Institutional mismatch, party reputation, and industry interests: understanding the politics of private-heavy pension systems

Abstract

Private-heavy welfare systems, in which low or moderate state benefits are topped up by private welfare arrangements, are expected to undermine political support for the extension of social rights and perpetuate benefit fragmentation over time. And where low state benefits are means tested, political support is expected to be particularly prone to erosion. In this paper I develop the argument that the combination of private pensions and means-testing does not always perpetuate fragmentation. Rather, it structures the policy preferences of pension industry representatives and right-of-centre parties such that these actors push for reforms to make the state pension more universal. I make my argument by examining the reform history of nine private-heavy pension systems in the three decades since 1980. A fuzzy-set Qualitative Comparative Analysis (fsQCA) maps the conditions under which universalizing reforms have occurred, and two case studies link institutional conditions to reform outcomes via the policy preferences of key political actors.

Keywords

means-testing, reputation, pension reform, dualization, private pensions

Introduction

In the comparative study of welfare states, both private pensions and means tested welfare arrangements - where benefits are 'targeted' on the basis of need - are considered to be dualizing, fragmenting the benefit system and leading to different rights, entitlements and services being provided to different categories of recipients. Moreover, there is a formidable consensus, from Moene and Wallerstein (2001), to Korpi and Palme (1998), Rothstein (1998), and Myles and Pierson (2001), that such benefit arrangements undermine political support for the extension of state-provided social rights, and perpetuate fragmentation over time.

Where private insurance is prevalent fewer people rely on state benefits, making them more prone to retrenchment (Pierson, 1996). For Korpi and Palme, it is class not the number of welfare beneficiaries that matters, but the argument is much the same. Residual state benefits that leave room for the market are more vulnerable to erosion than benefits that are encompassing or universal, because the interests of the middle-classes are decoupled from those of the working class (Korpi & Palme, 1998). And where benefits are means tested or 'targeted' on the needy, it is particularly obvious that the beneficiaries of the welfare state and those who finance it are rarely the same individuals - benefits become susceptible to retrenchment on the grounds of 'fairness' (Rothstein, 1998: 158).

For no policy area are these logics likely to apply so strongly as for the policy area of pensions - a classic example of path dependent change (Myles and Pierson, 2001). Both '*basic social security'* pensions that provide a low level of entitlements based on contributions, and '*targeted'* pensions where eligibility to a low level of benefits is means

tested, leave the middle-classes reliant on private pensions. As a result they are expected to undermine the cross-class coalitions necessary for their preservation, and become less generous over time (Korpi & Palme, 1998).

In short, public pensions that focus on poverty relief are expected to become increasingly residual. This is the 'paradox of redistribution' (Korpi & Palme, 1998), the politics behind which describe the divided interests not only of the working age population, but also of the population of retirees who are already in receipt of some combination of private and public retirement income. In private-heavy pension systems where the 'grey' voice is likely to be divided, even demographic change increasing the electoral clout of the elderly should do little to prevent the state pension from becoming more residual.[1]

In this paper, I develop the argument that rather than eroding political support for state-provided pensions and perpetuating fragmentation over time, the *combination of means-testing and private pensions generates political pressure for more universal benefit arrangements*[2]. Specifically, by more universal benefit arrangements I mean any policies which loosen targeting, include new categories of people under social insurance, loosen eligibility requirements to the state pension, or alter the benefit calculation formula such that people previously receiving means tested benefits now receive benefits as a contributory right. In the post-industrial context of 'permanent austerity' (Myles & Pierson, 2001), I argue that left-of-centre parties find themselves constrained by their reputations for unsustainable welfare expenditure such that *universalizing reforms are more likely to be driven by non-left governments.* I develop my argument in three stages.

[1] Indeed, recent comparative work on the political implications of demographic change supports this expectation - population ageing has affected pension expenditure only in limited (non private-heavy) institutional contexts (Lynch, 2006; Tepe & Vanhuysse, 2010; Vanhuysse & Goerres, 2012).
[2] The term 'private pensions' includes both individual and occupational schemes.

First, I present a ‘least likely’ case. Australia’s ‘targeted’ pension system has a ratio of private to public pension expenditure that lies high above the OECD average (OECD, 2013a, 2013b). According to current understandings of how welfare institutions structure pension politics, we should fully expect to see an erosion of the Australian state pension and the perpetuation of benefit fragmentation - Australia is a ‘least likely’ case for universalizing reform. Yet in the early 2000s the Australian state pension was reformed to become more generous and more universal. I show how the combination of targeting and private pensions structured the preferences of Australian pension industry representatives such that they began to advocate a more universal state pension, and how their demands led to universalising reforms under a right-of-centre Coalition government.

