium enterprises, systematically unable to obtain bank loans at fair conditions. While the reasons for the rush were highly contingent,[66] they were indicative of the commitment of the government to find solutions for delicate industrial relation issues. While the Scotti package was almost abandoned, the march of the *Tfr* was forced, even stretching to the limit the procedural rules to pass it before the summer.[67] On the other hand, the *Tfr* was also a decisive step in the direction of more equality, at least within the private sector. It was not unpopular with the left as it included among its inventors the socialist Gino Giugni, the 'father'

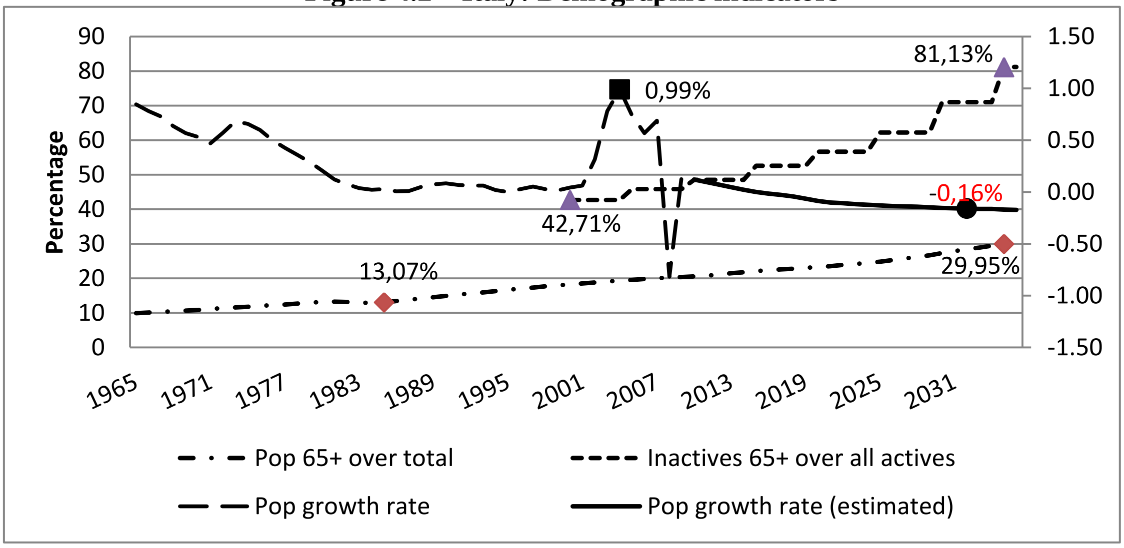
[66] The reasons for this rush reflected the intensity of the debate on the indexation of the seniority indemnity, which involved a pact between business and the unions, a law, a sentence of the Constitutional Court and a referendum, to be held in the summer.

[67] During the discussion in the General Assembly of the Chamber, the opposition complained about the redrafting of the law in the Senate (which had compressed them in five articles, to avoid the lengthier procedures reserved to longer texts) and about the recourse to a confidence vote.

of the Workers' Statute of 1970, which had come to be considered one of the flagships of left-wing policymaking activism.

The 1983 elections contributed to reinforcing the PSI vis-à-vis the DC, at its historical low-point, bringing Craxi to the premiership. The stability of the first Craxi government, the longest of the Republic up to that moment, allowed a more active approach to the management of economic policies, taking a more confrontational style in negotiating with the unions. The activities of the labour minister De Michelis were more focused on labour market policies, in particular on downsizing the wage escalator. The latter was successfully reformed in in 1984, notwithstanding an abrogative referendum called in vain by the PCI and the CGIL. The efforts on this front did not prevent the government from pursuing measures of rationalization such as the reform of invalidity pensions in 1984. De Michelis, in particular, drafted an innovative proposal of pension reform, based on the gradual downsizing of public pensions and on the development of a three-pillar system.

Figure 4.2 – Italy: Demographic indicators



Source: OECD data.

As the meeting with the unions in April 1984 clearly revealed, the issues on the table were a gradual increase in the retirement age (the compromise would be found in the exemption of workers with 15 or more years of contributions and the creation of incentives and disincentives to delay retirement) and the integration of vintage pensions after the reduction of indexation. A greater emphasis is put on demographic prospects (see Figure 4.2) at the centre of the debate after the forecasts of the Castellino Commission. Even if at the time, the picture was not as clear as in the graph, falling total fertility and rising life expectancy contributed to raising the awareness that something had to be done.

Nonetheless, the reform project stalled until September, due to the lack of consensus among the social parts, between them and the INPS, and also within the government. The tensions within the majority were not directly connected to the pension issue, but rather rooted in a fundamental disagreement on institutional reforms. The DC secretary De Mita, who belonged to the leftist current of the party, entered a personal rivalry with Craxi. While De Michelis was working on his reform proposal, a whole set of parliamentary initiatives entered the Labour Committee of the Chamber, resulting in the creation of a new Special Commission. The Commission drafted its own proposal under the guidance of the DC pension expert Adolfo Cristofori. During the following years, in the media the rivalry between De Michelis and Cristofori paralleled the one between Craxi and De Mita, leading to an extremely adversarial atmosphere that compromised the chances of passing the reform.

A particularly difficult task for De Michelis was the formulation of a new regime for private pensions. The idea of downsizing the public pillar in favour of complementary provisions brought Confindustria against 'pension pluralism', but also stimulated various lobbying attempts. The INPS and the unions tried to defend their office in public pension administration and patronage, while financial actors lobbied for a wide and lightly regulated pension market. Another difficulty was related to the well-known double payment problem: how to finance the transition to a partly capitalized system without cutting contributions to the public pillar and jeopardizing its revenues. A solution was to reinforce the actuarial neutrality of the schemes. The way this was meant to be implemented – posing limits to the assessed earnings while keeping contributions untouched – was politically too vulnerable to survive the attacks of the DC, whose requests, according to De Michelis himself 'if taken altogether would have ruined the public budget'.[68]

One year from the initial proposal, tensions within the government jeopardized the technical negotiations with the unions, who did not want to be blamed for an agreement that could be disowned by the majority itself. In a few months time, the PSI deserted the De Michelis plan, looking for alternative formulations after De Mita's renewed opposition. To overcome the stalemate, the government decided to leave the agenda of the reform to the special commission, but the ostracism of the DC and the PSDI slowed down the production of a new draft. The reform was kept alive by repeated announcements of wider holes in the INPS budget and by a convergence of intents between the DC economic ministers Andreatta and Goria and the socialist vicepremier Amato, who were working together on a tax reform bill. In November 1986 the De Michelis package, watered down in many of its provisions and similar to a list of guidelines for future decrees, was approved

[68] Quoted from *Repubblica*, 19 September 1984.

by the government. Already in December, however, new contrasts emerged on the timing of the delegated legislations. As a result, the compensative parts of the reform – improvement of the minimum pensions and of civil servants' benefits – were the first to be enacted. In March 1987, after Craxi's refusal to leave the premiership to De Mita for the rest of the legislature, the umpteenth government crisis led to the abandonment of the substantive part of the reform.

Following the 1987 election, the Italian party government continued to deteriorate under the ruling of the five-party coalition. After Forlani's return in power and De Mita's progressive isolation within the DC, the PCI was definitively marginalised. The political dynamics that used to characterise the old centre-left resurfaced in the party system. The latter also showed increasing signs of 'cartelisation', mainly due to weaker party-union linkages and declining union density. In a scenario of politico-institutional blockage, pension politics remained driven by the logic of 'sharing out agreements' (Ferrera and Gualmini 2004) that had doomed the De Michelis package. Cliental exchange mechanisms and relations were reinforced, not lastly as a result of a progressive 'Southernization' of the DC electorate.

Two pension reform proposals, one advanced by the socialist Formica (1987-1989) and the other prepared by the DC minister Donat Cattin (1989-1990), showed important signs of policy convergence, but also the persistence of irreconcilable disagreements between the parties. Both drafts made reference to a suggestion, crucial for the future of Italian pensions, advanced in 1986 by the secretary general of CGIL Pizzinati and backed by the UNIPOL, the insurance company of the federation of cooperatives. The idea was to use the *Tfr*, of which the unions were increasingly sceptical, to finance complementary schemes, taking it from the employers and giving it back to the workers. However, the resistance against the development of a multi-pillar structure was not only due to the double payment problem, but also caused by different party preferences on the role of the state in a multipillar pension system. While the PSI suggested a market based and voluntary formula, the DC advocated for a stronger public role, consistent with its deeper rooting in the Italian state structure.

After many failed cost-cutting attempts, the decade ended with a further distributive slide. A last expansionary reform, enacted in 1990, extended seniority pensions and the earnings related formula to the self-employed without raising their contribution rates. The new law offered a twisted interpretation of the ambition, proliferated during the phase of 'national solidarity', to promote equality between occupational groups. The bill resulted from a broad ensemble of micro-proposals advanced since the beginning of the legislature by nearly all the members of the Labour Committee plus other MPs of every party. It was approved with almost no discussion, except for the amendments of the Budget Committee of the Senate, under the presidency of Beniamino Andreatta. Indicative of a political crisis just about to explode, and of a party system already paralyzed, the new expansive intervention, potentially a resource for credit claiming, was not approved by the General Assembly of the Chamber. It was instead ratified by the Committee itself, following an intransparent and rarely used procedure, inherited by the Fascist regime.

With the death of the Labour Minister Donat Cattin in 1991 and the final demise of its unsuccesful proposal, the cycle of attempted reforms of the 1980s was finally over. Even in presence of mighty structural challenges, the blockage of the Italian political system had prevented any major pension revision, notwithstanding the many lines of conflict and the widespread criticisms emerged not even ten years after the Brodolini reform of 1969. A reshuffled party system, still incapable to pursue a whole set of economic, industrial and constitutional reforms, made no exception for the single greatest policy of the Italian welfare state. Indeed, however, the immovable object started to change from the inside. The galaxy of pension policy interests and actors had started to find new goals and new workable compromises. These assets were meant to be put to use in the great reformist rush for respecting the EMU deadline.

Transformation and the turn to risk shift: 1992-2000

The major economic and political crisis of 1992-93 radically altered the playing field. Structural pressures intensified on many fronts, and in 1992 the Italian Lira was severely hit by the speculative attacks on European currencies.[69] National political dynamics were in no less turmoil. During the 1980s, Italian society and the productive system had grown more dynamic, fragmented, and globalized. The electorate no longer felt represented by the Communist, Socialist, and Christian-democratic ideologies.[70] Union density had sharply decreased and industrial employment had fallen, leaving the workers' movement weak and internally split against an increasingly vocal employers' front. Pensions were soon caught in the crossfire (Ferrera and Gualmini 2004).

[69] The combination of fiscal expansions and monetary restrictions had brought Italy's public debt from 55% to 98% of GDP between 1981 and 1991. Envisaging the creation of a European 'Economic and Monetary Union' (EMU), the Maastricht Treaty of 1992 confronted Italy with a major challenge. In order to join in the EMU together with other founding members of the EU, Italy had to comply very quickly with an ambitious set of macroeconomic goals.

[70] In 1989, the fall of the Berlin wall suddenly deprived the communists of their ideological reference, forcing them to make a pro-system turn and re-establish themselves as the PDS (Democratic Party of the Left) in 1991. With the end of the communist threat, also the Christian Democrats and the Socialists lost part of their legitimacy. Constitutional reforms, presented by the parties as the way to get out of a chronic political deadlock, had themselves run into the same sort of decisional stalemates. The parties themselves were split in many fractions, which had very different visions of Italy's political future. Popular trust in the party system, already at its all-time low, was soon to be shocked by the outbreak of the 'Clean Hands' investigation into political corruption (1992-93). Italian politics was heading towards a major transformation.

