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Author(s): Karen M. Anderson and Julia Lynch

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# Reconsidering Seniority Bias

## Aging, Internal Institutions, and Union Support for Pension Reform

*Karen M. Anderson and Julia Lynch*

Because of the dramatic aging of both populations and labor forces and the crisis of pension systems that occurs in its wake, most advanced industrialized countries face political battles over pension reform. These battles not only are fought in the electoral arena, but also are negotiated among and between the social partners and government. How does the graying of organized labor affect unions' responses to the challenge of pension reform? A common perception, rooted in rational choice assumptions, is that aging union memberships translate into increased union resistance to substantial pension reform. Institutionalist research offers a corrective to the thin rationalist view, highlighting how macro-level features of the political economy (for example, neocorporatist policymaking and encompassing union structures) help to define unions' interests. The account offered here emphasizes the formation and articulation of preferences at the meso-level to explain how unions' internal organization shapes both the preferences of individual union members and the expressed policy desires of union leaders.

The seniority bias thesis states that aging union memberships result in union pressure to preserve the pension policy status quo.<sup>1</sup> But other research suggests that aging populations do not affect welfare states uniformly. Indeed, relatively aged populations can lead to more social spending for the young when neocorporatist decision-making structures are present.<sup>2</sup> And pensioners' organizations, including pensioners' unions, are often more reform-oriented in their claims on the pension system than elderly voters are.<sup>3</sup> These findings suggest that large numbers of pensioners in unions may, under certain circumstances, cause peak-level unions to support pension system retrenchment rather than oppose it. How pensioners are represented within unions, rather than how many pensioners belong to unions, shapes unions' positions on pension reform.

Significant pension reform consists of programmatic changes that reduce benefits and/or increase contributions for current workers in order to improve pension system solvency in both the short and medium term. Two features of internal union organization, the degree of centralization of union federations and representation of pensioners in the sectoral unions of their former employment or in their own pensioners' unions,

affect union leaders' willingness to support significant pension reform. Centralized union confederations with independent pensioners' unions are most likely to support significant pension reforms.

This argument can be illustrated with case studies of pension policymaking in Italy and Germany. Both countries have similar Bismarckian pension systems and large numbers of pensioners within the main union confederations. However, pensioners are organized quite differently within union confederations. In Italy retired union members belong to pensioners' unions, whereas in Germany retired union members remain members of sectoral unions. The effects of this key difference support the argument that the organization of pensioners within unions can affect unions' pension policy preferences, in quite counterintuitive ways.

### **Institutions of Pensioner Representation and Union Preferences on Pension Reform**

The seniority bias thesis suggests that the number of older union members determines unions' policy positions regarding pension reform. The central assumption is that union leaders' policy positions are a simple function of membership age structure: as the median member ages, union leaders will support policies that protect the benefits of older union members. This approach to explaining union social policy preferences is incomplete, for two reasons. First, the seniority bias thesis assumes that current pensioners and workers near retirement share an interest in preserving the pension system status quo. This assumption is problematic, and an alternative set of assumptions can be made about the "rational" or "unorganized" preferences of current pensioners and workers. Second, and contrary to the rational choice foundations of the seniority bias thesis, the institutions of union representation play a powerful role in the determination of members' and leaders' preferences. The focus on leaders' responses to the median member obscures the institutions that structure interactions between workers and retirees within unions, between sectoral unions and the union confederations; and between different union confederations. Two key differences in how unions are organized internally, the institutions of pensioner representation within unions and the relative strength of horizontal (cross-sectoral) versus vertical (sectoral) structures, affect the articulation and aggregation of union members' preferences in important ways. As a result, aging union memberships do not translate automatically into peak-level opposition to pension reform.

**Reform Preferences of Pensioners, Workers, and Union Leaders** To explain how peak-level union leaderships balance losses and gains for diverse groups within organizations as they develop policy preferences concerning pension reform, one can begin by envisioning the stakes for various groups when pension reforms are on the table. The preference orderings are hypothesized, and collection of systematic data to

test them is a task for future research. In contrast to the seniority bias thesis, it is hypothesized that, under many circumstances that pertain to polities with Bismarckian pension systems, it is most rational for current pensioners and peak-level leaders to favor certain kinds of significant pension reform. Current workers and sectoral union leaders, especially those in strong sectors, by contrast, will be among those most likely to oppose significant reforms, which would impose costs on current workers.

Unlike current workers, and perhaps counterintuitively, current pensioners have little to fear, and sometimes much to gain, from pension reforms that cut costs over the medium to long term. They have little to fear because their numbers and electoral clout ensure that, even if unions were to support pension cuts at the peak level, politicians would be reluctant to cut “earned” benefits to current beneficiaries. Some cuts to current benefits have occurred in recent European pension reforms, but they have been exceptions to the rule.<sup>4</sup>

More important, as long as reforms involve raising current contribution rates or cutting benefits to future retirees rather than current beneficiaries, pensioners may actually welcome pension retrenchment. Despite a diffuse sense of solidarity with future generations, current pensioners are unlikely to prioritize the level of benefits for future pensioners over other goods, such as the sustainability of the public pension system. Recent retirees can look forward to an average of about twenty years as pensioners, and many will have no source of income beyond the public pension. Current pensioners may thus support cuts to future beneficiaries or increases to current contributions in order to ensure that their own benefits continue. Current pensioners may also be willing to support a reduction in the overall size of the pension system because they depend more than current workers do on public benefits like health care and social services that may be crowded out by pension spending.

