

Chances and limitations of “ benchmarking” in the reform of welfare state structures- the case of pension policy

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EXECUTIVE SUMMARY

The concept of benchmarking, originally developed as a tool to improve the performance of business enterprises by learning from others' 'best practice', is now increasingly applied in the areas of employment and social policy. Rising internal and external pressures on national welfare states, sometimes reinforced by supra-national institutions, a rapid growth of modern communication technologies and an ongoing process of ideological liberalization drive this development. Just as benchmarking between companies benchmarking between national social policies is seen as an instrument to reduce the costs of pure trial and error.

However, learning from abroad is neither a sufficient nor a necessary condition for successful welfare state adjustment. First, it is only one possible factor for welfare state change next to many others. Second, it does not necessarily lead to policy change because policy makers may be unable or unwilling to implement what they have learned. Third, even if cross-national policy transfer takes place it may fail to yield the expected benefits. For a number of reasons the transferability of welfare policies across countries may be restricted. Most importantly, policy transfer may be inappropriate if policy-makers do not pay sufficient attention to the different economic, social, political or ideological context in the importing country. This is especially true when it comes to the great institutional diversity of national retirement systems, which are based on highly country-specific policy mixes and which display strong interdependencies with other policy areas. Therefore, a large-scale adoption of one-size-fits-all solutions such as the World Bank's three-pillar pension model appears to be problematic. The costs of establishing new institutional arrangements form another impediment to policy transfer. The extraordinarily high cost of financing the transition from a pay-as-you-go to a fully funded pension system is a case in point. Moreover, the benchmarking of social policies is faced with the difficulty that policy goals tend to be ambiguous or even characterized by harsh trade-offs. Pension reformers, for instance, are invariably confronted with the problem of containing rising pension costs while ensuring a decent level of social security for the elderly population. Therefore, the notion of 'best practice' appears to be problematic with respect to social policy reform. Finally, policy makers must be concerned with the political risks associated with policy transfer, especially in a political minefield such as pensions. For these reasons, policy transfer between welfare states appears to be qualitatively different from transfer of 'best practice' between companies.

Under these conditions, the probability of (appropriate) policy transfer will hinge on two factors. First, the more the local conditions and especially the welfare arrangements differ from one country to another the more difficult and the less likely policy transfer will be. Second, exchange of information will be easier than the transfer of ideas and goals, which on their part will diffuse more easily across national borders than concrete policy instruments and institutions. In particular, the import of institutions incompatible to existing policy structures may interfere with the balance of power between societal actors and therefore meet with political resistance.

Uncontextualized benchmarking also harbors a great risk of political misuse without promoting serious and systematic deliberation on alternative reform options. In the public discourse, political interest groups may highlight single, isolated aspects of foreign models in order to propagate the adoption of policies that are primarily for their own benefit. Nevertheless, benchmarking may have a beneficial impact on national welfare state debates and spur reforms that are in the public interest. It may help to unveil existing weaknesses and to highlight the need for action. In so doing, benchmarking may also trigger public pressure on governments to take action in areas where they might otherwise avoid politically risky reforms. Moreover, it might uncover potential win-win situations, in which some can benefit at no costs to others, and thus help to organize political support among potential reform opponents.

With the open method of coordination the EU has established a qualitatively new form of benchmarking. Covering a broad range of policy areas (including pensions) this new mode of governance is explicitly designed as a means of spreading best practice and – on a voluntary basis - achieving greater convergence towards the main EU goals. It is thus considered both a cognitive and a normative tool. Regarding both dimensions a lively scholarly debate has emerged about the method's strengths and weaknesses.

As a cognitive tool, it appears to be superior to traditional forms of benchmarking typically practiced by organizations such as the World Bank or the OECD: It shows greater sensitivity to different national contexts, pays relatively equal attention to both economic and social concerns (regardless of persistent conflicts between socially and economically-oriented players) and includes a broader range of actors from civil society such as the social partners. Under these circumstances, it may turn out to be a relatively effective instrument of policy learning. Nevertheless, the method should be anchored more firmly in the domestic process of policy formation, especially by giving national parliaments a greater role in the overall process. This again may induce national governments to deal with the open method of coordination and its findings more seriously rather than exploiting it for the mere purpose of window-dressing.

As a normative tool, the potential of the open method of coordination is probably more limited, especially as far as pension reform is concerned. Here, the open method of coordination is unlikely to bring about a greater policy convergence within the EU, even if only at the level of policy outcomes. Member states differ greatly in the institutional design of their pension systems, their standards of social solidarity, their level of economic development, and their demographic structure. These factors will have a significant impact on the way individual member states deal with the trade-off between social adequacy and fiscal sustainability. Thus, it appears neither possible nor desirable to press for greater convergence by establishing common quantitative targets for all pension systems within the EU.

INTRODUCTION

In recent years we observe a growing body of academic literature that explores political processes associated with notions such as lesson-drawing, benchmarking, policy learning, policy diffusion, policy borrowing and policy transfer. To a great extent this reflects the increasing importance of foreign models in the public debate about welfare reform. In the second half of the 1990s “successful” countries like the Netherlands and Denmark started to capture the attention of policy-makers in the rest of Europe. This is especially true for countries like Germany that face persistently high levels of unemployment and increasing difficulties to finance their systems of social protection¹. Learning from abroad is seen as an instrument to identify ‘best practice’ and to provide innovative and more effective policy options for domestic policy-makers. This paper seeks to address the question whether learning from other countries enhances the scope of policy transfer across welfare states and promotes the development of effective social policy responses. More specifically, it seeks to clarify whether and under which conditions the concept of benchmarking can play an important role in welfare state reforms.

In the first section I will briefly portray the driving forces behind the rapid expansion of efforts of national policy-makers to learn from other countries. The second section provides a theoretical reflection over the potential significance of benchmarking as a causal factor for welfare state developments and highlights the numerous barriers to the transfer of “best practices” from one political setting into another one. Against this background, section three discusses the potential and the limitations of the so-called “Method of open coordination” (OMC). This method, which is seen both as a cognitive and as a normative tool, has established a new mode of EU governance that may enhance the scope for policy learning and policy transfer. As an iterative, multi-level and multi-actor process of policy learning based on a broad range of comparable quantitative indicators the OMC constitutes a new quality of contextualized benchmarking. As such it may provide domestic policy makers in favor of reform with empirically based arguments for the necessity and feasibility of policy change. Finally, I will make a few suggestions on how the open method of coordination can be anchored more firmly in domestic policy formation.

¹ Primarily driven by a continued perception of economic crisis the idea of benchmarking has experienced a veritable hype in the German political discourse. This is nicely illustrated in a speech given by the former Bundespräsident Roman Herzog in 1997: *“Die meisten traditionellen Industriestaaten standen oder stehen vor ähnlichen Problemen wie wir. Eine ganze Reihe von ihnen hat aber bewiesen, dass diese Probleme lösbar sind. In Neuseeland hat man aus alten, ineffizienten Strukturen eine moderne Kommunalverwaltung aufgebaut. In Schweden hat man den überbordenden Sozialstaat erfolgreich modernisiert. In Holland hat man im Konsens mit den Tarifpartnern die Arbeitsbeziehungen flexibler gemacht. Folge: die Arbeitslosigkeit ist in Holland drastisch gesunken. In den USA hat eine gezielte Strategie neuartiges Wachstum ausgelöst, das Millionen neue Arbeitsplätze geschaffen hat. Ich weiß, hier kommt gleich das Argument, dass nicht alles, was in Amerika*

The paper will discuss the chances and limitations of “benchmarking” and more specifically of the OMC with a special focus on pension policy. Pension reform may actually be the litmus test for the effectiveness of OMC. Given the tremendous variety of national systems of retirement provision, a high degree of path dependency and the strong popular support to public pension schemes, the impediments to structural changes and thereby the hurdles to cross-national policy transfer will be stronger than in most other areas of welfare provision. Thus, if open coordination can prove its worth in a highly intricate policy area such as pensions, this method may be a promising instrument for welfare state adjustment in general.

1. REASONS FOR THE GROWTH OF BENCHMARKING

Efforts at learning from other countries are certainly not new². However, there can be little doubt that the phenomenon of cross-national benchmarking has experienced a veritable boom in recent years, most notably with respect to the comparison of social and labor market policies. Even on the part of policy-makers themselves there appears to be a high readiness to learn from other countries. This is also true for pension policy, a domain in which structural innovations are particularly difficult to implement. The recent Swedish pension reform, for instance, received widespread attention by pension policy-makers all over the world or even served as a blueprint for reform in a number of countries. By the same token, the occurrences (or at least attempts) of policy transfer in this area have increased substantially (Dolowitz and Marsh 2000). A number of partly interrelated factors have contributed to the increasing extent of policy diffusion among countries:

First, within a globalized economy the capacity of national policy-makers to frame their own agenda is substantially diminished. Intensifying international competition on product markets and increasingly mobile factors of production may enhance the vulnerability of national welfare states. The potential weaknesses of a national economy tend to be unveiled more easily, which again may intensify the search for less vulnerable and more efficient institutional arrangements. This again is likely to enhance the willingness to learn from other countries' 'best practices'.

Second, irrespective of their exposure to global economic forces many advanced welfare states are facing increasing adaptational pressures as a consequence of factors such as rising unemployment, demographic ageing and budgetary imbalances. In general, these crisis conditions are favorable to policy learning as they may indicate a decline in policy performance and call for a reform of existing policies (Hemerijck and Schludi 2000). By contrast, under lenient conditions (typically prevailing in most advanced economies until the early 1970s) only exceptionally inappropriate policies will lead to the perception of policy failure (Visser and Hemerijck 2001), that might motivate national policy-makers to adopt innovative policies ('*If it ain't broke don't fix it*').

Third, supra-national institutions, such as the European Union, the OECD, the International Monetary Fund or the World Bank, occasionally reinforce existing adaptational pressures. Such organizations may recommend or even enforce the transfer of certain policies across countries. The role of international organizations with respect to coercive policy transfer has been most pronounced in developing economies where the granting of financial aid is often made dependent on the adoption of specific policies. For instance, many Latin American countries introduced private and advance-funded pension schemes in order to get loan approval by the IMF (Brooks, forthcoming). Within the European Union pressure for formal harmonization on member states' pension policy choices only concerns single aspects rather than the overall design of national retirement systems. The removal of regulatory

2 A well-known example of early forms of policy learning is the visit of the British Prime Minister Lloyd George in Germany at the beginning of the 20th century. His intention was to study the Bismarckian social insurance schemes (see for example Rüchemeyer and Skocpol 1995 and Hay 1975).

barriers to labor and capital mobility and the introduction of gender-neutral retirement ages are cases in point.

Fourth, as Dolowitz et al. (2000) point out the rapid expansion of modern communication technologies, most notably of the Internet, greatly facilitates the exchange of ideas and knowledge as it drastically lowers the costs of gathering information.

Finally, an ongoing process of liberalization is creating an increasingly non-ideological, pragmatic environment. As a consequence, the ideological barriers that may once have hampered policy learning between different families of welfare states are at least partly broken down (Cox, 1999).

