

The future of the welfare state: paths of social policy innovation between constraints and opportunities

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Corporate labour requirements, institutional legacies and occupational pension reform in Britain and Germany

Paul Bridgen*, Traute Meyer**

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Stream 5: The Role of Enterprises in Welfare Provision:

Complexifying the Welfare mix?

* School of Social Sciences, University of Southampton, UK
e-mail: Paul.Bridgen@soton.ac.uk

** School of Social Sciences, University of Southampton, UK
e-mail: T.Meyer@soton.ac.uk

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The social expectations placed on employers in welfare states have been increasing. In a range of policy areas companies have been expected to do more (see Martin 2004 on unemployment; Fleckenstein/Seelib Kaiser 2008 on family policy). This has been particularly the case in pensions, where many governments have looked to the occupational arena as a means of filling the gaps left by the retrenchment of state provision. In the face of severe exogenous pressures (demographic and economic) on the state employers have come to be regarded as a vital component of a more 'sustainable' pension system, one in which the responsibilities and risks of welfare provision are shared to a greater extent than for most of the post-war period between state and non-state actors (companies and individuals). In countries where the welfare role of non-state providers was already quite formalised, such as Britain, employers have been asked to increase their role; in countries where non-state provision was more informal and/or less extensive, such as Germany, they have been expected to take on a larger, more formal role. In Britain, this policy has run into problems: rather than increasing their responsibilities most companies have significantly reduced them in recent years (Bridgen/Meyer 2005). Thus while from 2012 all companies will be compelled to pay a phased minimum contribution (3 per cent probably by 2015) into a pension scheme for their enrolled employees (DWP 2006), the fear is that employers who already provide will reduce their provision to this minimum level (Pensions Policy Institute 2006). In Germany, recent developments have been more positive. The 2001 reform encouraged the greater use of collective agreements as a facilitator of provision. It was followed by a significant increase in pension coverage (TNS Infratest 2007), although this remains far from universal and some of the older defined benefit 'book reserve' schemes have been closed to new members.

On the face of it these developments appear consistent with the type of 'dual convergence' (Hall/Soskice 2001) or 'family of nations' reform dynamics (Myles/Pierson 2001: 317) predicted by the varieties of capitalism and welfare regime frameworks. Rather than convergence in the face of exogenous pressures, these frameworks expect reforms in different regimes to be path dependent on the basis of the existing institutional logic. Liberal market economies such as Britain are generally expected to become more liberal in the face of greater competitive pressures, even in the face of possible attempts by government to resist this, while change in coordinated/conservative market economies is expected to be constrained by a consensual desire for the maintenance of existing forms of economic and social coordination. Recent changes in the two countries have certainly been explained in this way: retrenchment in the British occupational system has been strongly linked with financial globalisation, to which British companies it has been argued are particularly susceptible because of their reliance on stock market finance and the emphasis on shareholder value in corporate governance (eg Cutler/Waine 2001). Likewise, while recent developments in Germany are more controversial, some commentators have regarded them as involving an *adjustment* of German corporatism which has developed new ways to solve traditional social problems (Trampusch 2005, cited in Riedmuller/Willert 2007). On readings such as this, the public/private mix has certainly been altered but important elements of the traditional German welfare state have been preserved intact (see Hyde/Dixon/Drover 2003).

Yet our knowledge of occupational pension scheme change in both countries is actually quite thin. We know little about areas important to assess thoroughly the type of change that occurred in Britain: what has been its timing by company and sector and to what extent does the quality of new schemes vary, perhaps in accordance with skill requirements. Existing explanations of these developments have been over-reliant on a top-down, structural approach with little attention given to the possible influence of institutional legacies, contingent factors and actors. In Germany, we know even less about the generosity of new schemes and hardly anything about possible variations between sectors. Again, has employer

commitment been greater in sectors where skill needs are greatest or where unions are strong? Have changes in the older 'book reserve' system been similarly patterned?

Against this background, this paper will trace the development of occupational pension provision in Britain and Germany as part of the public/private pension mix from the middle of the last century to the present day. We assess the extent to which the systems in both countries were in accord with their regime type before the mid-1990s and outline how their institutional legacies have affected recent developments. Our main argument is that institutional legacies, which today are important parts of the public private pension settlements in both countries are not always the product of any 'regime logic' but are often unintended consequences of separate action taken by the state and/or companies. This acts to complexify the welfare mix in the different types of regime. As part of this argument we highlight the important role public policy has played in shaping institutional arrangements, and show that this influence was often independent of strategic interaction between employers and labour unions. We argue that the impact of these legacies on recent reform processes in the occupational sector in both countries has been diverse: some have operated as forces of stability; others have been forces for change either through the generation of negative feedback (Thelen/Van Wijnbergen 2003) or the opportunities they have offered policy-makers for institutional displacement and/or conversion (see Streeck/Thelen 2005). However, the overall effect we argue is that recent developments in occupational provision in Britain and Germany have not been in line with the predictions of regime theory. Retrenchment in Britain has been less far-reaching than would be expected because employers have been constrained by formal and informal institutional legacies; the growth in occupational provision in Germany, on the other hand, mainly takes the form of a state-driven 'blame avoidance' exercise (Trampusch 2007), with employer's commitment low and eased by a number of 'institutional gates' (Ferrera/Jessoula 2007) which minimise the costs of the new occupational arrangements. Consequently, the occupational systems in the two countries have converged in terms of their nature and role.

The analysis is undertaken on the basis of historical data and secondary historical analysis, contemporary company reports and other public documents issued by the main policy actors as well as interviews with British employers and insurers. The paper is organised in the following way. In the next section, we develop an analytical framework on the basis of a review of the theoretical literature. On the basis of this framework, we then trace the development occupational pension provision in Britain and Germany in the 'golden age' of welfare, emphasising in particular elements of institutional 'incoherence' (Streeck/Thelen 2005: 19-20). In the later sections we show the diverse ways in which institutional legacies generated during the 'golden age' have influenced contemporary developments in the face of severe exogenous pressures for change.

Occupational pensions and the welfare mix: power resources and the varieties of capitalism

The scale and nature of the non-state sector in different national settings has not been a primary concern of the literature on welfare state development. The main focus has been on explaining the varying cross national welfare role of the state with developments in the non-state sector viewed largely consequentially. Thus, where the role of the state in welfare provision is large, in social democratic regimes, the non state sector is small; where the state's role is small, in liberal regimes the non-state sector is larger (Esping Andersen 1990: 53). The dominance of the power resources model in this literature has meant that the emphasis has been on the power of labour, expressed through industrial or political institutions, as the main determinant of cross-national variation between welfare systems, and

thus the comparative size of non-state provision. Where labour is weak a large role would be expected for market welfare provision.

This literature has given little space for employers other than as opponents of social policy development. For the most part, it has been assumed that employers' interests were fundamentally inconsistent with anything more than a residual level of social provision. Employers might sometimes *consent* to social policy development but they never regard it as a 'first order preference' (Korpi 2006). Their first order preference is for policies that 'situate distributive processes in the context of markets' (Korpi 2006: 173). It is only where the power of other actors has been increased either through the ballot box or through industrial strength that employers have conceded ground.ⁱ Voluntary provision of occupational welfare by companies might occur but is primarily for better paid workers and deficient with respect to interests of waged labour. It is the product of pressure from '[i]nterest organizations of the economically well endowed [who] favor policies insuring their risks via private or occupational programs within the market-property nexus, where they derive advantage from their lesser risks and greater resources' (Korpi 2006: 182). It is only when companies have been pressed by unions that such schemes have been extended. This has generated some quite extensive occupational welfare systems. Where, for example, working class mobilisation occurred first in the industrial sphere, such as in the Netherlands, social policy development took the form of the extension of pre-existing occupationally-based provision rather than an extension of the state's activities (Trampusch 2007). However, this differs from voluntary occupational provision in more liberal settings in terms of its scope (coverage is almost universal) and the level of union involvement in its administration (Anderson 2007).

The implication of the power resource model that employers are largely without independent interests in social provision has always been contested but this challenge has become stronger and directed more concertedly at existing welfare state theory in the last decade. The management literature has for long viewed the provision of occupational welfare by some employers as related to their own business interest rather than the product of pressure either from unions or professional interests. Businesses establish such schemes it is suggested to attract and motivate workers (Olian/Carroll/Schneider 1985); manage labour turnover (eg Lazear 1990; Ellwood 1985; Korlikoff/Wise 1987; Taylor 2000); and in the case of pensions legitimate the retirement of older workers (Ellwood 1985; Stock/Wise 1988; Handa 1994). Occupational pensions in particular have often been regarded as an important component of internal labour market policies designed to encourage worker commitment and the establishment of long-term firm/labour relationships (eg Siebert/Addison 1991). The need for such policies has been most associated with large companies and/or those with company-specific training needs, although in tight labour markets, it has been suggested that companies become concerned to attract and retain skilled workers of all descriptions (quoted in Fleckenstein/Seelib Kaiser 2008). In relation to training, they are viewed, from the company perspective as a means for retaining workers in whom they have invested and, for workers, as a device to increase confidence about the long-term commitment of firms and thus the benefits of undertaking training specifically related to the companies' activities (Becker 1975).ⁱⁱ

It is on the basis of these ideas that more general arguments have been made about employers' social policy interests, not just in private provision, but also in that provided by the state. This literature, generally associated with the varieties of capitalism framework, developed as a direct challenge to much existing welfare state theory because it questioned the dominant role of labour in explaining differences in the state's role. Employers, on this reading, could in certain circumstances, be led by their firm-based interests in social provision to support state provision. Thus, Mares (2001) suggests that where state benefits "reproduce" and "mirror" the wage differentials established within the firm, and thus create

incentives for workers to invest in skills' they can fulfil the same function as occupational provision designed for this purpose (2001:196). For reasons of control, such high-skill companies will prefer to undertake such activities themselves but due to cost constraints this might not be possible for smaller companies nor larger companies whose workforce is particularly susceptible to the insured risk (2001: 196-7). Estevez-Abe et al specify more precisely the link between company skill requirements and possible support for state welfare provision,ⁱⁱⁱ splitting specific skilled labour into two types, firm-specific and industry-specific. Companies which require firm-specific skills they suggest will be more interested in occupational provision than state provision: because such skills are in theory only of use within the firm, workers need to be reassured about the firm's long-term commitment before agreeing to undertake training. In contrast, workers in companies which require industry-specific skills are less reliant on the company in which they work for their long-term security due to the greater transferability of their skills. They need to be reassured that they will be protected during any periods of unemployment (2001: 152) leading their employers to favour state provision as a more credible guarantee of protection than the company can provide (2001: 145).

