Welfare regimes for ageing populations: divergence or convergence?

Mehmet F. Aysan
maysan@uwo.ca

Dated: August 14, 2009

Department of Sociology, University of Western Ontario, London, Ontario, N6A 5C2, Canada

Welfare regimes for ageing populations: divergence or convergence?

Abstract: *We consider the recent trends in pension policies in OECD countries in light of both demographic ageing and path dependency associated with welfare regime type (Liberal, Social Democratic, Continental, and Southern European). These regime types represent differential responsibility for social security on the part of market, the state, and family. While there are significant differences in labor market characteristics, the demographic similarities in ageing bring similar pressures for pension reforms across various OECD countries. These reforms are addressing fiscal issues in state pensions, typically by increasing the length of the working life, placing more of the pension responsibility on individuals, or converting to defined contribution approaches. The reforms, nonetheless, take somewhat different forms. Our study shows that there is no single path for pension reforms, and welfare states tend to follow their traditional paths with some variations.*

Key words: Population Ageing, Welfare State, Pension Reform, Retirement Policies

Demographic changes and their impacts on labor force participation rates are closely related to the formation of the welfare state. The welfare state emerged to solve social problems in the late 19th century. For the first time in history, the modern state took the main responsibility of addressing social problems such as poverty, disability, and senescence. The welfare state, hence, sought to cope with social problems/risks which were previously managed by families, kinship ties, and charities. Achieving higher life standards for its citizens has become the main responsibility of the state. Pensions and health services are clearly part of these welfare policies. In the early post-war period, the rapid economic growth rates and the rising numbers of young workers made it possible to accomplish the promises of the welfare state regarding the living standards of the elderly. However, generous retirement benefits and increasing health costs are difficult to sustain for an ageing society.

The world population, especially the populations of industrialized countries, is rapidly growing older, as a result of decline in mortality and fertility. In more developed regions, the ratio of persons aged 65+ to those aged 15-64, is increasing from 13 per 100 in 1960 to 40 per 100 in 2040 (UN 2008). Longer life and better health conditions, however, have not been accompanied by later ages at retirement. Before the development of welfare states, people were generally working until they were disabled through poor health. With the emergence of the welfare state, labor force participation levels for people aged 55 and over began to decline in the 1940s

(Myles 1984). With the institutionalization of the welfare state and new social pension plans, the trend towards earlier retirement has compounded the fiscal cost of ageing (OECD 1998: 42).

In addressing welfare state questions, Esping-Andersen (1990, 1999) proposed that it is useful to distinguish countries according to welfare regime types (Liberal, Social Democratic and Conservative), in studying alternative patterns of responsibility on the part of markets, states and families for social security. His typology of welfare state has been criticized and several authors have developed alternative typologies (Leibfried 1992; Castles and Mitchell 1993; Ferrera 1996; Bonoli 1997; Korpi and Palme 1998). In this study, Liberal, Social Democratic, Continental, and Southern European classification has been found useful in analyzing labor market characteristics, including the extent of labor force participation of given age and sex groups, along with social security policies, including pension policies. At the same time, countries are undergoing similar demographic trends, especially in terms of population ageing. This demographic transition has made pension reform necessary, especially since the large baby boom cohorts are starting their exit from the labor market (Bongaarts 2004). By comparing sets of OECD countries, this paper seeks to determine the extent to which there is path dependency in pension reform, following the various welfare regime types.

While the challenges are similar across industrialized countries, the responses can vary. Our main purpose is to evaluate labor force participation of older persons and recent retirement policies, in various ageing populations. Even though the phenomenon of ageing, and retirement policies themselves, have similar characteristics, different welfare regimes may respond differently. This study seeks to determine the extent to which pension reform follows a path dependency that is associated with welfare regimes. That is, to what extent do the various types of welfare states adjust to the new challenges in ways that correspond with past institutional arrangements (Esping-Andersen 1999; Pierson 2001; Castles 2004). We first discuss the reasons of significant change in pensioner-worker ratio in light of population ageing and the early retirement policies during 1970s and 1980s. We then analyze the welfare regimes of various OECD countries, their pension and employment strategies and their pension reform trends.

I. Understanding the Recent Problem

1.1 Demography of Ageing

The patterns of population change can largely be summarized through demographic transition theory. In particular, the substantial declines in mortality and fertility have resulted in a gradual increase in the ratio of older to younger people in the population. The decline in fertility brought "ageing at the bottom," with a smaller number of young people (Caldwell and Schindlmayr 2003; McDonald 2006). Especially since the 1970's, the mortality improvements at adult and older ages have contributed to population ageing (Légaré 2001; Beaujot and Kerr 2004: 47; Bongaarts 2006). The age structure of many countries is also affected by the post-war baby boom. As this segment of the population passes through various ages, it affects the relative size of the corresponding age structure (Foot 1996; Cork 1997). As of the second decade of the 21st century, the baby boom will bring an increase in the proportion of the population aged 65 and older.

<TABLE1 Demographic estimates and projections of selected OECD countries, 1950-2045>

These demographic trends are largely similar across OECD countries. In 1950-1955, life expectancy was highest in Social Democratic group, followed by Liberal group, and lowest in the Southern Europe (Table 1). The differences were small in 1950-1955 and they have since declined further. In 1950-1955 the Liberal countries such as Canada, New Zealand, and the US had higher fertility rates than other countries, while in 2010-2015 it is the Social Democratic and Liberal group that is expected to have the highest fertility. The fertility trend is downward in each region, over the periods indicated, with the exception of the Social Democratic countries where there is an increase between 1980 and 2010. Fertility is particularly low in Southern Europe.

In 1980, the countries with the highest proportion of the population aged 65+ were the Scandinavian and Continental European regions such as Sweden, Germany, Austria, and Norway (Table 1). Southern Europe becomes the oldest in 2040, and the Liberal countries have the lowest proportion aged 65+. While all the trends are in an ageing direction, there are significant differences in 2040, from an average of 22.2 percent aged 65+ in the Liberal countries, compared to 29.4 percent in Southern Europe. The marked fertility decline has produced more ageing in Southern European and Continental European countries, while the slight increases in fertility in the Social Democratic group and the higher fertility in the Liberal group, has resulted in less ageing. According to UN projections, Italy and Germany will have the oldest populations in Europe with about 32 percent of their population aged 65 or older in 2040. While these demographic differences are significant, there are more similarities than differences across these OECD countries. The similarities are especially noteworthy in the ageing trend, where the OECD average shows the proportion aged 65+ changing from 7.8 percent of the total population in 1950 to 10.8 percent in 1980, then 14.7 percent in 2010 and 23.9 percent in 2040 (OECD 2007d).