Trading cuts in future benefits for more immediate goods may seem more like a low cost solution for current pensioners because, on average, current pensioners enjoy benefits lower than those the average current worker approaching retirement can expect. Not only have pensions become more generous with the accumulation of union victories over the postwar period, but, because of women’s greater longevity, a higher proportion of current pensioners than of current workers are women, many of whom have weaker pension entitlements than men. Hence current pensioners may not see the need to defend benefits for future retirees that are more generous than those they receive themselves. In sum, pensioners can be expected to be more favorably disposed than most groups of current workers towards pension reforms that increase contributions and/or cut benefits to future beneficiaries.

Current workers in strong sectors with generous future pensions, especially those nearing retirement, are likely to favor strongly the pension status quo. They are likely to oppose pension cuts, preferring instead to use their bargaining power to pressure the state to provide more funds for the pension system or to broaden the revenue base.<sup>5</sup> Strong sectoral unions usually represent this type of wage earner, and they are often the

most vocal opponents of reforms that threaten to curtail the benefits of future retirees, since they have secured the most generous pensions. This group of relatively high earners with stable incomes may be willing to accept increased contributions if alternative sources of revenue can not be found.

Workers in weak sectors, in contrast, are less able than more privileged union members to accept increased contributions, and they may be less willing to do so in the name of safeguarding a pension system that benefits others disproportionately. Earnings-related pension schemes reproduce income differentials in retirement, and the occupational fragmentation of pension schemes often magnifies these differences. Lower income workers or those in unstable unemployment may thus favor pension reforms that reduce future benefits if reform means cuts to higher-end benefits rather than to their own modest pensions. The “vice into virtue” flavor of many current reform agendas targets the pensions of privileged groups in order to restore financial balance to pension systems or to improve the benefits of less privileged groups.<sup>6</sup> Under such circumstances, workers in weak sectors may support pension reforms that cut future benefits.

The preferences of union leaders are also crucial in determining the stances unions take regarding pension reform. Because sectoral union leaders derive their legitimacy chiefly from their ability to protect the interests of workers in their sector, they can be expected to espouse positions roughly congruent with the interests of the majority of their members. Leaders of strong sectoral unions with aging work forces are likely to oppose pension reforms that threaten benefits for workers near retirement, while sectoral union leaders whose members have weaker predicted pension entitlements are more likely to accept reform proposals that redistribute benefits while cutting aggregate costs.

The preferences of confederal leaders, though, depend on the variable institutional arrangements that connect them to their constituencies. Confederal leaders must reconcile two conflicting pressures. On the one hand, and to secure their position internally, union leaders must protect the expressed interests of workers in the strongest sectors. Particularly in confederations where peak-level authority is weak, confederal leaders may adopt antireform positions in order to maintain the support of strong sectors. On the other hand, adopting proreform positions often helps to secure peak-level leaders’ roles as privileged interlocutors with governments and employers. And because confederal leaders must represent the interests of all of their members, not just those with the most to lose from pension reform, they may perceive a responsibility to sublimate the disparate interests of sectoral unions into a reasonable package of pension reforms in order to ensure some greater good (for example, long-term sustainability, lower taxes, and more equitable distribution of retirement income). Thus, confederal leaders may have a “natural” inclination to adopt conciliatory positions on pension reform, especially if confederal authority over affiliate unions is strong enough to preempt threats from below.

So far, the discussion has centered on the “rational” or “unorganized” preferences of groups of workers and pensioners—the union base—and different levels of union leadership. How do different modes of union organization affect both the formation and articulation of the preferences of some union members (particularly retired members) and union leaders? It is here that the argument differs most strongly from the seniority bias thesis. Even if the preferences of the median member are correctly understood, by themselves they can not tell how unions will react to different pension reform proposals.

**The Organization of Pensioners** Pensioner organization within unions typically follows one of four patterns. Each of these organizational configurations shapes both the expressed preferences of pensioners and the likelihood that these preferences will be adopted by peak-level leaders. First, pensioners may leave their sectoral union and join separate pensioners’ unions with status equal to other sectoral unions, as in Italy, France, Spain, and Portugal. Second, pensioners may remain organized within the sectoral union of former employment, but have some form of independent representation at the confederal level (similar to many youth and women’s groups), as in the U.K., Ireland, Belgium, the Netherlands, and Luxembourg. Third, pensioners may remain organized within the sectoral union of former employment but have no independent voice at the peak level, as is the case in Germany, Austria, and Scandinavia. Finally, in some cases pensioners may not be permitted to remain union members at all.