These variations in the interests of companies in social provision are according to proponents of the varieties of capitalism framework a significantly underestimated explanation of cross-national variations in social protection (Estevez-Abe et al 2001: 180-1). Thus where firms with industry specific skill requirements predominate they will push for state welfare to accord with their particular requirements; a large state sector would be expected consistent with the industrial achievement-performance model of social policy' (Titmuss 1974; Manow 2001a: 157). In such circumstances where in addition some companies also had strong specific skill requirements one would expect to see the large state system complemented with a significant occupational sector. In contrast, in countries where specific skill companies are in the minority, state provision would be expected to be residual. The minority of companies which do have specific skill requirements would have to rely on occupational provision.

Varieties of welfare capitalism and critiques

In terms of explaining the nature of the welfare mix at any given place and time, the varieties of capitalism framework thus suggests the need to disaggregate employers' and unions' welfare interests on the basis of their position in the labour market, and emphasises the importance at a micro-level of non-state provision on the formation of welfare interests . Labour remains important, but the 'overemphasis' in the power resources model of working class ideology and politics is said to exaggerate the decommodification aspect of the welfare state and underplay the interaction between advanced welfare states and contemporary capitalism (Hall/Soskice 2001; Estevez-Abe et al 2001: 181; see also Ebbinghaus/Manow 2001: 11). Indeed, most recent work in this area has emphasised the continuities between welfare regimes and production systems, ie the fact that liberal welfare states tend also to be liberal market economies. It has sought to explain the pattern of welfare provision in different locations as the product of strategic interaction between labour and capital with the policy stance of neither side assumed in advance (Ebbinghaus/Manow 2001; Hall 2007; Iversen/Stephens 2008).

If the varieties of capitalism framework developed at least in part as a critique of welfare state theory, it too has been the subject of substantial criticism (for a review see Hancké/Rhodes/Thatcher 2007). With regard to the concerns of this paper, the most important element of this response relates to criticisms of the functionalist and rational choice bias of the models' explanation of welfare variation (Howell 2003, quoted in

Hancké/Rhodes/Thatcher 2007), and its neglect of public policy (Wood 2001; Schmidt 2002). From the perspective of historical institutionalists the model on this basis pays too little attention to the importance of ‘unintended consequences and unforeseen contingencies’ (Ebbinghaus/Manow 2001:17) in the development of public/private welfare regimes and thus overestimates their institutional coherence (Streeck/Thelen 2005: 1920). For this reason they are biased in favour of stability because they underplay the potential sources of incremental transformation within existing institutional arrangements (Streeck/Thelen 2005). From the perspective of sociologists, the varieties of capitalism framework provides a model of change without agency, with companies in particular implausibly represented as de-contextualised unitary entities which make decisions systematically and independently on the basis of a cost/benefit analysis (eg Martin 1995) These concerns lead to a more general warning that overarching models can neglect important country variations which might impact on national responses to change (Crouch 2005: 440, 49-50; Silvia 2007: 1436; see also Thelen/Van Wijnbergen, 2003: 860, 69) and are sometimes less successful in identifying and explaining contemporary developments (Crouch 2005: 444; Streeck/Thelen, 2005; Pierson, 2001).

It is on the basis of the theoretical insights generated in the above debates that we proceed in the following sections to trace the development of occupational pensions as part of the public/private pension mix in Britain and Germany from the middle part of the twentieth century. In the next two sections we assess the fit between the two countries’ occupational pension systems and their respective model of welfare regime.^{iv} We identify important country variations outside the ‘dominant logic of action’ (Streeck/Thelen 2005: 20) and show that ‘unintended consequences and unforeseen contingencies’ (Ebbinghaus/Manow 2001: 17) were important in the development of occupational pension provision, shaping the public/private mix in both countries in ways that were not actively sought by actors. In this context, we show how the state - a largely neglected actor in the original varieties of capitalism literature (Schmidt 2002) - was an important though often accidental supporter of the growth of non-state provision. In the later sections we show how the institutional legacies generated during the golden age have influenced contemporary developments.

The role of British occupational pensions in the ‘golden age’

Britain has commonly been regarded as a clear exemplar both of a liberal market economy (Hall/Soskice 2000; Schmidt 2002: 108) and a liberal welfare state. Its social security system in particular has been viewed as entirely consistent with both categories. State benefits have been set comparatively low (Bridgen/Meyer 2007b), their primary aim being to protect against poverty on a selective basis rather than replace working-time income. This has left space for non-state provision to develop on a voluntary and, at least initially, unregulated basis. In terms of coordination, Britain’s lack of a corporatist infrastructure has for long been seen as one of the defining characteristics of its political economy. Peak organisations exist, although on business side they have been somewhat divided, but they have not been encompassing and attempts mainly instigated from within the state to establish tripartite institutions have always failed (Gamble 1985; Marquand 1988; Wood 2001). Collective bargaining arrangements at industry level have occurred in some sectors since the early twentieth century, but they did not become established practice until the 1930s and 1940s (Clegg 1978) well after the time when the Labour Party had developed as a strong manifestation of the political mobilisation of labour. Moreover collective bargaining has always been strongly imbued with a culture of *laissez faire*; they are ‘highly decentralised’, to a plant or enterprise level, and collective agreements reached are ‘not treated as legally enforceable contracts’ (Davies 1998: 375). At company level, corporate governance involves no legal structures for the representation of employees within company law (Davies 1998:

377); few companies have worker representatives on the board and work councils are very rare.

In these circumstances, the expectation on the basis of the varieties of welfare capitalism framework would be that the development of occupational pensions would be voluntary and tightly restricted, with coverage mainly concentrated in larger companies with firm or industry specific skills and higher among better paid non-manual workers. Limited levels of coverage outside these areas might be expected on the basis of pockets of union strength in certain industrial sectors.

If one looks at the development, coverage and nature of British occupational pensions by the mid-to-late decades of the twentieth century there is some consistency between the system and these predictions. First, in terms of development there is little doubt that the establishment of pension schemes was for the most part employer-led with the establishment of schemes occurring voluntarily on a company-by-company basis (Hannah 1986; Russell 1991: 86). Employers have thus dominated the governance of schemes, their preferred method being the formation of pension trust funds, the boards of which they have until recently dominated (Myners 2001: 31; Blake 2003: 94-5, 338). Most unions showed only patchy interest in occupational pensions before and after the Second World War, focussing their attention instead on the Labour Party's campaign for improved state provision (Macnicol 1990). However, in the public sector the situation was somewhat different: here the long history of occupational provision for civil servants acted as a precedent for all public sector employees, a situation which strong manual and non-manual unions took advantage of to press for the extension of provision to all grades of worker (see below).

On the basis of employer voluntarism, coverage increased gradually in the 1930s and quite rapidly in the 1950s but remained far from universal reaching 53 per cent in 1967 and never rising any further (see table 1).

Table 1: Employees in Occupational Pension Scheme in Britain 1953-83, millions and %

Year	Total men	Total women	Total members	Total employed	Percentage of members
1953	4.9	1.3	6.2	21.9	28
1956	6.4	1.6	8	22.7	35
1963	9.4	1.7	11.1	22.9	48
1967	9.9	2.3	12.2	23.2	53
1971	8.7	2.4	11.1	22.5	49
1975	8.6	2.8	11.4	23.1	49
1979	8.3	3.3	11.6	23.4	50
1983	7.8	3.3	11.1	21.1	52

Source: Russell 1991

As would be predicted by the welfare capitalism framework, this coverage varied between manual and non-manual workers: thus while 73.2 per cent of male non-manual workers were covered in 1970, this figure fell to 45.3 per cent for manual workers (table 2).

Table 2: Employees covered by occupational pension schemes by occupational group, %, 1970

Occupation Group	Males	Females
Non-manual	73.2	38.6
Manual	45.3	11.9
Total	54.4	26.4

Source: Russell 1991

There is also some evidence to suggest that coverage varied in relation to firm skill requirements. Thus in 1970, those sectors where coverage was lowest among both manual and non-manual workers included agriculture, forestry and fishing, retail and miscellaneous services, where skill requirements might be expected to be lower (table 3). In those sectors where high skilled labour would be expected to be in particular demand such as the various engineering sectors coverage for both manual and non-manual workers was towards this higher end. According to one historian of these developments, where there was growth of schemes among manual workers this was directly related to a ‘blurring’ of ‘role definitions between manual/non-manual employees as a result of technological change (Russell 1991: 109-110). The type of occupational pensions used reflected these skill-based intentions: final salary defined benefit schemes which rewarded long service and which were not generally transferable between employments remained predominant until the early to mid-1990s (Hannah 1986).