The levels of international migration help complete this demographic picture. In 1950s, all but the Liberal cluster shows net outflow, but this is reversed by 1980. Other than Spain, the European regions are rather similar in 2005, with net in-migration of some 2.5 persons per 1000 population (UN 2008). International migration has increased the most in the Liberal group, with an average level of 5.8 per 1000 population in 2005 (UN 2008).

1.2 Labor Market and Retirement

While ageing population leads governments to increase the proportion of pension and health expenditures in budget allocations, it is useful to first consider labor force participation. Especially in the second half of the 20th century, the labor market has undergone rapid changes, associated especially with women's higher participation.

At ages 25-54, men's labor force participation rates are uniformly high, but women's rates range from an average of 85 percent for the Scandinavian region to 65 percent in Southern Europe (OECD 2007a). At ages 15-24, women's rates are highest in the Liberal and Social Democratic welfare states, compared to the Continental and Southern European welfare states, while men's rates are highest in the Liberal group, followed by Social Democratic and Continental, and lowest for Southern Europe.

We need to especially pay attention to ages 55-64 (Table 2). The declining labor force participation of older men in many industrialized countries is one of the most dramatic economic trends of the decades 1970-1990. While the labor force participation aged 55-64 was 78.6 for males in 1970, it fell to 65.6 by 2005 as an OECD average. Even though women's labor force participation at ages 55-64 has increased from 37.2 in 1970 to 43.8 by 2005, this has not compensated for the decline in men's rates at these ages.

<TABLE 2 Labor force participation rates at ages 55-64 by sex in selected OECD countries, 1970-2005 (percentages)>

Analyses have shown that generous benefits for the unemployed, and public pension systems, tend to reduce labor force participation at older ages in many OECD countries (Duval 2003). In the last three decades of the 20th century, many people retired before they qualified for standard pensions. Some of these pathways into retirement were generated by social transfer programs such as disability, unemployment, and early retirement schemes. Some countries such as France, New Zealand, and Turkey, reduced the standard age of eligibility to pension benefits in the 1970s and 1980s. When people reach the standard or early retirement age, their retirement decisions will depend not only on the replacement rate obtained from pensions in comparison to employment income, but on the expected gain of staying in the labor force, in comparison to withdrawing from labor force. If working longer is compensated by a rise in future pension benefits, or early retirement benefits are not seen to be sufficiently high, people are more likely to stay in labor force (OECD 2004b). In many OECD countries, however, public policies have prompted a significant number of people to retire as soon as they reach the age of entitlement to a pension. In their comparative study, Gruber and Wise (1999) show that there have been large social security incentives for people to retire early in many industrialized countries.

The labor force participation at ages 55-64 shows marked differences across the welfare regimes (Table 2). It is lowest in the region of Southern Europe, partly due to women's low labor participation. In 1990 only 19.7 percent of women aged 55-64 were in labor force. Women's low labor participation in the Southern European region has continued in the beginning of the 2000s. Women's participation rates are also low in the Continental Europe region, with a low point of 25.2 percent of women aged 55-64 in the labor force in 1990, then rising to 35.2 percent in 2005. In the Liberal cluster, the low point for women was reached in 1990, with a rise from 33.9 percent to 51.3 percent between 1990 and 2005. Labor force participation rates have been relatively higher in the Social Democratic group, and the women's participation rate at ages 55-64 has increased to 61.1 percent in 2005.

The labor force participation rate of men in the 55-64 age group shows trends similar to that of women. Social democratic and liberal countries have achieved higher participation rates for men since 1970s, especially Sweden and the US. In 1970, 85.4 percent of men aged 55-64 were in labor force in Sweden and 83 percent in the US, but by 2005 this rate was at 76.4 percent in

Sweden and 69.3 percent in the US. Continental Europe and Southern Europe have particularly low labor force participation rates for men aged 55-64 in 2005 with decline to 51.6 percent in the Continental Europe region and 56.1 percent in the Southern European region. These significant differences reflect not only policies for early retirement, but broader labor market and social policies. The high participation rates at 55-64 in the Social Democratic group reflect a need for extensive labor force participation to fund generous social policies. The high rates in the Liberal countries would follow from the less generous pension policies, especially for early retirement. The low rates in Southern Europe would reflect the importance placed on families for social security, and thus on women playing caring rather than labor force roles.

II. Different Regimes, Similar Policies?

In analyzing the emergence of the welfare state, the reign of Bismarck during the 1880s is often taken as the benchmark. A number of countries developed public pension programs before World War I, but the full introduction of comprehensive and universal social security took place after the World War II (Pierson 1991). We can separate the "first comers" in Continental and Social Democratic countries, from the "late comers" in Southern Europe and Liberal countries. In the 20th century, especially after World War II, risks that affect an individual's life were considered as social, that is, a matter of state concern. In the second half of the 20th century, studies in political economy developed various welfare state typologies (Titmuss 1974). Since the early 1990s, the literature has been dominated by the widespread debate that has surrounded Esping-Andersen's (1990) significant analysis of three welfare regimes—liberal, social democratic, and conservative. Several authors, however, have included the fourth type—Southern European (Mediterranean, Latin Rim) of welfare state regime to the Esping-Andersen's classification (Leibfried 1992; Ferrera 1996; Bonoli 1997; Gough 2000; Mingione 2001). It seems appropriate to classify the South European countries as a separate cluster due to the strong role of family and lower welfare services.

The study of pension reforms in the light of welfare regime typology is useful in understanding the diversity of experiences among different countries and the historical embeddedness of existing welfare clusters. This approach helps to explain whether different welfare states are really being dismantled and whether the liberal group has become dominant in the last decades. It is important to analyze both the political process and the policy profile of pension reforms in studying the characteristics of pension policies and their change (Jochem 2007).

There is a debate in the literature on the extent to which welfare regimes are stable and path dependent (Taylor-Gooby 1998; Rein and Schmähl 2004). A pattern of path dependency occurs when institutions and programs once established become difficult to reverse (Pierson 1996, 2001; Myles and Pierson 2001; Wood 2001). Consequently, the transformation of welfare clusters is largely a product of earlier institutionalized features; and changes are constrained by existing institutional arrangements (Myles and Pierson 2001).

