

# **Accounting for Differences in the Spread of the Multipillar Paradigm: A Comparative Analysis of Five EU Social Insurance Countries\***

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## Abstract

In the past 10-15 years, calls for a different public-private mix in retirement income and the partial replacement of public pensions with occupational pensions and individual savings have grown louder. This paper addresses the spread of the multipillar paradigm in five EU countries with a traditionally strong public pillar (Finland, France, Germany, Spain, Sweden). It identifies national differences and analyses how these differences can be explained and what they tell us about the factors conducive to a change in policy paradigms and the spread of ideas.

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## 0. Introduction

Pension reform has always been confronted with the co-existence of different paradigms. In the post-war period, the traditional competition between the Bismarck and the Beveridge Model has evolved into the competition between what might be called the social insurance and the multipillar paradigm. Whereas the former stresses the role of public pension schemes in providing for old age, the latter sees public schemes as only one of three pillars of retirement income and argues for a greater role of occupational pensions and individual savings.

Over the past decade, the social insurance paradigm has increasingly come under fire. Most economists now argue for shifting the public-private mix of retirement income by partially replacing public pensions with occupational pensions and private savings. International organisations such as the World Bank (1994) or the OECD (2000) have endorsed the multipillar paradigm, and the latter has guided a series of comprehensive pension reforms in Latin America and Eastern Europe (Brooks 2002; Orenstein 2003; Müller 2003).

In the EU, the spread of the multipillar paradigm has been uneven (Kern and Theobald 2004). Not surprisingly, the multipillar paradigm has been most popular in countries that, in a way, have always had multipillar systems. In Denmark and the Netherlands, for instance, the new paradigm has provided a welcome retrospective justification for the already existing systems. However, substantial differences have also existed among the traditional social insurance countries. In some them, the multipillar paradigm is now broadly accepted; in others, the social insurance paradigm still dominates.

How come? So far little is known about the factors that have shaped the spread of the multipillar paradigm in the EU social insurance countries. To put it simply, while the literature on changes in policy paradigms and the diffusion of ideas has not dealt with pension reform, the comparative literature on pension policy in the EU has been relatively silent on the ideational dimensions of reform. This is a pity. For one thing, the spread of the multipillar paradigm is a nice case for studying the dynamics of paradigm shifts. For another, the general findings on the crucial role of ideas in explaining policy change, as well as anecdotal evidence for the field of pensions, suggest that the dynamics of pension reform cannot be understood without analysing the prevailing policy paradigms.

In this paper, I seek to identify the factors that have shaped the spread of the multipillar paradigm in the EU social insurance countries. I do so by featuring a comparative analysis of Finland, France, Germany, Spain and Sweden. These countries have all been strongholds of the social insurance paradigm in the past, but have differed strongly with regard to the spread of the multipillar paradigm. This applies both to the extent to which major actors have endorsed the new paradigm and to the particular way the paradigm has been defined and implemented. In Germany and Sweden, the multipillar paradigm is now endorsed by most policy-makers and has served as the basis for major pension reforms. In Finland and Spain, the social insurance paradigm still dominates. In France, advocates of the two paradigms have struggled fiercely over the design of pension reform.

In order to account for these differences, the paper draws on the literature on the change in policy paradigms and the spread and the diffusion of ideas (Hall 1993; Berman 2001). This literature has identified a number of variables that make the spread of a new paradigm more

likely. In the following, I analyse to what extent these variables have had a bearing on the spread of the multipillar paradigm in the five countries under analysis.<sup>1</sup>

The paper comes in four sections. The first section contrasts the social insurance and the multipillar paradigm and sketches the place of the latter in the current debates on pension reform in the EU (1.). The second section describes the spread of the multipillar paradigm in the five countries under analysis (2.). The third section discusses various explanations for these differences (3.). The paper concludes with a short summary (4.).

