When does Europe matter? An analysis of pension reform policy in Spain and Italy

Scholars interested in analyzing how the European Union affects domestic policy making argue that Europeanization occurs when domestic changes take place in response to a gamut of factors emanating from the EU, which not only include policy paradigms developed within the EU policy process but also concepts and ideas. In short, this perspective highlights the “indirect” or “cognitive” impact of the EU on member states’ policy decisions by helping to build some ideological consensus and stressing “the way things must be done.” The idea that there is more “Europe” in domestic policy makers’ discourse when justifying economic reforms is a powerful one; however, we still need to know what factors make such use of discourse more or least likely. I explore this issue by analyzing episodes of pension reform since the early 1990s in Spain and Italy, two countries that had relatively generous public pension systems and that since the 1990s have introduced different reforms. The comparative evidence from these two cases indicates that the use of a discourse aligned with the EU institutions’ view on pension policy was key to produce significant changes from the status quo when facing a political configuration characterized by a high number of veto players and a highly fragmented and deficit prone public pension system.

Introduction:

Since the post-war period, most Continental European countries have structured their public pension systems following the traditional Bismarckian model, where benefits aim at replacing a high proportion of income before retirement and the system is funded according to the pay-as-you-go (PAYG) principle through which current employees pay for the benefits of current retirees. This system of a well extended earnings-related public pillar worked well in a period of sustained economic growth, low ratios of retirees to active workers and relatively low unemployment levels. However, since the late 1980s, longer life expectancies, declining birth ratios, early retirement waves, slowing growth rates and increasing funding deficit levels have been highlighted as a cause of concern for the sustainability of PAYG public pension systems by many analysts. The main problem pointed out by experts is that paying for generous pension benefits in a context of an ageing population will lead to unbearable public pension expenditures in the near future which will impact negatively on countries’ fiscal balances. Thus, how to reform PAYG public pension systems has become a central public policy issue for most European countries since the early 1990s.

Leading international organizations such as the World Bank (1994) and the Organisation for Economic Co-operation and Development -OECD- (1988) have strongly recommended reducing the generosity of public pension pillars as a way to diminish future pension expenditures while promoting the development of second and third pillars of voluntary occupational and private pension plans to compensate for the less generous benefits paid by the reformed first pillar. In Europe, since the early 1990s, the European Commission has expressed in different papers, communications and opinions the necessity to re-adapt public pension systems in order to make them more sustainable. In addition, during much of the 1990s European countries were forced to adopt sound fiscal policies in order to qualify for the final stages of the European and Monetary Union (EMU). In this context, it becomes interesting to analyze how the European Union has had an impact on the pension reform policy adopted by member states since the 1990s.

This paper aims to explore this question by looking at the cases of Spain and Italy, two good examples of countries with well extended Bismarckian public pension systems which, by the early 1990s, were in need of reform due to negative economic and demographic trends. Moreover, since the mid 1990s both countries have implemented significant, albeit different, reforms. The period in which the reforms have been implemented in these two countries coincided with a particular emphasis expressed by European institutions (mainly, the Commission) on how to deal with the reform of public pension systems together with the necessity, by EU member states, to comply with the final requirements to join the European Monetary Union (EMU) in 1998. I therefore argue that comparison of Spanish and Italian pension reforms can provide useful insights to assess the influence that the EU has had on pension reform policy.

Pension reform within the European Union is largely the responsibility of member states as it falls outside the scope of EU laws such as Directives.[1] However, I argue that pension reform policy by member states can be affected by other actions that emanate from the EU level such as recommendations and papers on what constitutes pension policy best practice, which may have an impact on how domestic policy makers view and choose their reform options. In this sense, this analysis retakes the argument posed by some scholars who use the term "Europeanization" to describe how domestic public policies become more penetrated by concepts and general approaches to specific issues that are first developed at the European level.

I understand Europeanization as a phenomenon through which EU institutions can influence domestic public policies by changing the way policy makers approach to a specific issue and how they structure their discourse and policies. My focus is then on the 'indirect' and 'cognitive' aspect of Europeanization that highlights how the EU is able to affect policy paradigms, leading to change political actors' discourse and perceptions of 'how things must be done' (Börzel and Risse 2000; Radaelli, 2003; Guillén and Alvarez 2004). The idea that there is more 'Europe' in policy makers' discourse when pushing for reforms is an appealing one. However, in this research I aim to explore when such a discourse is more likely to be adopted to justify the need for significant pension policy reform. This research then follows that of other scholars (Schmidt 2002; Schmidt and Radaelli 2004), who explore when Europeanization discourse matters to understand public policy change.

I argue that policy makers' discourse aligned with EU institutions' views on pension policy may play a significant role when reformers face many political veto players and when the public pension system has been performing badly for a long time. The analysis of episodes of pension reform in Italy and

[1] This is not to deny that EU directives have, however, some important regulatory impact in public and private pensions. Some examples of EU regulations related to pensions are the rule 1612/68 related to the supplementary pension rights for migrant workers, and the rule 1408/71 on social security rights for trans-border workers (Pochet, 2003). However, the main focus in this paper is on the reform of the main aspects of public pension systems such as the retirement age, benefit calculation, etc. This is an area that falls within the scope of member states and where EU influence can be largely indirect.

Spain since the early 1990s seems to confirm this hypothesis. In Italy, after the collapse of the first republic in 1992 due to the “mani pulite” scandal, policy makers were faced with the necessity of reforming a public pension system that had been running significant deficits since the mid 1970s. In addition, due to their limited political support, governments had to justify the need to reform by employing a discourse that was quite aligned with EU’ institutions visions in this regard and that also pointed out the necessity to adopt reforms to qualify for the last stage of the European Monetary Union (EMU). By contrast, Spanish policy makers faced a public pension system that had run deficits only in recent years and, although the governments that pushed for reforms in the mid 1990s did not enjoy an absolute majority, the relatively low number of political veto players made negotiations easier. In this context, even though reforms were justified on the need to make the system more financially sustainable, policy makers did not have to rely on a discourse closely tied to ‘Europe’ when justifying the need to apply reforms to the public pension system.

