

EU Coordination of Pension Policy: Policy Content and the Influence on National Reforms

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EU Coordination of Pension Policy

- EU Coordination, procedures and content: indirect (EMU and SGP), direct (Social OMC);
- Analytical questions for assessing their influence;
- Review of key contributions assessing EU Coordination;
- Preliminary conclusions

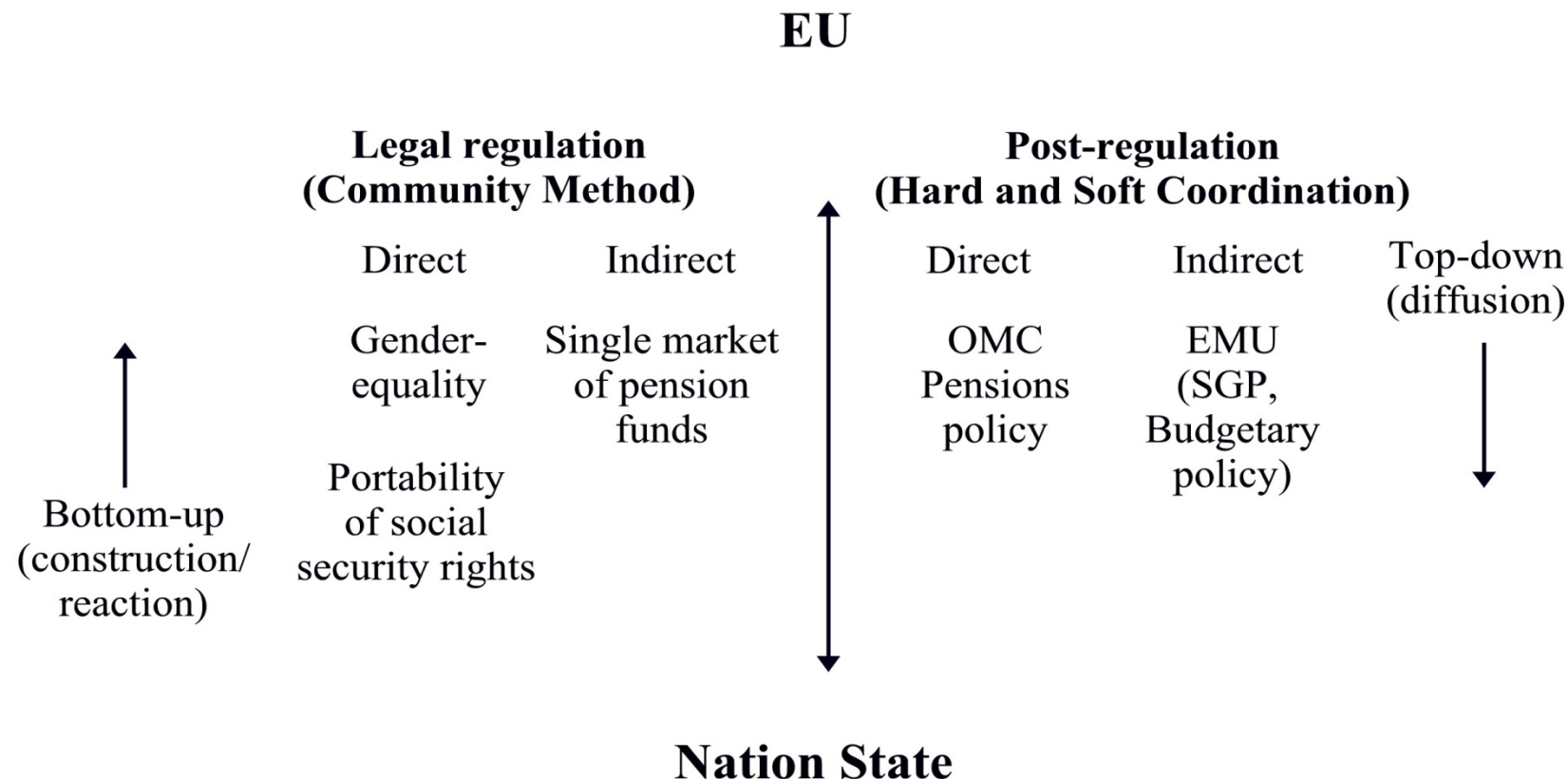
Social Protection and Social Inclusion in the EU....

E. Marlier and D. Natali (eds)
with R. Van dam (2010),

**‘Europe 2020: Towards a
more social EU?’,**

Brussels, PIE-Peter Lang

EU Coordination of Pension Policy, Procedures and Content, the SGP



EU Coordination of Pension Policy, SGP

“hard” (indirect) forms of coordination imply material sanctions against Member States in case of breach of the Treaty’s provisions

- SGP establishes binding and quantitative policy objectives, while governments are free to choose their own paths for convergence
- In case of non-compliance, sanctions are (or should be) activated

EU Coordination of Pension Policy, the SGP

- I. Treaty-based (Art. 121, 126) and Reg. 1466/97; 1467/97 then amended by Reg. 1055/2005 and 1056/2005
- II. Preventive arm (stability and convergence programs to achieve MTO), multilateral surveillance
- III. Corrective arm, corrective measures and sanctions
- IV. Key steps (EFF, 1991; SGP, 1997; SGP, 2005; SGP, 2010-11)