The requirement that retired union members leave sectoral unions, with the option of joining a pensioners’ union, has several important implications for union politics and the aggregation of pension policy preferences. Künemund, Neckel, and Wolf argue that this change in union membership strengthens the union member’s identity as a pensioner rather than as a former wage earner in a specific sector.<sup>7</sup> When former members of different sectoral unions are combined into a single pensioners’ union, sector-specific issues decline in importance compared to interests shared by all members of the pensioners’ union. Relatedly, the creation of a new, more “encompassing” identity as pensioners rather than as workers in a specific sector might also lead unionized pensioners to recognize that maximalist claims on the pension system may not help current pensioners in the aggregate.<sup>8</sup>

Independent pensioners’ unions are also, like all complex organizations, likely to develop a professionalized leadership cadre with expertise on relevant issues and a perception of their own stake in pension system sustainability.<sup>9</sup> Thus, pensioners’ union officials sometimes support reforms that protect the long-term solvency of the pension system even if they must advocate somewhat lower benefits in the short-to-medium term. Contrary to the conventional wisdom that elderly interest groups are uniformly powerful opponents of pension reform, then, we expect that pensioners’ unions may actually favor some kinds of reform, especially if benefits for current pensioners are protected.

The most common form of union membership for retirees in continental Europe, however, is simply to remain a member of the sectoral union representing the former

sector of employment. This type of union membership is usually offered to retirees for a reduced union fee and often includes inducements like inexpensive group insurance. In this type of organization retired members may or may not have voting rights and representation structures of their own. Some unions have many retired members but few or no channels for pensioners to take part in and influence activities; retirees remain union members largely to maintain contacts with former colleagues, to benefit from union-provided services, or to take part in recreational activities provided by unions. Here, the institutionalization of pensioner influence within the union is weak. Other unions offer institutionalized channels for pensioner influence, such as the right to form a separate pensioners' group with voting rights and representation at the sectoral and/or confederal level. Thus, retired union members are organized and have regular opportunities to discuss and formulate positions related to their status as retirees, including pension issues. Here, the institutionalization of pensioner influence is strong.

The implications of retaining pensioners as members of sectoral unions, rather than as a separate union, are threefold. First, retired members of a sectoral union are likely to retain their identity as a member of that sector of employment and less likely to develop a separate union "pensioner" identity. This tendency should be stronger when retired union members have few or no voting rights and do not have separate representation at the confederal level. Second, when pensioners and workers are combined in sectoral unions, workers' interests will prevail over those of pensioners, both within the sectoral union and at the peak level. There are usually more workers than pensioners in a union, and workers are closer to the core mission of labor unions. To this end, mechanisms to reduce pensioners' influence are typically put in place when pensioners form a majority of a union's membership. Third, the absence of independent organizations of and for pensioners makes it more difficult for a professionalized pensioners' leadership cadre to emerge. The confederal union leadership is likely to remain the sole voice for overall welfare state solvency, and it may be difficult to maintain such a position when strong sectoral unions reject it.

The previous discussion suggests the following propositions. First, when pensioners have no independent voice at the confederal level, *ceteris paribus*, sector-specific interests are likely to dominate whenever pension reform reaches the agenda. Second, if pensioners have their own unions with representation at the confederal level, they can push their own (often more moderate) positions, and the confederal leadership will be more likely to adopt a proreform agenda as long as current benefits are protected. Finally, if pensioners do not have their own unions but do have an independent voice at the confederal level, a "medium" result, in which the confederal leadership adopts some proreform policy positions but meets strong resistance from sectoral unions, can be expected.

**The Centralization of Confederal Authority** The centralization of confederal authority is the second key organizational feature that shapes how union leaders respond to pressure from unionized pensioners. Concertation is a special instance of centralization, in

which the necessity for unions to speak with a single voice to the other social partners and to government temporarily increases the importance of the peak level vis-à-vis affiliates. Both concertation and confederal authority over affiliate unions magnify the effects of pensioner organization, by increasing the importance of encompassing, cross-sectoral union structures like the confederal leadership and pensioners' unions.

When the peak-level union leadership wishes to make a deal with the government and/or employers on pension reform, it needs the support of affiliates. If an independent voice for pensioners exists, and if that voice favors reform, confederal leaders will listen, and the support provided by the pensioners' unions may enable confederal leaders to defeat reform opponents in other sectoral unions. During periods when there is no concertation, or if power within the confederation is weakly centralized, sectoral unions are likely to prevail over the confederal level. Under these conditions, independent pensioners' unions will not have much impact, since their voice will have no privileged ear at the confederal level and is likely to be drowned out by the voices of more militant sectoral unions.

Thus, the amount and kind of pressure that a graying union movement puts on confederal leaderships concerning pension reform depend on how pensioners are organized within unions. Moreover, the broader environment within which unions act also affects leadership responses to pressure from pensioners within labor's ranks. During episodes of tripartite concertation peak-level bodies within unions are empowered and may pursue pension policies that are not in the short-term interests of the strongest sectoral unions. Uncoordinated bargaining, in contrast, encourages individual sectoral unions to defend particularistic interests in the pension system status quo.

Therefore, labor movements characterized by a high potential for pensioner influence on union demands and strong confederal authority over sectoral unions will predispose confederal leaders to support pension reform proposals that involve substantial modifications to future benefits, as long as current pensions are protected. The potential for pensioner influence, the first of two key dimensions, is reflected in three aspects of union organization: the presence or absence of independent pensioners' unions, the presence or absence of a pensioners' current with official voice, and the numerical weight of pensioners within the confederation. If a critical mass of pensioners exists within a union, independent pensioners' unions have the highest potential level of influence; an organized current with confederal representation has the next highest level; and no organized representation has the lowest level of potential influence for pensioners qua pensioners. Emphasis is on the potential for influence, since the degree of confederal authority constrains pensioners' actual influence. If all else is equal, when a high potential for pensioner influence coincides with a high degree of union centralization, confederal union leaders can be expected to adopt proreform positions that maintain current benefits and increase pension system equity while cutting costs.