In sum, the broader goal of this paper is to contribute to the scholar discussion of how the EU is having an effect on the “recalibration” of pension policy and of the welfare state in general (Ferrera 2008). Moreover, by stressing the conditions under which ‘indirect’ or ‘cognitive’ influence from the EU plays a role to justify the reforms, as evidenced by policy makers’ discourse, I aim to shed some light on the issue of how Europeanization matters and helps to produce significant policy change.

Europeanization, discourse and policy change:

The consolidation of the European project that gathered pace since the mid 1980s with the accession of the southern European states, the introduction of the Single European Act in 1987 and, more important, the adoption of the Maastricht treaty in 1992, which set a number of requirements for member states to move towards the final stages of the European Monetary Union (EMU), has sparked the interest of a number of scholars in analyzing how ‘Europe’ affects domestic policy making. This has led to the emergence of a growing literature on the “Europeanization” of public policies (Green Cowles et al. 2001; Börzel and Risse 2000; Featherstone and Radaelli 2003). While definitions of what exactly is understood as Europeanization abound, in general, there seems to be certain agreement among scholars that ‘Europeanization’ takes place whenever we can identify the penetration of the ‘European’ dimension in national arenas of politics and policies (Börzel 1999).

The idea that there is more ‘Europe’ in domestic policymaking was pioneered by Ladrech (1994), who defined Europeanization as “an incremental process re-orienting the direction and shape of politics to the degree that EC political and economic dynamics becomes part of the organizational logic of national politics and policy-making” (Ladrech 1994, 69). This definition favors a rather “top down” effect of Europeanization according to which member states re-adapt domestic policies according to changes that take place first at the European level. This is also the approach favored by Green Cowles et al. (2001) who understand Europeanization as “the emergence and development at the European level of distinct structures of governance, that is, of political, legal, and social institutions associated with political problem solving that formalize interactions among actors” (Green Cowles et al 2001, 3).

The definitions elaborated above tend to identify Europeanization with the specific way in which member states adopt EU law and they imply that “Europe” has a “direct” and “top-down” effect on domestic public policies. However, to capture the overall effect that the EU has on domestic public policies it is also necessary to think about the less direct influence that EU policy paradigms, preferences and, more broadly, general ways of understanding what constitutes good practice to address certain issues, has on domestic public policy choices. The rationale for such an approach is that when having to decide on certain policy areas where the EU may not have a direct responsibility, domestic policy makers may still look for some references at the EU level. This approach entails considering Europeanization as a much broader phenomenon than previously thought. In this approach, ‘Europe’ has a more indirect, yet not negligible, effect on domestic public policy making.

Radaelli (2003) has explored at length the “indirect” influence that the EU has on domestic public policies. His definition of Europeanization builds then on that elaborated by Ladrech’s (1994); however his definition aims at capturing how ‘Europe’ influences domestic public policies in a much broader way. In this sense, Radaelli argues that Europeanization refers to “processes of construction, diffusion and institutionalization of formal and informal rules, policy paradigms, styles, ‘ways of doing things’, and shared beliefs and norms which are first defined in the making of EU public policy and politics and then incorporated in the logic of domestic discourse, identities, political structures and public policies” (Radaelli 2003, 30).

Radaelli’s definition of Europeanization stresses then the “indirect” impact of the EU on domestic public policy because it understands that Europe may have an influence on domestic public policies even on areas in which the traditional legislative or community method does not apply (e.g. pension policy reform). The emphasis is then on the “ideological” impact of the EU on domestic policy makers preferences, a point also raised by Schmidt (2001; 2002). In this sense, Radaelli argues that his definition “does not mention EU laws or decisions of a similar level but ‘EU public policy’ because it includes modes of governance which are not targeted towards law making” (Radaelli 2003, 30). Following this approach, it is possible to argue that “modes of governance” refer to what the EU views as good policy paradigms, ways of approaching certain issues, even on areas which are mostly the responsibility of member states. Therefore, “indirect” Europeanization, as Radaelli and others understand it, takes place when member states’ policy makers adopt policies which are largely inspired in what the EU (namely, the Commission) understands as correct ways of approaching certain issues.

Radaelli’s definition of Europeanization as mostly an “indirect” phenomenon is related to what he calls “cognitive” Europeanization, understood as ‘the shaping and reshaping of the perceptions of and attitudes towards social problems and the way to tackle them' (Radaelli, 2003). The role of "cognitive" Europeanization has also been explored by some scholars when analysing the EU influence on welfare state reforms (Guillén and Alvarez 2004).

In sum, it seems that when trying to understand how the EU impacts on areas such as pension reform adopting a 'soft' approach that looks at the indirect or cognitive influence of the EU on domestic policy makers' decisions is the best way to proceed. Therefore, understanding Europeanization as an indirect phenomenon allows us to capture the domestic reverberations of EU preferences on domestic policy making (Radaelli 2003).

The focus of this paper is then on the indirect and "top-down" effect of Europeanization on domestic policy. While EU scholars have shown that Europeanization can also be understood as a "bottom-up" process by which domestic policy makers try to influence EU policies (Harcourt 2002) I argue that there is enough evidence to suggest that pension reform is a good example of "top-down" indirect Europeanization. The EU (namely, the Commission) with its several recommendations, green, and white papers, may be able to exert a certain ideological or cognitive influence on policy makers in terms of the broad goals that pension reform policy should follow (favoring fairness and financial sustainability and not just coverage). Following the insights of some scholars (Schmidt 2002; Radaelli and Schmidt 2004) such influence may be evidenced in policy makers' discourse strategy when justifying the need for reform. In this sense, I explore under which conditions policy makers are more likely to adopt a discourse closely aligned with EU institutions to justify the need for reform.

