

## 6 Worlds of legitimate welfare arrangements: a realistic utopia on pensions

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## Abstract/Summary

Pension entitlements are based on certain assumptions. On the one hand, there are assumptions about the individual substantiated in life course norms that focus on labour market participation. On the other hand, there are assumptions about societal necessities, such as intergenerational and intragenerational justice, economic growth, pension scheme sustainability and so forth.

The development of European welfare states led to a variety of different pension norms as a calculation principle for building up full pension entitlements. In all countries there are, first of all, increasingly more strict wage-related pension entitlements, and, varying per country, entitlements based on residency as in Denmark and the Netherlands, or pension care credits as part of the French, German and Austrian systems, and also a variety of other specific pension determining factors as well as a growing number of private pension schemes.

In this article we analyse these different pension determining factors by studying different European pension reforms, taking theoretical considerations into account. The aim is to answer the question as to whether there are ideal ways of combining these factors. Our ultimate goal is to outline a legitimate and sustainable pension system.

Our ‘realistic utopian approach’ combines recent political, social and economic reform considerations with normative and theoretical ones and presents an original way of studying pension policies in the EU.

## 6.1 Introduction

Welfare arrangements are one of the facets that enable the reproduction of present-day polities. Reproduction points to continuity, to the necessity of social organizations to ensure their ongoing and continued existence. Pensions, the example of welfare arrangements we use in this chapter, contribute in several ways to this reproduction. First of all, pensions provide monetary resources that are necessary for purchasing basic survival goods (consumption, rent etc.). Secondly, receiving a pension marks a status passage from being an active participant in the labour force to a non-employed person i.e. a pensioner. From the perspective of the individual, this passage can be conceived of as a transformation of social identity, and from the perspective of the employers, the employees (and their organizations) and the state, as an instrument for regulating the labour force. Thirdly, under certain conditions, the system of pensions, by attributing rights over resources to non-employed individuals (such as a mandatory retirement age, or having paid contributions etc), guarantees a certain amount of autonomy to these non-employed people. They neither become dependent on kinship relations, nor will they be a burden on the polity. In other words, pensions achieve, in an original way, forms of intergenerational solidarity. In these three different ways, pension systems institute a modern form of welfare arrangements that helps to sustain present-day capitalist welfare states.

If, following Wallerstein (2004), we conceive of the world system as a conglomerate of polities with, on the one hand, various forms of association among them, such as the EU, and, on the other hand, of competition, it follows that the various types of polities that exist (such

as nation states, states, empire states, city states, etc.) are partly independent from and partly dependent on each other. They are partly independent because they are, in principle, given their sovereignty, free to decide which social and political forms they institute. However, at the same time, because of the multiplicity of instituted and informal links between the various polities, each polity is severely constrained by these links. Decisions by one specific polity to institute social and political arrangements that subvert the existing links could seriously threaten the continuing existence of this polity.

As a next step, we introduce another important condition for our analysis, namely capitalism. Capitalism can be defined in a first approximation as a form of production of goods (of all kinds, including services) to be sold on the market at, where possible, a profit. The majority of the goods sold and bought on the market are indeed produced in a capitalist way, in addition to goods and services provided by the welfare state or by voluntary activities. Participation in capitalism is realized by adopting the roles of employers and employees, and assuming a labour market, and the roles of sellers and buyers on the various markets, again creating social identities. To be able to conclude contracts is a necessary precondition, presupposing autonomy and therefore elements of citizenship, and in particular the well-known civil and political rights. Capitalism, in its various historical guises, has never been a pure system. In addition to capitalist forms of production and markets, there have always been forms of social organizations that are not organized in accordance with the principle of capitalist production and exchange, such as the household economy for example. There are several reasons why capitalism always was and is increasingly becoming

a multi-modal system. Let us take education for example. The forms of capitalist production and exchange have become more technical, requiring an ever more highly qualified workforce. It is true that nowadays we are witnessing the development of a knowledge-intensive economy. Longer years of general and specialized education in the last century (an average of 1 year more for every ten years) have been instituted. The organization and the funding of the education system could not be taken over by purely capitalist forms of production and exchange, because competencies and qualifications are not goods that can be freely exchanged. People cannot sell their competencies or qualifications. It is only the use of these capabilities that can be sold. A different mode of economic functioning had to be invented, which is the state controlled one, financed through compulsory monetary transfers, such as taxes or social contributions. This economic mode grew in a significant way in the last century, in European countries in particular. Not only education, but also important parts of the healthcare system and all the other arrangements of what is called the welfare state, such as pension systems, are included in this economic mode. A wide variety of new social identities has been created within this economic mode, such as the identities of the unemployed or of pensioners.

Finally, the reproduction of present-day politics necessitates informal exchanges, achieved either in household economies or through voluntary work. The household economy, for example, involves all kinds of informal exchanges and is organized around unpaid care work, such as care for children, care for the elderly and care to sustain day by day the participants of the household. Once more, the different roles taken in the household economy create social identities, such as, particularly in the

past decades, the identity of the male breadwinner, the housewife, the carer, etc..

Together, these various modes (capitalist production and exchange, welfare economy, including education, healthcare and welfare arrangements, household economy, voluntary work) form the economic dimension of reproduction of present-day capitalist welfare states. Such an anthropological conception of the economy is inspired by Polanyi (2001). This economic dimension is of prime importance for reproduction, and it co-determines the degree to which polities grow or decline. In addition to the modes mentioned above, it also presupposes general conditions such as an environment that enables the activities. However, it should be evident that this economic dimension is not really sufficient. Indeed, we have indicated the various social identities that go hand in hand with the historically variable forms of organizing the interrelated economic facets of present-day polities, and these identities point to other dimensions - social, political, cultural and ethical ones - that are also necessary for reproduction.