## 1. Competing Policy Paradigms in Pension Policy

Policy paradigms combine causal ideas about reality, normative beliefs and policy recipes (Hall 1993). In the current debates on pension reform, two such paradigms can be identified – the social insurance and the multipillar paradigm. Resting on different views on the functioning of markets and the role of the state, the two paradigms favour different public-private mixes in pensions. The social insurance paradigm stresses the role of public pension schemes and argues that public pensions can, and should, remain the main source of retirement income.<sup>2</sup> In contrast, the multipillar paradigm sees public pensions as only one of three pillars of retirement income and favours a greater role of occupational pensions and individual savings.<sup>3</sup>

The social insurance paradigm has emerged in tandem with the expansion of the welfare state in the post-war era. It builds on a combination of sceptic views on funding and the functioning of markets with a broad definition of the role of the state. The advocates of the social insurance paradigm question the superiority of funded pension schemes by pointing to the fact that whole societies cannot prepare for the future the same way like individuals; they highlight the transition costs associated with the move from a PAYG to a funded scheme; they stress the volatility of capital markets and the associated investment risks; they doubt the ability of individuals to take informed investment decisions and to prepare for retirement; finally, they fear that a stronger reliance on occupational pensions and individual savings will aggravate income inequalities among pensioners. These cognitive beliefs go hand in hand with the conviction that it is the state's duty to correct market failures, to protect citizens against market risks and to limit inequalities.

On the basis of these beliefs, the social insurance paradigm maintains that a public pension scheme is, and can and should remain, the key institution in safeguarding the living standard of pensioners. According to the paradigm, public pensions should be sufficiently high not only to prevent poverty, but to allow the bulk of pensioners to maintain their standard of

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<sup>1</sup> It goes without saying that this focus on the spread of the multipillar paradigm limits the scope of the analysis. First, the paper does not cover the whole range of ideas relevant for pension reform. In particular, it does not deal with ideas about early retirement. Secondly, the paper simply takes it for granted that ideas matter, but does not investigate the actual impact of ideas.

<sup>2</sup> Please note that this broad interpretation of the social insurance paradigm implies that the latter is not equated with the Bismarck model. This is because post-war developments have rendered the old debate about universal vs. contribution-related public pension claims less important. Today, the single most important difference in both economic and political terms is the one between countries with a dominant public pillar on the one hand and multipillar countries with substantial funded occupational pensions and individual retirement savings on the other (Bonoli 2003).

<sup>3</sup> As various authors have noted, it would be more appropriate to speak of 'tiers' rather than of 'pillars' (see, e.g., Barr 2000: 40). For pillars need to be of a broadly similar size in order to provide stability. However, I decided to stick to the pillar notion as it dominates in the literature.

living upon retirement. Occupational pensions and private savings are seen as supplementary sources of retirement income that might top up public pensions in the case of the better-off, but should not replace public pensions.

Compared to the social insurance paradigm, the multipillar paradigm rests both on a less sceptical position view on funding, capital markets and individual investment decisions and a more liberal position with regard to the state's role in the economy. The advocates of this paradigm argue that funding can help to promote capital markets and make a substantial contribution to reducing the economic burden associated with an ageing society; that a more balanced mix of the three pillars allows to diversify risks; and that market risks should not be exaggerated. In normative terms, the multipillar paradigm puts more emphasis on freedom of choice.

According to the multipillar paradigm, occupational pensions and private savings should play a substantial role in income maintenance upon retirement. Views on the size and the particular design of the three pillar differ. Arguably the single most important proposal for a multipillar pension system has been floated by the World Bank (1994; see also Holzmann 2000). The latter has suggested a system consisting of a mandatory, tax-financed and publicly managed, unfunded pillar and two funded and privately managed pillars – one mandatory, one voluntary – as the 'best way for most countries' (World Bank 1994: 292). However, this is but one possible model of a multipillar system. Alternatively, one could think of multipillar systems with a first pillar financed by social insurance contributions or without mandatory occupational pensions or private savings.<sup>4</sup>

In the 1990s, a number of developments have favoured the spread of the multipillar paradigm:

- The shifts in the economic *Zeitgeist* have not left views on pensions untouched. In most countries, a broad majority of economists now argue in favour of multipillar schemes.<sup>5</sup>
- Traditional multipillar countries such as the Netherlands or Switzerland have been quite successful in containing the rise in social insurance contributions and in public spending on pensions (Bonoli 2003: 402-406). In contrast, high and rising contribution rates in social insurance countries have raised economic concerns and have provoked political resistance. At the same time, the favourable stock market development during most of the 1990s has limited the awareness of the risks associated with funding.
- A series of pension reforms in the 1990s have demonstrated that the transition costs associated with a move from a pay-as-you-go scheme to a partially funded system do not necessarily rule out reforms (Brooks 2002; Müller 2003). In a number of countries in Latin America and Eastern Europe, the shift to a multipillar system has turned out to be surprisingly popular. The introduction of individual accounts and the encouragement of private provisioning have offered new opportunities of credit claiming in an era of blame avoidance (Natali and Rhodes 2003: 5).
- Provoked by cuts in public pensions and a weakening trust in public pension schemes, individual savings for old age have increased in most West European countries (Bonoli