Scholars interested in analyzing how discourse matters for social policy change argue that a political configuration marked by many veto players that makes a significant deviation from the status quo difficult (following Tsebelis 2002) may lead policy makers to use a discourse focused on the need to comply with European rules and values more likely (Radaelli 2002; Schmidt 2002; Schmidt and Radaelli 2004). I retake this insight but I add that, when analyzing the specific case of pension reform, the recent performance of the public pension system may also play a key role in explaining why policy makers rely on a discourse based on European rules and values when justifying the need for reform. Thus, it is when public pension systems have been mismanaged, running deficits and have developed serious inequities along time (in terms of many specific advantages for some cohorts) that policy makers can find more fruitful for successful reform to justify the need for it on grounds of complying with European views on this matter that make reference to the need to eliminate inequities, improve fairness and improve the financial sustainability of the system. In doing so, significant departures from the status quo may be possible. By contrast, in countries with a relatively moderate number of political veto players and where the public pension system has not been the subject of significant financial mismanagement and inequities, policy makers will not find useful to refer to European views on this matter when justifying the need for reform and the outcome will be a moderate departure from the status quo.

Comparative evidence from the cases of Italy and Spain seem to corroborate this approach. Before analyzing these two cases, I briefly describe the evolution of EU visions on pension policy.

EU visions on pension policy:

Different studies have analyzed the evolution of EU visions on social policy (Liebfried and Pierson, 1995; Pochet 2005). In general, these studies point out that prior to the 1990s the focus of the then EC was on the harmonization of certain rules to ensure equal treatment across member states and the setting of minimum levels of coverage through the adoption of different EU directives. This included providing the possibility, for example, that workers could cumulate pension benefits acquired in different member states. In this sense, the EC view on social policy and on pensions in particular was more targeted at granting certain minimum standards across member states and to ensure good rates of coverage of social security systems. However, member states were considered to be the main actors in the design of social policy options and, as Liebfried and Pierson (1995) point out, until the early 1990s the definition of social policy guidelines and decisions were left to member states.

The economic recession of the early 1990s that led to high unemployment levels took place mostly at the same time that the European integration process was gathering pace with the negotiations and the adoption of the Maastricht Treaty in 1992. The decision to move towards the two final stages of EMU put emphasis on coordinating efforts in order to ensure that member states would be able to fulfill the different criteria to join the EMU. It was then agreed that the Commission would annually issue a recommendation for Broad Economic Policy Guidelines, which would be intended to coordinate the economic policy of the Member States and the Union. Since these early stages the performance of public pension systems was seen as a key aspect that affected public finances and therefore member states' capacity to fulfill EMU criteria (Laitinen 2006). Within this context, already in 1992 the European Council issued a recommendation on the convergence of social protection objectives and policies where it made reference to the necessity of re-adapting public pension systems by discouraging early retirement and modernizing public pension systems taking into account new demographic and social behavior trends (European Council, 1992).

In 1993 the Delors Commission issued the *White Paper on Growth Employment and Competitiveness* where it set out a number of recommendations to promote job creation. In regards of pensions, the *White Paper* also stressed the necessity of re-adapting public pension systems by introducing innovative measures to account for demographic changes, reduce the burden that social security contributions represent for the hiring of low skilled workers and implementing other measures to "improve the financial situation of public pension systems (COM 93 700, 51)."

Also in 1993, while most European countries were being hardly hit by the economic recession, the European Commission published the *Green Paper on Social Policy* (COM 93 (553)), which warned about the necessity to re-adapt social policies to the new changing socio-economic scenario of high levels of unemployment that made necessary to adopt “a new look at the link between economic and social policies” (COM 93 (553), 6). In this sense, the *Green Paper* warned that the survival of public pension systems was at risk due to the combination of the economic slowdown with persistently negative demographic trends, which meant that more people would have to be supported by an ever shrinking workforce (COM 93 (553), 22). Therefore the *Green Paper* suggested that member states should think about the necessity to reduce the generosity of pension benefits, promote the expansion of private pensions via the tax system (although it warned that such a move would have a financial impact) and discourage early retirement (COM 93 (553), 22).

The *Green Paper* was followed, in 1994, by the *White Paper on Social Policy.* This paper further stressed the need to improve the long term financial sustainability of public pension systems to ensure the maintenance of high coverage levels while recognising that specific solutions would be the responsibility of individual member states (COM 94 33, 36). In addition, this document *put a particular emphasis on improving the fairness of social protection systems in general and of public pension ones in particular* by ensuring that the more disadvantaged groups (e.g. women) were not discriminated due to career gaps (emphasis added). All these documents from the early 1990s stressed the necessity to engage in a consensus with social partners in order to implement the necessary reforms.

In sum, since the early 1990s the European Commission’ s view on the pension systems was that they were under financial stress due to economic and demographic factors and that this situation put more pressure on member states’ fiscal balances. Thus, if member states were to comply with the EMU convergence criterion of a government deficit of not more than 3% of GDP, some reform of the pension system would be necessary. Reforms would then have to be aimed at reducing the generosity of the system focusing on the equal treatment of different cohorts (especially women), promoting the development of occupational and private pensions, and discouraging early retirement.

In what follows, I analyze whether Italian and Spanish policy makers have adopted a discourse to justify the need for reform that can be seen as largely linked to the views of EU institutions on this matter, as explained above. The comparative evidence shows that facing a significant number of political veto players and a system that was on the brink of collapse, Italian policy makers significantly relied on a discourse strategy linked to 'Europe' and the goals set by EU institutions on pension policy in order to bring significant change to the system while this was not the case in Spain due to the moderate number of political veto players and to the comparatively better situation of the public pension system.