Pierson's (2001) conceptualization focuses on welfare state restructuring along three dimensions: re-commodification, cost containment, and recalibration (see Figure 1). These dimensions are useful in the evaluation of recent pension reforms and the transformation of the welfare state. According to Esping-Andersen (1990), as the markets became hegemonic, the welfare of an individual began to depend entirely on the cash nexus, and maintaining a livelihood without relying on the market became almost impossible. This is called the commodification of the individual. De-commodification "occurs when a service is rendered as a matter of right, and when a person can maintain a livelihood without reliance on the market" (Esping-Andersen 1990: 21-2). Re-commodification is one of the significant dimensions of welfare state transformation. It is the effort to reverse the dependence on the state through tightening eligibility or cutting benefits (Pierson 2001: 422). Re-commodification, therefore, is about dismantling some aspects of the welfare state that protect individuals from market pressures. Many welfare states experience budgetary constraints, with a concern that pension policies are not sustainable. Cost containment responds to pressures on government budgets and seeks reforms associated with government expenditures (Pierson 2001: 424). Unlike re-commodification, these policy initiatives focus on deficit reduction and cost containment to maintain the existing system. By recalibration, Pierson (2001: 425) means welfare reforms through the removal of inefficient regulations. Recalibration consists of two kinds of change: rationalization (modification of social policies in line with new ideas for achieving welfare targets), and updating (adapting social programs to changes in the economy and society). As indicated in Figure 1, we propose that cost containment has been more central to the retirement policies of Social Democratic countries, while Liberal welfare states focus mainly on increasing the role of the individual in the market (re-commodification), and Continental and the Southern welfare states focus on cost containment and changing regulations (recalibration). In order to understand whether there is a dismantlement of the welfare states or a pattern of path dependency, we need to define each of these welfare regime clusters and scrutinize recent pension reforms in the light of the concepts shown in Figure 1.

<FIGURE 1 Summary of characteristics of pension reforms by welfare regimes>

2.1 The Liberal (Anglo-Saxon) model

The Liberal welfare regime (Canada, Ireland, New Zealand, UK, and US) is distinguished through the domination of the market in the management of social risks, modest universal transfers, modest social insurance plans, and means-tested social assistance. In this regime, social welfare has been severely circumscribed by norms of liberal work ethics, which limit the welfare provisions to marginal groups such as single mothers, the disabled, the elderly, and the poor (Esping-Andersen 1999: 40). There is an emphasis on local communities (churches, charities, private agencies) and the market for the welfare of the individual (Esping-Andersen 1999: 33). In this model, there are limited institutionalized welfare state provisions. As compared with the Continental and the Southern European welfare regimes, women have higher participation rates in the labor market. Compared to the averages for the other regions, the demographic characteristics show less ageing in the countries following the Liberal model, along with relatively high labor force participation of both sexes at ages 55- 64 and older retirement ages (Table 2). This model lacks egalitarian provisions, and average wages are lower compared to other welfare regimes. The problems of budget deficit and unemployment are largely avoided through policies which support the expansion of low-wage private sector employment.

In the Liberal welfare regime model, pension reforms have focused on cost containment and re-commodification, which follow central aspects of the institutional structure of this regime (Pierson 2001). Many countries in this group have cut the social transfers in the last two decades. Reforms have concentrated on targeting the pension system to those in need, and finding measures to increase the coverage of private pensions through tax incentives. These countries are preceding other countries in retirement benefit privatization to reduce longer term pension expenditure. In this group, employees have been encouraged to opt for the private pension plans, with government support through tax exemptions. In the UK, in the late 1980s, workers were permitted to select private pension plans according to their needs and contributions. While 42 percent of all households owned Individual Retirement Accounts (IRAs) in the U.S., RRPs (Registered Pension Plans) included 40 percent of workers in Canada (OECD 2005b: 80; OECD 2005a: 74). During the last three decades, these reforms had continued and private pension plans have been favored (OECD 2004b: 64). While the public pension system is the basic source of income for retirees in many OECD countries, employer-provided pension plans are becoming important sources of retirement income especially in the upper-middle class. Analyses by the OECD (2000, 2004b, 2005a, 2005b) reveal that recent reforms in these countries strengthened the financial sustainability of old age pensions and this was more successful than in other countries. As showed in Table 3, public social expenditures and public old age expenditures in the Liberal cluster have been relatively low compared to other welfare states, and these expenditures are predicted to remain relatively small by 2050 (OECD 2005b). Compared to other regions, the net replacement rate of public pensions represents an average of only 46 percent of average earnings (Table 3). Moreover, similar to reforms of other clusters, these countries also increased the retirement age. While full pension age increased from 65 to 67 in the US, pension age increased from 60 to 65 in New Zealand. In the U.K. pension age for women and eligibility for guaranteed credit increased from 60 to 65 in 2004.

<TABLE 3 Total public expenditure and pension expenditure in percentage of GDP, net replacement rates (%) and average effective age of retirement in selected OECD countries>

It should be emphasized that across these countries of the liberal group, there have been some differences in cost containment and re-commodification of pension policies over time. For example, at 5.4 percent, the low income rate among Canadian seniors is among the lowest rates across OECD countries, while the US rate is highest at 24.7 percent (Picot and Myles 2005: 12). However, in their analysis of the pension reform trend, Myles and Pierson (2001) concluded that there has been no convergence in this group. These countries have followed their traditional Liberal path. When pension programs were reduced, especially in the US, significant attempts have been made to protect the most vulnerable through means-tested social assistances (Pierson 2001: 438).

Cost containment has been one of the major goals in this group. Increasing health costs for an ageing society and quality of health care became the main dilemma in Canada and the UK. Pension eligibility has been tightened and benefits have been reduced in the US. In Canada, the contribution rates to public pensions were increased. We can conclude that in the liberal group re-commodification, or increasing the individual's dependence on the market for social security, constitutes the main goal of recent pension reforms, while cost containment is another significant dimension.

2.2 The Social Democratic (Scandinavian) Model

In the welfare states of the Social Democratic regime (Denmark, Finland, Norway, and Sweden), contrary to other welfare regimes, the state plays a larger role in its citizens' social needs, compared to the market and the family. Similar to the Liberal welfare regime, this model promotes individualism and seeks to remove reliance upon families. The state centered welfare provisions lessens the individual's reliance on the family and maximizes individual command of economic resources independently of familial reciprocities (Esping-Andersen 1999: 45). Welfare state provisions, therefore, make it easy for women to enter the labor market and to gain economic independence. This model also aims to harmonize women's employment with childbearing (Esping-Andersen 1999: 27). Due in part to family-friendly institutional arrangements, the Scandinavian countries have higher fertility than other European countries, and thus the ageing is slightly less than in these other countries. There is also relatively high labor force participation and age at retirement, partly as a function of active labor market programs and life-long learning provisions. The official age at retirement is also relatively high, and the net replacement rate represents an average of 73 percent of average earnings (Table 3). Total public spending represents 26.7 percent of GDP, but this spending is not concentrated in pensions as much as in Continental and Southern Europe.

