Diana Wehlau, Jörg Sommer

Pension policies after EU enlargement: between financial market integration and sustainability of public finances

ZeS-Arbeitspapier Nr. 10/2004

Zentrum für Sozialpolitik
Universität Bremen
Parkallee 39
D-28209 Bremen

Diana Wehlau is research assistant at the Centre for European Economy, Economic and Societal Policy at the University of Bremen. Jörg Sommer is research assistant at the Centre for Social Policy Research.

We would like to thank Achim Schmid and Holger Viebrock for comments on this paper. Jörg Huffschmid commented on an earlier version that was presented to the EPoC-Conference on "Privatisation of Public Pension Systems – Forces, Experience, Prospects" on June 19th-21st, 2003 in Vienna, Austria.

Herausgeber:
Zentrum für Sozialpolitik
Universität Bremen
- Barkhof -, Parkallee 39
28209 Bremen
Tel.: 0421/218-4362
Fax: 0421/218-7540
E-Mail: srose@zes.uni-bremen.de
http://www.zes.uni-bremen.de
ZeS-Arbeitspapiere
ISSN 1436-7203

Zusammenfassung

Am 1. Mai 2004 hat die Europäische Union (EU) mit dem Beitritt von acht Mittel- und Osteuropäischen Ländern (MOEL) sowie Malta und Zypern ihre umfassendste Erweiterung seit ihrer Gründung im Jahr 1957 vollzogen.

In dieser erweiterten EU sind die Integration der Finanzmärkte einerseits sowie die Nachhaltigkeit der öffentlichen Haushalte und die der Alterssicherungssysteme andererseits zwei zentrale politische Zielsetzungen. Am Beispiel der neu beigetretenen Mitgliedstaaten verknüpft das Papier diese beiden Zielsetzungen und geht der Frage nach, ob die zentralen Organe der EU innerhalb der erweiterten Union versuchen, die neuen Mitgliedstaaten zu (weiteren) Privatisierungen ihrer Rentensysteme zu motivieren, um auf diese Weise einen einheitlichen und weltweit wettbewerbsfähigen Finanzbinnenmarkt zu fördern. Zwar kann an dieser Stelle kein eindeutiger empirischer Nachweis dieser Zusammenhänge hergestellt werden; allerdings begründen die sich abzeichnenden Tendenzen in diesen Bereichen weiteren Forschungsbedarf.

Summary

On May 1st, 2004, the European Union (EU) carried out the most comprehensive enlargement since its establishment in 1957 with the accession of eight Central- and Eastern European Countries (CEEC) as well as Malta and Cyprus.

Within this enlarged EU two major political aims were set up, namely the integration of financial markets on the one hand and the sustainability of public finances as well as of pension systems on the other hand. With the example of the recently accessed countries, this paper links these two objectives and raises the question, whether central EU authorities attempt to push for (further) pension privatisation in the new Member States of the enlarged EU in order to promote a single, globally competitive financial market. This paper gives no definite empirical evidence for this link. However, the emerging tendencies in this area call for further research.

Content

1. Introduction ... 5

2. Privatising pension systems to boost financial market development? ... 6

3. Financial Markets and Pension Reforms in Central and Eastern Europe ... 10

   3.1 Key Characteristics of Financial Markets ... 10

   3.2 The Transformation of Pension Systems ... 13

4. Pension policies within an enlarged EU between financial market integration and sustainability of public finances ... 16

   4.1 Financial market integration ... 18

   4.2 Sustainability of public finances ... 23

5. Emerging tendencies necessitate further research ... 27

References ... 31

Abbreviations ... 40

Tables

Table 1: The three-pillar pension model of the World Bank ... 7

Table 2: Implementation of pension reforms in CEEC (as of End 2003) ... 15

1. Introduction

With the accession of eight Central- and Eastern European Countries (CEEC)[1] as well as Malta and Cyprus on May 1st, 2004, the European Union (EU) carried out the most comprehensive enlargement since its establishment.[2] The number of Member States increased from fifteen to twenty-five with an increase of population of 20 % and of area of 23 %. On the other hand, the increase of Gross Domestic Product (GDP) amounts to 4,4 % *only*. The enlarged EU represents the largest economic community in the world with a total population of more than 450 million people and a nominal GDP of about 9,6 trillion Euro in 2002, (see European Central Bank 2004: 49 f.). The former communist regimes of CEEC were and still are confronted with two challenges, since these countries still have to cope with the transformation process to functioning market economies as well as to meet the conditions for EU membership. These developments also affect old-age security systems in CEEC, since this policy area is characterised by strong interdependencies with other areas of social security system and with the whole economic system.

So far, the whole transformation process and the reforms of old-age security systems, too, were accompanied and influenced by international 'expert committees', mainly composed of delegates from monetary financial institutions (MFI) such as the World Bank or the International Monetary Fund (IMF), and other international institutions such as the Organisation for Economic Co-operation and Development (OECD), the International Labour Organization (ILO), the Council of Europe and not least the EU. Various studies examined the role of these institutions and showed, that national pension reform processes were especially influenced by MFIs, though in various ways and with different success (see Müller 1999; Grimmeisen 2004 and comments in Reinalda/Verbeek 1997 and Rein/Schmähl 2004). At the instigation of these institutions public PAYGO financed pension systems were often cut back and substituted by private schemes, that fall back on financial markets to an increased extent.

Whether this privatisation trend will persist in CEEC despite their underdeveloped financial markets and despite the negative experiences of recent stock market crashes is uncertain. What seems to be certain though is the circumstance, that the decision-making bodies of the EU will gain increasing importance and influence in CEEC in all policy areas – including old-age security –, since the new members have to adopt and implement the whole European Community law (the so-called 'acquis communautaire') with accession within certain transition periods. In this context

---

1 The CEEC – referred to in this paper – are the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic and Slovenia.

2 After Belgium, Germany, France, Italy, and Luxembourg had established the European Economic Community (EEC) in 1957, the first enlargement took place in 1973 and included Denmark, the United Kingdom, and Ireland. In 1981 the EEC was joined by Greece, and in 1986 by Spain and Portugal. In 1993 the EEC was renamed into European Community (EC) with the Treaty of Maastricht; since then the EC is considered to be the so-called 'first pillar' of the EU. Finally, in 1995, Austria, Finland, and Sweden joined the Union of the 12.

the basic freedoms, the single European market, and the jurisdiction of the European Court of Justice (ECJ) play a crucial role. In addition, the convergence criteria of the Treaty of Maastricht (1993) have to be met and the new Member States have to participate in the process of the 'open method of co-ordination' (OMC).

This paper deals with pension policies within the enlarged EU and focuses on *two* current and important developments on the European level. On the one hand, the EU aims at creating a European internal market for financial services until 2005. In this context, a variety of measures were legislated already that liberalise and standardise the European market for occupational and private old-age security. On the other hand, the 'sustainability' of public finances *and* that of old-age security becomes increasingly important and EU authorities explicitly call for pension reforms. As stated by the European Council (2000: 1), these two objectives are necessary preconditions to fulfil the so-called 'Lisbon target' to render Europe the most competitive, economically, and socially cohesive area in a global context until 2010. In the following we will link these two objectives and raise the question, whether EU authorities attempt to push for (further) privatisation of old-age security within an enlarged Union to exhaust growth potentials of financial markets – especially in CEEC – in order to promote a single, large and globally competitive financial system.

Our point of departure is a brief review of the scientific literature and the thesis, that recent pension privatisation in CEEC were *primarily* aimed at generating continuous financial flows via institutional investors to financial markets to support their economic development (2.). In order to sustain this thesis, we will show that financial markets in CEEC are underdeveloped by any relevant measure, but enjoy high growth potentials (3.1). Nevertheless, some CEEC legislated and implemented comprehensive pension privatisations (3.2). Due to their EU accession, CEEC are exposed to channels at community level, through which the design of their national pension systems can be influenced (4.). With regard to our question we focus on financial market integration (4.1) and the sustainability of public finances as well as that of old-age security (4.2). Finally, we discuss, whether and to what extent these two policy issues are linked especially with regard to EU enlargement. This paper gives no definite empirical evidence for this link. However, the emerging tendencies in this area necessitate further research (5.).

2. Privatising pension systems to boost financial market development?

Old-age security systems still differ nationally not only in organisation but also in their conception: different normative ideas (Bismarck vs. Beveridge) as well as objectives (maintenance of living standard vs. poverty avoidance) resulted in various national conceptions of old-age security systems that developed over time – not only world wide, but also within the enlarged EU. They have in common that they are based upon *three* different pillars, namely (i) the public old-age security system, (ii) supplementary (e.g. occupational) systems, and (iii) additional private old-age provision. Important distinctions can be made with regard to the financing method (pay-as-you-go (PAYGO) vs. capital funded (CF) and contributions vs. taxes), the organisation (public vs. private), the insured persons (citizens or inhabitants vs. specific groups, e.g. self-employed persons),

and the structure of benefits (pension scheme vs. lump-sum payments). These structural features can relate to each of the three pillars and differ from state to state. The most relevant characteristic of an old-age security system is the quantitative importance of the three different pillars (see Mager 1991; Zacher 1991; Davis 1995; Schmähl 2000; European Social Insurance Partners 2003, and comments in Felderer 1993; McGill 1996 and Verband Deutscher Rentenversicherungsträger 2003 for a distinction between the different conceptions of old-age security systems, especially within Western Europe).

Despite these various options for the design and the conception of national pension systems by the end of the 20th century, pension privatisation became a world-wide political phenomenon that aims at shifting public PAYGO financed pension systems to private CF mechanisms of financing old-age incomes. One of the most important and influential document of this development is a study of the World Bank (1994) called "Averting the Old Age Crisis"– even considered to be the "official starting point of pension privatisation" (Etxezarreta 2002: 2). In this study, the World Bank promotes its ideal three-pillar pension model consisting of a downsized public PAYGO financed 1st pillar aiming at old-age poverty avoidance, which would be run by the state. This 1st pillar should be complemented by CF pillars, either compulsory (2nd pillar) and/or voluntary (3rd pillar) private elements. The latter two pillars consist of occupational and/or private savings that will be used to set up individual capital stocks invested in financial markets. According to this concept, these two CF pillars should gain increasing importance as main pillars of old-age security. The state, on the other hand, is merely supposed to regulate the 2nd pillar and to create favourable circumstances for voluntary, private savings. Table 1 summarises the three-pillar pension model of the World Bank.

Table 1: The three-pillar pension model of the World Bank

	1st pillar (compulsory)	2nd pillar (compulsory)	3rd pillar (voluntary)
Objective	redistribution (intra- and intergenerational transfers); poverty avoidance; broad but flat coverage	savings and insurance; maintenance of living standard	savings and insurance; additional protection
Form	minimum guarantee (top-up), means-tested	occupational plans / personal savings	occupational / private savings
Financing	PAYGO, taxes	CF, contributions	CF, contributions
Organisation	public	privately managed	privately managed

Source: Author on basis of World Bank (1994).

According to the World Bank, this three-pillar pension model is assumed to be the best strategy for countries to face problems of demographic ageing and to minimise micro- and macroeconomic costs of old-age security. Due to their strict actuarial relationship between contributions and benefits, private pensions are considered to remove unfavourable incentives affecting labour supply and savings behaviour, and are expected to restrict the role of the state in old-age security

and to reduce public spending in the long term. The final *objective* of the World Bank's social policy advice lies in the assumption that greater financial savings for pensions would result in enhanced financial market development, increased investments and overall economic growth (see World Bank 1994; James 1996, and comments in Holzmann/Stiglitz 2001). The arguments to privatise pensions in CEEC are highlighted by Claessens, et al. (2000: 10 f.) in a World Bank Financial Sector Discussion Paper, stating that the

> "development and particularly the liquidity of a stock market depend on the development of a class of well-governed institutional investors (…) Because funded pension schemes have yet to be established or were only recently set up in transition economies, pension funds are insignificant in terms of the size of assets under management. (…) Regressions highlight the importance of mild inflation and institutional investor assets in enhancing the development of stock markets in transition economies. (…) Several transition economies could foster funded pension schemes to boost the demand for shares of listed securities."

Other international organisations, such as the Bank for International Settlements (1998), the Organisation for Economic Co-operation and Development (2000, 2003), and some important EU authorities such as the Ecofin-Council, the European Commission and the European Central Bank (see chap. 4) copied the essence of this concept and call for corresponding comprehensive strategies and similar pension models, too. By now, the privatisation of old-age security systems has become the prevailing solution for the alleged 'crisis' of public pension schemes almost universally around the world.