Pension reform policy in Italy:

Since the early 20th century, the Italian public pension system adopted a typical Bismarckian structure of differentiated schemes for occupational categories. However the main feature of the system was its use as a clientelistic tool by post-war governments in a context of increasing political participation and economic growth (Regini and Regonini 1981). In effect, since the 1950s, the dominant Christian Democratic party (DC) and, since the 1960s, the growing socialist party (PSI), engaged in providing pension provisions to specific cohorts (public employees, agricultural workers, etc) as a way of securing political support. As a consequence, during the 1950s and 1960s, specific schemes were created under the administration of the National Social Security Institute (*Instituto Nazionale di Previdenza Sociale,* INPS) for the selfemployed, agricultural workers, craftsmen, housewives and shopkeepers (Regini and Regonini 1981:222). As a general rule, pension benefits across the different schemes would be set at comparatively high levels compared to the contributions they received, an aspect that would lead to important deficit levels over time (Regini and Regonini 1981:221). Another important characteristic of the system was the introduction of seniority pensions (*pensioni d'anzianità*) which allowed workers to retire on a full pension before the legal retirement age as long as they fulfilled a minimum number of contribution years (set at a low of 20 years for public employees).

The generous provisions to obtain a pension, initially granted to members of local and central government pension schemes, were further extended to all employees in the late 1960s, when after a series of labor protests, the labor confederations pressed the government for the extension of generous pension eligibility criteria to all the workers and the introduction of non-contributive pensions. The reforms of the late 1960s also included the automatic revaluation of benefits according to past CPI evolution, maximum replacement ratios of between 100% and 80% of last salaries, and the participation of labor confederations in the administration of the main institution in charge of administering the different funds, the INPS. The combination of very generous pension provisions in a society that would experiment significant demographic and labor market changes in the upcoming decades would put the Italian public pension system under increasing pressure. On the demographic side, statistics show that between 1950 and 1980 the fertility rate decreased from 2.5 to 1.7 children per woman while the old-age dependency ratio nearly doubled from 13% to 20%. On the socio-economic side, unemployment rates would consistently increase since the 1970s and stay above 10% since the 1980s. As a consequence, government pension spending nearly doubled in the 1950-1980 period (from 5.5% of GDP to 10%) and the system run consistent deficits since the 1970s. Table 1 summarizes these data.

Table 1: Italy. Key economic, social security and demographic indicators

	1950	1960	1965	1970	1980	1985	1990	1992	1995
Fertility rate (Children per woman)	2.5	2.4	2.7	2.4	1.7	1.4	1.33	1.3	1.17
Old-Age Dependency Ratio (%)	13	14	15	17	20	19	22	N/A	24
Pension Spending (% of GDP)	5.5	5	7	7.5	10	12.8	13.6	14.9	15.1
INPS schemes balance (% of GDP)	N/A	N/A	N/A	N/A	-1.17	-2.09	-2.64	-3.1	-3.4
Unemployment Rate (% of working pop.)	N/A	N/A	N/A	N/A	7.60	10.30	11.00	11.40	12.10
GDP growth (%)	N/A	N/A	3.27	5.31	3.43	2.81	2.05	0.77	2.83
Government Balance (% of GDP)	N/A	N/A	N/A	N/A	-8.4	-12.3	-11.4	-10.4	-7.4

Source: World Development Indicators (2002) and IMF World Economic Outlook Database. Social security data from "Relazione generale sulla situazione economica." Roma: Ministero del Bilancio, 1995.

The deficit of the public pension system contributed heavily to central government imbalances and, since the 1980s, the reform of the pension system would start to be viewed by some policy makers and societal actors as a necessary step to put public finances in order (Regini and Regonini 1981, 231; Lapadula and Patriarca 1995:78; Baccaro 2002). However, during the late 1970s and 1980s almost every single reform designed to reduce the generosity of the system was blocked due to the opposition of an "iron triangle" of members of the different political parties, managers of the INPS and various interest groups (Regonini 1995).

The early 1990s would then bring a set of important domestic and European level developments that would lead to significant domestic changes. At the domestic level, the repercussions of the major corruption scandal known as “Mani Pulite” would bring down the DC-PS government and a caretaker technocratic government was put in place in June 1992 led by former treasury minister Giuliano Amato.[2] On the economic side, 1992 would be a particularly difficult year for the Italian economy as economic growth plummeted while unemployment stayed above 11 percent, a fact that would affect social security contributions. To make matters worse, in September the government was forced to take the Lira out of the European Monetary System, which led to a massive devaluation of the currency. Meanwhile, the adoption of the Maastricht Treaty in 1992 included a set of criteria regarding public finances (a budget deficit of less than 3% of GDP and a debt to GDP ratio of less than 60%) that would prove particularly daunting for Italy to achieve as government debt levels were above 100% and government budget deficit, to which the pension system contributed heavily, was at 10.4% of GDP.

The combination of the above developments together with an increasing focus by EU institutions on ensuring the long term financial sustainability of public pension system by applying some cost-containment measures would have a profound impact on how policy makers and societal actors would approach the reform of the pension system. Conscious of the pressing need to apply a significant reform to the pension system, whose deficit contributed heavily to the overall government deficit, but bearing in mind its weak political support, the caretaker Amato government would adopt a discourse strategy that would point out the necessity to reform the system to put public finances in order, much in the same way as EU institutions suggested.

[2] As some observers point out, Amato, together with former central bankers like Carlo Azeglio Ciampi and Lamberto Dini, was part of the group of technocrats that since the 1980s were convinced about the necessity of implementing major reforms in Italy’s public finances sector, of which the pension system was an important component (Natali 2004,Radaelli 2002). This group of technocrats would also be firm supporters of stringent EMU convergence criteria as they saw them as an opportunity to commit the country to put its finances in order (Dyson and Featherstone 1999; Sbragia 2001).