2. POTENTIALITIES AND LIMITATIONS OF BENCHMARKING IN WELFARE REFORM

2.1 THE IDEA OF BENCHMARKING

Benchmarking can be broadly defined as a practical tool for improving performance by learning from best practices and the processes by which they are achieved (O'Reagain and Keegan 2000). The concept of benchmarking, as it is known today, was originally developed by companies operating in an industrial environment. In recent years, however, also public or semi-public organizations as well as policy makers have sought to make use of this tool. In the political sphere, benchmarking ultimately aims at the transfer of policies. Policy transfer can be seen “*as a process by which knowledge about policies and institutional arrangements in place is borrowed to inform, structure and legitimize policy change elsewhere*” (Dyson 2000:260). It is a potentially useful strategy for rationally bounded policy-makers acting in an increasingly uncertain environment (CPB 1997). As Visser and Hemerijck (2001) point out learning from others may avoid some of the costs associated with pure trial and error learning, such as the costs of numerous trials needed to improve fit, the costs that may result from catastrophic error, and the loss of time to reach more effective innovative solutions. Moreover, the greater the extent to which cross-national benchmarking unveils the weaknesses of domestic policies (often by the use of quantitative indicators showing a country's low performance in international rankings), the less difficult will it be for reform-oriented policy-makers to legitimize the necessity of adjustments. In the best case, benchmarking may transform the preferences of those actors that tend to defend the status quo. As such, it may serve as an instrument by which political resistance to reform can be overcome more easily. By the same token, benchmarking may help to develop and to justify policy responses that are unlikely to be discovered within a country's existing institutional and ideological framework. As such, it may serve as a device to loosen the high path dependency of existing welfare state structures (Heinze et al. 2000).

2.2 THE LOOSE LINK BETWEEN POLICY LEARNING AND POLICY CHANGE

Nevertheless, learning as such is neither a sufficient nor a necessary condition for policy change. First, learning from other countries (and consequently the transfer of policies across countries) is only one possible factor for welfare state change next to many others – and not necessarily the most important one. Theoretical approaches emphasizing policy learning as a driving force behind welfare state developments are distinct from alternative explanatory approaches in so far as they are primarily actor-centered and in so far as they perceive changes in welfare policies as largely driven by exogenous factors. Table 1 illustrates the main focus of this approach in a comparative perspective. It should also be noted that even the adoption of very similar policies and institutions in different countries is not necessarily the result of deliberate policy transfer. It may also be the result of endogenous political

processes in which policy makers adopt similar responses to common problems (Scherrer 2001). By the same token, structural forces may lead to cross-national policy convergence even if policy makers themselves made no efforts to learn from other countries.

Table 1: Typology of explanatory approaches to welfare state change

	Exogenous causes	Endogenous causes
Actor-centered	International diffusion Learning from abroad	Rational Choice Power resources
Structural	Modernization theory Globalization theory	Path-dependency Neoinstitutionalism

Source: Adapted from Schmid 1999:7

Secondly, even if learning occurs it does not necessarily lead to policy transfer. Governments that have ‘drawn lessons’ may be replaced before they can apply them or may lack the will or power to implement them. They may even abstain from reform *because* of what they have learnt. Learning new lessons may in itself entail a certain risk for politicians in so far as it tends to unveil the weakness of existing policies to investors, opponents and voters (Visser and Hemerijck 2001). Moreover, the identification of ‘best practice’ in other countries does not necessarily point out an appropriate strategy by which this best practice can be adapted to a different institutional context. By the same token, even if policy learning leads to reform, this policy transfer is not necessarily successful. Dollowitz and Marsh (2000) identify three important factors that may lead to a situation in which policy transfer misses the targets set by policy-makers engaged in this transfer:

First, policy failure might result from *uninformed* transfer. The borrowing country may lack sufficient information about the policy and the way it operates in the country from which it is “exported”.

Second, policy transfer is *incomplete* if crucial elements of what made a certain instrument or institutional arrangement a success in the originating country are not transferred.

Third, *inappropriate* transfer denotes a situation in which policy-makers do not pay sufficient attention to the different economic, social, political or ideological context in the importing country.

2.3 IMPEDIMENTS TO THE ADOPTION OF ‘BEST PRACTICE’ IN WELFARE STATE REFORM

More often than not such pitfalls will emerge if debates over the (alleged) vices and virtues of foreign models are characterized by a strong ideological momentum. To the extent to which the discussion over best practices primarily takes place at the level of ideas and policy paradigms the practical problems as well as the political feasibility of policy transfer will often be ignored. Moreover, the institutional complexity of policy arrangements in the exporting country will often be neglected. The usefulness of benchmarking as a device for learning and deliberation on alternative approaches will typically depend on the recognition that the policy context between the exporting and the importing country usually differs. Policy makers have to pay due attention to the specific local conditions prevailing in the political setting in which innovative instruments, policies, institutions or ideas are to be implemented (Visser and Hemerijck 2001). In particular, interdependencies and complementary relationships between different policy areas and between different policy programs need to be taken into account, not at least with respect to their impact on the behavior of individuals.

The promotion of private old-age provision is a good example of how such interlinkages may hamper the effectiveness of policy instruments that seem to work well in other countries. Recently, Germany and Italy have taken steps to encourage the expansion of private pension plans through generous fiscal incentives. Thus, they basically sought to follow the example of countries like the US or Switzerland, where a favorable tax regime has contributed to the rapid growth of private retirement savings. Thus far, however, the development of take-up ratios fell clearly short of policy-makers expectations in both countries. A case can be made that tax deductions alone may not suffice to stimulate private old-age provision. The sluggish expansion of private pension plans in Germany and Italy may at least partly be attributed to the fact that the cutbacks in the public pension pillar are too half-hearted to act as a strong push factor for private old-age provision. In Italy, current workers are largely exempted from the drastic reduction of replacement levels associated with the gradual introduction of the new contribution-defined pension system. In Germany, the lowering of the pension level will be implemented more quickly but the reduction will be rather modest. Thus, in both countries the weight of public social insurance in retirement income provision will shrink only slightly over the next years. For one thing, this lowers the incentives to build up supplementary old-age provision on an individual basis. Moreover, the continuously high level of contributions to the public schemes narrows the financial leeway for employees to set aside money for private old-age provision. These impediments were less virulent in countries such as the US or Switzerland, where the modest scope of the public pension pillar had provided a more fertile ground for the expansion of private pension plans.

Moreover, the stronger the local conditions in the borrowing country deviate from those existing in the transferring country the higher will be the costs of transition. Even in the case of an appropriate transfer of best practice the costs of this transfer may still exceed the benefits associated with the introduction of a new policy arrangement, at least in the short and medium term. In this case, policy-makers will have no incentives to depart from the path of institutional development (North 1994). Due to the path dependency of institutional arrangements major changes in the institutional order will often entail a serious commitment problem, most notably in the domain of social policy. Private actors typically base their long-term decisions on the expectation that the structure of social policy programs remains largely unaltered. Major adjustments may therefore be interpreted as a breach of an implicit ex-ante agreement between the government and private agents. The latter may see their specific investments harmed that were based on the status quo ante. This may again undermine the reputation of and the political support for the government (CPB 1997). Pension reform is a typical case in point. For instance, the transition from a pay-as-you-go to a fully funded system typically implies a massive double payment problem. As a consequence, a fully funded pension system can only be built up very slowly even if it is sometimes considered as being less vulnerable to the challenge of demographic ageing. However, with respect to path-dependence two aspects need to be distinguished. On the one hand, technical and practical difficulties may drive up the financial or administrative costs of institutional transfer and thereby impede the adoption of policies that - net of transaction costs - would improve the efficiency of existing institutional arrangements. On the other hand, powerful interest groups may resist institutional reforms if they expect to be the losers of this reform - regardless of whether or not the reform increases overall welfare. This will increase the political costs of policy transfer and may result in reform blockage (Ochel 2002).

The applicability of the benchmarking concept in the sphere of public policy, most notably in social policy, is also restricted by the ambiguity of the policy goals that are to be achieved. While private business enterprises ultimately pursue one overall objective, namely to maximize profit, matters are usually more complex in the case of public institutions. For this reason, the notion of “best practice” may be at least misleading in the context of welfare state reform. As a rule, social policy makers have to follow several goals at the same time. Moreover, the relationship between these goals may at least partly be characterized by a trade-off, i.e. between the aspiration to ensure a high level of social protection and the goal to limit the tax burden for the working population. Solving a problem in terms of one criterion may therefore create problems in terms of other criteria. Thus, in order to assess the performance of welfare state arrangements from a comparative perspective it appears reasonable to think in terms of institutions that affect a country’s position on various trade-offs rather than assuming a unique institutional solution that maximizes social welfare (CPB 1997). What is more, the relative value attached to specific performance criteria is likely to differ from country to country as well as over time. This is especially true for redistributive policies where deviating conceptions of equity and solidarity may come into conflict with one another. Whether or not a three-pillar pension system is deemed superior to a Bismarckian-type pension system will also depend on the specific criteria for

social justice that are applied. Thus, there is no single outstanding and uncontested yardstick to measure the performance of welfare policies across countries. The definition of ‘best’ or ‘good’ practice will never be an exclusively cognitive matter but also a highly political issue. Nevertheless, even in the political minefield of social policy the notion of benchmarking conveys the mistaken image that ‘best practices’ could be defined in a purely technical and apolitical manner (cf. Tidow 1999).

Another possible impediment to the successful imitation of ‘best practice’ from other countries needs to be considered. Foreign models may owe their relative success at least partly to the fact that their policies are *not* transferred to other countries. For instance, “beggar-my-neighbor” strategies may work in a small country but would be self-defeating if everybody did adopt them (Scharpf 2002). Such concerns are for instance raised with respect to the taxation of mobile capital, where an individual country may be tempted to attract foreign capital by offering more favorable tax conditions than its neighbors. The latter on their part may feel themselves compelled to do the same in order to maintain their relative position. In the end, these countries may find themselves in a competitive ‘race to the bottom’ in which each party is likely to lose. Strategies of social or wage dumping involve a similar kind of risks.

Similarly, certain economic strategies (such as the occupation of specific market niches) may be successful in small national economies or within a limited set of national economies but may be not viable (or at least less effective) in large economies or on a European-wide or even worldwide scale (Schmid 1999). This may also hold true for certain type of welfare policies. The performance of fully funded pension systems is a case in point. Thus far, only a limited number of advanced welfare states rely to a considerable extent on fully funded forms of old-age provision. Especially within in Europe it is primarily small national economies whose pension systems make use of the profits attainable on the capital market. At least until recently, these pension systems were able to yield higher rates of return than pay-as-you-go based public pension systems. The problem is, however, that the number of safe and profit-yielding investments on the international capital market is possibly limited (Krupp, 1997). To the extent to which the large European economies such as Germany, France, Italy or Spain follow the example of countries like the Netherlands and Switzerland and establish fully funded pension systems on a broad scale this problem may become more severe and international capital markets may have greater difficulties to absorb the concomitant increase in the supply of capital. In this sense, there might be a sort of first-mover advantage for those countries that expanded fully funded pension schemes at an earlier stage.