How these various dimensions are related and connected to each other, and what their impact is in the reproduction of polities is historically variable. Moreover, the reproduction can follow quite different paths in the various polities that comprise the world system. It should, however, be clear now, that when we refer to the dynamic process of reproduction, we consider the mechanisms of reproduction not as machinery that produces identical results independent of the starting positions or the materials used. Indeed, if the mechanisms of reproduction are (re-)constituted by facets of the existing dimensions, such as economic or cultural ones, there is, of necessity, a general form of path dependency

that is much more universal than the purely financial or institutional path dependency that is used in policy studies (Myles & Pierson 2001). This formulation is inspired by the work of Taylor (1999) on forms of modernization. Taylor distinguishes cultural and a-cultural theories of modernization. The dominant theories are the a-cultural ones, pretending that modernization, characterized for example by industrialization, by city-forming, by rationalization, etc., produces the same outcome independent of the starting positions. Taylor rejects such a view, showing that existing worldviews, including conceptions of persons, of societies, of the division into economic, moral and other dimensions, together with the actors involved, have a significant influence on the process of modernization. Therefore, he concludes that we are confronted with a multiplicity of processes of modernization, and that one can, for example, speak of western, Chinese, Indian and other processes of modernization. This passage can therefore be read as a generalization of Taylor's work.

We can summarize the preceding remarks in the following table, which presents in a simplified way the various economic modes and facets of capitalist economies, their variations and transformations. This table circumscribes exclusively the economic dimension and not the other dimensions, such as social, political and ethical ones.

We restrict ourselves to polities that are capitalist welfare states, organized on the basis of the rule of law and with a (representative) democratic form. As such, the different aspects of citizenship (usually the so-called civil, political and social rights, see Marshall 1964) come into play. There is certainly a historical movement of generalizing these aspects of citizenship in other parts of the world, which has been rather

successful, without, however, the result that citizenship rights have been introduced in all polities in the same way, nor to the same degree. A simple generalization would indeed contradict the path dependency we have formulated.

**Table 6-1** Economic modes

Economic mode	Facets	Variations	Historical transformations
Capitalist production and exchange	Specific production process, various markets (labour market, financial market, etc.)	Variations depending on: environment, sector, qualifications, etc.	Overall growth, including important crises
Welfare economy, including education, healthcare, welfare arrangements	Specific welfare arrangements such as pensions, formal care systems, education systems, etc.	Consierable variations between polities, depending on political actors, requirements of the production system, etc.	Overall growth duing last century, with important differences between specific polities
Household economy	Informal care (for children, the elderly, sich people), daily care (cooking, cleaning, etc.)	Depending on the composition of the household, degree of mechanization of household tasks, existence of productive activities, distribution of tasks (man/woman)	Significant rationalization and simplification in European polities during last century, changing composition of households
Voluntary activities	Informal care, neighbourhood activities, etc.	Numerous	Changing intensity and focus



We now have all the necessary elements for formulating the central question of this contribution. How is it possible to realize, particularly in European capitalist welfare states, legitimate forms of welfare arrangements, and pension systems in particular, within the ongoing dynamic transformation of the world system? One should not expect that legitimate forms of such arrangements, situated mainly in the welfare economy, are completely independent of the other economic modes, in particular of the household economy and the mode of capitalist production and exchange. The criteria for specifying ‘legitimate arrangements’ are formulated taking as the basis the citizenship norms that emerge from the dynamic of the development of citizenship. Indeed, as outlined, the changing forms of citizenship are connected to other dimensions. In European capitalist societies in particular, citizenship is linked to the economic dimension as has been argued above, for example through the presuppositions that: (1) citizens are self-responsible for their lives (in the past strongly related to the principle of subsidiarity); and (2) individuals are endowed with several rights and duties, such as the right to autonomously conclude contracts. Therefore, there is a natural link between norms derived from citizenship, and the economic dimension of which welfare arrangements constitute one specific mode. In this contribution we limit ourselves for the purpose of analytical clarity to these two dimensions, and refer to other dimensions (such political and social ones) only briefly where necessary.

We first formulate the norms to be used (II). Secondly (III), we demarcate the arena of exploration, such as the changing types of households, in which the various social identities of employee, consumer, carer, etc. have, in recent decades, undergone profound

transformations. Moreover, we address the question of how European pension systems were related to a specific historical constellation of household economies, and how the recent pension reforms attempt to adjust the pensions systems to new configurations of household economies. In a third step (IV), we then indicate why the reformed pension systems do not fit well with the changing constellation of households, using the norms formulated. We then (V) address the question of an ‘ideal’ pension system that (VI) would be in line with the formulated norms. Some final remarks (VII) serve to qualify our ‘realistic utopia’.

## 6.2 Norms derived from the dynamic of citizenship

Citizenship has factual and normative dimensions<sup>34</sup>. Factual components include, for instance, the established citizenship rights that are effectively applied in the present circumstances. This means that well-known procedures and institutions do exist, which permit the enforcement of rights should they be threatened in any way. One can take as an example the right of women not to be discriminated against. For a long time this right was a possible ideal norm, without it, however, being put into practice. At present, however, there is a growing number of European polities that do enforce this right, but with significant variations concerning the social space where the right is enforced, such as the workplace, the family, public space or one’s own body. This example also enables us to illustrate what is meant by the normative dimension. Indeed, from the very beginning, non-discrimination of women was for some a normative ideal of citizenship, even if this ideal

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<sup>34</sup> Marshall (1964: 29) also speaks of an ‘image of an ideal citizenship against which achievements can be measured and towards which aspirations can be directed’.

had been contested by many in the past (and even sometimes in the present).

