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European Integration and Pension Policy Change: Variable Patterns of Europeanization in Italy, the Netherlands and Belgium

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Abstract

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

1. Introduction

How does European integration influence the development of national welfare states? The extensive literature on Europeanization is marked by disagreement concerning this question. One school of thought emphasizes the weakness of the treaty basis for EU-level social policy, arguing that the EU's social dimension is likely to be 'fragmented, partial, and piecemeal' (Lange 1992: 229). Streeck (1994) echoes this position, arguing that the political salience of social policy hampers agreement at EU level, leaving social policy to develop through the process of market integration and the constraints of subsidiarity. Scharpf (2002) also points to the high political

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salience of social policy in domestic politics, arguing that the diversity of social policy institutions makes social policy integration difficult. A second school of thought highlights the institutional innovations pushing social policy integration forward, such as the open method of co-ordination (OMC) and the incremental use of EU legislation rather than more ambitious initiatives (Heidenreich and Zeitlin 2009). Moreover, recent scholarship demonstrates that the impact of EU initiatives on national social policies is far from minimal (Falkner *et al.* 2005). Indeed, Palier and Pochet (2005) show that the production of binding social policy directives at EU level has increased, despite the growing importance of the OMC (cf. Hartlapp 2012).

The analysis presented in this article enters this debate about the impact of European integration on national social policy development, with the argument that two institutional variables at the domestic level shape national adaptation to European pressures for change: the structure of existing social policy and the veto opportunities created by constitutional structure. We investigate the impact of Europeanization on public pensions in four cases drawn from three countries (Italy, Belgium and the Netherlands). We distinguish two types of European adaptational pressure on public pension arrangements: EU gender equality law and the European Monetary Union (EMU) convergence criterion concerning excessive budget deficits. The former represents binding, direct pressure on domestic institutions, and the latter constitutes diffuse, indirect pressure on policy structures. For both types of European pressure, we investigate cases in which adaptational pressure was significant, so that this variable is held constant across cases. To explain variable patterns of adaptation across cases, we rely on two variables central to the literature on welfare state change: programme structure and the structure of veto points. Programme structure refers to the magnitude of public pension commitments, and veto point structure refers to the number and type of institutionalized opportunities that domestic actors have for influencing the legislative process concerning pension reform. The four case studies test two core hypotheses derived from this framework. First, *countries with low levels of public pension provision and few veto points are the most likely cases of substantial policy change in response to European pressures*. Second, *countries with many veto points and extensive public pension commitments are the least likely candidates for policy change, even when European pressures are strong*.

Our case selection is motivated by several considerations. First, our research design includes cases representing both indirect and direct types of adaptational pressure emanating from the European level. We argue that both types of pressure are broadly similar in their effects on domestic policy change, and can thus be incorporated into the same research design. The adaptational pressures caused by European integration are many and varied; it, therefore, makes analytical sense to focus on the magnitude of pressure, rather than the type of pressure, absent any compelling reason to do otherwise. Moreover, recent methodological discussions within the

Europeanization literature specifically call for the comparative analysis of direct and indirect pressures in individual studies (Haverland 2007). Second, we focus on public pensions because pensions, along with healthcare, typically form the core of the welfare state in the EU member-states. Today, pension spending is the largest item in government budgets in most EU member-states. In 2000, the EU-17 spent an average of 12.5 per cent of gross domestic product (GDP) on public pensions; by 2010, the EU-27 spent an average of about 13 per cent of GDP on pension provision (http://www.eurostat.eu). In short, if we want to know how European integration affects domestic social policy development, it makes sense to analyse the heart of the welfare state in terms of spending and the proportion of citizens affected. These considerations make public pension policy an ideal policy area for comparative analysis about the impact of Europeanization.

After a brief discussion of both the Europeanization and welfare state literatures, we lay out our explanatory model based on programme structure and veto points. We use process-tracing based on primary and secondary sources to test our hypotheses in four country studies: Belgian and Dutch adaptation to European Council (EC) legislation concerning equality in statutory social security schemes, and Italian and Belgian adaptation to the Maastricht budget deficit target of 3 per cent in the run-up to EMU. We find that our model succeeds in providing a broad explanation of outcomes in all four cases. However, the model performed better in explaining the two cases of adaptation to equal treatment law than in our two cases of adaptation to the demands of EMU membership. We conclude with a discussion of the implications of our analysis for the Europeanization literature and for understanding the politics of the current sovereign debt crisis in the Eurozone.

