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Pensions and European Integration
Heikki Oksanen

11.1 Introduction

The position of pensions in European integration is complex. Some specific aspects of pension policy are exclusively under European Union (EU) competence as the Internal Market for labour, capital and services requires harmonization, while in social policy, including pensions, the EU Treaty explicitly excludes harmonization going beyond the requirements of the Internal Market and secures ‘the right of the member states to define the fundamental principles of their social security systems’ (Treaty on the Functioning of the European Union (TFEU), Article 137, 2 and 4).

Competence is shared between the EU level and the member states in certain provisions on public finances. In Economic and Monetary Union (EMU), government deficit and debt fall under the Excessive Deficit Procedure (EDP), meaning that the Council of the EU (composed of the ministers of the member states) issues recommendations and obligations to a member state under the EDP (TFEU Article 126). As excessive deficit or a risk thereof may be caused by spending on public pensions, in such cases the EU has the competence to ask a member state to take measures on pensions. Yet, in these circumstances, even with shared competence, for both legal and practical reasons, the specified measures will be determined by the member state.

Division of competences is one aspect of the complexity of this policy area in European integration. Another is the competing political ambitions regarding public pensions, including disagreements as to what the EU should or should not do under existing EU law and how EU law...
should possibly be changed. EU institutions and the governments of the member states, non-governmental organizations, individual politicians, academic researchers and policy advisers producing expert studies have all intensively participated in the debate about these issues over the past 10–15 years.

The 1992 Maastricht Treaty EMU provisions, fuelled by the recognition, in the course of the 1990s, that public pensions may pose a major challenge to public finances, triggered the focus on pensions. This concern was more concretely raised at the EU level when the euro was launched in 1999. Because of the stress it places on public finances, people in the field of social security became concerned about the maintenance of the European social model. Open debate and important studies were accompanied by some changes to the treaty regarding social policy, agreed in Nice in 2000, and new procedures at the EU level were launched (Open Method of Coordination (OMC)).

This chapter examines the economic literature on pensions, in particular in the European context. We leave aside the purely Internal Market-related aspects that have been on the integration agenda since the original Treaty of Rome, such as the portability of pension rights and social benefits for workers and their dependants when moving across borders; various Internal Market issues with regard to taxation; regulating the occupational pension funds; and applying EU competition policy regarding compulsory participation of enterprises in earnings-related schemes.²

The focus in this chapter is on pension policies at the EU level when it had become recognized that population ageing raises pension expenditures, which in turn threaten the soundness of public finances and therefore call for remedies under EMU. Section 11.2 surveys the European debate about the privatization of public pensions inspired by the World Bank report of 1994 and controversies in the US at the turn of the century. Section 11.3 focuses on defining the role of the EU in social affairs in the Treaty of Nice agreed in December 2000 and launching the work under OMC in the Social Protection Committee (SPC), parallel with the work in the Economic Policy Committee (EPC) on public pension expenditures from the angle of public finances. Section 11.4 reviews the work on pensions over the past ten years within the context of EMU. It reviews how the EU affects pension policies through EMU. Section 11.5 presents the EU report jointly produced by the economic/financial and social policy camps in 2010, showing clear progress in finding much more common ground than ten years earlier. Section 11.6 concludes the chapter.