Modernizers and policy experts featured prominently in the government led by the Socialist Giuliano Amato (June 1992 - April 1993). Taking advantage of the weakness of the party system, Amato combined some of the less contentious proposals advanced in the 1980s into a package of fiscal and economic reforms. Moreover, in order to regain public legitimacy, he consulted the unions on the draft bill but without negotiating the substance of his proposals. Accordingly, the 1992 Amato reform brought about an unprecedented path-shift, bringing the overall pension debt from 400% down to 290% of GDP and introducing supplementary market-based provisions. The reform increased the vesting period of old age pensions (from 15 to 20 years) and scheduled a gradual increase of the standard retirement age as well as the age required for the early retirement of civil servants. Earnings-related benefits were cut and indexation downgraded from wages to prices. Regarding supplementary pensions, high taxes on retirement savings long prevented their full take-off. Nonetheless, the creation of new schemes jointly managed by the social partners was crucial to win the consent of the unions.

Gradualism in implementing the cuts helped the unions justify the reform to their members (Natali 2007). Cost containment took place over the long run and workers with more than 15 years of seniority were excluded by most of the cuts. Early retirement in the private sector was not reformed and workers could use it to escape the most punishing provisions. Self-employed retirees were hit by a new ban on cumulating wage and pension income, but retained the generous 1990 system. Acquired rights were strongly protected, so that the intergenerational distribution of the costs was very uneven: more than 60 per cent of the losses were on workers 20 to 45 years old, and women and the atypically employed were disproportionally affected (Galasso 2006).

In April 1993, a new round of corruption scandals forced the Amato government to resign. A technocratic cabinet led by Carlo Azeglio Ciampi, former President of the Italian Central Bank, was tasked with implementing Amato's fiscal reforms and a new electoral law. The government successfully concluded a social pact with the unions and the employers. Importantly, the agreement represented the last farewell to the wage escalator and, allegedly, the first step to the long-announced 'income policy'. The new approach to wage-setting further reduced future pension costs and opened a more cooperative phase of industrial relations. At the same time, it softened the toughest norms of the Amato reform in terms of earnings-assessment and revaluation. With pension costs still far from being under control, the reformers found themselves very close to the technical and political limits of revising the public DB system (Pizzuti 1998).

As a consequence of the judiciary investigations, the Socialists and the Christian Democrats ceased to be major political players and split up into various offshoots (see also pages 112-14 above).[71] Silvio Berlusconi's newly constituted centre-right won the 1994 elections. Very soon, it produced a pension reform proposal heavily influenced by the Chilean and British experiences of radical pension privatization. The attitude towards the unions, openly hostile to the neo-liberal ideology of the government, was very confrontational. In the budget law for the year 1995, the Berlusconi government proposed to further reduce benefit indexation and, for the workers exempted by the 1992 reform, to reduce from 2% to 1.75% the value of each year of seniority in the benefit calculation (between 1996 and 2000). In order to increase the effective retirement age, the government also wished to introduce benefit reductions for early retirement[72] and to speed up the schedule of the Amato reforms (Jessoula 2009).

The unions responded with a wave of mobilizations and protests. Divisions emerged within the majority, as the CCD was critical of Berlusconi's confrontational style and the LN started to sense the distress of its relevant blue-collar constituencies. In December, the government took a step back and agreed to a new social pact, which envisaged by 1995 either a new structural pension reform or, in its absence, an automatic payroll tax rate increase. In the meantime the PDS, equally convinced of the need for another reform, kept working on an alternative proposal together with the CGIL. Based on the work of the economist Sandro Gronchi, the reform proposal of the centre-left envisioned the transition to a NDC system for all workers (Jessoula 2009; interview with prof. Gronchi).[73]

During the parliamentary stage of the Berlusconi reform, the PDS managed to present its counter-proposal to the MPs of the LN. Unexpectedly, the positions of the two parties converged on two issues. The first was the need to detach social insurance and assistance, making the system more transparent. The second was the incentive to shelter from the cuts a shared core constituency: workers with typical employment contracts and many years of seniority, a group who was both highly unionized and disproportionally concentrated in Northern Italy (Natali and Rhodes 2005). Pensions surely were not the only point on which Berlusconi and the LN were in disagreement. Moreover, FI

[71] The electoral reform of 1993 introduced a mixed system: 75 per cent of the seats were assigned with a plurality method, while 25 per cent were proportionally distributed. Political competition was reconfigured and became centripetal. The 1994 elections saw the emergence of two poles competing for government. The pole of the centre-left gathered around the PDS a wide array of progressive forces, with ideologies ranging from neo-communism to social-Catholicism. The centre-right pole revolved around Forza Italia (FI), a new catch all party created from scratch by the media tycoon Silvio Berlusconi. By combining Thatcherism, nationalism, and anti-establishment claims, Berlusconi managed to gather around his party the most conservative of the Christian Democratic offshoots CCD (Christian Democratic Centre), the post-Fascist AN (National Alliance), as well as the regionalist and autonomist LN (Northern League).

[72] -3 per cent per year below the standard exit age.

[73] Rome, 1/4/2010

and the regionalists competed for the same votes in several regions of the North and rivalled for leadership on several reform dossiers. Nonetheless, taking ownership of the issue allowed the LN to exit the centre-right without suffering a major electoral backlash. When Berlusconi resigned, hoping for new elections, the PDS, the LN, and the major force of the Christian Democrats entrusted instead a new technocratic cabinet, led by the former Ministry of the Treasury Lamberto Dini (Ferrera and Gualmini 2004).

In order to enact the structural reform announced in the 1995 budget law, the government immediately approached the unions and the employers. The economic crisis, revamped under new currency attacks, hurried the drafting of the bill. The reform draft prepared by the PDS was, with a few changes, presented by the CGIL as a starting point for the tripartite negotiations. The hastening of the preparatory works, however, jeopardized the technical soundness of the new norms and the chance to achieve a truly bipartisan settlement. In May 1995 a new pact was signed by the unions and the government, but not by Confindustria, the employers' peak association. After a very quick legislative process, streamlined by the LN and the PDS from inside the Committees of the Chamber and the Senate, the Dini reform was formally passed in August.

The new system applied to private, public, self-employed, and some atypical workers, achieving an unprecedented degree of occupational harmonization. NDC benefits were a function of lifetime contributions, revaluated in line with GDP growth. Accrued contributions were decumulated into a pension income stream through a number of age-specific divisors, meant to capture the remaining life expectancy of the new retirees. Benefits were price-indexed, but received a 1.5% advance interest rate at retirement. Retirement was flexible from age 57 to 65 and the corresponding divisors were set to be updated every ten years by legislative revision. Old age pensions were vested with only five years of contribution.[74] Minor revisions also addressed supplementary pensions, confirming the role of the *Tfr*, and the privileged status of occupational over individual pension funds. Finally, the reform revised the old system of minimum pensions, introducing a 'social allowance' for the elderly poor, and new tax-financed credits for care activities and childcare (Natali 2007; Jessoula 2009).

Introducing a brand new formula allowed the reformers not to touch highly politicized parameters, such as the 2% that Berlusconi had tried to reduce. Still, the contents of new law responded to a number of political compromises. Once again, acquired rights were generously protected and the new rules only applied to contributions paid since 1996. Moreover, workers previously exempted

[74] A second income requisite applied for retirement before age 65. The resulting pension had to be at least 20% greater than the social allowance available to the elderly poor.

by the Amato reform were kept in the old DB system. As a result, flexible retirement under the NDC rules could not absorb the old early retirement options. On the contrary, the requirements for early retirement were set to gradually increase to 57 years of age and 40 years of contributions (also known as maximum seniority)[75] for everybody by 2008, according to a complex system of 'quotas' that combined age and seniority requisites (Natali 2007).

Dini's success suggests that, in the critical juncture of 1995, insurance-reducing reforms (see the analysis in Chapter 3) better suited the configuration of the policy process than the reward-reducing approach of the previous failed attempt. A number of reasons can explain this 'asymmetry' in the window of opportunity for a successful reform. The political capital needed for major institutional reforms could only be mobilised through a critique of the old partitocracy and its misuse of the Italian state and welfare state. To a great extent, this depended on how the Italian political economy and party system had reacted to the emergence of systemic risks since the 1970s. The regressive redistributive patterns of the Italian pension system thus appeared as the softest target for reformers pressured by unprecedented structural challenges. The result was to reinforce the insurance-reducing nature of the new law. Even within the insurance-reducing side of the trade-off, however, Italy also missed the opportunity to take the path of risk-stabilisation, rather than risk shift. Narrow opportunities for compromise among reform supporters with heterogeneous preferences, as well as tight time and financial constraints, made any socialisation of retirement-related risks – individual as well as systemic – extremely difficult to uphold, not to say translate into policy innovation. These factors conspired to make the reforms more 'selective' and 'individualising' in character. From any perspective, risk shifting policy settings were technically and politically easier to introduce than risk-stabilising ones.

Between 1996 and 2007, the efforts to contain pension costs and expand the private pension sector continued. Statutory pensions were reformed in 1997, 2004, and 2007. A centre-left coalition led by Romano Prodi won the 1996 election. The Prodi government took the necessary measures to ensure that Italy could access the EMU by 1998. In doing so, it adopted a neo-corporatist policy-making style and constantly sought the consent of the unions (Ferrera and Gualmini 2004). The pension reform of 1997 was initially conceived as the first step towards a broad revision of the Italian welfare state. However, its scope was severely limited by tensions between the centre-left coalition and the neo-Communists that supported the government from the outside.

[75] Under the old DB rules 40 years granted the highest available replacement rate (80% for private workers).

The main goal of the reform – shortening the phasing in of NDC rules – was abandoned. However, thanks to an intense cooperation with the unions, the government quickened the phasing out of early retirement and harmonized exit requisites across the public and private sector (threatening a veto the neo-Communists maintained more favourable conditions for industrial workers). Finally, the reform reduced the gap among the contribution rates of employees and self-employed workers. This last measure contributed to cost containment in the short term as well as to pension adequacy in the NDC system (Ferrera and Gualmini 2004). A favourable industrial relations climate also fostered the creation of the largest supplementary pension funds in Italy: Cometa and Fonchim, the occupational schemes of the metal and the chemistry industry workers. Even though the legal and fiscal framework of the new multi-pillar system was far from perfect, the political juncture favoured the creation of bipartite pension bodies: a truly path-breaking event in Italian industrial relations.

After the successful attempt to join the EMU in 1998, the Prodi government fell on a confidence vote on the budget law for 1999. Party system fragmentation grew even more sharply in the last two years of the legislature, especially among the forces of the centre-left. The LN, instead, reapproached the centre-right coalition. In this same phase, as indicated above, the PDS joined various minor social-catholic parties in forming the DS, inspired by Tony Blair's Third Way. Massimo D'Alema, who was the leader of the PDS when the Prodi government fell, was appointed Prime Minister in October 1998. D'Alema was determined to move his party further towards the political centre, not lastly to appeal to the moderate and Catholic electorates. He also wanted to free his own party from the influence of the CGIL, which had become increasingly vocal and demanding in the second half of the 1990s.

Unsurprisingly, the tensions within the left and discontent with the performance of the new executives worsened the climate in the corporate arena. The neo-corporatist experience of 'concerted choice' and social pacts was terminated by the end of the decade, producing the expected effects on private pension legislation. In 1999 and 2000, two small reforms of supplementary pensions (see Table 3.4) expanded the tax incentives for pension supplements and introduced a new sort of private plans (PiPs) that required no employer contribution (see footnote 34 in Chapter 3). This reveals a change in government strategy on how public pension savings should be stimulated. Previously, the focus was on trade union intermediation and the creation of large occupational risk pools (the closed funds). The end of the decade saw a shift towards expanding the supply of private/individual pension schemes and vehicles. The new focus was on providing individuals with more choice, by reinforcing pension portability and market-based competition among funds of different pillars. This seemingly small change foreshadowed the policy direction of the following decade, when risk pooling in non-public pension pillars was further weakened. Deteriorating industrial relations and further legislative interventions blurred the distinction between occupational and individual schemes, progressively eroding the primacy of the second pillar.

Consolidating the new system: 2001-2007

The centre-right won again in the elections of 2001, obtaining a robust majority in both chambers. Roberto Maroni, first-line member of the LN, was appointed Minister of Welfare in the new Berlusconi government. Acting in agreement with EU-wide initiatives, the centre-right soon started a new pension reform. Taught from past experience, the executive behaved more cautiously. It used its control of the legislative process to downplay the pension issue whenever facing major protests, while also using reform processes in other policy fields to split the workers' movement. The main effect of this strategy was to isolate the CGIL in the corporate arena, which also made compromise less politically costly for the parties of the left (Natali and Rhodes 2005). By 2004, the coalition had finalized its draft bills.