2. Europeanization and social protection

The Europeanization literature has yielded important insights into the ways that European integration influences the development of domestic political structures (for an overview, see Treib 2008). The field is marked by two important disagreements, however. First, how should Europeanization be defined? Is Europeanization a one-way process from the EU to the member-state level, or something more complicated? Second, what are the political, economic and social variables that mediate the impact of European pressures for change? This section situates the present analysis within the context of these two debates.

There is no scholarly consensus about the conceptual meaning of Europeanization. Indeed, Olsen (2002) famously identified five variants of Europeanization. One dominant strand of the literature focuses on the domestic transformation of policies and institutions as a result of adaptational pressures emanating from European integration (Cowles *et al.* 2001). Thus, the process of market-building and polity-building driven by the member-states and European institutions generates policies that must be implemented in the member-states, treaty commitments that must be honoured and spillover effects that demand responses. In other words, Europeanization is a top-down process, from the EU level to the member-state level. Other scholars argue that the top-down approach ignores a key aspect of the Europeanization process: the bottom-up process whereby member-states participate in the bargaining that produces EU policies. Member-states themselves are key actors driving integration, and they attempt to 'upload' their policies during the EU-level bargaining in order to avoid adjustment costs later. According to Börzel (2002), the bottom-up and top-down phases are two sides of the same coin: the 'uploading' and 'downloading' of EU policies is driven by member-state preferences and resources.

The analysis presented here follows Risse *et al.*'s (2001: 3) conceptualization of Europeanization as a 'process by which distinct structures of governance at the European level affect domestic structures and domestic politics'. The basis for this choice is that our focus on both indirect and direct adaptational pressures is not compatible with Börzel's emphasis on the dual nature of Europeanization. The interdependence of the policy formulation (bottom-up) and implementation stages (top-down) is likely to be much higher for binding legislation than it is for indirect, horizontal pressures for change like the constraints of the Stability and Growth Pact.

The second source of analytical disagreement in the Europeanization literature concerns the variables theorized to mediate European pressures for adaptation. The 'goodness-of-fit' hypothesis emphasizes how the degree of compatibility between existing national and new European rules shapes domestic political adaptation (Duina 1997; Héritier 1997). The underlying assumption is that national resistance is often caused by poor policy fit between EU legislation and existing national structures: the greater the misfit between EU and national policies, the more contentious the struggle to achieve correct and timely adaptation will be. Conversely, when European rules demand only minor domestic policy modifications, thus not challenging traditional positions of institutional equilibrium, it is unlikely that adjustment will be difficult.

There is, by now, a large literature concerning the extent to which the fit between European and domestic structures explains variations in the implementation of EU rules, as well as the patterns of political contestation associated with national adjustment to European rules (Börzel 1999; Falkner *et al.* 2005; Featherstone and Radaelli 2003; Knill and Lenschow 1998). Empirical results, however, have been mixed; by itself, the goodness-of-fit hypothesis does not adequately explain Europeanization results. As Falkner *et al.* argue, 'it is not the amount of policy misfit to be overcome that determines the implementation outcome' (Falkner *et al.* 2005: 342). In response, some scholars have proposed alternative explanations, such as governments' party political preferences (Treib 2003) and institutional veto points (Haverland 2000).

We build on the central insight of this literature that European integration unleashes pressures for change that are mediated by domestic institutions and the domestic distribution of political resources. However, we go a step further by explicitly linking arguments about Europeanization to the broader literature about the drivers of welfare state change. In our view, Europeanization is broadly similar to other pressures for change and can be analysed as such (Anderson 2002). In other words, national responses to adaptational pressure are likely to be the result of political bargaining among actors with unequal resources within defined institutional settings, just as most other domestic political issues are.

3. The welfare state literature

The mainstream institutional literature on comparative welfare state development emphasizes two variables for explaining policy change in mature welfare states: the structure of political institutions and the political effects of programme structure. We discuss each in turn.