Next, I test the generalizability of my argument. I show that over the past three decades, state pensions have not become more residual in countries with prevalent private pensions. Rather, among the set of ‘private-heavy’ pension systems (the nine countries where the ratio of private to public expenditure is higher than the OECD average), there has been a surprising trend towards more universal state pensions - at the very time when means-testing and the dualization of social entitlements have generally been increasing (Emmenegger, Häusermann, Palier, & Seeleib-Kaiser, 2012: 8; Palier, 2010). With the exception of Ireland, the Qualitative Comparative Analysis (QCA) presented in this section of the paper shows that *every* reform that made the state pension more universal in private-heavy pension systems since 1980 had at its root a mismatch between private pensions and means testing.

The QCA makes it possible to identify political and institutional conditions under which this mismatch brings about more universal pensions. It shows that the combination of means testing and private pensions has led to reform under right-of-centre governments, where there is a low rate of national saving, and where the earnings-related state pension is small. While the importance of a right-of-centre government and a low rate of national

savings will already be apparent from the Australian case, Australia provides insufficient temporal variation to examine the role of the earnings-related state pension. In addition, the UK emerges from the QCA as a seemingly deviant case of reform under left-of-centre government. I therefore complete my argument with a final case study, zooming in on the UK where the earnings-related state pension has been dramatically eroded over time. I show how despite appearances, it was the political right that drove the UK reforms. I begin by setting out the rationale for why the combination of means testing and private pensions can lead to more universal state pensions.

Why means testing and private pensions can lead non-left governments to push for more universal state pensions

I take as my starting point the idea that there is an institutional mismatch between means-testing and private pensions that leads to pressure for more universal pensions. This is because means tested benefits base eligibility on need, defined either to include only the poor or to exclude only the rich, and proxied by individual or household assets, income, or both. Where private pension income is not excluded from the calculation of means tested benefits, means-testing can disincentivise private retirement saving, as people anticipate that such saving reduces their state pension entitlements (See Chomik, Piggott, Woodland, Kudrna, & Kumru, 2015). Green-Pedersen (2003) draws attention to this in his analysis of recent Danish pension reforms, where moves in the universal direction were mostly driven by right-of-centre parties focusing on making work and savings pay. He argues that right-of-centre parties pushed for more universal benefits because they were more ‘market conforming’ than means tested benefits.

Rather than expecting universalizing reform to result from an ideological commitment of right-of-centre governments to encouraging the market, the argument developed in this paper emphasises the electoral popularity of reforms that reduce disincentives to save by making the state pension more universal. Where state pension entitlements are means tested, some of those who have saved privately for retirement may find their state pension reduced and may benefit from universalizing reforms such as lowering the rate at which public pensions are withdrawn with growing private pension income or lowering contributions requirements to the state pension. This logic, which stems from the mismatch between means testing and private pensions, is hereafter referred to as the 'private savings' logic of reform.

Notwithstanding the uneven coverage of voluntary private pensions in favour of those on high incomes, I expect that in private-heavy systems private pension income is sufficiently prevalent that those affected by means-testing will cut across the political spectrum, and both right and left-of-centre parties will count amongst their constituents a significant number of individuals who stand to gain from universalizing reforms. However, in a post-industrial setting, expansionary reforms are difficult, and scholarly emphasis has focused on explaining retrenchment and recalibration (Huber & Stephens, 2001; Myles & Pierson, 2001). While some insist that right-of-centre parties shrink state entitlements and left-of-centre parties defend or expand them (Hicks, 1999; Korpi & Palme, 2003; Scruggs & Allan, 2004), others claim that party roles have been reversed, with left-of-centre parties now more capable of retrenchment than right-of-centre parties (Cukierman & Tommasi, 1998; Green-Pedersen, 2001; Ross, 2000). These authors point to the effect of a 'Nixon goes to China' logic. In a nutshell, since left-of-centre parties are associated with defending the welfare state they may have more leeway in retrenching or restructuring it.

Drawing on this idea, I expect that universalizing reform may be less feasible for left-of-centre parties than it is for right-of-centre parties. Just as left-of-centre parties continue to

‘own’ the welfare state issue (Jensen, 2015), right-of-centre parties may be said to ‘own’ the fiscal rectitude issue. A right-of-centre party could gain from initiating popular expansionary reforms and has little to lose, as left-of-centre parties are unlikely to gain votes by attacking welfare state expansion. It is therefore right-of-centre parties that can be expected to initiate universalizing state pension reforms.