Citizenship can be seen as something that is static and dynamic at the same time. Considered from a static point of view, citizenship can be defined as a set or register of established rights and duties, including procedures, for example legal ones, that guarantee that these rights and duties are adhered to. Such an idea is similar to what has been termed the factual dimension of citizenship, but which is now seen from a different point of view. Following Marshall (1964), one can distinguish civil, political and social rights and duties, but various authors have indicated that this list is far from complete. Held (1989), for example, argues that ‘political-economic rights’ must complement this list, and Isin and Wood (1999) introduce many other rights, such as reproductive rights, ecological rights, rights of individuals with a functional limitation, rights of homosexuals, etc..

However, there is also a dynamic conception of citizenship, apprehending the historical movement of struggle of establishing or expanding rights.<sup>35</sup> Hirschman (1991), for instance, has studied some episodes of this struggle. He studied the arguments used against the introduction of civil, political and social rights, and he succeeded in showing that these arguments do not reject the rights as normative ideals, but try to reject or limit the introduction of new rights, arguing that this introduction would, given ‘human nature’, not lead to essential change but only threaten the rights that had already been introduced. In the last two centuries, for example, the argument that the generalization

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<sup>35</sup> This corresponds to the Weberian understanding of social policy as cultural struggle.

of political rights would threaten the established civil rights (the influence of the uneducated majority will undermine the liberties obtained thanks to the established civil rights) had some considerable influence. In short, the dynamic of citizenship points to the historical struggles extending, and sometimes reducing, the range of citizenship rights and therefore the areas where new, or reduced, forms of participation of individuals as citizens are possible in organized societies.

The static and the dynamic version of citizenship both include normative perspectives, the first in terms of ideals of realization of rights, and the second as ideal forms of participation to be achieved in the ongoing struggles extending existing rights or establishing new rights (Hirschman 1991). The first meaning points to the degree of realization of a given right. The example used here - the right of women not to be discriminated against - was, as said, only gradually introduced with considerable variations of the social spaces involved. The right to vote and to be elected was introduced during the last century, but once introduced, this right was enforced to a high degree. In other areas, such as the workplace, the introduction of this right was only achieved much later, and applied less systematically than in the political space. The second meaning points to normative ideals of full participation in the polity, which can be constrained even when specific rights do exist but are not applied in a pertinent way. As we point out in later sections of this contribution, even if women have obtained the right of equal participation in social arrangements of the welfare state<sup>36</sup>, the

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<sup>36</sup> Throughout history women have also benefited from positive discrimination, particularly in pension entitlements. Accompanied with the emphasis on a unisex life course, these positive measures for women are on their way to being reduced.

problematic application of this right in the case of pension systems severely constrains the opportunity for women to obtain pension entitlements similar to those of men.

If we view citizenship from a dynamic perspective, then we focus on the struggles concerning the establishment of new forms of practices and opportunities for members of the polity. It is not possible to isolate this dynamic from the overall dynamic reproduction of polities, and in particular, from the struggles in the economic dimension. Indeed, new practices and opportunities for action have to be enabled, also materially. These practices and opportunities either presuppose time, space or other resources that have to be provided by one or other economic mode. Quite often, the welfare economic mode will be the first candidate to provide the resources, followed by household economies, voluntary activities and capitalist forms of production and exchange. This means that the shaping of citizenship is not, and cannot be, a linear process, because in times of economic crisis (of the classical variety) the interdependence of the various economic modes will entail a reduction of the resources provided, and therefore also a possible retrenchment of the corresponding citizenship dimension. Take, for example, the fluctuating development of health, education or social provision over time and in different countries. The general tenet of this statement is that there can be advances but also retrenchments in the citizenship arenas.

Such an approach means that citizenship cannot be seen separately from the other changing dimensions of the historical dynamic of polities. In particular, this approach cannot refer to norms as starting points of the analysis (Olsen 2006). On the contrary, norms are conceived of as elaborations of the various groups that comprise the polities, including

their associations, going beyond the boundaries of any given polity. And this implies that at any moment there are multiplicities of norms at stake, elaborated by the different groups in different polities.

We limit ourselves in this contribution to European polities, and to the norms developed in terms of a static and dynamic version of citizenship (Maier 2004). These norms can be and are formulated in terms of ideals of participation of citizens in European polities. However, we will not enter here into the traditional discussion of how one can justify citizenship. There are elaborated justifications from a liberal point of view, from a communitarian one and there is also a republican version of the justification of citizenship. We will certainly use much of the liberal elaboration, but we recognize the necessity for the limited (to individuals) rights of a liberal conception to be generalized and guaranteed for all men and women living in these polities, such as for example the right of equal opportunities. Moreover, from a republican conception of citizenship, other ideal types of participation are important, such as the links of the individual members to the collective, not only within the various European polities but also Europe-wide. In particular, the so-called democratic deficits within the European polities and their association in the EU have to be overcome when implementing such ideals of participation. This also entails taking account of the situation of migrants and EU interrelations with other polities in the world system.

The traditional citizenship norms – liberty, equality and solidarity - are quite well-known and reasonably precisely formulated. However, certain national and economic interests currently hinder and constrain the realization of these norms in European polities. Moreover, these

normative ideals are subject to different interpretations by the various political forces in Europe. Finally, the inter-connections between these rights can be seen in various different ways. For example, for some actors freedom is the primary normative ideal, whereas others give preference to equality. And solidarity is, however, a somewhat contested dimension of citizenship as we will see when exploring pension rights.