The new reform mainly focused on speeding up the phasing out of early retirement and expanding the private pension market, but it also produced potentially disruptive effects on the NDC system. The key measure was the so-called 'big step', in effect beginning in January 2008: an abrupt increase, from 57 to 60 years, of the age requirement for early retirement after 35 years' contribution. The reform also reduced the number of 'exit windows' which defined the allowed starting dates for early retirement. However, it included a temporary payroll bonus for workers who would not seize early retirement opportunities in the period 2004-2007. Moreover, temporarily between 2008 and 2015, women with at least 35 years of effective contribution (including credits for care activities as an exception) could retire at 57[76] if they opted for a full NDC benefit.

Regarding private pensions, the 2005 reform further strengthened pension portability and market competition among pension providers. The reform, drafted by the LN pension expert Alberto Brambilla, actually sought to overcome the distinction between occupational and individual schemes, putting them on a level playing field. The new bill contained more generous tax incentives, lower upfront taxes, and compensations for firms losing access to their workers' *Tfr*. At the same time, the government introduced a silent assent formula for devolving the *Tfr* to complementary pensions, with effect since 2008. The recourse to silent assent was already touching on the (impassable) limits of a voluntary system of pension supplements, but it was still insufficient to guaran-

[76] 58 if self-employed.

tee a steady expansion of the multipillar architecture.[77] In the end, the government did not achieve a full regulatory harmonisation of private pensions. However, this was more a consequence of the conflicting requests of the pension providers and the employers, rather than to the influence of the unions. Notwithstanding some openings offered by Minister Maroni (who was well aware of his party's blue-collar constituencies) the unions' leverage on the policy process seemed far weaker than in the past.

In sum, from within the centre-right coalition, the LN could revise the reform it had contributed to pass less than ten years before, directly tackling its least preferred aspects. The political capital and 'issue ownership' gained at the times of the Dini reform entrusted the LN as a credible referent for a wide array of pension stakeholders, including the unions. This was the party's major comparative advantage vis-à-vis the rest of the governing coalition. Once again, the cross-cutting political identity of the LN was at work, increasing the odds of policy change. And, once again, the party's conservative stances in matters of redistribution and risk pooling contributed to prioritise risk shifting reform options, making them the 'pick' from the available policy menu.

In 2006, the centre-left won the first elections held with a new proportional electoral system by a wafer-thin margin. The new coalition was extremely heterogeneous and ranged from the neo-communists to former Christian-democratic forces previously allied with Berlusconi. Internal disagreement and a tiny majority in the Senate fatally compromised its policy-making capabilities. Still, the new government, the second under Romano Prodi's leadership, immediately tackled the pension issue, this time with a far less bipartisan approach. As repeatedly announced during a heated electoral campaign, the new majority was determined to reverse the 'big step', the most unpopular retrenching measure of the centre-right. In line with my interpretation of the 1999 and 2000 reforms, most of the centre-left had instead little problems with the 2005 reform of private pensions, which was rapidly implemented with negligible changes.

Later in the year, the government signed a new pact with the unions, paving the way for yet another public pension reform in 2007 (Jessoula 2009). The 'big step' was replaced by a new quota system, similar in format to the one adopted in 1997 but of course more restrictive. Whereas the Maroni reform had unsuccessfully tried to lower payroll tax rates for labour market entrants, the

[77] Voluntarism was a necessity for both political and fiscal reasons. Politically, it marked a workable compromise between market-liberal supporters of pension privatisation and left-wing defenders of the primacy of the public system, as confirmed by my interview with the CGIL expert Beniamino Lapadula. Fiscally, *Tfr* assets mandatorily transferred to the new funds would imply a hidden cost. Not to undermine a constitutionally protected 'acquired right', they would have required an equivalent levels of protection against investment and bankruptcy risks. This is the reason why only silently transferred *Tfr* assets are guaranteed a minimum return. Avoiding additional uncertainties for the public budget was imperative and this made the path out of voluntarism a doubly forbidden one.

centre-left legislated further increases in the payroll tax rates of self-employed and atypically employed workers. As with the previous Prodi government in 1997, more permissive early retirement options remained for workers in 'particularly demanding' jobs. Finally, the government issued new NDC divisors with effect from 2010, mandating their automatic revision every three years. In exchange, the centre-left reassured the unions that the criteria for revision would be redefined in consultation with the social partners, possibly taking adequacy concerns into account. However, the outbreak of a political crisis in early 2008 prevented any steps in the promised direction.

To conclude, between 2001 and 2008 the new system consolidated in a path dependent fashion. Both the centre-right and the centre-left had a chance to contribute to the new architecture. Two noticeable features were apparent in this phase. First, the original setting-out of the Dini reform, which had made possible the convergence of interest between the PDS and the LN in 1995, proved remarkably resilient to further change. Measures sought by FI, such as decontributions for entrant workers, did not pass in the first place and even the 'big step' – the major retrenching reform of the centre right – was replaced by a reissuing of the 'quota system'. The centre-left, internally divided between political third-waysm and radical welfare protectionism, made amendments aiming to welfare state update and limited expansion but showed little interest in softening up the risk shift.[78] It accepted the new regulatory framework for private pensions, even if it had become more privatised and individualising after 2005. The NDC divisors were updated, but the centre-left's lack of cohesion prevented any deeper revision. Including political considerations about adequacy in the formula for their calculation was an opportunity to steer the reform pattern in a risk-stabilising rather than a risk shifting direction. With the fall of the Prodi II government and the break-out of the financial crisis the option to alleviate the risk shift was forgone and a new phase was about to begin.

4.1.3 What happened next: a new Amato reform?

Over the last years, the global crisis and its repercussions on sovereign debts in the Euro area have severely affected the Italian economy. Pension expenditure grew by 4 per cent of GDP per year, peaking at 16.7 per cent in 2009, while real GDP fell below its 2001 levels. The main parties of the two coalitions reacted to the new electoral law with the creation of two major parties: the PDL on the centre-right and the PD on the left. However, the establishment of two parties with an uncontested lead of the respective coalitions did not contribute to reducing the fragmentation and the heterogeneity of the two poles.

[78] Beside a number of minor expansive measures, the only innovation somehow able to alleviate the risk shift was an ill-fated provision to make pension credits for tertiary education more accessible within the NDC system.

Back in government from 2008 to 2011, the centre-right enacted several austerity packages and subtractive pension measures, expected to produce savings greater than 13 per cent of GDP by 2050. Initially, the government sought short term savings through further reward-reducign measures (retirement age increases and harmonisation).[79] With effect from January 2011, a new 'single sliding window' replaced the old exit windows for quiescence. Exit from the labour market was allowed only 12 months[80] after qualifying for early retirement.[81] Finally, all age requirements in the system were set to be aligned to increases in life expectancy from 2015 and afterwards every three years. Moreover, in 2011 the government discretionally set 67 as the standard pensionable age in 2026, even in the absence of a corresponding automatic adjustment (Jessoula and Pavolini 2012). The decision to similarly update the 40 year contribution requirement received harsh criticism from the unions, which also lamented that revising the criteria used to update NDC divisors was no longer on the agenda. Nonetheless, the centre-right once again managed to split the workers' movement. It coupled its new pension cuts with changes in wage-income taxation, something that pleased the CISL and the UIL, the moderate trade unions.[82]

In November 2011, the sovereign debt crisis reached its apex and the Berlusconi government resigned. Once again the executive was weakened by disagreements within its supporting coalition and by the scepticism of the LN towards the new retrenching measures. Very soon a caretaker government led by the economist Mario Monti was established by a bipartisan majority. The new cabinet's Minister of Welfare was the economics professor Elsa Fornero, a committed supporter of the NDC model. While focusing on short term emergency measures in various fields, the Monti government took decisive steps towards greater harmonization of pension rules and a faster implementation of the NDC regime. This resulted in a combination of levelling-off and retrenching reforms that addressed various parameters of the new system. Generosity was reduced through these reward-reducing measures, but the general risk shifting direction of the reform pattern did not change.

The Fornero reform suspended the indexation of benefits equal or greater than €1,400 a month in 2012 and 2013. It further increased the payroll tax rates of the self-employed and imposed a solidarity tax on the funds with the most favourable rules. Moreover, it made fragmented contribution

[79] An opportunity in this sense was offered by the EU. In 2008 and 2010, the European Court of Justice sanctioned Italy for discrimination in the workplace, due to the different retirement ages of male and female civil servants. As EU level procedures against Italy unfolded, new decrees were enacted in response. The final outcome was the equalisation of age requirements across genders and occupations by 2026.

[80] 18 for self-employed and atypically employed workers.

[81] The new exit regime was very contentious, as workers who had reached 40 years of contribution were obliged to work and contribute one year more with no benefit increase (see for instance UIL 2011).

[82] Only the CGIL (2011) expressed concern for the effects of the cuts on weaker career profiles. The other unions (see e.g. Proietti et al. 2010) expressed satisfaction for the stabilization of pension spending. Confindustria asked for a greater reduction of indirect labour costs.

records easier to unify and revised the regulation of privatized and special funds. The new provisions obliged all the workers previously exempted by the 1995 reform to contribute to the NDC system from January 2012 onwards.

Old age NDC pensions were vested after 5 years of effective (that is, non-figurative) contribution at 70 or, before that age, after 20 years of effective contribution and provided that the actual benefit was no less than 1.5 times the social allowance. Flexible retirement was reintroduced between age 66 and 70 (indexed to life expectancy) and new divisors were issued with effect from 2013. Workers joining together fragmented contribution records remained subject to the old, less stringent, requisites. At the same time, an early pension appeared for the first time in the NDC system under the following conditions: up to 3 years before the current standard age, with 20 years of effective contribution and a final benefit at least 2.8 times the social allowance. Amendments to the budget law for 2012 combined, as of 2013, the automatic adjustment of pensionable ages with the update of the NDC divisors, scheduling both revisions every other year from 2021 (Schoyen and Stamati 2013).

Finally, the reform absorbed the contentious ‘single sliding window’ since 2012 within stricter retirement age requisites. Standard pensions became payable at 66. The maximum seniority requirement for early retirement at any age (previously 40 years) was raised to 42 (men) or 41 years (women) plus 1 month, to be further incremented by one month a year until 2014. The programmed increase of the standard retirement age to 67 was moved forward to 2021 and the quota system for early retirement was abolished. With few exceptions, no more than three years of early retirement were allowed, but only at maximum seniority or in particularly demanding jobs. In both cases, retirees younger than 62 would face benefit reductions, proportional to the contributions paid before January 2012.[83]

The sudden preclusion of so many early retirement opportunities had a harsh social impact. The unions adopted a unitary stance against most provisions of the Fornero reform, denouncing in particular the abolition of the quota system and its social consequences. Even the employers, who welcomed austerity measures and the reduction of indirect labour costs, were concerned by the consequences of higher retirement ages on industrial restructuring settlements. In order to relieve the career profiles most severely hit by the changes, the centre left pushed the Parliament to adopt a punc-

[83] Penalizations were defined as follows: -1% of benefit for each year below age 62 up to age 60, and -2% for each other year below 60. Workers qualifying before 2018 and able to meet maximum seniority with no recourse to figurative credits were exempted from the cuts. The new norms in this paragraph were not applied to women in the experimental regime, whose age requisites were however indexed to life expectancy.

tilious set of exemptions. Yet the new rules left more than 300.000 redundant older workers – known as *esodati* – with no wage or social benefits whatsoever. Given the current financial restraints, temporary income support could only be granted to about 40 per cent of the *esodati*. However, many more workers with neither pension nor wage are expected by 2020 and the presumed new costs amount to more than €14 billion.