The Structure of Political Institutions

The central claim of the institutionalist literature is that institutions provide the 'rules of the game' for political bargaining (Steinmo *et al.* 1992). Rather than classifying political systems as parliamentary or presidential, much current research attempts to view political systems in terms of 'veto points' or 'veto players'. The key argument here is that national political institutions provide the context for political bargaining and policy making. Political institutions do not determine outcomes; rather, they shape how the political game is played. This includes the manner of interest group access to the political process and how political actors define their interests. The more veto points in the legislative process, the more likely legislation is to fail or be diluted because more political actors (interest groups, political parties, intraparty factions, the public in the case of referendum, etc.) have access to the decision-making process and can mobilize opposition to proposed legislation (Immergut 1992).[1]

Veto points may be formal constitutional rules that dictate which actors must consent to legislation, but they may also include things like *de facto* electoral results. Our use of the concept is broader in that our definition of veto points includes moments in the decision-making process when actors with privileged access to the legislative process are consulted, even if their advice is not binding. The obvious example here is unions and employers in corporatist political economies.

There is a large literature on the role of the social partners, especially unions, in welfare state development (Anderson 2002; Hassel 2003; Johnston *et al.* 2011). In corporatist political economies, unions' and employers' privileged position in social policy making, especially collective bargaining, means that they constitute important veto actors when welfare state reform is on the political agenda. Since the era of welfare state retrenchment and recalibration began in the 1980s, unions have played an important legitimating and facilitating role in reform processes (Ebbinghaus and Hassel 2000; Rhodes 2001). This is not to say that union influence on policy making has been conflict-free; indeed, the comparative literature on welfare reform is replete with cases of reforms that failed because of union opposition. However, privileged access to policy making is an important resource that can be mobilized to influence policy outputs. Thus, in corporatist political economies, political bargaining over welfare state reform is dominated by elected politicians and powerful social partners.

Programme Structure and Policy Feedback Effects

The central insight of the 'new politics of the welfare state' literature is that the structure of existing welfare state programmes influences the preferences and resources of political actors. Paul Pierson (1994) argues that the politics of retrenchment is very different from the dynamics of welfare state expansion. Whereas expansion policies are generally popular, retrenchment initiatives usually provoke public opposition. Thus, retrenchment is politically difficult, largely because of the mobilizing potential of interest groups and policy advocates that previous policies helped to create. The central claim of Pierson's new politics thesis is that retrenchment is a 'distinctive and difficult enterprise' that is likely to involve political dynamics fundamentally different from those associated with welfare state expansion. Thus, retrenchment involves a politics of 'blame avoidance' rather than the 'credit claiming' that characterizes the extension of welfare state policies. The upshot of the argument is that retrenchment is successful only when politicians are able to devise strategies that minimize popular opposition to proposed policy changes. Thus, the new politics thesis portrays retrenchment as a politically risky process (Pierson 1994: 1–2).

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

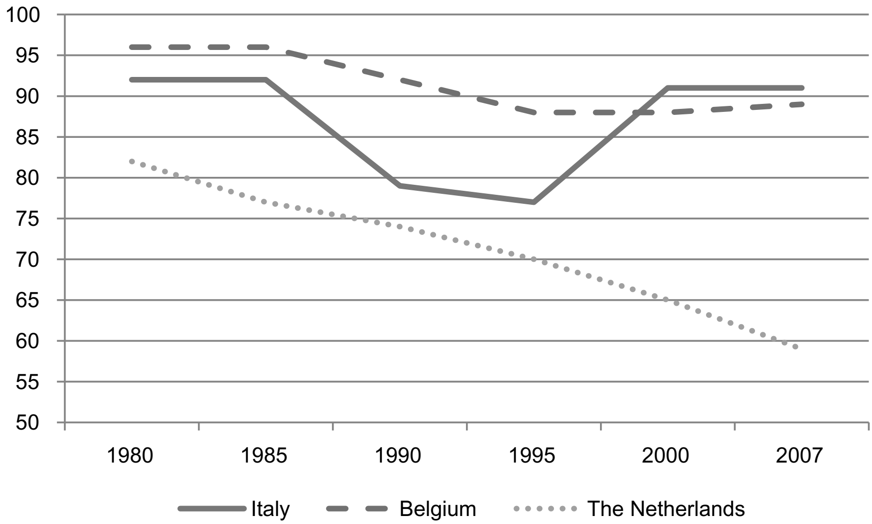
Turning to our programme structure variable, we know that two characteristics of pension schemes are important for understanding the dynamics of policy change. First, following Myles and Pierson (2001), the maturity of a public pension system is a critical variable influencing reform outcomes; the longer a pay-as-you-go (PAYG) pension system has been in place, the more difficult it is to reduce or privatize public pension commitments because governments have made extensive benefit promises that stretch several decades into the future. Thus, large, PAYG public pension schemes generate social rights that are similar to property rights. In order for cutbacks or privatization of these social rights to be possible, current workers would have to pay twice: once for the current pensioners in the public PAYG scheme and a second time for their own private pensions (if their own future benefits are reduced). Because the political costs of such a strategy are high, major cutbacks or full-scale privatization of public PAYG pensions is nearly impossible.