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<sup>4</sup> At this point, a further terminological issue surfaces. The World Bank defines the second pillar as a mandatory and the third pillar as a voluntary privately managed pillar. This differs from the understanding in most European countries and by the European Commission. Here, the main distinction is drawn between occupational schemes (second pillar) and private savings (third pillar).

<sup>5</sup> For balanced summaries of the economic discussion, see Barr 2000 and Breyer 2000.

and Palier 2000). As a result, citizens have become increasingly accustomed with private forms of provisioning and have called on governments to improve the conditions for individual retirement savings. Moreover, the official endorsement of the multipillar paradigm has become seen as the acknowledgment and ratification of a ‘spontaneous’ development that is occurring anyway.

## 2. Differences in the Spread of the Multipillar Paradigm in Finland, France, Germany, Spain and Sweden

The five countries under analysis traditionally have been committed to the social insurance paradigm. As the figures in Tab. 1 document, they all have been characterized by comprehensive public pension schemes, high public pensions and a limited role for other forms of retirement income. This does not only mean that the social insurance paradigm has been deeply ingrained in the ‘hearts and minds’ of actors. Comprehensive public pillars have also increased the economic and political costs associated with the transition from a PAYG to a funded system. Moreover, these shared legacies have gone hand in hand with broadly similar economic and demographic challenges (Bonoli 2003).

Tab. 1: The Importance of Different Pillars of Retirement Income

	Public Pension Spending (% GDP), 1995	Average public pension as share of income per capita, 1994/95	Expected replacement rate at 55 for a full career worker, 1995	Share of public pensions in total gross household income of all pensioner households (%), 1989/90	Private Pension Fund Assets (% GDP), 2000
Finland	12.9	57.4	60	na	40.8
France	13.3	na	65	80.9	5.6
Germany	12.0	62.8	55	83.3	5.8
Spain	10.6	54.1	100	75.2	5.7
Sweden	11.4	78.0	74	na	32.6

Sources: Palacios and Pallarès-Miralles 2000: Tabs 4.2a, 4.6a, 4.6c; Gillion et al. 2000: Tab. A.10; Taylor-Gooby 2001: Tab. 1.5.

These commonalities have gone hand in hand with some differences in the design of public pensions. Within the context of this paper, two differences stand out: First, unlike in Germany and Spain, the public pension pillars in Finland, France and Sweden traditionally have consisted of two tiers – one state-run, one based on collective bargaining. A second difference concerns funding. In the 1970s and 1980s, Finland and Sweden retained stronger elements of funding within their public pension schemes than the three other countries. In Finland, private pension funds were engaged in investing part of the contributions. In Sweden, a number of collective investment funds existed. In the three other countries, funding within the public

schemes was confined to schemes for special groups or the accumulation of contingency reserves.

Despite of the broadly similar background of the five countries under analysis, substantial differences in the spread of the multipillar paradigm can be identified. This applies both to the extent to which major actors have endorsed the new paradigm and to the particular way the paradigm has been defined and implemented.

In *Finland* and *Spain*, the multipillar paradigm so far has played a relatively minor role in debates on pension reform (Lassila and Valkonen 2002; Timonen 2003; Blanco Angel 2002; Rodríguez-Cabrero 2002). While some economists and business representatives have called for a shift in the public-private mix, the major political parties, the unions and the bulk of the pension policy community in both countries have stuck to the social insurance paradigm. In line with this commitment, the reforms that have been adopted in both countries since the early 1990s have aimed at maintaining high replacement rates and have been confined to reforms within the existing schemes. As a result, private provisioning for old age has remained limited.

In *France*, calls for moving to a multipillar system have been louder than in Finland and Spain. The introduction, and promotion, of private pension funds has been a major issue since the early 1990s. While the idea of supplementing the public pension scheme by private pension funds still is contested, it has gradually gained ground among the political actors. So far, however, there is little agreement on the design of these funds and the weight of the new pillar (Bozec and Mays 2001; Blanchet and Legros 2002; Clark 2003: Chap. 3; Mandin and Palier 2003).