2.4 A TYPOLOGY FOR THE TRANSFERABILITY OF WELFARE POLICIES

Hence, benchmarking may be a useful instrument to foster policy learning but its actual impact on welfare state development is probably more limited than the recent hype of studies, articles and essays over benchmarking both in the academic literature and in the popular press may suggest. We can identify a number of reasons why a simple copying of foreign solutions will often be inadequate or unavailable. With respect to social policy reform the potential of benchmarking in terms of appropriate policy transfer will depend on at least two factors.

First, as already noted, the transferability of successful policies will be the more difficult the more strongly the local conditions in the borrowing and the transferring country deviate from one another. As a rule, institutional learning and policy transfer will only be possible within clusters of countries whose economic and political conditions are at least roughly comparable, i.e. between highly developed market economies. However, even within this group the local conditions may still be so different that the potential for policy transfer is severely restricted (Ochel 2002). The impediments to policy transfer are particularly strong between countries belonging to different welfare state families. To be sure, a comparison between countries as different as Germany and the United States may increase the knowledge about the theoretically possible policy options and instruments to a greater extent than comparisons between countries with very similar welfare arrangements such as Germany and Austria. Zeitlin (2003) regards institutional diversity as an asset providing greater opportunities for policy learning due to a wider range of experiences and perspectives on which policy-makers can draw. It is questionable, however, whether national policy elites consider the adoption of radically different policies as applicable to their own country. More often than not, the import of such policies will turn out to be very difficult for both practical and political reasons. As Scharpf (2002) points out, British (and probably German) voters would be unlikely to accept the high levels of taxation that is needed to finance the generous welfare state in Sweden, whereas Swedish families could not live with the modest level of family services provided in Germany. Similarly, both Swedish and German voters would fiercely oppose any attempt to abolish earnings-related public pensions and to replace it by a public basic pension. By contrast, if the imported policies are highly compatible to existing policies (i.e. requiring only minor institutional adjustments) as well as to the ideological heritage of a welfare state, they will not seriously violate voters' expectations and not interfere with the balance of power between societal actors. In short, political resistance will be more limited. Therefore, the scope for appropriate policy transfer appears to be greater between countries with similar welfare arrangements (CPB 1997; Scherrer 2001).

Second, the potential for appropriate policy transfer from one political system to another will also depend on *what* is actually transferred. Dollowitz et al. (2000) identify eight different categories in that regard: Policy goals, policy content, policy instruments, policy programs, institutions, ideologies and attitudes and negative lessons. It should be noted, however, that transfer may also be confined to the mere exchange of information. Dollowitz et al. (2000) also distinguish between four different degrees of policy transfer:

- *Copying*, understood as direct and complete transfer
- *Emulation*, involving the transfer of the ideas behind a certain policy
- *Combinations*, i.e. mixtures of several different policies and
- *Inspiration*, where policy in another jurisdiction inspires policy change, but where the final outcome does not actually built upon the original

In essence, these categories can also be understood as a wide continuum of transferable elements. This continuum ranges from the mere exchange of information over the abstract level of ideas, problem definitions and policy goals all the way down to concrete policy instruments and institutions. To be sure, cross-national policy transfer will be easiest at the level of information, especially as a result of the rapid expansion of modern communication technologies in recent years. The reason is, that the mere exchange of information about other countries' policies typically does not involve any normative issues such as the adoption of certain ideas or policy objectives. I also argue that general ideas, concepts and problem definitions will be adopted more easily than concrete policy programs or institutions whose implementation in another political setting may raise serious practical problems and meet with considerable political resistance by the concerned interest groups. This is especially true for the transfer of institutions whose development tends to be highly path-dependent and the reform of which may cause high transaction costs. By contrast, the transfer of ideas and concepts at a pure abstract level affecting the national policy discourse rather than policy structures themselves is typically not associated with measurable economic costs. Thus, theoretical models and framings will flow much more easily across national borders than actual practices (Scherrer 2001).

Through the combination of both dimensions we are able to arrive at a typology that depicts the potential for (successful) transfer of welfare policies (see table 2). In the following, I will illustrate this typology by taking pension policy as an example. As suggested above, the exchange of information across countries is relatively unproblematic, at least in countries with easy access to modern communication technologies. There, policy makers are usually well informed about pension systems or pension reforms in other countries. In fact, the strongest impediment to this kind of transfer may lie in the restricted capacity of policy makers to handle an over-supply in available information (Quadrant I). Quadrant II denotes a situation in which one country seeks to emulate an idea or concept behind a certain policy pursued in another country with a similar economic, social, political and ideological context. Here, the conditions for an appropriate policy transfer appear to be relatively favorable. For instance, many countries with pension systems of the Bismarckian-type draw inspiration from the

German example of lifetime earnings as calculation basis for pension benefits and adopted the idea that the link between contributions and benefits needs to be tightened. This idea was perfectly conformable to the concept of earnings-related social insurance. Moreover, as long as this idea was not transformed into concrete legislative proposals (implying tangible benefit cuts for certain groups of beneficiaries) there was no major ideological conflict over the general appropriateness of this principle. By contrast, the idea of a tighter link between contributions and benefits is unlikely to guide policy-makers in countries where the public pension system is oriented towards the provision of basic security. The latter countries often chose a completely different route to curtail pension spending and introduced or reinforced elements of means-testing, an option that would again not be acceptable in the case of contributory pensions as they prevail in the Bismarckian systems (Myles and Pierson 2001). This illustrates, why the transfer of certain policy ideas across countries belonging to different welfare regimes may be hampered by ideological and institutional legacies.

Policy transfer will be even more difficult at the level of concrete policy instruments. Here again, different local conditions appear to be an obstacle to the adoption of similar solutions. For example, countries displaying a favorable labor market situation may be more willing to introduce a higher retirement age than countries with a high level of unemployment (quadrant IV). However, even in countries with similar conditions (i.e. low unemployment) such a measure may fail for political reasons. Political interest groups may for instance try to impede the adoption of a higher retirement age because it affects the self-interests of their members (quadrant III).

Table 2: Potential for cross-national policy transfer

Transferable elements	Local conditions	
	SIMILAR	DISSIMILAR
Information about policies	(I) Very high potential for diffusion	
Ideas/ Goals/ Problem definitions	(II) Potential for policy transfer/diffusion high	(III) Problem of consensus
Policy programs/ Institutions/ Instruments/ Legislative measures	(IV) Problems of technical compability and political feasibility	(V) Potential for policy transfer limited

Adapted from Schmid 1999

A case can be made that political factors, such as the power of the state and the influence exerted by various interest groups may in fact be the main impediment to the international transfer of institutions. As Ochel (2002) points out, power relations may have a significant impact on the perception and selection of advantageous institutional arrangements. They may also play a role in persuading important societal groups at home that specific arrangements are beneficial, and in introducing or applying these arrangements. As argued above, powerful societal interest groups will try to prevent the transfer of innovative and potentially welfare-enhancing policies from other countries as long as they expect to be the losers of this reform. Their capacity to do so will among others depend on the degree to which these interest groups control the crucial veto points in the political decision-making process (Immergut 1992).

2.5 THE POTENTIAL IMPACT OF BENCHMARKING ON NATIONAL WELFARE STATE DEBATES

At this point I do not want to enter into the more general scholarly debate over the impact of political institutions on the capacity of policy-makers to adopt reforms against the resistance of relevant political and societal actors. Instead, I will briefly discuss whether an appropriate strategy of benchmarking may help to change national debates over welfare state reform in a way that potential reform opponents can be persuaded on the benefits associated with the (partial) transfer of foreign policies. This presupposes that the proponents of such a transfer are able to transform or at least to influence the interests and preferences of other actors in a desired direction. The problem is that the perception of the advantageousness of institutional arrangements is itself tied to interests (Scherrer 2001). This again has powerful implications for the degree to which certain policy options are already filtered out at the stage of agenda setting. As Ochel (2002:19) aptly puts it:

“In the national discourse on institutional reform, only those institutions or arrangements which are deemed compatible with the interests of the elites and the influential interest groups are admitted to the debate. The ability of central actors in society to convince others of the advantages of foreign arrangements depends among other things on whether they succeed in presenting the economic problems under discussion as being so threatening, that they can only be dealt with successfully by adapting foreign institutions, which are presented as having coped successfully with the problem. This ability will be all the greater, the more influence these central actors have in the process of opinion formation.”

Thus it appears that benchmarking may influence the national debates over welfare state reform in a number of ways: First, it may – at least to a certain extent - force representatives of various interest groups to acknowledge unpleasant facts. Typically, this is achieved through the provision of solid empirical data based on quantitative indicators, which may illuminate a country's poor performance in comparison to its competitors. Such indicators are especially important in areas such as pension policy, where a commonly shared diagnosis of the problem is often complicated by the fact that the political decisions of contemporary policy-makers are typically based on long-term scenarios of future economic and demographic trends, which are generally associated with massive uncertainties. However, once there is a principal agreement on the empirical facts or on the likelihood of certain scenarios it will also become easier to arrive at a common understanding on the nature of the problem and perhaps on adequate policy responses.

Second, and strongly related to the former aspect, the use of quantitative benchmarks may exert considerable 'moral pressure' on national governments. It may even lead to a process of 'naming and shaming' in which domestic actors blame their own governments for the poor performance of their country in comparison to others and, consequently, for their reluctance to address pressing problems. To be sure, this effect will be strongest if benchmarking is based on clear-cut international rankings, which may reveal quite drastically – and often in an overly simplistic manner – that some countries are much worse in achieving certain goals than others³. This may in itself motivate national policy makers to take (at least symbolic) action in order to demonstrate their willingness 'to do something about it'. However, we also can detect instances where national governments sought to prevent non-governmental organizations such as the OECD from publishing critical assessments of their policies⁴. This provides a strong indication that governments are highly sensitive to the dissemination of unpleasant facts by third party organizations because they may see the concomitant negative publicity as a threat to their domestic political standing.

Third, learning from abroad may reveal examples of 'good practice' or at least enhance the knowledge about potentially effective policy responses. More specifically, it may reveal instances of how other countries have managed to rationalize their social policy programs without giving away their redistributive aspirations. By the same token, benchmarking may help to identify policy options that satisfy the value preferences of both the left and right and are therefore particularly attractive to pragmatic policy reformers (Cox 1999). Hence, as Trubek and Mosher (2001) aptly put it "*policy learning might produce win-win situations in which some can benefit at no cost to others, or where gains are so large than modest cost increases or losses to some can be accepted*". This may explain, why the recent pension reform in Sweden inspired pension policy-makers in countries as different as Latvia, Poland, Italy and Ireland. In Sweden, a broad cross-party coalition introduced an entirely new pension

3 For instance, the German public was buzzing with excitement when the so-called PISA study revealed the country's mediocre performance with respect to schooling (Schäfer 2002).