Nevertheless, at the same time this restructuring of pension schemes – often denoted as 'modernisation' – is at the heart of an intense and fundamental political and scientific controversy. Heavy criticism is geared towards the arguments of this assessment since it will not improve social welfare (see Barr 2002; Baker/Weisbrot 1999; Eatwell 2003; European Economists for an Alternative Economic Policy in Europe 2002; Orszag/Stiglitz 2001). Moreover, Singh (1996) emphasises that there is neither a theoretical ground nor empirical evidence that the "one-sided view" of the World Bank and the corresponding proposals will enhance financial market development and economic growth. Singh (1996: 21) concludes that

> "on the contrary, the reform may contribute towards undermining growth while also exposing pensioners to greatly enhanced risks concerning the size and real value of their pensions".

In addition, the replacement rate of private pensions is highly dependent on the retirement date and on the performance of financial markets at that time and prior to retirement while also being subject to inflation risk (see Burtless 2000: 22 f.). Initially, the function of financial markets is to supply liquidity for economic transactions. However, by now financial markets are more or less disconnected from financing investments. Instead, the realisation of speculative profits became their central objective (see Huffschmid 2002: 37 ff.). Accordingly, financial markets became highly volatile since they are largely not backed by real economic transactions. Thus, Berglof/Bolton (2000: 91) summarise, that even if reforms help financial sector development,

> "it is, however, still an open question whether these commitments to privately funded schemes are credible in countries where large segments of the population may end up with very low retirement benefits".

With a view to copy and transfer experiences of countries with well developed financial markets that privatised old-age security, Kahn (2001: 352) points out that scepticism is appropriate when

considering the adoption of these systems especially in transition countries that just recently established financial markets. He doubts that the current legal, regulatory, and financial systems in former socialist countries are able

> "to control the discretion of fund managers and to ensure that the interest of fund participants, rather than their own financial interests, remain the criterion that determines their behaviour".

Even in countries with highly developed capital markets supported by excellent legal frameworks, problems of mismanagement and fraud are frequent phenomena (see Kahn 2001: 334 f.). Orszag/Stiglitz (2001: 43) point out, that

> "[l]ess developed countries usually have less developed capital markets, with less informed investors and less regulatory capacity, making the scope for potential abuse all the greater. Moreover, the presence of greater volatility and the absence of many types of financial markets makes many kinds of insurance provided by traditional defined benefit programs all the more valuable."

Given the lack of consensus among scientists and political actors as well as the risks involved with CF, the question arises whether the persistent drive for pension privatisation is caused by *other objectives* than the provision of social welfare and the security of old-age income. Since funded pensions are often the main source for the growth of institutional investors and the expansion of capital markets (see Organisation for Economic Co-operation and Development 2003), the literature puts forward the thesis that in general – and especially with regard to former socialist countries in CEE where financial markets are young and underdeveloped – pension privatisation is aimed at generating continuous financial flows via institutional investors to financial markets to support their economic development. Therefore, pension funds, investment funds and insurance companies have a major interest in the transformation of public PAYGO systems to CF systems. Thus, the *primary aim* of financial institutions is to make the delivery of welfare a product that generates corporate profits. Following this line of argument, it is not surprising that powerful financial interests have been and are being extremely active leading the drive towards privatisation and also transmitting to professional and public opinion the risks of the unsustainability and bankruptcy of public pension systems (see Etxezarreta 2003: 21). Lazutka (1999: 108 ff.) raises the argument,

> "that private financial institutions had a greater impact on developments (…), and that this aspect can be as significant as economic and demographic considerations. (…) Because of the historical circumstances of the post-socialist countries, the political influence of employers and employees can be less significant than that of politicians and those involved in financial markets. Developing private financial institutions have been gaining increasing influence, and they would like access to pension funds. They cannot hope for a rapid increase in voluntary savings at the present time because of the relatively low income level of the population."

He concludes that these institutions may seek amendments to pension laws in order to gain access to the mandatory contributions to funded schemes.

Despite the fact, that *national* governments and parliaments are responsible for the legislation with regard to the construction of their pension systems, we argue that the *European* dimension of this topic is of deserves attention as well, especially since the EU seeks to influence pension politics of its Member States by various channels (see chap. 4). While one of the major political aims of the EU is financial market integration to reach the Lisbon target (see 4.1), we reason, that the EU could promote and support pension privatisation in order to foster the growth of financial

markets. As a result, an integrated and – not least due to private pension fund contributions – large European financial market would allow the EU to compete with other international financial markets for financial capital. Therefore, EU authorities have a general interest in the sizeable growth potentials of financial markets in an enlarged Union. In the following, we will examine the case of the recently accessed Member States as precedent of this thesis, which aims at the EU as a whole. As already shown, the connection between financial market growth and privatisation of old-age security in CEEC is made by the scientific literature due to the underdevelopment of financial markets and their growth potentials.

But when focussing on the new Member States, the question arises why the EU should push for further pension reforms in these countries although comprehensive reforms were already legislated and partly implemented during the last decade. Most of these reforms were oriented at the three-pillar pension model of the World Bank, so that they resemble this model much more than those of the old EU. Nevertheless, it has to be taken into consideration, that the implemented pension reforms do not necessarily become the standard for future designs of old-age security systems. On the one hand it can take decades until these new structures and conceptions are actually and completely implemented in the countries. And on the other hand it is possible that some conceptions will disappear again over time or will be amended due to future developments, measurements and altered circumstances (see Fultz 2004). Accordingly, central political actors of the EU still could have an interest in pushing CEEC to further privatise their pension schemes.

3. Financial Markets and Pension Reforms in Central and Eastern Europe

In order to sustain the supposed link, it is necessary to lay down firstly the development and key characteristics of financial markets in CEEC (3.1), and to describe the adopted and implemented pension reforms in the countries concerned (3.2). What makes the CEE case extraordinarily special, is the fact that upon transition to capitalist economies, the need for fundamental reforms was declared in *both* policy areas – financial markets as well as pensions.

3.1 Key Characteristics of Financial Markets

In most former socialist countries financial markets – defined as banks and other financial institutions as well as capital markets – were non-existent. Stock markets that existed in CEEC before World War II – e.g. the Warsaw Stock Exchange (established in 1817) or the Prague Stock Exchange (1871) – were completely closed under socialism (see Claessens, et al. 2000). All CEE financial systems were based on one single institution, the monobank that was responsible for both monetary and commercial banking. The monobanks collected deposits, remunerated them at regulated rates, and provided loans based on decisions in planning bureaux. In this system, the overall level of credit was often considerably high, because – as Berglof/Bolton (2000: 78) argue –

> "the monobank was not a bank in the sense that it screened and monitored projects or enforced repayment of loans, rather it was the channel for funds allocated by the plan".

However, since the beginning of their integration process into the world economy, financial sectors in CEEC have developed and undergone fundamental changes within two transition periods. The first few years of transition were mainly characterised by instability, restructuring, and a sharp economic downturn with an initial output decline between 10-15 % in most CEEC, 25 % in Slovakia, and 35-50 % in the Baltic States. Coming from a monobank system, most countries adopted a two-tier banking system – i.e. the separation into central bank and commercial bank functions – between 1989 and 1992 and allowed a break up of the monobank into multiple small banks and the entry of new ones in most countries. These new commercial banks had to be restructured, recapitalised and privatised. In addition, they had to be relieved of a sizeable volume of non-performing loans in their portfolio inherited from the former socialist governments.[3] Fairly liberal licensing requirements and insufficient regulatory regimes supported the entrance of newly founded private banks into the market. In many cases this practice as well as severe recessions led to banking crises, involving a collapse in financial assets and intermediation and often requiring massive amounts of public funds. Failures of implementation, low accounting standards and supervision as well as a lack of lending experience, politically motivated lending to insolvent state-owned enterprises and insider abuse, yet again, lead to a renewed accumulation of non-performing loans, what – in turn – resulted in a second or even third wave of banking crises (see Deutsche Bank Research 2001a: 5). During this first era of transition, capital markets – money markets, bond markets and stock markets – have been set up. While every CEE country (re-) established stock markets in the early 1990's, their development has been closely linked to the privatisation strategies of individual countries, since stock exchanges have mainly been used for the mandatory listing of shares during the mass-privatisation of state-owned companies and for voluntary initial public offerings (see Deutsche Bank Research 2001b).

The present transition period is characterised by overall strengthening, development, and macroeconomic stability with positive economic growth rates in all CEEC that are considerably higher than in the old EU.[4] By now financial sectors in CEEC as a whole are characterised by overall financial stability and a trend of gradual financial development – defined as an increase in the size, depth and efficiency of the financial sector – in most of the sector's segments. The banking sectors are almost exclusively in private ownership. Despite tightened supervision, consolidation and

---

[3] Most commonly, bad loans were transferred to a state-owned consolidation bank, with the consequence that non-performing loans had become a problem for the fiscal side rather than for the banking sector (see Deutsche Bank Research 2001a: 5 and Tang, et al. 2000 for a more detailed analysis of fiscal costs caused by banking crises in transition countries).

[4] In the years 1996 to 2002, the ten new Member States recorded GDP growth of 3,6 % on average while the old Member States reached 2,3 %. At the same time most of the recently accessed countries clearly reduced inflation in the past years. On the other hand, the overall public deficit of the new Member States stayed – according to estimations for the year 2003 – almost without any change at 4,7 % of GDP. Thus public debt (measured in relation to GDP) is rising in a number of these countries, but lies with 42,4 % on average considerably lower than in the old EU with 64,1 % in 2003. Finally, the rate of unemployment of 13,6 % on average is high in comparison with 8,0 % in the old Member States (for a more detailed description of the economies of CEEC see European Central Bank 2004: 49 ff.).

liquidation of insolvent institutions, the amount of non-performing loans is still sizeable and new banking crises remain a risk (see Tang, et al. 2000). Thin but established securities markets are developing. More detailed, CEE financial markets are marked by the following key features.[5]

Primarily caused by the short history of both domestic banking systems and capital markets, the level of financial intermediation remains relatively low, i.e. the ability of financial sectors to channel financial savings of enterprises and households into private investment is low, so that the financial sector has a limited importance with respect to the economy. [6] It can clearly be observed, that CEE financial sectors remain heavily bank-based, i.e. that the banking sector plays a dominant role in providing corporate finance. This dominance – and the corresponding underdevelopment of capital markets – is even more intense than in some Euro-area countries that are known for their bank-based systems and even bank financing from abroad via foreign banks seems to be more important than market financing from abroad (see European Central Bank 2002: 26).

The strong presence of foreign owners and foreign investors in almost all financial market segments of CEEC becomes most visible in the *domestic banking sector*: In accession countries as a whole, foreign ownership of banking capital and assets stands above 65% and is expected to rise further – up to three quarters – once the still ongoing privatisation process is completed in all countries.[7] In most accession countries at least three out of the top five banks are foreign-owned and in a few of them the banking sector is even entirely in foreign hands. Given the underdeveloped state of *domestic capital markets* in CEEC – and thus their limited ability to raise capital

---

5 In most of the following comparisons, data from the old EU is set in relation to the new members in order to illustrate the differences within the enlarged EU. However, this does not imply a qualification. If not otherwise indicated, the European Central Bank (2002) is the source of empirical data on financial markets in CEEC. In this context, the term *accession countries* includes Cyprus and Malta.

6 Concerning the *banking sector*, this circumstance is reflected in two ways: *Firstly* the size of the banking sector – measured in terms of banking assets as a share of GDP – is still small. On average, the corresponding figure in CEEC amounts to a quarter of that of the Euro-area (265 %), though there are considerable variations within the accession countries. *Secondly,* the share of domestic credit in CEEC is low, i.e. the role of the banking sector in providing corporate finance is limited. Whereas in the Euro-area, domestic credit as a percentage of GDP amounts to about 135 %, the average figure for CEEC corresponds to one third of that of the Euro-area. With regard to *capital markets*, firstly *total stock market capitalisation* – reflecting the extent to which stock markets can provide finance to the real economy – of accession countries amounts to about 80 billion Euro at end-2001, equivalent to roughly 2% of total stock market capitalisation of the Euro-area. The sum of accession countries' market capitalisation *together* is broadly comparable to that of Ireland, which is the fourth-smallest stock market in absolute terms within the Euro-area, though here again, there are considerable variations with the exceptional frontrunner Poland. Relative to GDP, the average market capitalisation of accession countries is 16 % of GDP – a quarter of the relative Euro-area average of around 72 % of GDP, though there is a remarkable degree of dispersion within the Euro-area as well. Secondly, in most CEE financial markets, liquidity levels are somewhat lower than in Euro-area stock markets. Given the small size of the markets, market turnover in absolute terms is low as well: *Annual* turnover of all stock exchanges of accession countries *together* (43 billion Euro in 2001) is fairly equivalent to ten days of turnover in the DAX-shares at Deutsche Boerse. CEE *bond markets* are generally still small compared to Western markets and dominated by government papers; markets for corporate debts hardly exist (see Deutsche Bank Research 2001b: 15).