The French debate about a new public-private mix in pensions was opened in 1991 by a White Paper published by the French Federation of Insurers (FFSA). This paper triggered a series of other proposals to strengthen occupational pensions and individual savings. Initially, such proposals met strong resistance. They were rejected not only by the trade unions and the political left, but by the traditional policy community and the conservative government as well. Both the Balladur and the Juppé government emphasized their commitment to the social insurance paradigm and confined themselves to reforms within the existing public pension scheme. It was not before 1996 that the Juppé government gave in to pressure from within parliament and backed the initiative of a liberal MP to introduce, and promote, new pension funds.

The Jospin government, which took over in 1997, paid strong tribute to the social insurance paradigm and distanced itself from any attempt to replace public pensions with occupational pensions or private savings. It prevented the enactment of the Thomas Law, which it had criticized for undermining the viability of the public pension scheme. Moreover, it introduced a reserve fund within the public scheme as an 'collective' alternative to 'private' funding. The Jospin government's rejection of a multipillar system was backed by a number of reports on the reform of pensions that were published in the late 1990s.

More recently, however, opposition to private pension funds on the left and among trade unions has weakened. For one thing, pension funds have been increasingly endorsed as a means to limit the dominance of American and British investors on European capital markets. For another, the left has discovered that pension funds might be a way of empowering workers and of strengthening the position of the unions. While most actors still emphasize that such funds should not replace public pensions, the weakening opposition to the

promotion of pension funds might be seen as sign of an emerging consensus on the shift to a multipillar system (Mandin and Palier 2003: 13f.).

In *Sweden* and *Germany*, such consensus already exists. In both countries, the major political actors now endorse the multipillar paradigm. The spread of the new paradigm has manifested itself in the passage of pension reforms that have changed substantially the public-private mix in retirement income.

Sweden is widely seen as a pioneer of moving to a multipillar system (Palmer 2002; Timonen 2003). Part of the comprehensive pension reform drawn up between 1991 and 1998 was the introduction of a new private pillar. Since 2000, social insurance contributions worth 2.5 (out of 18.5) percentage points are transferred to an individual account and can be invested freely by the insured in up to 5 out of more than 600 investment funds. Upon retirement, the accumulated savings are used to top up the public pension.

The introduction of the so-called premium pension scheme was part of compromise between the conservative and liberal parties on the one hand and the social democrats and the unions on the other. While both camps agreed on the desirability of stronger funding, they held different views on the design of reforms. The conservative and liberal parties wanted to replace the collective funds, which they had always hated, with individual accounts. In contrast, the Social Democrats argued for the strengthening of collective funds. At the end, a compromise emerged – the introduction of a relatively small private pillar. This compromise was favoured by the overall design of the Swedish pension reform. The premium pension account fit nicely with the new notional accounts, one of the key elements of the reform of the first pillar.

While the Swedish reform originally was a compromise rather than the expression of a shared endorsement of a new paradigm, the multipillar paradigm is now broadly accepted. Despite of the devastating effect of the stock market crash on premium pensions, the Social Democrats have stuck to the newly introduced system and have not questioned the compromise.

In Germany, the social insurance paradigm dominated among decision-makers until the late 1990s (Nullmeier 1997; Meyer 1998). Up to that time, a broad coalition of the majority of the Christian Democrats, the Social Democrats, the trade unions and the bulk of the social policy community defended the social insurance paradigm. The pension reforms adopted in 1989 and 1996/7, both drawn up under Norbert Blüm, Chancellor Kohl's long-serving Minister of Labour, boiled down to changes within the existing pay-as-you-go system.

Since 1998, a change in paradigm has taken place (Bönker 2004). The famous Riester Reform combined further cuts in public pensions with high subsidies for new private supplementary funds (Bönker and Wollmann 2001: 86-89). This reform was complemented by attempts to strengthen occupational pensions. Moreover, in 2004 parliament passed a law on the taxation of pension and retirement incomes which provides for a gradual transition to the deferred taxation of pensions and is supposed to be a further stimulus to the expansion of occupational pensions and individual pension plans. These measures have aimed at transforming the public-private mix in retirement income. Unlike in Sweden, the new pillar has not been mandatory. Initial plans to make it mandatory met resistance both within and outside the governing coalition.