Table 3: Employees covered by occupational pension schemes in Britain by industry group, %, 1970

Industry group	Manual		Non-manual	
	Men	Women	Men	Women
Agriculture, forestry, fishing	18.7	4.8	56.8	20.9
Mining and quarrying	93	81.8	93	70.3
Food, drink and tobacco	60	29.1	80.2	34.9
Coal and Petroleum products	64.3	33.3	87.9	44.7
Chemicals and allied industries	74.5	39.7	87.7	49.6
Metal manufacture	62.1	20.2	86.4	44.9
Mechanical engineering	43.2	21.1	73.8	29.5
Instrument engineering	40.5	18	65.6	32.8
Electrical engineering	50.5	16.4	80	36.1
Shipbuilding and marine engineering	34.9	30.3	88.1	34.1
Vehicles	63.2	31.1	82.4	43.1
Metal goods not elsewhere specified	39.1	11.2	69	26.2
Textiles	36.5	10	75.2	29.1
Leather, leather goods and fur	15.4	4.7	48	18.2
Clothing and footwear	31.9	7.6	56.3	15.7
Bricks, pottery, glass, cement etc.	42.5	12.9	73.1	28
Timber, furniture etc.	20.7	7.1	52.1	16.3

Paper, printing and publishing	62.4	21.4	70.8	33.9
Other manufacturing industries	50	13.1	71	27.1
Construction	16.9	1.9	62.5	17.8
Gas, electricity and water	72.5	40.8	97.3	83.9
Transport and communication	63.8	30.7	81.2	60.2
Distributive trades	35.4	12.8	56.1	16.6
Insurance, banking, and finance	47.6	19.4	86.1	48.2
Professional and scientific services	67.2	39.2	84.3	78.1
Miscellaneous services	27.2	7.3	53.1	25
Public administration	52.5	29.3	91.2	74.3

Source: Russell 1991

Despite the broad degree of fit between the liberal market model and arrangements for occupational pension provision in Britain, the match is not total. Overall the scale of the provision and its distribution is greater than would be expected on the basis of welfare capitalism theory. The voluntary provision of occupational pensions to more than 50 per cent of the workforce by 1970, reaching nearly 75 per cent of the non-manual workers is difficult to explain on the basis of skill requirements alone, even given the fact that Britain's reputation as an economy based more on general than specific skills is more true of the latter part of the twentieth century than the first part, and that labour markets were very tight during this period placing a premium on skilled workers of all types. Certainly increased skill requirements for manual workers might explain part of the 45 per cent coverage level among male manual workers by 1970 but if one looks by sector coverage rates in certain industries rise significantly higher than this: in mining and quarrying, gas electricity and water and chemicals and allied industries coverage rates among manual workers are all over 70 per cent. Moreover, while, as has been seen, overall coverage is broadest in high-skill sectors, it is also relative high for both manual (> 45 per cent) and non-manual (> 80 per cent) workers in sectors where skill requirements would be expected to be less pressing, such as food, drink and tobacco; insurance, banking and finance; and transport and communication.

It is only on by taking account of contingent factors that this broader than expected level of occupational provision in Britain by the mid-1970s can be explained. These acted largely unintentionally to boost the growth of occupational provision by either reducing its cost to employers or temporarily strengthening the power of unions in certain industries, most particularly the public sector, beyond that which would normally be expected in liberal Britain.

With regard to cost reduction, the tax treatment of occupational provision is the most important factor (see also Hacker 2001). The exclusion from tax of pension contributions and investment income had been introduced in 1921 as a relatively cost-neutral exercise in administrative tidying. It had only a minor effect before the Second World War, but its value substantially increased and became more widespread as a result of the large rise in tax levels and broadening of the income tax base^v during the conflict which were maintained in the post-war period to pay for reconstruction (Hannah 1986: 19-20, 44-5). As a result from being a 'minor assisting force' in the pre-war growth of occupational provision, tax incentives became 'a leading engine' (Hannah 1986: 45) with contemporary commentators noting companies' growing tax-based interest in the development of schemes (Seldon 1960, Wiseman 1965, both quoted in Russell 1991: 133). By 1956/57, the cost to the Treasury of these incentives had reached £120 million annually, mainly in relief on employers'

contributions (Hannah 1986: 45) which amounted to about a third of the entire National Health Service budget of this time (Bridgen/Lowe 1998).

The second contingent factor which boosted occupational pension provision was the nationalisation by the first post-war government of a significant section of British industry. As has been seen, public sector unions had been most active in pressing for occupational provision in the pre-war period, but during this period the public sector only accounted for about 10 per cent of the workforce. Nationalisation brought into public ownership mining, electricity, air travel, gas and iron and steel, and transport and increased the share of the workforce employed by the state to around a quarter by 1950 (Hannah 1986: 40; Middlemas 1979: 396; Foreman-Peck/Millward 1994: 274-5). This development was clearly in part a product of working-class mobilisation, introduced as it was by the Labour Party, which justified it as a step towards socialism. Nevertheless, Labour's success in this regard rested crucially on cross-class support for nationalisation which stemmed primarily from the increased confidence in state action induced by the war. The boost to occupational provision that followed nationalisation was a wholly unexpected consequence. Yet, effectively, the policy created within the mainly liberal British economy a corporatist enclave, a situation the public sector unions used to significantly advantage their members in relation to those in the private sector. In all nationalised industries a single centralised employer (Chick 1998: 82) was established with arrangements for collective bargaining and more general consultations with unions statutorily strengthened (Clegg 1978: 190, 388). This increase in union power together with the widespread coverage of occupational provision in the rest of the public sector made it difficult for government to resist extending coverage to all workers in the newly nationalised industries (Russell 1991: 128-9; Hannah 1986: 4-41).

The development of occupational pensions in a large nationalised industrial sector had a major impact on the development of British public/private mix, creating an institutional legacy which as will be seen below continues to impact on pensions policy to this day. To this development can be traced an important source of negative feedback which has served increasingly to undermine the British occupational system from within (see also Thelen/Van Wijnbergen 2003). This is because the existence of good occupational provision in a large nationalised sector explains the strong opposition of the powerful public sector unions to plans by the Labour Party in the 1950s and 1960s to introduce an ambitious extension of state pensions (Pemberton 2008). The unions feared the new system would undermine their schemes and this opposition, together with that of the insurance industry, ensured that when the state scheme was extended during this period (in 1961 and 1975) it was on the basis of an elaborate and increasingly complex public/private mix under which employees could opt to contract out of state provision. In particular, after the Social Security Act of 1975 which temporarily increased the level of public benefits, pension reforms affecting private provision happened every few years (for details see Blake 2003).^{vi} For those responsible for private provision this evolution of regulation implied continuous adaptation requiring expert knowledge of public and private schemes. It also meant increased state control, and with it business costs.

The role of German occupational pensions in the 'golden age'

The German production system was the model for Hall and Soskice's coordinated variant of capitalism (2001) and the design of its welfare state has been regarded as classically conservative (Esping Andersen 1990). Social insurance was developed comparatively early at the instigation of the state and emphasised occupational differentiation and the maintenance of class stratification in retirement. Employers faced by the 'beneficial constraint' (Streeck 1997) of a high social wage, it is suggested, were forced to opt for high skill/high wage

production strategies (Manow 2001a: 156). For such high skill companies, state provision ultimately became beneficial: linked to occupational principles it encouraged skill acquisition by preserving pay differentials during periods of unemployment and into retirement, a situation which provided Germany with a comparative advantage over her more liberal rivals. This system was reinforced by a well established and institutionally robust industrial relations system. The collective negotiation of wages at sector level made for greater equalisation of wages within industries and generated trusting relationships between employer and employee which facilitated the development of long-term commitment on either side. This was further encouraged at firm level by co-determination (Markovits 1986). However, in most sectors collective bargaining has focused on wages not welfare. Both unions and employers, particularly in the larger sectors, have generally regarded the state as the location for welfare provision. Working class mobilisation was feasible in the political sphere earlier than it was in the industrial sphere thus leading to an emphasis on state welfare. This tendency was emphasised by the fact that where occupational provision did develop it was sometimes used by employers as a means of undermining union power, often by taking advantage of the division of worker representation between unions at the industry level and work councils at the firm level (Trampusch 2006).

In such circumstances, it might be expected that occupational pension provision would have historically played only a minor role in Germany. In Conservative welfare states, suggests Esping Andersen, the market for personal and occupational provision is 'generally marginal' (1990: 85). However, as Ebbinghaus shows, the level of state benefits in Germany has never been as high as in some other conservative regimes (eg Italy), due to an income ceiling on contributions (2000). This in theory leaves sufficient room for an interest in occupational provision to have developed among employees and employers. Moreover, notwithstanding, employers' interest in state welfare as a means of encouraging the acquisition of industry-specific skills, some German companies requiring workers to acquire firm-specific skills might be expected to have become interested in offering occupational provision as part of the development of internal labour markets (Estevez-Abe et al 2001: 152-5). These caveats notwithstanding, however, the state scheme in Germany would be expected to dominate the public-private pension mix, supplemented only by a small and highly concentrated system of occupational pensions.

The reality up to the end of the 1990s was somewhat different from these expectations. Certainly, occupational provision was not as well developed as in the UK. Thus, while by this time, British pensioners were receiving about 25 per cent of their income from occupational provision, in Germany this figure was between 5 and 10 per cent ((DB-Research 1999: 9 and 15 quoted in Manow 2001b; see also Schmähl 2007). While the value of British pension funds amounted to 65 per cent of GDP in 2004, in Germany they were valued at only 4 per cent (Bridgen/Meyer 2007: 29). Yet, in terms of coverage, the figures for occupational pensions are more comparable and thus surprisingly large: 45 per cent of the German workforce were covered by 2000 (Deutsche Bundesbank 2001) compared to around 50 per cent in Britain. Of these around 38 per cent were in the private sector (TNS Infratest 2007) compared to around 47 per cent in Britain (Pensions Commission 2004: 93). Moreover, the comparatively small size of German pension funds is indicative more of the particular type of scheme favoured in Germany (ie 'book reserve' schemes) rather than a lack of provision.

