



# Working Paper

**The Welfare State of the Civil (or Public) Servants in Europe:  
A Comparison of the Pension Systems  
for Civil (or Public) Servants in France,  
Great Britain, and Germany**

Franz Rothenbacher

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Editorial Note:

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## Abstract

The civil service in Europe has been undergoing profound changes since the 1980s. Two major developments are responsible for these changes: first, the high budget deficits of governments, and second, the demographic changes causing the share of pensioners to increase. These challenges have caused reactions on the part of governments which are rather similar in most European countries: reducing public sector employment is the most important strategy. Another strategy could be to reduce the salaries of public servants; however, this strategy is not easy to follow because there is a danger of state employment losing its attractiveness. A third strategy to deal with these problems is to reduce pension rights, which are still more favourable for employees in the public service than in the private sector.

Against the background of these challenges, the paper focuses on a systematic comparison of the old age pension system in three countries: France, Great Britain and Germany. One main aim of the paper will be to elaborate the main structure of the pension schemes in the civil services in these countries, which, indeed, differ a lot, to relate them to the life chances of civil servants in their old age, and to evaluate the effects of pension policy reforms in the public sector in order to solve problems of population ageing.

Thus, this contribution tries to investigate the relationship between the institutional level of pay determination and pension regulations and the life chances (incomes, pensions) of people working in the public sector. At the same time it aims at evaluating institutional regulations by looking at the outcomes of these institutions.

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## I. Introduction

The civil service in Europe has been undergoing profound changes since the 1980s. Two major developments are responsible for these changes: first, the high and growing budget deficits of governments, and second, the demographic changes causing the share of pensioners to increase.

These challenges have caused reactions on the part of governments which are rather similar in most European countries: reducing public sector employment is the most important strategy; this is accompanied by tendencies such as the feminisation of public employment and a growing importance of female part-time work in the public sector.

Another strategy could be to reduce the salaries of public servants; however, this strategy is not easy to follow because there is a danger of state employment losing its attractiveness. But salaries in the public sector have declined in some countries, and regarding the elite they are not as favourable for employees in the public service as they are for employees in the private sector.

A third strategy to deal with these problems is to reduce pension rights, which are still more favourable for employees in the public service than for employees in the private sector. The basic structure remains unchanged, but there have been incremental changes regarding the social protection of civil servants in several countries. Such changes, more or less, do not concern the pensioners of today, but those of the years after 2020. Policy measures include the reduction of contribution-free periods (as a result of further education like university studies) or the payment of contributions to the occupational supplementary pension.

Thus, this contribution tries to investigate the relationship between the institutional level of pay determination and pension regulations, the social structure of the public sector (employment structure, working conditions, etc.) and the life chances (incomes, pensions) of people working in the public sector. At the same time it aims at evaluating institutional regulations, looking at the outcomes (income, social standing, position in the hierarchy of inequality) of these institutions. Thus, the contribution tries to utilise the 'model of welfare production' (input-throughput-outcome) as a frame of reference when analysing the welfare state of the civil servants in Europe.

The *definition of the public sector and service respectively* is of central importance for this contribution. This presents a problem in the national context, but an international comparison becomes even more complicated. On the national level, definitions of what is regarded as the public sector, public service or a civil servant differ considerably. If we look at it in a functional (or functionalistic) way it becomes clear to some extent what is meant by state functions, but often the functional criterion does not help when it comes to making international comparisons. To be more concrete: the French counterpart of the German 'civil servant' (regulated by law of the public service ('*Beamtenrecht*')) is the '*fonctionnaire*' (regulated by the *Statut de la Fonction Publique*), and in Great Britain it is the '*Civil Servant*' (regulated by the *Civil Service Code*). But the size of these groups varies a great deal from country to country: the German civil servants account for almost half of all public employees, the majority of the French

public employees has the status of fonctionnaires, and the British civil servants are a small minority. National differences concerning the status of individual occupational groups of the public sector can be illustrated by using, for example, one of the biggest groups of employees, the teachers: whereas in Germany and France teachers (and lecturers) are civil servants (Beamte or fonctionnaires), they do not belong to the civil service in Great Britain.

The conclusion based on this situation can only be that different concepts have to be used, in particular, for facilitating comparisons within the individual areas of the public sector. For an analysis of the development of employment, the concept of the public sector can be used, as data for it are often available, and because it is suitable for depicting the internal heterogeneity. As regards social protection, the situation is more difficult since, typically, there still are many occupation-specific protection schemes in the public sector, fewer in Germany, but more in France and Great Britain. Here it is impossible to examine all systems; often it is not even necessary as the individual public sector protection schemes frequently follow the example of the civil servants' protection scheme to a certain extent. Nevertheless it is impossible to generalize, and existing differences have to be emphasized. Concerning the social position, the same holds true as for social protection: as the social position, especially that of the senior employees, mainly depends on the regulations for social protection, the social position has to be analyzed by professional group of the public sector. Such an analysis is limited right from the beginning, however, as the information basis is not sufficient.

## **II. The civil service and welfare production**

At this point the question must be raised if there is such a thing as a 'welfare state of the civil servants'. Furthermore, the problem of what is the meaning of the term 'welfare state'<sup>1</sup> arises. In a macro-sociological perspective, a welfare state system can be conceived as a societal system with a high coverage of social security, accompanying the individual from cradle to grave; this system prevents people from bigger social risks and tries to remedy them afterwards. The main social risks are: sickness, accidents and occupational diseases, causing a loss of the ability to earn one's own living; old age, characterized by the inability to work; need to be cared because of bad health or disability; and, finally, family and motherhood, and the need for shelter and care. Other points are: a safe working place; or fitness for work; or income replacement when the working place is lost.

If these criteria for social security are taken into account, the hypothesis can be proposed *that civil servants and other employees in the public sector have done most to come near the ideal welfare state*. This is mainly true because of the fact that in the civil service the most comprehensive form and highest extent of social security could be attained thus far. The social standing and security of civil servants therefore caused the envy of other occupations and social strata trying to reach a similar level of social protection.

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<sup>1</sup> On the debate of different concepts and theories see the short overview by Merrien 1997.



Some countries such as the Nordic welfare states did not try—in a system of social protection linked to occupational groups—to adapt their social security regulations to those for civil servants. Instead they created something resembling a civil service position for all citizens, that is, a far-reaching social equality of social security benefits and life chances as well. Hence, in a theoretical perspective, the question has to be asked which consequences social protection has for the life chances of individuals or their social situation—as far as it is determined by social security. It is therefore not sufficient to aim at achieving the highest degree of equality in social protection; instead, the aim must be to attain the highest possible equality of life chances or social situation. Based on this presumption, this contribution belongs to the *realm of social inequality studies*. Equal social protection is by no means equivalent to equality of social situation or life chances due to the fact that social protection is necessarily linked to resources or, more concrete, to incomes earned during active life. The more unequal the distribution of income and wealth, the more unequal the social protection of persons, as in one way or another income is the basis.

The research question of this contribution<sup>2</sup> therefore does not restrict itself to the study of social protection in the public services; instead, it aims at investigating the relationship between *social structuring*, *income chances*, *social security*, and, finally, the *social situation in the public sector*. Such factors, determining the social situation, are systematically depicted in *Figure 1 and Table 1*<sup>3</sup>.

*Figure 1* below illustrates the assumed relationships between the three components social structure, social protection, and social position. One can assume that both the social structure and the institutions of social protection determine the social position of public employees. Thus there would be a dependent range of variables and two independent ranges of variables. These ranges of variables are regarded as a collective of several individual variables. The two independent ranges of variables are regarded as not completely independent from each other; instead, they are interdependent. The two independent and the dependent range of variables together form the endogenous explanatory model. Outside of this area exogenous ranges of variables are assumed, which affect in particular the two independent variables.

The *first independent range of variables* is defined as ‘*change of the social structure*’. It is assumed that it is influenced exogenously by factors which change the social structure: such conceivable factors are the expansion of education, the increase in female participation in education, the family policy (*arrow 1*). It is assumed that the first independent range of variables influences the *second independent range of variables*, the *institutions of social security*. The expansion of public occupation increased the pressure on the state budget (staff expenditure, pension costs), i.e. it produced an increase in ‘pension loads’ (*arrow 2*). This pressure is increased by exogenous factors, such as demographic ageing, a higher life expectancy, and rising health costs (*arrow 3*). The change in the social structure influences directly the social position of the employees (*arrow 4*): public employment

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<sup>2</sup> This research topic was already investigated in an earlier article by the author; see *Rothenbacher* 2001.

<sup>3</sup> The research topic of this study can be regarded as *welfare production* of a special social category, the public servants; concerning models of welfare production see *Zapf* 1981, 1984; *Rothenbacher* 1998a.

as full-time work, for example, results in full pension entitlement, whereas part-time work does not produce this kind of entitlement in most cases. The decrease in the number of full-time jobs and their being split into part-time jobs has the result that a job in the public sector becomes the 'second-best' job in a family, usually that of the wife. *The biggest influence on the social position probably results from direct changes in social protection, in particular in the field of old age provision* (arrow 5): such measures include employees' contributions to old age pension benefits, the raising of the pension age, a reduction in the reckonable periods of inactiveness, the linearization of the pension formula, changing the indexation, and many other individual measures. These individual measures, as negligible as they might partly seem, can cumulate and become substantial burdens on the incomes of the employees (e.g. as a result of employees having to pay contributions to the old age pension benefits) or the elderly. Apart from that, the social position of the employees and seniors in the public sector is influenced by further—exogenous—variables, such as private creation of wealth, costs for health care and pension costs, etc., which cannot be taken into consideration here, however.

*Table 1* below lists the dimensions postulated in the ranges of variables of the hypothetical model and formulates indicators for the quantification of these dimensions. The indicators formulated in the table (these have to be adapted to the data that are available) are to be quantified as time series in a disaggregated form (e.g. sex, age system) in order to facilitate the finding of possible effects.

The basic hypothesis is that it does not suffice to study social protection alone, as in the tradition of empirical comparisons of judicial regulations<sup>4</sup>; instead, in order to get a picture of the consequences of social protection instruments, resource allocations and 'outcomes' must be taken into account as well. Here the thesis is put forward that social protection is not an end in itself, but has only instrumental character. The final aim is to influence in a 'positive' way life chances of individuals or of groups of individuals. The only focus is therefore the goal orientation of social protection with reference to the creation of equal living conditions, its consequences and external effects<sup>5</sup>.

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<sup>4</sup> On this topic see the publications by *Hans Zacher* and by the *Max-Planck-Instituts für ausländisches und internationales Sozialrecht* in Munich which deal extensively with empirical comparisons of social law.

<sup>5</sup> See the approach of *Jürgen Kohl* in his thus far unpublished habilitation thesis (*Kohl 1994*); the author explicitly deals with goal orientation in social policy.

Figure 1: Hypothetical explanatory model

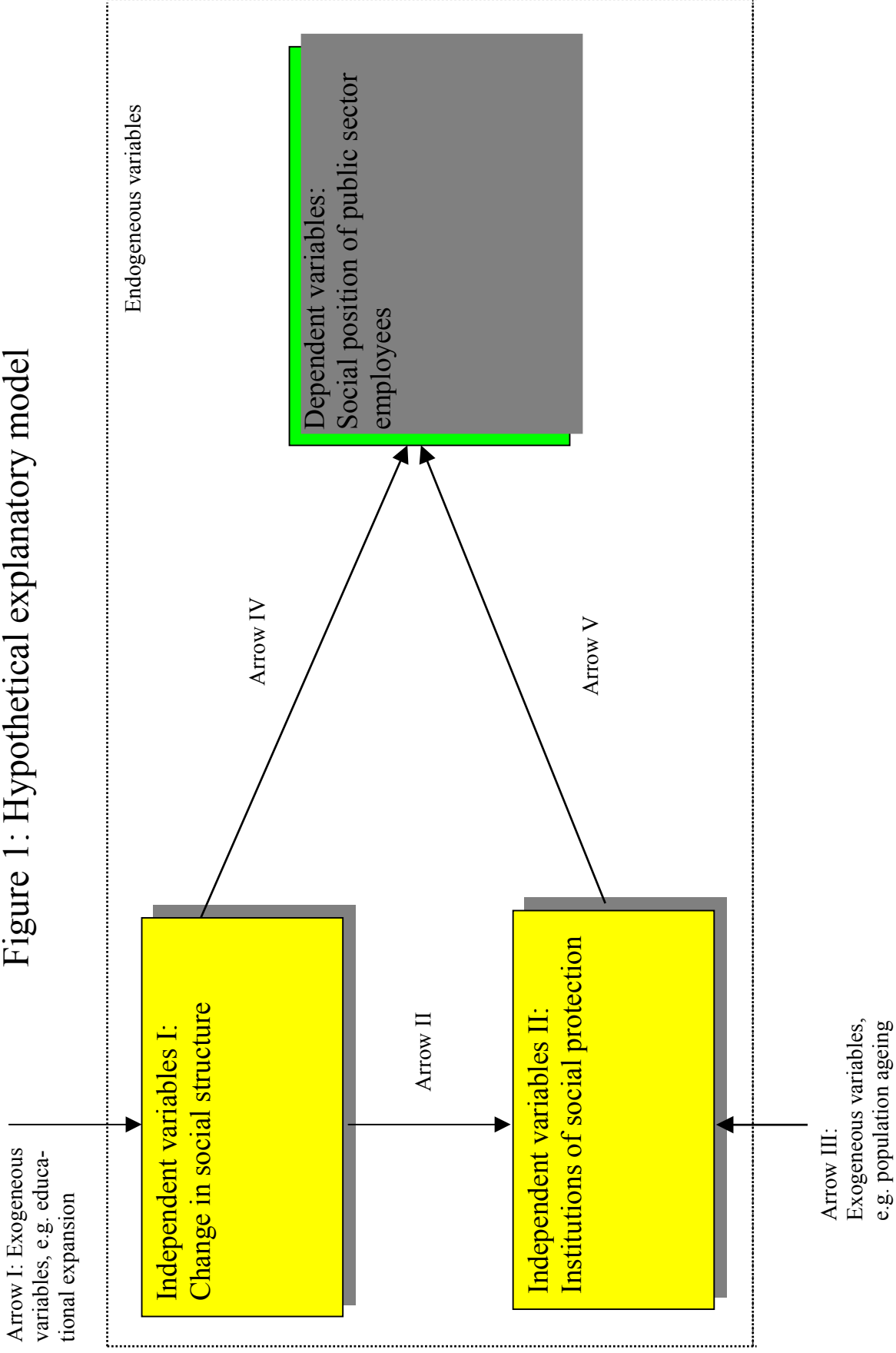


Table 1: Operationalization of the Three Components Social Structure, Social Protection and Social Position

Aspects of the public sector	Dimensions	Indicators
<b>Social structure</b>	growth; devolution structure of genders, 'feminization' part-time work thinning out of lower career groups ('upgrading') functional structure; 'privatization'	global employment rate gender-specific employment rate gender-specific part-time work rate per cent distribution of career groups over time employees by functional areas
<b>Social protection</b>	old age pension  survivor's pension <i>Possible further dimensions of social protection</i> disability  health protection  family benefits  accident insurance and protection against occupational diseases annual vacation and weekly working hours	retirement age pensionable salary pensionable period of service pension formula amount of contribution  height of disability pension and eligibility requirements payments (continued payment of salary) payments in kind (nursing) special family benefits for public employees (exceeding the general benefits) height of pension and eligibility requirements length of time
<b>Social position</b>	standard of living: salary and income in the active service  living standard: pensions height and old age income  <i>Possible further dimensions of the social position</i> working conditions  state of health  family structure living conditions	gross salary  relation to the private sector internal differentiation net pension  dispersion of the height of pension benefit  working hours vacation regulations  days of sickness; periods of inactiveness life expectancy frequency of work accidents, occupational diseases and disability number of children size of dwelling owner-occupied dwellings

### **III. The strategic position of the civil service in social security**

A comparison of old age security in the public services of the three countries with the largest populations of the European Union—representing altogether over 50% of all inhabitants of EU 15—in the post-war period cannot only concentrate on this time period, but has to describe at least its historical genesis since the 19th century. The reason for this is that the essential structures of the national old age systems were created as early as the 19th century. This is the meaning of the thesis of the pioneering role of civil service social protection.

The European societies are essentially confronted with the same social challenges resulting from the comprehensive processes of modernization since the 19th century. While, for example, until the 1970s the introduction of social services and social security institutions and their extension to cover large segments of the population was in the foreground, for more than a decade the adaptation of the systems to changing financial and demographic framework conditions has been the centre of attention. Due to historical, geographical and geo-political conditions, the individual countries have found rather different solutions for one and the same social problem. The analyses of these manifold and different attempts to solve these problems become enormously important—in a historical context, too—because they show which solutions exist (and existed) in empirical reality. Therefore they allow for a reflection on the national institutions, which are often considered as the best and only possibilities. Therefore the most important function of international comparisons<sup>6</sup> probably is to cast light upon the facts, because the study of alternative systems prevents people from perceiving national arrangements as absolutes.