### **The Argument at Work: Pension Reform in Italy and Germany**

Because of the similarity of the pension system structure in Italy and Germany (both public, pay-as-you-go, earnings-related) and the high number of pensioners relative to current workers in unions in both countries (see Table 1), it is possible to control at least partially for the influence of the raw number of pensioners and to ask instead how the meso-level structures of union representation affect the articulation of union preferences regarding pension reform. While the share of pensioners in German unions (roughly one in five) is lower than in Italy (around half), the “graying” of unions has been a topic of concern among unionists and political commentators in both countries. The Italian confederations have the highest percentage of pensioners as members in Europe, while the German confederations perceive the somewhat lower number of pensioners as worrisome because, among all union confederations in countries with Bismarckian public pension schemes, Germany’s are the most dominated by pensioners remaining in sectoral unions.

Italian and German confederations thus have some of the oldest memberships in Europe but are organized quite differently. The Italian confederations have independent pensioners’ unions and a relatively high degree of confederal authority, while the German confederations have relatively weak confederal authority and organize pensioners within the sectoral unions of former employment. These organizational differences explain why Italian union confederations have often supported pension reforms that impose significant costs on current workers, while the German pension system awaits thoroughgoing reform but has adopted some measures that restrict benefits to current pensioners. The internal organization of unions, rather than the number of pensioners, affected pensioners’ and current workers’ ability to get the unions to adopt their pension reform demands.

#### **Italy**

Italian unions are organized into three main confederations, CGIL, CISL, and UIL, each with a national confederal leadership that coordinates the activities of sectoral and local unions. Each confederation has a pensioners’ union that occupies a position within the union confederations analogous to sectoral unions. Established just after World War II, the pensioners’ unions have grown in tandem with an enormous and highly complex pension system.

The Italian pension system is primarily a public pay-as-you-go system fragmented along occupational lines, funded by contributions from employers and employees and ad hoc state contributions. Benefits vary by sector due to different contribution rates, indexation policies, retirement ages, and fund. Before the 1992 reform there were forty-seven separate funds.<sup>10</sup>

**Table 1** Pensioners in West European Unions, ca. 2000

	<b>Confederation</b>	<b>Pensioners (% of all union members)</b>	<b>Pensioners have own unions?</b>	<b>Official pensioners' current at confederal level?</b>
Italy	CGIL	55	Yes	Yes
	CISL	50	Yes	Yes
	UIL	25	Yes	Yes
France	CFDT	28	Yes	Yes
	CGT	32	Yes	Yes
	FO	59	Yes	Yes
	CFTC	6	Yes	Yes
Spain	CCOO	6	Yes	Yes
	UGT	6	Yes	Yes
Portugal	CGTP	3	Yes	Yes
	UGT	4	Yes	Yes
Luxembourg	CGT-L	No data	No	Yes
	LCGB	14	No	Yes
Belgium	FGTB	7	No	Yes
	CSC	10	No	Yes
Netherlands	FNV	9	No	Yes
UK	TUC	5	No	Yes
Ireland	ICTU	2	No	Yes
Norway	LO	22	No	No
Germany	DGB	19	No	No
Austria	ÖGB	19	No	No
Finland	SAK	15	No	No
	STTK	8	No	No
	AKAVA	8	No	No
Sweden	LO	13	No	No
	TCO	11	No	No
	SACO	6	No	No
Denmark	LO	3	No	No

Data from union publications and personal communications with union officials and national industrial relations experts, especially those affiliated with institutions linked to the European Industrial Relations Observatory network. For a list of these organizations, see <http://www.eiro.eurofound.eu.int/contact.html>. We also relied on a report on the European Trade Union Confederation, prepared by the Catholic University of Leuven's Institut des Sciences du Travail (IST) (<http://www.trav.ucl.ac.be/partenaires/eu-8-en.html>).

In 1993 the number of pensioners surpassed active workers in the CGIL, the largest of the three main confederations. In 1999 pensioners made up 55 percent of the CGIL, 50 percent of CISL, and 25 percent of UIL, for a total of 48 percent of big three membership.<sup>11</sup> Membership dues contributed by the pensioners' unions to the confederal coffers made up a substantial portion of the confederations' budgets, giving pensioners' unions not only political and organizational but also financial clout within the confederations.<sup>12</sup> But these resources do not necessarily translate into pressure for confederal unions to defend the pension system status quo. Italian pensioners' unions have generally supported the confederal leadership in its pursuit of pension reform, against the particularistic claims of some unions representing current workers.