In terms of the link to labour market requirements predicted by the varieties of welfare capitalism framework, there is some evidence that the coverage of schemes was patterned in relation to company skill requirements or employment grade, but this evidence is far from conclusive. Figures for 2001, before the Red/Green pension reform, show that coverage was above average for the private sector in industries where greater need for specific skills might be expected, such as the manufacture of production and intermediate goods, and consumer

durables (table 4). This might also explain the high level of coverage in mining, quarrying and energy, the latter of which has been strongly associated with occupational provision in the UK (see above). In most other industries levels of provision could be explained as a response to the demands of higher paid workers. The obvious and quite marked anomaly is the financial intermediation sector which by 2001 had the highest level of coverage (76 per cent), a situation which is difficult to explain on the basis of specific skills the need for which the sector has not been associated. It is more likely that high coverage here was a product of tight labour market conditions as it was in Britain

However, it is less easy to explain why coverage is so much lower in some manufacturing sub-sectors (eg consumer goods) than others. Moreover, the coverage levels in some sectors seem high (eg construction, retail) even after consideration is given to possible provision for non-manual workers.

Table 4: Occupational pension coverage in Germany by Industry, %, 2001

Industry	Coverage
Financial Intermediation	76
Manufacturing	
Production/ Intermediate Goods	43
Consumer Durables	58
Food, Alcohol & Tobacco Goods	30
Consumer Goods	24
Mining, Quarrying & Energy	63
Wholesale/Retail & Repair	27
Construction	22
Health & Social Services	18
Real Estate, Renting & Business Services	16
Hospitality and Food Services	10
Total Private Sector Coverage	38

TNS Infratest 2007

This more puzzling data together with the fact that total coverage is higher than would be anticipated suggests that while there is some fit in Germany between the coordinated/conservative market model and occupational pension development this fit is far from total. Contingent factors and unexpected consequences are part of the story of German occupational pension developments as they were also part of the story in the UK. And again, public policies for the private sphere are significant, and not adequately incorporated in existing accounts. As a consequence of its policies on reconstruction the state strongly encouraged the growth of occupational pension provision in the post-war period (See Manow 2001b). Faced with a massive housing and employment problem between 1945 and 1955, the post-war governments granted tax privileges to certain industries, such as construction and acted to reduce the returns on investments elsewhere in the economy. As a result, ‘the emission of securities played no more than a marginal role for business finance’ (Giersch et al. 1994, quoted in Manow 2001b) leaving firms short of capital. It was to counteract this

situation that tax privileges were granted to firms who retained profits for the purpose of providing company pension schemes. This was an important factor leading to the widespread growth in the post-war period of book reserve pension schemes. As Manow suggests: 'Book reserves became a means of recycling employer pension contributions as self-managed self-investment funds ... Company pensions in the form of book reserves were subject to taxation only at the time of payment. The tax privilege thus was considerable' (2000: 8).

These developments have since been regarded as an important contributory factor in the emergence of one of the main props of the German model – the greater availability of 'patient', long-term capital in corporate financing in comparison to the short-term, stock market-based arrangements in liberal regimes (Manow 2001b; Hall/Soskice 2001; Vitols 2001). However, in terms of Germany's public/private pension mix, they operated to extend the coverage of occupational provision beyond that which would be predicted in a coordinated/conservative economy: companies had other reasons, at least equally important as those stemming from their skill requirements to provide occupational pensions, particularly given that in the early post-war period schemes were immature, thus concealing their long-term costs.

It seems likely that the existence of this quite extensive system of book reserve schemes in the major industrial corporations was the spur for the development of occupational provision in other sectors. In 1966, the public sector unions negotiated a collective agreement for occupational provision (*Zusatzversorgung des öffentlichen Dienstes*), which was subsequently made statutory by the Grand Coalition government of the late 1960s. Split into six schemes on the basis of administrative levels (ie Federal, Länder etc), provision has mainly been pay-as-you-go (Berner 2005). But it is developments in the private sector which are more important in terms of future developments because they helped provide the pre-existing 'alternative' institutional legacy of *funded* occupational pensions which would later provide opportunities for displacement and conversion (Streeck/Thelen 2005: 19-21, 26-9; see also Myles/Pierson 2001: 319-20) This system arose in industries characterised by smaller companies (eg the building trade and parts of the food industry), where book reserve schemes were less common (Funk 2004) and in the chemical industry. In the former a range of collective agreements^{vii} were established in the post-war period, which used pre-existing occupational savings perks of various types (*Vermögenswirksame Leistung*) to finance or partially finance pension saving either through direct insurance schemes (*Direktversicherung*) or quite tightly regulated superannuation funds (*Pensionkasse*). Of the larger German industrial sectors, only the chemical industry saw the conclusion of similar agreements before 2001. These developed from the 1970s and have been explained in relation to bargaining weaknesses and more 'accommodationist' ideology of the main chemical union, IG Chemie (Markovits 1986; Trampusch 2005: 208-9, 2006: 128).

Occupational pensions in the 'Era of Austerity'

To summarise, the pattern of occupational pension provision in Britain and Germany by the last decades of the twentieth century was in part the product of the type of factors associated with the varieties of welfare capitalism framework. However, these alone cannot explain the level and structure of coverage. In addition, a range of contingent events in each country further boosted its development. In both countries it extended significantly beyond the type of workers and sectors explicable on the basis of skill-based and/or union-strength arguments alone. Accompanying these developments a large and not always entirely coherent institutional infrastructure developed in both countries at firm and – in Britain in particular – state level.

How have these systems fared in what Pierson has termed the ‘Era of Austerity’ (2001) when severe exogenous pressures generated by demographic and economic change have over the last two decades been exerted on welfare states of all types? The impact of these pressures on the state sector has been well documented but their consequences for the non-state sector have received less attention. Yet, as a number of commentators (Hacker 2001; Sass 1997; Bridgen/Meyer 2005; Bridgen/Meyer 2009) have highlighted the demographic and economic changes affecting state provision also impact on non-state providers altering the risk/cost/control equation on which companies are said to make decisions. The ‘degree of exposure’ (Hay 2004: 246-7) of the British and German occupational pension systems to these pressures is detailed below:

Demographic change

Since the early 1990s Britain has been well placed in relation to other OECD countries at the lower end of the population ageing spectrum: from the comparatively low level of 23 per cent in 2009 the overall dependency ratio is projected to grow by a comparatively meagre 19 per cent up to 2060 (EPC 2009; see also OECD 2004). In Germany, the demographic situation has for long been considered more serious: the overall dependency ratio in 2009 was 30 per cent and is expected to rise to 59 per cent by 2060 (EPC 2009). Nevertheless, despite this difference in the extent of population ageing, demographic change has been a feature of pension debates in both countries (for Britain, CBI/Mercer 2004: 5; IDS 2002: 20; Ring 2003), and since the late 1990s companies in both countries have increasingly begun to focus on the direct costs of occupational pension liabilities in the face of rapidly changing estimates of longevity (CBI/Mercer 2004: 5; IDS 2002: 20; Manow 2001b). The importance of this issue has been made greater because schemes introduced in the 1950s and 1960s are now or soon will be coming to maturity, meaning their full costs are apparent,

Financial globalisation

This development has the potential to affect occupational pensions because it affects the way in which company performance is judged (Simmons 1998; Garrett 2000; Clarke 2003: 89; Clark *et al* 2002; Clark 2006; Manow 2001a; Cutler/Waine 2001: 99-101, 105; van der Meer *et al* 2005). In particular, the introduction of International Accounting Standard 19 (IAS 19), on the recommendation of the International Accounting Standards Board, means companies have to report on their balance sheets a market or ‘fair’ valuation of pension assets and liabilities based on current market conditions, rather than rely on nationally regulated actuarial calculations of pension fund assets and liabilities based on estimated rates of return (Kortleve *et al* 2006; Yermo 2003; Blake 2003: 385-8). This ensures that the impact of pensions on company balance sheets is more transparent and volatile, given the market basis for the valuation, making them a source of immediate and significant financial unpredictability.

These changes have been most associated with Anglo-Saxon capitalism but with the globalisation of financial markets they have also begun to affect developments in the more coordinated countries. Britain was certainly ahead of the game in terms of reporting standards, instituting a standard (Financial Reporting Standard 17) more stringent than IAS19 in advance of an EU deadline for introducing the IASB’s approach (Veron 2007). However, Germany has also taken a pro-active line: the 1998 Capital Raising Act (*Kapitalaufnahmeerleichterungsgesetz* – KapAEG) allowed German listed companies to prepare their consolidated accounts in accordance with International Accounting Standards, which to the surprise of some commentators (for details see Clark 2003: 93) was an offer that was taken up by the majority of DAX30 (Clark 2003: 95; Lobe/Stadler 2008).

Stock market performance

In terms of asset allocation the British system has been quite heavily exposed to equities, meaning most pension funds would have experienced a marked deterioration in the balance of assets and liabilities as a consequence of the global bear market between 2000 and 2003 (Burrows 2005; Bikker et al 2007: 6; Ponds/van Riel 2007: 6; Kakes 2006). This factor is less important in Germany, given the unfunded basis of most company provision. Moreover, even where provision has been funded (eg *Pensionskasse*), tighter government regulation on fund investments meant that in 1998, for example, only 9 percent of total assets were domestic or foreign equities, whereas the percentage for British pension funds 75 percent of total capital (DB-Research 1999: 12 and 20, quoted in Manow 2001b).

Company restructuring

It has been suggested that decline of the large-scale mass production model and the growth of more individualised, mobile career trajectories has reduced the salience of labour retention and thus the role of pension schemes in human capital management (Sass 1997; Clark 2003). The move to flatter organisational structures means more companies now need ‘generic human skills’, acquired in schools, universities, professional organisations etc. rather than firm-specific skills, and thus have less interest in providing pensions based on long service (Sass 1997: 238-246). This argument has been made mainly in relation to Anglo-Saxon forms of capitalism.