4 A particularly revealing example is the recent OECD economic survey on Germany. After massive interventions by the German government the OECD felt itself compelled to water-down or even to remove the most critical passages in the report, for instance about the precarious fiscal sustainability of the pension system and the need to lower labor costs (see Handelsblatt, 28th of May 2003).

pension system based on an innovative policy mix that was acceptable to representatives of very different political stripes.

Nevertheless, references to other countries' experiences may still not be sufficient to convince potential reform opponents about the necessity of a change of the status quo. One reason may be that such a change, while potentially increasing overall welfare, may still impose an additional burden on individual interest groups. However, even in this case benchmarking may be a useful instrument for reform-oriented players to influence the national discourse over welfare state reform. It may bring forward new facts and arguments that help to invalidate or at least to weaken the arguments made by the proponents of the status quo. This again may enhance support by the larger public and possibly lower the political costs of reform. The discussion over fully funded pensions is a case in point. Until recently, the proponents of increased funding could easily justify their position with reference to the large number of countries in which capitalized pension schemes have yielded extraordinarily high rates of return. As a consequence, the defenders of pay-as-you-go based pension systems had a hard time to make themselves heard in the public debate.

3. THE OPEN METHOD OF COORDINATION

As pointed out above, the value of benchmarking as a learning instrument crucially depends on the way international comparisons are contextualized. As Hemerijck and Visser (2001) point out, a de-contextualized form of benchmarking, that ignores the local conditions under which policies must be implemented, often serves a primarily political or ideological pressure. Insofar, benchmarking may also be employed in a purely strategic and potentially counterproductive manner. In national debates over welfare reform representatives of all political stripes and interest groups tend to pick out single aspects of foreign models in order to persuade others of the correctness of their own position. For instance, representatives of the German banking and insurance industry pressed strongly for the establishment of Anglo-Saxon type pension funds, a claim that is arguably driven by their own profit interests rather than by concerns about the general public interest. As Scherrer (2001) points out several German proponents of the US model pleaded for wage moderation and welfare state regulation at a stage when unemployment in the US was still considerably higher than in Germany. More often than not, such debates lead to rather arbitrary findings, which actually do not stimulate serious deliberation on alternative approaches (Husmann, 2002). With respect to pension policy the German discussion over the Swiss three-pillar model of old age provision is a case in point. Market-liberal apologists emphasize the modest contribution rates to the first pillar and the great leeway that is given to occupational and private provision. By contrast, their antagonists on the left side of the political spectrum focus on the universal and highly redistributive character of the public tier and call for a mandatory system of occupational pensions according to the Swiss model. While both sides highlight specific aspects of the Swiss model, they disregard other crucial aspects and thereby lose sight of the overall architecture of the system. This illustrates the need for a synergetic and more systematic type of benchmarking by which a foreign policy is investigated as a whole and with respect to its interconnections to other areas of social and economic regulation⁵.

At the Lisbon summit in spring 2000 the European Union established a new mode of European governance, known as the open method of coordination (OMC), which can also be seen as an effort to arrive at a qualitatively new, contextualized form of benchmarking. Moreover, several authors (cf. Dehousse 2002; Hemerijck 2002) expect the open method of coordination to contribute to a significant degree of de-politicization of the issues at stake and to a more problem-oriented style of policy making. According to the Presidency Conclusions at the Lisbon European Council this method is established as a “*a means of spreading best practice and achieving greater convergence towards the main EU goals. This method, which is designed to help Member States progressively develop their own policies, involves: fixing guidelines for the Union combined with specific timetables for achieving the goals which they set in the short, medium and long terms; establishing, where appropriate, quantitative and qualitative indicators and benchmarks against the best in the world and tailored to*

⁵ A thorough performance analysis of the Swiss multi-pillar pension system is for instance provided by Queisser and Vittas (2000).

the needs of different Member States and sectors as a means of comparing good practice; translating these European guidelines into national and regional policies by setting specific targets and adopting measures, taking into account national and regional differences; periodic monitoring, evaluation and peer review” (cited in Working Group 2001).

Meanwhile, the OMC covers a broad variety of policies, such as employment, information society, research policy, entrepreneurial policy, anti-exclusion policy, enterprise policy, education policy, EU enlargement and pension reform (for an overview see Hodson and Maher 2001). While procedures differ among these policy areas, a number of common characteristics can be identified (Jacobsson and Schmid 2002; Scharpf 2002):

- *Subsidiarity*. Policy choices remain at the national level and legislation at the European level is explicitly excluded.
- *Flexibility*. Norms and guidelines are revisable in the light of evaluation and new information. Moreover, the OMC respects the diversity of national systems and is open for the adaptation to specific circumstances;
- *Multi-level integration*. The OMC is open for a role of sub-national actors in policy formulation and implementation;
- *Inclusion and participation*. The OMC allows for participation of various actors of civil society;
- *Deliberation*. The OMC is a deliberative process providing ample room for discussion and arguments based on solid empirical data and common indicators of achievement.
- *Knowledge-sharing*. The OMC also builds on sharing of knowledge and experiences and on learning from others; governments are willing to expose their own plans to comparative discussion and to make their own performance subject to peer review;
- *Softness*. There are no formal sanctions, if a member state does not achieve agreed-upon standards. Coordination is based on voluntary cooperation.

Thus, the open method of coordination clearly deviates from old-style European governance of hierarchical and uniform regulation and establishes a new mode of governance that can be characterized as procedural, heterarchical and flexible (Eberlein and Kerwer 2002). This novel procedure is increasingly applied in the sphere of social policy where a large-scale harmonization of country-specific arrangements is de facto precluded by great differences in levels of economic development within the European Union as well as by the sheer institutional diversity of national welfare states (Scharpf 2002).

3.1 THE OPEN METHOD OF COORDINATION AS A NEW FORM OF CONTEXTUALIZED BENCHMARKING

At the same time, however, the open method of coordination establishes a qualitatively new form of contextualized benchmarking. This becomes evident if one compares the open method of coordination with the type of benchmarking pursued by international organizations such as the OECD and the World Bank. There, often one example of ‘excellence’ is praised for all others to follow (Hemerijck 2002). The three-pillar pension model advocated by the World Bank is a case in point⁶. The World Bank’s approach was to design an optimal pension system serving as a general blueprint for pension policy makers throughout the world. However, as Myles and Pierson (2001) point out, the adoption of the World Bank’s three-pillar- model is no longer a viable option in the policy menu of countries with a mature pay-as-you-go system. Perhaps most importantly, the political costs of such a radical transition would be prohibitive in any democratic polity.

Another revealing example is the comparison between the OECD Jobs Strategy and the European Employment Strategy (which can be said to draw on the principles of the open method of coordination without actually bearing this label). As Casey (2002) shows there are some similarities in diagnoses, and some similarities in recommendations. However, he also shows that *“the European strategy is more aware of the potentially negative outcomes that can result from following through some of its recommendations. Accordingly, it is more willing to counsel caution, and more willing to suggest the need for compensatory actions. That it does so is a corollary of it being influenced by a “social model” in a way that the OECD strategy is not”* (p.17). Moreover, he states that *“the European strategy places much more weight on the contribution of the ‘social partners’ to policy formulation, execution and evaluation”* (p. 11).

Similar differences between the two organizations can also be observed with respect to their evaluation of national pension strategies. Moreover, it appears that the OECD is more assertive with respect to the desirable direction of pension reform. For instance, in a 1998 report the OECD suggests a shift towards defined-contribution arrangements and argues that pension system in most OECD countries are too tilted towards collective rather than individual provision. Initially, a similar approach prevailed at the EU level. In December 2000 the European Commission put forward a communication in which it called explicitly for a tighter link between benefits and contributions and for a greater role of fully funded pension schemes. In the meantime, however, a much more cautious approach has emerged. In a joint report by the Social Protection Committee and the Economic Policy

⁶ The World Bank (1994) recommends a publicly managed and tax-financed first pillar providing for basic security needs. This is to be supplemented by a mandatory, privately managed and fully-funded second pillar, which again might be topped up by voluntary occupational or individual savings plans as the third pillar.

Committee on objectives and working methods in the area of pensions, published in November 2001, (Council of the European Union 2001) these recommendations do no longer appear. This illustrates that a high degree of openness, i.e. great sensitivity towards the diversity of national systems and consequently a reluctance to launch ‘one-size-fits-all’ recommendations has emerged as the central characteristic of the open method of coordination.

In the following section I do not intend to recapitulate at length the genesis of the open method of coordination as a new mode of European governance. This has been done at great length elsewhere (see for instance de la Porte and Pochet 2002). I also do not want to enter the academic debate about the democratic legitimacy of this instrument. Instead, I will discuss the potential effectiveness of the open method of coordination as an instrument to promote reform efforts at the national level. In particular, I want to go further into the question whether the open method of coordination can possibly overcome the shortcomings associated with traditional forms of benchmarking that often do not pay sufficient attention to the local conditions prevailing in a specific political setting. In doing so this paper may also contribute to bridge the academic gap that currently exists between studies engaged in the comparative or historical analysis of domestic policy across different families of European welfare states and studies analyzing the role and possible future of EU policy (Visser and Hemerijck 2001). With respect to welfare reform both arenas have become increasingly intertwined in recent years, a process that is likely to intensify in the near future.

3.2 THE DEVELOPMENT OF THE OPEN METHOD OF COORDINATION IN THE AREA OF PENSIONS

At first, I will briefly recapitulate the previous developmental stages of the open method of coordination in the area of pensions, followed by a short lookout for the steps that are planned for the near future (see Schulz-Weidner 2002). In a communication of July 1999 the European Commission had called for a deeper co-operation among member states in the area of social protection, which should among others focus on the issue of safe and sustainable pensions. This set in motion a wide debate on this issue involving different European Councils and various Committees. As mentioned above, the open method of coordination was formally established at the Lisbon European Council in March 2000, thus codifying practices that had already been applied in the context of the European Employment Strategy (Hodson and Maher 2001). The innovation at Lisbon consisted in the application of these practices to other policy areas so as to render the EU “*the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion*” (European Council 2000). A reform of pension systems was explicitly defined as part of this broader strategy⁷.

⁷ The Lisbon European Council requested among others “*a study on the future evolution of social protection from a long-term point of view, giving particular attention to the sustainability of pension systems*” and a report on the contribution of public finances to growth and employment, which, inter alia, considered the sustainability of public finances in the light of ageing populations.