The restrictive economic policies of the Monti government stabilized financial pressures on the Italian public debt, but visibly depressed economic activities in 2012. The decreasing sense of urgency and the shift in focus on labour market and institutional reforms bogged down the technocrats' activism. The 2013 electoral campaign was characterised by a mounting anti-austerity sentiment. Both the centre-left and the centre-right announced revisions and amendments to the Fornero reform, in order to tackle the needs of the *esodati*. The outcome of the elections was inconclusive. The centre-left, the centre-right, and the new anti-establishment M5S of the comedian Beppe Grillo each won almost one third of the votes. After several weeks of fruitless negotiations, the PD and the PDL were forced to form a grand coalition, taking onboard the new small-sized party of Mario Monti. The coalitional partners of both the PD and the PDL remained at the opposition together with Grillo's movement.

Due to the severity of the crisis and of the austerity packages, the pension reform debate has resurfaced in recent times.[84] In August 2012, the PD and the LN advanced a bipartisan draft bill to expand the guarantees for the *esodati* and to add a new exit option similar to the experimental regime for women of the Maroni reform.[85] During the electoral campaign, however, the LN promised an outright reversal of the Fornero reform. More recently, the deep crisis of Italy's unemployment schemes and the agency of the 5-star Movement gave credit to the introduction of a universalistic minimum income scheme. With the unexpected appointment of a grand coalition government, however, this option became far less likely. More recently, the government announced its intention to revise the exit regime in order to facilitate retirement for the *esodati*, although uncertainty remained on the true extent of the phenomenon.

[84] A joint document by CGIL, CISL, and UIL asked for less restrictive (or non-indexed) exit requirements, for the full harmonization of contribution rates, and for more exceptions for the *esodati* and workers in particularly demanding jobs. In addition, the CGIL lamented the absence of cohort based divisors, while the UIL suggested making them progressive. More innovatively, the CISL proposed the introduction of early/part-time retirement options funded with a mutualistic approach and a new minimum pension that would be partly means-tested and partly based on contributions. Finally, the UIL asked for lower taxes on pensions and new subsidies for the lowest pensions.

[85] Opting for a full NDC benefit, employees with at least 35 years of effective contributions would be allowed to retire at 58 (57 for women) until the end of 2015 or at 59 (58 for women) until the end of 2017.

4.1.4 Concluding remarks

The analytical narrative in this chapter supports the general argument of the thesis.

Italy is a major case of retirement risk shift. This does not mean that other subtractive reforms did not occur, before and after the introduction of an NDC+DC system. It means that the prevailing policy direction of the reform pattern is consistent with what I defined as risk-shifting. Retrenching reforms have been extremely difficult to enact and easy to reverse. In line with the suggestions of existing studies, reward-reducing reforms – at least until the global crisis – have been marginal, incremental, and concentrated on groups identified as “most privileged” (levelling-off). Path-breaking cost-containment, however, could only survive the frequent policy stalemates when policymakers targeted risk pooling mechanisms and financial guarantees (insurance-reducing). In the Italian case in particular, they were so much more likely to succeed when adopting an individualistic approach: that is, one that concentrated costs the most economically exposed social groups (selective rather than across-the-board).

To explain reform outcomes, the chapter suggested two main causal factors: the intensity of systemic shocks since the 1970s (emergence of systemic risks) and the political entrepreneurship of the PSI and especially of the LN vis-à-vis the major parties of the Italian political system (transforming patterns of representation). These two causes created a political and technical rationale for risk shifting reforms, bringing them into the policy menu and enabling them to overcome policy deadlocks.

The national institutional context also played an important role in determining the severity of the retirement risk shift. Institutions in the electoral arena created two peculiar combinations of centripetal and centrifugal forces (‘centripetal pluralism’ during the ‘First Republic’; fragmented bipolarism during the ‘Second Republic’) that go a long way in explaining why the Italian pension system never managed to socialise risks in an effective, transparent, and politically sustainable manner. They also explain why and how decisive actors such as the PSI and the LN experienced particular incentives and uncommon opportunities to uphold subtractive policy innovations. Pension policy legacies aggravated the structural challenges policymakers had to face and undermined popular trust in the existing rules. Both these influences weakened the path dependency of the Italian pre-reform system, as long as path dependency is conceived as the result of positive feedback loops. The chapter has also emphasised how, in the early 1990s, the options for a technically sound and politically acceptable reform of the main pension parameters was exhausted, increasing the appeal of a complete overhaul of the public pension formula. The narrative also highlighted the role of transformations in the corporate arena, mainly from two perspectives. First of all, declining union density and membership belong to one of the main causal factors of the process: the one I indicated as 'transforming patterns of representation'. Second, the swinging fortunes of Italy's industrial relations and neo-corporatist experiments have dictated the developmental pace and direction of non public pensions, from the reforms of the seniority indemnity in the 1970s to the progressive equalisation of occupational and private provisions in the 2000s.

Although the policy process mediated and selected policy innovations in a rather similar way throughout the evolution of the Italian case, most of the critical junctures in the pension reform patter occurred in the 1990s. In part, this testifies the undeniable role of external shocks – especially when related to the risks I indicated as systemic – in a configurative explanation of the events. There is no doubt that external shocks contributed to opening windows of opportunity for reform. The 1970s and the late 2000s provide additional evidence in favour of the importance of idiosyncratic events. It is my contention, however, that such windows were successfully crossed in a risk shifting direction only because, in the 1990s, the long term structural and political consequences of the shocks of the 1970s – declining economic performances; increasing regional inequalities; cartelisation of the political system; successful emergence of a regionalist niche party – had unfolded and started to interact, actualising their change potential. When Italy had entered the EMU and the LN had found a stable position within the new party system, the potential for policy change was much lower. The pension reform process became path dependent once again, this time within the boundaries of the new NDC+DC architecture.

The self-defeat of risk pooling in the Italian case can be more clearly appreciated from a sociological perspective (see the final section of Chapter 2). Consistently with Article 1 of the Italian Constitution, where the polity is criptically defined as 'a Republic founded on work', the national pension system was very keen on distinguishing workers from non-workers (think of the 15-year vesting requisite and of the final wage model). The workforce, in turn, was expected to act as a collective 'breadwinner' for the rest of the population. Workers had to be acknowledged as 'producers' within a fragmented and corporatist performance-reward system, but they had also to be recognised as the beating heart of an encompassing system of redistribution, which included minimum pensions and minimum pension supplements.

The two goals (performance-reward and solidarity) were in conflict, and equally conflicting were the self-identification options they offered (being a performer to be rewarded and/or being a societal 'breadwinner'). The resulting 'identity crisis' could only be avoided by removing its economic and distributive tensions far into the future and this was only possible through fast economic growth or mounting public debt. When growth slowed down, however, systemic risks also appeared, and this radically shifted the terms of the debate. The 'identity crisis' of the pension system was polluting the socio-economic environment, generating fraud, over-taxation, and the risk of collective bankruptcy (see Cazzola's quote at the beginning of this chapter). The PSI and especially the LN were the actors who best interpreted this new anxiety, articulating with uncommon clarity which redistributive patterns had to be cancelled and for which reason (the quote from Biorcio, instead, is meant to elucidate this nexus). Invariably, the reason boiled down to a claim to defend those segments of the middle classes (which had come to include typical workers with indexed wages and long careers) that felt to be 'unprotected' by the (welfare) state.

From this point of view, the adoption of a NDC+DC pension system in Italy represents precisely the kind of anxious and violent overreaction some social theorists would expect when existing institutions come to be blamed for the pervasiveness of certain systemic risk. The Italian political economy had produced both the 'urgency' and the actors who could credibly exploit it to their own electoral advantage. So, in the 1990s, the political appeal of insurance-reducing reforms had partly rested on their ability to shelter from reform costs the least vulnerable social groups. The outbreak of the global crisis has exposed the limits of this reasoning. Today, the need for retrenchment is reaffirmed, even in the context of a far less generous pension system. A way of approaching my analysis of the Italian case is as the translation of such a socio-theoretical reading (Beck's idea of a *risk society* is the most obvious referent here) into the language and concepts of political science.

4.2 Germany: Middle-class politics 2.0

> ‘The advantaged, once Junkers and industrialists in Wilhelmine Germany, are today Thatcher's constituency. The disfavored, earlier the industrial working class, now include also ethnic minorities, the handicapped, single mothers and other - from a traditional blue-collar point of view – marginal groups. Nevertheless, this basic dualistic mold persists in social explanations of the mystery of how the have-nots ever get more than a pittance from the haves.’
>
> Peter Baldwin – *The Politics of Social Solidarity*, p.295

> ‘In other words, to the extent that party systems become cartelised, and to the extent that opposition and competition within the mainstream ceases to have any real meaning, the scope for external challenge becomes enhanced. As choice within the mainstream becomes less meaningful, voters may well be encouraged to look for an alternative politics. It is then that Green parties can prosper, particularly in that, unlike their right-wing counterparts, they present to voters the acceptable face of that alternative.’
>
> Peter Mair – *The Green Challenge and Political Competition*, p.110-11

Germany interestingly stands out as a country with a more balanced mix of reward-reducing and insurance-reducing reforms. Most notably, it features a substantial but comparatively less individualising revision of its post-war pension model. Key to this chapter, therefore, is the following research question: why did Germany adopt this approach to the retirement risk shift? Once again, such a question boils down to asking what made a particular trajectory of policy change – and not others – take place, instead of no change.

Up until the early 2000s, the literature used to characterise Germany as the handbook case of policy stability, borrowing Fritz Scharpf’s (1988) concept of *joint-decision trap* to qualify its hard-to-reform policy outputs (see e.g. Bleses and Seeleib-Kaiser 2005; Schulze and Jochem 2007). At closer look, the diagnosis of stability was the result of several distinctive traits of the German polity: the renowned efficiency its administration, its consensual and centripetal politics, as well as the institutional constraints imposed on the federal government within a ‘semi-sovereign’ state structure (Katzenstein 1987; Kitschelt and Streeck 2004; Green and Paterson 2005). If possible, expectations of no change were even stronger than in Italy, where some change was indeed expected to occur, albeit inconclusively (see many examples in Ginsborg 1990).

And yet, severe external ‘shocks’ – namely the unification of 1989 (see e.g. Schmidt 1992; Caldwell and Shandley 2011), without disregarding the uneasiness of being a neo-corporatist role-model in a world of neo-liberal economics (Eichengreen 2007; Streeck 2009) – did not derail Germany from a comparatively smooth adaptation of its institutions and political culture (Seeleib-Kaiser, Van Dyk, and Roggenkamp 2008; Häusermann 2010; Jackson and Sorge 2012). This makes German socio-economic policy trajectories and overall evolution particularly challenging to understand (Streeck 2009; Palier 2010). Given Germany’s historical peculiarities (*Sonderweg*) and its history of economic success, arguments in favour of its stability/persisting divergence are very compelling at first sight (Esping-Andersen 1999; Hall and Soskice 2001; Kitschelt and Streeck 2004; Heimerijck 2006).

As a result, a question of great theoretical relevance for nearly all students of the German welfare state (and pension system) is whether and how its changes relate to the evolution of the *social market economy* (*soziale Marktwirtschaft*) model and to its underlying values (Hinrichs and Kangas 2003; Rüb and Lamping 2010).[86] This ideational paradigm (in the sense of Hall 1993) did not just define the socially acceptable (see Chapter 2) distribution of retirement risks and responsibilities in the German pension policy, but was also the mainspring of its undisputed cross class appeal. Its refinement and consolidation with the path-setting reform of 1957 (*Rentenversicherungsgesetz, RVG*) – which introduced *PAYG* financing (*Umlagesystem*) and a ‘dynamic pension’ indexed to gross wages – made of German pensions a shining example of successful ‘middle class politics’ (Baldwin 1990; Cusack, Iversen, and Rehm 2005; Mierzejewski 2006; Fernandez 2012). Perhaps for good reasons, then, studies focusing on the three most important pension reforms occurred in Germany over the last three decades (the ‘Pension Reform Law 1992’ of 1989; the ‘Pension Reform Law 1999’ of 1997; and the so-called ‘Riester Reform’ of 2001) tend to frame the question of change in terms of whether or not a paradigm shift has taken place (see Hinrichs 2003; Hinrichs and Kangas 2003).[87]

[86] The well-codified paradigm of German pensions comprised values such as the principles of insurance (*Versicherungsprinzip*), equivalence (*Äquivalenzprinzip*), and status maintenance (*Lebensstandard-Versicherung*) as well as social norms like the male breadwinner model, the notion of a generational contract (*Generationenvertrag*), and the equal sharing of contribution and governance roles among employers and employees. The latter was a result of the principle of ‘free collective bargaining’ (*Tarifautonomie*), insulated from political intervention (see Hinrichs 1998; Palier 2010).