As has been seen, theoretically views differ about the likely consequence of these pressures. In the varieties of welfare capitalism literature the globalisation/convergence thesis has now largely been dismissed in favour of predictions of a more differentiated pattern of change based on the institutional logic of existing public/private mix (Hall/Soskice 2001; Myles/Pierson 2001). Some posit a dual convergence with liberal regimes more susceptible to retrenchment than coordinated ones (Hall/Soskice 2001: 57-58; see also Hay 2004). In the former, such as Britain, the centrality of market mechanisms in securing the comparative advantage of the regime means they will respond to increased competitive pressures by becoming more liberal. Governments and unions will find it difficult to resist business power because of the increased threat of exit. In relation to occupational pensions we would expect the liberal, more market-like governance environment for occupational pensions to generate quick and systematic changes among companies. The strong commitment to shareholder capitalism would be expected to make it more open to forces of financial globalisation (Hall/Soskice 2001). Employers would be expected to react rapidly to increased costs and/or new business needs (Pierson 2000).

In contrast, in coordinated/conservative economies, such as Germany, cross-class alliances in support of the status quo are considered more likely because the interests of business and unions are served by existing institutional arrangements. Some pressure for change from the business community is likely, but where this occurs it will either take place without fundamentally altering the overall system of coordination or altering it fundamentally only in compartmentalised sub-sectors (see Hancké/Rhodes/ Thatcher 2007: 11-12). In relation to occupational pensions a greater interest amongst some companies might be expected as state provision is retrenched: larger firms with specific skill requirements might decide to introduce their own schemes to help fulfil the human resource functions previously covered by the state. Similarly, where unions are stronger they might press companies to compensate workers for the loss of state entitlements. Thus, overall, while the balance between public and private in the pension system might be altered its overall distributive logic would remain similar.

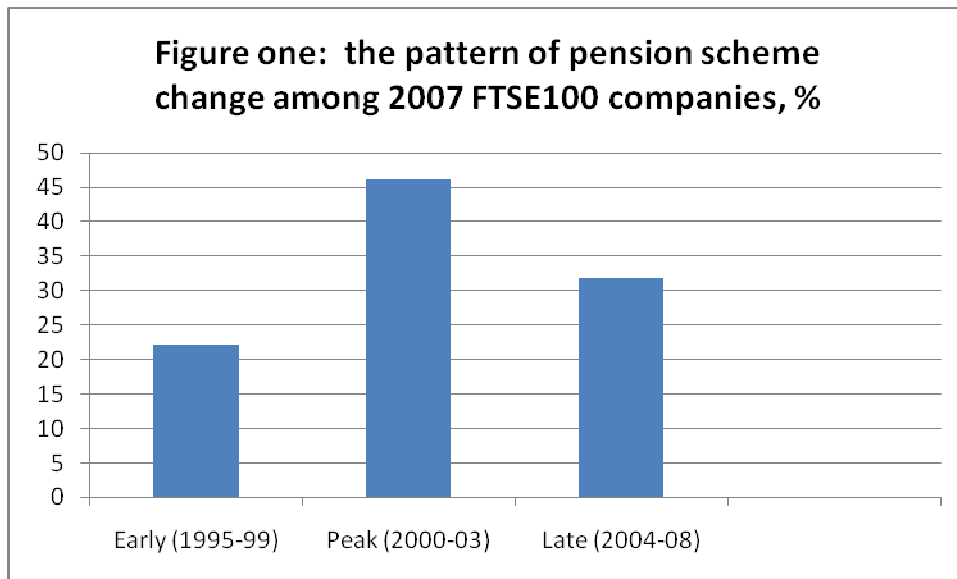
In the following analysis of developments in the occupational systems of Britain and Germany we argue that in fact while developments in both systems over the last two decades conform to some extent to these predictions, overall the process has been marked more by convergence than would be expected. An important reason for this is that the pattern and nature of change in both countries has been significantly affected by the institutional legacies outlined above and public policy interventions.

British occupational pensions in the 'era of austerity'

Certainly, Britain has seen a significant retrenchment of occupational provision over the last two decades. Overall, coverage has fallen by around eight per cent since 1987 (Pensions Commission 2004: 81-3) with large as well as small companies affected. Our research shows that of the FTSE100 companies listed in January 2007, all of whom offered defined benefit pension schemes at the beginning of the 1990s, only 22 per cent had made no changes to their pension scheme by 2009. Most had closed them to new members. Old defined benefit schemes have been replaced with defined contribution schemes but the average employer contribution is much lower in these schemes - seven per cent in 2004 in comparison with 13 per cent for the previous schemes (NAPF 2003, cited in Pensions Commission 2004: 122). This significant retrenchment has been explained by many commentators simply in relation to the exogenous pressures outlined above (eg Pensions Commission 2004; Cutler/Waine 2001). Indeed some companies also explain their behaviour on this basis. The pension manager in a large pharmaceutical company:

We had obligations that we had already accrued, but we needed to take steps to prevent those obligations getting bigger ... we didn't want our pensions obligations to become a distraction to the credit rating, shareholders, etc. So that was one reason why we moved out of defined benefit and the other was we truly believe that the modern employee values flexibility, that typical employees are not employees for life and that therefore defined contribution arrangement was more supportable to that type of workforce. They were the key influences really

The importance of specific exogenous events is also supported by the timing of change. Thus, the peak period of change for the 2007 FTSE100 companies (between 2000 and 2003), when 46 per cent of companies changed their schemes (figure one), coincides with the stock market crash (2001/2), and the introduction of FRS 17 (2002). This period also saw the greatest amount of change among companies registered with the UK Pension Protection Fund. Thus, between 1995 and 1999, around 500 schemes on the register closed to new members with a further 50 or so closing to future accruals (Pensions Protection Fund 2006, 2007; see also DWP 2002a: 53), less than 10 per cent of the overall total. In the peak period, in contrast, between 2000 and 2005 a further 2071 schemes closed to new members with 789 closing to future accruals (Pensions Protection Fund 2007; see also DWP 2004: 61; IDS 2004).



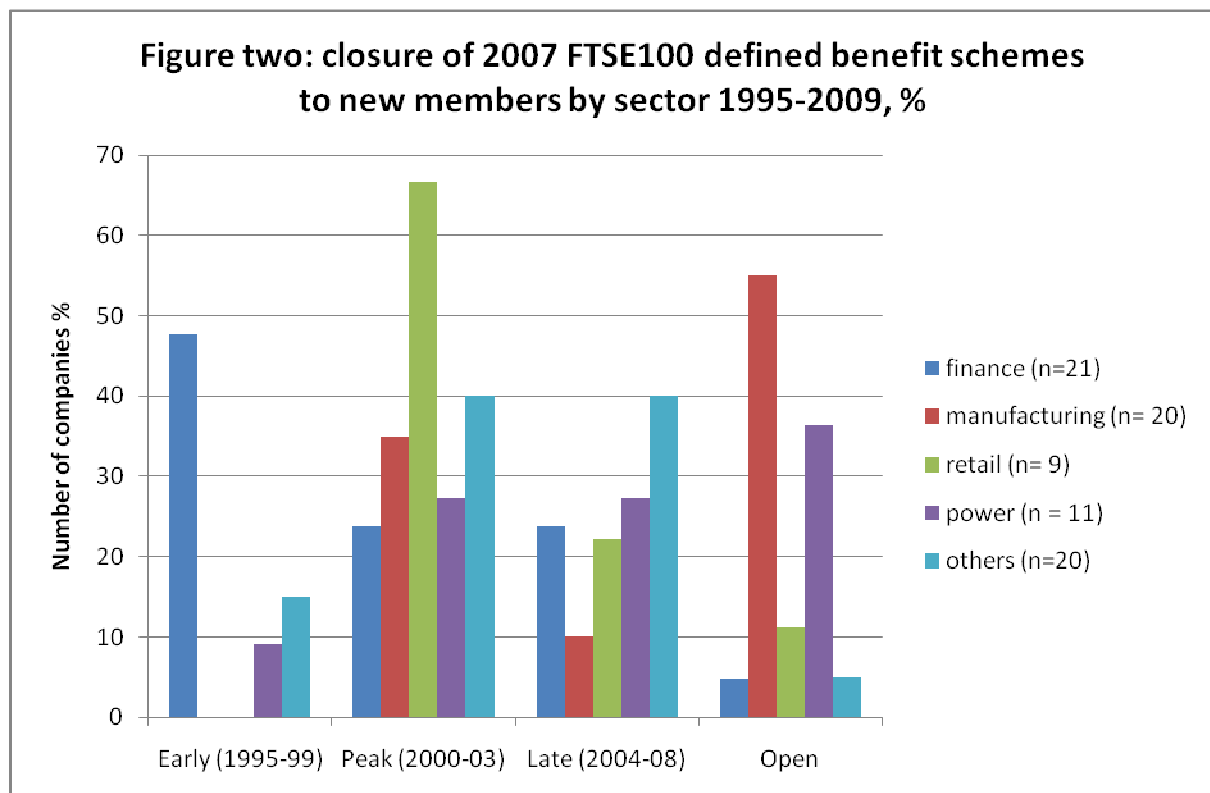
Source: Our calculations

Yet, if we consider the timing and nature of change in more detail it is clear that the link between pension scheme change and the exogenous pressures outlined above is not straightforward. First, a significant number of schemes closed well in advance of the time when these pressures on occupational provision became clearly manifest. Secondly, cost has not always been a good predictor of pension scheme change. Thus some of the early changers closed schemes to new members which were not in deficit. For example, when Barclays and Lloyds tsb closed their db scheme to all members (1997; 1996) Barclays started taking contribution holidays to its pension schemes, which continued until 2001 (Barclays Annual Reports 1997; 1999: 112;) and Lloyds tsb had already been on contribution holidays, because of pension scheme surpluses (Lloyds tsb Annual Report, 1995, 1998). Likewise, when HSBC closed their db scheme to new members in 1996, they were in surplus (HSBC AR1997). At the same time, some of the schemes with the most serious financial circumstances are still open (eg BAE Systems). Finally, the overall nature of change up to 2009 has been less dramatic than might have been expected, suggesting greater impediments to the freedom of manoeuvre of companies than would be expected in a liberal regime.