This new focus of policy makers and societal actors' discourse about putting the finances of the public pension system under control by applying some cost containment measures was evident since 1992. Earlier that year, labor movement pension expert Guiliano Cazzola warned that a major reform of the system "was necessary and could not wait" and that a future reform should include an increase in the years considered to calculate a pension and an increase of the retirement age (*La Stampa* 31st March 1992). In a similar vein, in his inaugural speech, Prime Minister Amato explained that "a major reform of Italy's public finances, while painful, is necessary and it will have the pension system as a central component" (*La Stampa*, July 1st 1992). In sum, policy makers' and societal actors' discourse during this time would center around the "risanamento" or the necessity to "restore the health" of public finances, in which the public pension system played a key role (Ferrera and Gualmini 2004:58;; Natali 2004). Thus, evidence of an "indirect" or "cognitive" Europeanization of pension reform policy can be found in the Italian case as different key actors would start to structure their discourses and actions around the necessity to approach the pension problem in a different way, focusing on re-organizing the system and, more important, reducing the many different privileges for specific schemes in order to make the system fairer.

The Amato government would then elaborate a reform seeking input from the labor movement. During the negotiations, the labor confederations obtained some concessions regarding the elimination of an increase in the number of years required to get a seniority pension and the calculation of benefits according to the salaries of the entire working career only for new entrants to the system (*La Stampa*, October 14th, 1992). The reform was significant in that it helped to contain spending levels by raising the minimum contribution years for obtaining a seniority pension to 35 years and setting the number of years required to get a pension at 20. As an outcome of the reform, private voluntary pension plans were authorized in 1993 through a special decree law.

The Amato reform, although important, did not help to reduce spending levels significantly, and in 1994 a new reform was deemed necessary. After a failed attempt to introduce new changes during the Berlusconi government, which attempted to advance reform without consulting with the unions and justifying its need only on technical grounds, a new caretaker government was appointed led by the former treasury minister Lamberto Dini (Baccaro 1999; Natali 2004).

Dini's approach to pension reform would be similar to that of Amato and while seeking collaboration from labor and pensioners he would stress the necessity of passing the reform to save the system from bankruptcy and improving the fairness of the system. In the same vein, labor and pensioner leaders also presented the reform as a "mal minore" (minor evil) to improve the financial sustainability of the system and save it from bankruptcy.[3] The reform would significantly change the structure of the system, introducing a new formula for the calculation of benefits based on a worker's full contribution history and not in the last salary levels prior to retirement.[4] The new system would imply a significant reduction in the replacement rate of the system, therefore the main concessions given to the labor and pensioner movement centered upon which cohorts would be affected by the new system (Rhodes and Natali 2006; Jessoula and Alti 2006). In effect, after negotiations with them, it was agreed that the system would totally apply only to new entrants and that workers with at least 18 years of contributions would retire according to the rules of the old system. Those with less than 18 years of contributions would have their pensions calculated on a pro-rata basis: until 1995 according to the old system and after 1996 according to the new one.

In November 1997, the Prodi government, desperately pressed to qualify for EMU, agreed yet another reform that would reduce the budget deficit by 0.2%. The reform included a gradual raise

[3] Personal interviews with CGIL's main pension experts, Rome-Brussels, 2006.
[4] The system is called "National Defined Contribution" because even though current contributions are still used to pay current retirees, workers' contributions are registered in virtual or "notional" accounts. The registered contributions are indexed every year and the total accumulated is used at the retirement moment to calculate annual pension benefits (adjusted by life expectancy). See Börsch-Supan (2003).

in the minimum years to obtain seniority pensions (35) and in the retirement age (57) for all workers. During this time, public officials' discourse would center again on the necessity to eliminate the unfairness of the system, restore the health of public finances, and most important, allow Italy to qualify for the last stage of EMU (Featherstone 2004). At the start of the negotiations, the governor of the Bank of Italy expressed that: "…the reform of the pension system is urgent and it is key for the 'risanamento' of public finances and *for joining the euro* (emphasis added). Only the introduction of certain elements will provide certainty to the public and the markets that the system is financially sustainable" (*La Stampa* 25th July 1997). The focus of the reform in reducing the unfair aspects of the system was also highlighted by the main leaded of the CGIL confederation, Sergio Cofferati: "for the first time, everyone will be treated the same way" (*La Stampa* 4th November 1997).

In sum, it can be argued that during the 1990s there was an increasing "indirect" or "cognitive" Europeanization of pension policy as policy makers and societal actors structured their discourse and actions quite in line with the EU priority for pensions of reducing costs, eliminate unfair aspects, and ensure the long term financial sustainability of the system. Why did Italian policy makers use this type of discourse to bring significant change? The first reason had to do with the institutional-political configuration given by caretaker governments facing an important number of parties that they had to negotiate with (which was also the case of the elected 1997 Prodi government).[5] The second connected reason was the critical situation of the system, which had been running deficits since the 1970s, was highly fragmented and had numerous provisions for different cohorts and for early retirement. In this situation, a discourse that focused on the 'risanamento' of public finances, on the equal treatment of different cohorts and even on the necessity of passing the

[5] The number of parties supporting the Amato government were four, while the number of parties supporting the Dini government were at least five. The number of parties supporting the Prodi government were eight. See Ferrera and Jessoula 2007, page 413.

reforms to help Italy qualify for the last stage of EMU, would prove particularly fruitful to produce a significant departure from the status quo.

By contrast, the reform attempt of the Berlusconi government in 1994 showed that even when having support from their own parties, the lack of a successful discourse strategy related to 'Europe' and grounded only on technical issues, made that attempt unsuccessful and eventually led to the resignation of government in late 1994. The 2004 and 2007 reforms passed by the Berlusconi and the Prodi governments also focused on specific issues such as the development of supplementary private schemes and increasing the effective retirement age. Although these reforms were passed thanks to the support in Parliament (in the case of the Berlusconi government) and the consultation with social partners (in the case of the reform pushed by the Prodi government) they were not justified on the necessity to comply with EU institutions' view on pension policy. Not surprisingly, these reforms did not entail significant changes to the structure of the system and observers doubt about their real impact.[6]

The Italian case illustrates the argument advanced in this paper that when confronting a political scenario in which there are many political veto players and the public pension system is characterized by significant imbalances and 'unfair' aspects that are contrary to EU institutions' view on pension policy, a discourse strategy that focuses on 'Europe' and on reducing the 'inequities' of the public pension system may prove particularly effective to achieve a significant departure from the status quo. When such a discourse strategy is absent, reforms attempts may fail or only entail very limited change. My analysis of the Spanish case will give further support to my argument as in the absence of a system with significant imbalances and in a situation characterized by a reduced number of veto players, a discourse focused on 'Europe' to justify the need for reform did not take place in

[6] See *Eironline* 04/03/2008.

the Spanish case. Thus, successive reforms since the 1990s have entailed a modest departure from the status quo.