In the Social Democratic model, the workers depend less on the market as a means of social security; this is achieved through the universal and comprehensive welfare policies to which all social classes are obliged to contribute. The cost of maintaining a universalistic social system is met through revenue income from registered employees (Esping-Andersen 1990: 28). This regime is also committed to full employment, and concentrates on allowing two earners (both men and women) to reconcile their family and work responsibilities. The Social Democratic welfare regime, hence, is more committed to gender equality than other welfare regimes.

Even though some argue that Scandinavian countries are becoming the "frontrunners in Liberalization" (Andersen and others 2007), pension reforms in this regime are more about cost containment with relatively moderate recalibration and little re-commodification (Pierson 2001; Vidlund 2006). The new pension system in Sweden, for example, is a combination of earnings related pension and a minimum guaranteed pension that seeks to minimize pension costs. The pensions based on earnings have adopted defined-contribution both for the pay-as-you-go (PAYG) component and for the pre-funded component (OECD 2003a: 47). Cost containment is thus met through high labor force participation and defined-contribution approaches.

The reform agenda of these countries has focused on rationalizing programs, following on social and cultural changes or global economic developments. These countries have been relatively successful in restoring in their fiscal equilibrium over the medium term (Pierson 2001: 444), Their biggest long-term problem is reconciling the need for continuing cost containment with the maintenance of support for a strong welfare state. These welfare states depend on successful economic performance and the allegiance of all stratum of the society.

Thus in the Social Democratic model, the state plays an active role in managing the social risks, compared to the market and the family. The state has two main roles in this respect: first, "de-familialization" to provide individual freedom; second, "de-commodification" to minimize the citizens' welfare dependence on the market (Esping-Andersen 1999, 2002). This can be seen in the pension regimes in the Scandinavian countries. The state provides generous pension plans and social security for its citizens and the emphasis is on high labour force participation and cost-containment of pension obligations.

2.3 The Continental European (Conservative) Model

The Continental European welfare regime (Austria, France, Germany, and Netherlands) reflects a strongly conservative and corporatist tradition heavily influenced by religious institutions. The conservative tradition can be seen in the emphasis on the preservation of status differentials. The corporatist elements include the institutionalization of rights attached to class and status rather than citizenship (Esping-Andersen 1990). The social insurance system, for example, is differentiated by occupational groups; even the unemployment benefits differ according to a recipient's previous occupation. The Continental welfare regime is, hence, criticized as being paternalistic, hierarchical, and gender biased. Contrary to the Liberal welfare regime, the state plays a relatively active role in the management of social risks. In this regime, the state is considered mainly as a minimal interventionist, and the welfare that is allocated upholds the stratification of society and the patriarchal family structure (Pierson 2001: 96). This gives rise to a focus on the male workforce with high wages, strong job security, and high pension incomes combined with family depending on the breadwinner's income (Esping-Andersen 1996: 18). Men have higher employment opportunities in the form of full life-time employment, and an entitlement to generous pension and unemployment rights. Relatively high wages and a long unbroken career for males provide support for the familialistic character of the regime.

While not as extensive as in Southern Europe, ageing is significant in Continental Europe, with some countries anticipating population decline, and there are relatively low overall labor force participation rates and young age at retirement. The Conservative regime opted to use an early retirement strategy to handle the increasing unemployment problem during the 1970s and 1980s. In Germany, for example, with the introduction of early retirement option in 1973, the average retirement age declined from 62.2 years in 1973 to 58.4 years in 1981 (OECD 2005d: 73). Countries of this cluster have a combination of generous special schemes which are defined by occupation, or civil service membership. Relatively high replacement rates and diverse pension plans made early retirement popular. As Table 3 indicates, the effective retirement age in this group is still one of the lowest in OECD countries. These early retirement trends have been reversed with reforms in the 1990s and 2000s seeking to extend people's working lives (OECD 2005c). In Austria, for instance, the early retirement age increased 1.5 years, and pension ages for women were aligned with those of men (OECD 2007b: 102). In Germany, after the pension reform, some reductions were implemented for retirement before age 65. In France, however, one can retire at age 60 with 40 years' coverage without any reduction (OECD 2005c). There are fewer regulations regarding retirement age, compared to the Southern European cluster.

The main goal of pension reforms in this group is cost containment rather than changing the regulations (recalibration). Continental European countries seek to minimize financial costs in an ageing population through adjusting contribution rates and pension benefits. France, for example, moved from the best 10 years to the best 25 years in the calculation of pension benefit (OECD 2007b). Austria is gradually extending the averaging period from the 15 to the 40 best years. In Netherlands, the calculation of pension benefit is shifting from final salary to average lifetime salary in many occupational plans (OECD 2007b: 55). Continental European welfare states face significant problems with high unemployment rates, low economic growth rates, a low level of female work force participation, relatively lower fertility rates and high pension expenditures. According to Pierson (2001), reforms have centered on especially cost containment and recalibration of welfare policies to meet these challenges. Nevertheless, the introduction of a new private pension tier in Continental Europe is a clear example of increasing the individual's dependence on the market (re-commodification). Hence, the role of state and family in managing the social risks for old people is shared by the market and by recent pension reforms.

Employment-linked social security protects life-long employment in these countries, which is one of the main characteristics of the Continental European welfare regime. Therefore, there is strong social opposition to changes in employment structures and withdrawing from the promise of full employment (Pierson 2001; Natali and Rhodes 2004). The situation in this group is different in comparison to the Liberal and Social Democratic welfare states where there are fewer specific class interests associated with the middle class in particular (Korpi and Palme 2003).

2.4 The Southern European Model

The Southern European welfare regime (Greece, Italy, and Spain) may be seen as a variant of the conservative regime because of its adherence to the traditional familial welfare responsibilities. However, the socio-political structure of the Southern European countries is different from that of the Continental welfare regime. This is seen to create a distinctive type of welfare regime with mixed features of universal national services for in the health area, and income transfers in other areas (Ferrera 1996). Moreover, the persistence of patronage in politics brings frequent changes to pension policies as political gestures from the party in power. Unpaid family labor is very common for women, providing child care, elder care, health care, and other services that the market does in the Liberal regime. Women are entitled to benefits and access to social services through their husbands' or fathers' social security coverage (Trifiletti 1999: 53). At the same time, the participation of women in the labor market, particularly in the paid service sector, has increased over the last decades, bringing changes to family structures. In the financing of the social security system, there is a dominance of contribution-based social insurance schemes, differentiated by occupation, as in the Continental European welfare regime. The labor structure includes registered workers especially in industry and the civil service, in contrast to employment in small firms, self employment, and unpaid family workers. It is only registered workers and their dependents who have access to pensions, health and social security. There is also a basic, means-tested plan to provide these social benefits to the disadvantaged segments of the population. Unlike the Social Democratic and the Continental regimes, irregular and weak protection is available to workers.