The closure of schemes before 2000 suggests that factors other than exogenously-generated cost pressures were also in play. One such factor is likely to have been increasing costs of occupational pensions for companies generated by the tightening regulation of contracted-out occupational schemes throughout the late 1980s and 1990s (contracting out, an institutional legacy of earlier developments which was subjected to further public policy changes in the late 1980s and 1990s). Thus new rights for early leavers of occupational schemes introduced in 1973 to protect mobile employees were further improved in 1981, 1984, 1985, 1986, and 1990. In 1986 the Guaranteed Minimum Pension^{viii} private providers had been requested to put in place to secure contracting out since 1975 became indexed to inflation upon payment. In 1997, a minimum funding requirement was introduced following a variety of pension scandals under which companies whose scheme assets covered less than 90 per cent of liabilities had to restore the position to 90 per cent solvency within a year. Schemes below 100 per cent solvency had to restore their position within five years (Blake 2003: 105-6). While it is difficult to quantify the precise cost of these regulatory changes, the independent Pensions Commission set up in Britain in 2002 to consider the need for reform concluded that these changes together with demographic change had increased the total long-term cost (i.e. the required combination of employer and employees contributions) of a standard final salary pension^{ix}, from approximately 10-14% when many schemes were initially introduced, to

about 22-26% by 200 (2004: 123). As would be expected, these costs appear to have hit smaller companies particularly badly: thus while between 1996 and 1998 occupational pension coverage among companies with fewer than 20 employees fell by six per cent among larger companies it remained stable (Pensions Commission 2004: 87)

Closure among some larger companies in this initial period seems less explicable in terms of cost because many of the companies who closed schemes were not troubled by a deficit in their pension fund. Instead change among this group seems more related to the factors identified in the varieties of welfare capitalism framework. As has been seen, this would predict that change would occur first in companies/sectors where specific skill requirements were lowest or where unions were weak; that occupational schemes developed in the more congenial conditions of the ‘golden age’ but of less human resource benefit to the employer, would be axed once economic circumstances changed. This prediction is at least partially confirmed by figure two which shows that many of the financial companies in our 2007 FTSE100 sample closed early and that late closure or resistance to closure occurred most strongly in the manufacturing sector. Thus, while 48 per cent of the financial companies closed their schemes in the early phase no manufacturing companies did; and while 55 per cent of the manufacturing companies kept their schemes open up to 2009, only five per cent of the financial companies did. These developments might be explained as a response within the financial companies to the loosening of labour markets in this sector as a consequence of the broader structural shift in British industry away from manufacturing and towards services. They might also indicate an increasing scepticism about the benefits of such schemes, particularly given the types of corporate restructuring outlined above (Interview A: pension consultant 2008).



Source: Our calculations

In other sectors, however, the importance of skill-based arguments persisted. This was confirmed by investment advisers and corporate actors involved in the process. One leading

pension consultant who has been strongly involved in the process since it began and who has advised countless companies over this period told us:

If you looked at typically, the people that have held on longest have been manufacturing, construction, engineers. Engineers are passive they join a company, they join Rolls Royce, they come in at 17 18, they ... don't, they don't hop. They are not serial movers between employments they are very long term... Engineers hate going down this route [ie closing defined benefit schemes] ... They really do. A lot of them are very reluctant to close (leading pension consultant)

The importance of engineers in the power industry is also likely to explain their relatively tardy movement away from defined benefit schemes for new members. One pensions manager in a leading water company, which closed its defined benefit scheme in 1999 told us that the company was constantly reassessing its decision:

[The company] finds it very painful just now .. to recruit because it couldn't offer final salary arrangements. It has an effect on recruitment because we were offering a Group Personal Pension Plan and the type of experience we were wanting into [the company], engineers and the like, they were already in final salary schemes. To this day it remains issue

It was only as exogenous costs were added to the increased costs of regulation that a greater number of manufacturing and power companies started to close their schemes to new members, notwithstanding these skill-based interests.

However, while cost factors and the varieties of capitalism framework appear to explain at least some of the pattern of change in UK occupational pensions, puzzles remain. The most important of these concerns the nature of the change; the fact that overall retrenchment up to 2009 has been less dramatic than might have been expected. Thus, the majority of British companies who provided schemes by the early 1990s have kept them open and unchanged to existing members. In these companies, it was only new members who were disqualified from entering the defined benefit scheme. This is in marked contrast to some other countries where occupational pensions are an important part of the public/private mix, such as the Netherlands, which has seen a significant retrenchment of provision for existing pensioners and workers (Bridgen/Meyer 2009). This situation means that while British employers look set to benefit in the long-term from the reduced contributions they are paying into defined contribution schemes for new employees, many have had to pay large discretionary sums into their defined benefit schemes for existing members, and their future liabilities for these schemes remain subject to longevity and investment risks (IDS 2004). Indeed, employer pension contributions as a proportion of wages more than doubled between 1991 and 2003 (Pensions Commission 2004: 1995)

There are two main reasons for this relatively cautious approach to retrenchment on the part of British companies, which are both related to institutional legacies generated by developments in the system up to the mid-1970s, and extended by subsequent policy interventions. First, employers have been constrained by government regulation, notwithstanding their general freedom to open and close schemes. Closure to existing members was more difficult than to new members because the former required the notification (though not agreement) of trustees and there was also a risk that employers might become embroiled in disputes over whether the changes proposed would affect member's existing rights, alterations of which are forbidden (Pickering 2002). In the absence of coordinated arrangements within which to negotiate about these matters, employers instead took the path of least resistance, one that minimised the risk of complication and delay. Regulatory constraints also inhibited change with regard to existing pensioners. The stipulation referred to above that under contracting out arrangements companies providing pensions as an alternative to SERPs/S2P had to increase pensions in payment in line with the

price index acted to remove one of the cost-cutting options available to companies and explains why existing pensioners have experienced little of the pain of retrenchment in Britain.

The second reason retrenchment has focused on new employees concerns the equivalent in the occupational sphere of Pierson's concept of electoral incentives in state welfare (2001: 411-3) – the constraining power of existing welfare constituencies. Thus, while the closure of schemes to new members affected a constituency with no direct representation in the company at the time of the decision, closure for existing members raised the prospect of, at worst, significant resistance from trade unions, and, at best, more diffuse industrial relations problems. Companies have been extremely reluctant to take this risk, a decision that has been reinforced by the fact that while trade unions have generally accepted the closure of schemes to new members, closure to existing members has been very strongly resisted in the larger companies where it has been proposed (see Personnel Today 2005; BBC News 2005). This reluctance has been further reinforced by companies' increasing concern over recent years with the more general constituency of public opinion, a concern that has followed the gradual development of 'good company' norm (CBI 2007) at least partly as a product of the rise in importance of corporate social responsibility (Vogel 2005). In the face of these concerns, companies have generally sought to position themselves in relation to other 'structurally equivalent' competitors (Burt 1987: 1291); they are especially reluctant to be among the first to change. However, once a trend takes hold, it can spread quickly as the rest of the field follows the lead of the initiators (e.g. Meyer and Rowan 1977; Fligstein 1985; Schelling 1978: 91-110; Bikchandani *et al* 1998). This phenomenon was articulated in one form or another by all of the company representatives that we interviewed but was summed up best by the pension manager of a leading water company who said:

It's this outlier thing ... you don't want to be ahead of the pack or behind the pack. It's safe in the middle, its like a herd of wilderbeest ..Going first would mean we would be going through all of the pain for the others to gain afterwards .. you've got all of the union issues all of the member issue .. why should you be the one who leads the pack and gets all of that when by waiting you can be the one who, well – everyone else is doing it so why don't we.

German occupational pensions in the 'era of austerity'

Recent developments in German occupational pensions must be viewed in the context of significant changes in public policy towards non-state provision which accompanied the retrenchment of state pensions in 2001 (Berner 2006; Schmahl 2007). While still essentially voluntaristic this new framework altered substantially the context within which non-state actors make decisions about occupational provision, especially funded pensions. In the face of a major reduction in public provision, the state acted concertedly as a coordinator (Whitley 2005, quoted in Hancké *et al* 2007) to accelerate the development of an alternative.

This action took a variety of forms. First the state gave employees the right to require their employer to transfer a share of their wage (salary sacrifice) into an occupational pension scheme. Secondly, it sought to embed this arrangement within the existing apparatus for employer and labour coordination. Thus, where an individual's employment is covered by a collective agreement salary sacrifice can only take place on the basis of this collective agreement or delegated company agreements where these exist. Since the reform, collective agreements have been made in all sectors to enable this to happen (Riedmüller/Willert 2007). Thirdly, direct support in the form of subsidies and tax rebates has also been made available. This is available as part of the Riester Rente initiative or separately as part of the Eichel subsidy. Under the first of these arrangements, contributions from employees net wages (net salary sacrifice) to a fully funded occupation scheme up to the minimum level of four per

cent can receive tax-financed allowances from the state and rebates against tax. Under the Eichel subsidy salary sacrifice payments from *gross* wages to a fully funded occupational scheme again up to the minimum contribution receive tax and, temporarily^x, social insurance rebates, although tax has ultimately to be paid on the benefits (Berner 2006). Finally, vesting arrangements were also changed such that employees in salary sacrifice schemes now have their rights vested from the first payment and in employer-financed schemes vesting occurs after five years participation (Riedmüller/Willert 2007)

The aim of policy-makers, at least rhetorically, was for this framework to become the basis on which non-state actors would construct a new type of German pension model, based on similar principles to the one it replaced but involving a different mix of public and private provision. To this end, policy-makers have used a number of ‘institutional gates’ (Ferrera/Jessoula 2007 identify a similar development in Italy; see also Streeck/Thelen) left by the existing system and the broader industrial relations landscape as a means of easing progress. Thus, the new regulatory framework was deliberately designed with the intention of placing it over the existing funded part of the German occupational system (see above) in the hope that the use of familiar arrangements – *pensionkasse*, salary sacrifice etc - would encourage higher take-up and thus maximise the extension of coverage. (Berner 2006: 4). Likewise, the 2001 legislation encouraged the use of existing occupational perks (*Vermögenswirksame Leistung*) as a means of financing the new schemes, thus mitigating the double-payment problem (Myles/Pierson 2001: 313). Finally, the whole system was of course explicitly placed in the realm of collective bargaining. In these efforts, however, the book reserve system was largely left out of the picture: other than the vesting reforms it remained unreformed and left to adjust by itself to the new environment.