For countries with mature, PAYG public pension schemes (Germany, Sweden, France, Italy and the Netherlands), past policies are highly constraining for policy makers and affected social interests. The main options available are 'parametric' reforms that introduce changes within the existing public pension structure. For example, benefit formulae can be made less generous, contributions can be raised and partial privatization can be introduced to supplement public benefits.

The second relevant aspect of programme structure is the size of the public pension schemes relative to private schemes (cf. Meyer *et al.* 2007). Where mature public pension schemes dominate retirement provision, voters (both current workers and current pensioners) have a large stake in the status quo because public pensions are or will be the main source of their retirement income. This means that the stickiness of the status quo should be stronger in countries such as Germany, Sweden, Italy and Belgium, which all have comprehensive, mature, public pension schemes and relatively small or even insignificant private/occupational pension schemes. In contrast, countries such as the Netherlands, Denmark and the UK have large private/occupational pension sectors (Ebbinghaus 2011). These countries also have significant basic public pensions (this is less true for the UK), but about half to one-third of retirement income comes from occupational pensions, so the status quo should be less sticky because pensioners have other sources of income besides the public pensions. Figure 1 shows the proportion of public pension spending in overall pension spending that includes expenditure on private pensions.

Our case selection strategy is based on a 'diverse case strategy' (Gerring 2007: 97–8), so we selected cases that represent different configurations of the explanatory variables of interest. Because we are interested in how veto points interact with the structure of existing pension provision to shape domestic adjustment to pressures from European integration, we selected cases that represent the most important combinations of these two variables. Our analytical model includes four configurations of independent variables that are hypothesized to produce three types of outcomes in terms of policy change: substantial change, moderate change and minimal change (Table 1). The combination 'few veto points' and 'low level of public pension provision' (represented by the Netherlands) is predicted to lead to substantial policy change, and the combination 'many veto points' and 'high level of public pension provision' is expected to lead to minimal policy change (represented by Belgium). Two configurations of the key independent variables — 'many

FIGURE 1
Share of Public Expenditure in Total Public and Private Pension Expenditure, Per Cent.



Source: OECD social expenditure database. The data include both public and private spending on old age and survivor's pensions but do not include individual private retirement savings.

TABLE 1
Factors Influencing the Likelihood of Policy Change

		Veto points	
		Low	*High*
Extent of public provision	Low	*Most favourable environment for policy change* The Netherlands	*Moderate policy change*
	High	*Moderate policy change* Italy	*Most unfavourable environment for policy change* Belgium

veto points'/'low public provision' and 'few veto points'/'high public provision' — are hypothesized to produce the same outcome: moderate policy change. Because both of these combinations are predicted to lead to the same outcome, we chose only the combination 'many veto points' and 'extensive public provision' (represented by Italy) for analysis. This means that our research design covers the full range of hypothesized outcomes (substantial, moderate and minimal policy change). At the same time, this diverse case selection strategy generates two paired comparisons: one concerning the impact of a direct form of adaptational pressure (the transposition of a directive) and one concerning an indirect form of adaptational pressure (EMU requirements) (Tarrow 2010). These paired comparisons allow us to hold the type of adaptational pressure (direct or indirect pressure) constant, and focus on how veto points and the structure of existing pension provision interact to shape outcomes.

The case studies that follow are structured around the influence of veto points and existing public pension provision on policy change. Each case study begins with a discussion of the nature of veto points in each country and the structure of existing pension provision. First, we compare Dutch and Belgian responses to direct pressure for domestic adaptation: transposition of a directive concerning gender equality in statutory social security. The Netherlands represents a case of few veto points and a relatively low level of public pension provision. Belgium is a case of many veto points and a high level of public pension provision. The subsequent section presents our second paired comparison: Italian and Belgian attempts to reform their pension systems in response to the indirect pressures of EMU. Again, Belgium is a case of many veto points and a high level of public pension provision. Italy is a case of few veto points and a high level of public pension provision.