Pension reform in Spain:

The main characteristic of the Spanish public pension system was its late organization when compared to those in other Western European countries. Even though the origins of the system can be traced back to the early 1900s with the introduction of special regimes for public servants and some voluntary insurance schemes for some other occupational categories, the basic structure of the Spanish pension system as it is now known was laid out in the 1960s and 1970s with two important reform laws.[7] This legislation created a system with a general scheme (*Regimen General*), which covered around 70% of workers and a number of special schemes (*Regimenes Especiales*) for public employees and other occupational categories.[8] Thus, by the mid 1970s the Spanish public pension system had a typical Bismarckian structure with pay-as-you-go (PAYG) funding, fragmented in different schemes that granted differentiated pension benefits, and paying defined benefit (DB) pensions that were calculated according to the last two years of contributions. However, by the end of Francisco Franco's dictatorship Spain still lagged behind other Western European countries in terms of pension and overall social protection spending and coverage. In fact, statistics show that while the EC social protection expenditure average was at 23 percent of GDP in 1975, that figure for Spain was only 12.1 percent (FOESSA1983:813). Coverage of the pension system was also seen as

[7] These were the 1963 Basic Law of Social Security *(Ley de Bases de la Seguridad Social)* and the 1972 Funding and Improvement Law (*Ley de Financiamiento y Perfeccionamiento).*
[8] Among others, the law stablished special regimes for: rail workers, miners, agricultural workers, maritime workers, self-employed, civil servants, employees of Franco's National Movement, provincial employees, cooperative workers, domestic service, students, retail workers, civil employees of the armed forces (MTAS 2005, 15).

weak and even by 1978 35 percent of the population did not have access to any type of pension benefit (Panizo Robles 1993:255).

The democratization process that started in 1975 put a special emphasis on expanding social protection as policy makers and the general public alike understood that now that Spain had achieved almost European levels of development and was to become a candidate to join the EC, it had also to attain European levels of social protection (Guillén and Alvarez 2004). The 1978 Constitution incorporated this general concern for more social protection and granted universal extension of social protection coverage to all citizens (articles 41, 43 and 49). Consequently, from 1978 until the election of the first socialist government in 1982, a series of measures were implemented that led to a significant expansion of pension coverage between 1978 and 1983 (Cruz Roche et al 1985:200; Guillén 1999:10).

As a consequence of the expansive measures of the late 1970s and early 1980s the coverage of the system increased significantly, as well as total expenditure levels, which jumped from 5% of GDP in 1980 to 8.3% in 1982. However, by 1982 still 14.4% of workers were excluded from receiving any social security benefit (FOESA 1983:811).

In 1982, the newly elected Socialist government, which increasingly embraced a neoliberal approach of economic adjustment and restrictive monetary policy to achieve macro-economic stabilization, applied a series of measures to try to rein on pension spending. The most important of these measures was the 1985 pension reform law, which was passed after failed negotiations with the labor confederations. The main goal of the law was to reduce fraud levels, especially on disability pensions and to eliminate pensions given under unclear arrangements (Guillén 1999, 9; MTAS 2001, 26). The law introduced important changes in the parameters of the system: fifteen years of contributions required to obtain a pension (previously ten); benefits calculated using the last 8 years of salaries instead of the last two; stricter controls to get disability and survivorship pensions; benefits adjusted according to the estimated (and not the past) CPI increase. In 1987, the government passed another crucial law, taking advantage of its comfortable parliamentary majority and the weakness of the labor movement, which allowed workers to subscribe private pension plans (Chuliá 2007, 530).

The 1985 law certainly helped to contain expenditure in the public pension system, which would stay at around 8.4% until the late 1980s. By that time, a better economic outlook and the government's necessity to accede to the demands of the labor movement, which organized a successful general strike on 14th December 1988 against a proposed labor flexibility initiative, led the socialist government to implement measures to increase social spending and expand the coverage of the pension system. After negotiations with the labor movement, it was decided to index pensions to past CPI increase and non-contributory pensions were introduced in 1990. These would be the last series of measures targeted at expanding the generosity and coverage of the pension system.

In sum, the evolution of the Spanish pension system until the early 1990s shows some significant differences with the Italian case that would play a role in the upcoming reform process of the 1990s and 2000s. First, as described above, in the 1980s policy makers were able to introduce some significant cost containment measures, most notably the 1985 pension reform law that tightened eligibility criteria and reduced the number of pension schemes. Second, even though pension expenditure continued to increase, the system would run a deficit only in the mid 1990s. This is significantly different from Italy where the public pension system was running deficits since the mid 1970s. In fact, the shared view of pension experts and negotiators is that the reforms of the

1980s helped to “save” the system from a certain collapse.[9] Third, on the political side, even though the governments that would have to implement reforms in the mid 1990s would not count with an absolute legislative majority, they were able to form a stable coalition with the Catalan nationalist party *Convergencia i Unió*. Facing a situation in which the public pension system was not running deficits for a long time and in which there was a moderate number of political veto players, Spanish policy makers would stress the necessity to introduce limited reforms to the system in order to ensure its financial sustainability. Thus, their discourse would not focus so much on the ‘inequities’ of the system, the necessity to ‘restore public finances’ and even on ‘doing the reforms to be able to join the last stage of EMU as we saw in the Italian case. Rather, their discourse strategy would point the necessity to adopt some cost-containment reforms to ensure the financial sustainability of the system but without suggesting a radical change to the structure of the system.