The pension policy of the red-green government has been criticized by the opposition parties and the trade unions. The opposition of the conservative and liberal parties has been

motivated primarily by electoral considerations and differences in details. Like the governing coalition, the CDU/CSU and the FDP now advocate a multipillar system. In contrast, the unions still defend the social insurance paradigm. However, this has not prevented them from eventually supporting the 2001 Pension Reform.

### 3. How to Account for Cross-Country Differences in the Spread of the Multipillar Paradigm

How can these cross-country differences be explained? Why has the multipillar paradigm been endorsed in some countries, but not in others? The literature on the change in policy paradigms and the spread of ideas draws the attention to a number of potentially relevant explanatory factors (Hall 1989, 1993; Berman 2001; Walsh 2000; Daguerre and Taylor-Gooby 2004; Schmidt 2002: 225-230). Four of these factors stand out – the apparent exhaustion of the old paradigm, the ideological compatibility of the new paradigm, the backing by major interest groups and the presence of foreign models. In the following, I discuss to what extent they can account for the described cross-country differences in the spread of the multipillar paradigm.

(i) A standard finding of the literature is that the spread of a new policy paradigm is the more likely the more discredited the old paradigm is. If policies based on the old paradigm have failed or if the old paradigm looks exhausted and unable to address new challenges, the new paradigm will attract more support. The rise of Keynesianism, for instance, is closely linked to experience of the Great Depression. Similarly, the victory of monetarism was facilitated by the fact that Keynesianism had no place for stagflation and Keynesian economic policy apparently had failed to reduce unemployment (Hall 1993).

Have there been differences in the apparent failure and exhaustion of the social insurance paradigm in the five countries under analysis and do they account for the national differences in the spread of the multipillar paradigm? A comparative analysis suggests a positive answer to both questions. While all five countries have shared a comprehensive public pension pillar and broadly similar economic and demographic challenges, trust in the viability of the existing pension scheme has differed.

In Germany, the impression that the social insurance paradigm has been exhausted has been strongest. Since the second half of the 1990s, the general sense of crisis, the continuing short-term pressure on contribution rates and the fact that most reforms of the PAYG scheme have failed to meet their targets have substantially reduced the trust in reforms within the framework of the existing system. Moreover, policy-makers have increasingly run out of options (Lamping and Rüb 2001). Most of the instruments they had used in the past have no longer been available: increases in contribution rates have been tabooed; as a result of various increases in the federal grant, almost all non-contributory benefits have been tax-financed; further cuts in pensions have not only been politically difficult, but have threatened to bring standard pensions close to social assistance; an increase in the retirement age has been strongly opposed by the unions and has been difficult to sell in a situation of high unemployment. In this situation, the move to a multipillar system has offered policy-makers a promising, politically attractive way out.<sup>6</sup>

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<sup>6</sup> The social insurance paradigm was exhausted in a political way, too. The new red-green government, that came to office in 1998, had denounced and suspended the reforms of the Kohl government and thus was desperately looking for something new and different.

In Sweden, the paradigm shift was preceded by dwindling trust in the old pension system as well. Concerns over the sustainability of the pension scheme rose in the late 1980s. They were aggravated by Sweden's severe short-term economic problems in the early 1990s. The coincidence of both developments favoured a radical rethinking (Palmer 2002). Unlike in Germany, however, the endorsement of the multipillar paradigm was not preceded by a series of earlier reforms on the basis of the social insurance paradigm.

In Finland, France and Spain, the challenges to the social insurance paradigm were weaker than in Germany and Sweden. For one thing, short-term reform pressures were less severe. The Finnish economic slump in the early 1990s could more easily be attributed to exogenous factors than the Swedish. The French and Spanish economies performed much better than the German during the 1990s, especially during the second half of the 1990s. Moreover, reform options on the basis of social insurance paradigm have been less exhausted than in Germany. In Finland, the traditional elements of funding within the pension scheme have provided additional instruments for addressing the demographic challenge on the basis of the existing scheme. In France and Spain, the scope for increasing state grants to the statutory pension schemes has been less restricted than in Germany. Both factors – the weaker short-term pressures and the broader range of 'immanent' reform options – have strengthened the position of the social insurance paradigm in Finland, France and Spain.