**Organization of Pensioners within the Unions** The pensioners' unions, like other sectoral unions, have representation and voting rights at the confederal level. But the large numbers of pensioners raise troubling issues of internal representation for the confederations. Even the largest sectoral unions can not match the numerical weight of the pensioners' unions. And unlike active workers, whose demands may differ by occupational sector or job status and run the gamut from working conditions to wage levels to training programs, pensioners' demands are relatively homogeneous: decent pensions and social services. Two mechanisms ensure that pensioners' interests do not dominate the confederation. First, the major confederations have instituted rules giving pensioners' unions less formal representation in confederal bodies like the national congress and the confederal leadership committee than their numbers would suggest.<sup>13</sup> Second, the pensioners' unions have been encouraged to become the confederations' in-house specialists on welfare state issues, in order to "control potential overlap and conflict with sectoral unions' demands."<sup>14</sup>

As the pensioners' unions gained experience and independence through the 1970s and 1980s, they gradually became a leading source of social policy expertise for the union confederations. But rather than use their new role to push for policies supporting workers' acquired rights in the pension system status quo, the pensioners' unions began increasingly to defend the welfare state more broadly. The strategy of giving authority over welfare state issues to the pensioners' unions has resulted in a leadership that is assertive and confident in its claims surrounding the pension system.<sup>15</sup> These claims, however, do not typically mirror those of the largest and most powerful sectoral unions.

Pensioners' unions were formed to advance the interests of former workers and address the problem of poverty among elderly pensioners, and through the mid 1970s a key demand of the unions was for bigger, better pensions. At the same time, however, Italian pensioners' unions have a history of fighting for the losing side in pension reform debates. They supported the unsuccessful February 1968 accord that would have raised women's retirement age, eliminated the possibility for people to receive pensions if they were still working, and raised contribution rates, all in return for guaranteeing coverage to uninsured groups and linking pensions to final earnings. This accord failed

after opposition from industrial workers' unions. As the unified federation of the three leading pensioners' unions asserted its claim to speak for confederal unions on social policy issues in the mid 1970s, the positions it staked out continued to diverge from those adopted by the sectoral unions. For example, in 1976, well before other unions began to support pension reform, the CISL's pensioners' union warned of eventual collapse unless the pension system was reformed substantially.<sup>16</sup> The confederal leadership, supported by pensioners, backed the 1978 Scotti accord, which was again scuttled by opposition from sectoral unions that would have been hurt by it.

More recent policy proposals by the pensioners' unions have demonstrated a similar willingness to advocate pension reform. The yearly unified policy documents issued by the unitary federation of pensioners' unions in the 1990s supported proposals for limiting seniority pensions, early retirement pensions, and raises for the highest public old age pensions. Pensioners' unions supported the failed pension reforms of 1978–79 (Scotti), as well as the successful ones of 1992 (Amato), 1995 (Dini), and 1996 (Prodi).

**Why Pensioners' Unions are Moderate on Reform** There is a number of reasons why Italian pensioners' unions do not staunchly defend the pension system status quo. First, union representatives of Italian pensioners support pension reform because their constituents support it. For example, a 1996 national survey revealed that workers in their thirties and forties supported the pension system status quo much more than pensioners.<sup>17</sup> A referendum called by the confederations to solicit workers' and retirees' opinions of the proposed 1995 reform proposal garnered support from 91 percent of pensioners. Only 58 percent of active workers voted in favor of the reform, and in sectors such as metalworking, transport, teaching and university professors, where workers enjoyed extensive pension rights that would have been most affected by the reform, a majority opposed the reform.<sup>18</sup>

Current pensioners have less to fear from reform proposals than do current workers since their sheer numbers and hence electoral threat discourage politicians from advocating reforms that would cut current benefits. In addition, the Italian constitutional court has strongly defended "acquired rights" like pension benefits, overturning laws that deny promised benefits even in the name of reform. As a result, most recent Italian pension reform proposals have avoided cutting current benefits in favor of decreasing future pensions. Pensioners' unions have supported reforms that spared current pensioners while pushing cuts onto future generations of retirees. Meanwhile, the sectoral unions that most benefit from generous seniority pensions have lobbied actively against reforms.<sup>19</sup>

Pensioners' unions may also be relatively sanguine about pension reform because most current pensioners have more to gain than current workers from shifting welfare state resources towards nonpension expenditures. The current cohort of pensioners suffers far more than new retirees will from the very low entitlements granted to many women and other precarious workers in previous decades.<sup>20</sup> Pensioners' unions represent

the less privileged elderly as well as affluent recent pensioners, whereas sectoral unions increasingly represent primarily the protected core work force close to retirement. It is not surprising, then, that pensioners' unions are less protective of "acquired rights" for the best-off pensioners and more willing to accept pension reforms that improve social services or health benefits for the elderly in return.

Pensioners' unions have also developed a professionalized staff with a stake in the preservation of the welfare state as a whole. Pensioners' union officials whom the authors interviewed acknowledge that the Italian pension system can survive only if it continues to be funded by a new generation of workers, which means redirecting social spending towards programs that promote youth employment, stimulate job growth, and make it easier for working parents to raise children. These concerns appear frequently in the pages of the journals and newsletters sponsored by these organizations, which are widely read by social policy professionals.

Finally, relatively high levels of confederal authority must be available for independent pensioners' unions to facilitate reformist positions by the confederal leadership. When the confederal unions' leaderships have been incorporated into the reform process, reforms tend to go more smoothly, and both sectoral unions and political parties with close ties to unions are less tempted to reach out to their militant base to gain consensus. The reform phases of 1968–71 and 1994–96 clearly illustrate this dynamic.<sup>21</sup>

This characterization of Italy generalizes about the behavior of confederal and sectoral unions across the three main confederations. The CGIL, the largest of the three confederations, is most faithfully described by this portrait. This left-leaning confederation has tended to see itself as a "class" union more than either the Catholic CISL or the independent UIL, both of which are closer to "craft" unions. Thus, the CGIL's confederal leadership is inclined to represent encompassing claims when it can, whereas the CISL and UIL leaderships, even at the confederal level, are more comfortable championing the particular interests of sectoral unions. Still, the pensioners' unions of all three confederations have worked together, developing a common, encompassing vision of how to reform the welfare state. Particularly during periods of intense concertation, the pensioners' unions of the CISL and UIL have been able to push this vision strongly even on confederal leaderships that might be less likely than the CGIL's to adopt an encompassing reform vision.