This perspective is of special relevance for the European unification, because the legally guaranteed mobility of the workforce within the internal market requires a mutual opening and adaptation of the national systems. A sound knowledge of these systems is a basis for any concrete measure aiming at a convergence of these systems. A second question could be which model of old age protection in the public services in Europe would be the most adequate one. This question, again, requires a profound understanding of the national systems, of their advantages and disadvantages.

#### **(a) Civil service pensions came first**

Old age protection by the employer (the state) for civil servants was established earlier than that of workers in industry. It represents, along with the alimentation and protection of the military servants (soldiers, army, navy), the seamen/sailors and the miners, the earliest form of old age security. State pensions for civil servants were introduced much earlier than workers' insurances or national systems.

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<sup>6</sup> See mainly the comparative conferences on social security, organized by the *Mission Recherche et Expérimentation (MIRE)* at the *Ministère des Affaires Sociales, de la Santé et de la Ville: MIRE 1995–9*.

First attempts of civil service pensions are to be found as early as the 17th and 18th century<sup>7</sup>, but the decisive period were the decades of Napoleonic rule<sup>8</sup>. In the first half of the 19th century, in more or less all German states, in France and England we find laws on pensions for civil servants<sup>9</sup>. Workers' insurances or national insurances were only introduced during the period of high industrialization, starting with the German reforms of the 1880s<sup>10</sup> (Table 2; Figure 2A and 2B).

Table 2: Year of First Introduction of a State Pension Scheme for Civil Servants Compared to Workers and Employees in Private Industry

Topic	United Kingdom	France	Germany
<b>Pension for state civil servants</b>	1834: First <i>Superannuation Act</i> , basis for the present <i>Principal Civil Service Pension Scheme</i> 1859: <i>Superannuation Act</i>	1790: pension law for civil servants of the state 1853: law on civil pensions 1924: coherent pension scheme for civil servants of the state and soldiers	1805 Bavaria: Landespragmatik of Montgelas 1825 Prussia: Pension regulation for state civil servants 1873 German Empire: law on civil servants of the Empire
Old age pension for workers	1908: contribution-free and means-tested old age pension 1925: <i>Widows', Orphans' and Old Age Contributory Pensions Act</i> introduced 1946: people's insurance (with possibility for exemption for certain groups)	1910: obligatory insurance 1930: sharpening of obligation to insurance 1942: all workers without income limits	1889 German Empire: obligatory insurance for workers and employees below certain income limits
Old age pension for employees			1911 German Empire: law on old age insurance for employees
<b>Survivors' pension for civil servants' widows and orphans</b>	1935: voluntary pensions for widows 1949: contributory widows' and orphans' pensions	1853: law on civil pensions; introduction of survivors' pensions for widows and orphans	1881 German Empire: law on survivors of civil servants of the Empire
Survivors' pension for workers and employees	1925: obligatory insurance with income thresholds for old age and survivors' pensions	1910: state pensions for workers and peasants 1930: obligatory social insurance for dependent employees	1889 German Empire: law on invalidity and old age insurance 1911 German Empire: codification in the insurance regulation of the Empire

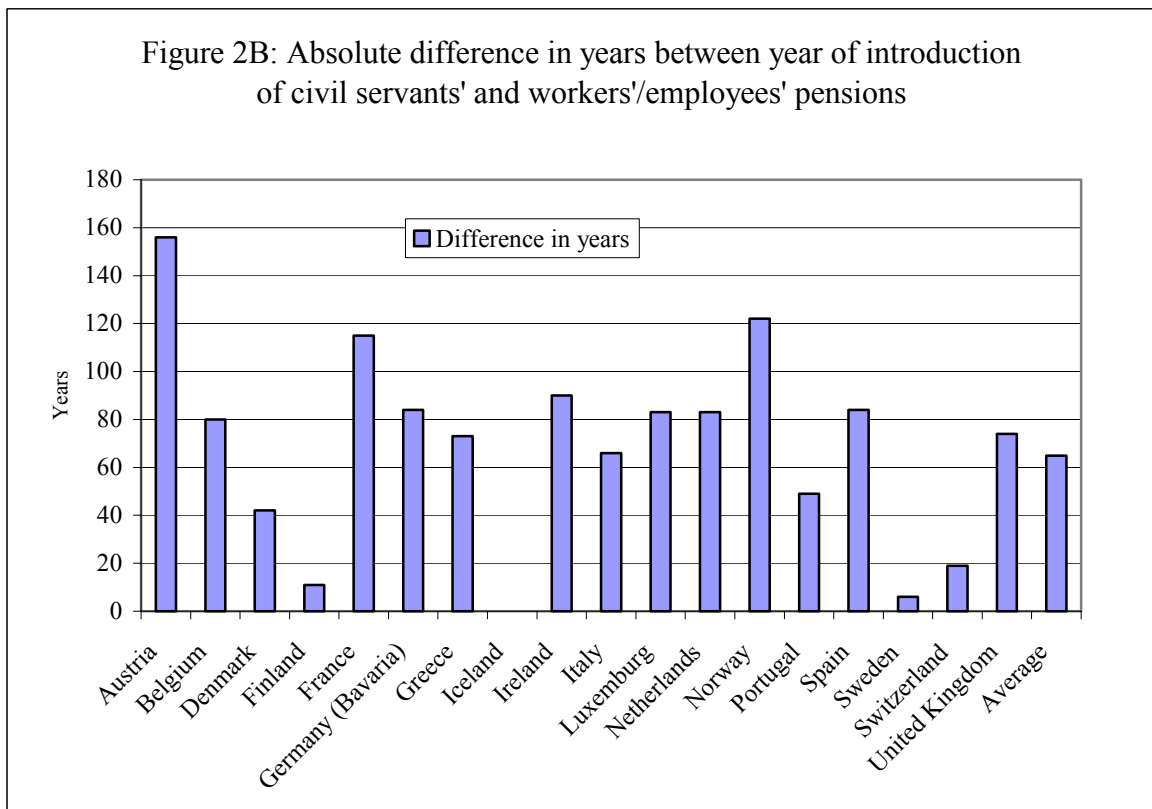
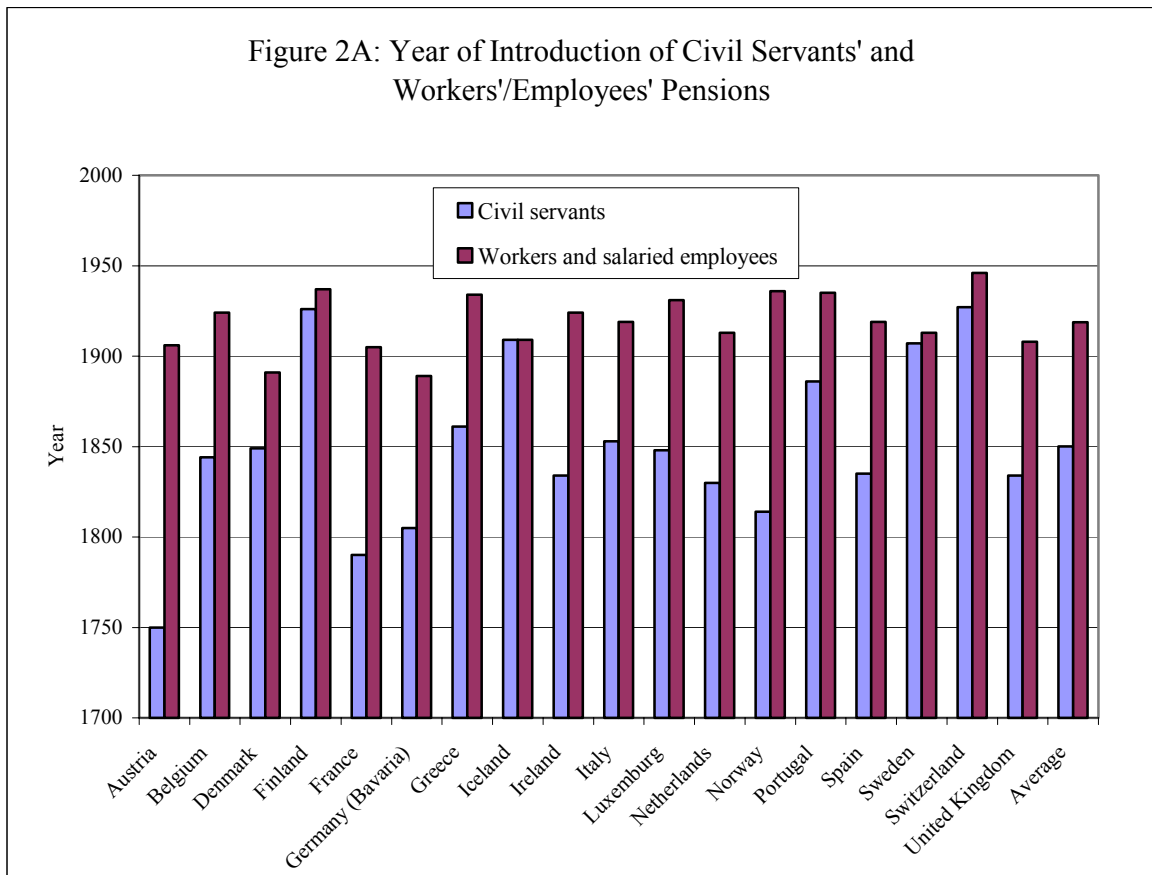
Sources: Alber 1982: 232ff.; Flora and Alber 1981: 59 and passim; Palme 1990: 43; Frerich 1990: 103, 105–8; Saint-Jours 1981: 262 and passim.

<sup>7</sup> See for Great Britain: Raphael 1964; Cohen 1965. For France: Wunder 1984a; Thuillier 1991; Thuillier 1992; Thuillier 1994. For Germany: Hattenhauer 1993; Summer 1986.

<sup>8</sup> See Wunder 1995.

<sup>9</sup> For France: Wunder 1984a. For Austria: Wunder 1984b: 341–406. For Germany: Hattenhauer 1993. For Great Britain: Cohen 1965; Rhodes 1965; Hughes 1988. For Ireland: Hughes 1988.

<sup>10</sup> Andrietti et al. 2000 contains a table with the years of introduction of old age pensions in the European countries; see also Palme 1990: 43.



## b) The stages towards all-embracing social security

Although social security for civil servants began with the pension or old age protection, this was only the beginning. Therefore a pension was, in principle, often no insurance against misery. Furthermore, the system of civil service pensions without further regulations was far from being an integrated and coherent whole.

The so-called contribution-free pension did not exist from the very beginning: in the German states, during the 19th century different regulations existed according to the federal state; in France, various rules were effective for the domains of the public services, and in England there were ongoing debates and repeated questioning of the adequacy of no contributions.

In Prussia, the 'Pension Regulations for Civil Servants' (Pensionsreglement für die Civilstaatsdiener) of 30.4.1825 still requested contributions: these were abolished as late as 1.1.1868<sup>11</sup>. In other large German Federal States, the rule of no contributions was accepted earlier: in Bavaria, in principle, by the 'Bavarian Main Pragmatic Law' (Bayerische Hauptlandespragmatik) of 1.1.1805<sup>12</sup>, and in Saxonia by the law of 7.3.1835<sup>13</sup> (in Saxonia only for the civil servants' own pension but not for survivors' pensions). The 'Law on Civil Servants of the German Empire' (Reichsbeamtengesetz) of 31.3.1873<sup>14</sup> laid down that civil servants of the Empire did not have to pay contributions. In France, the 'Pension Law for Civil Servants of the State' (Loi sur les pensions civiles) of 22.8.1790 requested civil servants to pay contributions; these were retained by the 'Law on Civil Service Pensions' (Loi sur les pensions civiles) of 9.6.1853; 5% were deducted from the wage; the first monthly wage was kept with the entry into the civil service; furthermore, with each wage increase<sup>15</sup>. In the United Kingdom, the 'First Act of Parliament on Superannuation' of 1810 did not ask for contributions<sup>16</sup>. Until the middle of the 19th century, attitudes oscillated between generosity and doubts in the possibility to finance the costs. As early as 1821, the *Treasury* saw the necessity of contributions. One year later, in 1822, they were actually introduced. In 1824 they were abolished by Act of Parliament. In 1829, they were reintroduced. Finally, 1857 was the decisive year, because in this year they were abolished for good, and the *Superannuation Act*<sup>17</sup> of 1859 confirmed this regulation. The privilege not to pay pension contributions was questioned all the time when the financing of pensions was seen as problematic: as early as 1888, the 'Ridley Commission' investigated the reintroduction of contributions, and the 'Tomlin Commission' of 1931 had the same purpose.

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<sup>11</sup> The pension regulation was not published in the Prussian law collection (Preußische Gesetzessammlung): see *Ambrosius* 1950: 52f.; furthermore *Augar* 1925.

<sup>12</sup> *Regierungs-Blatt für das Königreich Bayern (BayRegBl.)*, p. 233; printed by *Summer* 1986: 114–26.

<sup>13</sup> Sächsisches Civilstaatsdienergesetz of 7.3.1835, *Gesetz- und Verordnungsblatt für das Königreich Sachsen (GVBl.)*, p. 132; printed by *Summer* 1986: 409–28; on this topic see also *Kunze* 1910.

<sup>14</sup> RGBl. p. 61; printed by *Summer* 1986: 632–66.

<sup>15</sup> *Wunder* 1984a: 469.

<sup>16</sup> On this point see *Rhodes* 1965: esp. 13ff.

<sup>17</sup> 'Superannuation' means in the United Kingdom (and Ireland) the old age pension for civil servants. 'Superannuation Acts' are the legal basis for these old age pensions.



*Widows' and survivors' pensions.* One of the first and oldest issue was the pension for relatives in the case of death of the civil servant, mainly for the widow and the children (widows' and orphans' pensions). In the beginning it was assumed that care for his own family was to the responsibility of the civil servant himself. Therefore relief funds were created, collecting contributions from the civil servants. But these funds had big disadvantages. They put a heavy burden on the income of civil servants through contributions which often were much too high. Thus, throughout the 18th and 19th century the civil servants complained about the missing protection of their families when they will die. Only slowly a state widows' and orphans' pension was introduced. In the beginning, contributions often had to be paid. Only during the 19th century, contribution-free widows' and orphans' pensions were established in some countries. In the German Empire, the 'Law on Social Care for the Survivors of Civil Servants of the German Empire' (Reichshinterbliebenenfürsorgegesetz) of 1881<sup>18</sup> provided contribution-free widows' and orphans' pensions. But in France, a flat rate for civil servants continued to exist even after the law on civil pensions (Loi sur les pensions civiles) of 1853<sup>19</sup>; in addition, this law made widows' and orphans' pensions obligatory. The law of 14.4.1924, which integrated the pension system for civil servants and soldiers, fixed the contributions of civil servants to old age and survivors' pensions at a lump sum of 6% of the gross wage. Today, the contribution rate is 7.85%<sup>20</sup>. In the United Kingdom, survivors' pensions came comparatively late. In 1935, voluntary pensions for widows and, in 1949, contribution-related widows' and orphans' pensions were introduced<sup>21</sup>. In contrast to Germany (but as in Denmark, Greece and Luxemburg) survivors' pensions never became contribution-free. Civil servants pay 1.50% of their salary for the old age protection of their survivors<sup>22</sup>, while their own pensions are contribution-free.

When were contributions for survivors' pensions abolished? In the German Kingdom of Bavaria, the state expressly acknowledged responsibility also for survivors of civil servants in the 'Bavarian Main Pragmatic Law' (Hauptlandespragmatik über die Dienstverhältnisse der Staatsdiener) of 1805. But despite of this principle, small contributions of 1 to 3% of the salary were kept after the law had been implemented. These contributions were abolished as late as 1865<sup>23</sup>. The merit of having introduced the first proper state pension in Germany goes to the Großherzogtum Sachsen-Weimar with the 'Law on Retirement of Widows and Orphans of Deceased State Servants' (Gesetz über die Pensionierung der Witwen und Waisen verstorbener Staatsdiener) of 6.4.1821. The state accepted to pay the contributions for the survivors' pension<sup>24</sup>. Until the 1880s, other German states accepted the principle of no contribution, and by the early 1890s eleven of the German Federal States had done so. In the German Empire, in the laws of 20.4.1881 (for civil servants of the Reich)

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<sup>18</sup> Gesetz, betreffend die Fürsorge für die Wittwen und Waisen der Reichsbeamten der Civilverwaltung vom 20.4.1881, *RGBl.* p. 85; printed by *Summer* 1986: 667–72.

<sup>19</sup> See *Wunder* 1984a.