7 As a comparison: In countries of the Euro-area about 20 % of the banks' capital is in foreign ownership, and only in four of these countries is this ratio at least 30 %.

effectively – many large, publicly listed companies shift their focus away from domestic markets and resort towards listing opportunities abroad.[8]

In comparison with major Western European countries and especially with market-based countries such as GB, institutional investment in CEEC is rather small (see Köke/Schröder 2002: 124). However, there is a clear trend towards a larger institutional engagement as observed by the Directorate General for Economic and Financial Affairs (2002: 9) stating, that in some CEEC

> "the importance of institutional investors increases rapidly, in particular where a mandatory pre-funded pension component has been introduced".

Likewise the arguments of Köke/Schröder (2002: 123 ff.), who make out two main factors that are driving a fast growth of institutional investment – as already experienced in smaller European countries over the past few years: *firstly* a still young insurance sector compared to Western standards and *secondly* the implementation of pension reforms. Thus, institutional investors in CEEC – as well as within the EU due to the ongoing integration of financial markets – benefit from pension privatisation in former socialist countries due to an enlarged clientele and access to their savings for old-age (see Deutsche Bank Research 2001b: 16).

To sum up, this brief description shows that more than ten years after the fall of the iron curtain financial markets in CEEC are still underdeveloped. They are characterised by a low level of financial intermediation, a strong dominance of the banking sector, a high degree of foreign involvement and trading abroad, and finally by a rise of institutional investment. In addition, financial markets in CEEC are characterised by large growth potentials including the corresponding market opportunities for institutional investors that have an obvious interest in promoting pension privatisation. Besides the institutional investors, EU authorities, namely the European Commission (2004a: 20) in its latest "Financial Integration Monitor" recognise as well, that the new Member States clearly lag behind the EU in terms of insurance, asset management, degree of liquidity, institutional investor base, and stock market capitalisation. Therefore, they expect a high potential for further financial development and growth.

In the following part it will be shown, that the transformation of pension systems in CEEC mostly resulted in pension privatisation. Thus, future old-age income heavily relies on exactly these young and small financial markets while large and continuous flows of financial capital will be generated that enhance the development of financial markets and the growth of institutional investors.

3.2 The Transformation of Pension Systems

Until World War II old-age security systems in CEEC were as diverse as in Western Europe, but from the late 1960's until the mid 1990's they had become quite similar to one other: Social secu-

[8] In Estonia, Hungary, Latvia, and the Slovak Republic, companies listed in New York, London, and Frankfurt account for approximately one-third of domestic market capitalisation (see Claessens, et al. 2000: 3).

rity in general was planned and organised by the state, as an integrated and important part of the state budget without division into different branches. Benefits were financed by the state budget; contributions were paid by the employers, whereas employee 'contributions' to the system were merely symbolic, if they were existent at all. With regard to old-age security, these systems were almost always public schemes. Conditions for pension entitlement were easy to fulfil and benefits were only weakly linked to the individual income of the working population. Nevertheless, special rules for specific professions, certain types of jobs or for specific groups of the population resulted in 'unequal' treatment in terms of benefits as well as with regard to the retirement ages. In comparison with the level of income of working people, old-age pensions were relatively low. Moreover, the static concept of social security implied that pensions were not regularly adjusted. Formal arrangements for supplementary private pensions, such as life insurance, were non-existent; old-age security was provided by the state only (see Schmähl/Horstmann 2002: 6 f.).

However, after the fall of the 'iron curtain' all CEEC had undergone a fundamental reshaping of their economic landscape. Having been designed for a socialist society and economy, the inherited institutions became dysfunctional regarding the needs of a capitalist market economy. With regard to public social security systems, the initial severe economic decline with a slump in production and employment – mainly resulting from the privatisation, downsizing and closure of former socialist companies – eroded their contribution base while at the same time expenditures increased. Early retirement was a short-sighted, though common 'solution' for high unemployment thereby further widening the financial gap of pension systems. In addition to these initial problems, the main reason for the broad consensus – both within and outside CEEC – that their old-age security systems had to be reformed substantially, was the consideration that the existing public systems were 'too expensive' for several reasons.[9] For the time being, all CEEC faced these financing problems by carrying out ad hoc amendments, e.g. increase of contributions and of retirement ages (see Fuchs, et al. 2002: 152 f.; Fultz 2004).

Although it was generally expected that a slow shift towards some private provision of old-age would occur, the scope and type of reforms that followed these initial 'solutions' were and still are at the centre of a heated debate. In most of the CEEC the following reform process aimed at building-up three pillar systems, basically in line with the recommendations of the World Bank.[10] Still, in the literature both the desirability and the need for fundamental reforms according to the World Bank concept aiming at pension privatisation is doubted. Augusztinovics (1999: 102) argues that

> " (…) the 'unsustainability' of the public, PAYG[O] scheme was more a pretext, an advertising slogan rather than a real danger."

---

[9] The main reasons for this estimation were the following characteristics of the 'old' schemes: (i) low retirement age, (ii) generous eligibility criteria for disability pensions, (iii) many redistributive effects, (iv) expected growing budget deficit, and (v) challenges arising from demographic changes (see Schmähl/Horstmann 2002: 7).

[10] Only in the Czech Republic and Slovenia policy makers cautioned against radical pensions privatisation due to the „nascent stage of Slovenia's capital market and the crisis-ridden financial sector in the Czech Republic" (Müller 2002: 137).

However, most of the legislated and implemented pension reforms in CEEC focus even much stronger on capital funded second and third pillar elements to provide old-age income as currently observed in Western Europe. Prominent and early examples for this radical reform path are Hungary, Latvia, and Poland where individuals heavily rely on at least one private CF pillar for their standard of living once retired. Table 2 summarises the results of pension reforms in CEEC as of End 2003.

Table 2: Implementation of pension reforms in CEEC (as of End 2003)

	Reform of the *1st* (compulsory) pillar*)	Implementation of the *2nd* (compulsory) pillar	Implementation of the *3rd* (voluntary) pillar
Czech Republic	1995	-/-	1994
Estonia	1998 (2000)	2002	1998
Hungary	1996	1998	1994
Latvia	1998	2001	1998
Lithuania	1994, 2000	2000	
Poland	1998 (2000)	1999	1999
Slovak Republic	1998	**)	1996
Slovenia	1999	-/-	2000

Source: Own depiction with data from Fultz (2004); *) legislated (and implemented), **) New government prepares a partial privatisation.

In CEEC, capital funded pillars were implemented either as mandatory elements of old-age security systems or as voluntary participation in supplementary private pension funds. In both cases, most governments of CEEC offer large state subsidies and generous tax incentives for contributions in private pension funds in order to foster participation.[11] In Estonia, Hungary, Poland, and the Czech Republic strong tax incentives were implemented to encourage participation in voluntary schemes. But only in some of these countries, the participation in private funds is fairly broad, as e.g. in Poland where private funded pillars are mandatory. A reason for the still low participation in additional private pension schemes in the Slovak Republic, Latvia and Lithuania might be the lack of tax incentives and state subsidies to promote supplementary pensions. Accordingly, further reform plans include the introduction of tax incentives to encourage participation in private pension funds. But it has to be taken into consideration that the build-up of private funded pension schemes seems to be politically difficult, especially due to the absence of a necessary financial infrastructure and a general distrust of people in all banks.[12] In Estonia e.g., sup-

[11] Experiences in other countries that implemented tax incentives for pension funds might suggest the interpretation, that additional savings for pensions were generated. But Whitehouse (1999: 35 f.) argues, that the 'success' of savings for pensions has been the result of a re-arrangement of the savings-portfolio. Thus, there is no empirical evidence that favourable tax treatment of funded pensions would increase the national savings rate – as the World Bank claims.

[12] This mistrust results from problems of financial security of pension funds as well as irresponsible and criminal behaviour of firms. E.g. the bankruptcy of two big Lithuanian banks in December 1995 makes it difficult to persuade people to invest anywhere – including pension funds.

plementary pillars are existent but not used very much albeit tax incentives. Here again, inflation and distrust in capital markets might be the reasons as well as the lack of education and experience in investment for saving (cf. Parniczky 2001: 3). To face these 'initial participation problems' in Estonia, education programs for financial market behaviour are planned to overcome scepticism.

As point of departure to explain the trend towards pension privatisation in CEEC, the literature hints to the fact that since the beginning of their transformation process into capitalist economies, CEEC had to face their lack of experience in designing old-age security according to the changed economic and political conditions and were in need for external advice. Since there is no general blueprint for old-age security in Western economies – not even within the EU – the proposals of governments, social security institutions and consultants from international organisations such as the World Bank differed especially with regard to the role of the state and the public-private mix according to their national and/or institutional background and thereby reflecting different ideologies and interests in this process (see Schmähl/Horstmann 2002: 3; Müller 1999).

4. Pension policies within an enlarged EU between financial market integration and sustainability of public finances

As already mentioned, national pension schemes have developed within the individual EU Member States in very different ways. This is the main reason why today – according to the current community law – each EU member state is responsible for its pension *policy* and for the conception and structure of its pension *system* as well. After its foundation in the years 1957/58, the European Economic Community (EEC) did not have any comprehensive competency in social protection at its own disposal with regard to decision taking and jurisdiction, although during the preparatory stages prior to signing the Treaty of Rome, the question was raised as to whether or not the harmonisation of social protection systems is necessary (for this discussion see Sommer 2003: 6 f.). Today, the EU – or the European Community (EC) respectively – is solely legitimated to promote close co-operation between Member States, but is not allowed to stipulate specific legislation (Art. 137 EC-Treaty). Nevertheless, on community level there are important channels by which the design, the scope, and the structure of national old-age security systems can be influenced (see Schmähl 2002: 102). And Porte/Pochet (2002b: 223) point out, "that if there is any European influence, it is principally indirect and/or due to negative integration".[13]

These channels do have influence especially with regard to the establishment of a single economic area, which is the main policy objective of the EU since its establishment. Initially, the EEC was purely designed as an *economic* union with the primary aim of creating a single internal

[13] With regard to the differences between negative and positive integration, "i.e. between measures increasing market integration by eliminating national restraints on trade and distortions of competition, on the one hand, and common European policies to shape the conditions under which markets operate, on the other hand" (Scharpf 1996: 15), see comments in Marks, et al. (1996) and Leibfried/Pierson (2000).

market by reducing tariffs and other (so-called non-tariff) trade barriers such as nationally different regulations (see Schulte 2001). In this context, the activities to implement the four basic freedoms are relevant, namely the free movement of goods, workers, as well as capital and the freedom to provide services (see comments in Schmähl/Rische 1997 and Schulte 2001 with references). Only if the internal market and the implementation of the four basic freedoms are directly concerned, the EU becomes active in the area of social protection (see Andrietti 2001 and Jacob 2002). During the last years the competition and antitrust rules got an ever-growing influence on the national social security systems (see Haverkate/Huster 1999 and Eichenhofer 2001). In this context further important factors are the jurisdiction of the ECJ (see comments in Sandholtz/Stone Sweet 1998 and Leibfried/Pierson 2000 as well). Furthermore, the indirect as well as direct impact of the Economic and Monetary Union (EMU) and the implementation of the Maastricht convergence criteria on public budgets are of relevance for pension policies in the Member States (see Sailer 1992; Schulz-Weidner 1995, and Schmähl 2002). Finally, the process of the 'open method of co-ordination' (OMC) got a growing influence on pension policies.[14]

Against this institutional background and the completed accession of ten new Member States, the following parts discuss two recent political aims of the EU. These objectives involve *firstly* the creation of a European internal market for financial services, whereas we will focus on aspects regarding the creation of a common legal framework for occupational pension schemes (4.1). The *second* objective is concerned with macroeconomic co-ordination and with the central issue of quality and sustainability of public finances and old-age security (4.2). In March 2000, the European Council of Lisbon decided that these aims are – among others – important political cornerstones on the way to reach the new strategic aim of the EU until 2010: rendering Europe the most competitive, economically, and socially cohesive area in a global context (see European Council 2000: 1, 7 f.). Taken together, these objectives suggest that EU authorities *could* attempt to push for (further) privatisation of old-age security to exhaust the growth potentials of financial markets within an enlarged EU in order to promote a single, large and globally competitive financial system. The following parts discuss, whether and to what extent EU authorities link these political aims especially in the context of enlargement. For this purpose we will focus on official policies

[14] The OMC should allow Member States as well as the Commission to formulate political positions and proposals for European policy in areas without formal European competence. It aims at a process of benchmarking, the determination of best-practices, and the promotion of a continuous process of learning-by-seeing. In this context, indicators and benchmarks to measure common objectives are important instruments. So far, in the field of pension reform the OMC has produced quite a number of studies, papers and recommendations by expert committees, and formulated three overarching objectives: (i) adequacy of pensions, (ii) financial sustainability of pension systems, and (iii) modernisation: responding to changing needs. These objectives were subdivided into eleven objectives that are not quantifiable (see Council of the European Union 2001c). Member States had to present national strategy reports (NSR), in which they lay down how they implement these European objectives. Based on these NSR, the Commission and the Council published a joint report on safe and sustainable pensions in 2003 with the identification of good practices and innovated approaches of common interests (see Council of the European Union 2003; for general remarks on the OMC regarding pensions see comments in Porte/Pochet 2002a as well as Eckhardt 2003; Sommer 2003; Porte/Nantz 2004; Schmähl 2002, 2003).

and statements of the European Council, the Council for Economics and Finances (Ecofin), the European Commission, and the European Central Bank. [15]

4.1 Financial market integration

Since the late 1990's, the integration of national financial markets to a single internal European financial market is one of the priorities of the policy of the EU. A large and effective financial market is a major precondition for success in the sphere of global economic competition. Accordingly, this strategy aims at strengthening the role of European financial markets within international relations. The European Commission (2001: 2) stresses, that the

> „stronger, internally, Europe's financial sector is, the stronger Europe will stand externally on global markets and in global trade negotiations".