On the basis of the incentives described above, it should come as no surprise that the coverage of occupational pensions increased quite dramatically after 2001. However, to what extent can this increase in coverage and the new pension system more generally be viewed as a reproduction in different form of the German pensions’ model? It is this type of development that is predicted by the varieties of welfare capitalism framework; change when it occurs in coordinated/conservative regimes should continue to be shaped by the logic of the pre-existing regime. Thus, we would expect enthusiasm to be most evident for the new opportunities in the funded sector created by the state in those industrial sectors where skill requirements are greatest and/or unions are strong. In the book reserve sector on the other hand it would be in these sectors where we would expect exogenous pressures to be resisted most strongly. Similarly, some retrenchment might be expected in companies or sectors where occupational pensions developed in the ‘golden’ age, but where skill requirements and/or union power are less significant.

In the analysis that follows, we argue that some features of recent developments in German occupational pensions are consistent with the type of adjustment process expected by the varieties of welfare capitalism framework. There does appear to be some patterning in relation to skill requirements and/or union power in the funded and book reserve sectors, with more general developments in the latter suggesting that companies affected by financial globalisation are not reacting in a uniform retrenching way. These developments have acted to preserve, and indeed, accentuate the insider/outsider, industrial achievement features of the German system, but with the emergence of a lower number of privileged insiders whose position rest to a greater extent since the 2001 reform on their greater access to occupational provision. For the increased number of outsiders, the new system works far less well than the old: coverage of occupational provision is much more patchy and contributions are low.

Even allowing for the strong incentives provided in the reforms outlined above, the increase in coverage in German occupational system, labelled a ‘renaissance of occupational provision’ by some (see Berner 2006: 5) has been quite dramatic Overall coverage of

occupational provision in the private sector, where coverage has historically been lowest, has risen by 14 percentage points to 52 per cent (TNS Infratest 2007:). A very significant rise in pensionkassen largely explains these figures although there has also been a less noted rise in the coverage of 'book reserve' schemes probably as a result of the vesting change. As table 5 shows, between 2001 and 2007 the number of contributors to pensionkassen in the private sector increased by 321 per cent. The rise for women was almost double this amount, which is probably a product of the disproportionate number of women who work for short number of years and who have thus benefited most from the government's vesting changes (Riedmüller/Willert 2007: 143). Most of this increase in coverage has been on the basis of a substantial rise in the use of gross wage conversion on the basis of the Eichel 'subsidy'.

Table 5: Contributors to Pensionskassen in the private sector and number using gross wage conversion 2001-2007, thousands

	Men	Women	All
Contributors			
2001	1,127	262	1,389
2007	2,796	1,657	4,453
% increase	148	632	321
Contributors using gross wage conversion			
2001	90	60	153
2007	1370	911	2271
% increase	1520	1512	1486

Source: TNS Infratest 2007

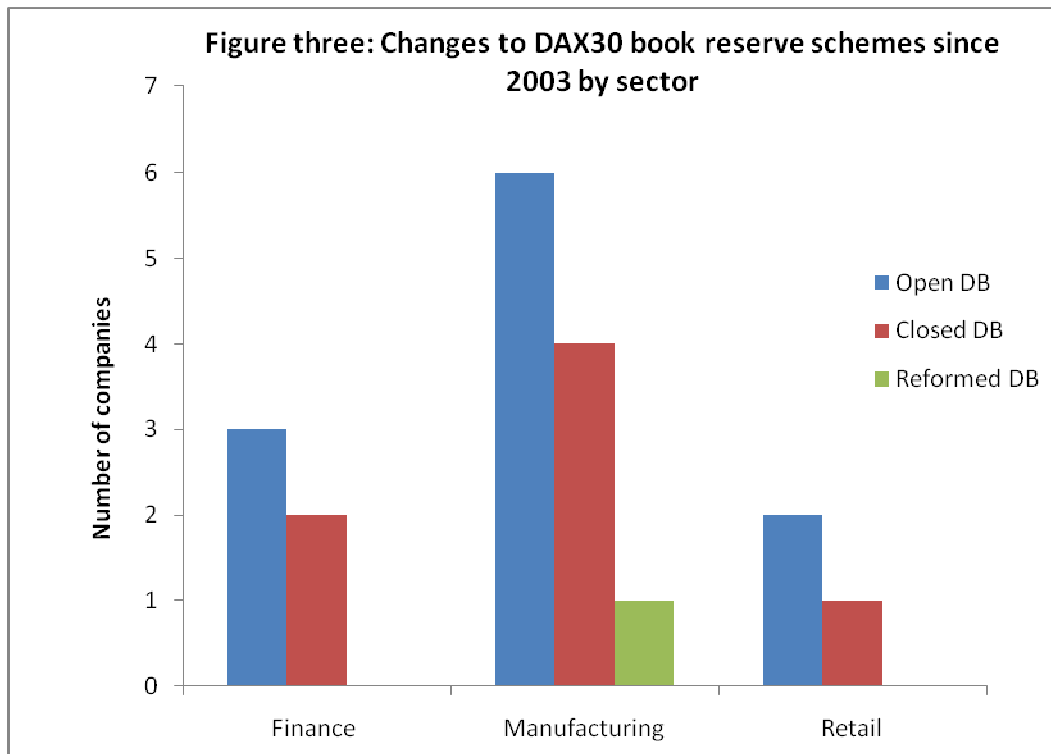
Table 6: Change in occupational pension coverage in Germany by Industry, %, 2001-2007

Industry	2001	2007	Change
Financial Intermediation	76	90	14
Manufacturing			
Production/ Intermediate Goods	43	74	31
Consumer Durables	58	62	4
Food, Alcohol & Tobacco Goods	30	61	31
Consumer Goods	24	53	29
Mining, Quarrying & Energy	63	73	10
Wholesale/Retail & Repair	27	46	19
Construction	22	42	20
Health & Social Services	18	33	15
Real Estate, Renting & Business Services	16	29	13
Hospitality and Food Services	10	28	18
Total Private Sector Coverage	38	52	14

This rise in coverage has been across all sectors (see table 6). There has been no falling back even in those sectors, such as financial services, whose pre-reform coverage levels seemed least explicable in terms of skill requirements and/or labour power. Indeed, coverage of occupational pension provision is now almost universal in financial services.

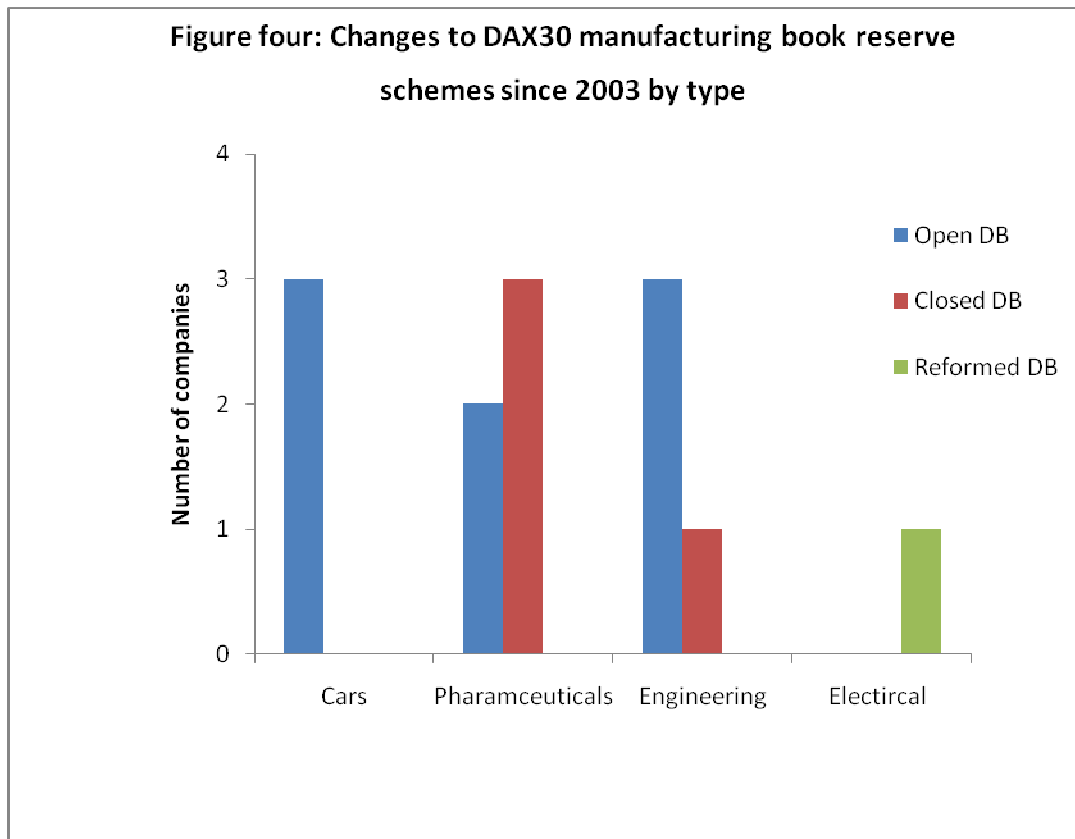
However, both in terms of coverage levels and the nature of pensions agreed in the various sectors on the basis of collective agreement there is some evidence of patterning by skill and/or labour power. The increase in coverage has thus been greatest in the manufacturing sector, although consumer durables is a clear exception. In relation to the nature of provision, there is significant variation on the basis of employer commitment and the administration of schemes. The highest employer contributions have generally been secured in those sectors where this would have been expected (eg metal, chemical), with the collective agreement in the metal industry in 2006 committing employers to the largest contribution of 319.08 Euro annually (see <http://www.metallrente.de/versorgungswerk/tarifvertrag/index.php>). Nevertheless, employer contributions have also been secured in some less likely sectors, such as the roofer trade, retail and hotel and restaurants, often on the basis of a re-direction of money previously designated for profit-sharing schemes (Riedmüller/Willert 2007). In terms of administration, collective sectoral investment institutions, with strong union representation have been established in the metal and chemical industries.