During the most recent reform episodes, Italian pensioners' unions have not staked out a radically different position from the confederations. It is thus difficult, without an ethnographic investigation of union decision making, to measure the precise degree of "influence" of pensioners' unions on confederal positions.<sup>22</sup> The shifting environment in which these reform debates have occurred in the last several years, however, is likely to affect the ability of pensioners' unions to translate their demands into the confederations' demands. Berlusconi's government also abandoned the tripartite context that had over the previous eight years reduced the power of the sectoral unions and increased the

importance of horizontal groupings like the confederal leadership and the pensioners' unions. As a result, pensioners' unions have found themselves recently less able to influence the terms of the debate at the confederal level.

## Germany

German unions are organized into several federations but are dominated by the German Trade Union Federation, DGB, with 80–90 percent of union members.<sup>23</sup> Today, the DGB has eight affiliate unions, down from fourteen a few years ago. IG Metall (the metalworkers union) has traditionally dominated German industrial relations and the DGB. Until recently IG Metall was the largest DGB affiliate, but it is now surpassed by ver.di (*Vereinte Dienstleistungsgewerkschaft*), the multibranch service union formed in 2001 by the merger of five service sector unions. Unions are organized along industrial lines, and pensioners represent close to 20 percent of union membership. Despite their large numbers, retired union members have few opportunities for influence. There are no independent pensioners' unions. Instead, retirees may remain members of their sectoral unions, but they have no direct representation at the confederal level and little influence on sectoral union social policy positions.

Formal centralization in German unions is weak. Wage bargaining follows a federal structure, with key sectors setting the standard for the rest of the economy.<sup>24</sup> The DGB functions as opinion leader and mouthpiece for member unions, but formulation of a common social policy position is difficult because the DGB's positions are the product of negotiations among the affiliates. Moreover, although the affiliates formally accept the DGB's social policy leadership, they are free to articulate their own positions. Programmatic differences between member unions concerning pensions are particularly large because the unions represent the interests of very different clienteles.

The number of retired union members in Germany continues to grow. Between 1991 and 2002 the number of retired DGB union members increased from 13 to 20 percent.<sup>25</sup> Membership aging is especially apparent in IG Metall: in 2003, 570,000 of IG Metall's 2.6 million members were retirees. Despite these large numbers, wage earner interests dominate at the confederal level, where retired union members have no formal influence. DGB statutes provide for national committees for women's and youth issues, but not for pensioners' issues.<sup>26</sup> The only avenue for formal influence is through their own sectoral unions, where pensioners' influence ranges from weak to nonexistent. A brief examination of pensioner representation in the two largest DGB unions, IG Metall and ÖTV (transport, now incorporated into ver.di) illustrates this variation. In the early 1990s ten of the DGB's fourteen unions had independent senior organizations, including IG Metall and ÖTV.<sup>27</sup> The most common form of organization is the "seniors' working group," but pensioners are not represented on the national governing board, and they are not represented at the national congress.<sup>28</sup>

The weak institutional position of retirees within IG Metall gives them little influence on union politics. Many retirees remain IG Metall members, but membership seems to be motivated more by selective incentives (inexpensive insurance, access to recreational activities) than by a desire to influence union politics. Moreover, due to the scarcity of organizational resources for retirees in IG Metall, retirees view themselves as retired metalworkers with interests largely in line with employed metalworkers, rather than as pensioners with preferences related to retirement.<sup>29</sup> Thus, the large number of retired IG Metall members remains a latent group with little influence on IG Metall's core wage earner preferences: higher wages, generous pension, access to early retirement, and work time reductions.

In contrast to IG Metall, pensioners within ÖTV have had more institutional opportunities to influence union politics. ÖTV statutes allowed for the establishment of pensioners' committees to provide advisory and informational services to retired members and to promote the integration of retirees in the union. In addition, the pensioners' committees were represented on the local and regional governing boards as well on the central governing board.<sup>30</sup> These provisions for pensioner representation also exist in ver.di, the successor to ÖTV. Ver.di's 460,000 pensioners (out of a membership of 3.2 million members) are represented at all four organizational levels (local, regional, district, and national). Retirees are represented at the national congress. But like the Italian pensioners' unions, there are self-imposed limits to pensioner representation: pensioners are content with half of the representation that their numbers would otherwise give them.

**Unions and Pension Policymaking** The German pension system is structured according to occupational status. The self-employed and professionals are covered by their own pension funds; civil servant pensions are tax-financed; and the statutory pension insurance (*Gesetzliche Rentenversicherung*, GRV) covers blue collar and white collar workers, about 70 percent of the work force. Statutory pensions are pay-as-you-go with social insurance contributions divided evenly between employers and employees and supplemented by general revenue grants.