The recession of the early 1990s in combination with some negative demographic trends would signal the necessity to advance some reforms. A combination of declining growth rates since 1991 plus negative labor market and demographic tendencies were reducing surplus levels in the public pension system. In effect, throughout the 1980s Spain underwent important demographic changes with a reduction of the fertility rate from 2.6 children per woman in 1980 to 1.3 in 1993 while the proportion of old to young people (the old-age dependency ratio) increased from 18% in 1980 to 22% in 1993. In addition, the unemployment rate, which is a critical factor in a system that heavily depends on workers’ contributions for its sustainability, stayed above 15% during the 1980s and peaked at 23% in 1993. Table 2 summarizes these data.

[9] Personal interviews with social security chief of staff and with pension negotiators from the two main trade union confederations. Madrid 2006.

Table 2: Spain. Key economic, social security and demographic indicators

	1980	1982	1984	1986	1988	1990	1991	1993	1995
Spending in Contributive Pensions (% of GDP)	5.7	8.0	8.5	8.5	8.4	8.7	9.0	9.9	9.7
Social Security Balance (% of GDP)	3.5	2.0	1.1	0.8	0.9	1.0	0.9	0.8	-0.1
Old-Age Dependency Ratio (%)	18.4	n/a	18.9	18.9	19	21	21.4	22	23.3
Fertility Rate (Children per woman)	2.6	1.94	1.72	1.6	1.42	1.33	1.31	1.32	1.27
Unemployment Rate (% of economically active population)	12.4	16.6	21.1	20.6	18.3	16.1	17.0	23.8	22.5
GDP Growth (% change)	21	1.54	1.5	3.2	5.16	3.74	2.27	-1.16	2.4
Government Balance (% of GDP)	-1.8	-5.3	-5.1	-5.7	-3.1	-3.6	-4.2	-6.6	-4.5

Source: Instituto Nacional de Estadísticas (www.ine.es) and Sainz de Baranda (2001)

During the 1993 electoral campaign, the conservative candidate José M. Aznar (Partido Popular – PP) highlighted the necessity to adopt reforms to secure its long-term financial sustainability although he did not specify what type of reform he would support. While the Prime Minister Felipe González (PSOE) criticized Aznar’s attitude of questioning the soundness of the system he was not clear about whether the system would need to be reformed or not (*El País* June 6th 1993).

In November 1993, the labor minister José Antonio Griñán expressed that “the current public pension system needed reforms to ensure its financial sustainability” (*El País* November 4th, 1993). The general belief that some cost-containment reform was needed to ensure the sustainability of the system was expressed by the Prime Minister in March 1994 when he stated that "the public pension system would have to be revised in light of the current labor market and demographic changes" (*El Mundo* February 23rd 1994). The idea that "something had to be done" to ensure the financial sustainability of the system was also shared by some experts within the ministry of social affairs (*El Mundo* September 13th 1994) and also from the labor movement and the main center-right opposition party.[10]

In February 1994, a parliamentary commission was appointed to assess the changes needed to the system. After a year of work the commission concluded that the sustainability of the system would be reinforced if some cost-containment measures were adopted. All the parties represented in parliament signed an agreement, the so called Toledo Pact, which recommended specific changes: reducing the specific privileges for some schemes and gradually reduce them to only two; an increase in the proportionality between contributions and pensions; the financing of non-contributive pensions through taxes and not with workers' contributions (these should be reserved to finance only contributive pensions); the progressive retardation of the retirement age; the use of tax incentives to promote voluntary private pensions; the improvement of widows and survivors' pensions.[11]

The positions of Spanish policy makers during the negotiations that led to the Toledo Pact, followed policy makers concerns expressed since early 1993 and they permanently stressed the necessity to find ways to ensure the long term financial sustainability of the system by reinforcing its solidarity aspect reducing special provisions and the number of different schemes. However, policy makers' discourse never made reference to the necessity to significantly change the system in order

[10] The position of the two main labor confederations was, however, of combating evasion rather than reducing the generosity of the system (Personal Interviews with negotiators *from* Unión General de Trabajadores-UGT and Comisiones Obreras-CCOO, Madrid 2006). The position of the main center-right opposition party (Partido Popular) was also that cost-containment reforms were necessary and feasible (Personal interview with main PP pension policy negotiator, Madrid 2006).
[11] The recommendations of the Toledo Pact can be consulted at the Social Affairs and Labor Ministry's website http://www.tt.mtas.es/periodico/documentos/Recomen%20Pacto%20Toledo.htm.

to comply with EU institutions' view on pension policy. As social security officials from the PSOE government note: "there was certain division within the PSOE party in terms of the extent of the measures that were needed to implement, but all the sectors agreed that a complete overhaul of the system was not necessary."[12] This position was also shared by members of the main opposition force, the Popular Party (PP): "we were well aware of the magnitude of the reforms needed but instead of favoring a major overhaul we just focused on supporting measures to ensure the sustainability of the system."[13] In fact, the text of the Toledo Pact explicitly excludes the possibility of changes the structure of the system of PAYG funding and inter-generational solidarity and it makes numerous references to maintaining the "just, balanced and 'solidarity' aspect" of the system.

As it is possible to appreciate, the positions expressed by the different political actors since 1993 regarding what to do with the pension system and the agreement finally reached in 1995 with the Toledo Pact did not point towards the necessity to radically change the system in order to comply with 'Europe' or to join EMU, as in Italy. Rather, policy makers' positions just focused on how to improve the financial sustainability of the current system by taking into account more years in the calculation of a pension, encouraging the development of supplementary private schemes and trying to improve the coverage of some less advantaged cohorts (i.e.: widows and orphans).