In the book reserve sector exogenous pressures on occupational provision have been less obviously mediated by public policy. Companies have received no new incentives to operate these schemes, and vesting changes imply increased costs in the longer term. Moreover, for many of the larger international companies who operate book reserve schemes, financial globalisation has had a direct impact on the way they, and influential global investors and commentators, view their schemes (Clark 2003). These developments have led directly (Löbe/Stadler 2008) to an important general trend in the book reserve sector – a move towards a more funded approach to the coverage of liabilities involving for the most part the establishments of contractual trust arrangements (CTAs). These arrangements involve company income transfers (one-off or ongoing) to an external trust as a means of covering some or all of the company's liability. This practice is clearly reminiscent of practices in Anglo-Saxon countries and on this basis has been viewed by some (eg Clark 2003) as a clear shift in German occupational pension system towards the liberal model. This judgement is supported by evidence that the move towards funding has been accompanied in some companies by a shift away from defined benefit provision. Thus, as can be seen in figure three, of the 19 DAX30 companies listed in 2003 who remained in operation in 2009, seven have closed their defined benefit scheme to new members, an event that generally followed quickly after the company adopted the new international accounting standard (Löbe/Stadler 2008).



Source: our calculations

However, this liberalising trend should not be exaggerated. The move towards funding has not occurred everywhere and a significant number of the DAX30 companies have kept their defined benefit schemes open. Traditional book reserve schemes remain in operation in some large companies, such as Thyssen Krupp, who want to retain access to the capital held within their scheme (see <http://www.life-pensions.com/public/showPage.html?page=323071>), and a large number of smaller companies, who are less prey to the pressures of financial globalisation and who have also expressed a continuing need for book reserves as a source of internal capital generation (Kennedy 2008). As figure four shows manufacturing companies with a strong engineering component have been strong resisters to the closure of defined benefit schemes, notwithstanding the fact that many of these companies have at the same time moved towards a more funded approach. Developments in these companies are more consistent with a process of adjustment than a process of liberal convergence, with older forms of provision being amended in sectors where they are still valuable to employers or defended by unions in ways that retain many of their essential features. Volkswagen is a good example of such a development: here employee representatives in the company works council having initially resisted the establishment of a CTA (VW-Pension Trust eV) have succeeded in negotiating shared administrative responsibility for the new fund and rights' protection for employees with caring responsibilities or who undergo training (EIRO 2001)



In some sectors therefore recent developments in German occupational pensions can be regarded as consistent with a process of state-assisted regime-specific adjustment rather than liberal convergence. Here non-state provision has acted to mitigate some of the effects of state decline, even in the face of external pressures on occupational schemes for retrenchment. However, outside these privileged areas, there is no doubt that overall levels of social protection have declined sharply. Here the commitment of employers to occupational provision in terms of contributions remains very low or non-existent. Increased new coverage has in many cases merely taken the form of new contributions from employees, subsidised by the state (TNS Infratest 2007: 50). Thus, most projections of future public/private pension outcomes suggest marked declines in benefits (Riedmüller/Willert 2007; OECD 2009). Moreover, coverage in these more precarious sectors also appears very sensitive to any possible change in the incentive structure developed as part of the 2001 reform: growth of occupational provision slowed markedly in 2006/7 causing the ending of the social insurance rebate on contributions to funded schemes to be cancelled.

Conclusion

So to return to the questions with which we started: to what extent are the developments outlined in the previous two sections consistent with the expectations of the varieties of welfare capitalism literature? Are the changes in the occupational pension systems of Britain and Germany part of a dual convergence, driven by the strategic interaction of employers and labour? Is liberal Britain becoming more liberal while coordinated/conservative Germany adjusts to new circumstances but preserves intact important features of its old welfare system?

We have certainly seen that there is some justification for answering yes to the last two questions. The British occupational pension system has undoubtedly become markedly more

individualised and less generous over the last two decades with the state system, emaciated in the 1980s, remaining static. In Germany, the occupational system has grown mitigating to some extent the decline of the state; the book reserve system has proved quite resilient and adaptable in the face of the pressures of global finance.

Yet, when these developments are looked at in more detail such a conclusion becomes more problematic. In Britain, liberalisation of the occupational sector has progressed far less than might have been expected given the apparently weak constraints provided by the state and unions on employer power in liberal market regimes. Moreover, this liberalisation has been caused not just by exogenous pressures, but endogenous ones generated by the institutional legacy of contracting out. This arose as the unexpected consequence of post-war industrial policy and has been made increasingly complicated and costly for business by public policy in the intervening years. The fact that exogenous pressures have been combined with quite severe endogenous ones makes it even more surprising that liberalisation has not been more sweeping. The reason it has not is also the product of institutional legacies, thus reinforcing Streeck and Thelen's view that the past can act both as a source of change and stability (2005). Thus, while government regulation has made occupational pensions more costly, it has also limited the retrenching options for employers, preventing for example the de-indexation of pensions in payment. In areas where employers' options are less formally impeded (eg closure to existing members), they have nevertheless been constrained by normative expectations (Burt 1987) generated both within business networks and increasingly successfully by movements established to monitor corporate social behaviour.

In Germany too, the consistency of recent developments in the occupational pensions sphere with the varieties of welfare capitalism framework is far from clear-cut. There has been a muted response by employers to the significant retrenchment of a state pension system which was thought to be in the interests of many of them, a situation which unions have only to a limited extent been able to alter. The response that has occurred has instead been driven by policy-makers. They have used the existence of a small and peripheral institutional 'alternative' in the previous system (funded pensions) as a means of constructing a plausible blame avoidance strategy in the face of state retrenchment (Weaver 1986; see also Trampusch 2007). Displacement and conversion strategies have thus been used not as expected, to incrementally undermine state provision, but to justify its immediate decline (see Streeck/Thelen 2005: 19-30). Yet, while this strategy appears to have worked in terms of legitimating the recent reform - and perhaps offers opportunities for the development of new type of collectivised system (Hyde/Dixon/Drover 2003) - overall the new public/private mix is projected to provide levels of social protection for most German workers considerably below those of the system it replaced.

Where does this leave us in relation to the prediction of a dual convergence? We have seen that the public/private pension mixes in Britain and Germany are much more complex affairs than their regime type suggests. This institutional complexity means they are likely to remain on distinct public/private pension paths for some time to come. However, there can be little doubt that over recent years the occupational systems in the two countries have contrary to the prediction of dual convergence become more similar.

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ⁱ Once this has occurred and the power of labour has been institutionally entrenched, employers may reach positive-sum deals with labour but these are only possible because the broader institutional constraints imposed on the employer/labour relationship (Korpi 2006: 177)

ⁱⁱ Size is important because it creates monitoring difficulties for company managers greater than in small companies increasing the risk of workers shirking. Pensions are a useful response because they increase the risk of dismissal particularly for older workers whose motivation might otherwise be expected to decline (Siebert/Addison 1991: 82).

ⁱⁱⁱ Mares for example does not explain precisely the logic by which a company mainly interested in the retention of skilled workers could favour state provision, which on the face of it would reduce the risks for skilled workers in leaving the firm (see Busemeyer).

^{iv} This analysis is somewhat speculative for three reasons. First, there are well known operationalisation problems in relation to skill both in terms of assessing company requirements and determining the nature of the training they are providing (Busemeyer 2008). We like other studies (Fleckenstein/Seelib Kaiser 2009) thus use industrial sector as proxy for skill requirements with companies in industry sector jobs

(NACE C-F) expected to have greater specific skill requirements than companies in service sector jobs (NACE G-K). The NACE codes are available at http://ec.europa.eu/environment/emas/pdf/general/nacecodes_en.pdf. Secondly, there are data problems with regard to coverage levels, particularly by sector of employment and particularly in Germany. In Britain, we are reliant on a snapshot of coverage levels by sector from 1970. In Germany, we use figures from 2001, the year of the Red/Green reform, supplemented with incomplete data from earlier in the post-war period. Finally, no systematic allowance is made for the changing sectoral balance of either the British or Germany economy during the period in question.

^v The standard rate of tax rose by 50 per cent and tax on companies could be as high as 100 per cent. The standard rate of tax which never fell below 30 per cent was extended to all but the lowest paid, having previously been paid by only a few million of the relatively well-off (Hannah 1986: 45)

^{vi} State intervention in the private pension sector also introduced incentives. The contracting out rebate was very important in this regard (1959, 1975), however, this was cut in 1993, and abolished for money purchase and personal pension schemes in 2007.

While private sector regulation became tighter, public pension levels declined from 1975 to 1999, since when the intervention of the Labour government increased them for low earners and carers (1999, 2000, 2002, 2007).

^{vii} Agreements were concluded in editors/publishing, construction, banking, agriculture, wholesale, insurance, private banking

^{viii} This had to be no less generous on first payment than that of the state pension foregone as a result of contracting out

^{ix} That is calculated on 60ths of salary, and with a retirement age of 65

^x This temporary rebate was meant to be ended in 2009 but was extended for reasons explained below