It needs to be noted that the main impetus for a coordination of national pension strategies came from those actors primarily concerned with budgetary matters, most notably from the Economic Policy Committee (EPC). Clearly, this can be seen as a spillover effect of EMU. As early as 1997 the EPC submitted a statement concerning the pension problematique. In November 2000 it put forward a first report on the impact of ageing populations on public pension systems, which subsequently was updated and accepted by the ECOFIN council in November 2001. In the report the EPC gave clear recommendations concerning the future direction of pension reform (p. 8, accentuations by the author):

- (i) *The containment of the benefits should represent the main instrument for guaranteeing the solvency of the pay-as-you-go pension system. In order to limit the reduction in the standard of living of the elderly, reforms should primarily aim at delaying retirement.*
- (ii) *The breathing space that pension expenditure projections outline for the next few years should be used to meet the ageing of the baby-boom generation and put it on a sounder fiscal policy footing. Public debt decumulation would also smooth the changes to be implemented in present pension policies.*
- (iii) *The link between social contributions and benefits at the individual level should be strengthened in order to limit the negative effects of contributions and benefits on the labour market and employment.*
- (iv) *The role of funded schemes should be gradually increased. Public policies should support this development by providing a legal and fiscal framework, but without hampering the process of budgetary consolidation.*

These recommendations were not uncontested. For one thing, these recommendations were largely based on indicators measuring the level and the projected development of *public* pension expenditures. As a consequence, countries relying on a large public pension pillar came off worse in this ranking than countries with a modest public pension tier (Schulz-Weidner 2002). As a consequence, representatives of the former country group criticized the insufficient neutrality of the selected indicators vis-à-vis different types of retirement provision (see for instance Ruland 2002).

Moreover, social policy players took issue with the insufficient attention paid to social objectives (Briet 2002). As a consequence, these actors sought to establish an institutional counterweight to the hitherto dominating position of financial actors in the pension debate at the European level. With respect to policy content they sought to prevent the emergence of a paradigm according to which privatization is seen as the key response to the solution of the pension crisis. The Directorate General for employment and social affairs of the Commission therefore drafted two communications in October 2000 (European Commission 2000a) and July 2001 concerning the basic principles and the general objectives of European pension policy. In addition, in June 2000 the so-called Social Protection Committee was formally established. This body is expected to do the preliminary work for the Social Affairs Council in areas such as social exclusion and pension reform. Initially, this work was done in parallel to and uncoordinated with the work of the EPC. As a consequence, the formulated objectives

and policy recommendations of the two bodies deviated significantly from one another. For instance, in its report of June 2000 the SPC placed a far greater emphasis on various aspects of social cohesion than the EPC and avoided any pleading in favor of increased funding.

In order to arrive at a greater harmonization between the different positions of social policy makers on the one hand and economic policy makers on the other the European Council in Stockholm and Gothenburg (June 2001) engaged both commissions to draft a joint report. This represented the beginning of the formal application of the open method of coordination to the domain of pension policy. Against this background the joint report - presented in November 2001 – proposed a set of rather broad common objectives and working methods in order to create an integrated framework for policy co-operation in this field (Council of the European Union 2001). It explicitly seeks to enhance consistency between a range of existing EU processes which, as part of their wider remit, deal with specific aspects of pension policies: The Broad Economic Policy Guidelines and the Stability and Growth Pact focus on the economic and fiscal implications of ageing. The Employment Strategy European is concerned with the impact of pension systems on the labor market, in particular as regards employment ratios for older workers. Finally, the Social Inclusion Process (initiated at the Lisbon European Council) deals with the role of pension systems in the fight against poverty and social exclusion (see table 3). The open method of coordination is seen as an instrument that may ensure or at least improve coherence between these hitherto rather uncoordinated processes.

The framework established in the joint report is designed to help member states to develop their own national strategies for securing adequate and sustainable pensions. While explicitly acknowledging the principle of subsidiarity it seeks to launch a mutual learning process. This process includes periodical monitoring of the progress made by each member state on the basis of commonly agreed and defined indicators. However, in contrast to the European Employment Strategy, it does not envisage any individual recommendations to a member state.

Table 3: EU processes related to pension policy

Process	Goal	Link to pension policy
Broad Economic Policy Guidelines	Economic Policy Coordination	Economic and budgetary implications of ageing
Stability and Growth Pact	Sound public finances	Budgetary implications of ageing
European Employment Strategy	Raising employment	Raising employment levels for older workers
Social Inclusion Process	Eradication of poverty and social exclusion	Old-age poverty/ Inclusiveness of pension schemes

Altogether, eleven pension policy objectives were proposed in the report and endorsed by the Laeken European Council in December 2001. These were summarized under the three headings: safeguarding the capacity of systems to meet their social objectives, maintaining their financial sustainability and meeting changing societal needs (see box 1)⁸. While justified by a rather vague notion of a common “European Social Model” these objectives remain at a rather general level and do not suggest concrete reform proposals. For instance, the declaration contains the very abstract postulation “*that member states should promote solidarity within and between generations*” without stating this objective more precisely. Under the heading of financial sustainability of pension systems the report suggests a “*fair balance between the active and the retired by not overburdening the former and by maintaining adequate pensions for the latter*”. Here again, the Council has avoided setting clearly specified targets. Concrete recommendations for action as the Economic Policy Committee suggested them in its earlier reports (such as a tighter link between contributions and benefits or an increased role of funded elements) do no longer appear. Moreover, in contrast to the European Employment strategy no individual recommendations are given to the member states. Arguably, the European objectives established with respect to pension reform form the lowest common denominator between social and economic policy makers on the one hand and between EU member states with their highly diverse pension arrangements on the other.

⁸ For the complete version as stated in the report see appendix.

Box 1: Common European objectives in the area of pensions**Adequacy of pensions**

- 1) Preventing social exclusion
- 2) Enabling people to maintain living standards
- 3) Promoting solidarity

Financial sustainability of pension systems

- 4) Raise employment levels
- 5) Extend working lives
- 6) Making pension systems sustainable in a context of sound public finances
- 7) Adjust benefits and contributions in a balanced way
- 8) Ensure that private pension provision is adequate and financially sound

Modernization of pension systems in response to changing needs of economy, society and individuals

- 9) Adapt to more flexible employment and career patterns
- 10) Meet the aspirations for greater equality of women and men
- 11) Demonstrate the ability of pension systems to meet the challenges

The report also sketched a concrete time schedule concerning the further steps to be taken. This time schedule was also confirmed at the Barcelona European Council in March 2002. The member states were invited to put forward national strategy plans by September 2002, taking into account the eleven objectives endorsed by the Laeken European Council. The national reports should contain a diagnosis of the major challenges as well as information on reforms that have been carried out recently or that are in preparation. Member states are also encouraged to include data that allow an assessment of the medium and long-term impact of current policies and reforms undertaken or planned. Nevertheless, the national strategy reports differ somewhat in their specific focus. It is also remarkable that some countries issued rather extensive assessments of their pension strategies (such as the Greek report comprising more than 100 pages) whereas others provided only relatively brief strategy reports (the Portuguese report, for instance, only comprises 33 pages). This might also indicate that some member states take the open method of coordination more seriously than others. On the basis of the national strategy reports the Council and the Commission provided a joint report to the European Council in March 2003⁹. The aim of the report was to evaluate member states' progress with respect to the achievement the commonly agreed objectives (without, however, suggesting a one-size-fits-all policy response for all member states). In the report, no formal ranking is established between member states. As the Commission itself argues, such a ranking would be difficult to establish in practice: a

⁹ In December 2002 the Commission had already presented a draft version of this report (European Commission 2002).

country performing well in terms of adequacy is likely to do less well with respect to financial sustainability¹⁰. However, the report reveals substantial differences in the degree to which the member states accomplish the commonly agreed objectives and identifies the need for further action in individual cases. This is most apparent with respect to the objective of financial sustainability and sound public finances. In this dimension, the Commission makes the clearest distinction between successful countries and latecomers¹¹. Sweden and the United Kingdom are identified as countries whose pension systems appear to be financially sustainable. For a second country group (including Belgium, Denmark, Ireland, Luxembourg, Portugal and Finland) the report concludes that their public pension systems appear to be close to being financially sustainable. In the remaining group of countries the Commission regards further reforms as necessary (including measures to ensure sound public finances). The greatest need for action is diagnosed for Greece, Spain, France and Austria, countries in which the expected increase in public pension expenditure is large and above the EU average. However, the report also indicates deficiencies concerning the adequacy of pensions in a number of countries such as Greece and Portugal. Hence, by identifying weaknesses in the design of national pension policies the report may very well exert some indirect ‘moral’ pressure on member states to reinvigorate their reform efforts. In addition, the Commission also appears to provide “carrots” by praising those member states that were apparently quite successful in meeting the common European objectives in pension policy. The extraordinarily positive evaluation of the Swedish reform record is a case in point.

In 2003 and 2004 member states are expected to put forward progress reports concerning the implementation of their pension strategies. By the end of 2004, the Council and the Commission will assess the objectives and working methods established by the open method of coordination in the area of pensions and decide on the objectives, methods and the timetable of its continuation. In 2005 member states will again present national strategy reports.

The establishment of such procedural routines can be seen as the most innovative element of the open method of coordination. It constitutes an *iterative learning process* based on the periodic monitoring of national reports and the systematic search for comparisons and knowledge. This will enable national officials, who are the key players in this process and who are often trapped in their country-specific traditions, to challenge their existing understandings and to identify the strengths and weaknesses of their pension strategies (Dehousse 2002; Trubek and Mosher 2001). As convincingly argued by Hemerijck (2002:461) open coordination combines two types of policy learning: “*learning from others*, with a large element of ‘lesson drawing’ and mimicking based on the observation and presen-

¹⁰ Such a ranking would also be problematic because it would neglect substantial cross-national differences in the development of old-age dependency ratios. The projections made by Eurostat indicate that this ratio will not exceed a level of 40% in countries such as Denmark and Ireland until 2050. In Italy, by contrast, the old-age dependency ratio is projected to increase to more than 60% after 2040 (Economic Policy Committee 2001).

¹¹ This may be partly due to the fact that the development of comparable quantitative indicators on the financial sustainability of pension systems (including pension expenditure projections until 2050) is currently more advanced than the development of indicators capturing the adequacy of pensions.

tation of the experience in other countries; and learning with others, or ‘interactive learning’, based on joint processing and exchange of information and experience”.

3.3 THE PROBLEMS OF INDICATOR PRODUCTION

The degree of goal attainment will be measured by means of both qualitative and quantitative indicators. Thus far, however, the development of common indicators did not keep pace with the formulation of broad common objectives. According to the initial time schedule commonly agreed indicators should be adopted at the Barcelona European Council in March 2002. Now, the entire catalogue of performance indicators is supposed to be adopted not later than 2004. To some extent, these delays result from the enormous technical difficulties associated with the production of reliable, valid, and comparable quantitative indicators, some of which are designed to cover the time span until 2050. They also reflect a political struggle over different priorities in pension policy between different actors. This struggle was by no means settled after the adoption of the eleven common objectives at the Laeken European Council. As pointed out above, most of these objectives remain rather vague. As a consequence, political conflicts over the direction of pension reform were at least partly shifted to the technical level of indicator production¹² (Husmann 2002). There may even be a certain danger that weak performing member states criticize the methodology by which a specific indicator is constructed rather than being concerned with the improvement of their performance (Benedictus 2002). For instance, it is contested whether the share of public pension expenditures as a percentage of GDP is an accurate indicator for the financial sustainability of national pension systems, especially with respect to its impact on the balance of the public budget. A major objection that is raised against this approach concerns the fact that public subsidies or generous tax relieves to private or occupational pension arrangements do also form a significant financial burden for the state, most notably in those countries where non-public pension schemes are of great significance. Hence, it is certainly not a chance that a country like Austria – currently being the highest spender of all EU countries with respect to *public* pension outlays – pressed strongly for a more comprehensive set of indicators to capture the financial sustainability of national pension arrangements (cf. Spiegel 2002). In addition, countries with lean public pension arrangements may be forced to spend more on social assistance or housing benefits for old-age pensioners. This illustrates, that national policy makers have an interest to establish indicators that do not systematically discriminate against the type of pension arrangements prevailing in their own country.