4. Adaptation to European pressures for change

Implementation of EC Directive 79/7/EEC in Belgium and the Netherlands

In 1978, the EC adopted a directive requiring member-states to remove all provisions in statutory social security schemes that violated the principle of equal treatment between men and women. The directive prohibited member-states from discriminating in terms of access, the calculation and payment of contributions, and the calculation of benefits. The directive created substantial adaptational pressure for member-states with 'breadwinner'-based social security schemes that excluded married women (because a breadwinner benefit was available only to the husband) or unmarried women (because the assumption was that they would get married at some later point and benefit from their husbands' benefits). The deadline for transposition was 19 December 1985.

Here, we look at two cases in which adaptational pressure was high because public pensions were organized on the breadwinner principle (the Netherlands), or because pension entitlement rules were different for men and women (Belgium). We assume that adaptational pressure is held constant, so the main difference between the two cases is that the Netherlands is a case of 'likely change' because of few veto points/small public pension sector, and Belgium is expected to be a case of 'limited change' because of multiple veto points and an extensive public pension scheme.

(a) Belgium

The Belgian political system displays multiple veto points because of federalism, strong social partners, a strong linguistic cleavage and a multiparty system. Public pension provision dominates; the occupational pension system is relatively underdeveloped, and only the relatively affluent have access to private pensions. This means that organized interests, especially the social partners, with a stake in the status quo have strong preferences, and the political decision-making system offers many opportunities for blocking legislation (Anderson *et al.* 2007).

Belgium was slow to transpose Directive 79/7/EEC. Even after the transposition deadline had passed, Belgium still had legislation in place that included different benefit formulae for men and women (40 years of contributions for women and 45 for men), and different retirement ages. Indeed, Belgium failed to transpose on time, and the European Court of Justice (ECJ) found Belgium in violation of EC law in 1986. The Christian Democratic/Liberal government responded by trying to harmonize retirement ages for men and women, as well as the benefit formula, as part of its 'St. Anna Plan', a package of budget consolidation measures. Discussion focused on whether to increase women's retirement age to 65 or lower men's to 60. Unions vigorously opposed increasing women's required labour market participation from 40 to 45 years for a full pension, as well as the higher retirement age for women. When the government consulted the social partners through the NAR (institutionalized bipartite council for negotiation that needs to be consulted on social reforms), the NAR (including the employers) joined the unions in opposing the reform. The NAR's rationale for rejecting the reform was the problem of high benefit dependency among employees older than 50. Increasing the retirement age from 60 to 65 would create funding shortfalls in other social benefit schemes (*De Standaard*, 14 and 19 January 1987). Moreover, unions argued that more favourable rules for women should remain in place because of gender discrimination in the labour market.

Soon after the government announced the details of the St. Anna Plan in May 1986, the socialist trade union FGTB/ABVV responded with widespread demonstrations. The Christian trade union ACV/CSC was less confrontational but nevertheless joined the socialist unions in criticizing the plan. The government backed down somewhat and proposed minor changes to the St. Anna Plan in June, but the unions were not placated. The government modified the plan again (such as postponing the decision on statutory retirement age and the benefit formula for women) after another series of talks with the social partners, but the unions stuck to their opposition. After this round of concessions, the unions abandoned their strikes in the summer, and on 16 July 1986 the government enacted the watered down St. Anna Plan in a series of royal decrees. The question of the equalization of retirement ages, as well as a standard benefit formula for men and women, was not solved, however, and both would remain on the decision agenda for the next 10 years.

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

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

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

(b) The Netherlands

Dutch political decision-making institutions are relatively centralized, but the multiparty system produces multiparty cabinets. The social partners have privileged access to the policy-making process for most socioeconomic issues, but they cannot block legislation, and governments have not shied away from confrontation with them, especially the unions. Thus, the Netherlands represents a case of few veto opportunities. In terms of the structure of the pension system, two characteristics are relevant. First, the Dutch public scheme provides a flat-rate (but relatively generous) benefit, and second quasi-mandatory private occupational pensions provide the rest of retirement income for most people. The public pension (AOW) provides about half of retirement income, and occupational pensions and private pensions provide the rest. The low number of veto points and the relatively small size of the public pension sector make the Netherlands a case of 'likely' policy change according to our analytical model.