[87] Influential commentators in the German pension debate have extensively analyzed how the new rules challenged and redefined the old paradigm. Others, looking at German stability through neo-institutionalist (magnifying) lenses, have taken seriously the hypothesis of stability. Accordingly, they explain policy innovations with a strong emphasis on the agency and creativity of prominent policymakers (see Vis 2010; Stiller 2010). Finally, also against the backdrop of the old policy paradigm, other authors have interpreted policy changes in the light of macro-processes of institutional or even structural evolution: changes in the German political ideology (e.g. Seeleib-Kaiser, Van Dyk, and Roggenkamp 2008); a process of new modernisation (Häusermann 2010) or individualisation (Beck and Beck-Gernsheim 2001,

This chapter owes a great deal to these analyses. At the same time, however, it qualifies policy change somehow differently, i.e. as the sorting out of a policy trade-off. As for the Italian case above, this chapter will thus study the adaptation of the German pension system to its new context through the adoption of a mix of reward-reducing and insurance-reducing reforms. The Germany-specific mix of policy directions, I argue, emerges from the co-evolution of structural (the changing nature of risk) and political factors (changing patterns of representation) within the German political economy. Still, I am not interested in determining whether they brought about a paradigm shift, nor in explaining ‘change’ per se. Also, my effort is not about nesting German pension reforms in some macro-societal process, such as modernization or individualisation.[88]

To anticipate the thrust of my argument, the chapter characterises Germany as somehow reluctant to shift retirement risks on the individuals. And yet, it is shown as a perfect fit to the general pattern of the ‘broken promise’. Just as in Italy, the appearance of systemic risks produced both structural and political consequences that, by the turn of the century, paved the way to insurance-reducing reform options. While the co-evolution of structure (systemic risks) and politics (changing patterns of electoral and industrial representation) pressed on the pension system to adapt, in Germany the task of challenging the ruling policy cartel was up to the Green party. So, like in Italy, a successful ‘niche’ party put into play its radicalism and well-defined policy goals, acting as a ‘facilitator’ who helped a divided centre-left get past policy deadlocks. Nonetheless, the less rancorous challenge posed by the Greens to the statutory pension system and a greater degree of pragmatism within the corporate arena kept Germany away from an Italian-style ‘breakdown of risk pooling’. In sum, the unfolding of reform process pushed pension rules further down the insurance-reducing direction, but not without a pinch of German taste for moderation.

The section is structured as follows. A first part will review the main institutions and actors in its political system and industrial relations. The second, the analytical narrative, is organized in three periods: 1976-1993; 1994-2000; 2001-2007. A quick update on the latest reforms comes next, followed by some brief concluding remarks.

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ch.4); the self-undermining of secular politico-economic settlements (Streeck 2009; Palier and Thelen 2010; Eichorst and Marx 2011; Baccaro 2013).

[88] The distinction between reward-reducing and insurance-reducing reforms is one between two different change directions, not one between greater (paradigmatic) or lesser (parametric) deviations from the status quo. It is the composition of change, not its mere occurrence to be of interest here. In line with a historical-institutionalist frame of analysis (see e.g. Steinmo 2008), any mix between these two types of reform is best understood as a real-world outcome within a *meso level* analytical framework. It is not interpreted here as the manifestation of a macro level phenomenon within the field of pensions. This differentiates this contribution from most interpretations of German pension reforms (see also footnote 2 above).

4.2.1 Analytical narrative: falling not far from the tree

The analytical narrative starts by considering how Germany reacted to the shocks and transformations of the 1970s, demonstrating how the situation was far less dramatic than in Italy. The German political economy admirably withstood the oil shocks and stagflation (see e.g. Eichengreen 2007). There was no widespread sense that the state was failing or that the polity was at risk, as shown, for instance, by indicators of satisfaction with democracy and trust (see Anderson and Guillory 1997; Rohrschneider and Schmitt-Beck 2002; Gunther, Montero, and Puhle 2007). German policymakers were quick to enact some degree of retrenchment in order to stabilize pension spending forecasts in the new, less favourable, scenario, turning to a more comprehensive (allegedly 'structural') reform of the public system already in 1989. The political shocks of the 1970s were also milder in Germany. Social tensions took a less markedly centrifugal direction. Protests by students and workers took place and advanced radical demands for change, but political violence remained limited, facilitating pragmatic problem solving in both the electoral and the corporate arena (Della Porta 1995).

Most notably for the evolution of the German party system, the student movement largely shunned political terrorism and developed itself more independently than in Italy from the parties of the left (Kitschelt 1986; Della Porta 1995). Along this different developmental pattern, radical and post-materialist demands could find their political articulation in the Green party already in the late 1970s. Environmentalist and pacifist, this new niche party pioneered the so-called 'new left' camp, posing radical programmatic challenges to the traditional German party system (Poguntke 1993). Here there is a strong contrast with the Italian case, where an effective niche party failed to manifest until the regionalist Lega Nord appeared in the mid 1980s (Biorcio 1992). It was a fateful development, since the Greens were meant to be as important for unblocking the German pension policy deadlock of 1998-2001 as the Lega had been in Italy in 1994-95 (see Chapter III). In agreement with the recent literature, the narrative will also show how the marked middle-class profile of the Green electorate has steered the German reform pattern (see Häusermann 2010; Picot 2012). As the subtitle of this chapter suggests, it contributed to 'updating' – rather than calling into question – the long-standing middle-class orientation of the German pension system.

While being comparatively less disruptive, the shocks of the 1970s still had their consequences (Streeck 2007). A first consequence was the deterioration of the health state of German public pensions and the opening of a pension question in the early 1980s (Hinrichs 1998; 2003). Secondly, as problem pressure piled up, it affected the dynamics of political competition that governed existing party relations (Dyson 1981; Leaman 2009). The Liberal Party (FDP) had the most to lose in the new scenario. Its coalition governments with the Social-Democrats (SPD) were, in fact, incapable of reconciling a full reactivation of German economic dynamism with the completion of the national welfare system. Pressed by the newborn Greens on social-liberal issues, the liberals had little chance to achieve them under the new scenario; furthermore, they saw as least attractive the option of presenting themselves as the budget hawks of the centre-left (Roberts 1997). On top of this, nothing prevented the Social- and Christian-Democrats (CDU/CSU) to join in a new great coalition had a major crisis broken out.

In sum, the FDP – just like the Italian Socialists – seriously feared becoming irrelevant. In order to increase their political competitiveness, the liberals redefined their identity with a decisive turn to the right. In 1982 they cast a constructive non-confidence ballot in favour of the CDU candidate premier Helmut Kohl. This served as prelude to an organic electoral alliance that left the Social-Democrats on the banks of the opposition for no less than sixteen years (Roberts 1996).

The social-liberal coalition broke up out of irreconcilable disagreements among FDP and SPD (and to some extent also within the latter) on the right policy answers to the prominent issues of the time: mass unemployment, the sustainability pension budget, and internal security issues. All these themes shared a systemic and reflexive nature. That is, they were hardly solvable with planning or authoritative distributional choices, rather showing the limits or the unintended consequence of state action and interventionism. Against this backdrop, the Kohl governments took a u-turn in economic management (*'eine geistig-moralische Wende'* in Kohl's own words).

This development supports one of the central claims of this thesis, that is, the emergence of systemic risks (not all of which are strictly of economic nature) leads mainstream parties to downsize policy expectations and externalise policy commitments (what Blyth and Katz (2005) called the 'political economy of the cartel party'). Even more decisively than in the case of the Italian socialists (who, in the end, had no workable substitute for their alliance with the Christian-Democrats), the change within the FDP pitched the liberals right against the social model they had so decisively contributed to create. Ten years after the red-yellow 'big reform' of 1972, which had increased the value standard pension by half in the span of the following five years, the liberals had become the staunchest advocates of retrenchment (Schulze and Jochem 2007).

This ideological reorientation set the path towards the big pension reforms of 1989 (*Rentenreformgesetz 1992*, henceforth *RRG92*) and 1997 (*Rentenreformgesetz 1999*, henceforth *RRG99*). Initially, the promotion of early retirement as a labour-supply reduction strategy and the expansion of non-contributory pension funding compromised the effectiveness of the (otherwise quick and resolute) spending of the early 1980s. The RRG92 stemmed from a consensus on a mix of levelling-off, retrenching, and risk shifting proposals combined with expanding tax subsidies; overall, it largely confirmed the architecture of the German point-system formula (Schludi 2005). It was discussed and packaged on a cross-party accord and enacted on the very day the Berlin wall came down: November 9, 1989. The increase in pension spending between 1995 and 2030 was more than halved as a result, mainly thanks to a downscaling of benefit indexation and a gradual increase in non-standard retirement ages (Schmähl 1998: 158).

The long term economic costs of German unification, however, kept high pressure on the pension budget. The close-call of the 1994 elections and the new spiralling trend in the electoral performances of the FDP pushed the black-yellow coalition on more advanced neo-liberal positions. In the new post-unification ‘fluid five-party system’ (Niedermayer 2002), the East-based PDS presided the radical left, while both the Greens and the SPD were tempted to seize the political centre. The result was a general reorientation in the social policy and pension debate (Hinrichs 1998), which set the stage for RRG99. The latter featured again a mix of retrenching reforms and marginal fiscal expansion. Nonetheless it importantly differed from past experience on at least two respects. First, it was meant to introduce a new ‘demographic factor’ in the pension formula, shifting on the insured population the demographic risk of societal ageing. Thus it aimed at taking a major step in the insurance-reducing direction. Second, it was enacted in a more polarised environment, as a unilateral move of the political centre-right. As a result, the RRG99 was cancelled in 1998 (with the *Rentenkorrekturgesetz*), as soon as a different majority, based upon an unprecedented red-green coalition, was elected.

Challenged, but also energised, by strong internal resettlements, the SPD and the Greens were eager to enact policy innovation in order to score a successful *Strukturreform* against Kohl’s political scions. Due to the persisting economic stagnation and the profound discontent voiced by German employers, the successful enactment of a structural pension reform was a test the new government had no hope to avoid (Leaman 2009). The Riester reform of 2001 and the Rürup reform of 2004 constituted the centre-left’s response to the challenge (Schludi 2005; Schulze and Jochem 2007). Along with another small expansion of tax-financed contributions to the pension budget, the Riester reform introduced a number of relevant retrenching measures while strengthening private provisions. It lowered the guaranteed replacement rate and adopted a new formula in order to apportion spending cuts between lower replacement rates and higher payroll taxes. In addition, it introduced a new certified private pension: the *Riesterrente* (see e.g. Schmähl 2002; De Denken 2002; Hinrichs 2010).

Although the latter was created as a defined contribution scheme, its regulation and status vis-à-vis existing corporate pensions greatly tempered its risk shifting character (see Ebbinghaus Gronwald and Wiss 2011). However, the truly risk shifting part of the Riester reform was the peculiar system of 'carve-out contributions' that the government created when it allowed financing supplementary pensions with tax-exempted earnings-conversions (Schmähl 2002). Regardless of its parametric or paradigmatic character, I consider this new risk shifting measure as the real turn towards an insurance-reducing logic in the German reform pattern. Three years later the Rürup reform achieved a much greater level of insurance-reduction (Schulze and Jochem 2007). The 2004 reform did not only enact a risk shift by abolishing the credit points previously available for high education and introducing the *Basisrente* as a new private scheme, it also introduced two major risk-stabilising measures by transferring onto the insured population the financial and demographic risks related to fluctuations in the contribution base (Börsch-Supan and Wilke 2006).