¹² This task is also jointly performed by the Economic Policy and the Social Protection Committee.

It is therefore questionable whether the open method of coordination really allows for a significant degree of de-politicization, as stated by Hemerijck (2002). To be sure, the adoption of a medium-term perspective may pose a counterweight against the short-term electoral orientations typically prevailing in the domestic arena of party politics. However, to the extent to which the formulation of pension policy objectives and the corresponding performance indicators is shifted from the national to the European level, political conflicts between EU member states will gain in importance. EU member states are likely to have different objectives and priorities with respect to pension reform depending among others on their highly diverse policy legacies, especially as far as the differences in the institutional set-up of national pension systems are concerned. In addition, cross-national differences in economic development and problem load may hamper an agreement about common standards in pension policy, a problem that will become even more severe after Eastern enlargement. In short, while the open method of coordination might perhaps lower the adverse impact of party politics on pension policy-making it will also open up a new dimension of political conflict in the pension reform debate resulting from the divergence of interests between EU member states.

The indicators currently under discussion can be summarized under three headings (see Schulz-Weidner 2002): First, demographic and macro-economic indicators such as employment rates of elderly persons, old-age dependency ratios or the long-term increase in pension outlays as a share of GDP. Second, indicators capturing qualitative features of national pension systems such as the statutory retirement age or indexation procedures. Third, output indicators describing the income situation of the elderly such as effective income replacement ratios or the level of old-age poverty. The importance of such output indicators emerges from the fact that an exclusive focus on public and private systems of old-age provision is unlikely to allow for a complete and reliable picture of the income situation of the elderly. Factors such as the provision of health and elderly care, the taxation of pension income or the significance of means-tested benefits outside the public pension system must be taken into account if an accurate assessment of the retirees' living standard is to be obtained.

Another problem associated with the production of indicators in the area of pension policy concerns the gathering of data about elements of inter- and intragenerational solidarity within a pension system. An important question is, for instance, in how far pension credits for child rearing or elderly care should be taken into account as an indicator capturing solidaristic elements within a pension system (cf. Ruland 2002). Typically, such elements are of greater significance in countries with a strong public pension pillar, which is by its very nature more redistributive than private pension schemes. As a consequence, Bismarckian pension arrangements are likely to display a better performance in country comparisons if this aspect is systematically taken into account.

A more general problem of indicator production concerns the fact that reliable and comparable statistical information on adequacy and inclusion are even more difficult to be achieved than information about the financial sustainability of pension systems. Hence, while the common *objectives* formulated at the European level suggest a rather even balance between financial and social concerns in pension policy, quantitative financial *indicators* are currently further developed than quantitative social indicators. Consequently, financial aspects may still attract greater public attention in the European pension debate than social aspects. The reason is that quantitative indicators typically provide relatively condensed information about a country's relative performance. A wider audience (including the mass media) will find it much easier to grasp such information than more complex qualitative assessments of a pension system's output¹³.

Finally, there is a certain risk that the use of hard quantitative indicators may induce national governments to design policy to achieve a numerical target to the detriment of other social or economic goals. A country may even be tempted to recast its activities so that statistical indicators record an improvement while no real change has actually taken place (cf. Atkinson et al. 2002). The numerous instances of 'creative accounting' on the part of EMU member states suggest that this danger must not be underestimated.

3.4 DIFFERENT VIEW ON THE EFFECTIVENESS OF THE OMC

In the meantime an intense debate has emerged about the advantages and disadvantages of the open method of coordination and its likely impact on policy formation both at the national and at the European level. It is striking that academic experts as well as policy makers give completely different if not opposite answer to this issue. It appears that there is no common denominator whatsoever with respect to the judgment of the effectiveness of the open method of coordination. This may have a number of reasons. For one thing, the open method of coordination pursues multiple objectives at the same time. This is particularly true for open co-ordination on pensions serving both cognitive and normative functions. If seen as a specific form of benchmarking the OMC is primarily a *cognitive* tool (see table 4). Indeed, many authors regard policy learning as being at the heart of the open method of coordination (Hemerijck 2002; De la Porte and Pochet 2002; Scharpf 2002).

However, opinions differ on how effective the open method of coordination is as an instrument for policy learning that encourages the transfer of 'best practice' from other countries. From an optimistic point of view, the OMC provides an extraordinarily valuable platform for policy learning and innovation that is much more useful than traditional forms of benchmarking that often do not pay insufficient attention to diverse local contexts. Moreover, it is emphasized that the OMC allows for intensive consultation over the setting and modifying of policy objectives, guidelines and national action plans, with ongoing and repetitive feedback on implementation progress based on quantitative indica-

¹³ For an in-depth analysis of the problems of indicator construction with respect to social inclusion see Atkinson et al (2002).

tors. Hence, as argued by Hemerijck (2002:461), the open method of coordination forms a mechanism by which “*persistent heterogeneity may be exploited for purposes of experimentation and innovation. Ongoing reforms in the member countries provide ample opportunity for the EU to further learning processes, particularly suited to policy innovation*”. According to Rodriguez (2001) the open method of coordination may even render the EU “*a natural laboratory for policy experimentation*”.

This rather optimistic evaluation is met with widespread skepticism, however. In particular, doubts are raised whether the open method of coordination has a significant impact on domestic policy formation. Its potential benefits as a learning instrument can only accrue if those domestic actors who are in fact in control of the key policy choices engage themselves in the process of European coordination. If this is not the case, the open method of coordination will “*only educate national liaison officials who lack effective power at home*” (Scharpf 2002:9). The drafting of National Action Plans may then primarily serve the function of ‘filling in the answers’ and simply reflect the status quo of national policy routines without having any impact on the national reform discourse.

The OMC might therefore also be misused for the purpose of mere ‘window dressing’. Policy makers may even be tempted to exploit the OMC as an instrument for symbolic politics that helps them to avoid or at least to retard hard and painful political choices. Conversely, they may – in pursuit of their own interests - employ the OMC strategically so as to alter the domestic discourse and to “*shift the distribution of power over ideas and agenda setting*” (Dyson 2000:5, cited in Hodson and Maher 2001:722). In both cases, the open method of coordination will also become an instrument of political powering rather than a merely cognitive tool encouraging mutual exchange of information and experience. By the same token, however, the open method of coordination might offer a useful strategic device for reform-oriented governments to defend their own policy agenda against the proponents of the status quo in the domestic arena.

Table 4: Contrasting views on the effects of OMC in the area of pensions

	OMC as a cognitive tool	OMC as a normative tool to.....	
		 maintain financial sustainability	promote social justice
Optimistic view	Promotion of continuous mutual learning and lesson-drawing in a contextualized fashion. EU as “a natural laboratory for policy experimentation”.	Supports compliance with the obligations under the Treaty and the Stability and Growth Pact through peer pressure. OMC as transitional step towards EU legislation	OMC as the best tool to achieve common social objectives while respecting national diversity.
			OMC as a second-best alternative where hard law is not available. Peer pressure as a counterweight against a potential ‘race to the bottom’
Skeptical view	OMC rather ineffective as a learning instrument as it is not integrated in domestic policy formation (lack of public awareness and participation)	Little impact on national pension strategies due to the lack of clear recommendations and real sanctions.	Cannot overcome the constitutional asymmetry between market-enhancing and market-correcting policies in the EU.
Pessimistic view	‘Window-dressing’, ‘Symbolic politics’, Manipulation of public opinion	Crowding out of hard legislation.	Indirect pressure on EU member states to lower social standards. Crowding out of hard legislation.

The open method of coordination is not only a cognitive but also a normative tool as it draws upon a catalogue of common objectives, potentially supplemented by common guidelines. Clearly, the formulation of common objectives would not be necessary if the OMC was only considered as an instrument to improve the mutual exchange of information. Instead, its explicit aim is to achieve a greater policy convergence between EU member states. In that respect, the OMC can be seen as a supplement or even as an alternative to hard EU legislation. With respect to pensions, the common objectives can be subsumed under two headings: Fiscal sustainability and social adequacy. Obviously, there is a certain tension between these objectives and the open method of coordination may prove to be more effective in one goal dimension than in the other one.

Before going into the question whether the OMC is an appropriate instrument to achieve a greater convergence of member states’ pension policies, I will briefly recapitulate the arguments that are put forward to that effect. There are at least three reasons why a greater convergence of European pensions systems might be considered as desirable:

First, financially sustainable pension systems are a fundamental prerequisite to sound public finances and thus to the stability of the euro.

Second, member states must avoid a process of competitive deregulation by which member states seek to improve their relative attractiveness as a location for investment by dismantling their welfare arrangements. In addition, member states might be tempted to lower the generosity of welfare benefits in order to discourage the immigration of potential welfare recipients (Scharpf 2002). Hence, the obligation of member states to maintain a high level of social protection is also seen as a defense against a competitive “race to the bottom”.

Third, in the face of the increasing mobility of workers across member states, the EU must ensure the portability of pension rights across country borders.

Its architects expect the open method of coordination to make a significant contribution to the solution of these coordination problems. However, there is plenty of debate among both scholars and policy makers on whether the OMC actually can meet these expectations. Concerning the aim of financial sustainability, the Commission considers the monitoring of national pension strategies as a necessary supplement to hard legislation established under the Treaty and the Stability and Growth Pact. As argued above, this is of particular concern for the economically oriented actors, who were the first to enter the pension debate in the European arena (de la Porte and Pochet 2002). These actors tend to employ the OMC as an instrument creating ‘peer pressure’ on national governments to create fiscally sound pension systems as a precondition for a stable common currency. This may lead us to a more general argument: peer pressure will be most intense if the fundamental self-interests of other countries are at stake. This condition is rather obvious with respect to fiscal policy where the interdependencies between EMU member states are strong. Such interdependencies are typically less strong as far as social objectives are concerned. For instance, high poverty rates in one country are unlikely to be of great concern to governments in other countries. Here, peer pressure will only result from a government’s *intrinsic* commitment to shared values and its aversion to unfavorable international comparisons.

In any case, peer pressure is unlikely to emerge, if, as argued above, the OMC remains confined to a narrow technocratic reporting process between high civil servants at the European level without any real involvement of the key political actors. Moreover, this pressure will be clearly less important for national governments than the pressure by their domestic constituencies, which tend to oppose painful welfare reforms. In general, the open method of coordination cannot alter the balance of political power in individual member states. Occasionally, the OMC is even seen as a potential threat to Treaty achievements that might over time crowd out hard legislation under the Community method. It is conceivable that governments become increasingly unwilling to comply with the hard and uncomfortable criteria for fiscal discipline established in the Maastricht Treaty. In this case they may misuse the soft regime of open coordination as a pretext to avoid the hard choices that are needed to maintain sound public budgets.