**Table 6-2** Citizenship norms and actual pension entitlements: a first illustration

	Freedom	Equality	Solidarity
Specification	Criteria and limitations to build up pension entitlements	Conditions of building up pension entitlements	Different forms of inter- and intra-generational solidarity
Contested points	Waiting periods, mandatory retirement age, labour market relatedness/dominance, statistical discrimination (LM), institutionalised role differentiation	Reasons for establishing entitlements, such as childbirth, care, learning, etc., life tables, retirement age	Abusive forms of solidarity (e.g. from the poor to the rich), inter- and intra-generational solidarity, inclusion/exclusion (migration)
Economic modes	All the various economic modes excluding the voluntary activities, are, varying per country, important for enabling the building up of entitlements	Involves the various economic modes, and entails a critique of the established boundaries between the various modes	Primarily the welfare economy, providing guarantees concerning various transfers (based on contracts and legislation)

Recognizing these debates and confrontations does not mean that a more systematic elaboration of these norms in the domain of welfare arrangements, and in a particular one, namely pension policies, is a futile exercise. On the contrary, such a conjecture allows one to point out the concrete lines of debate and confrontation and the various interests involved.

For the sake of simplicity, we take the traditional norms as our point of departure, and in the following table illustrate the controversies that arise when trying to apply and develop these traditional norms for actual pension entitlements.

### 6.3 Preconditions and characteristics of pension systems

Pension systems implicitly instituted life course norms. Therefore, the development of pension systems also needs to be approached through life course. As stated above, modern capitalist economies are multi-modal, and depend on non-market and non-commodity reproduction as well as markets and production. Production, exchange, distribution, consumption and so forth are traditionally allocated to different phases of the life course divided up into: (1) socialization and learning, (2) labour market participation, and (3) retirement. These ‘ages’ (Blackburn 2003, ILO 2003) are subject to fundamental transitions (De Graaf *et al.* forthcoming) whilst the development of the ‘third age’, i.e. retirement, is based on the first two ages and depends on a historical and specific link between the different ages.

The production and circulation of the various resources, including the resources for financing pension entitlements (in fully-funded systems, FF, and pay-as-you-go systems, PAYG, alike) is an inherent component



of capitalist logic, however differently instituted. Therefore, the dynamics underlying the flows of resources are of great importance, and cannot be captured by the typologies of welfare regimes, such as the well-known regimes elaborated on by Esping-Andersen (1990).

Pensions form a very peculiar resource due to the fact that they cannot be conceived of within a conception of classical property rights. Although PAYG and FF systems are quite different, in relation to timescales as well as property characteristics, all pensions depend on economic growth. This kind of dependency, which is more than individual short-term economic survival, is typical of modern capitalist systems (Arendt 2002). It is linked to changing, and improved, conditions of the quality of employment relations. In addition, it depends on a specific kind of trust in the stability of arrangements, to be organized for instance in insurances representing a broad social basis (Ewald 1986).

Equilibrium is necessary to be able to finance the first and the third age, i.e. proportionality between the different forms of social reproduction of the various modalities of economy. It will be self-evident that, for various reasons, the dynamic character of the economic sub-systems can bring about changes of the ‘typical ages’ of the life course. The linkages and interdependencies between the various phases of the life course are also redefined. Therefore, the characteristics of pensions as the third age are also on their way to being transformed.

The characteristics of pension systems are generally rather similar, although their concrete institutionalization varies widely per country. Pension norms are, in one way or another, directly linked to age and

labour market participation. This is not surprising since pensions, in all countries, are a means of regulating the labour force. And vice versa, the dynamics of labour markets also find expression in reforms of pension arrangements.

Understanding the consequences of pension reforms is quite challenging since pensions are not only a very complex nexus of institutions but are also spread out over different timescales that go beyond short-time planning. Pensions, therefore, are a kind of intergenerational contract: while entitlements have to be built up in the ‘second age’, using this terminology, pension benefits, in terms of monetary means or services, are enjoyed in the ‘third age’. This means that rights over resources have to be conserved over time.

Entitlements need to be built up. The number and the weight of reasons for building up pension rights vary country by country. Based on these differences, the pension systems in different countries have unique identities. These identities depend on instituted normative life courses and their further development in practical terms. All modern capitalist systems, however, have implemented pension regulations that allow for a period of non-employment, which is in line with the capitalist logic of spreading resources over time. As a consequence, pensioners are, at least in theory, enabled to enjoy a period of non-employment with a specific level of independence. They are, in financial, and ideal terms, not directly dependent on either their children or on kinship solidarity. They merely depend on societies performing their instituted obligation concerning the rights built up in the past.

#### 6.4 Male breadwinner systems and (limited) individualization: non-fit of pension systems

The life course norms implicitly instituted in pension systems established during the last century are currently being transformed. In most European countries, pension entitlements were calculated following a highly gendered ‘life-course regime’ (Kohli 1986), representing the perspective of a household comprising a female housekeeper and carer and a male breadwinner, the so-called male breadwinner model (Lewis & Guillari 2005). While women in traditional heterosexual legalized household formations mainly stayed at home, i.e. in the ‘private’ domain, in order to take care of the ‘reproductive’ necessities of this unit (housekeeping and caring for the elderly and the children), men earned the ‘family wage’ (Land 1980) within the ‘public’ domain in order to provide for the family. As a logical consequence, social rights were also related to the ‘family wage’ and this ‘male breadwinner’ social model.

Not only were social rights related to the family. Civil and political rights, to use Marshall’s categorization, were also instituted on the basis of the family unit and the male as head of this unit. And although political rights, as for instance the right to vote, and civil rights, as for instance the right of women to sign contracts, changed, other civil rights have only recently been generalized. The so-called private domain, for instance, qualifies after partly putting problematic issues such as the level of education or domestic violence in the public domain. And social rights in particular are still in the process of transition due to their behavioural component and the process of individualization.