The Southern European countries are characterized by having the oldest populations, along with relatively low labor force participation at ages 55-64, especially for women. The family had become the most important "pillar" in managing social risks in the Southern European countries, but this "pillar" has lost its power. The significant decline in fertility rates presents new social and economic challenges. There is relatively low public spending as a percentage of GDP, and half of this spending is for pensions. Similar to the Social Democratic and Conservative welfare regimes, the net replacement rates are particularly high, at an average of 94 percent of average earnings, for those who have access to public pensions (Table 3).

Pension plans of the Southern European model can be seen as a less developed form of the Continental European model. Social security institutions were established very late in the 20th century, compared to the Continental and Social Democratic models. The lack of institutionalized social security structures, and political systems based on patronage, bring instability to the public pension policies. While there are attempts to strengthen social security institutions, pension plans are being privatized in the face of budget deficits (OECD 2003b; OECD 2004a; Natali and Rhodes 2004). Therefore, although the re-commodification trend is not as strong as in the liberal group, it still poses an important aspect of pension reform agendas in the Southern European countries.

The early retirement option in pension plans is another factor that reduces the labor force participation of aged workers in this group of countries. The pension eligibility age in this group is among the lowest in OECD countries. Similar to the Continental European countries, early retirement had been used to solve high unemployment rates among young people during the 1980s and 1990s. Turkey which shows similar features of the Southern European welfare regime, for instance, eliminated the minimum retirement age, and permitted retirement in some cases after less than 15 years of contributions. This led to persons retiring early then joining the informal sector while receiving their pension (Brook and Whitehouse 2006).

In the Southern Europe regime, the reforms of the 1990s and 2000s aimed to secure financial sustainability by increasing the retirement age, and the implementation of a supplementary private pension pillar. Pension reforms in Southern Europe cover all three of the Piersonian dimensions: cost containment, recalibration and re-commodification. Recalibration is especially important in achieving welfare goals given that the welfare regime is less developed. In the reform agenda of these countries, improving the effectiveness of modern pension programs is important to cope with widespread benefit abuse and patronage, which are important threats to the future stability of welfare institutions. Raising pension eligibility ages is the first reform undertaken to improve financial sustainability and cost containment, and to rationalize the pension system in which life expectancy has been increased over time. Hence, raising the age at eligibility became the most common feature of pension reform packages in Southern European countries. In Italy, normal pension age for women increased from 55 to 60 and for men from 60 to 65 in 2004. Early pension age for men with 35 years' coverage increased from 60 to 62. In Greece, pension age increased from 58 to 65 after the 1990-1992 reforms. In 2002, the Spain parliament passed a new retirement law which penalizes early retirement. According to the new system, people can retire at age 61 but their pension would be 24 to 30 percent lower than the full pension at age 65 (OECD 2003b: 10).

The 1995 Dini Reform in Italy improved long-term fiscal sustainability by changing benefit scheme from defined benefit to defined-contribution. In all countries in this group, reforms favored private pension plans. Today, the pension system in Italy is a combination of compulsory pay-as-you-go (PAYG) and a private pension system (OECD 2004a: 66). In Spain, tax advantages were given to private pension schemes through the Toledo Pact of 1995. Similar regulations were realized in Italy and Greece in 1990's and 2000's. In spite of tax incentives, private pension plans are still in their infancy. In Spain, for instance, private pensions cover 3 to 5 percent of total employment (OECD 2003b: 67).

III. Discussion: Is There Unique Public Policy for Ageing?

Pension reform literature is overly focused on public finances (Esping-Andersen and Myles 2006). In order to facilitate the sustainability of pensions systems, many people propose a combination of contribution increases, benefit cuts, increases in retirement age, and increase in the contribution period needed to qualify for full pensions. Intergenerational social justice, however, is largely overlooked in these discussions. In effect, poverty rates among the elderly have declined in most countries, and the share of elderly among the poor have also been reduced (OECD 2000: 56). The recent global economic crisis particularly affect young people who enter the labor market, rather than retirees who have the benefit of guaranteed payments without increases in premiums. The economic recession reduces the availability of well-paid standard jobs for labor force entrants. According to the OECD, by the end of 2009, the unemployment rate is expected to be 2.0-2.5 percentage points higher than at the end of 2007. Especially in the US and Canada, unemployment rate has increased about 3.0-4.0 percentage points since the economic recession. Older people who had invested in private retirement plans lost some of their savings, but the most significant impact will be on younger generation, especially in the non-standard service jobs sector.

These different vantage points by generation are triggering debates between workers, who contribute the pension system, and retirees, who are benefiting from the system. Phillipson (2000) proposes that this conflict can bring a change in the perception of ageing from a public/life-course issue, to a private/life-stage problem. Even though ageing becomes a private problem for an individual with private pension plans, it also becomes a social and political problem, given population ageing.

That is, the approaches to pensions and social security are linked with the demographic dynamics of given countries. All countries face ageing populations, but the Social Democratic model has more ability to influence the level of childbearing (McDonald 2006), along with an interest to maximize labor force participation to pay for generous social policy. The Liberal model is based on greater privatization, which also applies to using immigration in dealing with demographic problems of a slower growing labor force. With their differential treatment of different groups in society, the Continental and the Southern European models have the most difficulty in achieving reforms, and they also face the highest rates of ageing. While the market plays a significant role in the retirement and pensions system in the Liberal group, the state remains the key determinant in the Social Democratic group. In other European countries, however, the family (especially in Southern Europe) and the state still play decisive roles in elderly care. In spite of these differences, there are important uniformities across regimes, which include attempts to delay retirement, to convert to defined contributions, and to have a higher dependence on private plans, in seeking to achieve sustainability.