My argument interprets the reversal of RRG99 as the equivalent, in the German pattern, of the policy stalemate that occurred in Italy in 1994. The Riester and the Rürup reforms of 2001 and 2004, along with the 2007 retirement age increase, compare instead to the longer and more disorganised transformation occurred in Italy between the Dini and the Damiano reform (1995-2007). Finally, the reforms undertaken during the financial crisis show how the new emergency measures follow path-dependently on the post-adoption trajectory.

The similarities among the two national reform patterns help to elucidate the main steps of my general argument. Once again, the wave of policy innovations traceable to the competitive struggle of the most pressured party in the 'policy cartel' (see Anderson and Weaver 2001) reached a point of exhaustion. As the reform debate moved on to its next iteration – unfolding in conformity with the political economy of the cartel party (Blyth and Katz 2005) – the prevailing mix of reward-reducing and insurance-reducing reforms became too politically costly for the major parties to be enacted. Once again, it is the 'admission within the mainstream' of the most dynamic 'niche party' (Ezrow 2010) in the system to act as an unblocking factor able to get the reform process past its policy deadlock.

In addition, always congruently with the Italian experience, the agency of the 'new' party (the Greens in the German case) helped a 'divided left' to square the distributional circle. Namely, it allowed the latter to embrace a policy option that would have not been politically sustainable for a mainstream ‘popular’ party moving on its own (Kitschelt 2001). Moreover, as a last supportive piece for my argument, the mainspring of the ‘new’ party’s ability to introduce innovation is traceable to the very way its political identity (including its programmatic challenge to the policy cartel) evolved in the shadow of the ‘systemic risks’, during the ‘critical juncture’ of the late 1970s. As much as in Italy, the specificities of the German political economy during the so-called ‘age of austerity’ created a subjective precondition (a new ‘political agency’: a ‘facilitator’) for the adaptation of its own institutions.[89]

Like in Italy, but seen through an inverting mirror, the progressive and yet middle-class orientation of the Greens (see Häusermann 2010) shaped the distributive struggle against the old German point system in a sharp but not poisoned way. As suggested above, the middle class orientation of the old system was adapted to the taste of the 21st century middle-class, but this required no overhaul of the pension formula. However, it is my contention that the very fact that the old formula was left in place steered insurance-reducing reforms towards the risk-stabilising (as opposed to the risk shifting) ideal type. This, together with the lack of an explicit risk shifting agenda on the part of the Greens (the ‘facilitator’) contributed to tempering the risk shift in the decisive moment of the German reform process.

Between 2004 and the outbreak of the global crisis, the German economy sped up, the red-green coalition was replaced by a ‘grand coalition’ between the CDU/CSU (2005-2009) and then later by a new black-yellow coalition headed by the Eastern CDU leader Angela Merkel (2009-2013) (see Schmähl in ASISP 2009; 2010). The minor pension reforms that were enacted in this period are reviewed at the end of the chapter. This post-adoption phase is worth considering for at least two reasons. First, it testifies the comparatively good ability of the German pension system to live up to its responsibility for social solidarity. Second, it probes my argument on the German case under different political and economic conditions.

As regards the first point, a shift from defined benefit to defined contribution was surely taking place and it further sped up when the financial crisis dealt its global blow (Estevez-Abe Heinrich 2013). Still, the defined benefit system remained in place and still works admirably well as an engine of risk pooling and prudent regulation (Ebbinghaus and Wiss 2011). In this respect, the defined benefit model was further protected as Germany had to harmonise its accounting principles with the

[89] In recent historical institutionalism, what I termed here as co-evolution is best understood as an ‘emergent phenomenon’ (Holland 1998; Streeck 2009; Steinmo 2010) resulting from the interaction of structure and agency within a contingent historical context. Unfortunately, the theoretical implications of this rewording far outreach the scope of this dissertation.

prevailing European standards (*Bilanzrechtsmodernisierungsgesetz – BilMoG*, December 2009) (see Chwallek 2012).

As regards the second point, two preliminary conclusions can be drawn. First, the German pension reform pattern confirms its peculiar resistance to full-blown risk shifting reforms. The 2007 increment from 65 to 67 of the standard retirement age (Hinrichs 2012) is a clear example that limited and purely retrenching reforms should be, and indeed are, the main contribution of a grand coalition to a long-lasting reform process. Interestingly, during the crisis the great coalition government introduced a new 'pension guarantee', smoothing pension benefit adjustments due to both economic and demographic risks. The result is a reduction in the yearly fluctuations of benefit values due to the risk-stabilising reforms of the red-green coalition (see Schmähl in ASISP 2009; 2010).

And yet, insurance reduction still occurs. Two examples stand out (see again ASISP 2009; 2010). First, the grand coalition government indefinitely extended the payroll tax exemption of wage amounts used to fund private provisions. So the 'carving-out' implications of the earnings-conversion system of the Riester reform were confirmed. This speaks for the path-dependent nature of the new system and the near impossibility to take back the reallocation of responsibilities between public and private pensions. Second, the 2006 reform of the civil servants provident fund (Friebert 2006) featured both levelling-off and risk shifting measures, mainly dealing with a process of gradual shift towards a decentralised, fully funded defined-contribution model. Since the reform process is still ongoing, its effective risk shifting implications are impossible to assess (ASISP 2009; 2010). However, I cannot help reading it as telling example of how important is to include industrial regulation in the analysis of how private pensions evolve. Moreover, it also exemplifies how differently a government's risk shifting ambitions play out when it acts as the employer rather than as a regulator.

In sum, the analysis in this chapter will show that subtractive pension reforms can be designed along the policy trade-off between reward-reducing and insurance-reducing measures. Germany stands out as a system comparatively less geared towards insurance-reducing measures in general and risk shifting measures in particular. This analysis contends that Germany's peculiarity represents a case of variation around a common theme: while its outcomes are highly country-specific, their emergence follows a more general pattern.

In fact, the German reform process shows striking similarities with the Italian one. In both cases systemic risks appear and conquer the political agenda, producing both structural and political effects. While politicians at first answer with simple retrenching measures, insurance-reducing options begin to appear, improving the likelihood of reform adoption. While the reasons for this 'success' closely match arguments based on path dependency and blame avoidance, the co-evolution of structural (systemic risks) and political (changing patterns on representation in the electoral as well as corporate arenas) force policymakers to adapt. In particular, mainstream parties adapt by increasingly stepping back from their responsibilities in terms of economic management, while niche parties (in particular the one more in tune with the country-specific constellation of systemic risks) adapt by challenging the existing policy cartel.

Along these lines, over various iterations, the system reaches a moment of coagulation and deadlock. This same deadlock, however, is broken when the abovementioned niche party gets close to the border of the policy cartel, in a position to join one of the main parties in the system (in both cases centre-left modernisers) in a common reformist effort. As the mainstream party borrows strength from the radical programmatic stance and the sharper distributional choices available to its new ally, the latter has the opportunity to redefine the pension reform issue in line with its identity and mission, winning an unexpectedly good deal for (at least one of) its core constituencies. As a result, the policy deadlock is overcome, and the pension system shifts path to a new path-dependent configuration.

In the future, new structural and political transformations, together with many other phenomena worth additional research, may again force the German political economy to adapt to its changing environment. Nonetheless, the transformations achieved by the red-green coalition are very likely to determine the pension futures of at least two generations of German citizens. While comparatively less affected by risk shifting reforms (and thus probably more affected by crude retrenchment) German citizens still face bleak, or at least uncertain, prospects for their old age. This finally suggests that German policymakers, likely sooner rather than later, will again face hard choices whether to live up to their pension promises.

5. Conclusions

The goal of this concluding section is to critically reassess the main points made in the previous chapters in order to come up with a 'bottom line' for the dissertation. First, it restates the key argument of the thesis, focusing in particular on the two logics of pension reform (reward-reducing and insurance-reducing) and the role of systemic risks and political variables. Secondly, it discusses the theoretical and policy implications of the work, considering some possible venues for further research.

5.1 Two logics of pension reform

The first key message of the thesis is that two logics of pension reform can be distinguished in the last thirty years of subtractive policy changes. Both are meant to renegotiate the postwar pension promise, but only the second actually boils down to breaking it. The logic that I term 'reward-reducing' refers to all those policy changes with a negative impact on the profitability of individual contributions to the pension scheme. In the traditional Bismarckian context of DB earnings-related benefits, this means increasing retirement ages, reducing the accrual rates, or raising the contribution rate (when the replacement rate remains the same). Even though these measures produce different effects on the inlays and outlays of the pension system, they hold one aspect in common: they curtail the 'return' individuals earn from their membership in the pension scheme. The reward-reducing logic of pension reform aims therefore at reducing benefit levels for all – or a large majority – of scheme members.

The second logic, which I labelled 'insurance-reducing', relates instead to reforms that, fully or partly, take a financial guarantee away from the scheme. Such guarantees range from benefit indexation, to the option to revaluate or ignore the lowest contribution years, to minimum supplements and minimum benefit levels. In all cases, financial guarantees shelter individual pension wealth from a number of potential losses, reducing the variability of replacement rates and/or benefit levels. This is an example of *ex ante* redistribution, favouring the least fortunate career and income patterns over more favourable ones. Reforms that weaken or remove this kind of guarantee may leave unchanged the replacement rate of the average worker, but will substantially lower the benefit levels of the weakest career profiles. The insurance-reducing logic of pension reform aims therefore at making pension benefits riskier, either before or after retirement, affecting individuals according to their risk exposure and actual life circumstances.

The key difference among the two logics is how they impact on the role of pensions as a source of both insurance and redistribution. As taught by the economic theory, *ex ante* insurance entails *ex post* redistribution between net contributors and net beneficiaries. Moreover, as we have seen, Bismarckian pension systems have also tried to strengthen solidarity by introducing mechanism of *ex ante* redistribution. Minimum pensions and minimum supplements are a case in point, but the same holds for guarantees that tailor specific risk profiles, as in the case of young workers in Germany between 1972 and 1992. The congruence between *ex ante* redistribution and the original industrial performance-reward nature of Bismarckian pension policies can easily be – and actually was – called into question. This is the reason why the reformed systems do not look like entirely new or different, but strikingly similar to their early-20th century counterparts. Before being broken, in fact, the postwar pension promise had grown ambitious, in a way that was largely inconsistent with its historical premises.

Against this backdrop, contrasting insurance-reducing and reward-reducing reforms sheds light on the double challenge, distributive and functional, posed to the political sustainability of risk pooling. A purely reward-reducing reform pattern would imply that social consensus was reached for reducing the benefits of the average worker, while keeping in place existing guarantees on replacement rates or pension levels. In what I labelled 'retrenching reforms' generosity would be reduced, but cuts would be as across-the-board as possible. The functions and financial guarantees of postwar pension systems would remain and redistribution, both *ex post* and *ex ante*, would be preserved. The rationale of the distributive challenge is that risks can be taken out of the pool when the social groups most vulnerable to them are selected out and identified as different, privileged, or less deserving. The corresponding risk profiles or risk categories are expunged from the main population of beneficiaries. They are thus excluded from the system or, at least, relegated in a subsystem. The rationale of the functional challenge is instead that risks are removed from the pool when the pension system renounces to some of its tasks. This may occur when benefit indexation is downscaled, or when riskier private provisions are called upon to supplement lower public benefits.

Bismarckian pension systems are not new to excluding specific population groups. In fact, their institutional structure contrasts workers and dependents and contains multiple occupationally segmented pools. Second, partly as a consequence of subtractive interventions themselves, today's reformed pension systems tend to be more inclusive than their predecessors, although on much less generous terms. What happens instead is that occupations once enrolled on favourable terms, most notably civil servants, see their pension rules harmonised or merged with those of the generality of workers. This kind of reform has been indicated as ‘levelling-off’, a second type of reward-reducing reform. Although it does not focus on insurance directly, concentrating cuts on so-called privileged group plays out politically in a way that may weaken risk pooling. This is actually counter-intuitive, given that groups that previously were only cross-financed by the risk pool, now fully participate in its benefits and costs. However, the unfolding of the empirical reform patterns suggests that levelling-off reforms are easier to negotiate when pension rules adopt a more individualistic approach. In this way, the old ‘privileges’ can be contrasted with a ‘fair’ counterfactual case, in which either capitalisation, or a defined contribution formula, or both have been applied. More individualistic and market-like rules are thus adopted to reframe and simplify the distributive struggles that emerge when the favouritisms of the old system have to be redressed. Politically, this also speaks for an increasing salience of the process of entitlement (whether pension rights were earned fairly or not) rather than the system’s social goal (a given combination of status maintenance and solidarity). So, while contributing to the ideological tune of the retirement risk shift, the distributive challenge alone is not necessarily a major threat to risk pooling.