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

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

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

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

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

One of the governing parties, the VVD, rejected income-testing of the supplement, proposing instead that pensioners with spouses younger than 65 receive the full AOW pension, regardless of the spouse's income. The Labour Party (PvdA) opposed this solution, arguing that it discouraged employment for the younger spouse. Instead, the PvdA proposed a longer transition period (five years), during which AOW pensioners with spouses under 65 would receive the full couple's benefit (*Financiële Dagblad*, 31 January 1985). The CDA and PvdA later agreed to modify the proposal by increasing the amount of income (of the younger spouse) not subject to the income test (*Financiële Dagblad*, 1 February 1985). The VVD responded with an amendment to exempt AOW spouses younger than 57 from the income test, but this attempt failed because of lack of support. On March 1, the Second Chamber adopted the CDA-PvdA version of the bill (*Financiële Dagblad*, 2 March 1985).[2]

The First Chamber nearly blocked the Second Chamber's compromise bill. Members of both the CDA and PvdA fractions in the First Chamber opposed the legislation because of the negative financial effects for AOW households with a spouse younger than 65 (*Financiële Dagblad*, 21 March 1985). The First Chamber finally approved the legislation.

To summarize, Dutch transposition of 79/7/EEC was slow, and the potentially negative consequences for some households nearly prevented a compromise solution. Broadly speaking, the relatively low number of veto points in the Dutch system facilitated adaptation; interest groups did not take to the streets to protest potential losses for some households, as in Belgium (cf. Hemerijck *et al.* 2000). Consistent with our expectations about the effects of programme structure, politicians appeared unwilling to risk punishment by voters; indeed, politicians tried to find a solution that would have few, if any, negative financial consequences for voters. However, this expectation applies to both pension systems dominated by public provision and systems (such as the Dutch) in which public provision provides roughly half of retirement income. This suggests that even multi-pillar pension systems, which combine both public and private provision, are prone to the same sorts of political constraints that overwhelmingly public systems are.

EMU and Adaptational Pressure in Italy and Belgium

Our second case of European pressure for reform is EMU. In terms of fiscal discipline, the Maastricht convergence criteria — later formalized in the Stability and Growth Pact — create a powerful constraint on national policy choices (Featherstone 2004; Kurzer 1993). Market actors use the convergence criteria as a critical information shortcut when they make their investment decisions because governments themselves use them to guide policy. To the extent that pension schemes are perceived to contribute to unacceptable budget deficits, there may be pressures for pension reform in order to cut costs and restore budget balance. Implementation of the pact rests primarily on two pillars: the principle of multilateral surveillance of budgetary positions and the excessive deficit procedure.

This type of European pressure for reform differs from the binding constraints of EC law. In the run-up to EMU, the member-states had to meet the Maastricht convergence criteria in order to qualify for participation in the Eurozone, and the 3 per cent budget deficit limit was a key constraint. However, member-states were free to take whatever measures they deemed necessary to achieve the target; they could choose any combination of spending cuts and tax increases, as long as the target was met. Our expectation here is that in the member-states facing substantial pressure to cut deficits, pension reform should have been a natural target because pension spending is typically the most expensive programme in public budgets.

We focus on two countries that faced substantial pressure to reduce their deficits in the run-up to EMU: Belgium and Italy. Both countries had deficits between 5 per cent and 10 per cent of GDP, so they had a long way to go before they met the 3 per cent target. Both countries adopted ambitious plans to reduce public spending, and surprisingly pension reform was a key goal in both countries.

(a) Italy

We classify the Italian political system as a case of moderately low veto opportunities. Governing coalitions from 1992 to 1997 included four to seven parties, and starting in 1994 the two parliamentary chambers had different majorities. This may appear to be a recipe for policy inertia, but two related factors prevented this: the use of technocratic governments and a strong inter-party consensus that pension reform was a key component of Italy's quest to qualify for EMU. In terms of policy structure, public pension provision dominates retirement income, although many over the age of 65 continue to work. An important feature of the pension system was that the weakness of the pension system was widely acknowledged. In addition, there were many calls for reform in the 1980s where pensions, in particular, have figured prominently in debates about how to restore public finances (Anderson 2002; Ferrera and Jessoula 2007; Sbragia 2001).