The OECD and the World Bank present similar financial solutions to different countries. Our analysis suggests that different welfare regimes have developed varying public pension reforms. While pension reforms of the Liberal welfare regime focus on cost containment and re-commodification, the main focus in the Scandinavian countries is cost containment and recalibration (see Figure 1). In the Continental and Southern European welfare regimes, pension reforms have centered on cost containment, recalibration, and re-commodification, depending in part on endogenous structures. Hence, in spite of strong neo-liberal challenge to welfare states, pension reforms have been influenced by paths that are differentiated across welfare regimes. We can conclude that there is no single liberal path for pension reforms, and the welfare states have followed their traditional paths with some variations.

References

Andersen, T. M. and others. 2007. *The Nordic Model: Embracing globalization and sharing risks*. Helsinki: The Research Institute of the Finnish Economy (ETLA).

Beaujot, R. and D. Kerr. 2004. *Population Change in Canada*, Second Edition. Toronto: Oxford University Press.

Bongaarts, J. 2004. "Population ageing and the rising cost of public pensions," *Population and Development Review* 30(1): 1-23.

———. 2006. "How long will we live?" *Population and Development Review* 32(4): 605-625.

Bonoli, G. 1997. "Classifying welfare states: A two-dimension approach," *Journal of Social Policy* 26(3): 351-72.

Brook, A. M. and E. Whitehouse. 2006. "The Turkish pension system: Further reforms to help solve the informality problem," OECD Economic Department Working Papers No. 529, <<http://www.olis.oecd.org/olis/2006doc.nsf/LinkTo/NT00000B3A/$FILE/JT03218800.PDF >>.

Caldwell, J. C. and T. Schindlmayr. 2003. "Explanations of the Fertility Crisis in Modern Societies: A Search for Commonalities," *Population Studies* 57(3): 241-263.

Castles, F. G. 2004. *The Future of the Welfare State: Crisis Myths and Crisis Realities*. Oxford: Oxford University Press.

Castles, F. G. and D. Mitchell. 1993. "Worlds of welfare and families of nations," in F. G. Castles (ed.), *Families of Nations: Patterns of Public Policy in Western Democracies*. Aldershot: Dartmouth Publishing Company, pp. 93-128.

Cork, D. 1997. *The Pig and the Python: How to Prosper from the Aging Baby Boom*. Toronto: Stoddart.

Duval, R. 2003. "The Retirement Effects of Old-Age Pension and Early Retirement Schemes in OECD Countries," OECD Economics Department Working Papers 370, OECD Economics Department.

Esping-Andersen, G. 1990. *The Three Worlds of Welfare Capitalism.* Cambridge: Policy Press.

———. (ed.). 1996. *Welfare States in Transition: National Adaptations in Global Economies*. London: Sage Publications.

———. 1999. *Social Foundations of Postindustrial Economies.* Oxford: Oxford University Press.

———. 2002. "Towards the good society, once again?" in G. Esping-Andersen, D. Gallie, A. Hemerijck, and J. Myles (eds.), *Why We Need a New Welfare State*. New York: Oxford University Press, pp. 1-25.

Esping-Andersen, G. and J. Myles. 2006. "Sustainable and equitable retirement in a life course perspective," in G. L. Clark, A. H. Munnell, and J. M. Orszag (eds.), *Oxford Handbook of Pensions and Retirement Income*. Oxford: Oxford University Press, pp. 839-858.

Ferrera, M. 1996. "The southern model of welfare in social Europe," *Journal of European Social Policy* 6(1): 17-37.

Foot, D. K. 1996. *Boom, Bust, and Echo: How to Profit from the Coming Demographic Shift*. Toronto: Macfarlane Walter and Ross.

Gough, I. 2000. *Global Capital, Human Needs and Social Policies*. New York: Palgrave.

Gruber, J. and D. A. Wise (eds.). 1999. *Social Security and Retirement around the World*. Chicago: University of Chicago Press.

Jochem, S. 2007. "Pension Reform: Beyond Path dependency?" in J. Clasen, N. A. Siegel (eds.), *Investigating Welfare State Change: The 'Dependent Variable Problem' Comparative Analysis*. Edward Elgar Publishing, pp. 261-281.

Korpi, W. and J. Palme. 1998. "The paradox of redistribution and strategies of equality: Welfare state institutions, inequality and poverty in the western countries," *American Sociological Review* 63(5): 661-87.

———. 2003. "New politics and class politics in the context of austerity and globalization: Welfare state regress in 18 countries, 1975-95," *American Political Science Review* 97(3): 425-446.

Légaré, J. 2001. "Ageing and social security program reforms: Canada in international perspective," *Canadian Journal of Policy Research* 2(2): 111-119.

Leibfried, S. 1992. "Towards a European welfare state? On Integrating Poverty Regimes into the European Community," in Z. Ferge and J. E. Kolberg (eds.), *Social Policy in a Changing Europe*. Frankfurt am Main: Campus Verlag, pp. 245-279.

McDonald, P. 2006. "Low fertility and the state: The efficacy of policy," *Population and Development Review* 32(3): 485-510.

Mingione, E. 2001. "The Southern European welfare model and the fight against poverty and social exclusion," in M. K. Tolba (ed.), *Our Fragile World: Challenges and Opportunities for Sustainable Development*. Oxford: EOLSS Publications, pp. 1041-1051.

Myles, J. 1984. *Old Age in the Welfare State*. Boston: Little Brown.

Myles, J. and P. Pierson. 2001. "The comparative political economy of pension reform," in P. Pierson (ed.), *The New Politics of the Welfare State*. Oxford: Oxford University Press, pp. 305-333.

Natali, D. and M. Rhodes. 2004. "The 'new politics' of the Bismarckian welfare state: Pension reform in Continental Europe," EUI Working Papers No. 2004/10 <<http://cadmus.eui.eu/dspace/bitstream/1814/2627/1/sps2004-10.pdf>>.

OECD. 1998. *Maintaining Prosperity in an Ageing Society*. Paris: OECD.

———. 2000. *Reforms for an Ageing Society*. Paris: OECD.

———. 2003a. *Ageing and Employment Policies: Sweden*. Paris: OECD.

———. 2003b. *Ageing and Employment Policies: Spain*. Paris: OECD.

———. 2004a. *Ageing and Employment Policies: Italy*. Paris: OECD.

———. 2004b. "The labor force participation of older workers: The effects of pension and early retirement schemes," OECD Economics Department Paper, May <<http://www.oecd.org/dataoecd/25/4/31743847.pdf>>.

———. 2005a. *Ageing and Employment Policies: Canada*. Paris: OECD.

———. 2005b. *Ageing and Employment Policies: United States*. Paris: OECD.

———. 2005c. *Ageing and Employment Policies: France*. Paris: OECD.

———. 2005d. *Ageing and Employment Policies: Germany*. Paris: OECD.