More menacing for the political sustainability of risk pooling in these pension systems is when some of their traditional functions cease to be considered necessary or legitimate. This is the case of insurance-reducing reforms. A major example is that of the wage indexation of pension benefits. During the phase of postwar expansion, in most European countries a consensus emerged that pensioners should participate in productivity gains and that they should suffer no status loss vis-à-vis workers and new retirees with a similar profile. Such principles, however, were swiftly abandoned in the following decades. After the oil shocks of the 1970s, policymakers soon realised that renegotiating indexation rules was an effective and seemingly impersonal way of discounting future pension liabilities. Throughout the 1980s and 1990s, this logic was extended to a number of other features of the pension policy, becoming the ace in the hole of further subtractive interventions. Indexation was repeatedly downscaled, figurative credits made less effective, revaluations for vulnerable profiles abolished, and minimum pensions and supplements conflated in non-contributory minimum income schemes for the elderly. Most notably, the Bismarckian character of the system was progressively reinforced, getting rid of options to reduce the number of years over which pensionable earnings are assessed. In all of these cases, the pension promise was not simply renegotiated or pragmatically reduced in its ambitions, but substantially rewritten, if not completely scrapped. A number of guarantees that used to be part of the retirement benefit package are simply not business of the pension policy anymore.

In Chapter 1 (Table 1.2), I distinguished three possible venues of insurance reduction: the shift of labour market risks, the shift of investment risks, and the shift of depreciation and demographic risks. The first venue deals with the accumulation of pension entitlements during the working career. In this case, actuarial neutrality is enforced when individual benefits are made more closely dependent on past wage records and patterns. In Italy, the related financial guarantees were removed with the adoption of defined contribution fomulas, notional in the public system or prefunded in the private one. In Germany, individual earnings-assessment is still expressed in relative terms (pooling risks across cohorts), but several guarantees and pension credits were abolished. At the same time, however, child-rearing credits were expanded and the minimum vesting period lowered (although very short contribution records can only fall below social assistance levels). As a result, both systems have become marginally more inclusive, at least in principle, but at any rate far less generous. Reform costs were shifted on exposed social groups, minimizing losses for workers with continuous careers.

The second venue deals with the revaluation of pension credits and contributions. Actuarial neutrality in this case is enforced when individual benefits are made more closely dependent on past accruals and interest rate patterns. In Italy, this occurred with the notional revaluation of public pension contributions in line with actual macro-economic trends, with the removal of most minimum return guarantees (such as minimum pension supplements or the one embedded in the *Tfr*), and with the adoption of strictly DC supplementary schemes with little statutory protection. In Germany, it happened with the revisions brought about by the point system formula since 1992, the lower revaluation enjoyed by figurative credits, and the elimination of guarantees such as the *Rentenniveausicherungsklausel* and the *Rente nach Mindesteinkommen*. Guarantees on non public pensions remained comparatively strong and DB pensions remained in place, even though DC schemes experienced a fast expansion. This is a major difference between Italy and Germany, traceable to the different timing of the introduction of private pensions and the different economic and institutional context. Risk pooling in the private sector of the pension system could not be expanded, but only maintained, to some extent, when conditions for cooperation in the corporate arena were favourable. Unsurprisingly, this was more the case in Germany than in Italy, especially during the 2000s.

The third venue deals with the dynamisation of pension benefits after quiescence. The relative financial guarantees are weakened when indexation mechanisms are downgraded, or when annuitisation becomes subject to external shocks. In Italy benefit indexation was reduced in several rounds of revisions, while the periodic revision of NDC divisors constitutes a shock on annuitization whose uncertainty is experienced at the individual level. German revisions were more complex on this point, lowering indexation in line with reductions in the contribution bill, with a floor equal to 46% of the average wage. Private pensions in both countries normally include annuitization without uncertainties or extra costs, but additional guarantees are available in Germany, such as a minimum real rate of return or mandatory profit-sharing clauses.

The resilience of these fiscal guarantees on pension dynamisation is surprising indeed. My analysis suggests the following explanation. Pension indexation never run 'out of control' in Germany, as it was the case in Italy in the late 1970s. Dynamisation rules were a soft target for pension reform also for German policymakers, for instance as a strategy to obscure and spread over time the scope of pension cuts (e.g. the *RRG99* reform). However, their generosity never really threatened the survival of the system, so they were far harder to frame as a case of faulty policy design. Not by chance, the sharpest argument against indexation rules was intergenerational fairness, vocally advanced by the Greens. Indexation cuts, in other words, were politically easier to pass if they could be presented as a tool for a more equal intergenerational 'sharing of the burden'. This helps explaining the puzzling fact that pension indexation is more strictly associated to trends in the contribution bill in the German point system than in the Italian NDC regime. Regarding private pensions, the argument is the same than for revaluation. The social partners' strongly institutionalised autonomy in matters of wage bargaining made existing regulations harder to change, favouring their extension to the new DC schemes. This was not the case in Italy: there was no regulation to extend in the first place and applying *Tfr* guarantees to the new system was too costly for the public budget. Moreover, since the private system had to be created from scratch, the balance between the second and the third pillar became an object of political contention, which was not what happened in Germany.

5.2 The Politics of Risk Shifting Reforms

The second key message of the thesis is also its main argument. Why was it easier for policymakers to take out these components of the benefit package, rather than reducing the profitability of pension contribution? Insurance-reducing reforms were so successful, I contend, because they suited a new politico-economic scenario where retirement risk pooling faced a threefold challenge: 'systemic risks' constrained the viability of retirement, political competition started to call into question its patterns of redistribution, and the corporate arena failed to shoulder its increasing costs for private sponsors.

Pensions are cash benefits and workers and retirees are not likely to ask and vote in favour of a lower monthly check. In systems like Italy's, for instance, public pensions constituted an 'investment' opportunity whose profitability was unrivalled. As I argued, evidence shows that in both the public and private sectors of the pension system, a consensus on subtractive measures can be reached when there is a realistic expectation that the provider will not be able to meet its liabilities. However, this consideration does not make a case for insurance-reducing over reward-reducing reforms. Pensions are still, and most notably so, conceived as social insurance, rather than just an investment. If that were not the case, privatisation and liberalisation would have been much broader and more common across Bismarckian pension systems. On the contrary, the current pension architecture is still predominantly public and heavily regulated. Although the pension mix was tilted towards the market almost everywhere, this does not stand out as the crucial development. What happened instead is that both public and private pensions were reformed in order for them to work in a new and more individualistic fashion.

The empirical analysis behind my argument began by taking into consideration three plausible hypotheses explaining the retirement risk shift: the role of path dependency, the role of policy learning, and the role of political competition. Regarding the first, I considered whether the insurance-reducing reforms could be just the result of the survival and return of the original Bismarckian logic of the late-19th and early-20th centuries, a pure manifestation of the path-dependent nature of institutional dynamics. This immediately seemed not to be the case, since the crisis and transformations that occurred in the 1970s indisputably broke with the previous policy direction. In other words, the policy changes under scrutiny would have been extremely unlikely in the absence of those economic shocks. Moreover, the latter did not affect just the institutional routines of these systems, but their very functioning as democratic political economies. While the option for a less encompassing configuration always remained as a 'latent' alternative to the generosity of postwar systems, its ability to progressively erode the predominant institutional configuration was neither the only nor the main driver of the retirement risk shift.

Taking into account the role of the transformations of the 1970s, I realised that some of the new challenges were so disruptive because they interested the economy and society as a whole. This is the reason why their being 'systemic' must be emphasised. Endangering the entire social and economic system, 'systemic risks' made less effective – or rendered useless – most of the postwar economic and policy instruments. The policies of the Golden Age aimed, in most cases, at directing state intervention and channelling public resources in order to address individual level needs or failures. The broader context they assumed was one of social progress and constant economic growth under the postwar social model. The side effects of that model – to name just a few: pollution, rising levels of taxation, the growing role of the bureaucracy and of party politics in the economy, the revamping of centre-periphery tensions – were hidden from view by the prospects of living in a wealthier and more equal society. The 1970s led to a path break in the previous policy trajectory precisely because they belied those optimistic expectations. In doing so, they did not only directly affect pension policies and party politics, but they further affected pensions indirectly; that is through the mediation of broader political transformations.

The main direct effects on pensions were due to budgetary pressures and flatter paths of long term growth in the new context of austerity, under the shadow of stagflation. In particular, slower productivity growth jeopardised the ability of postwar pension systems to finance their future liabilities and absorb the costs of population ageing. A second direct effect was to compromise the viability of risk pooling, given the systemic nature of the new challenges. The risks of coming short of a steady flow of income, becoming unemployed or underemployed, or being too old to participate productively in the labour market were not just individual failures anymore. For the first time since the late 1940s, they were suffered by society as a whole, through economic recession, mass unemployment, and population ageing. As systemic risks cannot be diversified away by pooling them, functional pressures to decentralise risk bearing and look for different forms of diversification grew strong.

Changing the public-private pension mix, increasing funding, or terminating wage indexation were all ways to find a new balance for the pension budget. Whereas the profitability of traditional wage-indexed PAYG systems rested on the growth of the domestic workforce, the reforms aimed at including capital gains, productivity gains, and foreign demographic trends among the available financing sources. Various sorts of investment risks were of course implied by the new approach, but this did not necessarily imply shifting them to the individuals. Direct state management could have pooled them within a single investor. However, the required degree of public capitalisation and shareholding were simply not an option in capitalist market economies. Risk taking through the financial markets had to be decentralised in order not to put under public ownership a substantial part of the private economy.

After the shocks of the 1970s, the mere survival of capitalist institutions was not the only reason to call for a reduced role of the public in the management of retirement risks. The emergence of systemic risks – in this case not only macroeconomic risks – provided additional reasons to be sceptical of (more) state interventionism. Systemic risks did not only transform pension policies, but also contributed to changing many terms of politics more broadly. This is what I refer to as the direct impact of systemic risks on politics at large. First of all they encouraged, and actually managed to spark, new forms of participation and mobilisation. Surprisingly, the middle classes were especially reactive and available to take action against the new perceived threat. Second (and related) the systemic risks of the 1970s were easy to interpret as unforeseen, unintended consequences of past policy choices. In its various incarnations, the all-embracing state was under crossfire. Stagflation and mass unemployment called into question its role in managing the economy, just as environmental pollution and, for instance, global warming casted doubts on the expansive, demand-led, economic model it purported. In the meanwhile, the growth of state powers and responsibilities had increased the degree of bureaucratisation of individual life patterns. In the wake of the so-called post-materialist 'silent revolution', this process, essential for the provision of most publicly managed services, happened to be increasingly opposed by citizens and voters. Finally, the outbreak of political violence and terrorism – itself a consequence of the state's inability to address the social protests and discontent of the late 1960s – further increased the anxiety and sense of urgency of the 1970s' critical juncture.

The new sentiment of large – and electorally crucial – parts of the public opinion posed demands for representation that postwar party systems were not well suited to meet. With their combined effect, systemic risks had brought about unprecedented levels of disillusionment and uncertainty. Not irrelevant for the mounting scepticism was that the emergence of the new set of challenges was, to a great extent, blamed on the state itself. While exposing the limits of public management, systemic risks had also jeopardised trust in the state's ability to learn how to address the new challenges. Parties and coalitions that supported the expansion of public welfare found themselves cross-pressured by repeated policy failures and by the progressive disaggregation of their core constituencies. The process led to three path-breaking consequences, with major implications for the argument of this work. First, welfare-supporting coalitions split, shifting party systems to the economic right. Second, traditional people's parties – Christian democrats and social-democrats – accommodated their constrained policymaking options by shedding responsibilities out of the public sphere, towards the market and the non-profit sector. Third, new movements – soon to become parties – moved in, filling the new political niches with new identity, programs, and claims of representation.