In comparison with the other two case studies, Italy spends the highest proportion of GDP on pensions (see Table 2). In 1960, pension spending was 5 per cent of GDP, and grew to 14.9 per cent of GDP in 1990. By 1999, Italy was spending 15.7 per cent of GDP on pensions (Franco 2002). This high level of spending, combined with low fertility and already high levels of public debt, made pension reform the centrepiece of reforms.

The years 1992–1997 saw several substantial reforms. The 1992 reform passed under the Amato government was one of the most important and had

TABLE 2
Budget Deficit: Reference Value: –3.0 Per Cent of GDP

	1995	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2004*[a]
Belgium	–4.2	–3.7	–2.1	–0.8	–0.5	0.1	0.4 (0.2)	0.4
Italy	–8.2	–7.0	–2.7	–2.8	–1.7	–0.6 (–1.8)	–2.6	–2.8
EU-15	–5.3	–4.1	–2.5	–1.7	–0.7	0.9 (–0.3)	–0.9	–2.6
Euro area	–5.3	–4.2	–2.6	–2.2	–1.3	0.1 (–1.0)	–1.6	–2.7

[a] Figures based on http://www.eurostat.eu and economic forecasting by the Commission, autumn 2003. The exceptional revenue from UMTS licences had a significant impact on some member-states' budget deficits in 2000–2002. In these cases, the figure between brackets indicates the deficit without this additional revenue.
GDP, gross domestic product; UMTS, Universal Mobile Telecommunications System.

three broad aims: cost containment, reducing fraud and inefficiency, and removing dysfunctional programme features. The Amato reform came after decades of inaction and was the first major attempt to reduce pension expenditure. Moreover, the reform introduced the legal provisions necessary for the expansion of funded pension schemes in the second and third pillar. In the public system, the reform increased the minimum contribution period from 15 to 20 years, tightened the rules of seniority pensions, and increased the retirement age for men (65) and women (60) in the private sector by five years. In addition, it included provisions for the gradual harmonization of public and private sector pensions, introduced a more restrictive benefit formula and a shift from a wage indexing to price indexing, and increased contributions (Ferrera and Gualmini 2000). Although the Amato reform was important for promoting harmonization and cost containment, its impact on public pension spending was limited because of long phase-in periods (Ferrera and Jessoula 2007: 433). Unions initially opposed the reform but dropped their opposition after the government offered concessions. Speculative attacks against the Lira in late summer 1992 and Italy's resulting departure from the European Monetary System also created strong incentives for unions to co-operate in pension reform.

It was, however, not before the 1995 Dini government that Italy continued its reform efforts in line with the first Amato reform package. Although the 1994 Berlusconi reforms intended to tackle issues such as seniority pensions, the level of benefits for older workers and the pension of current retirees, the reforms did more to promote the interests of employers than unions. Not surprisingly, the reforms failed, largely because of union opposition and mobilization (Ferrera and Jessoula 2007: 435).

In 1995, the Dini government adopted another major reform package. This 'revolutionary' package (Ferrera and Gualmini 2000) was more ambitious than previous legislation in three respects: stabilizing pension spending as a proportion of GDP, reducing inequity and removing labour market disincentives. On 8 May 1995, the government signed a formal agreement with the unions, which later polled workers to get their approval of the reform draft (Baccaro 2002). More specifically, it included, starting in 2013, the switch from defined benefits to a notional defined contribution system, standardization of public and private sector pension regulations, the gradual abolition of seniority pensions, and the introduction of a flexible retirement age (Ferrera and Jessoula 2007).

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

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

(b) Belgium

The link between pension reform in Belgium and the goal of qualifying for EMU is less well known than the Italian case, but the two cases share striking similarities. In both cases, qualifying for EMU was defined as a national project requiring extraordinary policy making. To borrow from Kingdon (1984), EMU created a huge window for reform.