———. 2007a. *Employment Outlook*. Paris: OECD.

———. 2007b. *Pension at a Glance Public Policies across OECD Countries*. Paris: OECD.

———. 2007c. *OECD Social Expenditure Database (SOCX 2004) 1980-2001* <<http://www.oecd.org/document/2/0,3343,en_2825_497118_31612994_1_1_1_1,00.html>>.

———. 2007d. *OECD Factbook: 2007 Economic, Environmental, and Social Statistics*. Paris: OECD.

———. 2009. *OECD. Stat* <<http://webnet.oecd.org/wbos/ >>.

Phillipson, C. 2000. "Intergenerational Conflict and the Welfare State: American and British Perspectives," in C. Pierson and F. G. Castles (eds.), *The Welfare State Reader*. Cambridge: Polity Press, pp. 293-308.

Picot, G. and J. Myles. 2005. "Income inequality and low income in Canada: An international perspective," Statistics Canada Working Papers No. 11F0019MIE-240 Statistics Canada, Ottawa.

Pierson, C. 1991. *Beyond the Welfare State? The New Political Economy of Welfare*. Pennsylvania: Pennsylvania State University Press.

Pierson, P. 1996. "The new politics of the welfare state," *World Politics* 48(2): 143-179.

———. (ed.). 2001. *The New Politics of the Welfare State*. Oxford: Oxford University Press.

Rein, M. and W. Schmähl (eds.). 2004. *Rethinking the Welfare State: The Political Economy of Pension Reform.* Cheltenham: Edward Elgar.

Taylor-Gooby, P. 1998. “When is an innovation? Recent pension reform in France, Germany, Italy and the UK,” CCWS Working Papers No. 6/1998. Aalborg: Aalborg University <<http://www.socsci.aau.dk/ccws/Workingpapers/1998-6-WhenisanInnovation.pdf>>.

Titmuss, R. M. 1974. *Social Policy: An Introduction*. London: George Allen and Unwin LTD.

Trifiletti, R. 1999. “Southern European welfare regimes and the worsening position of women,” *Journal of European Social Policy* 9(1): 49-64.

United Nations. 2008. *World Population Prospects: The 2008 Revision Population Database*. <<http://esa.un.org/unpp>>.

Vidlund, M. 2006. “Old age pension reforms in the EU-15 countries at a time of retrenchment,” Finnish Centre for Pensions, Working Papers No. 2006-1 <<http://www.etk.fi/Binary.aspx?Section=58011&Item=27636>>.

Wood, S. 2001. “Labor market regimes under threat? Sources of continuity in Germany, Britain, and Sweden,” in P. Pierson (ed.), *The New Politics of the Welfare State*. Oxford: Oxford University Press, pp. 368-409.

TABLES and FIGURE

TABLE1 Demographic estimates and projections of selected OECD countries, 1950-2045

Country	Sex	Life expectancy at birth				Total fertility rate				Percentage of population aged 65+			
		1950-1955	1980-1985	2010-2015	2040-2045	1950-1955	1980-1985	2010-2015	2040-2045	1950	1980	2010	2040
Denmark	Males	69.6	71.6	76.7	80.2	2.55	1.43	1.85	1.85	9.1	14.4	16.7	24.7
	Females	72.4	77.6	81.4	84.8								
Finland	Males	63.2	70.0	77.2	81.0	3.00	1.69	1.85	1.85	6.7	12.0	17.2	25.5
	Females	69.6	77.9	83.6	87.0								
Norway	Males	70.9	72.9	79.2	82.7	2.60	1.69	1.86	1.85	9.7	14.8	15.0	23.4
	Females	74.5	79.5	83.4	86.8								
Sweden	Males	70.4	73.5	79.6	83.0	2.21	1.65	1.85	1.85	10.3	16.3	18.3	24.1
	Females	73.3	79.5	83.6	86.5								
S.D. Average	Males	68.5	72.0	78.2	81.7	2.59	1.62	1.85	1.85	9.0	14.4	16.8	24.4
	Females	72.5	78.6	83.0	86.3								
Austria	Males	63.6	69.4	78.2	82.2	2.08	1.59	1.41	1.71	10.4	15.4	17.6	28.5
	Females	68.8	76.6	83.2	86.6								
France	Males	64.1	70.6	78.6	82.6	2.73	1.81	1.85	1.85	11.4	14.0	17.0	26.5
	Females	69.9	78.8	85.1	88.3								
Germany	Males	65.3	70.3	77.8	81.3	2.16	1.46	1.34	1.64	9.7	15.6	20.5	31.8
	Females	69.6	76.8	83.1	86.5								
Netherlands	Males	70.9	72.8	78.5	81.9	3.06	1.52	1.77	1.85	7.7	11.5	15.4	26.3
	Females	73.4	79.5	82.6	85.6								
C.E. Average	Males	66.0	70.8	78.3	82.0	2.51	1.60	1.59	1.76	9.8	14.1	17.6	28.3
	Females	70.4	77.9	83.5	86.8								
Greece	Males	64.3	72.8	77.7	81.2	2.29	1.96	1.41	1.71	6.8	13.1	18.3	28.3
	Females	67.5	77.5	82.5	86.1								
Italy	Males	64.4	71.4	78.6	82.0	2.36	1.54	1.41	1.69	8.1	13.5	20.4	31.8
	Females	68.1	78.0	84.6	87.9								
Spain	Males	61.6	72.8	78.6	82.6	2.57	1.89	1.56	1.85	7.3	11.2	17.2	28.1
	Females	66.3	79.2	84.7	87.6								
S.E. Average	Males	63.4	72.3	78.3	81.9	2.41	1.80	1.46	1.75	7.6	12.6	18.6	29.4
	Females	67.3	78.2	83.9	87.2								
Canada	Males	66.8	72.5	79.2	82.6	3.65	1.63	1.62	1.85	7.7	9.4	14.1	24.5
	Females	71.7	79.5	83.6	86.9								
Ireland	Males	65.7	70.4	78.1	81.6	3.38	2.88	1.92	1.85	10.7	10.7	11.4	20.3
	Females	68.2	75.9	82.9	86.4								
New Zealand	Males	67.5	70.6	79.1	83.0	3.69	1.97	2.02	1.85	9.0	9.8	13.0	22.5
	Females	71.8	76.7	82.8	86.3								
UK	Males	66.7	71.2	77.8	81.3	2.18	1.80	1.85	1.85	10.7	14.9	16.6	22.6
	Females	71.8	77.2	82.3	85.8								
US	Males	66.1	70.8	77.7	80.4	3.45	1.83	2.02	1.85	8.3	11.2	13.0	21.0
	Females	72.0	77.9	82.1	85.3								
Liberal Average	Males	66.6	71.1	78.4	81.8	3.27	2.02	1.89	1.85	9.3	11.2	13.6	22.2
	Females	71.0	77.4	82.7	86.1								

NOTES: Averages are shown for the four welfare regime types based on the countries shown in the table: Social Democratic (S.D.), Continental European (C.E.), Southern European (S.E.), and Liberal countries. Following the usual practice cluster averages are unweighted. The data presented are from the medium variant of world population prospects data.
SOURCE: UN (2008).