EU Coordination of Pension Policy, SGP

- **SGP I, 1997**

- preventive arm (MTO, Close to balance or in surplus) and corrective arm (EDP)
- no explicit reference to pensions, But Ecofin communication 1997 (to contain benefits, higher retirement age; reference to individual contributions; and to the role of funded schemes)

- **SGP II, 2005**

- more flexible approach (greater account of national specificities) and more exceptional circumstances
- but explicit reference to pensions (growth-oriented nature of the Pact), the excessive deficit due to pension reform had to be ‘considered carefully’

EU Coordination of Pension Policy, SGP

- **SGP III, 2010-11**

- preventive arm - 'Prudent fiscal policy making': 'annual expenditure growth should not exceed a prudent medium-term rate of GDP growth' (excess of revenues should be used to reduce debt)
- in case of failure, interest-bearing deposit of 0.2% of GDP through a reverse voting mechanism
- corrective arm (EDP, more focus on debt levels; debt reduction of 1/20th per year for three consecutive years)
- explicit reference to pensions: implicit liabilities related to ageing, and the costs of pension reforms to be considered for a 5-year transitory period
- **But the pension issue has been at the top of the debate (CEE member states vs the Commission)**

EU Coordination of Pension Policy, Social OMC

- “soft” (direct) forms of coordination do not include any sanctions except moral pressure
- It is a flexible instrument seeking to harmonise ideas and knowledge rather than institutions or legislation
- Social OMC provides common objectives and Member States freely decide to pursue them
- Peer pressure and monitoring

EU Coordination of Pension Policy, Social OMC

- 1999, A concerted strategy for modernizing social protection (COM)
- 1999, High level working group on social protection (then SPC)
- 2001, Stockholm Council launched the OMC on a 3-year base

EU Coordination of Pension Policy, Social OMC , 11 guidelines in line with 3 goals

- **Adequacy**, appropriate benefits in line with solidarity
- **Financial sustainability**, sound public finances
- **Modernization**, adapt pension systems to changing needs

EU Coordination of Pension Policy, Social OMC , 2003-06 and Europe 2020, 2010

- in 2006, 'streamlining' of pensions, social inclusion and health and long-term care OMCs
- 3 overarching goals
 - promote social cohesion and equal opportunities for all through adequate, accessible, financially sustainable, adaptable and efficient policies
 - interact closely with the Lisbon objectives
 - strengthen governance, transparency and the involvement of stakeholders
- in 2010, Europe 2020
 - new integrated guidelines, Flagships, OMC role

Analytical questions to assess EU influence on pensions

- empirical assessment of EU coordination is challenging (Zeitlin, 2009), causal impact
- due to their complexity, variety, evolving nature, and multi-level governance
- contextualised assessment of the influence on **policy change** (policy thinking, agenda-setting and substantive changes), and **capacity building** (e.g. development of indicators and data sources)

Review of key contributions on the influence of SGP on Pensions

- Two competing hps,
 - Strict budgetary policy leads to cutbacks,
 - Strict budgetary policy leads to economic growth and reduces the needs for cutbacks (Begg and Nectoux, 1995);
- In the wake of SGP and EMU many innovations (Duval and Elmeskov, 2006; Pochet, 2007)
- No race to the bottom (Natali, 2008)
 - Belgium, interaction of broad budgetary policy and pensions
 - Italy, long path to budgetary stability through pension reforms
 - and Slovenia, 'win-win' solutions in approaching EMU

Review of key contributions on the influence of SGP and EMU on Pensions

- Unintended consequences (?), budgetary stability and the cost of structural reforms (Mabbett and Schelkle, 2007)
 - pension privatization and deficit targets
 - the case of Hungary 2010 (Angelaki and Natali, 2011)
- Analytical question: Difficult to assess causal impact (in some countries budgetary stability and welfare recalibration started well before the SGP)
- Substantive question: non stringent constraints under SGP, political interpretation of targets, potential incoherence

Review of key contributions on the influence of OMC on Pensions

- Two competing hps,
 - OMC has an influence,
 - OMC has not an influence;
- Through the OMC improved capacities and revised policy thinking (Anderson, 2002; Dudek, 2003; Natali, 2008; Vanhercke, 2009)
 - evident increased similarities in policy discourses and reforms
 - new issues on the agenda (gender equality; actuarial fairness)

Review of key contributions on the influence of OMC on Pensions

- Through the OMC no evidence of change (Casey, 2004; Natali and de la Porte, 2004; Lodge, 2007, Busilacchi et al, 2009)
 - key role of path-dependency and weakness of Social OMC
 - some inconsistency (gender issue in Italy)
- Analytical question: Difficult to assess causal impact (reform process started before OMC, and to assess policy change)
- Substantive question: evolving process (OMC, streamlining, Europe 2020); very broad objectives, very low visibility

Preliminary conclusions

- EU Coordination has been a large part of EU action in the area of pensions
- Analytical questions: Difficult to assess causal impact (reform process started before OMC, and to assess policy change)
- yet, some proof of influence
- Substantive question: policy ideas, their normative foundation and consequences, evolving process (OMC, streamlining, Europe 2020) towards?