The greatest disagreements concern the question of whether the open method of coordination can help to protect the so-called “European Social Model”. Although the notion of the “European Social Model” appears to be quite vague it certainly includes the commitment to ensure a decent level of

social protection. With respect to pensions, the key question is whether OMC will meet its objective to maintain the adequacy of pensions. More specifically: can the OMC make an effective contribution to the fight against old-age poverty and support member states in their efforts to develop policies that allow all individuals to maintain their living standard after retirement? Does it provide an effective defense against a competitive ‘race to the bottom’? Does it constitute a powerful counterweight to the traditional dominance of economically oriented players in the European pension debate and to the prerogative of market-enhancing policies in EU legislation? Concerning these questions at least four distinct positions can be identified:

First, its proponents argue that the open method of coordination is the best strategy to actively promote social justice at the European level. According to Franck Vandembroucke, the Belgian Minister of Social Affairs and Pensions, the open method of coordination is “*the most promising way to give concrete shape to ‘social Europe’, as a large region in the world in which sustainable social justice will thrive*” (2002:535f.). From this perspective, the crucial asset of the OMC – compared to hard EU legislation – is its great openness in terms of policy instruments, which takes into account the great diversity of national welfare arrangements within the European Union, most notably with respect to pension systems. Thus, centralized European decision-making in this area would neither be possible nor desirable.

A second strand of opinion considers the OMC as a ‘second best option’ to supranational law in those policy areas where member states are unwilling to delegate competencies to the European level. From this angle, hard European legislation would in principle be regarded as the potentially most effective strategy to promote “Social Europe”. At the same time, it is acknowledged that this option is not (yet) available since member states fear an intrusion of the EU into their national arrangements. To be sure, this fear will be of particular importance in politically sensitive areas such as pensions. Nevertheless, the open method of coordination may be seen as a promising way to build a normative consensus around common social objectives. As argued by Scharpf (2002), it might also help to shaming governments out of “beggar-my-neighbor” strategies. Moreover, the open method of coordination might also be welcomed as a first step towards intensified EU legislation in the area of social policy (Hodson and Maher 2001).

Another line of argumentation is more skeptical about the potential effectiveness of the OMC as an instrument to promote the development of social policies at the European level. It is especially the soft character of open co-ordination in pension policy and its lack of real sanctions that is met with skepticism. As Leibfried (2002:474) puts it: “*The OMC can be seen simply as a bypass operation, leaving the constitutional as well as the substantive problems of the heart untouched. The OMC in pensions, though, recognizes the 21st century’s most immovable objects on the 15 national grounds. It also recognizes the 21st century’s irresistible forces for change. And the OMC tries to cope with both in an amicable, but most likely, ineffective way.*” In a similar fashion, Scharpf (2002) argues that the OMC cannot overcome the constitutional asymmetry between market-enhancing and market-correcting policies within the European Union.

Finally, concerns are raised that the open method of coordination (including the OMC in pensions) might even pose a *threat* to the core values of European welfare states. In particular, the application of the OMC might be used as a pretext *not* to adopt European legislative action in social policy, even if this was possible and desirable. Moreover, it cannot be ruled out that the economically oriented players may still find it easier to exploit the OMC – even in its current shape – more easily than the socially oriented players. For instance, as mentioned above, social indicators about the adequacy of pensions are still underdeveloped in comparison to financial indicators and may therefore receive insufficient attention. Especially among trade unionists there is a widespread fear that the architects of the OMC ultimately strive for a radical dismantling of public and pay-as-you-go based pension systems. As a German trade union official put it: *“Ich frage, ob es eine böswillige Interpretation ist, wenn man unterstellt, dass den offenen Koordinatoren folgende Gesamtstruktur der Alterssicherung vorschweben könnte: Eine erste Säule, gekennzeichnet durch Umverteilung mit der wesentlichen Aufgabe der Grundsicherung, eine zweite und dritte Säule mit Kapitaldeckung, aufgebaut nach dem Äquivalenzpostulat, finanziert ohne Belastung der Lohnnebenkosten und der öffentlichen Haushalte. Die offene Koordinierung kann das Instrument sein, um die Transformation anders aufgebauter Systeme zu befördern”* (Standfest 2002:106).

The debate about the effectiveness of the OMC is accompanied by a debate over its legitimacy. For one thing, concerns are raised that both the European Parliament and the national parliaments are not sufficiently involved in the process of open co-ordination, leading to a lack of democratic accountability. Another frequently raised concern about the open method of coordination is that it infringes the principle of subsidiarity by encouraging EU policy making in areas that used to be within the exclusive purview of individual nation states. Even within the area of pension policy, where open co-ordination appears to be a very soft process, national actors fear a shift of responsibilities from the national to the European level and thus a loss of influence on the process of policy-making (cf. Ruland 2002). To a certain extent, this issue also reflects an institutional power struggle between the Commission and the member states. In the meanwhile, however, calls for increased EU competencies in the field of pension policy are also raised by individual member states. For instance, during his incumbency as President of the Council in summer 2003 the Italian Prime Minister Berlusconi is seeking to initiate the establishment of legally binding European guidelines in pension policy. This move seems to be largely driven by the motive to shift the blame for unpopular but necessary pension cuts to Brussels (Der Spiegel, 7th June 2003). This again might enhance the political feasibility of pension reforms in the domestic arena, especially in countries like Italy where fiscal and demographic pressures will require benefit curtailments to an extent that will even put the political survival of governments at stake. This clearly illustrates that the open method of coordination is a genuinely political and interest-based process that is by no means only an exercise in puzzling and problem solving.

3.5 LESSONS FROM THE EES

The above-sketched opinions and expectations concerning the effectiveness of the open method of coordination in the area of pensions are diverge considerably and can hardly be reduced to a common denominator. To a great extent, this reflects the multiplicity of political interests that are at stake. At the same time, however, it reflects the different views concerning the actual function of the OMC. Most importantly, there is – at least implicitly – disagreement on the question whether it is primarily a cognitive or a normative tool. Moreover, the process of open coordination in pensions is too new to allow for empirically validated insights on its effects on domestic policy formation. To what extent may we then resort to the experiences with processes of open coordination made in other policy areas? After running for five years on an annual basis, abundant empirical information is meanwhile available on the operation and impact of the EES as an important precursor to the OMC in the sphere of employment policy. This information is provided by the Commission itself, the member states and various academic sources. The overall verdict about the effects of the EES on national policies that emerges from these studies is at best mixed. Trubek and Mosher (2001) not only show that the EES contains significant learning-promoting mechanisms but also diagnose an impact on policy development at the Union level. This is primarily reflected in the fact that significant changes took place in the EES guidelines themselves including the introduction of new elements in the Strategy. One example for such a change is the requirement for member states to develop policies to keep older workers in the workforce. The European Commission (2002a) itself arrives at an even more positive conclusion about the impact of the EES on national employment policies. It observes “*a clear convergence towards the active labor market principles of the EES*” (p.9) and argues that the EES “*has proven its worth*” (p.16). However, these findings are not a sufficient proof for a strong *causal* relationship between the EES and domestic policy choices. It is perfectly conceivable that the EES simply restates what governments are doing anyway. In this case, its impact on the domestic process of policy formation might be limited. This finding is largely supported by a recent study on the implementation of the National Action Plans for Employment in the cases of Denmark and Sweden (Jacobsson and Schmid 2001) revealing only a low integration of the EES into the national agendas and activities. However, as argued by Benedictus (2002), there is certain evidence that the EES in some cases provided additional legitimacy to proposed policies. In sum, there is no clear and at best mixed evidence that the EES has strongly promoted policy learning within the member states or caused greater convergence among member states’ employment policies.

Moreover, the experiences made with respect to the EES may only be of limited value for a realistic assessment of the expected benefits of the OMC in pensions. They may even lead to wrong conclusions. The European Employment Strategy and the open method of coordination in pensions deviate from one another in at least three crucial and interrelated dimensions.

First, in contrast to the EES the OMC in pensions is a fairly light process that largely lacks clear guidelines and recommendations for action in particular at the level of individual countries. Secondly, the degree of institutional diversity and path-dependency with respect to pension systems is probably somewhat higher than is the case in the area of employment systems. Most importantly, fundamental

changes in pension policy typically require extraordinarily long transition periods to become fully implemented. Third, the overall objectives to be obtained are typically more ambiguous in the area of pension policy. In pension policy there is typically no clear hierarchy between financial and social objectives. Pension policy makers are expected to find a balance between the financial sustainability of national pension systems and their capacity to deliver safe and adequate pensions. Despite the frequent notion of a common European Social Model the optimal balance to be achieved between these objectives may vary considerably from one country to another, in particular after Eastern enlargement, a variation that also reflects different standards of social solidarity. The very different levels of minimum protection in EU member states is a case in point. In Spain, for instance, the non-contributory “social pension” for persons above 65 currently amounts to about 3600 Euro per year whereas in Luxembourg the corresponding payment exceeds 11000 Euro. By the same token, member states appear to differ in the degree to which they tolerate “mild” old-age poverty (defined as an income below 60% of median income). While severe old-age poverty (below 40% of median income) is largely abolished throughout the EU, mild old-age poverty appears to be much more widespread in some member states than in others: In Greece, Ireland and Portugal about one third of the older people receive less than 60% of the median income, whereas the corresponding ratio is below 10% in countries such as Luxembourg, the Netherlands and Sweden (European Commission 2002). Under the assumption that these differences in welfare outcomes reflect at least partly different aspiration levels in member states’ social policies it will be hard to identify a common European Social Model with respect to old-age provision. Obviously, there is no common standard of social solidarity within the EU on which all member states could agree. This is clearly different with respect to employment objectives. In all member states, employment policy appears to be primarily motivated by one overarching and largely uncontested goal, i.e. to increase employment levels. Here, other objectives seem to be only of secondary importance. In short, member states share the common objective of achieving or maintaining high levels of employment but they adopt very different positions with respect to the trade-offs between social and economic objectives. Due to these factors the real impact of open coordination on national pension strategies will be even more difficult to prove empirically than the influence of the EES on national employment policies.

4. CONCLUDING REMARKS

In this paper I have sought an answer to the question whether benchmarking across countries can be an effective instrument in the reform of national welfare arrangements. I have discussed a number of reasons why benchmarking does not necessarily lead to an actual transfer of welfare policies. In general, the transfer of “good practice” from one welfare state to another appears to be qualitatively different from transfer of “good practise” between companies. Second, there is a considerable risk that a decontextualized form of benchmarking may actually lead to inappropriate policy transfer. Moreover, national debates over the pros and cons of social policy instruments adopted in other countries will often reflect the material or institutional self-interests of the actors involved rather than serious efforts to learn from other countries’ experiences. In so far, benchmarking can be said to be a two-edged sword that may be easily exploited for political reasons.