In 1973 first steps were taken to establish a single market for financial services in Europe (see Commission of the European Communities 1999a: 3 as well as comments in Hopp/Mehl 1991 for the main developments). But it took until 1994 when three directives on life assurances were adopted, that a common internal insurance's market was created (see Rabe 1997; Mabett 2000).[16] Although the economic and monetary Union is almost completed by now, financial markets in the EU remain strongly fragmented especially due to the diversity of national tax systems, protection laws of investors, rules for official quotation, regulatory authorities, the patchwork of applicable legislation, cultural differences as well as the resulting high administrative costs for providers of financial services (see European Central Bank 2003b: 54). The national orientation of stock trading and mergers in this sector shows that these markets are divided nationally in economic terms as well (see Huffschmid 2002: 251 f.). It has to be noted, however, that particularly a single insurance and pension funds market – promoting economic efficiency and market integration – requires a *common* framework, to allow insurers to operate throughout the EU and to establish and provide services freely. In addition, a common legal framework is needed to protect the customers (see Bangemann 1991).

---

15 The *European Council* brings together the Heads of States and Governments of the Member States of the EU and the President of the European Commission. The European Council passes general political guidelines and observes recent developments within the EU so far. But the *Council of Ministries* is the central decision-making body within the EU. It is consisting of Member States governments, respectively ministers, whose representatives regularly meet at the lower ministerial level. The Council is the legislative authority of the EU. Regarding financial market integration *and* the sustainability of public finances the Ecofin-Council is the main player. The *European Commission* embodies the general interests of the EU and acts as a driving force in the integration process. It proposes directions to take, and implements the measures decided upon by Council and Parliament as well. The Commission is organised in different so-called Directorates General (DG). This structure implies the co-existence of different positions within the European Commission as a whole. In our context, the DG Internal Market is responsible for financial market integration and the DG for Economic and Financial Affairs (Ecfin) for the sustainability of public finances. Finally, the DG Enlargement had played a crucial role in the evaluation of the recently accessed countries. At last, the *European Central Bank* (ECB) is a relevant actor that, as shown, highly prioritises both the integration of financial markets and the sustainability of public finances as well as of public pensions.

16 For the so-called "third life assurance Directive" see OJ L 360, 09.12.1992.

Accordingly, the European Council of Cardiff in June 1998 (see European Council 1998a: 8 f.) and that of Vienna in December 1998 (see European Council 1998b: para. 51) asked the Commission to present a proposal to improve the market for financial services. This call led to the documents "Financial services: Building a framework for action" (see Commission of the European Communities 1998) and "Financial Services: Implementing the Framework for Financial Markets – Action Plan" (FSAP) with the final objective of building a fully integrated financial market before 2005 (see Commission of the European Communities 1999a). Concerning the realisation of the basic freedoms for financial services, the FSAP includes a list of priorities and a schedule for 42 legislative and other measures by which three strategic aims should be reached: (i) completing a single wholesale market, (ii) developing open and secure markets for retail financial services, and (iii) ensuring the continued stability of EU financial markets.[17] With regard to the first aim and in the face of the existing growth potential of occupational and private old-age security in the Member States, the action plan prioritises the necessary development of a directive on the activities of institutions for occupational retirement provision (so-called pension funds).[18] Pension funds are large financial institutions, for which no coherent common legal ground exists on which they could make use of the advantages of the internal market in a comprehensive way. The Commission argues, that these institutions – easily accessible sources for long-term capital – stimulate capital flows, which could be at the disposal for private investments (and thus for the creation of employment and growth). This could – among various other measures – help to reduce the ever-increasing financial burden of old-age security that is caused by demographic changes (see Commission of the European Communities 1999a: 7 f., 25).

It is interesting to note, that the issue of supplementary pension schemes was addressed already 1991 in a Communication on "Supplementary social security schemes: the role of occupational pension schemes in the social protection of workers and their implications for freedom of movement". This communication set out basic guidelines and mapped out future EU activities in this area (see European Commission 1997).[19] The next step taken by the Commission was a Greenpaper on "Supplementary Pensions in the Single Market" presented in 1997, with three areas that call for action, namely (i) appropriate prudential rules for a Single Market, (ii) facilitating the free

---

[17] Moreover, the FSAP addresses broader issues concerning an optimal single financial market, including the elimination of tax obstacles and distortions. The Commission considers the full realisation of a Single Market for financial services to be technically unbalanced and politically difficult unless the parallel process of tax-coordination currently under way delivers the expected results. The FSAP therefore underlines the need to adopt the proposed Directive on minimum effective taxation of cross-border income from savings.

[18] In the end of the 1990's large amounts of capital were already bounded in occupational pension schemes. Nevertheless, according to a forecast of the Commission in 2000 the assets of pension funds could grow from about 2.000 billions EUR (half of all bank deposits in the EU, which account for about 25 % of GDP) up to 3.000 billions EUR until the end of 2005. If the Member States of the old EU were to hold the same amount of financial assets in pension funds as the Netherlands, European capital markets would dispose over up to 3 to 5 trillions EUR (see European Commission 2000: 5).

[19] Due to a lack of consensus among the Member States on the arrangements of asset allocation in foreign currencies, and due to a claim of the French government at the ECJ, the Commission had to draw back its proposal for a directive (ECJ, Case C-57/95 France vs. Commission, decision at 20.3.1997; see OJ C 142, 10.5.1997).

movement of workers, and (iii) the importance of taxation for supplementary pensions. This Greenpaper primarily highlights the possibilities of supplementary old-age security systems for a more efficient use of the internal market and the Euro (see Commission of the European Communities 1997). The reactions of Member States on the different aspects laid down in the Greenpaper are summarised in the communication "Towards a single market for supplementary pensions". Their criticism aimed primarily at the fact that the Commission should have put more emphasis on social aspects of pension funds. Instead, the role of pension funds as a *means* for the creation of European capital markets was overemphasised (see Commission of the European Communities 1999b: 13). In this communication the Commission highlighted a number of additional arguments with regard to the advantages of a single market for European pension funds and supplementary pension schemes: (i) pension funds could invest in equity on a European scale, which would increase the capability of firms to raise new capital, boost the return of profits for European companies and reduce indirect labour cost, so that it becomes easier for start-ups and high-tech entrepreneurs to raise risk capital, (ii) business could reduce the cost of credit, by using the investments of pensions funds to finance new activities while their dependency on the lending policy of the banks would be reduced (direct capital markets vs. universal bank systems), and (iii) European pension funds, that offer the same scheme in several or all 15 Member States, could help to drastically reduce the administrative and financing costs of the European pension and insurance industry due to economies of scale (for comments on this issue see Bruno-Latocha/Devetzi 2001: 486 ff. and Dräger 2003: 8 ff. as well).

In March 2000 the European Council of Lisbon approved the FSAP and called upon the EU institutions and the Member States to accelerate the completion of the internal market for financial services and for a tight schedule for the implementation of the FSAP until 2005. The European Council considered the elimination of obstacles for pension funds as top priority (cf. European Council 2000: para. 21). One year later, the Stockholm summit reinforced these objectives and stressed again, that the fast implementation of the FSAP is of highest importance for the economic development of the EU (cf. European Council 2001: para. 18 f.).

In this respect the integration of European financial markets constitutes an economic policy objective of high political priority and the European institutions and the Commission as the driving force of integration, are called upon to contribute for the implementation of this aim.[20] Since then, quite a number of measures have been considered and undertaken, e.g. the 'Lamfalussy-report' –

---

[20] Against this background, the integration of European financial markets is a central topic for the European Central Bank (ECB) as well. The importance attached to the whole process of financial market integration and all corresponding initiatives by the ECB derives – according to the ECB – primarily under the terms of Article 105(5) EC-Treaty. This article fixes that the European System of Central Banks (ESCB) shall support the general economic policy in the Community as long as this does not contradict with the aim of price stability. The ECB is actively as well as passively involved in the integration of the European financial systems since (i) an efficient and well-integrated financial system is pivotal to the smooth and effective transmission of monetary policy throughout the Euro area, (ii) more integrated financial markets are useful for the ECB with regard to the operational implementation of monetary policy, (iii) it promotes the smooth operation of payment systems, and (iv) financial integration is related with financial stability (see European Central Bank 2003b: 53 ff.).

named after its chairman Alexandre Lamfalussy – with its proposals for administrative and organisational issues (see The Committee of Wise Men 2001).[21] In addition, the Commission presented a number of proposals for directives on the new regulation and creation of a common insurance market as well as a bank and security market, namely regarding (i) the valuation rules for the annual and consolidated accounts of certain types of companies as well as of banks and other financial institutions, (ii) the solvency margin requirements for life assurance undertakings, (iii) the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate, and (iv) insurance mediation. On the European level, the majority of the proposals came into force already and has to be implemented into national law by the Member States.[22]

For the area of old-age security, it is of particular interest that the European Commission (2000: 5) has announced in its "Second progress report on financial services" to launch a proposal for a directive, which designs prudential rules for pension funds in a "sensible" way, to allow for an optimal structure of their portfolios. Accordingly, the Commission presented a "Proposal for a directive of the European Parliament and of the Council on activities and supervision of institutions for occupational retirement provision" (IORP) in October 2000 that applies the same principles as the directive on life assurances and aims at the creation of a single market for occupational pension funds. In its general comments the Commission points out that a lot of progress can be observed on the way towards an internal market for financial services.[23] Nevertheless and especially with regard to the ageing of the population of the EU, the Commission argues that it has to be ensured for IORPs as well that they have the possibility to operate with the maximum level of security and efficiency, since they play an ever-increasing important role in the promotion of social cohesion *and* the financing of the European economy (see Commission of the European Communities 2000c: 2 ff.).

Due to differences of opinion among EU authorities such as the Commission and the European Parliament and the individual Member States within the Council as well, it was not possible to

[21] This report lays down the potential advantages of financial market integration, e.g. on the microeconomic level lower costs of corporate financing or on the macroeconomic level the support of economic growth (see The Committee of Wise Men 2001).

[22] For the current state of implementation of the FSAP see European Commission (2004b, 2004d), and European Commission (2004c) for further steps.