<sup>20</sup> *Chauleur* 1998: 11f.

<sup>21</sup> See Table 2 and the references mentioned there.

<sup>22</sup> The survivors' pension includes the *widow(er)'s benefit* and die *children's allowance*.

<sup>23</sup> *Frerich and Frey* 1993a: 73.

<sup>24</sup> *Frerich and Frey* 1993a: 74; furthermore *Zimmermann* 1893: 143.

(Beamtenhinterbliebenengesetz—BHG)<sup>25</sup> and of 17.6.1887 (for the army and navy of the German Empire)<sup>26</sup>, and in the Kingdom of Prussia in the law of 20.5.1882<sup>27</sup>, the duty of the state to care for survivors of civil servants was laid down. Nevertheless, a fee of 3% of the pensionable service income was kept. The laws of 5.3.1888<sup>28</sup> (German Empire) and 28.3.1888<sup>29</sup> (Prussia) abolished these fees and acknowledged the principle of contribution-free survivors' pensions.

In addition to pension rights of active civil servants the French law of 1853 introduced survivors' pensions for widows and orphans (until the age of 21) at a level of one third of the retirement pension of the civil servant<sup>30</sup>. In the United Kingdom, survivors' pensions in the *Civil Service* came very late. In 1902, a *death benefit* was planned to be introduced, and in 1909 it was actually introduced. In 1935, voluntary pensions for widows (financed by contributions) were added, and in 1949, obligatory statutory contribution-financed survivors' pensions for widows and orphans were finally introduced<sup>31</sup>.

*Indexation.* The second big flaw of early pension systems was that they were not linked to changes in the costs of living. In the beginning, every pension adaptation required a separate law. Adaptations during the 19th century were often postponed for years; losses in real income of civil service pensioners often reached threatening heights. Linking pensions to wage increases of active civil servants, as in Germany, or to the index of living (indexation), as in the United Kingdom, is a rather modern development and has existed only since the end of World War II.

### **c) A model for the social security of other occupational groups**

The alimentionation of state servants became a model worth being imitated by other occupational groups as early as the 19th century. Here a distinction has to be made between occupational groups with public tasks and functions (public sector) and occupational groups in the private sector. The extension of state activity since the 19th century created many occupational groups with sovereign or state resp. public tasks and functions. In the beginning, these functions were partly exercised by private enterprises, such as post and railways; only later were they nationalized. Concerning the growing domains of communal infrastructural services (such as water supply, gas, electricity, and public traffic), for the employees of the post, telegraphy, telephone and railways as well as for the police and fire fighters the question was raised which criteria should be used to regulate occupational status and old age protection.

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<sup>25</sup> See *Frerich and Frey* 1993a: 126f.

<sup>26</sup> *Zimmermann* 1893: 144.

<sup>27</sup> Gesetz betr. die Fürsorge für die Witwen und Waisen der unmittelbaren Staatsbeamten, Gesetz-Sammlung für die Königlich Preußischen Staaten, p. 298; see *Zimmermann* 1893: 144; furthermore *Frerich and Frey* 1993a: 126f.

<sup>28</sup> Gesetz betr. den Erlaß der Wittwen- und Waisengeldbeiträge von Angehörigen der Reichs-Civilverwaltung, des Reichsheeres und der Kaiserlichen Marine of 5.3.1888, RGBl. p. 65; printed by *Summer* 1986: 673–80; see also *Frerich and Frey* 1993a: 127 and *Zimmermann* 1893: 144.

<sup>29</sup> *Zimmermann* 1893: 144; see as well *Frerich and Frey* 1993a: 127; on this topic see also *Jacob* 1971.

<sup>30</sup> *Wunder* 1984a: 469.

<sup>31</sup> *Rhodes* 1965: 79f.

The problem was solved by taking the old age protection of state servants as a basis. The United Kingdom, France and Germany, however, took totally different paths. In the United Kingdom, during the late 19th and early 20th century old age pensions developed differently for the main parts of the public sector: local governments, teachers, health professions, police, fire fighters, university professors, and the army. Later on, special systems were added in the nationalized industries. In France, mutual aid associations dominated in the realm of old age security during the 19th century. The employees of départements and of hospitals had their own autonomous pension regimes. It was only in the second half of the 20th century that they were merged with the 'fonction publique territoriale et hospitalière'. In Germany, by contrast, we can find a separation of the public services into two social status groups. Besides the civil servants, professional groups of public employees were created, which did not attain the status of a civil servant. The workers' pension insurance and—later—the employees pension insurance, too, caused a systematic separation of both status groups from civil service pensions; the so-called 'private civil servants' ('Privatbeamten', i.e. employees in industry and trade) received their own system of pension insurance. As workers and employees in the public services often carry out similar work as civil servants, very soon at least a 'partial' equal status regarding the pension entitlement of employees/workers on the one hand and civil servants on the other hand was requested and finally introduced: this way the additional occupational pension for workers and employees in the public services (*second pillar*) was created (Zusatzversorgung der Arbeiter und Angestellten im öffentlichen Dienst). France also introduced such an additional occupational pension (IRCANTEC<sup>32</sup>), but only for those employees in the public services that had a private law work contract (*agents publics non titulaires*<sup>33</sup>). These can be compared to the German public employees. In France, *workers of the state* have their own pension regime.

A second process—in addition to the first one: the transfer of the model of civil service social protection to other occupational groups in the public sphere—is the diffusion of elements and ideas of state servants' protection to occupational groups in the private sector, such as industrial workers, industrial employees (Privatbeamte)<sup>34</sup>, craftsmen, peasants, the self-employed. The transfer of innovations between nations is a well-known phenomenon in old age protection<sup>35</sup>, too. These innovations, however, are often not adopted or implemented or only partially adopted. This reluctance must be attributed to the historical constellations modifying such processes in reality. Concrete evidence of such an adoption or of the fact that an institutional invention in one country inspired social politicians in other countries is only hard to find. But there can certainly be no doubt that the old age protection of civil servants was used very early as an anchor and model for demands coming from other occupational groups, in private industry, too.

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<sup>32</sup> *Institution de Retraite Complémentaire des Agents Non Titulaires de l'État et des Collectivités Publiques*, founded in 1971 by merging a *régime cadres* and a *régime non-cadres*. IRCANTEC is an obligatory additional insurance for the public sector; see *Gervais* 1992: 195.

<sup>33</sup> Public employees not having the status of civil servants.

<sup>34</sup> On this point *Kocka* 1981.

<sup>35</sup> On the usefulness of *diffusion theory* for the spreading of general systems of social security see *Alber* 1982: 134ff.

## d) Institutional variations<sup>36</sup>

1. *The British system:* In the United Kingdom, in contrast to Germany and France a state basic old age pension exists which is obligatory for all residents (*basic state pension*). This pension was introduced after the Beveridge-Report<sup>37</sup> had appeared in 1948 and continues the means-tested old age pension of 1908<sup>38</sup>. This basic pension is the *first pillar* of the British old age protection system. Characteristics for this basic pension are: the same contributions for each person insured and therefore the same benefits for everybody. Because the income resulting from this basic pension alone was rather small (20–30% of average salaries), a national income-related insurance system was introduced in 1978, the *State Earnings Related Pension Scheme (SERPS)*<sup>39</sup>. In the United Kingdom, other complementary old age pension systems exist in addition to SERPS, such as *occupational pension schemes* or personal pensions of employed persons. Altogether, they represent the so-called *second pillar* of old age protection. SERPS is only the youngest element of this pillar. If complementary pensions other than SERPS guarantee the minimum conditions of SERPS, there is the possibility to be insured by the employer outside of SERPS, or the employee insures himself outside of SERPS (*contracting out*<sup>40</sup>). All pension systems in the public sector outside of SERPS are based on the method of *contracting out*. A person joining a special pension system of the public sector is allowed to leave it under certain conditions (*opt out*) and may either return to SERPS or to a private pension plan (*personal pension scheme*). The British two-pillar-system of old age protection—with reference to the public sector—is opposed to systems of civil servants' protection in Germany and France, which are characterized by a double function: they offer both basic pensions and supplementary pensions.

a) *The different Superannuation Schemes*<sup>41</sup> *in the public sector:* The public sector of today consists of a plurality of different pension regimes. These pension regimes were established during the last two centuries as a result of the differentiation and specialisation of occupational groups. The most important stages in the formation of pension regimes for individual occupational groups in the public sector can be found in the book by Rhodes<sup>42</sup>. According to Rhodes, *Civil Servants* were the first ones to receive an occupational pension regime by the *Superannuation Act* of 1834. It was much later (1864, 1884) that the armed forces<sup>43</sup>, the teachers (1918)<sup>44</sup>, the police (1921)<sup>45</sup> and fire fighters

<sup>36</sup> See Bonoli and Palier 2001.

<sup>37</sup> Beveridge 1942.

<sup>38</sup> 'Old Age Pensions Act 1908'. On this point see Rhodes 1965: 29ff.; Ogus 1981: 327; Ogus, Barendt and Wikeley 1995: 215.

<sup>39</sup> On this point: Ogus, Barendt and Wikeley 1995; Blake 1995: 71ff.; Kohl 1994: 244–81. On SERPS as *supplementary pension* or as *second pillar* see Reynaud 1996.

<sup>40</sup> Employed persons are allowed to leave SERPS (*contract out*) if their employer has his own *occupational pension scheme*, guaranteeing the minimum benefits of SERPS. As a rule, 100% of all employees in the public sector are members in the employers' pension scheme (see *Government Actuary* 1994: p. 7, table 2.5).

<sup>41</sup> On terminology: the pension systems of the public sector in the United Kingdom are known as 'Superannuation Schemes'. The universal basic pension is called 'State Pension'; the pension schemes offered by employers are called 'Occupational Pension Schemes'.

<sup>42</sup> Rhodes 1965.

<sup>43</sup> 1864: *Naval and Marine Pay and Pensions Act*; 1884: *Pensions and Yeomanry Pay Act* (for the army and later on the Air Force); today *Armed Forces Pension Scheme* (AFPS).

<sup>44</sup> 1918: *Teacher's Pension Scheme (TPS)*; 1925: *Teacher's Superannuation Act*.

<sup>45</sup> 1921: *Police Pension Scheme*; 1948: *Police Pensions Act*.

(1925)<sup>46</sup>, and the local government employees (employees of communes) (1937)<sup>47</sup> were added. When the 'National Health Service' (NHS) was introduced in 1948, the old age protection of the dependent employees in the health sector was regulated in a uniform way<sup>48</sup>.

As a consequence of the growth of the educational sector and the health care services during the post-war period, the pension regimes of teachers (1986: 562,723; 1991 535,549 members) and the NHS (active members in 2000: 996,671) became the two pension systems with the highest membership. The number of employees in the Civil Service (nearly identical with the active members in the PCSPS; highest level in 1976 with 762,000 employees; 1998/99: 486,000 active members) and the Armed Forces (1961: 474,000; 1998: 210,000), however, declined strongly.

The formal organization of the system of health care was changed. In 1991, the NHS trusts were formed as public corporations, and received financial autonomy<sup>49</sup>. The pension regime of the NHS, however, was not affected by this reform and remained in existence. The number of pension recipients in most pension regimes is increasing.

The 20th century saw a series of changes laid down in several Superannuation Acts. The last *Superannuation Act* of 1972<sup>50</sup>, decisive for the present status, made the law-making procedure in pension matters (non-statutory instruments instead of acts of parliament) easier and brought all special occupational pension systems in the public sector under the control of the responsible minister. Finally, the indexation of the old age and survivors' pension in all pension systems of the public sector was introduced.

*b) The institutional rules of old age protection*<sup>51</sup>: in principle, every pension regime of the British public sector should be presented separately. This seems not very sensible, because these pension regimes basically offer rather similar benefits. It is only on the side of financing of benefits that important differences exist, because Civil Servants, as opposed to all pension systems in the public sector, do not pay any contributions for their old age pension. Thus, the oldest and most influential pension regime is selected here. This certainly is the 'Principal Civil Service Pension Scheme' (PCSPS). The PCSPS is the basic pension regime for most Civil Servants and for employees of such other public agencies as National Museums and Portrait Galleries. When entering the Civil Service, employees automatically become members of the PCSPS. There is a possibility to *opt out* insofar as the new pension scheme guarantees a minimum pension level. The Civil Servant does not pay any

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<sup>46</sup> 1925: *Fire Brigade Pensions Act*; 1948: *Firemen's Pension Scheme*.

<sup>47</sup> 1937: *Local Government Superannuation Act*; *Local Government Pension Scheme (LGPS)*.

<sup>48</sup> Rhodes 1965: 266f. and passim

<sup>49</sup> McGregor 1999: 31f.; *Government Actuary* 1994: 9.

<sup>50</sup> Blake 1995: 6 and 23; see furthermore: *Cabinet Office* 1999, *Civil Service Pensions: Scheme Rules, Principal Civil Service Pension Scheme*. London: Cabinet Office (Internetadresse: <http://www.cabinet-office.gov.uk/civilservice/pensions/1999/>).

<sup>51</sup> Neyens and Koob 1992; *Department of Finance*, *Commission on Public Service Pensions Interim Report*, Dublin 1998 (internet address: <http://www.irlgov.ie/finance/INTEREST/pensindex.htm>); *Department for Education and Employment*, *Report of the Working Group for the Longer Examination of the Teacher's*

contributions for his own pension, only for the widows'/widowers' pension; this fee amounts to 1.50% of the salary at present. Contribution exemption is justified by the fact that the civil servant's salary is reduced, and a certain part of the salary is kept for the pension. The old age pension of the Civil Servant is calculated by taking the average salary of the best 365 days of the last three years of active service. This pensionable salary is weighted by the years of service. For each year of service 1/80 of the last salary is taken into account. Thus, for 40 years of service 40/80 or half the last salary is received. In addition to a current pension payment the Civil Servant receives a flat rate at the time of retirement of three times the annual pension. In Europe, this benefit is only granted in the United Kingdom and in Ireland. In addition to these two PCSPS benefits, the civil servant receives a benefit from the 'Basic State Pension', which is on average 20–30% of the average wage level. The 'Basic State Pension' declines in value: until 1995 it declined to 15.7% of mean wages. After 40 years of service, the *Civil Servant* can receive a pension worth 75% of his last income. Compared to the private sector, where in general average salaries are taken as basis of pension calculation, the pension levels attained in the Civil Service are clearly higher.

The 'widow/er's benefit' amounts to 50% of the pension of the claimant. Every child living with the widow or the widower of the claimant receives a 'children's allowance' (Waisengeld) accounting for 25% of the pension of the claimant. If a different person cares for the child, the orphan's pension is 33%<sup>52</sup> of the pension of the claimant.

The regular pensionable age for Civil Servants is 60 years<sup>53</sup>. In the private sector, the pensionable age is higher, 65 years in general. The 'Civil Service Pension' (and the acquired pension rights if service is left prematurely ('preserved benefits' or 'deferred benefits')) are linked to changes in the cost of living (*Retail Price Index*) and not to the wages of the active *Civil Servants*, in contrast to regulations in France and Germany.

2. *The French system*<sup>54</sup>: Civil servants are among the first professions in France to receive a pension: civil servants of the central government had a pension scheme as early as 1790, changed by the law of 1853. Soldiers (military personnel) received a pensions statute for the first time in 1831. The manifold schemes developing during the 19th century were unified in 1928. Concerning the civil servants of the *fonction publique territoriale*, a plurality of schemes (more than 3,500) developed in the course of the 19th and 20th century which were unified in 1945 through the newly created '*Caisse Nationale de Retraite des Agents des Collectivités Locales*' (CNRACL). Concerning the dependent employees in the private sector various different pension schemes were established during the first half of the 20th century, often as mutual aid associations. In 1945, influenced by wartime events and the experiences of French politicians being exiles in England, a plan to unify the whole system of

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Pension Scheme, London (DfEE) July 1999, Annex 4 (internet address: <http://www.dfee.gov.uk/teachers/pensionscheme/index.htm>).

<sup>52</sup> Ibidem.

<sup>53</sup> Other occupational groups of the public service, such as police, fire fighters, soldiers, etc., which have hard job conditions, have a seemingly lower pensionable age.

<sup>54</sup> On this topic: Hesse 1999: 15–30, esp. 15–18 and passim; see also Galabert-Augé 1993: 137–76 (181).

social security was launched with the Beveridge Report. The unified and generalized system is called the 'general system' ('Régime Général de la Sécurité Sociale'). This system integrates most dependent employees, but not those of the public sector.

a) *The different pension schemes of the public sector:* the French old age security system ('régimes de retraite'), in principle, has been divided into two large groups since that time: the 'régimes des salariés' and the 'régimes des non-salariés'. Both terms only partly correspond to the German terms of dependent employees and the self-employed. The self-employed have kept their own old age security systems. The public sector (*secteur public*) is attached to the dependent employees (*salariés*) and is ruled by special schemes ('régimes') which combine basic and complementary protection ('Code de la Fonction Publique').