Various developments have led to a more individualized understanding: the traditional family formation lost its self-evident status; women participate in the labour market more extensively; discriminatory legislation began to be reduced (for instance, it was forbidden in the Netherlands to employ married women in most sectors until the 1960s). However, this strong impulse of the 1970s in particular did not adequately find its expression in, for instance, institutional change. Although it is correct that much legislation changed in many countries, institutional legacy and neo-traditional trends hampered the full individualization of both welfare arrangements and the possibility of complying with the unisex life course norm. It is debatable whether full individualization would be desirable or even possible. However, it is obvious that the transitions of welfare arrangements that have been implemented eliminate the gender distinction insufficiently. The new, recently established life course norms, which require individual ideal labour market participation, do not yet fit well with the life courses of women. In combination with other welfare transitions, the disadvantages of this non-fit exacerbate the situation. This is the case since social entitlements, mainly, if not exclusively, built up within the domain of the market economy, are under pressure, and welfare arrangements are subject to retrenchments and individualization.

While men may also have difficulty complying with the normative life course, particularly in times of the ‘new social risks’ (Bonoli 2005) of rising unemployment and transitional labour markets, women face many more obstacles than men do. This is the case for various reasons, including:

- (a) labour market segregation – across the board and also in old age and part-time employment, in wages, in functions, in life-long learning;
- (b) care responsibilities – and the institutionalization of parental leave, care facilities, care credits;
- (c) tax systems – advantageous for 1.5 earner households (and pensions) in most European countries (Dingeldey 2001);
- (d) statistical discrimination – based on possible care-related time off (Esping-Anderson 2002) and life expectancy.

What kind of individualization could be envisaged in order to work out a more legitimate but yet practicable pension and welfare organization?

## 6.5 Realistic utopia

After analysing the norms, characteristics and shortcomings of pension systems, we now outline a utopian pension system based on realistic developments. We refer to it as utopian due to the fact that it is highly unlikely that a system like this could ever be realized – at least in this particular way and at least in the foreseeable future. Such a system is utopian for two reasons: (1) it would need ideal circumstances, for instance in the labour market and in information flows, and (2) the dynamic nature of systems subverts the conservation of a status quo and continuously requires adjustment, adaptation and modulation. In addition, although our pension model is much more equitable than all the existing pension systems, it is still based on problematic conditions, as we point out when describing the different layers. We say it is realistic

because we base our scenario on actual, partially achieved, solutions to the pension question introduced in different European countries in the past few decades. Some of those are understood as norms, others as concrete measures, and all of them are formulated as being necessary for reproduction by different actors. Such a thought experiment follows the tradition of humanist thought experiments of Thomas More or Erasmus van Rotterdam; among recent publications it can be compared with the ‘postindustrial thought experiment’ of Nancy Fraser (1997) or the new model of Stephan Lessenich and Matthias Möhring-Hesse (2004).

Reasonably legitimate pension systems, we argue, can only be based on the acknowledgment of the preconditions of societal sustainability and capitalist productivity (Jessop 2002), or of what we called reproduction. Pension systems, therefore, should be based on three ‘layers’, i.e. pension entitlements should be linked to the following three conditions and requirements:

- (1) poverty prevention;
- (2) valuation of necessary contributions to society (social reproduction and care, life-long learning), and
- (3) valuation of labour market participation (economic productivity).<sup>37</sup>

Each system should, in principle, include at least all these three layers in their pension system to reflect a balanced relationship of different tasks and responsibilities. We call them layers for two reasons: firstly, to avoid any association of ‘our system’ with the differentiation of pension schemes or pension pillars, and secondly, to explicitly characterize the

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<sup>37</sup> Other valuations may be included. Military service, for instance, may form part of layer two or three, depending on the country’s (military) system. Private savings are more a form of ownership than part of pension systems. Some countries are inventively including them in overall pension resources through taxes and regulations.

pension reasons as complementary: on the first layer of universal old age pensions, the second layer (credits for care etc.) and/or the third layer (labour market related contributions) can and should be additionally built up.

**Table 6-3** Complementary pension layers of a realistic utopian pension system

	Eligibility	Function	Source of resources
1 <sup>st</sup> layer	Universal, not means tested (e.g. residency based)	Poverty prevention (e.g. social assistance)	Public purse General revenue
2 <sup>nd</sup> layer	Social contributions Human capital Solidaristic elements	Complementary additional pensions (credits)	Public purse General revenue
3 <sup>rd</sup> layer	Financial/economic contribution Real capital Proportional wage-related calculation	Complementary standard securing pensions	Proportional wage-related contributions <sup>38</sup>

The complementary structure is inspired by the Dutch ‘cappuccino mix’ with its basic pension for all (the coffee), its semi-compulsory and complementary occupational pensions for most (the milk), and the possible complementary private additional pensions for those who can afford it (the cocoa), despite all the important differences (Frericks *et al.* 2006).

<sup>38</sup> Labour market activities contribute to productivity which is necessary to maintain wealth also in the wider sense. Therefore, it could be argued that these activities should similarly be financed by the public purse. However, to disconnect the linkage between wage and status securing social rights might form part of a utopia, not, though, of a realistic one.

These layers would, for democratic and sustainability reasons, need to be based on the general principle of justice in inter- and intra-generational terms. This means that the flows of resources are discussed, related to the various kinds of activities, related to the different economic modes.

### 6.5.1 Basic pensions

The first pension layer (1) we describe is inspired by the pension systems of the Netherlands and Denmark. These systems comprise a universal basic state pension as the cornerstone on which further pensions may be built up.