While the specific mechanisms and outcomes of this dynamic vary across countries, the pattern is rather common, at least in continental Europe. It contributed to a generalised reduction in the salience of the traditional left-right axis of competition and to the birth of entirely new party families. Once the economic and political momentum that had driven welfare expansion during the Golden

Age was lost, the two postwar people's party families began to seize their socio-structural ties, turning towards a cartel party model and its peculiar political economy. This syndrome – the political economy of the cartel party – drew both the main protagonists of postwar party system unprecedentedly close to market-liberal, individualistic positions. In the new scenario, people's parties were thus trapped between two sources of political blame: either being responsible for the shortcomings and unintended consequences of the welfare state, or being responsible for unpopular reforms meant to reduce its traditional tasks and ambitions. The socialists and the liberals, supporting or opposing either one of the main forces, responded with major updates in their policy platforms. Their role as junior partners allowed them to experiment and/or assume a sharper distributional profile, while their larger peers were more exposed to popular demands and discontent. Over the long term, however, these two actors also failed to speak to those public requests and worries which systemic risks kept bringing about. As largely documented by two generations of welfare scholarship, the overall result of this struggle was a sequence of incremental reforms and decisional stalemates.

New party families – born out of the mobilisations that first addressed public anxiety vis-à-vis the 'systemic risks' – were much better equipped for the task. Regionalist, environmentalist, (right-wing) populist, and clean government parties were established between the end of the 1970s and the early 1990s, introducing new ideas and a dimension of competition in European party systems. These 'third-position' parties were willing to place themselves along the economic left-right dimension. Frontally assaulting the left and the right alike, they rather put a pinch of both ideologies into their platforms. In doing so, however, these younger parties reframed existing instances within the light of the 'emergency' or risk each family was born to confront: geographical redistributions, pollution, a crisis of national identity, or political corruption. As a result, at least in their early days, they proposed themselves as 'challengers' of the party system in its entirety. Even if their framings were different, they intercepted the rising scepticism against the role of the state and the scope of its responsibilities, criticising the process and/or the goals and outcomes of its interventions. Their identities mixed radicalism and novel policy proposals with a sense of urgency and distrust. At the same time, their limited electoral weight allowed them to target a potentially more cohesive electorate, whose priorities and material interests were more easily identifiable than it was the case for larger catch-all or cartel parties.

These new patchwork identities resonated well with a sizeable part of the electorate. They made the new parties as sharp in their requests as the liberals and the socialists had been in the past, but to some extent more credible in the post-1970s scenario. By the 1990s, at least one representative of at least one of these new party families had acquired a primary role within national party systems. In most cases, successful 'new' parties owed their electoral appeal to policy positions favouring the defence or further expansion of welfare programs. Partly because they focused on a narrowly defined set of issues, partly because they felt more comfortable with populist credit claiming, these parties rather emphasised their pro-welfare stances. This meant advocating the creation, defence, or expansion of popular social programs, and especially those of interest for their most important constituencies. At the same time, the ability to credibly channel and address scepticism against the role of the government – or at least of the other parties in government – in regulating social and personal matters remained the primary and distinguishing asset of these parties.

Facing such an unintended contradiction, the 'new' parties also confronted a different structure of incentives, which happened to favour the unblocking of the system and the adoption of stronger insurance-reducing reforms. I interpret their specific ability and opportunity to foster change as the indirect – that is filtered by broader political transformations – effect of systemic risks on pension policies. New party families found themselves trapped within the mirror image of cartel parties' politico-economic syndrome (that is, reducing the role of the state while avoiding blame in view of the general electorate). At the opposite extreme, parties belonging to the new families had to find ways of combining their peculiar criticisms of the role of the state with distributive claims that supported their mission and benefited their electors. As they catered to narrower sets of societal interests, however, they could target their credit claiming attempts on smaller segments of the electorate, indicating more explicitly their preferred reform outputs and outcomes. Thus they were better able to identify the winners and the losers of their proposals, with little fear of displeasing voters that were anyway unlikely to support them at the polls.

Here is where a comparison of the Italian and German pension reform patterns is most revealing. In the 1970s, while pensions started suffering from the affordability crisis, important segments of public opinion – including the economic and intellectual middle classes – manifested their political activism and their scepticism of public management's current state of affairs. Although the reasons and the available opportunity structures for these mobilisations were different, if not opposite, in Italy and Germany they produced comparable effects. Most notably, in the case of pensions they also produced comparable results in terms of the retirement risk shift. While competition among the major parties drove policy reforms through cycles of inaction and incremental adjustment, party systems continued to adapt to the salience of systemic risks and the agency of new party families. Even when pension policies were not high on the political agenda, such broader political transformation influenced them indirectly, reshaping the menu of available reform options.

The process took some time to develop, but its effects became fully operative by the 1990s. Due to the perverse incentives that guided the major party families and the limited appeal of their coalition partners, both countries reached a major policy deadlock before the turn of the century. Reform options seemed then to be exhausted, as mutual vetoes barred both reward-reducing and insurance-reducing reforms. In both cases, however, the deadlock disappeared as soon as a commonality of intents was reached between centre-left modernisers and the most successful of the ‘new’ parties. In Italy, this happened between 1994 and 1996, when the post-communist PDS and the regionalist LN supported the Dini reform of public pensions and the introduction of a NDC formula. Between 2004 and 2006, the LN capitalised on its acquired ownership of the pension issue to enact another important – albeit less path breaking – reform, which was named after LN politician Roberto Maroni, the then Minister of Welfare. In Germany, this happened between 2000 and 2004, when the red-green governments enacted the Riester and Rürup reforms. The reasons for what I called ‘commonality of intents’ deal with how the two ‘niche’ parties channelled popular distrust in state management in the post-1970s scenario and their voters’ discontent with the patterns of redistribution institutionalised in the pension system. However, before elaborating on why this convergence occurred in the first place, some core policy and political aspects of these reforms are worth discussing.

All the reforms mentioned above share a number of defining policy and political aspects. Regarding the policy dimension, innovations had to take an insurance-reducing direction for the policy deadlock to be overcome. German and Italian policymakers decided to avoid revisions of visible parameters that would reduce public benefits across-the-board. In Italy, this was obtained by fully replacing the old formula with a new one, at least for the youngest workers; in Germany this happened with the introduction of new, subtractive parameters. On the contrary, at least on paper, policymakers assured that replacement rates for ‘standard workers’ with ‘full careers’ would not fall.

The hidden implication of this reassurance was that benefits would become more risky, with losses concentrated on weaker career patters and profiles. Nonetheless the privatisation of the system was only partial and aimed at strengthening the role of private provisions to supplement lower benefits in the reformed public systems. This choice is consistent with an individualistic approach to the diversification of risks and financing sources. However, it does not reveal any change of preference (either institutionally or culturally driven) in favour of a more risk-seeking policy as such. New rules and regulations were introduced – or extended to the new schemes – to make market-based schemes less individually risky than other financial investment plans. The extent of the risk shift is, in this respect, more the result of the fiscal and organisational capabilities of the state and the employers (the only providers who may have the interest and the ability to sustain risk pooling institutions) than of policymakers' unconstrained choices. In sum, the success of the insurance-reducing reform logic has not resulted in the piecemeal dismantling the old pension institutions. It rather led to the adoption of even more complex rules governing entitlement and disentitlement. Several retirement-related risks have been transferred to the market or managed by increasingly market-like instruments. However, as I will discuss below, policymakers did not fully relinquish their control on the distribution of pension privileges and burdens.

From a 'politics' perspective, the involvement of a succesfully established 'new' party in the reform process was essential for unblocking the system with an insurance-reducing reform. The analysis revealed the agency of the German Greens and of the Italian LN as a decisive causal factor, which fostered the respective pension reforms in several ways. First of all, they participated in enacting the reforms with their numbers in Parliament. Their commitment to the reform agenda effectively counteracted the veto power of the traditional left, even inside the same party to which centre-left modernisers belonged.

Second, the 'new' parties offered a brand new perspective on the need for pension reform. Even the moderates within the centre-left had to justify their new proposals in light of their party's traditional stances. This was not the case, however, for the Greens and the LN. The younger parties could reframe the need for pension reform in the light of their identity and long term political goals. For the LN, insurance-reducing measures were useful for doing away with mechanisms that redistributed money from northern to southern workers. In this sense, the new system seemed to offer a stronger protection of individual pension entitlements. Moreover, it gave the opportunity to transfer resources and powers away from the political centre and towards providers and regulators operating in the North, Italy's wealthy 'periphery'. For the German Greens, reforming pensions was part of the broader mission of creating a sustainable social model for the young and future generations. In addition, it was a chance to shift the core of social protection from industry to the service sector, from blue-collar male breadwinners towards more flexible or unstable employment histories, regardless of individual income levels. Also in Germany, the regionally skewed distribution of Green voters in the richer and more service-based West Germany helped the party to downplay trade-offs and contradicting ambitions in their pension agenda.

Third, the 'new' parties broadened the scope of social consensus available to the reform. They made the new measures appealing among population groups that were disfavoured by the existing patterns of redistribution – and thus had a potential interest in reducing risk pooling – but who did not necessarily support the arguments of centre-left reformers. This is especially the case in Italy, where the initiatives of PDS and LN catered to overlapping social groups, but proposing two almost complementary discourses. In line with what Dahrendorf (1983) has called the 'red critique' to the welfare state, centre-left modernisers wanted a more homogeneous, equitable, and transparent system. In a way formally (albeit not substantively) consistent with what he called instead the 'green critique', the LN pointed out the side-effects and the opportunity costs of how the system was organised. Therefore, it coupled the issue with its own mission and its own idea of sustainability: that fiscal exploitation of the North – which the LN was born to denounce and defuse – and the need to limit interregional redistribution in all public policies. Pensions had no reason to be an exception to the rule. The LN thus shifted its policy positions from Chilean style privatisation to welfare-protectionism, adapting them until they were compatible with its political identity and with the economic interests the party claimed to represent.

In Germany, the scenario was less dramatic, but remarkably similar. Throughout the 1990s, the Greens also strived for a more appealing platform, changing their social policy stances from increasing universalism to a partial privatisation of the welfare state. This change was in full accordance with the increasingly middle-class profile of Green voters and their less continuous and standardised career and contribution patterns. In the German case as well, the pension affordability crisis ceased to be a mere question of public finance, being instead coupled with the organisational mission of the environmentalist party. Accordingly, the Greens interpreted pension reform as one step towards a just and sustainable future society: a society that would recognise the breadwinner model as outdated, investing public resources in the 'green economy' transition rather than in the welfare state.

Here, a first commonality is that both parties borrowed strength from the radicalism of their 'new' identity in a way that – since the Golden Age at least – was simply not an option for their competitors in the party system. As middle-sized parties, the LN and the Greens could afford a greater level of radicalism (thanks to their less visible role in national politics) and sharper claims of representation (focusing on the traits that distinguish their electorate from the generic 'median voter'). Exploiting these features, the Greens and the LN both showed levels of political agency and entrepreneurship not dissimilar from those reached by the Italian socialists and German liberals in the 1980s. In addition, however, they could also rely on a less defined position along the economic left-right axis – which helped them to address a cross-class audience – and their ability to speak credibly about the mismanagement of national party governments in the post-1970s scenario. Endowed with these additional qualities, by the 1990s the two parties adjusted their policy positions to a far greater extent and to far greater avail. As a result, they played a more decisive and transformative role than the mid-sized parties of the 1970s-80s.

In line with the considerations above, the appearance of new parties with the chance to break the pension stalemate can also be traced back to the emergence of systemic risks in the late 1970s. Therefore, I consider their agency and their peculiar opportunities for pension reform as the indirect – that is, mediated by the evolution of politics – influence of systemic risks on national pension policies. However, this still does not fully explain two important features of the policy patterns under scrutiny. The first is which structure of incentives brought these parties to successfully engage in subtractive – and therefore electorally risky – pension reforms. The second is how their activism was eventually translated into actual policy outputs and the changing mix of pension institutions.

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