One central distinction is made between permanent (or life-time) civil servants (*agents publics titulaires*) and public employees who are non-tenured civil servants (*agents publics non titulaires*). Only civil servants are ruled by the civil service statute; *non titulaires*, or *contractuels* by contrast, belong to the general system ('Régime général d'assurance vieillesse') and a complementary protection. *Non titulaires* are all persons with a working contract or persons who are working on a probationary basis or who are temporary assistant staff. These correspond to the German contractual employees, i.e. the employees in the public service, and their old age protection is organized similarly. Their legal status although is subject to public law and not to private law, like in Germany. Non-permanent (non-tenured) public employees receive their own complementary pension through the scheme 'IRCANTEC' ('Institution de Retraite Complémentaire des Agents Non Titulaires de l'État et des Collectivités Publiques'), created in 1970; benefits, although are lower.

The personnel working in the institutions providing social protection (semi-governmental organizations; '*parastataux*') are also subject to the general social security scheme. They have a separate complementary scheme, the CPPOSS<sup>55</sup>.

The individual pension regimes of the public service are to be found in a book by Chauleur<sup>56</sup>. Civil public servants, i.e. the civil servants of the state, the mayors (*magistrats*), and soldiers (*militaires*), are subject to the 'Code des Pensions Civiles et Militaires de Retraite' (CPCM) of 1964. Civil servants of the regions and *départements* together with the civil servants in the health care system are organized in a separate fund, the CNRACL<sup>57</sup>. The workers of the state were given their own pension system (*FSPOE*<sup>58</sup>) in 1928.

Altogether, 19 different pension schemes exist in the French public sector: of these, the two pension schemes of the *fonctionnaires de l'État* (CPCM) and the *fonctionnaires hospitaliers et territoriaux* (CNRACL) are most important in terms of quantity. Just to compare: in 1998, there were 2.4 mill.

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<sup>55</sup> 'Caisse de Prévoyance du Personnel des Organismes Sociaux et Similaires'.

<sup>56</sup> Chauleur 1998: esp. 19ff.

<sup>57</sup> 'Caisse Nationale de Retraite des Agents des Collectivités Locales'.

<sup>58</sup> 'Fonds Spécial des Pensions des Ouvriers de l'Etat', founded by law of 21.3.1928, see Chauleur 1998: 12.

contributors to the pension scheme of the *fonctionnaires de l'État* and 1.6 mill. to the pension scheme of the *fonctionnaires hospitaliers et territoriaux*. The pension scheme of the *Ouvriers de l'État* only organized 73,400 contributors. Among the smaller schemes, only the IEG (Industries Électriques et Gazières) and the SNCF have more than 100,000 contributors. The seven smaller special pension regimes (Banque de France, IEG, Marins, Mines, Ouvriers de l'Etat, RATP and SNCF) include altogether 523,191 members. The complementary IRCANTEC included nearly two mill. with a work contract<sup>59</sup> in 1998.

b) *The institutional regulations of old age protection of state civil servants*: below, only legal or institutional regulations of old age security of state civil servants are dealt with. A civil servant can get a legal right to an old age pension if he fulfils two conditions: age and seniority (years of service). The civil servant must have reached an age of 60 years (*agents sédentaires*); for civil servants with hard working conditions and women with more than three children the age limit is 55 years (*agents actifs*). Fifteen service years are required, and times of service in related positions can be taken into account. If a civil servant does not fulfil these preconditions, he will receive benefits from the general pension scheme and the complementary pension scheme IRCANTEC. The pension amount is calculated as 2% of the salary of the last six months per year of service. 37.5 years at the most can be taken into account. The upper limit of a pension is 75% of the pensionable last salary (gross income). To this basic pay extra salary is added: a) for mothers, soldiers, persons conducting overseas' service, among other things, times of non-service can be considered as service years. All in all, the upper limit is 80% of the last salary and cannot be higher; b) if a woman has raised three or more children, she receives a child supplement ('majoration pour enfants').

Pensions increase with the salaries of active civil servants. The state civil servants do not have an obligatory and complementary pension scheme; therefore civil service pensions are thought of as full protection. Civil service pensions are so high that an income replacement rate of 75–80%, partly even of 100% of the last net income, is achieved. Despite of that, some gaps in protection might still exist. On the one hand, the gradual reduction of extra pay (*primes*) whose relative share of the pension amount is declining. On the other hand, as regards the group of higher civil servants, the method of indexation causes a loss in purchasing power. For these reasons a supplementary voluntary pension was introduced by the 'Caisse Nationale de Prévoyance' (PREFON)<sup>60</sup> in 1967.

3. *The German system*: a) *The different pension schemes in the public service sector*: in Western Germany, after 1945 the pre-existing legal structures as they had existed before 1945 were continued<sup>61</sup> concerning civil servants. The *German Law on the Civil Service* (Deutsches Beamtenengesetz<sup>62</sup>) of 1937 remained more or less unchanged. Civil servants were necessary for the reconstruction of the country; therefore their old privileges and positions were restored. Only by the

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<sup>59</sup> Charpin 1998: annex III.

<sup>60</sup> Chauleur 1998: 85.

<sup>61</sup> On this topic: Frerich and Frey 1993a: 60f. and 242–6; Kohl 1994: 182–95; Zezschwitz 1997a, 1997b; Schmähl and Böhm 1994.



*Law to Provisionally Regulate the Legal Status of Federal Civil Servants* (Gesetz zur vorläufigen Regelung der Rechtsverhältnisse der im Dienst des Bundes stehenden Personen<sup>63</sup>) of 17.5.1950, the codification of pension legislation for civil servants began. This legislation, nevertheless, did not include basic innovations in the field of pensions compared to the law of 1937 (Deutsches Beamtengesetz). The *Act on Federal Civil Servants* (Bundesbeamtengesetz, BBG<sup>64</sup>) of 14.7.1953 continued the regulations of 1937. The waiting time of 10 years and the pension scale were reintroduced. The *Act Defining the Scope Civil Servants' Rights and Duties* (Beamtenrechtsrahmengesetz, BRRG<sup>65</sup>) of 1.7.1957 tried to unify the civil service law of the federation and the federal states. But during the coming years differences between the federation and the federal states grew. Not before the *28th Amendment to the Basic Law* (Gesetz zur Änderung des Grundgesetzes (GG)<sup>66</sup>) of 18.3.1971, the primacy of the federation also in pay and pension legislation for civil servants of the Federal States (konkurrierende Gesetzgebung des Bundes im Besoldungs- und Versorgungsrecht) was established. This created the basis for the countrywide regulation of civil service pensions and pay by the *Act Governing Civil Servants' Pensions and Allowances* (Beamtenversorgungsgesetz, BeamtVG)<sup>67</sup> of 24.8.1976. The main structural characteristics of civil service pensions and pay since that time are: protection of civil servants in the case of old age and invalidity; protection of dependents in the case of the death of a civil servant by survivors' pensions. The Pension Law for Civil Servants does not regulate sickness benefits; these have been regulated in a special legislation helping civil servants to cover sickness costs ('Beihilferecht').

The occupational pension in the public services complements the state pension for employees and workers in the public services; this pension is the continuation of an older one already existing before 1945<sup>68</sup>. As early as the 19th century, workers and employees in the public services were granted an additional occupational pension, with the (theoretical) aim to increase the level of old age protection for workers and employees in order to reach some convergence between all status groups in the public services. Workers in the public services participated in the workers' insurance against old age of 1889, employees in the employees' insurance against old age created 1911 (see Table 2 above). But this was only a basic protection, while civil servants received a basic protection plus an occupational pension, to put it in modern terms. It was therefore attempted to introduce a double function as it existed for civil service pensions also for workers and employees in the public services by introducing an additional insurance. The *Act of 1950 to Preliminarily Regulate Legal Conditions of Persons Employed by the Federal Government* ('Gesetz zur vorläufigen Regelung der Rechtsverhältnisse der im Dienst des Bundes stehenden Personen') made it clear that for employees and workers the *Common Rules on Old Age and Survivors' Pensions* ('gemeinsame Dienstordnung für die Verwaltungen und Betriebe des Reiches über die zusätzliche Alters- und Hinterbliebenenversorgung

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<sup>62</sup> Deutsches Beamtengesetz (DBG) of 26.1.1937, RGBl. I, p. 39.

<sup>63</sup> BGBl. I, p. 207.

<sup>64</sup> BGBl. I, p. 551.

<sup>65</sup> BGBl. I, p. 667.

<sup>66</sup> BGBl. I, p. 206.

<sup>67</sup> BGBl. I, p. 2485, 3839.

der nichtbeamteten Gefolgschaftsmitglieder') of 10.12.1943 should be used in the future as well. In 1951, the 'Zusatzversorgungsanstalt des Reiches' was renamed 'Versorgungsanstalt des Bundes und der Länder' (VBL). In the 1960s, the complementary insurance was fundamentally reformed. Overprotection was reduced, benefits were made progressive ('dynamic'), and the financing was newly regulated. In 1967, a combined contributory and apportionment system (Abschnittsdeckungsverfahren) was introduced, intending contributions to be paid by the insured of 1.5% and employers' contributions of 1.0%, and the financing of the deficit by repartition among employers. Nevertheless, as early as the beginning of the 70s, additional changes had to be made, and finally, in 1973, the employees' fee of 1.5% was also covered by the employers. While during the 1970s and 80s financing of the occupational pension (Zusatzversorgung) was balanced, a gap became visible during the 1990s. This gap will still increase in the future, as the Pension report 1996 (Versorgungsbericht 1996) of the Federal government shows<sup>69</sup>. As a result, on 1 January 1999 fees for employees were reintroduced at a height of 1.25% of the relevant income (VBL-pflichtiges Einkommen).

*b) The institutional regulations of old age protection of civil servants:* Until the reform of pension and pay of civil servants by the *Act to Change the Pension Entitlement of Civil Servants* (Beamtenversorgungsänderungsgesetz<sup>70</sup>) of 1989 (in force since 1.1.1992) the pension calculation of civil service pensions substantially deviated from the one used for state retirement pensions. The basic difference was the non-linearity of increases in pension benefits. Up to 10 years of service resulted in a pension income that was fixed at 35% of the last income (Sockelbetrag). From the 11th to the completed 25th year of service, the pension increased by 2% per annum. After that, the annual increase was 1%. With 35 years of service it reached the highest level at 75% of the last income<sup>71</sup>. The degressive scale caused the pension amount to increase very fast, and very much faster than in the state pension insurance.

The pension claims of the survivors depend on the claims of the (deceased) civil servant. Widows', full orphans' and half orphans' pensions are granted. The widows' pension amounts to 60% of the pension of the deceased, the half-orphans' pension to 12%, and the full orphans' pension to 20%<sup>72</sup>.

German civil service law introduced a minimum pension in addition to the basic amount (Sockelbetrag) of 35%. This pension is granted without any means test. The level of this pension is higher than the standardized pension (Standard-Eckrente) after 45 insurance years and average earnings. This minimum amount is adjusted to the economic development in the same way as other pension amounts. Survivors' pensions are granted on the basis of a minimum pension in the same way as an

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<sup>68</sup> *Frerich and Frey* 1993a: p. 61.

<sup>69</sup> *Deutscher Bundestag* 1996; furthermore: *Beyer* 1997.

<sup>70</sup> Gesetz zur Änderung des Beamtenversorgungsgesetzes und sonstiger dienst- und versorgungsrechtlicher Vorschriften (BeamVGÄndG) of 18.12.1989, BGBl. I, p. 2218.

<sup>71</sup> *Kohl* 1994: 185.

<sup>72</sup> *Kohl* 1994: 184.

old age pension. The minimum pension of a civil servant's widow/er is as a rule above the social assistance level<sup>73</sup>.

The age limit for civil servants is by law 65 years. Civil service law does not make a difference according to sex, as the pension insurance does, for example. The pensionable age in the latter case is 60 years for women and 65 years for men. The same age limit of 65 will be introduced from 2012 by European law (BMAS 2000: 226). When applied, civil servants, according to the BeamtVG of 1976, could receive a pension from age 63 (Antragsaltersgrenze). This age was lowered in 1985 to age 62<sup>74</sup>. By the Law to change pension rights for civil servants of 1989<sup>75</sup>, the pensionable age was, in principle, set at 65 years age starting from 1.1.2002. Deductions are made if a civil servant wants to retire earlier.

## **IV. The weight of the public services in employment and state finances**

### **(a) Public service employment: from growth to devolution**

While state expenditure in most European countries continued its secular tendency<sup>76</sup> until the 1980s, in all industrialized European countries *public employment* had meanwhile reached its zenith and began to decline, a process which continued until today<sup>77</sup> (Figure 3). Because of the fact that changes in career structures and pension regulations in the public services are difficult to make or are probably forbidden by law (e.g., in Germany the guarantee of the principle of alimentation by the Basic Law), the only chance is seen in a reduction in personnel costs in order to keep them financed. There have been several attempts to achieve a reduction in personnel costs. First, by privatizing public enterprises (post office, railways, energy supply, etc.); this measure mainly (partly in a formal way only) shifts employees from the public to the private sector. Second, by direct cuts in staff numbers through a concentration of state activities on a few areas. And, finally, through a reallocation of work by replacing full-time positions with part-time jobs<sup>78</sup>.

The consequences of such strategies are both a decline in the number of employees in the public services in absolute figures and a decline of their proportion in the labour force as a whole. The United Kingdom pioneered this development, and most European countries—motivated by OECD-

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<sup>73</sup> Kohl 1994: 186.

<sup>74</sup> Frerich and Frey 1993a: 244.

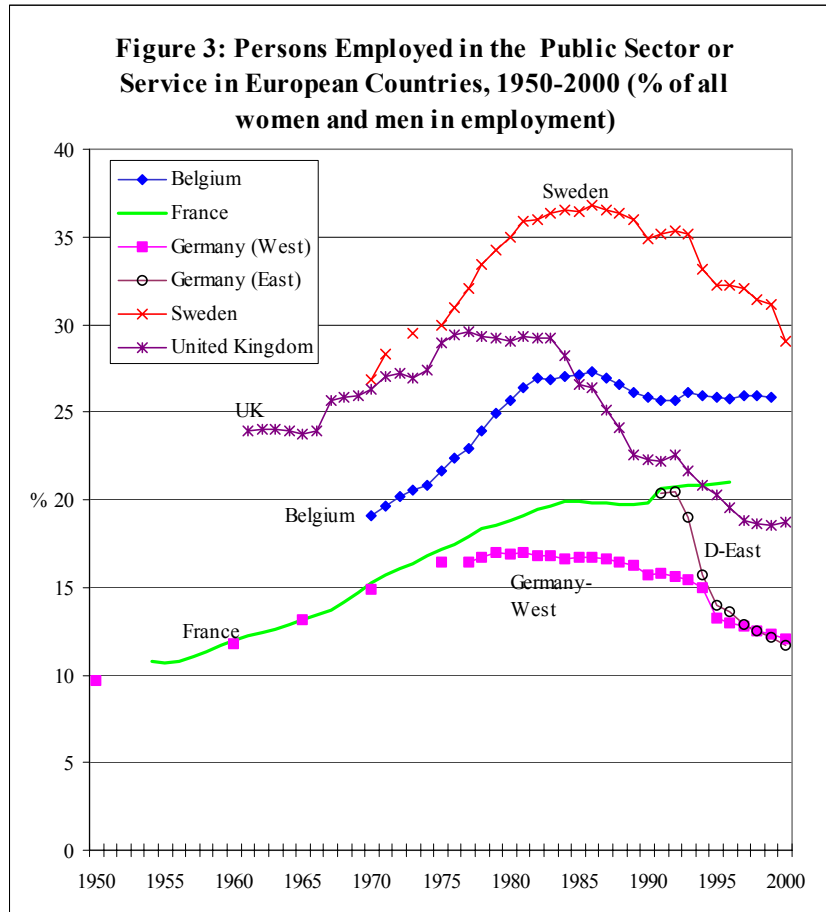
<sup>75</sup> Bundesministerium für Arbeit und Sozialordnung (BMAS) 1994: 508.

<sup>76</sup> Rose et al. 1985.

<sup>77</sup> Rothenbacher (1997: 1–11); furthermore Derlien and Peters 1998 and Derlien, Heinemann and Lock 1998.

<sup>78</sup> See Rothenbacher (1998b: 1–6).

analyses<sup>79</sup>—introduced policies to modernize public services. In Sweden and other Nordic countries, the economic crisis of the early 1990s required employment cuts in the public services.