[23] E.g. specific financial institutes are allowed to follow their business in other Member States and a high level of customer's protection is granted. IORPs are the only big financial institutions that can not provide their services in other Member States under the same conditions as banks, insurance companies and investment firms due to the lack of proper co-ordination at Community level (see Commission of the European Communities 2000c: 5).

decide on the directive for a long time.[24] Finally, the Council achieved agreement on the directive on IORPs in its Common Position in November 2002. The European Parliament adopted the Council's Common Position on the directive in March 2003, recommending some minor amendments only, which the Council accepted in May 2003 (see European Commission 2003).[25] The directive's objective is to allow pension funds to benefit from the internal market principles of free movement of capital and free provision of services. It will open the provision of services for IORPs to competition and liberalise requirements on prudential regulations. The core of the regulatory regime is based on the liberal "prudent person". On the one hand, guiding principles are laid down, e.g. that up to 70 % of technical provisions and of the whole portfolio for schemes in which the members bear the investment risk may be invested in shares and up to 30 % in foreign currencies (Art. 18). These rules should be beneficial not only for pension funds but also for EU financial markets (see Davis 2003: 128). On the other hand, the procedure to manage and to safe custody are mutually acknowledged, since IORPs are allowed to run foreign systems as well (Art. 20). Apart from that, there are *no* binding obligations: e.g. that benefits should be paid out of occupational retirement schemes, that at least the accumulated contributions to the scheme should be guaranteed at retirement or that a minimum rate of return should be invoked. IORPs may provide payments on a lifetime basis, but also only for a temporary period or in a lump sum. They may also cover biometric risks (longevity, occupational disability) or provide for surviving dependants, but could charge higher contributions for that coverage.[26]

Taken together, EU authorities do link financial market integration, the growth of pension funds and privatisation of old-age security only *weakly* – with some exceptions, e.g. the Greenpaper on "Supplementary Pensions in the Single Market", in which the Commission of the European Communities (1997) explicitly argues, that pension funds could be a *means* for the creation of European capital markets. But it can only be speculated, whether it was 'coincidence' or part of a

[24] In a report to the European Council of Stockholm (March 2002), the Ecofin-Council stated end of 2001 already, that – in the face of population ageing – the creation of a legal framework on the European level is important for ensuring a real internal market for pension funds, since it would increase the performance of pension funds and at the same time promote the security of security for beneficiaries. According to the Council of the European Union (2001b: 11), the "development of pension funds could also increase risk capital for European companies, thereby underpinning growth and employment". Nevertheless, the directive failed in the Ecofin-Council inter alia due to the reservations of Belgium (and meanwhile that of France as well), which considered the protection regulations to be insufficient.

[25] The directive (2003/41/EC) of the European Parliament and of the Council of June 3rd, 2003 on IORPs came into force by its publication in the Official Journal (see OJ L 235, 23.09.2003). Member States will have 24 months to bring into force the laws, regulations and administrative provisions to comply with this directive (Art. 22).

[26] Moreover, a central hindrance is not part of the directive and thus remains: it is the result of the different taxation of contributions and interest incomes, and pension payments of occupational schemes. Due to the persistent resistance of the Member States, the Commission dropped it and introduced a communication on "The elimination of tax obstacles to the cross-border provision of occupational pensions", in which the Commission pleads for the continuing application of the principle of an EET system (Exempt contributions, Exempt investment income and capital gains of the pension institution, Taxed benefits) to abolish corresponding hindrances to mobility (see Commission of the European Communities 2001b). For basic information on this issue see Pieters (2001); Borgsmidt (2001); Heine (2001), and Devetzi (2001).

strategy that the FSAP as well as the communication on a "Single market for supplementary pensions" were issued by the DG Internal Market on the same day, May 11th, 1999.

With regard to CEEC and their financial markets with the described growth potentials (see chap. 3.1), EU authorities rarely and only vaguely state if and how these potentials could be explored. The Commission of the European Communities (2004: 9 f.) dealt with financial markets in CEEC and further reforms in this area in its recommendations for the Broad economic policy guidelines (BEPG) of the Member States and the Community for the years 2003-2005, but it does not suggest the further privatisation of old-age security *in order to* strengthen financial markets.[27] The European Central Bank (2003a: 122), too, remains rather general in this respect, but it points to the circumstance, that

> "weaknesses in the financial sector would pose significant challenges for the conduct of monetary policy, and for the credibility of central banks and their pursuit of price stability"

while reminding, that the transformation of financial systems in CEEC is not completed yet, especially since financial mediation remains weakly developed (see ibid: 122). At the same time, this circumstance means that the growth potential in the banking sectors in CEEC remains large (see ibid: 153).[28] So far, in the *official* policy of EU authorities no direct link is made between the promotion of financial markets and (further) reforms of old-age security within an enlarged EU. Time will show, whether and in which way the growth potentials of financial markets are being explored, to format a single, large and global competitive financial system.

4.2 Sustainability of public finances

With the introduction of the Euro as common currency and according to the Treaty of Maastricht (1993), Member States are obliged to fulfil certain so-called convergence criteria that are binding them to a fiscal policy that aims at stability.[29] These criteria are complemented by the coordination of economic policies embodied in Art. 99 EC-Treaty. This process implies the so-

---

27 With regard to the new Member States, the Commission stresses the special importance of further strengthening the financial supervisory arrangements and of intensifying the cross-border cooperation in financial supervision and financial crisis management. These aspects become the more important, since the smoothly functioning, developed capital markets play a decisive role in directing savings into productive investments and in building up the faith of investors. Although financial markets in CEEC grew over time since the early 1990's (in volume as well as in value), they remain underdeveloped in comparison with those of the old EU Member States (see chap. 3.1). In this respect, their fast integration into the internal market for financial services by the means of a fast adoption and implementation of the complete concerning acquis becomes the more important for the development of a well capitalised financial sector and for equal competition conditions for financial institutions within an enlarged EU (see Commission of the European Communities 2004: 9 f.).

28 In the view of the European Central Bank (2003a: 122), the strengthening of the whole financial sector in CEEC is of fundamental importance, since (i) the structure and functioning of the financial sector does have important implications for the micro- and macroeconomic development, and (ii) the stability of financial markets in CEEC is a precondition for the smooth conduction of monetary policy in an enlarged Euro-area.

29 The convergence criteria of the EC-Treaty are (i) a high degree of price stability, (ii) a sound fiscal situation, (ii) stable exchange rates, and (iv) converged long-term interest rates.

called Broad Economic Policy Guidelines (BEPG) that are prepared by the Commission and passed by the Ecofin-Council.[30] Furthermore, the amended EC-Treaty (Amsterdam, 1999) and the Stability and Growth Pact (SGP) provide EU Member States – particularly those having adopted the Euro – with a common code of fiscal conduct that is expected to uphold discipline in the management of government finances (see European Central Bank 1999: 45 f.).[31] In addition, this is of relevance for CEEC as well, although they did not automatically introduce the Euro as legal tender in the course of their EU accession.[32]

At first, the reach of fiscal control was aimed at *short-term* time horizons of a couple of years. This changed (the latest) with the Council of Stockholm in March 2001 that called for adequate and *long-term* strategies in the face of demographic changes. The European Council (2001: 8) confirmed that

> "the ageing society calls for clear strategies for ensuring the adequacy of old-age security systems as well as of health care systems and care of the elderly, while at the same time maintaining sustainability of public finances and inter-generational solidarity".

Since then, the strong inter-dependency between financial sustainability of public finances and essential reforms concerning old-age security systems is officially accepted and widely established among European authorities, and the discussion on financing old-age security has moved into the centre. Thus, the EMU and the SGP have obviously reinforced the discussion on the reduction of the size of PAYGO financed pillars of old-age security systems in order to curb public debt and to reach a balanced budget. Especially the national Ministers of Finance and the Ministers for Economic Affairs, which are represented in the Ecofin-Council, the European Commission (namely the DG Ecfin) and the ECB, argued that an ageing of the population threatens both

---

30 When this process was launched in 1992, the BEPG were developed on a yearly basis. Since 2003, however, the BEPG cover a three-year period according to the Council's recent agreement on streamlining policy co-ordination procedures.

31 The SGP consists of a resolution of the Amsterdam European Council, which specifies the commitments of the Member States, the European Commission, and the European Council (see OJ C 236, 02.08.1997), and two Ecofin-Council regulations: *firstly*, the Council Regulation (97/1467/EC) on "Speeding up and clarifying the implementation of the excessive deficit procedure" (see OJ L 209, 02.08.1997), and *secondly*, the Council Regulation (97/1466/EC) on "Strengthening the surveillance of budgetary positions and the surveillance and coordination of economic policies", which defines the content of the stability and convergence programmes (see OJ L 209, 02.08.1997). The SGP includes binding recommendations and fines, if an EMU member state runs a public deficit of more than three per cent of its GDP. For the implementation of the SGP see European Central Bank (1999: 45 ff.).

32 According to the Treaty of Accession, signed at an informal meeting in Athens on April 16th, 2003, the new Member States do participate in the EMU with derogation. Although they do not introduce the Euro immediately after accession, they are obliged to install the common currency at a later time when fulfilling the convergence criteria laid down by the EC-Treaty (see European Central Bank 2004: 45). Since overall economic development represents *the* common objective of all Member States, the ten accessed countries were integrated immediately and completely into the process of multilateral surveillance within the SGP and the co-ordination of economic policy by the BEPG (see Commission of the European Communities 2002: 27).

the sustainability of public finances and price stability.[33] Therefore, on a European level much attention is paid to old-age security, and in various recommendations as well as opinions and statements – in particular those relating to the BEPG and the OMC – concern is voiced regarding the consequences of the ageing of the population on public finances.[34]

After the Commission has launched a communication on “The contribution of public finances to growth and employment: Improving quality and sustainability” in December 2000, that calls upon Member States to include the aspect of sustainability of public finances in their stability and convergence programs (see Commission of the European Communities 2000a)[35], the BEPG devote a special chapter to social- and old-age security policy. Ever since, the Commission links in its recommendations for the BEPG the concept of long-term sustainability with the ‘consequences’ of demographic developments. In this respect, the Commission of the European Communities (2001a: 11 f.) argues that the ageing of the population puts pressure on public finances and proposes to modify the public-private mix:

> “Measures to put pensions on a sounder footing should include moves towards a greater reliance on funding so as to achieve a better balance between the different pillars within the pension systems in those countries which have not yet achieved that.”

The Ecofin-Council, on the other hand, was (yet) more cautious in the final version of the 2001 BEPG and restricted itself to merely demand the possible creation of reserve funds for public pension systems and to encourage the development of complementary private CF retirement schemes. It only stated that in order “to put pensions on a sounder footing, moves towards a greater reliance on funding should also be considered“ (Council of the European Union 2001a: 16). In its recommendations for the BEPG 2002, the Commission focussed on the macroeconomic

---

[33] The ECB considers public elements of social security systems to be an important part of fiscal policy (see European Central Bank 2001). The sustainability of public finances is of direct importance for the ECB, since pressures to reduce public debts could intensify if market participants perceive public finances as unsustainable. This would hinder the realisation of a monetary policy aiming at stability (see European Central Bank 2003d). Therefore, the ECB calls for comprehensive reforms in these areas to face the ageing of the population (see European Central Bank 2003c).

[34] An important and often noted report regarding the OMC was published in October 2001 already, namely the report on “Budgetary challenges posed by ageing populations: the impact on public spending on pensions, health and long-term care for the elderly and possible indicators of the long-term sustainability of public finances”. In this report, which was prepared by an Ecofin advisory group (the so-called Economic Policy Committee), sustainability is defined in terms of compliance with the budgetary requirements of the EU, especially with regard to public budgets respecting the “close to balance or in surplus” target. The report concludes (again) that ageing will result in further increases of old-age dependency ratios and of public spending on old-age security in most Member States. The report suggests that further cuts in spending on public old-age security systems may be needed (see Economic Policy Committee 2001: 30 f.).

[35] In this communication the Commission deals with the role of public budgets for growth and employment and with points of departure to secure sustainable public finances in the long run. In addition, the Commission urges for a further consolidation of public budgets and a fast reduction of public debt, as well as for reforms to raise employment rates especially amongst women and older workers, too. This should be reached by the means of retrenching regulations on early retirement and of introducing incentives for a longer participation in the labour market through contributions, taxes and social security benefits as well. According to the Commission, further reforms of public pension systems should guarantee a “just” relation between actuarial pension contributions and pension entitlements, whereas capital funded pension schemes should be of increased importance in the future.

objective that all Member States should present a budget that is "close to balance or in surplus" not later than 2004. The remaining short period of time before the consequences of population ageing will become more noticeable should be used to reach solid positions of public finances. Again, Member States are called upon to further reform their pension systems. Accordingly the European Commission (2002: 19) recommended in the BEPG 2002 that Member States should seek for measures that are

> "making the pension systems cope better with demographic risks and expected increases in life expectancy, making the pension systems transparent regarding contributions and benefits and moving towards a greater reliance on actuarial fairness and funding, so as to achieve a better balance between the different pillars within the pension systems in those Member States which have not yet achieved."