The negotiations to implement the recommendations of the Toledo Pact would be led by the newly-elected government from the Partido Popular (PP), which came to power in 1996 thanks to an alliance with the Catalan nationalist party *Convergencia i Unió* and the nationalist Basque and Canarian parties (PNV and CC respectively). The government would negotiate the implementation of the Pact with the labor movement, represented by the two main trade union confederations Comisiones Obreras (CCOO) and Union General de Trabajadores (UGT). As some experts observe,

[12] Personal Interview with former Social Affairs Chief of Staff from the PSOE government (Madrid, 2006)
[13] Personal interview with main PP pension policy negotiator, Madrid 2006

since taking office, the new PP government was eager to show its compromise with maintaining the public pension system, a point on which the socialists had heavily campaigned to gain votes from older voters in the 1993 elections (Chuliá 2007). In the negotiations the government and the social partners would then agree on some cost containment measures (gradual increase in the number of years used to calculate the pension benefit from 8 to 15 years; penalization of early retirement; reduction in the number of occupational schemes; annual adjustment according to wages' evolution) in exchange for other measures that tended to improve the situation of the less advantaged (an amelioration of the lowest widows' and orphans' pensions; no penalization for early retirement if this was due to long unemployment; raise of the age limit to receive orphan survivorship pensions).

In more recent reform episodes the government and the social partners have stressed the necessity to implement some adjustments to improve the financial sustainability of the system. However, in each reform the labor movement has obtained concessions in light with its goals of aiming at representing the interests of all workers and benefiting the less advantaged. For example in the negotiations of 2001 and 2006 cost containment measures regarding the minimum number of years to receive a pension (set at 15) and the separation of funding sources for contributive and non-contributive pensions were agreed in exchange for other measures such as an increase in widows and orphans survivorship pensions and in the pensions for those who retire after 66 years old to promote late retirement (*El Mundo* 31st May, 2006).

In all the reforms that have been negotiated since 1995, Spanish policy makers' discourse has just focused on the necessity to maintain and secure the financial sustainability of the public pension system but, unlike in Italy, such discourse is not explicitly linked to the necessity to comply with 'Europe' or with the goals pushed by EU institutions. Following the theoretical approach advanced in this paper, I contend that the better performance of the Spanish system together with a political configuration characterized by a moderate number of political veto players, when compared to the Italian case, has not made necessary for Spanish policy makers to rely on such a discourse strategy. The better situation of the public pension system (which has been running surpluses since the late 1990s) and the reduced number of political veto players with which the main government party had to negotiate reforms (illustrated by the absolute majority of the 2000-04 PP government and the almost absolute majority of the 2002-08 PSOE government) explain why the 2001 and 2006 reforms entailed very moderated cost-containment reforms and actually improved the benefits for some cohorts.

While we could certainly agree on the fact that some of the cost-containment measures pushed forward since the mid 1990s in Spain do not contradict the views of EU institutions, the comparative evidence reveals that 'Europe' and the values promoted by EU institutions on pension policy have not been used to bring significant policy change in Spain. Thus, "indirect" or "cognitive" Europeanization of pension policy, as evidenced by policy makers' discourse strategy, has been much less relevant in Spain than in Italy.

Conclusion:

This paper has analyzed and compared pension reform policy in Spain and Italy since the 1990s, with a particular focus on the role played by the influence of the European Union in such process. By analyzing these two cases, I have tried to contribute to the ongoing scholar debate of how the EU is affecting the reform and "recalibration" of pension systems and, more broadly, welfare states (Ferrera 2008). Moreover, I have tried to explore the causes under which policy makers are more likely to justify the need for reform by employing a discourse strategy that is linked to EU institutions visions on pension policy to bring significant policy change, thus offering evidence of “indirect” or “cognitive” Europeanization.

I theorized that the performance of the public pension system and the political configuration determined by the number of political veto players whose agreement is necessary for policy change may explain why governments in some countries are more likely to justify significant pension reform using a discourse strategy linked to complying with EU values and norms. The analysis of the Italian and Spanish cases shows that a discourse strategy that justified the need for significant reform with ‘Europe’ and even with the need to qualify for the last stage of EMU was much more important in Italy than in Spain.

In Italy, the public pension system had been running deficits since the 1970s and was characterized by numerous provisions that granted generous benefits with relatively few years of contributions. The political and economic crisis of the early 1990s signaled the need to perform a significant reform of the system if Italy wanted to put its public finances in order to qualify for the last stage of EMU. Confronting a fragmented political configuration and a public pension system that was on the brink of collapse, Italian policy makers adopted a discourse strategy that identified the significant reform of the system with the need to comply with ‘Europe’ and even being able to join the last stage of EMU, as pointed out during the 1997 reform.

In Spain, the public pension system had a deficit only in the mid 1990s and during the 1980s some important cost-containment reforms were adopted to tighten eligibility criteria, to reduce the generosity of the system and to avoid the provision of pension benefits under unclear circumstances. In the early 1990s, when the recession and negative demographic trends indicated the need for reforms, policy makers would favor some cost containment measures but they explicitly ruled out a significant change in the structure of the system. Thus, their discourse strategy focused on the need to ensure the long-term financial sustainability of the system but not on the need to reform it to comply with EU views on this matter or even with the need to qualify for EMU. The comparatively better situation of the Spanish public pension system and a political configuration given by a moderately low number of political veto players explains why there was no necessity to justify the need for significant reform by relying on 'Europe'. The outcome of the reforms since the 1990s has been very incremental and the structure of the system has not been significantly changed.

The entry of Italy in the last stage of EMU in 1998 means that justifying further significant reforms with the necessity to comply with 'Europe' is no longer an option. Not surprisingly, recent reforms in 2004 and 2007 have not had a significant impact. In Spain, the comparatively good performance of the system until recent years has also meant that the recent reforms have not had a significant impact in the structure of the system.

However, as the impact of the global economic downturn affects these economies and the performance of their public pension systems, we may wonder whether there will be a renewed interest in applying significant cost-containment reforms. In this scenario, if policy makers face a political configuration in which the agreement of an important number of political veto players is needed, a discourse strategy justifying the need for reform with EU institutions' views on this subject may prove useful to produce significant change.

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