The employment cuts in the public services are hiding important individual trends. Thus, employment cuts are amplifying the trend towards a 'feminization' of the public services, a development that has already lasted for several decades. While the proportion of women in the public services as percent of all employed women has stagnated or only slightly increased since the end of the 80s, the proportion of men employed in the public services has strongly declined. This situation is even worse if the internal structure of the public services is considered. The proportion of women in the public services continuously shows strong growth rates and has climbed above the 50% margin in all countries with a large public services sector (Sweden, United Kingdom and France; in Germany the proportion of females is slightly lower). In Sweden, more than 70% of all employees in the public services were women in 1995, in the United Kingdom still a little less than 60%. The strong increase in female employment in the public services is caused by another trend: a growth in part-time employment in the

<sup>79</sup> See the *Public Management Project (PUMA)* by OECD.

public services. This increase concerns both sexes, but many more women than men are involved in part-time work. In Europe, concerning the extent of part-time employment, there exist at least two employment patterns: the first model of employment stresses the importance of female part-time work. This model is applied in the United Kingdom and Germany. Employment policies in the second model, however, emphasize the significance of full-time employment. Prototypes are the Nordic welfare states and—to a lesser degree—France. It is only since the crises of the early 1990s that in Scandinavia the trend of female part-time employment has become important<sup>80</sup>.

Time series for the United Kingdom and for Germany may illustrate the effects of political measures. The most impressive belief in personnel cuts and 'formal' outsourcing of functions from the public services comes from the United Kingdom<sup>81</sup>, but in Germany, too,<sup>82</sup> we find, in contrast to its neighbour France, a 'neo-liberal' tendency towards employment reduction and privatization.

*Expansion and contraction.* The expansion of public services has functioned as an employment reservoir for academics. State expansion went hand in hand with educational expansion. This development favoured mainly women: an overwhelming part of the rising number of women in higher education (in absolute as in relative terms) found a position in the public services. A consequence of state expansion and the expansion of the educational system was the growing *feminization* of the public services. In addition to these factors, another factor made public service jobs attractive for women: female earnings in the public services were, on average, higher than in the private sector. Another factor is the higher wage equality between both sexes in the public services. The principle of 'same position, same wage' is legally fixed in the public service sector. This does not mean, however, that there is no occupational segregation between branches and hierarchies in the public services. The strong feminization of public services can therefore be explained by being mainly induced by better chances for women to achieve higher incomes in the public service as compared to private industry. A second motive of women to look for a position in the public services are the advantageous and exemplary family-friendly working conditions, rendering the reconciliation of family and work much more easier.

The very high supply of academics looking for jobs in the public services caused an increased *upgrading* in the public services. This term designates the relative increase in positions with higher incomes in a job hierarchy. An increased demand for positions with higher earnings caused an increase in higher career levels and a decline in lower ones. This shift of the positional structure (in the shape of an onion instead of a pyramid) towards higher levels put pressure on wage payments and, in the final analysis, on pension payments as well.

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<sup>80</sup> On international comparisons of females share and 'job segregation' see now comprehensively Anker 1998.

<sup>81</sup> See on this topic esp. Chapman (1992: 1–5); Theakston (1995: 45–59); Prime Minister 1994; Keraudren 1994.

<sup>82</sup> Consult the activities and publications of the 'Reformkommission schlanker Staat' by the German Federal Government. Within the Federal Ministry of the Interior a division 'Modern State—Modern Administration' was created. See the internet address: <http://www.staat.modern.de> where the division's various activities and publications are presented.

## (b) Public service pay and pensions: the threatening load

The *main thesis* is that the demographic developments of the future exert growing pressure on public service pay and pensions. Strong modifications in pay and pension regulations will therefore be necessary.

A growing amount of personnel costs due to the employment growth mainly since the 1960s and 1970s has been accompanied by the phenomenon of demographic ageing since the 1980s. Structural shifts in the public services, such as the employment wave, an increase in life expectancy, and an increase in pension rights of civil servants and public employees cause a major increase in expenditure, mainly in pensions. The development of total personnel costs in the public services of France, the United Kingdom and Germany is shown in *Table 3*. In the United Kingdom and in Germany, personnel costs as a percentage of Gross Domestic Product (GDP) grew until the late 1970s; they declined to a lower level afterwards. In Germany, with 8.4% this proportion was as high in 1998 as it was in 1970. In the United Kingdom, the share of personnel costs as per cent of GDP was lower in the 1990s than in 1970, and in 1998 it was lower than the German share. Only in France was there no decline, and its share has remained stable at a level of nearly 14% since the 1980s. The stagnation resp. the freezing of the efforts for public services ('relative decline') mirrors rather clearly official policies in the public services, avoiding major cuts and massive employment reductions; the proportions are to be held constant through a general modernization of the public services instead <sup>83</sup>.

An alternative method of calculating the weight of personnel costs in the state budget consists in calculating the proportion of personnel costs in consumption expenditure of the government (this means without investments and tax repayments). *Table 4* shows that the proportion of personnel costs as per cent of GDP is reflected in the consumption expenditure of governments. The actual size of the compensation costs can also be seen. In industrialized countries, they include more than half, often two thirds, of the total government consumption expenditure. In the three countries in question, they vary from half to two thirds of total government consumption. They are highest in France, while Germany and the United Kingdom spend a bit more than half of the total amount.

Table 3: Compensation Costs<sup>1</sup> of General Government Employees as a Percentage of nominal GDP, 1970–98

Country	1970	1975	1980	1985	1990	1995	1997	1998
Germany	8.5	11.1	10.7	10.3	9.5	9.0	8.7	8.4
France	10.2	11.8	13.0	13.8	12.5	13.7	13.7	13.7
United Kingdom	11.6	15.0	13.5	12.9	12.0	8.8	7.8	7.6

Note: <sup>1</sup> *Compensation costs*: In addition to the pay bill, include all of the mandatory employer's contributions to social insurance and the voluntary contributions paid by employers on behalf of employees.

Source: OECD, Analytical Data Bank (OECD 2001a).

<sup>83</sup> See on this topic the French yearbook on the public service: *Ministère de la Fonction Publique et de la Modernisation de l'Administration* 1991.

Table 4: Compensation Costs of Government, 1995 (as a % of GDP and as a % of General Government Consumption Expenditure)

Country	% of GDP	% of general government consumption expenditure
United Kingdom	11.3	53.3
France	13.0	67.5
Germany	10.4	52.1

Notes: *Compensation costs*: In addition to the pay bill, include all of the mandatory employer's contributions to social insurance and the voluntary contributions paid by employers on behalf of employees.

*Pay bill*: Overall wages and other remuneration paid in cash in a given year, before deduction of income tax, together with payment made by the employees to various social or unemployment insurance schemes and other pension schemes.

*General Government* is composed of central and local government.

Sources: OECD, Public Sector Pay and Employment Data Base; OECD, National Accounts (OECD 2001b).

What are the consequences of these developments? Demographic developments, with growing life expectancy and high numbers of early retirement, caused the pension load to increase tremendously. These tendencies will be even much stronger in the future. The expansion of the public services accompanied by the shift in the positional structure causes an ever-growing burden on the state budget. Reactions of governments to these developments are manifold. On the one hand, there are attempts to stop the flow of new employment, i.e. to close the doors, and hopes to smooth costs in the long run. Employment reduction as a result of a stop of newcomers or slower hiring has several consequences: the ageing of the employees and a growing feminization, because employment reduction is in all countries an essentially stronger burden on men than on women.

In view of the goal to reduce pension costs, early retirement became a problem: the pensionable age was increased, contribution times were extended, and deductions for premature/early retirement introduced. Consequences of these measures are a further ageing of the occupational structure in the public service sector. Another serious consequence is to take refuge in invalidity, because invalidity often entitles to a full pension (i.e. without deductions). In the United Kingdom, this phenomenon has existed for several years; the authorities try to stop this trend by introducing tighter controls and less generous granting. In Germany, pension receipts as a result of invalidity have grown so strongly that a thorough reform will become necessary.

## **V. Organizational variations between countries: the systems compared**

In this section we deal with the organization of public service pensions. There are two main different types of organization: a system of public service pensions of its own; or the inclusion of the public service in the general pension system with an additional occupational pension.

### **(a) Special schemes and general (basic) schemes plus occupational pensions**

Special schemes for the public services are older than basic schemes. The reason is that civil service pensions were introduced earlier than pensions for other population groups. In several countries the reforms after Beveridge led to the introduction of universal schemes, but the special schemes for the public service employees were not dissolved. This was the case in the United Kingdom, but not in France and in Germany.

#### *Types of pension schemes and a critical view of traditional classification*

As civil service schemes have been introduced earlier than all other systems of social security, they still remained in existence after universal schemes for all citizens were introduced. In Germany, a universal basic system was never introduced, but the principle of occupational grouping remained in existence. Although in France a general system was introduced in 1945, the pre-existing public service systems remained untouched. In the United Kingdom, where a basic state pension was created, which was later supplemented by a state income-related scheme (SERPS), the special schemes of the public sector remained in existence in the form of an occupational pension<sup>84</sup>.

If the different attempts to classify the systems of social protection in the different European countries are taken into consideration, two main types can be distinguished: social security systems according to the Bismarck model of occupational groups on the one hand, and the basic security according to Beveridge on the other. The Scandinavian model of the welfare state would then be the luxury edition of the Beveridge model and the residual welfare states of Southern Europe the impoverished version of the Bismarck protection according to occupational groups. Prototypes of the Bismarck model would be nearly all countries on the continent, especially France and Germany, prototypes of the Beveridge model would be the United Kingdom, Iceland, and the Scandinavian countries<sup>85</sup>.

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<sup>84</sup> Blake 1995; Ebbinghaus 1998; Kohl 1994; see also *Association des Rencontres européennes des fonctions publiques* 1993.

<sup>85</sup> See on this topic mainly Abrahamson 1999, pp. 31–60, esp. 33–6; Kohl 1994: 58ff. See also the distinction between system types according to their financing ('latecomers' / 'mature systems') as proposed by Bonoli and Palier (2001).



These typologies are valid for the welfare state regimes in general as well as for the main and general schemes. But it is shown that these typologies are less important for the public sector, because civil servants and other members of the public sector have special systems of social security, and this is also true for countries with basic social security systems like the UK<sup>86</sup>.

## **(b) Employees with a work contract: social insurance pension plus occupational pension**

Those public employees who are not statutory civil servants are ruled by the social insurance scheme. In most cases they get an additional occupational pension with the intention to preserve a similar old age level as that of tenured civil servants.

In the *United Kingdom*, such persons do not exist because there is no such distinction between established civil servants/public employees and non-established civil servants/public employees.

In *France*, the non-statutory civil servants make up a large part of the public service (*agents non titulaires de l'état et des collectivités publiques*). Their pension regime also belongs to the special schemes<sup>87</sup>. The *agents non titulaires* are similar to the German public employees. French non-tenured civil servants, however, are not subject to the law of private work contracts (as the German public employees) but to public law. Despite of this, the *agents non titulaires* are part of the general system of old age protection and receive benefits from there. In order to grant them additional benefits, while they often perform similar tasks and work in the same offices as civil servants, an additional occupational pension was introduced (IRCANTEC). The basic idea behind IRCANTEC was to create a complementary system and a system to cover all public service employees who are not eligible for a pension from a special regime due to their status as contractual employees, or because of an insufficient number of contributory years. In 1970, IRCANTEC replaced a regime for cadres from 1951 (IPACTE) and another one for non cadres from 1959 (IGRANTE). IRCANTEC is obligatory for public employees such as:

- agents non titulaires of the state and of public institutions
- agents non titulaires of départements and of communes and of public institutions of départements and communes
- agents titulaires of départements and communes and their public institutions not belonging to the scheme of the agents des collectivités locales
- agents of EDF-GDF and of the Banque de France not belonging to the special regimes of those

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<sup>86</sup> See also Auer, Demmke and Polet 1997: 111ff.

<sup>87</sup> Lamelot 1990: 80f.

- certain categories of physicians in public hospitals
- public employees of institutions of public character working for non-profit, mainly financed from public sources
- the mayors and deputies receiving a compensation for office work
- the civil servants of the state, local bodies, the workers of the state, and the employees of the state printing office, EDF-GDF, SEITA, and of the Banque de France stopping work without having acquired sufficient pension rights from their special regime can claim their pension rights at IRCANTEC.

In 1998, nearly two million contractual employees were insured in the complementary scheme IRCANTEC<sup>88</sup>. While no reliable statistics on the share of contractual employees in total public employment exist, it can be estimated that *one quarter* of total public employment is made up of contractual employees<sup>89</sup>.

In *Germany*, the proportion of non-civil servants in the public services is much higher than in France. In 1996, there was a total of 4,813,900 persons in public employment. Of these, 1,853,200 were civil servants (Beamte), 2,176,800 public employees (Angestellte), and 783,900 workers (Arbeiter). In relative figures, civil servants amounted to only 38.5%, public employees to 45.2% and workers to 16.3%. Contractual employees are a clearly established group in the German public service, while in France their status seems much more unclear.

In Germany, there is an important difference between civil servants and public employees concerning *status*, too. Civil servants are represented more strongly in the two highest status groups, while public employees overwhelmingly work in the two lowest status groups (of the four status groups in existence). This phenomenon is related to the fact that public employees are mainly employed by the Länder and the communes, while the Federal State mainly employs civil servants.

In France, contractual employees earn less than civil servants: the figure given is 20% less on average<sup>90</sup>. In Germany, although gross wages may be the same, net wages of public employees are lower than those of civil servants because the latter do not have to pay social security contributions.

In order to improve the old age income of contractual employees, both France and Germany have complementary pensions for their contractual employees. The French complementary system, however, seems to pay only small benefits and is one of the poorest, although it is contributory. The German system was made contributory in the last years, too, and future benefits are expected to

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<sup>88</sup> *Charpin* 1998: Annexe III.

<sup>89</sup> Cabanel and Gourdon 1991.

<sup>90</sup> Cabanel and Gourdon 1991.

decline in value<sup>91</sup>. Thus, the combined effects of income structure and pension regulations in both countries obviously lead to lower pensions for contractual workers than for established civil servants.

### **(c) Synopsis of further elements in detail: old age pensions and other types of pension regimes**

In addition to old age pensions, civil service schemes usually grant further pension benefits. One of the most important ones is the *survivors' pension*. Apart from that, *invalidity pensions* and '*deferred pensions*' (hinausgeschobene Pensionen) are granted. Meanwhile, the survivors' pension has in all European countries been fixed as a percentage point of the income of the deceased civil servant with pension entitlement. The height of the widows' pension varies from 50–80% (Denmark) of the pension of the direct beneficiary; in most European countries it is 50%, in Germany 60%, in France 50%, and in the United Kingdom 50% as well<sup>92</sup>. In order to receive a widows' pension, the preconditions often depend on marriage duration and remarriage of the widow. A minimum marriage duration of the widow of a civil servant is required in order to prevent marriages with the only intent to provide a pension for the spouse. from benefiting women ('Versorgungsehen'). In the case of remarriage of a civil servants' widow, the widows' pension is reduced under certain circumstances. The orphans' pensions have an age limit; very often disabled children are exempted.

Invalidity pensions are also granted by most pension regimes. But their number is not very high compared to direct pensions and survivors' pensions. Invalidity pensions are often granted under certain conditions only. But in none of the three countries is there a minimum age necessary to receive an invalidity pension. In France, no waiting time is required (number of service years), but in Germany (as for all civil servants) a waiting time of 5 years and in the United Kingdom of 2 years is necessary. If the waiting time is not observed in Germany, the minimum pension can be received<sup>93</sup>.

Deferred pensions (i.e. pension claims if the service is left prematurely) exist in France ('pension différée') and the United Kingdom ('deferred pension'), but not in Germany<sup>94</sup>. In France and the United Kingdom, the minimum age for receiving a pension is 60 years; minimum service years required in France are 15 years and in the United Kingdom 2 years<sup>95</sup>.

### ***Minimum requirements to receive a pension***

Minimum requirements to receive an old age pension are so-called 'waiting times' or a certain number of service years. Other regulations exist for invalidity pensions in France and Germany and 'ill-health-

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<sup>91</sup> For further details on IRCANTEC see page 23f. and for VBL page 24ff. of this paper.

<sup>92</sup> *Neyens and Koob* 1992: 81f.

<sup>93</sup> *Neyens and Koob* 1992: 25f.

<sup>94</sup> In German: ',hinausgeschobene Pensionen'.

<sup>95</sup> *Neyens and Koob* 1992.

pensions' in the United Kingdom. To receive an old age pension in France, 15 service years are required, and in Germany 5. In the United Kingdom an old age pension can be granted without any service years.

## *Pensionable age*

In most European countries the pensionable age in the public services is between 60 and 65; there is a trend towards increasing the pensionable age to age 65<sup>96</sup>. The distinction between the minimum pensionable age and the maximum pensionable age remains important. Minimum age designates the age at which the civil servant can request retirement and immediately receive an old age pension. Maximum pensionable age means the age at which a civil servant definitely has to leave office and retire. In the case of premature pensionable age, the old age pension is accordingly lower given the lower number of service years.