Although being less obvious than the Commission, the Council of the European Union (2002: 14) called on the Member States in its recommendation on the BEPG 2002 to

> "improve the long-term sustainability of public finances by pursuing the comprehensive three-pronged strategy, of raising employment rates, reducing public debt and adapting pension systems, agreed by the Stockholm European Council. This involves a suitable combination of measures, to be determined by the Member States, to run down public debt at a fast pace, modernise labour markets to raise employment rates (especially amongst women and older workers), reform pension and healthcare systems for the elderly with a view of placing them on a sound financial footing."

In the recommendations to BEPG 2003-2005, that were presented in April 2003 and that cover a three-year period for the first time, the Commission of the European Communities (2003a: 5) repeated its call upon the Member States to

> "maintain budgetary positions of close to balance or in surplus throughout the economic circle, and as long as this has not yet been achieved, take all the necessary measures to ensure an annual improvement in the cyclically-adjusted budget position of at least 0,5% of GDP".

The Commission is (still) concerned with the consequences of the ageing of the population and the resulting pressure on public finances. Besides the increase of employment rate, once again, relief should come from a 'sustainable' reform of pension systems without hampering economic performance (see ibid: 11 f.). Insofar, the developments up to now and the statements of EU authorities illustrate, that the long-term sustainability of public finances plays a crucial role on the European level. This implies the consequences of ageing societies for public finances, whereas the (public, PAYGO financed) old-age security systems receive special attention and further reforms are more or less considered to be a necessity that is not called into question. Different strategies to promote fiscal sustainability are discussed, such as balancing public finances and the reduction of public debt, the increase of employment rates, as well as the reform of old-age security systems involving a higher degree of capital funding.[36]

With respect to CEEC, EU authorities merely pay attention to their individual situation regarding public finances. Although the recommendations for 2003-2005 are much more comprehensive than earlier BEPG – they cover a three-year period and include a special chapter on the Euro area – they do not contain any specific references to the particular problems of the new EU Member

---

[36] For a criticism of this assessment see European Economists for an Alternative Economic Policy in Europe (2003) concerning the rigorous focus on the sustainability of public finances and Schmähl (2003: 100 ff.) regarding the possibilities increasing retirement ages and the length of the earning period.

States. These were only dealt with as part of the 2004 upgrade of the present guidelines (see Commission of the European Communities (2004).[37] To sum up it can be stated, that – at least *officially* – no direct link is made between the objective of a sustainable design of public finances including old-age security and the 'possibilities' for European financial markets that arise from pension privatisation.

5. Emerging tendencies necessitate further research

After having examined the relevant publications and documents of EU authorities, the following conclusions can be drawn with regard to the link between financial market integration and pension privatisation within an enlarged EU: The decisive political actors on EU level highly prioritise both, the integration of financial markets and the sustainability of public finances as well as of public pensions. Especially the Ecofin-Council, the DG Internal Market, and the DG Ecfin and the ECB as well promote the corresponding arguments. These actors reason, *firstly*, that the ongoing integration of national financial markets within the EU would result in improved conditions for institutional investors, since they could operate without national barriers as providers of financial services within the European internal market. Based on the contributions for private pension plans, European institutional investors could grow up to 'global players' and provide the EU with the necessary liquidity for a competitive financial market. Nevertheless, the argument, that substituting PAYGO financed old-age security systems with occupational and/or private CF schemes of old-age security, *in order to* foster the development of European financial markets is not part of the official language.

Secondly, these actors argue that in times of demographic ageing, the sustainability of public finances and that of old-age security can primarily be realised by the replacement of public old-age security with occupational and private schemes. Thus, the Member States as well as the EU could regain financial capacity. In this context, especially the Commission of the European Communities (2000b: 9) reasons that a substitution of public with private old-age security and the corresponding shift from PAYGO to CF would c.p. reduce the sum of public spending and in particular the 'implicit public dept' associated with PAYGO due to accumulated pension entitlements. But what has to be kept in mind when considering the effect on public budgets, is *net* public expenditure that takes into account taxes deducted from public benefits, and also information on so-called tax expenditure such as tax reductions and subsidies for certain types of occupational or

[37] Nevertheless in the end of 2002, the Directorate General for Economic and Financial Affairs (2002: 6) urges already in an "Update of the Report on Macroeconomic and Financial Sector Stability Developments in Candidate Countries", that in the new Member States public debt as well as the ageing process is preceding, too, and thus threatens the sustainability of public budgets: "In most candidate countries, public debt is currently relatively low and there seems to be no major risk of a destabilising build-up, even when taking into account contingent liabilities and implicit government debt. Nevertheless, from a medium- and long-term perspective, in many countries, still outstanding structural reforms in the health, pension, and social protection area will play a key role in ensuring medium- and long-term sustainability of public finances."

private pensions or saving for old-age (see Adema 2001). Thus, the question whether an old-age security system is economically (and politically) 'sustainable' and viable does not only depend on the design of the public PAYGO system, but also on the conception of occupational and private old-age schemes (for comments on this issue see Schmähl 2003: 103 ff.).

Yet, the argument, that CF pension schemes have to be introduced and/or promoted, in order to create a globally competitive European financial market, is merely used and does not constitute a part of the *official* policy of the EU. Moreover, with respect to the new Member States and the growth potentials of their financial markets, EU authorities only urge for reforms in general. It is acknowledged, that these countries have made great strides in reforming their financial sectors and it is emphasised, that further development and expansion is clearly necessary. But, here again, EU authorities do not explicitly call for pension privatisation as a measure to make use of the growth potentials of financial markets in CEEC.[38]

Nevertheless, within an enlarged EU these two objectives and the corresponding strategies are *not* fully independent of each other. Certain *tendencies* can be detected: EU authorities issued – as demonstrated – various measures in order to create a single, globally competitive, internal financial market. This market should increase the capability of firms to raise capital, reduce the cost of credit and boost profits. In addition pensioners should gain from these advantages, as well. But the embedding of supplementary old-age security into the FSAP demonstrates, that the EU assesses old-age security purely as a process for the accumulation of capital, whereas it is assumed that especially future recipients of old-age security payments would benefit from integrated financial market. In this context political actors of the EU seem to ignore, that pension systems also provide for their initial purposes, namely the security of old-age income and redistribution. Although it can be supposed that the strong focus on financial market aspects can also be interpreted with regard to the competencies of the EU level in this area, the principle of subsidiarity (Art. 5 EC-Treaty), and the resulting modalities of voting, the discussion on the sustainability of old-age security and its privatisation indicates as well, that old-age security is primarily treated as a financing issue.

Indeed, in the context of the OMC it was agreed upon three common objectives in the end of 2001 with the headline "adequacy of pensions". But these objectives – especially in comparison with the four objectives with regard to the "financial sustainability of pension systems" – were only merely able to give new impetus to the discussions on the national and the European level (for the objectives formulated within the process of the OMC see Council of the European Union 2001c). Thus, the opinions about the adequacy of pensions or about what should be reached by an old-age security system still differ tremendously (see chap. 2). Therefore it is difficult to measure

---

[38] Exceptions are the Directorate General for Economic and Financial Affairs (2002) of the European Commission that highlights in its "Update of the Report on Macroeconomic and Financial Sector Stability Developments in Candidate Countries" the importance of privatising pensions for the development of financial markets for almost all candidate countries. And the European Central Bank (2002: 11 f.) states, that for domestic investors pension systems are "still underdeveloped and not yet geared towards stock market or long-term bond market investment. (…) [I]mprovements were in sight, as partially funded pension schemes were planned in several countries."

the adequacy of pensions with the help of indicators and to compare them objectively (see comments in Verband Deutscher Rentenversicherungsträger, et al. 2003). In view of that, aspects of public spending on pensions and their macroeconomic implications dominate the discussion within the OMC. Beforehand, the Economic Policy Committee (EPC), which is a sub-committee of the Ecofin-Council, had published an important report that deals with the OMC and is titled "Budgetary challenges posed by ageing populations". In this report, that suggests indicators to measure sustainability, the term sustainability is defined as being in agreement with the budgetary requirements of the EMU especially with regard to the aim of bringing the public budgets "close to balance or in surplus" (see Economic Policy Committee 2001: 66). This strong focus on financial issues can also be found in the "Joint report by the Commission and the Council on adequate and sustainable pensions" that refers to the projections of the EPC. This Joint report included an evaluation of pension strategies of the (old) Member States based on their national strategy reports. In this comparison, those countries and systems characterised by a strong first pillar and accordingly weaker second and third pillars did badly and vice versa (see Council of the European Union 2003). Thus, it seems that pension privatisation becomes a common universal remedy to face problems of demographic ageing and to reach the aim of sustainability of public finances. But this strategy implies inter alia that elderly persons wishing to attain a certain standard of living would have to continue working although they have reached the current retirement age, and/or – if they are economically able to do so – to invest in private pension plans, which rely on financial markets, throughout their active years.

These crucial connections could confirm the argument, that in view of the 'risk of public (pension) bankruptcy', the privatisation of pensions is considered to be a necessary condition for the establishment of financial markets and the growth of institutional investment within an enlarged EU. Thus, financial market development is – at least an implicit – aim of pension privatisation. Since funded pensions are one of the most important forces underlying the expansion of capital markets and the growth of institutional investors (see Organisation for Economic Co-operation and Development 2003), it can be argued that pension privatisation turned into an instrument for financial market development rather than aiming at the improvement of social welfare. This argument becomes the more compelling since the privatisation process persists unhindered despite the negative experiences of the post-2000 downturn that proved that even well developed financial markets in the major economic centres of the world are vulnerable and subject to turbulence and crises. In view of that, it can be argued, that behind the notion of the alleged 'unsustainability' of public pension systems an ulterior motive is emerging that aims at channelling increasing amounts of capital to European financial markets in order to create a globally competitive European financial market.

It has to be criticised, that current discussions – both nationally as well as on the European level – largely neglect these developments and connections, and that the true facts about the decision processes are almost unknown. In view of that, it is of particular interest to design these processes more transparent, especially with regard to the objectives and the measures taken to reach them. Thus, it is necessary to consider the role of Member States and of EU authorities enhancing the diminishing of public pension benefits and the increase of private systems. This is of importance,

since national pension policies are sometimes strongly influenced by the policy pursued on the European level, e.g. due to the OMC.

Therefore, it is crucial to expose the normative ideas of European actors and the strategies they apply in order to put the corresponding objectives into practice. In this context, a point of departure of the Commission that was published in May 2003 could be of relevance for the future development. In the communication on "Strengthening the social dimension of the Lisbon strategy: Streamlining open coordination in the field of social protection" the Commission presents the attempt to link the variety of different co-ordination processes within the EU (see Commission of the European Communities 2003b).[39] So far, it is an open question, whether the streamlining approach may be a biased and not a comprehensive approach, or whether it is a useful and necessary attempt to develop coherent and comprehensive approaches (cf. Schmähl 2004: 8). Accordingly, it seems difficult to forecast the direction in which the discussion on sustainability of public finances and that of old-age security will develop. With enlargement it seems to be certain though, that the previous public private mix of old-age security within the EU will change. Due to the process of the OMC, the reform experiences of the new Member States will affect old Member States as well. This could lead to a shift of political majority relations in favour of those European actors that support CF.

However, research on the political economy of pension reform should include the analysis of financial market development and the role of institutional investors as their dominant actors. So far, these – possibly crucial – factors have been neglected and recent research was *mainly* focused on the impact of international organisations, local politicians, and structural factors determining pension reform. The need to examine the *power* of financial institutions that directly profit from privatisation becomes the more urgent, since their primary aim is to make the delivery of welfare a product that generates corporate profit (see Etxezarreta 2002; Minns 2001). For this reason Orszag/Stiglitz (2001: 7) emphasise that

> "we need to keep in mind our ultimate objective. Savings and growth are not ends in themselves, but means to an end: the increase in well-being of members of the society".

Otherwise, the provision of pensions transforms into a means to achieve profits rather than being the central element of a welfare system.

---

[39] In short, this streamlining approach has several dimensions: (i) streamlining regarding the co-ordination of economic policies (BEPG) of Member States within the European Employment Strategy (EES), (ii) streamlining the co-ordination of social protection policies within the OMC, i.e. social inclusion, pensions, and health care, and finally (iii) streamlining the area of OMC with economic (BEPG) and employment policies (EES). For comments on this approach, which was assented by the Council for Social Affairs on October 20th, 2003, see Gesellschaft für Versicherungswissenschaft und -gestaltung e.V. (2003) and Terwey (2003, 2004).

References

Adema, Willem, 2001: *"Net Social Expenditure. 2nd Edition"*. OECD-Occasional Paper No. 52, Paris.