At the same time, however, the insights obtained from comparisons with other countries may also generate a beneficial political pressure on political actors. Most importantly, the systematic comparison with other countries, especially if based on quantitative indicators, may expose the weaknesses of a country’s policy. To the extent to which this is picked out as a central theme in the domestic policy discourse, national governments will have a powerful incentive to take action in order to improve their electoral standing. By the same token, such information may help governments to overcome the resistance of potential reform opponents. The latter may find it much more difficult to make themselves heard in the larger public if the reform-oriented forces can justify the need for change with references to successful reforms adopted in other countries. At best, benchmarking may transform the preferences of political actors that hitherto used to oppose changes to the status quo. Benchmarking may not only facilitate the recognition of unpleasant facts but also broaden the knowledge about potentially effective and politically feasible policy responses that hitherto were largely ignored by the political actors. Insofar, benchmarking is often used not only as a cognitive but also as a political instrument to organize support for necessary policy change.

This also holds true for the open method of coordination. As a cognitive tool, the open method of coordination appears to be superior to traditional forms of benchmarking. Perhaps most importantly, it is a highly contextualized method of benchmarking, which avoids - mostly inappropriate - ‘one-size-fits-all’ recommendations. Instead, it seeks to pay attention to different local conditions and respects the institutional diversity of national welfare arrangements. Moreover, it is an iterative and flexible process of policy learning, based on ongoing and repetitive feedback of implementation progress (through periodic monitoring, evaluation and peer review) with objectives and guidelines being revisable in the light of evaluation and new information. At the same time, this method is designed to use a broad set of empirical data and common indicators of achievements. This aspect is particularly relevant for pension policy. Here, the intension is to develop a catalogue of both economic and social indicators on national pension systems, preferably on a quantitative basis, which not only allows for reliable comparisons across countries for the time being but also for prospective information about

the likely development of these indicators in the long run. This will create an extraordinarily valuable empirical data basis that goes far beyond previous efforts made in this area. Finally, the open method of coordination clearly distinguishes itself from traditional benchmarking procedures in that it seeks to include a broad range of state and non-state actors at the European, the national and the sub-national level. For instance, in many cases the social partners directly or indirectly participated in the drafting of the national strategy reports. This is likely to spread knowledge of other countries' practices over a wider audience, enrich and stimulate deliberation on the pros and cons of various reform measures, increase the political support to and therewith the legitimacy of open coordination and strengthen its anchoring within the domestic process of policy formation. It is notable, that a recent conference on open coordination of old-age security attracted more than 200 participants from all over Europe representing an extraordinarily broad range of public and private organizations in the field of politics, administration and research as well as numerous institutions directly or indirectly concerned with old-age protection¹⁴. Hence, the open method of coordination may be a promising tool to promote the exchange of reliable and relevant information and to encourage policy learning on the part of policy makers.

However, there is still considerable potential to enhance the significance of the open method of coordination in domestic politics. Most importantly, national parliaments need to play a greater role in the overall process. National Action Plans, the Commission's evaluations and possible recommendations on the part of the Council should become subject to parliamentary debates (WRR 2003). This would increase the awareness of the OMC not only on the part of national policy makers but probably also on the part of the mass media. This again may stimulate deliberation and discussion in the wider public and at least indirectly induce national governments to deal with the OMC and its findings more seriously, especially if they indicate grave weaknesses in a country's policy performance. If such a debate emerges, the open method of coordination is likely to be a mixed blessing for national governments. Reform-oriented policy makers may feel themselves assured in their reform efforts. Reform-averse governments, by contrast, may perceive the OMC as a potential threat, pressing them for action in areas where they would rather have avoided necessary but politically sensitive reforms. In both cases, however, the OMC will have a beneficial impact on the reform process at the national level.

By the same token, however, we should not expect that a tighter linkage between open co-ordination and domestic policy debates would lead to a less politicized and primarily problem-oriented process of policy formation. As argued above, the open method of coordination itself is a genuinely political process. To a considerable extent the OMC can be said to be a power struggle in which multiple actors try to assert their own ideas, concepts and problem definitions. Most importantly, this reflects conflicts between socially- and economically-oriented policy makers. This power struggle also revolves around the definition of appropriate indicators. In an ideal situation, indicators are seen as

¹⁴ The conference was organized by the Federation of German Pension Insurance Institutions and held in Berlin on 26 and 27 March 2003.

“neutral” and “objective” tools to diagnose and assess the nature of a problem. As such they may help policy makers in puzzling over adequate policies. However, the indicators themselves may be contested. Moreover, even commonly agreed indicators do not necessarily suggest commonly agreed policy responses. Quantitative benchmarks may for instance indicate the fiscal imbalances of a pension system. However, there may still be considerable disagreement about the appropriate strategies by which this problem is to be addressed, especially in the case of highly redistributive policies such as pensions.

One might argue that such conflicts may be settled more easily if the open method of coordination provided clearer guidelines and targets to national policy makers. Hence, with respect to pension policy some authors argue that the OMC needs to become harder than it currently is (cf. WRR 2003). Open co-ordination on pensions is still a fairly light mode of governance. While it establishes a number of common but very general objectives, it lacks not only the possibility of real sanctions but also clearly specified recommendations to individual member states as well as quantitative targets as they were for instance established by the EES. As a result, open coordination on pensions provides only limited guidance to national policy makers as far as concrete directions for reform are concerned.

Of course, one might see this as a weakness. However, even the establishment of common quantitative targets in pension policy will meet with considerable difficulties. These difficulties emerge most clearly if we consider a number of structural differences between pension and employment policy where EU member states came to accept common quantitative targets, such as a total employment ratio of 70% to be achieved until 2010. In pension policy a similar approach may even turn out to be counterproductive. As argued above, objectives in pension policy are more ambiguous than in employment policy, where employment growth is generally seen as the dominant aim. Moreover, in pension policy there is also a greater tension between different objectives, especially between social adequacy and fiscal sustainability. At the same time, member states differ greatly in the institutional design of their pension systems, their standards of social solidarity, their level of economic development (especially after the Eastern enlargement), and their (current and future) age-structure. These factors will have a significant impact on the way individual member states deal with the trade-off between social adequacy and fiscal sustainability. In other words, member states are likely to emphasise the various objectives in pension policy differently according to their specific national conditions. As a consequence, they will be unlikely to find a common denominator in terms of quantitative targets to be achieved. Public spending on pensions is a case in point. It is doubtful whether the European Union should for instance define an appropriate level or an upper limit for public pension expenditures for all member states in order to ensure the financial sustainability of public budgets - even if social assistance to the elderly and tax revenues on private and occupational pensions were included. Member states with a higher GDP per capita or with a higher share of elderly persons may be willing or even forced to spend considerably more than other member countries on old-age provision. This illustrates the difficulties to establish *common* quantitative targets with respect to pension reform (nevertheless, comparable quantitative indicators may still form a valuable source of information for na-

tional policy makers). By the same token, it will be problematic to fix uniform European guidelines for national pension policy makers. Thus, in order to maintain its context-sensitivity open coordination on pensions needs to remain soft and non-coercive.

Against this background the open method of co-ordination will hardly lead to a greater degree of policy convergence between the member states. For instance, there is no reason to think that co-ordination at the European level may in the foreseeable future lead to the establishment of a comprehensive and non-means tested guaranteed minimum pension in all member countries, as for instance suggested by Schokkaert and van Parijs (2002:508). In most of the Bismarckian welfare states with their strong reliance on earnings-related social insurance such a concept will hardly have a political chance to be implemented. Thus, as a normative tool aimed to strengthen the European Social Model, the open method of co-ordination may in fact be of a rather limited value.

It should also be kept in mind that the open method of coordination does not alter the powerful constraints within which national pension policy-makers must operate. National pension systems are confronted with a bunch of powerful legal, political, fiscal and economic pressures and constraints. These factors considerably limit the leeway for national governments in pension policy. Demographic, economic and fiscal pressures exert a strong downward pressure on pension benefit levels, while legal and political factors tend to impede a radical dismantling of pension entitlements (Schludi 2002). The open method of co-ordination cannot fundamentally change these constraints but must take them as given. Hence, with respect to pension reform we should not overestimate the impact of the open method of co-ordination. Its most promising benefits appear to lie in the cognitive rather than in the normative function.

APPENDIX: BROAD COMMON OBJECTIVES IN THE AREA OF PENSIONS

- **Adequacy of pensions**

Member States should safeguard the capacity of pension systems to meet their social objectives. To this end against the background of their specific national circumstances they should:

- 1. Ensure that older people are not placed at risk of poverty and can enjoy a decent standard of living; that they share in the economic well-being of their country and can accordingly participate actively in public, social and cultural life;*
- 2. Provide access for all individuals to appropriate pension arrangements, public and/or private, which allow them to earn pension entitlements enabling them to maintain, to a reasonable degree, their living standard after retirement; and*
- 3. Promote solidarity within and between generations.*

- **Financial sustainability of pension systems**

Member States should follow a multi-faceted strategy to place pension systems on a sound financial footing, including a suitable combination of policies to:

- 4. Achieve a high level of employment through, where necessary, comprehensive labour market reforms, as provided by the European Employment Strategy and in a way consistent with the BEPG;*
- 5. Ensure that, alongside labour market and economic policies, all relevant branches of social protection, in particular pension systems, offer effective incentives for the participation of older workers; that workers are not encouraged to take up early retirement and are not penalised for staying in the labour market beyond the standard retirement age; and that pension systems facilitate the option of gradual retirement;*
- 6. Reform pension systems in appropriate ways taking into account the overall objective of maintaining the sustainability of public finances. At the same time sustainability of pension systems needs to be accompanied by sound fiscal policies, including, where necessary, a reduction of debt. Strategies adopted to meet this objective may also include setting up dedicated pension reserve funds;*

7. *Ensure that pension provisions and reforms maintain a fair balance between the active and the retired by not overburdening the former and by maintaining adequate pensions for the latter; and*

8. *Ensure, through appropriate regulatory frameworks and through sound management, that private and public funded pension schemes can provide pensions with the required efficiency, affordability, portability and security.*

- **Modernization of pension systems in response to changing needs of the economy, society and individuals.**

9. *Ensure that pension systems are compatible with the requirements of flexibility and security on the labor market; that, without prejudice to the coherence of Member States' tax systems, labor market mobility within Member States and across borders and non-standard employment forms do not penalize people's pension entitlements and that self-employment is not discouraged by pension systems;*

10. *Review pension provisions with a view to ensuring the principle of equal treatment between women and men, taking into account obligations under EU law; and*

11. *Make pension systems more transparent and adaptable to changing circumstances, so that citizens can continue to have confidence in them. Develop reliable and easy-to-understand information on the long-term perspectives of pension systems, notably with regard to the likely evolution of benefit levels and contribution rates. Promote the broadest possible consensus regarding pension policies and reforms. Improve the methodological basis for efficient monitoring of pension reforms and policies.*

Source: Council of the European Union 2001

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