While this mechanism is the same in all countries, the normal, minimum, and maximum pensionable age varies between all three countries. In Germany, the pensionable age is highest with a minimum of 62 years and a maximum of 65 years. Some professions (professors, judges) are allowed to retire as late as age 67. In France, the maximum pensionable age is 65 years, too; the minimum pensionable age is 60. The United Kingdom is not only an exception as compared to both other countries with respect to its low pensionable age of 60 years; in addition, of all EU countries the pensionable age is the lowest in the public services. In the United Kingdom, work can be continued voluntarily until age 65 at the latest under certain conditions.

It is important to emphasize that both sexes, as opposed to private sector schemes, often have the same pensionable age: thus, in Germany, men and women in the public services each retire at 65<sup>97</sup>, in private industry women retire at age 60, and men at age 65<sup>98</sup>. This regulation complies with the principle of equal rights for both sexes, which is institutionalized much more in the public services than in private industry (e.g., same pay for the same work).

In addition to the general regulations, manifold special regulations exist for certain occupational groups of the public service sector, such as police, armed forces, military aircraft pilots, etc., who consistently have a lower pensionable age.

In historical development major changes occurred concerning the pensionable age. From the first half of the 20th century, the 'formal' pensionable age was reduced from 70 years to 65 years or still less<sup>99</sup>. The 'real/actual' pensionable age is much lower yet. Since the 1980s, governments have intervened in

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<sup>96</sup> *Department of Finance* 1998.

<sup>97</sup> *Deutscher Bundestag* 1996.

<sup>98</sup> See *Bundesministerium für Arbeit und Sozialordnung (BMAS)* 1994; *Frerich and Frey* 1993a: 242.

<sup>99</sup> *Piquemal* 1985: 183f.

order to prevent a further lowering of the pensionable age. Several times the pensionable age was increased, as e.g. in Germany: the minimum pensionable age rose from 62 to 63 years<sup>100</sup>.

### *Additional service years and inactive periods*

Additional service years (ruhegehaltsfähige Dienstzeiten) are times of military service in all three countries. Times of part-time work are taken into account in all three countries, work in a position ruled by private law is not, however. Service years carried out in foreign countries are not taken into account for pension calculation.

In Germany, times of education are taken into account, but times of university education (university graduates are overrepresented in the civil service) have been reduced successively to three years now. In France, family work of female civil servants is taken into account to a large degree in pension calculation and the determination of the retirement age.

### *Pension calculation*

In most pension schemes a linear scale is used; this is also the case in the three countries under discussion. The pension level is calculated by using the number of service years and a constant percentage point of the last income of the civil servant. This share varies between 1 and 2%. In Germany it is 1.875%, in France 2%, and in the British *Civil Service* 1/80 (1.25%). The accrual rates are calculated in such a way that civil servants after a certain number of service years attain the highest possible amount of a civil service pension. In Germany, in 1989 the so far degressive scale of pension calculation for civil servants, which caused a fast and higher than average increase in the pension level, was made linear to 1.875% per service year. In Germany, the highest pension is granted after 40 years of service, in France after 37.5 years, and in the United Kingdom, as in Germany, after 40 years. In France, according to this pension formula, 75% of the pensionable income is received, in Germany 75% as well, and in the United Kingdom 50% of the pensionable income. As in Ireland, *Civil Servants* in the United Kingdom receive a lump sum at retirement of three times the annual pension. Lump sum and monthly pension add to an estimated 66% of the pensionable income (*Table 5*). In several European countries substantial modifications to the pension formula were made.

### *Financing: Pay-As-You-Go versus capital formation (funding)*

Most systems of public service pensions are financed on a pay-as-you-go basis. Only two countries in Europe, the Netherlands, and Switzerland have pension funds.

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<sup>100</sup> Beamtenversorgungsänderungsgesetz of 1989; see *Deutscher Bundestag* 1996.

None of the three countries has a pension fund in the public service; instead, pensions are financed from *Pay-As-You-Go (PAYG)*. The old age pensions are financed from contributions of the civil servant and current budgetary resources of the state, i.e. mainly from taxes. The public servant, nevertheless, contributes to a differing extent to the financing of his own old age pension<sup>101</sup>. Other types of pensions such as invalidity pensions, deferred pensions, and survivors pensions are on a PAYG-basis, too. Real pension funds in the public sector of the United Kingdom are only to be found in the 'Local Government Pension Scheme' (LGPS) and in the 'Universities Superannuation Scheme' (USS).

Table 5: Maximum Service Required to Qualify for Maximum Pension, Annual Accrual Rate, Maximum Pension Benefits, 1998

Country	Maximum Service Reckoned (Years)	Accrual Rate Per Year of Service (as % of pensionable pay)	Maximum Pension as % of Last Pay
<b>Federal Republic of Germany</b>	40	1.875%	75% of pensionable salary
<b>France</b>	37.5	2%	75% of pensionable salary
<b>United Kingdom<sup>1</sup></b>	40	1/80 (=1.25%)	66% of pensionable salary

<sup>1</sup> In the UK system, benefits consist of retirement lump sum and pension; this is generally accepted as being equivalent to a replacement income of 66% of pensionable pay. No other country (apart from Ireland) pays a lump sum in addition to pension. It is possible for a person to qualify for maximum pension benefits of 73% of pensionable salary (i.e. between pension and lump sum) if he or she has 45 years of service at age 65. Normal retirement age is age 60.

Source: *Department of Finance* 1998: chapter 7, table 7.2 (internet address <http://www.finance.gov.ie/publications/otherpubs/pensch7.htm>).

## Indexing

To avoid a diminishing of the old age pension as a result of an increase in living costs is a major problem for each pension system (or, in other words, of each social benefit). This problem was already recognized during the 19th century. Nevertheless, a permanent adaptation was not introduced at that time. There was no statistical instrument to assess the shift in the cost of living. Such an instrument to monitor business cycles was only created in the interwar years, after the big inflation following World War I. In the beginning, pensions were increased by special laws together with the salaries. Such laws, however, were often postponed, causing a remarkable decline in the standard of living of civil servants during retirement<sup>102</sup>. A fundamental solution to this problem of adaptation to the running cost of living was only found after 1945. Several procedures were developed: first, the adaptation to

<sup>101</sup> *Neyens and Koob* 1992: 3.

<sup>102</sup> See *Most* 1915: 181–218.

inflation or the cost of living; second, the linkage to salary increases of active civil servants, and, third, a mixture of both<sup>103</sup>.

Most European countries have chosen the alternative to link pension increases to an index of living costs. This method is also used in the United Kingdom, where the Index of Living Costs is officially fixed by the 'Office for National Statistics' (ONS) and published in the 'Statistical Abstract'. In contrast, France and Germany have linked pensions to the salaries of the active civil servants. Increases are intended to follow the general economic development and are, in principle, unilaterally fixed by the Minister of the Interior. A linking of pensions to the development of salaries in general is much more favourable than a linking to the development of the cost of living, because the linking of pensions to salaries allows for larger flexibility in bargaining, mainly in countries with a right to strike in the public services, as France. In general, it is assumed that civil servants should profit more from the first regulation than from the second.

## *Modifications*

Modifications of the existing old age pension schemes in the public services are becoming necessary because of demographic ageing, the consequences of employment expansion, and the tendency towards early retirement. Reforms aim at stabilizing the financing of the systems without fundamental reconstruction (*Table 6*).

The most far-reaching reforms that were fundamental in character were implemented in the United Kingdom: envisioned goals were employment reduction, privatization and modernization of the public services. The main strategy to reduce employment was early retirement. With respect to old age pensions of public sector employees, the option was introduced to leave the occupational pension scheme if minimum conditions were met. No other fundamental changes to the existing 'occupational pension schemes' took place.

In France, only minor reforms were carried out. These relate to more restrictive pension calculations and the extension of service years to receive the maximum pension. Far-reaching reforms are planned according to the *Rapport Charpin*<sup>104</sup> to compensate for the forecasted deficits in old age pension schemes due to demographic changes.

In Germany, the general pensionable age was basically fixed at 65 years by the *Law to change pension regulations for civil servants* (Beamtenversorgungsänderungsgesetz) of 1989. Furthermore, the pension scale was made linear by 1.875% of pensionable salary. Previously, few service years produced a proportionally higher pension. In the 90s the accruable years free of contributions (e.g. university education) were reduced. This is a major reduction because the public services are one

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<sup>103</sup> Department of Finance 1998.

<sup>104</sup> Charpin 1998 and 1999.

important realm for university graduates. Public workers and employees now have to pay newly introduced contributions to the occupational pension (second pillar; additional pension in the public services)<sup>105</sup>.

Table 6: Modifications to Public Service Pension Arrangements in a Range of European Countries, 1998

Modifications	Country
Increase in retirement age	Finland, Sweden
Greater flexibility in retirement ages	Germany, Norway
Greater restrictions in early retirement arrangements	Germany, Italy, Sweden
More restricted pension calculation arrangements and/or increase in service required for max. pension	Austria, France, Germany, Greece, Finland, Portugal
Introduction of minimum pension	Germany, Sweden
Change in pension increase system	Italy, Sweden
Integration of occupational pension with general state pension scheme	Austria, Greece, Spain
Introduction of employer/employee contribution, or increase in contribution rates	Austria, Finland, Greece, Italy, Netherlands, Portugal, Sweden
Introduction of some form of pension funding (perhaps with defined contribution scheme)	Belgium, Denmark, Finland, Italy, Sweden
Introduction of defined contribution schemes	Denmark, Italy, Sweden
Privatisation of pension fund (& greater flexibility in pension terms)	Netherlands
Contracting out of pension scheme in favour of private arrangements	United Kingdom

Source: *Department of Finance* 1998: chapter 7, table 7.4 (internet address <http://www.finance.gov.ie/publications/otherpubs/pensch7.htm>).

#### (d) Financing: through the beneficiaries' own contributions?

The financing of old age pension through contributions of the employees in public services is more wide-spread than most people believe. Only in Germany does the civil servant not have to pay contributions, neither to his own old age pension nor to the survivors' pension (*Table 7*). In the United Kingdom, the *Civil Servant* is free from paying contributions for his own old age pension, but he pays 1.50% of his salary for the survivors' pension. The contribution payment was introduced by the 'Superannuation Act' of 1949<sup>106</sup>. In 1964 it was still 1.25%<sup>107</sup>; this contribution was later increased to 1.50% (1989/90)<sup>108</sup>. In France, the fonctionnaire in 1964<sup>109</sup> and until the early 1980s<sup>110</sup> paid 6% of his gross salary without income supplement ('primes') for his own and the survivors' pension; in 1989/90 the contribution was 8,90%<sup>111</sup>, and at the moment it is 7.85%.

<sup>105</sup> *Bundesministerium für Arbeit und Sozialordnung (BMAS)* 1994: 508.

<sup>106</sup> The 'Superannuation Act' of 1949 introduced contributory pensions for widows and dependents (widow's and dependent's allowances) of *Civil Servants*; see *Rhodes* 1965: 70.

<sup>107</sup> *Hughes* 1988: 119.

<sup>108</sup> *Neyens and Koob* 1992: 3.

<sup>109</sup> *Hughes* 1988: 119.

<sup>110</sup> *Piquemal* 1985: 215.

<sup>111</sup> *Neyens and Koob* 1992: 122.



These figures relate to the nucleus of the public service, the German civil servants (*Beamte*), the English *Civil Service*, and the French permanent civil servants (*fonctionnaires titulaires*). The situation is often different in the other fields of the public services. In the United Kingdom, all occupations of the public sector contribute to their old age and survivors' pensions, with the exception of the *Civil Servants*. In France, all categories of civil servants and public employees contribute to their old age pension, but the contribution rates are low given the high pension level. In Germany, the public employees and workers are insured in the pension insurance of the employees and workers. Moreover, they have a compulsory insurance in the additional pension insurance scheme of the public service. This supplementary pension was contributory until the 1970s.

## VI. Eligibility and welfare outcomes

Against the background of changes in the social structure and the restructuring of the institutions of social security, this section addresses the question of whether the state indeed gives up its traditional role as 'good employer', as has frequently been supposed, or whether the established interests of state employees are essentially preserved<sup>112</sup>.

Table 7: Comparison of Financing Through Contributions in the Public Services of the United Kingdom, France and Germany

Country, pension scheme	Contribution rate as % of gross income	
	Civil Servants' own pension	Survivors' pension
<b>United Kingdom</b>		
<i>Principal Civil Service Pension Scheme (PCSPS)</i>	Nil	1964: 1.25% of gross income; 1989: 1.50% of gross income for widows'/widowers' pension
<i>Teachers' Pension Scheme (TPS)</i>		6%
<i>Local Government Pension Scheme (LGPS)</i>	5% manual; 6% non-manual [since 1.4.1998 all new members pay 6%]	
<i>National Health Service Pension Scheme (NHSPS)</i>	5% manual; 6% non-manual	
<i>Police Pension Scheme</i>		11%
<i>Firemens' Pension Scheme</i>		11%
<i>Armed Forces Pension Scheme (AFPS)</i>		Nil—but estimated to 7%.
<i>Universities Superannuation Scheme (USS)</i>	6.35% (0.35% to supplementary section to pay additional benefits in certain circumstances)	
<b>France</b>		
<i>Fonctionnaires de l'État</i>	Law of 14.4.1924: 6% of gross income; 1964: 6%; 1989: 8.9%; 2000: 7.85% (minimum)	

<sup>112</sup> Concerning the approach for a multidimensional assessment of the social situation see *Atkinson et al.* 2002.

<i>Fonctionnaires territoriaux et hospitaliers (CNRACL)</i>	2000: 7.85% (minimum)
<i>RATP<sup>1</sup></i>	2000: 7.85% (minimum)
<i>SNCF<sup>2</sup></i>	2000: 7.85% (minimum)
<i>IEG<sup>3</sup></i>	2000: 7.85% (minimum)
<i>Régime général</i>	2000: 6.55% (minimum)
Additional pension of the <i>Agents non titulaires de l'État (IRCANTEC)</i>	Since 1.1.1998 up to 14,090 FF per month: 2.25%
	Since 1.1.1998 up to 14,090 FF per month: 5.95%

**Germany**

Civil servants ( <i>Beamte</i> )	Nil	Nil
Workers and employees in old age insurance ( <i>Arbeiter- und Angestelltenrentenversicherung</i> )	9.75%; since 1.1.2000 9.65%	
Additional insurance for employees and workers in the public services ( <i>Zusatzversorgung für Angestellte und Arbeiter im öffentlichen Dienst (VBL)</i> )	Since 1.1.1973 employers paid the contributory share of the employees, too; 1.1.1999 contributions by employees reintroduced: 1.25% of VBL-contributory salary	

Notes: <sup>1</sup> Régie Autonome des Transports Parisiens. <sup>2</sup> Société Nationale des Chemins de Fer Français. <sup>3</sup> Industries Electriques et Gazières.

Sources: Germany: Frerich and Frey 1993b: 61. France: L'Observatoire des Retraites (OR), La retraite pour qui? Quand? Comment? (internet address: <http://observatoire-retraites.org/>); Chauleur 1998: 88. United Kingdom: Department for Education and Employment (DfEE) 1999: 50.

The question of how variations in the social security systems of public employees result in differences in life chances (*allocation of life chances*) can be raised at this point. Do status-specific 'privileges' in the system of social security result in a better standing regarding the income of certain groups and thus in a higher income inequality than in other regime types? Do privileges of civil servants/public employees mainly with respect to old age provision cause a stronger inequality in old age income than in other pension regimes? In general, the question is raised whether differences in the social security systems of public employees are reflected in differences in life chances; or, to look at it differently, whether both fields vary independently from each other. Furthermore, the question arises how far labour incomes and other resources, such as wealth, human capital, social origin, among others, influence the life chances of public service employees, both during employment and during retirement. One further question is how far the form of the working conditions in the public services influences the living conditions and the life chances of public employees. To be more concrete: are there relationships between working conditions (working time, hard and dangerous work, leave systems) and morbidity and life expectancy? Are processes of social selection responsible for structuring living conditions, perhaps insofar as higher than average healthy, gifted, etc., people work in the public services?

### (a) Eligibility criteria: the most generous ones

This section discusses the institutional regulations which lead to comparatively high welfare outcomes for public servants. *Eligibility* designates institutional regulations which structure welfare outcomes.

The living standard of a population in old age is defined essentially and mainly by the height of pensions. Pensions or state transfers are the main income in old age. Income from wealth, house property and employment are only complementary. Pension regulations, in short: the pension formula, are therefore of crucial importance for the living standard in old age. In general, in all countries the pension formula in the public services is more favourable than in the private sector. The necessary working years/or years of service to attain a pension are often lower than in the private sector; pensions are normally calculated on the basis of the last received income and not according to the average income over the life course. Especially the latter mechanism produces a comparatively higher pension, because the last income is normally highest in the public service sector. Income replacement rates of civil servants are thus within a range of two thirds to three fourths of the last income (see *Table 5* above).