Until the 1990s pension policymaking was consensual and dominated by a closed corporatist policy network consisting of the DGB, BDA (employers), the two main organizations for administering pensions, the Federation of German Pension Insurance Institutes (VDR) and the Federal Insurance Agency for Salaried Employees (BfA), and the pension policy experts in the ministries and political parties. The corporatist structure of the VDR and BfA strengthened the role of the employers and unions. This closed policy network largely negotiated the main features of pension policy until the late 1980s.<sup>31</sup>

During the heyday of the closed pension network, the DGB was usually able to assert its authority over its affiliates and formulate a unified position. However, pension financing became a recurring problem during the 1990s, opening ever-larger programmatic differences among unions and between unions and employers. These differences

made it harder for the DGB to push a unified position and made it harder for the social partners to reach agreement.

**Union Structure and Confederal Positions in the 2001 Pension Reform** By the mid 1990s pension reform was on the agenda again, but the cross-party consensus had evaporated, and the corporatist policy community was weaker. In 1997 the Christian Democratic (CDU-CSU)-Liberal (FDP) coalition passed an unpopular pension reform that introduced modest cuts for future retirees. Although the proposed cuts were slated to affect future pensioners, the DGB and sectoral unions opposed them, preferring instead to improve pension financing. Unmoved by these protests, the government went ahead with the reform and broke with the traditional pension consensus.

The 1998 election brought a Social Democratic (SPD)-Green Party coalition to power. Pensions were a major election issue, and the new government reversed some of the 1997 cuts. By early 1999, however, the government had changed course and announced reform plans that included more drastic cuts in future benefits than the ones the government had just reversed, as well as obligatory private provision. Current pensioners and those retiring before 2011 would largely be spared.

The Red-Green coalition soon faced tough union opposition. IG Metall opposed the reform; ÖTV (now ver.di) expressed sympathy with the reform's goals but opposed some elements of it; and the DGB had difficulty voicing a unified position. The conflict continued for several months, punctuated by union demonstrations, until the chancellor negotiated a compromise with sectoral and confederal union leaders. The government modified its proposal, and parliament passed a watered-down version in January 2001.<sup>32</sup>

The government's original proposal concentrated cuts on pensioners retiring after 2010. It calculated that the group of retirees up to 2010, as well as current retirees would not have time to accumulate supplementary pension savings to offset the benefit cuts, whereas those retiring from 2011 would.<sup>33</sup> Funded occupational and private pensions (encouraged by tax breaks) would replace the income lost by the pension cuts for those retiring from 2011.

A coalition consisting of the left wing of the SPD, the pension administration bodies (VDR and BfA), and the unions pressured the government to change its proposal. The VDR and BfA pushed for a generation-neutral reform that would spread smaller cuts across more age cohorts (including pensioners).<sup>34</sup> The SPD's left wing pushed for provisions to limit the cuts for younger workers. And the unions pressed for the smallest possible cuts. This coalition proposed less drastic benefit cuts (67 percent of net wages instead of 63 percent), slightly higher contribution rates, and incentives for occupational pensions rather than obligatory private provision. The government's final reform was based on these demands.

How did the organization of pensioners influence the DGB's position and union bargaining in the reform process? First, the original proposal largely spared current

pensioners and anyone retiring up to 2010, while the final compromise spread the burden of smaller cuts across current workers and all pensioners beginning in 2011. Current pensioners will take a small hit starting in 2011, but they still feel more pain than in the original proposal. The unions were a major force behind this change. The compromise clearly reflected wage earner rather than pensioner interests. An independent pensioners' union like Italy's might have attempted to push the confederal leadership toward more substantial cuts in future pensions. Instead, a central concern of the unions (and their allies in the SPD and pension administration) was to protect the pensions of future retirees, that is, current workers. Above all, the unions wanted to ensure that future pensions would continue to deliver benefits in line with the standard of living achieved during employment. They were thus willing to spread the burden of cuts by applying them not just to those retiring after 2010, but to all pensioners. That many union members are retired and would have been better off with the original proposal made little difference; retired union members have little organizational clout and their preferences as retired union members remain unarticulated.

Second, there were significant differences among the sectoral unions about the reform. IG Metall largely opposed the reform and preferred instead to strengthen the revenue base. Other unions, among them ÖTV/ver.di, which has relatively well-institutionalized forms of representation for retired members, were more accommodating. Differences among the sectoral unions made it difficult for the DGB to formulate a unified position, to moderate category-specific pension interests, or to speak with authority for its affiliates. Indeed, the reform debate was often chaotic, with sectoral unions even engaging in open criticism of each other's positions. The DGB's incomplete authority over its affiliates also contributed to the dominance of wage earner interests in pension reform.

### **Italy and Germany Compared**

The organization of pensioner interests within unions, rather than the absolute number of retired union members, helps to shape confederal positions concerning pension reform. This argument predicts that Italy's independent pensioners' unions will attempt to advance pensioner interests that are distinct from wage earner interests, support reforms designed to improve financial solvency in the short to medium term, and concentrate losses on future rather than current pensioners.