(ii) A second factor that might shape the spread of a new policy paradigm is its compatibility with a country's ideological traditions. As Sikking (1991: 2) has put it, 'new ideas do not enter an ideological vacuum. They are inserted into a political space already occupied by historically formed ideologies. Whether or not consolidation occurs often depends on the degree to which the new model fits with existing ideologies.'

The question, then, is whether differences in ideological fit have played a role in pensions. As with the exhaustion of the old paradigm, the answer is positive. For a number of reasons, the ideological ground has been more favourable to the spread of the multipillar paradigm in Sweden and Germany than in Finland, France and Spain.

As for Sweden, it is often argued that the new private pillar builds on the long tradition of collective funding and forced savings (see, e.g., Myles and Pierson 2001: 319). It should be noted though that Finland has had a tradition of funding, too, but has not seen a move to a multipillar system. However, Scandinavian observers have been quick to point at other cultural differences between Finland and Sweden such as a stronger tradition of individual investment in Sweden (Timonen 2003: 10).

In the German case, the embrace of the multipillar paradigm has been favoured by the fact that the discourse on social insurance has always downplayed the difference between social and private insurance. Politicians traditionally have emphasised the strong contribution-benefit nexus and the property-like status of benefit claims. This 'individualized' reading of the social insurance scheme has nurtured the impression that the strengthening of individual provisioning represents a modernization of, rather than a break with, the traditional system.<sup>7</sup>

In France and Spain, the ideological ground has been less favourable to the spread of the multipillar paradigm. Especially in France, market scepticism has loomed large. The desperate attempts of French politicians to emphasize the differences between French and

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<sup>7</sup> The fact that the introduction of personal accounts in Sweden has gone hand in hand with a strengthening of the contribution-benefit nexus lends further support to this argument.

Angloamerican pension funds nicely document the strong reservations against everything that looks like Anglosaxon capitalism.

(iii) A third finding of the ideas literature is that the spread of a new policy paradigm is more likely if it is backed by powerful interest groups and/or does not meet strong resistance by entrenched interests. Interest groups can mobilize for or against a paradigm by staging demonstrations or by influencing public opinion.

As for the spread of the multipillar paradigm, three interest groups seem to be of particular relevance – the financial services industry, employers and unions. For the financial services industry, the strengthening of occupational pensions and of individual retirement savings means new business opportunities. That is why it has tended to argue for a multipillar system in all countries. For employers, the move to a multipillar system primarily offers the prospect of lower non-wage labour costs. From the point of view of trade unions, a scaling back of the first pillar is likely to hurt the interests of their constituency. If the trade unions are involved in the administration of the social insurance scheme, it will also reduce their resources. At the same time, however, the promotion of occupational pensions might open up new opportunities by creating positions, by providing new forms of influence and by strengthening incentives for membership (Schludi 2001: 26-30; Natali and Rhodes 2003: 6-8).

Can the differences in the spread of the multipillar paradigm be explained by differences in the strength and the orientation of these actors? As for the financial services industry and employers, no major differences in the power and the positions of these actors can be identified. Both have supported the move to a multipillar system in a broadly similar manner in all five countries. Also, there is little evidence that the greater spread of the multipillar paradigm in Germany and Sweden can be attributed to a higher leverage of the business sector.

More relevant might have been differences in the position of trade unions. While the unions have been staunch defenders of the social insurance paradigm in all five countries under analysis, their receptiveness to a strengthening of supplementary pillars have differed. In Germany, the unions have been quick to realize the opportunities associated with the new private pillar. They have tried to sustain their strong, but weakening position at the industry level by offering attractive 'Riester products' within the framework of collective bargaining. This is not to say that the unions have explicitly endorsed the multipillar paradigm. However, their embrace of the new pillar has weakened their opposition to reforms and has improved their overall acceptance.

In the other countries, the unions have taken an even more sceptical position towards the multipillar paradigm. This is most visible in the French case (Mandin and Palier 2003). The French unions have strongly benefited from their involvement in the administration of the social insurance scheme. For that reason, they have opposed any move to a multipillar system for so long. It is only recently that French unions have discovered that certain savings and pension schemes on the firm level might offer them new jobs and forms of influence. This gradual change in position has contributed to the weakening opposition to the multipillar paradigm in France. It may also account for the particular design the French multipillar system might take.