Table 8: Income Replacement Rates in the Public and Private Sector: France

Pension Scheme	Income Replacement Rate (pension / last salary without 'primes')
Private sector	47%
Public sector	75%
- Mineurs (miner)	30%
- Civil servants of the départements, communes and hospitals (CNRACL: Caisse Nationale de Retraite des Agents des Collectivités Territoriales (Locales et Hospitaliers)	65%
- Ouvriers d'état (workers of the state)	66%
- Marins (seamen)	66%
- SNCF (railways)	78%
- Fonctionnaires (civil servants of the state)	80%
- EDF-GDF (electricity-gas)	85%
- Ex-PTT (post, telegraphy, telephone)	87%
- Banque de France (Bank of France)	90%

Source: Jäger 2003: 187.

In France and Germany, the highest income replacement rate is 75% of the pensionable income (*Table 8*). But in France, fewer years of service are required (37.5 years), and the rate of increase is higher (the rate of increase is 2% compared to 1.875% in Germany). The pension in both countries is calculated by multiplying the rate of increase with the number of service years. In the United Kingdom, 40 service years are required to attain a full pension at age 60. The pensionable and last pay is multiplied with the number of service years and the pension factor of 1/80th. In the case of 40 service years the pension amounts to 50% of the last pay. In addition, at his/her retirement the British civil servant receives a single *lump sum* of three times the annual pension. Generally it is assumed that both taken together add to an income replacement rate of 66%. It seems possible that a *civil servant* receives a maximum pension of 73% of the pensionable pay, if he/she has worked for 45 years at age 65.

## **(b) Outcomes: high retirement income**

Income replacement rates only give a schematic picture of the old age income. Actual retirement incomes further depend on the wage level mainly from the years of service counting for pension entitlement. Institutional regulations are therefore only indicative if other framework conditions are met. Only empirical facts and reality show how many persons actually attain a maximum pension. That is why today it is much more the exception than the rule that an employee attains the maximum years of service both in the private and in the public service sector<sup>113</sup>.

### *Income from employment and income distribution*

International comparisons of the income distribution are meanwhile available from the LIS-Data and the ECHP<sup>114</sup>. *Gornick and Jacobs* (1998) compare the work income of the public and private sectors in seven countries. Not only the average work income, but especially the income of females in most countries studied is higher in the public than in the private sector. This seems to be one main reason for the feminization of the public sector. The higher the position in the public sector, the lower the income advantage of public employment.

Apart from these structural income differentials little is known about the incomes in the public sector by occupation. National data have to be used to answer this question. In Germany, the civil servants are second after the self-employed in the hierarchy of incomes (without farmers)<sup>115</sup>. Before redistribution by taxes and social contributions, civil servants rank third (in gross income), and employees rank second. Civil servants do not pay social contributions, which makes their net incomes more favourable than those of employees.

In France, the annual title *Revenus et Patrimoine des Ménages*<sup>116</sup> does not distinguish between the fonctionnaires or the fonction publique; furthermore, no distinction between public and private sector is made. *Singly and Thélot* (1988) deal with incomes in the public sector. Additional data are included in *Données Sociales*<sup>117</sup> and the *Enquête Budget de Famille*.

In the United Kingdom, only the *New Earnings Survey (NES)* presents data on pay in public administration<sup>118</sup>. This statistics, however, only covers *average gross weekly earnings* and *average gross hourly earnings*. These data are too rough and no adequate interpretation is possible. Thus, e.g., weekly earnings in *secondary education* are the highest of all employed persons. But, of course,

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<sup>113</sup> *Stanovnik, Stropnik and Prinz* (2000) in a similar way investigate the social situation of the elderly in three transition and two 'old' industrialized countries (Hungary, Poland and Slovenia; Austria and the United Kingdom).

<sup>114</sup> *Piketty* 1997; *Gornick and Jacobs* 1998.

<sup>115</sup> *Schäfer* 2000: 623.

<sup>116</sup> See *INSEE* 1998b, 1999c, 2001.

<sup>117</sup> *INSEE* 1999a.

<sup>118</sup> See also *Bourdin* 2001: 184.

wages in the civil service must be high, too, which cannot be seen in these averages. Concerning the Civil Service, there is a separate wage statistics available<sup>119</sup>.

### *Old age income*

Concerning old age income, the structural difference between civil servants and employees in private industry concerning the level of retirement incomes persists. Thus, given the same wage level, the calculation method using the last income becomes decisive. Given the same wage level—and wages in the public services are on global average not lower than in the private sector<sup>120</sup>—a higher retirement income can *ceteris paribus* be expected. The available empirical facts verify this result.

In the *United Kingdom*, the *Survey on Occupational Pension Schemes* by the *Government Actuary* includes sporadic information. The survey of the year 1983 shows that the average pension of former employees in the public sector is significantly higher than in the private sector. In 1983, the average amount per week of a newly received pension for males in the private sector was 30£ (15£ for females), and in the public sector 44£ (30£ for females). Interestingly, average widows' and orphans' pensions were slightly higher in the private than in the public sector (18£ compared to 15£). In addition to these pensions, pensioners in the United Kingdom get the state basic pension (*national insurance retirement basic pension*). In 1983 the amount granted to a single person was 32.85£ weekly. In comparison, the national average income of a male full-time employee in 1983 was 170£ per week<sup>121</sup>.

A direct study of the income situation of pensioners in the different parts of the public services compared with each other and with employees of private industry has not been carried out for the United Kingdom so far. Only information on income by status groups and by age, but not for individual categories of pensioners, exists<sup>122</sup>. Nevertheless, indirect results can be drawn from the global income distribution and wage relations between the public and the private sector. Income distribution is much more unequal in the United Kingdom than in France and Germany<sup>123</sup>. It can be assumed that the income level in the public services and especially in the *Civil Service* is rather high. At least, OECD statistics on wage relations between the public and the private sector do not show the opposite: as late as the end of the 1980s, the average income in the public sector was still below the average income in the private sector, but since 1992 the public sector average income has become higher than the private sector average income. The internal wage structure in the United Kingdom might be similar to other industrialized countries (e.g. France) with relatively high incomes for the lower positions and rather low wages for personnel in leading positions when compared to private industry. Taking into

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<sup>119</sup> *Government Statistical Service* 1998; *Bourdin* 2001.

<sup>120</sup> *OECD* 1997a: 125.

<sup>121</sup> *Government Actuary* 1986: 14f.; *Government Actuary* 1994.

<sup>122</sup> There exist neither special analyses from the *Family Expenditure Survey* of the *Office for National Statistics* (ONS) (see *ONS* 1998a; *ONS* 1999a) nor from the *Family Resources Survey* which deals with the public services separately. See *Emmerson* 1999: 65–8.

<sup>123</sup> See *Piketty* 1997: 12, 15 u. 19.

account a wage level that is at least not lower than the average of all income recipients, in addition to the then rather good pension regulations (pension according to last pay plus single flat rate), it can be supposed that the level of retirement pensions in the public sector of the United Kingdom is one of the highest ones, as in France and Germany. The *occupational pension* from the special pension regime of a public employee and SERPS respectively is increased by the *basic state pension*; in 1995, the latter was 15% of the average male wage<sup>124</sup>. Furthermore, it has to be considered that the possibility for private savings (*third pillar of old age provision*) increases with the income level.

In *France*, an annual survey on old age pensions exists<sup>125</sup>. If only the pension level of those pensioners who have finished a complete career and receive only one pension is considered, then employees on average have a clearly higher monthly retirement pension than the self-employed (10,738 compared to 3,234 Francs/month). This significant difference is caused by the fact that the self-employed are in possession of private old age security contracts (e.g. capital income). Concerning salaried employees (*salariés*) of the public sector, all regimes have above average pensions: the *agents de la fonction publique de l'État (civils et militaires)* receive the highest pensions with 13,219 Francs/month, followed by members of public enterprises such as gas suppliers, railways, underground and public buses (EDF-GDF<sup>126</sup>, SNCF, RATP) with 11,928 Francs/month. The *agents des collectivités locales (CNRACL)* rank third with 11,016 Francs/month. The large number of *salariés du secteur privé (Régime général et régimes complémentaires)*, receiving 10,516 Francs/month, however, hold the average position of all *salariés*. The self-employed overwhelmingly receive very small monthly pensions of some 3,000 Francs/month, with the *professions libérales* being an exception: with 15,912 Francs/month they receive the highest retirement incomes of all occupational groups<sup>127</sup>. If the calculation of retirement incomes is, in addition, based on pension recipients with an incomplete career, average old age incomes differ strongly, because occupational careers have a very unequal duration. Thus, within the group of pensioners with only one pension, the *fonctionnaires de l'État* make up the highest proportion of complete careers (64%). In contrast, the proportion of complete careers of *agents des collectivités locales* only amounts to 26% due to the large number of female employees in hospitals and local administration (local government authorities). The duration of employment in a job, apart from wage level and the pension formula, mainly determines the pension level.

Concerning *Germany* (Table 9), two main sources for income differences in old age exist: first the survey by Infratest on behalf of the *Bundesministerium für Arbeit und Sozialordnung (BMfA)*; and second the calculations by the *Deutsches Institut für Wirtschaftsforschung (DIW)*<sup>128</sup>. Data by

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<sup>124</sup> *Emmerson* 1999: 65.

<sup>125</sup> *INSEE* 1998a; the *retraites* of both the *Régimes des Fonctionnaires de l'Etat* and the *Fonctionnaires hospitalières et territoriaux* on pp. 71–113.—Further pension statistics in: *INSEE* 1999b: 65–79. See also *Quarré and INSEE* 1992.

<sup>126</sup> Electricité de France-Gaz de France.

<sup>127</sup> *INSEE* 1998a: p. 28, table 10.

<sup>128</sup> The DIW publishes income statistics for status groups, calculated on the basis of official statistics and the socio-economic panel, organized by the DIW itself. See *Bedau* 1999a; *Bedau* 1999b; see also the calculations from the income and consumption sample survey (EVS) by *Hertel* 1997: 45–58.

'Alterssicherung in Deutschland' (ASID)<sup>129</sup> show that systems of old age security cover the major part of the old age incomes; only a minority of all pensioners<sup>130</sup> have other sources of income which, nevertheless, have only insignificant importance for old age incomes. Results show that civil service

Table 9: Old Age Pensions in Private Industry and the Public Services: Germany 1992

Occupational status	Men	Women
<b>Mean pension benefits in private industry and public services—persons from age 65</b>		
<b>Private Industry (PI) (DM/month)</b>		
- Workers	1,857	580
- Employees	2,287	889
<b>Public Services (DM/month)</b>		
- Workers	1,799	699
- Employees	2,257	1,080
<b>Public Services (PI=100)</b>		
- Workers	97	121
- Employees	99	121
<b>Mean occupational pension benefits in private industry and public services—persons from age 65</b>		
<b>Occupational pensions by private enterprises (DM/month)</b>		
- Workers	223	172
- Employees	986	365
<b>Occupational pensions by public services (OPPS) (DM/month)</b>		
- Workers	592	426
- Employees	854	631
<b>Public Services (OPPS=100)</b>		
- Workers	265	248
- Employees	87	173
<b>Mean civil service pension benefit (DM/month)—persons from age 65</b>		
<b>Civil Service Pension (DM/month)</b>		
- Gross	4,118	3,869
- Net	3,525	3,214
<b>Mean pension benefits in private industry and public services including occupational pensions, and the civil service—persons from age 65</b>		
<b>Private Industry (PI) (DM/month)</b>		
- Workers	2,080	752
- Employees	3,273	1,254
<b>Public Services (PS) (DM/month)</b>		
- Workers	2,391	1,125
- Employees	3,111	1,711
<b>Civil Service Pension (DM/month)</b>		
- Gross	4,118	3,869
- <i>Net</i>	<u>3,525</u>	<u>3,214</u>
<b>Civil Service Net Pension (PI=100)</b>		
- Workers	169	427
- Employees	108	256
<b>Civil Service Net Pension (PS=100)</b>		
- Workers	147	286
- Employees	113	188

Source: Kortmann 1995.

<sup>129</sup> BMAS 1997; Kortmann 1995: 31–58; Kneißl and Kortmann 1997: 1–4; Klebula and Semrau 1997: 5–10.

<sup>130</sup> In Germany, a distinction is made between civil service 'pensioners' and all others receiving a pension from the general pension scheme. Here, only the term pensioner is used, because there is no equivalent in English.

pensions are best: this is both true for those who receive their own pensions and for those who get widows' or orphans' pensions. On average, civil servant households from the age of 65 (of the household head) have the highest retirement incomes at their disposal, irrespective of whether they are a couple, a single man or a single woman. The incomes of single men and women are rather high and are above 4,000 German Marks (DM). The income of widows (survivors' pensions, Hinterbliebeneneinkommen) are also the highest of all status groups<sup>131</sup>. It could be hypothesized that the self-employed, having the highest household incomes during their working lives, would also have the highest retirement incomes. But this is only true for the self-employed in the so-called 'free professions' (freie Berufe); the average household net income in 1995 for this group was 6,450 DM and therefore much higher than that of civil servants (4,913 DM). A self-employed person in commerce attained 4,679 DM, slightly less than a civil servant, while all other self-employed persons, such as workmen and farmers only had a substantially smaller household net income in old age. A comparison of civil servants with employees in the public services and private industry (set at 100) for 1992 shows that structurally weighted incomes of employees in the public services were higher than those of employees in the private sector (1.18 times); civil service pensions, however, were still higher with 1.37 times the employees<sup>132</sup>.

New calculations by the DIW on the economic situation of the elderly clearly show the privileges of civil service pensioners both when compared to other elderly and when compared to still active civil servants. The weighted average income per consumption unit of a civil servant was in 1997, for example, 4,000 DM and therefore significantly higher than the income of an employee with 2,730 DM. The average household of a pensioner in 1997 had 2,530 DM at its disposal, and the household of a self-employed 7.170 DM<sup>133</sup>. The average income per consumption unit of pensioners with 4,040 DM was higher than the income of active civil servants with 3,500 DM. Employed workers had an income of 2,230 DM, and employees an income of 3,100 DM<sup>134</sup>.

### **(c) Outcomes: improved social situation (health and life expectancy, housing, etc.)**

*Efficiency of welfare outcomes with respect to the 'social situation'.* An interesting question is whether improved social security in the public services in general and of old age protection specifically causes a general improvement of the social situation. 'Social situation' here includes—in addition to income—such dimensions as health and life expectancy, housing conditions, working conditions, etc. Data on the social situation of specific occupational groups in the public services are missing in most cases, but some indicators are available.

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<sup>131</sup> Klebula and Semrau 1997: 8f.

<sup>132</sup> Kortmann 1995: 57.

<sup>133</sup> Bedau 1999b: 9.

<sup>134</sup> Bedau 1999a: 8.



## Wealth and social class

At this point we try to compare the wealth distribution between the three countries, based on information from national statistics. Unfortunately, international comparisons of wealth distribution are not available, neither globally nor by disaggregation or the socio-professional position<sup>135</sup>. Therefore, a different way must be found here. It is necessary to find out the ranking of civil servants within occupational groups.

As regards monetary wealth, in *Germany* (based on Schäfer (2000))<sup>136</sup> the self-employed (without farmers) have the highest capital stocks, while farmers occupy place two; civil servants hold the third position, employees the fourth, and workers only the fifth (data refer only to the active population). On the other hand, if only land property is considered, farmers are at the top, followed by the self-employed, the civil servants, the employees and the workers. The amount of land property of the self-employed and farmers is very similar. Similarly, the differences regarding land property between employees and civil servants are small.

In *France*, there is a statistical survey carried out by INSEE on wealth assets of households (*Patrimoine des Ménages*)<sup>137</sup>. This survey<sup>138</sup>, however, does not classify wealth by occupational status, and the categories are merged in such a way that a distinction between the public and the private sector is not possible. The civil servants (*fonctionnaires*) cannot be isolated and presented separately. One main result may be cited from this survey: the main line of division in wealth distribution runs between the self-employed and the dependently employed. The distribution of wealth is not very strongly dependent on the distribution of income and the educational level. It can therefore be assumed that the public sector, characterized without any exception by dependent employment, is only to a lesser degree able to transform its relatively advantageous position in income and educational status into a corresponding position of material wealth<sup>139</sup>.