Poverty prevention is one of the basic intentions of welfare, enabling the participation of individuals. Although poverty levels vary considerably country by country, all European welfare states do have a social assistance institution to guarantee a minimum of individual autonomy and political and social participation. It is not the aim of this article to contribute to the discussion of general basic income; we focus on old age only. Due to the fact that labour market policy restricts labour market participation to a specific age (the variable mandatory retirement age), it is inherent in the system that the resources necessary for living be delivered. It is in the interests of society as such that the elderly residents, who are, institutionally or physically, unable to earn their own living, also have the guarantee to be full (political, civil and social) citizens. This minimum needed to maintain a decent standard of living should therefore be financed by general revenue. Furthermore, pension resources are one of the cornerstones of resource flows<sup>39</sup>. In addition, such a guaranteed universal basic pension would benefit the generation

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<sup>39</sup> In 2001, the share of pensions in GDP was 12.5 % in the EU25 (Eurostat 2005).



contract that forms a basic condition for capitalist welfare states (Sinn 2000).

As a matter of fact, a universal basic pension would, at the same time, solve another urgent problem of recent pension systems: that of trust (Rowlingson 2002). This trust can be seen from two perspectives: firstly, all employees would feel a kind of self-evident security in old age and therefore they would more readily invest in additional resources for their old age (see the Netherlands and Denmark; the reluctant acceptance of the German *Riesterrente* may serve as an example of low levels of investment due to little trust in pension investments). Basic pensions that are meant to just prevent extreme poverty, are unlikely to discourage additional savings. Secondly, in times of unstable labour markets, such a guarantee for old age security for all contributes towards social cohesion and, thereby, it contributes to trust in the economic and political systems (Ferrera & Rhodes 2000; it would not, however, fundamentally reduce labour costs<sup>40</sup>).

Surely the level of benefits of such a basic pension is subject to political considerations, and will therefore always be in danger of being reduced. However, if societies take this democratic institution seriously, basic pensions could get the status of a self-evident element of democratic systems. Yet one should not underestimate the dynamic of welfare arrangements: economic growth can lead to stronger developments of income-related additional pensions and by that, put the legitimacy of

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<sup>40</sup> As already pointed out by Sinn (2000), shifting financial burdens does not reduce them. Financial means are and will be transferred through the fiscal constitution charging productivity and growth still mainly through wages. However, universal pensions would reduce the enormous costs related to survivor's benefits and widow(er)'s pensions. Furthermore, universal pensions would involve relatively low administration costs.

basic pensions under pressure (the developments in the Netherlands resulting in retrenchments of basic pensions may serve as an example). In Denmark, due to a strong pensioners lobby, the basic pension is, although reorganized, under hardly any pressure. It should be stressed that pensions, in particular, are positioned in the field of tension between influential political powers, that have recently gained influence, holding a neo-liberal perspective on the one hand and the specific long-term characteristics of pension systems as institutions on the other. Although opposition to social reforms has generally increased in the past decade, political resistance to pension reforms is less strong than resistance to other social reforms due to the fact that they will have the most important consequences for future pensioners who might not yet feel concerned.

In the Netherlands and Denmark, this universal not means-tested basic pension layer is related to residency. However, it could be argued that, by buying services and paying different kinds of taxes, such as VAT, residents do contribute to the public budget and to the circulatory logic of welfare economies. It remains, however, problematic, in how far transnational labour transitions or migration in general hampers the opportunity to finally build up more than a basic pension (the so-called pension gap, see Frericks *et al.* 2006). Sophisticated solutions have to be found in times of increasing labour and capital mobility.<sup>41</sup>

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<sup>41</sup> Categorizing resources is difficult. Ferrera (2003) sees territory as the means that made it possible whereas Durkheim (1964) underlines interdependency.

### 6.5.2 Complementary pensions

Other layers, with further conditions with entitlements based on contributions to sustain the polity, should complement the first one, which is meant to be the basis for social cohesion. The contributions to the polity may be financial, economic and social. Sinn (2000), for example, uses different terminology and speaks of investments based on ‘real capital’ and ‘human capital’. Institutionalizing ideal concepts, such as the Dutch combination scenario, would result in each citizen building up pension rights in both complementary layers. However, this depends on the definitions of what is seen as (social) contribution and on the concrete life course of citizens (De Graaf *et al.* forthcoming). The relationship between second and third layer pensions would, therefore, depend on various facets of the systems and individual decisions. It is unlikely that future pensioners will not have participated at all in the paid labour market, i.e. only built up care credits. Nor is it likely that each future pensioner will be able to build up full occupational pensions in the current understanding in times of very flexible and insecure employment records. The traditional recipients of labour market related pensions and the traditional understanding of its level are on their way to being transformed. Therefore, the concept of reorganized pension reasons also reflects developments within traditional pensions which provide sufficient practical grounds to base all citizens’ future pensions on complementary pension reasons.

#### *Second layer pensions*

One of these complementary layers, the second layer of pension entitlements (2), would give value to societal contributions in the sense

of ‘solidaristic elements’ (Myles 2002: 167). This second layer is inspired in some countries (France, Germany, Austria) by the institution of pension credits for care or for education. In addition, it reflects some researchers’ ideas on even the pure economic legitimacy of such socialization of financial burdens, arguing that childcare in the end pays for itself (Joshi 1990)<sup>42</sup> or that such human capital investment has to be seen as part of the generation contract inherent in all pension systems that needs to be financially valued in addition to direct financial investments (Sinn 2000). In this sense, we formulate this part of a consistent logic of individualized pension systems. Highly individualized systems tend to face the Prisoners’ Dilemma, i.e. everybody tries to avoid personal disadvantage (specifically, a loss of wages as a result of children, for instance) while being aware that somebody else has to take responsibility for actions that entail disadvantages (Sen 1988). The second layer pensions therefore try to overcome the seeming dichotomy of self-interest versus solidarity.