(iv) A fourth factor that has been found to influence the spread of ideas is the existence of foreign models. A new policy paradigm is more likely to spread if it is advocated by those who can refer to experience in a 'peer country' (Brooks 2003) that demonstrates the feasibility and superiority

of the new approach. A good case in point is the strong influence that a positive evaluation of the track record of the German Bundesbank had on monetary policy doctrine in France and Italy (McNamara 1998). The influence of foreign models can be further strengthened through established patterns of communication and contact between model and borrowing countries (Daguerre and Taylor-Gooby 2004).

As for the spread of the multipillar paradigm, the evidence is mixed. In Germany, a positive reading of the Swiss, Swedish and, in particular, Dutch case has contributed to the change in paradigms. In the other countries, positively connotated foreign models have featured less prominently in reform debates. In Sweden, this reflects the country's status as a 'first mover'. In Finland, France and Spain, the absence of foreign models has hindered the spread of the multipillar paradigm.

In Germany, foreign models have played a prominent role in the debate on pension reform. This particularly applies to the Dutch case. In the second half of the 1990s, Germany has been flooded by publications on the Dutch model. The sense of crisis that spread in the mid-1990s has made the country receptive to lessons from abroad. Analysts from different camps have portrayed the Dutch 'capuccino model' as a model for Germany. The Netherlands not only provided an apparently functioning model. Reference to the Netherlands also helped to limit the neoliberal connotations of the multipillar paradigm.

In the four other cases, the Netherlands have featured much less prominently in debates on pension reform. At least in Finland and France, the multipillar paradigm has been associated with 'negative' rather than 'positive' models. In France, the countries of reference have been the UK and the US. The move to a multipillar system has been widely perceived as a move towards Atlantic capitalism. In Finland, policy-makers have closely watched the Swedish experience. The practical problems with the private pillar in Sweden – most notably the high administrative costs and the weak performance of the investment funds – have not made Sweden a model to emulate, but have nurtured the reservations against the multipillar paradigm.

Given the absence of foreign models in the Swedish case, differences in the dominant foreign models thus seem to play only a limited role in accounting for differences in the spread of the multipillar paradigm in the five countries under analysis. Moreover, the comparison suggests that the timing of reform debates has been important. In the German case, the multipillar paradigm gained ground in the time of booming stock markets and the heydays of the Dutch model. In contrast, the more recent pension reform debates in Finland, France and Spain took place after the stock market crash and Enron. Thus, the perception of foreign experience and the availability of 'positive' models have not been influenced by geographical or cultural proximity alone, but have been shaped by the timing of reform debates as well.

#### 4. Conclusion

This paper has dealt with differences in the spread of the multipillar paradigm in Finland, France, Germany, Spain and Sweden, five EU social insurance countries. Drawing on the literature on the change in policy paradigms and the diffusion of ideas, it has discussed the role of four major explanatory factors – the apparent exhaustion of the old paradigm, the ideological compatibility of the new paradigm, the support by major interest groups and the presence of foreign models – in accounting for national differences. As the analysis has shown, these factors in fact help understand why the multipillar paradigm has gained more

ground in Germany and Sweden than in Finland, France and Spain. In Germany, the trust in the social insurance paradigm has been especially low. Moreover, a fertile ideological ground, the existence of a ‚positive‘ foreign model and the ambivalent position of trade unions have further favoured the spread of the multipillar system. In Sweden, foreign models and the interests of trade unions played a weaker role. Here, the paradigm shift was mainly favoured by the extraordinarily strong decline in trust in the old paradigm in the early 1990s and a number of supportive ideological traditions. In contrast, conditions in Finland, France and Spain have been less conducive to the spread of the multipillar paradigm.

The analysis also raises a number of issues for future research. To start with, it would be interesting to look at other potential determinants of the spread of the multipillar paradigm. Two such determinants come into mind – the existence of strong policy entrepreneurs as well as changes in the relevant policy community caused by generational change or changes in political majorities. The analysis of these two factors is also likely to shed some light on a second issue, namely the puzzling differences between the German and the Swedish case. While Germany looks very much like a textbook case for the spread of a new policy paradigm, Sweden does much less so. Not only that there was no clear foreign model. Unlike in Germany, the spread of the multipillar paradigm was not preceded by a series of more traditional reforms either. These differences cry for explanation and, from a more general perspective, might help identify different ways new ideas can spread.

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