For the *United Kingdom*, no empirical data which disaggregate wealth according to socio-professional position or occupation could be found. The aggregation of data into broader categories blurs the socio-professional differences as well as differences between the public and private sectors. Thus, neither *Social Trends 31* nor *Social Inequalities* include such disaggregations<sup>140</sup>. It would be highly appreciated if a distinction was made between the different professions in the public services (civil service, teachers, etc.). General results on the structure and development of the income distribution suggest a long-term decline in the share of the highest wealth group, a new increase since the 1970s,

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<sup>135</sup> See also Piketty 1997 on this topic, presenting only internationally comparative data for income levels.

<sup>136</sup> For further information see the Reports of the *German Institute for Economic Research (DIW)*, Berlin (*Berichte des Deutschen Instituts für Wirtschaftsforschung*), the income and consumption sample survey (EVS) by the *Federal Statistical Office*, Wiesbaden/Berlin, and the Data Report (*Statistisches Bundesamt* 1999b).

<sup>137</sup> INSEE 2001, 1999c, 1998c. More information on wealth distribution in INSEE 1999a (*Données Sociales* 1999) and the *Enquête Budget de Famille*.

<sup>138</sup> Especially INSEE 1999c.

<sup>139</sup> It is probably not enough to investigate income structures in the public sector only; see on this topic Singly and Thélot 1988: 79ff.

<sup>140</sup> ONS 2001; ONS 2000b.

and an overall high inequality with respect to wealth, which is not reflected in the income distribution<sup>141</sup>.

### *Morbidity, life expectancy and social class*

Former civil servants and other members of the public services obviously seem to have a very high, and partly the highest, life expectancy. In general, the higher the socio-economic status is, the higher is life expectancy. In France, for which country mortality statistics by profession are available, professors are at the top, followed by other academic professions<sup>142</sup>. In the United Kingdom, life expectancy continuously increases with social status<sup>143</sup>; because employees in the public sector have, on average, a higher education than others, *ceteris paribus* life expectancy will be higher in the public sector on average than elsewhere.

### *Housing property and social class*

Civil servants, after the self-employed, have the best *housing conditions*, if housing quality is measured with indicators such as share of home ownership, size of a dwelling or housing density. Information is available for Germany<sup>144</sup>. In 1988, among all dependently employed persons, the civil servants had the highest home ownership rate with 57%; workers and employees both had a rate of 48%<sup>145</sup>. The dwellings of civil servants therefore have a high living space: in 1987, civil servants and employees ranked second behind the self-employed<sup>146</sup> with respect to dwellings with 5 and more rooms. In the United Kingdom (1998–9), a close relationship exists between income or social class and the housing standard. *Professionals* were home owners in 90%, *intermediate non-manual persons* still in 80% of all cases<sup>147</sup>. In France (1986–87), the same pattern emerges: 60% of the members of the *profession intellectuelle supérieure* were home owners (1993–4: 64%); so were 55% of the members of the *profession intermédiaire* (1993–4: 52.3%); the national average was 52.8% (1993–4: 53.5%). The *retraités* (64%) (1993–4: 67%) and the *agriculteurs* (80%) (1993–4: 72.4%) have the highest home ownership rates<sup>148</sup>.

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<sup>141</sup> See Atkinson 2000: 358ff.; Reid 1998: 86ff.

<sup>142</sup> Desplanques 1996: 38–9.

<sup>143</sup> ONS 1999a: 12.

<sup>144</sup> For Germany: Rothenbacher 1989: 117–51, esp. 142ff.; Glatzer 1980: 120–34; Häußermann and Siebel 1996: 238f.; see also Hradil 1999: 307ff.

<sup>145</sup> The self employed and the farmers have, of course, higher proportions of home ownership; see Häußermann and Siebel 1996: 238.

<sup>146</sup> Civil servants and employees have been put into one category by the Census of Housing and Dwellings of 1987; see Statistisches Bundesamt 1991: 13f.

<sup>147</sup> ONS 2000a: 168.

<sup>148</sup> INSEE and Manon 1996: 54f.

## VII. Actors and their interests

### (a) The state: a multitude of actors<sup>149</sup>

In contrast to private industry, the state occupies a double role for its employees: it is at the same time coordinator *and* regulator between the social partners and the employer. The function of regulator, however, is of minor importance than the function of employer. Thus, the governments of all three countries claim the competency to determine working conditions unilaterally. This realm includes working time regulation, pay determination, vacancies, and pension determination as essential nuclei of the employment situation in the public sector. This competency is more and more used by governments since urgent cuts into benefits become necessary as a result of demographic and financial developments.

At times when the treasurer could still had large amounts of money at his disposal, governments were proud of demonstrating that they were *good employers*, in order to set an example for private industry. Margaret Thatcher broke with this principle in the United Kingdom. Implicitly, this approach has meanwhile been given up in all three countries, because savings have to be made in the public sector as well. In some fields working conditions in the public sector have deteriorated and are poor compared to the private sector. This is especially true concerning working time (mainly in Germany) and partly pay as well (Germany, United Kingdom).

While the state has given up its policy of being a *good employer*, the question must be asked why the situation of public employees in times of tight state budgets has not deteriorated much more. Two important factors ensure that the public services continue to play an eminent role in state organization. These are: the strong position of the civil servants both in legislature and in the executive. It is well-known that civil servants are strongly overrepresented in national parliaments: in the 13th German Federal Assembly (Deutscher Bundestag), just to give an example, 35% of all members of parliament were civil servants, but they only amount to 7.3% of all persons employed (1998)<sup>150</sup>. The executive, furthermore, consists nearly completely of civil servants or public service employees with a work contract. Especially the influence of higher civil servants in the ministerial bureaucracy is an often mentioned phenomenon.

### (b) The public servants and their interest organizations

The civil service trade unions and the trade unions of the public employees (with a work contract subject to private law) are, without any doubt, two of the main actors in the shaping of the working

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<sup>149</sup> See *Ebbinghaus* 1998.

conditions in the public services<sup>151</sup>. Their situation, however, differs in principle from the trade unions in the private sector. While in the private sector representatives of the employees and the employers act as partners and negotiators in order to regulate interest conflicts, and the state has the role of the mediator most of the time, in the public sector the state is at the same time employer and occasionally conflict regulator. *The position of the trade unions in the public sector seems to be **structurally weaker** than in the private sector.*

This is reflected in the rather weak position of civil service trade unions and of trade unions of public employees in negotiating working conditions. Although they are consulted by the government (also concerning new laws which will have influence on their situation), are allowed to give commentaries and submit requests, the strongest weapon in a labour conflict—the right to strike—is not granted in several countries. The trade unions in the public services therefore are at a stark disadvantage when compared with trade unions of private industry and have to rely strongly on the good will of the state as employer. This constellation caused trade unions in the public services to develop strategies to influence politics to their favour.

Civil service trade unions and trade unions of public employees have a different history<sup>152</sup>. They developed later than industrial trade unions; their legitimacy was lower, and public sector trade unions were often forbidden. The state as employer had an extremely negative attitude (at least in Germany) at the beginning, and civil service trade unions had no pressure instruments. In order to guarantee loyalty towards the state, civil servants *en détail* were granted many favours and privileges. Starting from the guaranteed state pension, they tried to gradually gain more and more favours from their employers, such as widows' and orphans' pensions<sup>153</sup>, a current adaptation of wages and pensions to the economic development, etc.

The structure of trade unions in the public services, nevertheless, developed differently according to legal status, occupation, self-image, etc., of the members represented. The differentiation of the public services according to the categories public law/private law is reflected in the basic structure of the trade unions. Thus, the career civil servants (appointed for a life time) founded their own trade unions, and the public employees (with a working contract subject to private law) did the same for their specific interests. The different legal status is also visible in interest policies; the German case shows this clearly: the civil servants trade union (*Deutscher Beamtenbund*) represents above all the interests of civil servants, which have the special protection of the Basic Law; only in second place does it fight for the interests of public employees. Their interests are represented by a special trade union.

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<sup>150</sup> If the employees of the public services are added, nearly half of all (46%) members of parliament come from the public services, see *Statistisches Bundesamt* 1997: 164; *Statistisches Bundesamt* 1999a: 104; see also *Hradil* 1999: 454ff.

<sup>151</sup> On this topic: *Treu et al.* 1987; see esp. the comparative contribution by Tiziano Treu, the articles by Werner Blenk on Germany, Michel Bazex on France and David Winchester on Great Britain.

<sup>152</sup> On the beginnings: *Lederer* 1910a: 660–709. See also the accompanying article on private employees: *Lederer* 1910b: 215–54. For organizations of communal civil servants see *Wendt* 1918: 321–6.

<sup>153</sup> See also *Zimmermann* 1893.

The role of the trade unions in the public sector is reflected in the existence of the right to strike and other participation rights. Even civil servants have the right to stop their work in most countries of the European Union with the exception of Austria, Denmark and Germany<sup>154</sup>. In some member states of the EU, the right to strike is guaranteed by the constitution. The police, legal administration and courts, and the ministry of external affairs are normally excluded from the right to strike. As mentioned above, in Germany there is no right to strike, and the participation in strikes aiming at the improvement of working conditions has disciplinary consequences. In France, a legally defined right to strike exists for civil servants (*fonctionnaires*); police officers are excluded, as in Germany. In the United Kingdom, *civil servants* are allowed to strike, but in this country going on strike can have disciplinary consequences or salary cuts, too. In all three countries, the civil service trade unions can be consulted during the preparation of decisions which target civil servants. In France and in the United Kingdom, the participation of civil servants in collective negotiations is possible.

### (c) ‘The invisible hand’<sup>155</sup>: socio-structural constraints

This section will discuss patterns and trends with respect to the theoretical model; in other words, what are the consequences of changes in the social structure on the institutions of social protection and the social position of civil servants and public employees? Moreover, looking at influences from the opposite direction, how are changes in the social structure determined by the institutions of social protection and the social situation? The main perspective is to look at the *unintended consequences* or *side effects* of these (institutional, socio-structural, demographic) changes, causing pressure to re-adapt to (or reform) changed structures.

One *first* element might be *employment growth* in the public sector (the highest increase since the 1970s) with several side-effects, such as the subsequent increase in personnel costs and pensions. Another tendency, connected with the first one, was the permanent shift of employees to higher salary scales and grades (upgrading). These tendencies taken together led to an ever-increasing tax level and burden on the public purse.

A *second* set of factors are demographic changes with a growing proportion of the elderly—well-known as population ageing—in relative as well as absolute terms) due to low fertility and a continuously rising life expectancy. All sectors of employment are affected by increasing costs for old age pensions, survivors’ pensions, and health care provision. Yet, public servants are much more affected by increasing pension costs due to their higher longevity.

Policy responses of governments to handle and steer these developments are manifold. Some of these are discussed subsequently. A very interesting case is *France*, having great problems to finance

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<sup>154</sup> See Auer, Demmke and Polet 1997: 133ff.

<sup>155</sup> The term was coined by Adam Smith in his 1776 book ‘An Inquiry into the Nature and Causes of the Wealth of Nations’ with reference to anonymous market forces having positive side effects (Smith 1905, 1776).

public service pensions in the future. While the attempt to introduce substantial reforms of civil service pensions failed in 1995 due to strong resistance from the labour unions, an important reform was implemented in July 2003. Concerning civil servants, major changes comprise the gradual extension of contributory years for receiving a full pension from 37.5 years to 40 years by 2008 and the reduction of the accrual rate from 2% to 1.875%. The pensionable age was not changed and remains at 65 or 60 years depending on the status. The contribution rate of civil servants remained unchanged as well.

In Germany, continuing the policy of a gradual reduction of pay and benefits, severe cuts are envisaged from the year 2004. Against the background of a persistently high state deficit, unemployment and stagnating economic growth, an increase in working hours for civil servants and severe cuts in the 13th ('Christmas gratification'; 'Weihnachtsgeld') and 14th salary ('holiday gratification'; 'Urlaubsgeld') for civil servants and public employees are planned. Further instruments to save money are the deferment of the monthly payment from the 15th of each month to the end of the month and the payment of the 'Christmas gratification' at the end of November instead of mid-November (only for public employees).

Finally, in the civil service of the United Kingdom, conditions for pension provision did not get worse. Only in the case of females in occupational pension schemes will the age of retirement have to be extended gradually to the men's retirement age of 65 until 2020. All civil servants and public employees are affected by this regulation because nearly all are contracted out of the second state pension (S2P). The Principal Civil Service Pension Scheme (PCSPS) from 1st October 2002 was split up into three different schemes but not fundamentally altered: the PCSPS was given the name **classic** (1/80 of pensionable pay and a tax-free lump sum of three times the pension), but conditions remained unchanged. **Premium** is the second type: the pension is based on 1/60 of the final pensionable pay and the possibility to exchange some of the pension for a tax-free lump sum (£12 of lump sum for each £1 of yearly pension given up; there is a maximum lump sum). **Classic plus** is a combination of classic and premium: the conditions of classic apply to the time before 1st October 2002, while the conditions of premium apply to the period after 1st October 2002<sup>156</sup>. Further changes were made by the Blair government regarding names: SERPS was renamed 'The State Second Pension (S2P)', but was not changed essentially. Furthermore, a stakeholder pension scheme was created, applying to all residents. The 'Basic State Retirement Pension' was maintained without modifications. As people in the civil service and the other public services are nearly all contracted out of SERPS or S2P, pensions are mainly influenced by changes in their own contracted-out occupational pension schemes.

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<sup>156</sup> The pensioner gets (1) a pension and lump sum as in classic for service before 1st October 2002; that is pension based on 1/80 of the final pensionable pay for each year of reckonable service; and a tax-free lump sum of 3 times the pension. (2) A pension and optional lump sum as in premium for service from 1st October 2002, a pension based on 1/60 of final pensionable pay for each year of reckonable service and if desired a lump sum as an exchange for some pension. £12 of lump sum are exchanged for each £1 of yearly pension given up.

## VIII. Conclusion: Adapting to population ageing

The main problem in the future will be the process of population ageing and its consequences for pensions in all respects. The probable future development in demography in general and with reference to the civil servants is discussed.

Main policy measures for adapting to demographic changes are:

- Changes in life working time, extension of working life
- Reduction in pension level
- Linearization of calculation method
- Changes in method of pension calculation
- Increase in contribution rates for social insurance
- Increase in contribution rates for pension contributions of public servants

*First*, the process of demographic ageing requires an adaptation of the old age security systems to the ageing population. Besides measures such as staff reduction or reduced replacement of vacant positions and early retirement policies, meanwhile other policies are used, such as the extension of the pensionable age, in order to tackle this problem. The latter aims at reducing pensions, as, given the current pensioning patterns, there is no reason to believe that public servants will work longer in their life on average. Besides these rather hidden (crypto-) measures, there are direct reductions for such employees who wish to retire before they have reached retirement age.

*Second*, a standardization of the different systems of old age protection in the public services on the national level could be an option. The aim of such a harmonization could be to reduce the number of the many small individual systems, or to reduce the partially inadequately high benefits. Thus, e.g. in France, due to the right of civil servants to strike large cuts and the loss of privileges were averted until today. In the United Kingdom there were no attempts to standardize the different systems in the public services. The status of the *public corporations* was, nevertheless, changed substantially due to their privatisation and their transformation into *Agencies*. The announced significant cuts in the privileges of the *Civil Service* did not take place. In Germany, the Basic Law does not allow the levelling-off of the status of a civil servant with other employees in the public services. The status differences between civil servants and other employees of the public services become larger instead of smaller. The attempts to carry out reforms of the 1980s, aiming at a convergence of the systems, nearly all failed.

*Third*, the process of European unification puts some pressure on the standardization of the different national systems of old age security in the public services on the European level, in order to reach the

goal of a European labour market in the future<sup>157</sup>. This has to be seen with respect to inadequate permeability of the national public services due to considerable institutional differences, especially regarding old age care. The aim is a coordination of the special systems of the civil servants between member countries. As competences in the public services rest with the member states, reforms concerning the adaptation of the systems to the demographic development are implemented in a national context. Therefore, some people say, there is no longer a tendency towards convergence, but of partly growing differences regarding old age security systems in the member states<sup>158</sup>. Which national system of old age protection will be used as a 'model' and if the costs of different national old age security systems can be calculated at all in order to choose the most 'cost-effective' model in the future – these are the questions under discussion.

*Fourth*, the often discussed and debated modernization of public services does not tackle old age security arrangements: modernization is conceived as improved efficiency, effectiveness and productivity in the public sector. Side effects of modernization and productivity growth are savings and therefore the possibility to reduce staff numbers. Money spent for public employment is shifted to public service pensioners.

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<sup>157</sup> Auer, Demmke and Polet 1997; Magiera and Siedentopf 1994; see on this topic esp. the contribution by the discussant Detlef Merten (1994) on financial and social security of public employees in EU member states, *ibid.*, 851–4. An overview of systems of old age protection in Europe is given by *Ministère de l'Emploi et de la Solidarité* 1998.

<sup>158</sup> Auer, Demmke and Polet 1997: 3–7, 111–4, esp. 114.



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