If the generation contract is a precondition for sustainability, new generations are a condition for reproduction and these generations need to be educated in the knowledge societies of our historical and geographical situation. While formerly ‘familialized’ systems are being defamilialized in terms of social rights, pension reforms do not adequately transform former family rights into new ones. When ‘reproduction of society’ is recognized as a ‘social purpose’ (Shionoya 2005: 250), related costs may legitimately be financed by means of general revenue (Sinn 2000). In addition, pension credits for ‘socially

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<sup>42</sup> Concepts of equal rights need to be accompanied by concepts of equal obligations to children and other dependents (Folbre 1994). This problem is also exposed in the concept of ‘inclusive citizenship’ (Knijn & Kremer 1997).

useful' contributions (Lipietz 1992: 105) should be implemented as non-conditional entitlements, i.e. they should not be linked to means tests or entitlements gained by labour market participation. As an addition to basic pensions, they value this societal contribution. This unconditional valuation of child care credits was the case in France until 2004 (recent reforms introduced conditions related to labour market participation<sup>43</sup>).

As stated above, economy has to be understood as an interplay of its four interrelated modes, including the social reproduction of labour, encompassing education and care. It is challenging to specify a list of socially useful contributions and to institutionalize a connection with specific pension entitlements. It is not the intention of this contribution to deliver such a list. Yet we can point to some possible components by analyzing academic and political attempts to specify them.

Some countries have introduced care credits into their pension systems. Although it is correct that only those countries without universal basic pensions implemented such credits, there is no convincing argument to justify this exclusive linkage. On the contrary, a holistic approach adapted to the anthropological concept of the economic dimension, values necessary contributions to the system differently from those related to the market economic mode. Actual pension care credits, in different countries, entitle one to different rights in terms of: (1) absolute (fixed) or relative (income related) monetary means; (2) full-time, part-time or non interruption of labour market participation; (3) the duration

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<sup>43</sup> We disagree with Ferrera and Rhodes who call for 'incorporating "equitable" and "updated" norms in the crediting of contributions for involuntary or socially valued interruptions of work (for example, training or caring periods)' (2000: 269) since this conditionality of credits on work interruption firstly contradicts the *per se* valuation of socially useful contributions and secondly hampers women's equal positioning on the labour and skill market (Frericks & Maier forthcoming).

of building up care-related entitlements; (4) the number of children cared for, and so forth. In some countries, there are additional care credits for parental care of handicapped children.

Another socially useful contribution discussed (partly introduced in the UK or as a possibility in Germany and the Netherlands) is geriatric care. And there are of course various additional useful time investments which could be thought of. This discussion tends to lead to the approach of the so-called third sector (Lipietz 1992). However, the similarity may concern the valuation of activities, not the categorization of them. Furthermore, education credits are (very differently institutionalized) part of some countries' pension systems.

To conclude, what we call the second layer would serve social cohesion in two ways. Firstly, by contributing to the gender contract (not in the sense of gender roles but in the sense of a more or less 'just' valuation of different activities, and not exclusively the activities in the market mode), and secondly, by contributing to the generation contract. Therefore, the costs of this layer should be covered by general revenue and not by specified groups only (through e.g. payroll taxes charging wages only)<sup>44</sup>.

### *Third layer pensions*

The third layer (3) of our pension utopia already exists in all European countries: labour market related pension entitlements. Since we analyze the meaning of different pension reasons, we do not differentiate

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<sup>44</sup> The realistic utopian pension system needs, as existing pension systems do, further elaboration of (new) financial responsibilities and a critical analysis of resource flows in general. For instance, which sources can be tapped for the national budgets as general revenue in times of supranational economies? (De Graaf *et al.* forthcoming).

between occupational and private pensions or between PAYG or funded pensions, presupposing that firstly, both resources are related to the labour market as a financial resource or as a commodity in the widest sense, and that secondly, the management of these financial contributions is very controversial and of rather secondary interest when comprehending this layer as complementary. As resource flows are mainly related to the market economy and as productivity in the wider sense is necessary to maintain wealth, labour market contributions need to be valued as societal ones do. For most researchers, this is rather self-evident, so we will not discuss this kind of legitimacy any further.

What we do want to discuss in more detail is the problematic preconditions and calculation norms that determine how such entitlements are built up. As Ferrera and Rhodes (2000: 268) put it: ‘The elimination of transfers that can be identified as *inequitable* (because they are grossly disproportional to contributions), *outdated* (because they are out of step with the structure and distribution of needs) or *perverse* (because they generate significant work disincentives) appears desirable both for normative and practical reasons.’ We will focus on the following issues: (a) proportionality of contributions and entitlements; (b) identities of the insured; and (c) security of the investments.

(a) Calculation norms may lead to disproportional benefits in relation to contributions. Differences in wages and in the quality of contracts are rather ‘normal’ in capitalist welfare states. However, there is no legitimate reason why calculation norms of pension entitlements should even extend these differences. Nonetheless, this is the case in many pension systems. In the Netherlands, for instance, double wage income may result in fourfold pension entitlements (Herderschee 2004). A

comparable effect can be observed in France where the calculation formula, based on time, may lead to a 50 per cent loss of pension benefits when one pays 12 per cent less contribution (Veil 2002). This is an extreme example of a malus regulation; and a lot of bonus-malus regulations have recently been introduced in different countries (Missoc 2004). In addition, several countries' pension systems include specific tax regulations that are generally more beneficial for higher income earners. Such additional disproportionalities lack legitimacy.