This pattern is present in all of the Italian reform episodes. In the reform discussions of 1968, 1976, 1978, 1992, 1995, and 1996 pensioners' unions supported reforms that cut future benefits, raised contributions for current workers, and/or increased the state subsidy to the pension system. Not all of these reforms were successful; opposition by strong sectoral unions derailed the reforms proposed in 1968 and 1978. To be sure, pensioners' unions had little reason to fear reduced benefits as a result of the

failure of these reforms. But since it would have cost the pensioners' unions little to support the sectoral unions in their opposition to the proposed reforms of 1968 and 1978, the pensioners' unions' more moderate stance is striking.

The independent voice of pensioners at the confederal level influences the positions of union confederations concerning pension reform, and Italy provides evidence for this argument. While confederal leaders were not always able to overcome opposition on the part of sectoral unions, Italian pensioners' unions helped to sway confederal leaders in favor of pension reforms in all of the reform episodes.

The organizational representation of pensioners in German unions was hypothesized to privilege wage earner interests over pensioner interests, despite the large number of retired union members, especially in strong sectoral unions. This hypothesis was true concerning IG Metall's role in the reform process. Retired members of IG Metall have little influence on union policies, so IG Metall has every incentive to defend its members' wage earner interests. It did so in the 2000–2001 reform negotiations.

Strong sectoral unions in which pensioners have organizational influence are also likely to advocate more moderate positions, even though these positions still largely reflect wage earner interests. Here, the institutionalized influence of retired members, pursuing their interests as pensioners and former wage earners, should moderate sectoral union demands. The policy preferences and behavior of ÖTV in the 2001 reform appear to support this hypothesis, but additional research is required to ascertain whether retired members in ÖTV were a moderating force or other factors played a role.

Italy and Germany also support the hypothesis that, when the confederal level is able to control its affiliates and speak with one voice, a proreform stance is more likely. In the Italian reform episodes in which concertation occurred, union confederations' authority over affiliates increased, and the confederal leadership was able to override the opposition of sectoral unions to proposed pension reforms. The influence of pensioners' unions was crucial to this process, as broadly demonstrated in the Italian reform episodes of 1968, 1978, 1992, 1995, and 1996. The reform proposals differed in each of these episodes, but the general pattern is clear. Pensioners' unions consistently supported reforms that did not cut current pensions, and their support helped confederal leaders to overcome opposition from strong sectoral unions in reform negotiations.

In Germany the absence of an independent pensioners voice at the confederal level decreased the chances that confederal leaders could overcome opposition by strong sectoral unions to proposed pension reforms that impose losses on current workers. During the 2001 reform process the DGB broadly supported the goal of pension reform, but opposition to the government's proposals by strong sectoral unions (especially IG Metall) constrained the DGB's capacity to advance a unified position. The most striking aspect of the reform process from this point of view is that wage earner interests dominated, despite the presence of large numbers of retirees among union members.

While the numerical weight of pensioners within unions is substantially less in Germany than in Italy, this difference alone does not explain the pension policy preferences advanced by confederal leaders. Had German pensioners been more numerous, but still organized within sectoral unions, would DGB and ÖTV leaders been more likely to support reforms that cut benefits to future retirees? The best available counterfactual argument suggests not. During periods when failed or absent policy concertation has weakened Italian confederal leaders, effectively limiting the influence of the transversally organized pensioners' unions, confederal leaders have acceded to the demands of strong sectoral unions for more intransigence on pension reform despite the presence of large numbers of pensioners in the ranks.<sup>35</sup>

## **Conclusion**

Large numbers of retired members do not necessarily lead confederal union leaders to oppose pension reforms. Confederal leaders are likely to agree to pension reforms when pensioners have a strong institutional presence at the confederal level, the confederal level has a high degree of authority over affiliates, and proposed reforms affect future benefits rather than current pensions.

This expectation is based on a number of important prior conditions. First, more encompassing union structures (for example confederal leaderships, unions representing workers or pensioners drawn from multiple sectors) will be more likely to support pension retrenchment than sectoral unions, particularly, strong sectoral unions whose members enjoy extensive pension rights. Second, during periods of concertation the confederal leadership is more likely than the confederation's individual member unions to support pension retrenchment, because the confederal leadership wants to maintain its position as a valued interlocutor for government and employers. (This assumption might easily be altered, depending on the partisan composition of government. Unions might be less interested in cooperation when the Right is in government.) Finally, current pensioners and their representatives are less likely than active workers to be concerned about pension retrenchment, especially if the level of social provision to current pensioners is maintained.

The behavior of unions during episodes of pension reform negotiations in Italy and Germany supports these hypotheses about the effect of internal union organization on organizational preferences for pension reform. In Italy strong, independent pensioners' unions aggregated the diverse preferences of multiple generations of pensioners into a moderate proreform position. Representatives of the pensioners' unions used their expertise on welfare state issues and their privileged relationship with confederal leaders to influence the confederations' positions on pension reform. In Germany, by contrast, pensioners remained organized within their sectoral unions and as a result could contribute little to confederal positions on pensions. Union positions on pension

reform remained dominated by the concerns of active workers in strong sectoral unions. In Germany independent pensioners' unions likely could have strengthened the confederal leadership's efforts to reform the pension system through revisions of the pension rights of future beneficiaries rather than cuts to current pensioners. Unions with large and well-organized pensioner lobbies are not likely to be the most important obstacles to pension reform in Europe. Strengthening the representation of pensioner interests within unions may actually help, rather than hinder, the process of reform.

## NOTES

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