Andrietti, Vincenzo, 2001: “Portability of supplementary pension rights within the EU”, *International Social Security Review* 54 (1): 59-84.

Augusztinovics, Maria, 1999: “Pension Systems and Reforms in the Transition Economies”, *Economic Survey of Europe* (3): 89-103.

Baker, Dean; Weisbrot, Mark, 1999: *Social Security: the phony crisis.* Chicago, London: The University of Chicago Press.

Bangemann, Martin, 1991: "Binnenmarkt und Versicherungsleistungen", in: Franz Wilhelm Hopp; Georg Mehl (eds.). *Versicherungen in Europa Heute und Morgen. Geburtstags-Schrift für Georg Büchner.* Karlsruhe: Verlag Versicherungswirtschaft**,** 27-34.

Bank for International Settlements, 1998: *Group of Ten - The macroeconomic and financial implications of ageing populations.* Geneva: Bank for International Settlements.

Barr, Nicholas, 2002: “Reforming Pensions: Myths, Truths, and Policy Choices”, *International Social Security Review* 55 (2): 3-36.

Berglof, Erik; Bolton, Patrick, 2000: “The Great Divide and Beyond: Financial Architecture in Transition”, *Journal of Economic Perspectives* 16 (1): 77-100.

Borgsmidt, Kirsten, 2001: “Die Rechtsprechung des EuGH zu den Grundfreiheiten im Spannungsfeld zwischen Steuerrecht und Sozialversicherungsrecht”, *Deutsche Rentenversicherung* 56 (1-2): 43-53.

Bruno-Latocha, Gesa; Devetzi, Stamatia, 2001: “Pensionsfonds in Deutschland und in Europa”, *Deutsche Rentenversicherung* 56 (8-9): 486-499.

Burtless, Gary, 2000: *"Social Security Privatization and Financial Market Risk: Lessons from U.S. Financial History"*. DIW Discussion Paper 211, Berlin.

Claessens, Stijn; Djankov, Simeon; Klingebiel, Daniela, 2000: *"Stock Markets in Transition Economies"*. World Bank Financial Sector Discussion Paper No. 5, Washington, DC.

Commission of the European Communities, 1997: *"Supplementary Pensions in the Single Market - A Green Paper"*. COM (97) 283 final, Brussels.

Commission of the European Communities, 1998: *"Communication of the Commission on Financial Services: Building a framework for action"*. COM (1998) 625, Brussels.

Commission of the European Communities, 1999a: *"Communication of the Commission on Financial Services: Implementing the framework for financial markets - action plan"*. Communication COM (1999) 232, Brussels.

Commission of the European Communities, 1999b: *"Towards a single market for supplementary pensions - Results of the consultations on the Green Paper on supplementary pensions in the single market"*. Communication COM (1999) 134 final, Brussels.

Commission of the European Communities, 2000a: *"Communication from the Commission to the Council and the European Parliament - The contribution of public finances to growth and employment: Improving quality and sustainability"*. COM (2000) 846 final, Brussels.

Commission of the European Communities, 2000b: *"Communication from the Commission to the Council, the European Parliament and to the Economic and Social Committee on the Future Evolution of Social Protection from a Long-Term Point of View: Safe and Sustainable Pensions"*. COM (2000) 622 final, Brussels.

Commission of the European Communities, 2000c: *"Proposal for a directive of the European Parliament and of the Council on the activities of institutions for occupational retirement provision (presented by the Commission)"*. COM (2000) 507 final - COD 2000/0260, Brussels.

Commission of the European Communities, 2001a: *"Commission Recommendation for the 2001 Broad Guidelines of the Economic Policies of the Member States and the Community - drawn up in conformity with Article 99(2) of the Treaty establishing the European Community"*. COM (2001) 224 final, Brussels.

Commission of the European Communities, 2001b: *"Communication from the Commission to the Council, the European Parliament and the Economic and Social Committee - The elimination of tax obstacles to the cross-border provision of occupational pensions"*. COM (2001) 214 final, Brussels.

Commission of the European Communities, 2002: *"Towards the enlarged Union - Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries"*. COM (2002) 700 final {SEC (2002) 1400 - 1412}, Brussels.

Commission of the European Communities, 2003a: *"Commission Recommendation on the Broad Guidelines of the Economic Policies of the Member States and the Community (for the 2003-2005 period)"*. COM (2003) 170 final, Brussels.

Commission of the European Communities, 2003b: *"Communication from the Commission to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions - Strengthening the social dimension of the Lisbon strategy: Streamlining open coordination in the field of social protection"*. COM (2003) 261 final, Brussels.

Commission of the European Communities, 2004: *"Commission Recommendation on the 2004 update of the Broad Guidelines of the Economic Policies of the Member States and the Community (for the 2003-2005 period); presented in accordance with Article 99(2) of the EC Treaty"*. COM (2004) 238 final, Brussels.

Council of the European Union, 2001a: *"Council recommendation of 15 June 2001 on the broad guidelines of the economic policies of member states and the community"*. 9326/01, Gothenburg.

Council of the European Union, 2001b: *"Key Issues Paper on the 2001 Broad Economic Policy Guidelines"*. Report from the (ECOFIN) Council the European Council (Stockholm, 23/24 March 2001) 7001/01, Brussels.

Council of the European Union, 2001c: *"Quality and viability of pensions - Joint report on objectives and working methods in the area of pensions"*. SPC/ EPC joint report 14098/01, Brussels.

Council of the European Union, 2002: *"Council recommendation of 21 June 2002 on the broad guidelines of the economic policies of member states and the community"*. 10093/02, Seville.

Council of the European Union, 2003: *"Joint report by the Commission and the Council on adequate and sustainable pensions"*. Note from Council (EPSCO / ECOFIN) to European Council 7165/03, Brussels.

Davis, E. Philip, 1995: *Pension Funds - Retirement-Income Security and Capital Markets.* An International Perspective. Oxford: University Press.

Davis, E. Philip, 2003: "Pension Funds and European Financial Markets", in: Oesterreichische Nationalbank (ed.). *Pension Finance Reform: From Public to Financial Economics.* Vienna: Oesterreichische Nationalbank**,** 124-139.

Deutsche Bank Research, 2001a: “The banking sector: crucial for convergence and integration”, *Deutsche Bank Research EU Enlargement Monitor* (August): 3-13.

Deutsche Bank Research, 2001b: “Securities markets: huge gap, difficult to close soon”, *Deutsche Bank Research EU Enlargement Monitor* (August): 14-19.

Devetzi, Stamatia, 2001: “Zusatzversorgung in Europa und die steuerliche Problematik”, *Deutsche Rentenversicherung* 56 (1-2): 99-112.

Directorate General for Economic and Financial Affairs, 2002: *"Update of the Report on Macroeconomic and Financial Sector Stability Developments in Candidate Countries"*. Enlargement Paper No. 11 (ECFIN/542/02 - EN), Brussels.

Dräger, Klaus, 2003: *"Pension Reform in the European Union"*. Background Dossier for the meeting of the Forum Social Europe and the GUE/NGL in the European Parliament, Brussels (3 April 2003).

Eatwell, John (2003). *The Anatomy of the Pensions 'Crisis' and Three Fallacies on Pensions*, Cambridge, Eatwell.

Eckhardt, Martina, 2003: *The Open Method of Co-ordination on Pensions - An Economic Analysis of its Effects on Pension Reforms.* Working Paper No. 39. Rostock: Universität Rostock.

Economic Policy Committee, 2001: *"Budgetary challenges posed by ageing population: the impact on public spending on pensions, health and long-term care for the elderly and possible indicators for the long-term sustainability of public finances"*. EPC/ECFIN/655-01-EN final, Brussels.

Eichenhofer, Eberhard, 2001: *Sozialrecht der Europäischen Union.* Berlin: Erich Schmidt Verlag.

Etxezarreta, Miren, 2002: "The European Union Proposals for the Public Pension System", in: European Economists (ed.). *Memorandum 2002: Better Institutions, Rules and Tools for Full Employment and Social Welfare in Europe.*, Chapter 3.

Etxezarreta, Miren, 2003: "Main lines of development of social policy in the EU", in: European Economists (ed.). *Memorandum 2003: Full Employment, Welfare and a Strong Public Sector -Democratic Challenges in a Wider Union -.*, Chapter 7.

European Central Bank, 1999: *"The implementation of the Stability and Growth Pact"*. Monthly Bulletin May 1999, Frankfurt/Main: 45-72.

European Central Bank, 2001: *"Fiscal policies and economic growth"*. Monthly Bulletin August 2001, Frankfurt/Main: 39-53.

European Central Bank (ed.), 2002: *Financial Sectors in EU Accession Countries*. Frankfurt/Main: European Central Bank.

European Central Bank, 2003a: *Annual Report 2002.* Frankfurt/Main: European Central Bank.

European Central Bank, 2003b: *"The integration of Europe's financial markets"*. Monthly Bulletin October 2003, Frankfurt/Main: 53-66.

European Central Bank, 2003c: *"The need for comprehensive reforms to cope with population ageing"*. Monthly Bulletin April 2003, Frankfurt/Main: 39-51.

European Central Bank, 2003d: *"The relationship between monetary policy and fiscal policies in the euro area"*. Monthly Bulletin February 2003, Frankfurt/Main: 37-49.

European Central Bank, 2004: *"The Acceding Countries' Economies on the Threshold of the European Union"*. Monthly Bulletin February 2004, Frankfurt/Main: 45-56.

European Commission, 1997: *"Supplementary Pensions: Commission adopts a proposal for a Directive"*. Press releases IP/97/856, Brussels.

European Commission, 2000: *"Progress on financial services. Second Report"*. COM (2000) 336, Brussels.

European Commission, 2001: *"Financial Services - Political challenges. Fourth Report"*. COM (2001) 286 final, Brussels.

European Commission, 2002: "Commission recommendation of 24 April 2002 for the broad guidelines of the economic policies of the Member States and the Community. Drawn up in conformity with Article 99(2) of the Treaty establishing the European Community", *European Economy* (4): 9-54.

European Commission, 2003: *"Results of Council of Economics and Finance Ministers, Brussels, 13th May 2003 financial services and taxation"*. Press releases MEMO/03/108, Brussels.

European Commission, 2004a: *"Financial Integration Monitor 2004"*. Commission Staff Working Paper SEC (2004) 559, Brussels.

European Commission, 2004b: *"Financial Services - Turning the Corner. Preparing the challenge of the next phase of European capital market integration. Tenth Report"*. Brussels.

European Commission, 2004c: *"Financial Services Action Plan: good progress but real impact depends on good implementation"*. Press release IP/04/696, Brussels.

European Commission, 2004d: *"Progress on the financial service action plan - Annex (Tenth Report)"*. Brussels.

European Council, 1998a: *"Presidency Conclusions, Cardiff"*. Conclusions 00150/1/98 REV1, Cardiff.

European Council, 1998b: *"Presidency Conclusions, Vienna"*. Conclusions 00300/1/98 REV, Vienna.

European Council, 2000: *"Presidency Conclusions, Lisbon"*. Conclusions 100/1/00, Lisbon.

European Council, 2001: *"Presidency Conclusions, Stockholm"*. Conclusions 100/1/01, Stockholm.

European Economists for an Alternative Economic Policy in Europe (2002). *Memorandum 2002: Better Institutions, Rules and Tools for Full Employment and Social Welfare in Europe*, Bremen, EPoC.

European Economists for an Alternative Economic Policy in Europe (2003). *Memorandum 2003: Full Employment, Welfare and a Strong Public Sector - Democratic Challenges in a Wider Union* -, Bremen, EPoC.

European Social Insurance Partners, 2003: *The structure of social insurance in Europe.* Brussels: European Social Insurance Partners.

Felderer, Bernhard (ed.), 1993: *Public pension economics*. Wien, u.a.O.: Springer.

Fuchs, Deike; Mora, Marek; Straubhaar, Thomas, 2002: "Die EU Sozialpolitik im Lichte der Osterweiterung: Das Beispiel der Rentenpolitik", in: Rolf Hasse; Karl-Ernst Schenk; Andreas Graf Wass von Czege (eds.). *Europa zwischen Wettbewerb und Harmonisierung.* Baden-Baden: Nomos**,** 149-161.

Fultz, Elaine, 2004: “Pension Reform in the EU Accession Countries: Challenges, Achievements and Pitfalls”, *International Social Security Review* 57 (2): 3-24.

Gesellschaft für Versicherungswissenschaft und -gestaltung e.V., 2003: *"The GVG on streamlining the open method of coordination in the field of social protection. Comments on the Communication from the Commission of 27 May 2003, COM (2003) 261 finial: Strengthening the social dimension of the Lisbon strategy: Streamlining open coordination in the field of social protection"*. GVG Information services Nr. 293, Cologne.