(b) Moreover, different recent pension reforms partly undermine the nature of pensions as an insurance by transforming them into individual account systems. If, however, pension arrangements change their meaning from old age insurance to (individual) old age savings, social cohesion is under threat (Ewald 1986). This is even more the case in times of unstable labour markets. All contributions to economic productivity should be included in this 'third layer insurance': those by the self employed, by low wage earners, lawyers and labourers – just to name a few - alike. This is not yet the case due to a variety of conditions (qualifying periods, groups specific pension schemes, and so forth). Some countries are changing these conditions as well as unifying their pension sub-systems, and, concerning membership, extending their differently separated systems (e.g. Germany, France, Denmark).

(c) More individualized pension investments entail more individualized insecurity. Scandals in Britain and the US, for example, have served to indicate the powerlessness of people when faced with big firms going bankrupt, which completely annihilated the companies' huge pension responsibilities (Blackburn 2003). An opposite example is the highly regulated and collective pension funds in the Netherlands. Obligations of



pension funds are strictly regulated so that comparable disasters are unlikely to happen. The Dutch system also manifests considerable fantasy by combining calculation methods, such as ‘defined benefit’ systems and ‘defined contribution’ systems. Such pension formulae are in line with some academics’ perspectives. Myles (2002), for instance, argues against fixed rates in general, in favour of flexible rates necessary to sustain PAYG systems, which are more suitable when it comes to creating trust. In our opinion, pension funds, or indexation in general, could even be regulated in a more sophisticated way, combining overall and long-term profits (and losses) with a more general redistribution.

To conclude, the three issues of ‘third layer pensions’ (proportionality, identities of the insured, and security of investments) can be handled more democratically if legally instituted, i.e. regulated, in the pension system as such.

## 6.6 Coming full circle: citizenship and pensions

Pensions as a kind of ‘societal property right’ institute a socialized ownership (Musgrave & Musgrave 1989, Hills 2004). Therefore, pensions should be in accordance with the norms of citizenship. Regarding pensions from such a perspective, we have come full circle: pension rights as part of social rights belong to citizenship rights, although continuously contested by various power struggles. However, compared with its political brother and civil sister, pension rights as specific social rights, are barely understood and have not been discussed in this light up until now.

Our realistic utopia does not come close to any pension system classification as, for instance expounded by Bonoli (Bismarckian or Beveridgean systems) or by Pierson (categorizing pension systems into those who moved PAYG to FF before the system matured and those who didn't), or others, also due to the fact that our layers do not correspond to pension schemes or 'pillars'. Our attempt has been to formulate a holistic concept of welfare systems, recombining democratic citizenship (rights) and long-term necessities of economic and polity sustainability.

**Table 6.4** Citizenship norms and realistic utopian pension entitlements: an illustration

	Freedom	Equality	Solidarity
Specification	Trust, social cohesion, security of investments	Valuation of activities in different economic modes, proportional benefits, inter- and intra- generational justice	inter- and intra-generational solidarity
Contested points	Role of the state, regulations	List of socially useful activities, concrete value of basic pensions and of different pension credits, indexation (redistribution)	Transitional labour markets, financial responsibility of transnational companies, migration
Economic modes	Basic freedom via welfare economy, additional investments based on financial means (market economy)	Credits for socially useful activities via welfare economy, additional investment equally valued via rule of law, all modes included	Welfare economy and regulations, more fantasy to establish new sources and to combine resources

This realistic utopian pension system would combine what is fragmented or partly even ignored in present-day welfare and pension systems: the different economic modes and the traditional values of citizenship, including the long-term sustainability of capitalist welfare states. The dichotomy between the public and the private is the crux of welfare systems in gender terms. Another dichotomy is artificial, namely that of (individual) self-interest, including freedom, and solidarity, sustaining social cohesion. The art is to find equality in opportunities to comply with different life course tasks to solve the Prisoners' Dilemma of our systems. The art is also to provide choices to combine elements of different life courses without the risk of living in poverty in old age.

Citizenship rights, which are defined as individual rights, have to be combined with citizenship duties in the sense that the reproduction of the polity is not solely related to economic growth but to all the four modes of the economy. The different essential activities related to these economic modes, summarized by us elsewhere in the term 'activeness', are therefore different from the concept of 'economic citizenship' (Kessler-Harris 2003) which sticks to the problems correlated with the concept of commodification. Our understanding of citizenship and the social identities involved, entitling one to various rights, is a holistic, anthropological, long-term sustainable one.

## 6.7 Final remarks

We are aware of the fact that this text has many loose ends. We do not pretend to weave them together in these final remarks. We limit ourselves here to indicating a number of important points for further reflection.

Firstly, the ‘realistic utopia’ we formulated here for pension systems cannot be used without many changes being made for other welfare arrangements.

Secondly, we already underlined the interdependence between welfare arrangements and other economic modes, and more generally, with other dimensions, such as political ones. For example, we did not address at all the process of political decision making<sup>45</sup>. Neither did we work out in any detail the various interdependencies between pension systems and other welfare arrangements, the relationships between pension systems as belonging mainly to the economic mode of the welfare economy and other economic modes (with the exception of the household economy), nor did we address the difficult question of how our conception of norms (derived from a dynamic version of citizenship) is related with the worldview we used when introducing the question of the reproduction of present-day capitalist societies.

Finally, we have limited ourselves to designing a realistic utopia concerning pensions for European polities. But at the same time, we recognized the existence of a significant interdependence between all the polities in the world system. Therefore, we cannot pretend that the realistic utopia suggested here has any autonomy. On the contrary, we are fully aware that only a theory of the worldwide dynamic of more or less uneven reproduction and transformation of the world system would permit us to indicate the limitations of our work and to go beyond these limitations.

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<sup>45</sup> Debates on decision making and implementation of different norms are numerous. One might think of the exchange of Nancy Fraser, arguing on her concept of ‘participatory parity’, and Axel Honneth (2003), comprehending social policy as little steps towards utopia.

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