TABLE 2 Labor force participation rates at ages 55-64 by sex in selected OECD countries, 1970-2005 (percentages)

Country	Males					Females				
	1970	1980	1990	2000	2005	1970	1980	1990	2000	2005
Denmark	-	-	69.1	64.5	70.2	-	-	45.9	48.2	55.7
Finland	73.9	56.9	47.1	48.1	56.5	45.2	43.8	40.8	45.2	56.4
Norway	-	79.5	72.8	74.4	74.6	-	49.8	53.9	61.6	62.9
Sweden	85.4	78.6	75.5	72.8	76.4	44.5	55.3	65.8	65.9	69.2
S.D. Average	79.6	71.7	66.1	65.0	69.4	44.8	49.6	51.6	55.3	61.1
Austria	-	-	-	42.8	43.0	-	-	-	17.6	23.6
France	75.4	68.6	45.8	41.7	43.9	40.0	40.1	31.1	33.0	37.9
Germany	80.2	67.3	60.5	52.4	61.3	28.5	28.9	27.8	33.5	43.2
Netherlands	-	63.2	45.7	50.8	58.0	-	14.4	16.7	26.0	36.0
C.E. Average	77.8	66.3	50.7	46.9	51.6	34.2	27.8	25.2	27.5	35.2
Greece	-	-	59.5	57.3	60.7	-	-	24.3	25.5	26.9
Italy	48.2	39.6	53.0	42.7	44.3	10.6	11.0	15.5	16.1	21.5
Spain	-	75.9	62.5	60.5	63.2	-	21.0	19.4	22.6	29.6
S.E. Average	48.2	57.8	58.3	53.5	56.1	10.6	16.0	19.7	21.4	26.0
Canada	-	74.5	64.0	60.7	66.7	-	32.6	34.9	41.4	49.4
Ireland	-	-	65.0	64.7	67.7	-	-	19.9	27.8	38.4
New Zealand	-	-	56.8	72.2	79.7	-	-	30.7	47.9	62.5
UK	-	-	68.1	63.3	67.9	-	-	38.7	42.5	48.9
US	83.0	72.1	67.8	67.3	69.3	43.0	41.3	45.2	51.9	57.0
Liberal Average	83.0	73.3	64.4	65.6	70.3	43.0	37.0	33.9	42.3	51.3
OECD total	78.6	72.6	65.6	62.7	65.6	37.2	37.0	36.2	38.7	43.8

NOTES: Averages are shown for the four welfare regime types based on the countries shown in the table: Social Democratic (S.D.), Continental European (C.E.), Southern European (S.E.), and Liberal countries. Following the usual practice cluster averages are unweighted. OECD total covers all OECD countries.
SOURCE: OECD (2009).

TABLE 3 Total public expenditure and public pension expenditure in percentage of GDP, net replacement rates and average effective age of retirement in selected OECD countries

Country	Total public social expenditure in percentage of GDP (2001) 1	Public pension expenditure in percentage of GDP (2001) 2	Net replacement rate at average earnings (2007) in percent 3	Average effective age of retirement (2005)	
				Males	Females
Denmark	29.2	6.5	87	64.1	61.4
Finland	24.8	8.0	71	60.5	60.1
Norway	23.9	4.8	69	63.9	62.2
Sweden	28.9	7.4	64	65.5	62.5
S.D. Average	26.7	6.7	73	63.5	61.6
Austria	26.0	12.9	91	59.1	58.1
France	28.5	11.9	63	58.5	59.2
Germany	27.4	11.2	40	61.7	60.7
Netherlands	21.8	6.4	97	60.2	60.5
C.E. Average	25.9	10.6	73	59.9	59.6
Greece	24.3	13.4	110	62.4	61.2
Italy	24.4	13.8	78	60.4	60.9
Spain	19.6	8.7	85	61.1	63.4
S.E. Average	22.8	12.0	94	61.3	61.8
Canada	17.8	5.3	57	63.3	61.4
Ireland	13.8	3.2	39	65.2	64.7
New Zealand	18.5	4.9	42	65.8	63.9
UK	21.8	8.3	41	63.2	61.4
US 4	14.8	6.1	52	64.5	63.1
Liberal Average	17.3	5.5	46	64.4	62.9

NOTES: Averages are shown for the four welfare regime types based on the countries shown in the table: Social Democratic (S.D.), Continental European (C.E.), Southern European (S.E.), and Liberal countries. Following the usual practice cluster averages are unweighted.
1: Total public social expenditure is the provision by public institutions of benefits to, and financial contributions targeted at, households and individuals in order to provide support during circumstances which adversely affect their welfare, provided that the provision of the benefits and financial contributions constitutes neither a direct payment for a particular good or service nor an individual contract or transfer.
2: Public pension expenditure comprises all cash expenditures on old-age pensions within the public sphere.
3: The net replacement rate is defined as the individual net pension entitlement divided by net pre-retirement earnings, taking account of personal income taxes and social security contributions paid by workers and pensioners. The wedge between gross and net replacement rates varies substantially across countries.
4: Total public social expenditure and public pension expenditure for the US refer to federal expenditures.
SOURCES: OECD (2007a); OECD (2007b); OECD (2007c).

FIGURE 1 Summary of characteristics of pension reforms by welfare regimes

	Social democratic	Continental Europe	Southern Europe	Liberal
Management of social risk		**Relative Priority**		
State	High	Moderate	Moderate	Low
Family	Low	Moderate	High	Low
Market	Low	Moderate	Moderate	High
Pension Reform Agenda				
Cost containment	High	High	Moderate	Moderate
Recalibration	Moderate	Moderate	High	Low
Re-commodification	Low	Moderate	Moderate	High

NOTES: Cost containment: reforms that mostly seek to balance budgets and maintain the existing system. Recalibration: reforms that change regulations to reduce inefficiency or to update pension systems following on evolving conditions. Re-commodification: reforms that increase the individual's dependence on the market for social security.