Grimmeisen, Simone, 2004: *Path Dependence and Path Departure: Analysing the first decade of post-communist pension policy in Hungary, Poland and the Czech Republic.* ZeS-Arbeitspapier Nr. 1/2004. Bremen: Universität Bremen, Zentrum für Sozialpolitik.

Haverkate, Görg; Huster, Stefan, 1999: *Europäisches Sozialrecht: Eine Einführung*. Baden-Baden: Nomos.

Heine, Wolfgang, 2001: "Besteuerung der Alterssicherung in der Europäischen Union", *Deutsche Rentenversicherung* 56 (1-2): 54-66.

Holzmann, Robert; Stiglitz, Joseph E. (ed.), 2001: *New ideas about old age security: Toward sustainable pension systems in the 21st century*. Washington, DC: The World Bank.

Hopp, Franz Wilhelm; Mehl, Georg (eds.), 1991: *Versicherungen in Europa Heute und Morgen*. Geburtstags-Schrift für Georg Büchner. Karlsruhe: Verlag Versicherungswirtschaft.

Huffschmid, Jörg, 2002: *Politische Ökonomie der Finanzmärkte.* Hamburg: VSA.

Jacob, Ralf, 2002: "The European Union and National Pension Policies", in: Yves Jorens (ed.). *The example of old-age pension. The influence of international organization on national social security law in the European Union.* Baden-Baden: Nomos**,** 35-42.

James, Estelle, 1996: "The World Bank's Three-Pillar System: Will it provide income security to the world's aging population?", in: Gesellschaft für Versicherungswissenschaft und -gestaltung (GVG) (ed.). *Die Alterssicherungssysteme vor der demographischen Herausforderung - Das Säulen-Modell der Weltbank als Lösungsansatz.* Köln: Irmgard Vollmer**,** 43-62.

Kahn, Peter L., 2001: "The Institutional Framework of Privatised Public Pension Plans: The Case of Former Socialist Countries", *European Journal of Social Security* 3 (4): 333-352.

Köke, Jens; Schröder, Michael, 2002: "The Future of Eastern European Capital Markets", in: European Investment Bank (ed.). *The Financial Integration of an Enlarged EU: Banking and Capital Markets.* Luxembourg: European Investment Bank**,** 117-138.

Lazutka, Romas, 1999: "To improve or to privatize public pensions?", *Economic Survey of Europe* (3): 108-112.

Leibfried, Stephan; Pierson, Paul, 2000: "Social Policy. Left to Courts and Markets?", in: Helen Wallace; William Wallace (eds.). *Policy-Making in the European Union.* Oxford: University Press**,** 267-292.

Mabett, Deborah, 2000: “Social Regulation and the Social Dimension in Europe: the Example of Insurance”, *European Journal of Social Security* 2 (3): 241-257.

Mager, Cornelius, 1991: "Grundmuster und Grundelemente der Alterssicherung im internationalen Vergleich", in: Hans F. Zacher; Cornelius Mager (eds.). *Alterssicherung im Rechtsvergleich.* Baden-Baden: Nomos**,** 549-609.

Marks, Gary ; Scharpf, Fritz W. , et al. (eds.), 1996: *Governance in the European Union*. London, u.a.O.: Sage Publications.

McGill, Dan M. (ed.), 1996: *Fundamentals of private pensions*. Philadelphia: University of Pennsylvania Press.

Minns, Richard, 2001: *The cold war in welfare: stock markets versus pensions.* London, New York: Verso.

Müller, Katharina, 1999: *The Political Economy of Pension Reform in Central-Eastern Europe.* Studies in comparative economic Systems. Cheltenham, UK; Northampton, MA, USA: Edward Elgar.

Müller, Katharina, 2002: "Between State and Market: Czech and Slovene Pension Reform in Comparison", in: Elaine Fultz (ed.). *Pension Reform in Central and Eastern Europe. Restructuring of Public Pension Schemes: Case Studies of the Czech Republic and Slovenia.* Budapest: International Labour Organization.

Organisation for Economic Co-operation and Development, 2000: *Reforms for an Ageing Society.* Paris: Organisation for Economic Co-operation and Development.

Organisation for Economic Co-operation and Development, 2003: “Pension Reform and Financial Markets: The Impact of the Post-2000 Downturn”, *OECD Financial Market Trends* (84): 77-94.

Orszag, Peter R.; Stiglitz, Joseph E., 2001: "Rethinking Pension Reform: Ten Myths About Social Security Systems", in: Robert Holzmann; Joseph E. Stiglitz (eds.). *New ideas about old age security: Toward sustainable pension systems in the 21st century.* Washington, DC: The World Bank**,** 17-56.

Parniczky, Tibor, 2001: Recent Developments of Private Pension Systems in Selected East European Countries. *OECD Private Pension Conference*, Sofia, Organisation for Economic Co-operation and Development.

Pieters, Danny, 2001: “E.U. co-ordination of social security contributions and taxes”, *Deutsche Rentenversicherung* 56 (1-2): 18-42.

Porte, Caroline de la; Nantz, Patrizia, 2004: “OMC - A deliberative-democratic mode of governance? The cases of employment and pensions”, *Journal of European Public Policy* 11 (2): 267-288.

Porte, Caroline de la; Pochet, Philippe (eds.), 2002a: *Building Social Europe through the Open Method of Co-ordination*. Brüssel, u.a.O: Peter Lang.

Porte, Caroline de la; Pochet, Philippe, 2002b: "Public Pension Reforms: European Actors, Discourses and Outcomes", in: Caroline de la Porte; Philippe Pochet (eds.). *Building Social Europe trough the Open Method of Co-ordination.* Brüssel, u.a.O.: Peter Lang**,** 223-250.

Rabe, Thomas, 1997: *Liberalisierung und Deregulierung im Europäischen Binnenmarkt für Versicherungen.* Berlin: Duncker & Humblot.

Rein, Martin; Schmähl, Winfried (eds.), 2004: *Rethinking the Welfare State*. The Political Economy of Pension Reform. Cheltenham, UK: Edward Elgar.

Reinalda, Bob; Verbeek, Bertjan (eds.), 1997: *Autonomous Policy Making by International Organisations*. London: Routledge.

Sailer, Markus, 1992: "Die Europäische Währungsunion und die Sozialversicherung", *Die Angestellten Versicherung* 39 (5): 211-216.

Sandholtz, Wayne; Stone Sweet, Alec (eds.), 1998: *European integration and supranational governance*. Oxford: Oxford University Press.

Scharpf, Fritz W., 1996: "Negative and Positive Integration in the Political Economy of European Welfare States", in: Gary Marks; Fritz W. Scharpf, et al. (eds.). *Governance in the European Union.* London, u.a.O.: Sage Publications**,** 15-39.

Schmähl, Winfried, 2000: "Pay-as-you-go versus capital funding: Towards a more balanced view in pension policy - some concluding remarks", in: Gerard Hughes; Jim Stewart (eds.). *Pensions in the European Union: Adapting to economic and social change.* Boston, Dordrecht, London: Kluwer Academic Publishers**,** 195-208.

Schmähl, Winfried, 2002: "Open Coordination in the Area of Old-Age Security - from the Point of Economic", in: Bundesministerium für Gesundheit und Soziale Sicherung; Verband Deutscher Rentenversicherungsträger; Max-Planck-Institut für ausl. und intern. Sozialrecht (eds.). *Open Coordination of Old-Age Security in the European Union.* Frankfurt: WDV Wirtschaftsdienst**,** 101-112.

Schmähl, Winfried, 2003: "Initial Experiences with the 'Open Method of Coordination': Open Questions Regarding 'Financial Sustainability' and 'Adequacy' of Pensions in an Expanded European Union", in: Bundesministerium für Gesundheit und Soziale Sicherung; Verband Deutscher Rentenversicherungsträger; Max-Planck-Institut für ausl. und intern. Sozialrecht (eds.). *Open Method of Coordination in the Field of Pensions - Quo Vadis?* Frankfurt: WDV Wirtschaftsdienst**,** 98-113.

Schmähl, Winfried, 2004: "EU Enlargement and Social Security", *Intereconomics* 39 (1): 1-8.

Schmähl, Winfried; Horstmann, Sabine (eds.), 2002: *Transformation of Pension Systems in Central and Eastern Europe*. Cheltenham: Edward Elgar.

Schmähl, Winfried; Rische, Herbert (eds.), 1997: *Europäische Sozialpolitik*. Baden-Baden: Nomos.

Schulte, Bernd, 2001: "EG-Rechtliche Rahmenbedingungen für Nationale Sozialpolitik", in: Winfried Schmähl (ed.). *Möglichkeiten und Grenzen einer nationalen Sozialpolitik in der Europäischen Union.* Berlin: Duncker & Humblot, 9-92.

Schulz-Weidner, Wolfgang, 1995: "Der Einfluß europäischer Sozialpolitik auf die deutsche Rentenversicherung", *Zeitschrift für Sozialreform* 41 (6): 355-384.

Singh, Ajit, 1996: *"Pension Reform, the Stock Market, Capital Formation and Economic Growth: A Critical Commentary on the World Bank's Proposals".* CEPA Working Paper Series I 2, New York.

Sommer, Jörg, 2003: *The Open Method of Co-ordination: some remarks regarding old-age security within an enlarged European Union.* ZeS-Arbeitspapier Nr. 2/2003. Bremen: Universität Bremen, Zentrum für Sozialpolitik.

Tang, Helena; Zoli, Edda; Klytchnikova, Irina, 2000: *"Banking Crises in Transition Countries: Fiscal Costs and Related Issues".* World Bank Working Paper No. 2484, Washington, DC.

Terwey, Franz, 2003: "Koordinierung der Sozialpolitik in der EU wird gestrafft", *Die Angestellten Versicherung* 50 (10): 515-519.

Terwey, Franz, 2004: "Auf dem Weg zu einer 'ganzheitlicheren' Sicht Europas auf die Renten", *Die Angestellten Versicherung* 51 (1): 35-40.

The Committee of Wise Men, 2001: *"Final Report of the Committee of the Wise Men on the Regulation of European Security Markets ('Lamfalussy-report')".* Brussels.

Verband Deutscher Rentenversicherungsträger (ed.), 2003: *Rentenversicherung im internationalen Vergleich.* Frankfurt/Main: Verband Deutscher Rentenversicherungsträger.

Verband Deutscher Rentenversicherungsträger; Bundesministerium für Arbeit und Sozialordnung; Sozialrecht, Max-Planck-Institut für ausländisches und internationales (eds.), 2003: *Open Method of Coordination in the Field of Pensions - Quo Vadis?* International Conference on 26 and 27 March, 2003 in Berlin, Germany. Frankfurt: WDV Wirtschaftsdienst.

Whitehouse, Edward, 1999: *"The Tax Treatment of Funded Pensions".* World Bank Social Protection Discussion Paper No. 9910, Washington, DC.

World Bank, 1994: *Averting the Old Age Crisis.* Policies to Protect the Old and Promote Growth. New York, NY: Oxford University Press.

Zacher, Hans F., 1991: "Ziele der Alterssicherung und Formen ihrer Verwirklichung", in: Hans F. Zacher; Cornelius Mager (eds.). *Alterssicherung im Rechtsvergleich.* Baden-Baden: Nomos, 25-113.

Abbreviations

BEPG	Broad Economic Policy Guidelines
CEEC	Central and Eastern European Countries
CF	Capital funded
DAX	Deutscher Aktien Index
DG	Directorate General
DG Ecfin	Directorate General for Economic and Financial Affairs
EC	European Community
ECB	European Central Bank
ECJ	European Court of Justice
Ecofin	Economic and Financial Affairs [Council]
EC-Treaty	Treaty establishing the European Community
EEC	European Economic Community
EES	European Employment Strategy
EMU	Economic and Monetary Union
EPC	Economic Policy Committee
EPoC	Improvement of Economic Policy Co-ordination for Full Employment and Social Cohesion in Europe
ESCB	European System of Central Banks
EU	European Union
FSAP	Financial Service Action Plan
GDP	Gross Domestic Product
ILO	International Labour Organization
IMF	International Monetary Fund
IORP	Institutions for Occupational Retirement Provision
MFIs	Monetary Financial Institutions
NSR	National Strategy Report
OECD	Organisation for Economic Co-operation and Development
OJ	Official Journal [of EC]
OMC	Open method of co-ordination
PAYGO	Pay as you go
SGP	Stability and Growth Pact