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

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

In April 1996, the cabinet requested 'special powers' from the Parliament in order to legislate framework laws in three areas: government finances, modernization of social security and employment. The government's strategy was obvious: this fast-track procedure would sidestep direct opposition and speed up decision making. The framework laws would set out the broad contours of policy, and a series of royal decrees would fill in the details of policy change. In other words, the government requested the Parliament's permission to allow it to take all necessary legislative steps to bring the deficit down to the EMU target of 3 per cent of GDP, and to restore financial health to the social security system, including pensions. The opposition's criticism of the government's strategy had little effect, and the discussion of the three laws in the lower chamber began on 12 June. Six weeks later, the lower chamber had approved all three framework laws.

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

The role of EMU membership was a crucial factor allowing the government to gain passage of social insurance and pension reform. As the governor of the Central Bank, Fons Verplaetse, put it, 'if Belgium misses the train for the European common currency, the unity of the country is endangered' (cited in Anderson *et al.* 2007).

5. Discussion

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

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

How do we reconcile these findings with our model? The obvious answer is that the run-up to EMU was an extraordinary episode in the history of

European integration, and until the current sovereign debt crisis, it was the only period in which the EMU constraint substantially influenced domestic fiscal policies. Italy's and Belgium's intense desire to qualify for EMU, and their negative experience with currency devaluation and high interest rates, created a political context in which key actors abandoned or reduced their traditional opposition to public pension reform. The weakening of the Stability and Growth Pact at the behest of Germany and France in the mid-2000s confirms this line of argument. In the absence of interest rate penalties, there was weak pressure on member-states to put their fiscal house in order. The 2010–2011 sovereign debt crisis dramatically changes the nature of the EMU constraint because punishingly high interest rates create strong incentives to undertake painful reforms, and this is precisely what we are witnessing in Greece, Italy and the other weak members of the Eurozone.

6. Conclusion

What do our findings suggest for the study of domestic adaptation to Europe? First, we emphasize the value of using carefully constructed theoretical arguments drawn from the literatures on comparative politics and public policy to explain domestic adaptation to European integration. If our goal is to understand how national governments adapt policies and practices to European requirements, however these are defined, it makes sense to start by asking what the existing literatures in specific policy fields or areas have to say about change. For social policy, this means looking at the welfare state literature; for environmental policy, this means drawing on insights from existing studies of national environmental policy making. It is not clear from the existing Europeanization literature that there is any added value in constructing *ad hoc* explanations for domestic adaptation. And if national adjustment is basically a domestic political game, it makes sense to use our existing models of institutional change to explain adaptation to Europe. Our analysis demonstrates the utility of drawing on existing explanations of policy change, even if our results were not always in line with expectations. We have shown that our model broadly explains the dynamics of change in the Belgian and Dutch implementation of Directive 79/7/EEC, and is partially successful in explaining the Italian and Belgian pension reforms in the run-up to EMU.

Second, we want to stress the importance of comparing national adaptations to different kinds of European pressures. If our models of domestic adaptation are any good, they should be able to explain not just the transposition of directives, but also the ways in which member-states adapt to the requirements of the Stability and Growth Pact, the completion of the internal market and other types of negative integration. As Schmidt (2008) argues, the bulk of the Europeanization literature ignores or downplays the impact of indirect pressures for change — negative integration. Our analysis demonstrates the utility of analysing the impact of both positive and negative integration on European welfare states.

Finally, our analysis highlights the dynamic nature of veto opportunities and possibilities for overcoming them. As the Italian and Belgian adaptation to the requirements of EMU demonstrates, external events may create incentives that are sufficient to close off, decrease or weaken the impact of veto opportunities. This can even occur in policy areas like pensions where important actors intensely favour the status quo. This suggests that theories based on veto opportunities need to consider more carefully the changing nature of actor preferences.

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Notes

1. There are important differences between veto points and veto players theory even though they share a focus on institutions that provide actors with opportunities to block legislation. Veto points theory emphasizes both formal and informal veto opportunities and thus includes a broader array of institutionalized blocking opportunities than veto players theory. Veto players theory relies on a narrower definition of veto opportunities, excluding, for example, the kinds of *de facto* veto opportunities that veto points theory includes (Tsebelis 1995).
2. The final version awarded the full couple's AOW pension to the pensioner over 65 with a spouse under 65 without her own income. If the younger spouse had her own income, the supplement for the spouse was proportionally reduced.
3. This was the first election after the constitutional reform. New laws, such as those on the reduced assembly size of the Parliament, three new regional parliaments, and separate competences between federal and subnational levels of government, had come into force in the past period.

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