In sum, the starting point for my argument is that the combination of means-testing and private pensions generates pressure to make the state pension more universal. This is because those who save privately for retirement and find their eligibility for state benefits reduced under the means tested status quo could benefit from universalizing reform. In the post-industrial context, I expect that universalizing reform is more likely to be introduced by right-of-centre governments with a reputation for fiscal rectitude. In the next section, I show how the ‘private savings’ reform logic has been at work in the case of Australia, a targeted, private-heavy pension system that has become more generous and more universal since the mid 1990s.

Australia: a least likely case of universalizing reform

The Hawke Labour (ALP) government came to power in the midst of recession in 1982 determined to gain the support of business and prove its fiscal reliability. It departed from the policies of the previous ALP government with a major restructuring of the welfare state marked by increased means testing (Castles & Mitchell, 1993; Scruggs, 2004). Pensions were among the first benefits reformed. To the approval of Australian business, the flat-rate general taxation financed *Age Pension* - loosely targeted and covering over 80 per cent of the population - became more tightly means tested (Power, 1988).

In addition to tighter means-testing, compulsory occupational pensions introduced in 1992 in the form of the 'Superannuation Guarantee' would further reduce eligibility to the *Age Pension* over time as more people built up private savings and became ineligible for state benefits. Public pension spending was expected to decline, and national savings - a media obsession since the late 1980s (Commonwealth Treasury of Australia, 2001) - to improve through a combination of public and private saving (Power, 1988; The Australian Financial Review, 1989).

The Coalition of the Australian Liberal and National Parties that came to power in 1996 was committed to deficit reduction, and initially pursued a retirement policy similar to that of the ALP. Further tightening of the Age Pension means tests was immediately announced, justified by the need to increase national savings (Goot & Watson, 2007; McAllister, 1996) .

This was unpopular with the superannuation industry, which had grown significantly as a result of ALP policies and now expressed concern that tighter means testing was disincentivising private saving (Kavanagh, 1996). For the Institute of Actuaries, what was needed was a fully universal Age Pension (Smith, 1998). The rest of the superannuation industry simply demanded looser means tests (Liberal Party of Australia & National Party of Australia, 1996: 3).[3]

The peak lobby group ASFA (Association of Superannuation Funds of Australia) argued that private rather than public saving was the best way to improve the current account deficit (Smith, 1998). It issued high-profile statements to this effect, reframing the debate

[3] In fact, the effects of tighter means tests on aggregate saving were not as clear cut as pension industry representatives claimed. Recent work by Kudrna (2016b) shows how tighter targeting of the Age Pension in fact can increase private savings, when trade-offs between effective marginal tax rates, the number of people affected by means testing, and other explicit taxes in the economy are taken into account.

about national saving so successfully that the issue of increasing private savings soon became ‘the nation's prime economic soap opera' (Megalogenis, 1999). The Coalition government began to realise that this argument could be used to justify a shift from budgetary restraint to expansionary loosening of the means tests. This would imply popular benefit increases for many whose private savings would otherwise have reduced their entitlement to a state pension (Smith, 1998).

Thus, despite strained relations between the Coalition and ASFA (which was tightly linked to the ALP and headed by former Labor minister Susan Ryan) (Costello, 2000), the prospect of electoral gain led the government to push aside calls from the Business Council of Australia for tighter targeting of the *Age Pension* (Business Council of Australia, 2001: 11). In the run up to the 1998 election the government announced an increase to the income test ‘free’ areas and a loosening of the Age Pension taper rate. These changes were justified on the grounds that they would ‘improve incentives to save for retirement’ (Costello, 1998).

The ALP denounced the reforms as an attempt to buy votes, but - crucially - did not dare to suggest that a Labour government would reverse them (Kelly, 2001; Steketee, 2001). Meanwhile, superannuation industry representatives continued the campaign to improve low private savings (Frith, 2001; Richardson, 2001).

In 2006 the Coalition announced its ‘Santa Claus Budget’ (Costello, 2006), the most expensive part of which was a more generous assets test for the Age Pension. The taper rate was halved, and the assets test threshold almost doubled (Tanner, 2006). Once again, the justification for loosening targeting was that it constituted a ‘large disincentive to save’ (Negline, 2007; Parliament of Australia, 2006), and on this basis the reforms received cross-party support (Parliament of Australia, 2006; Ryan, 2006). The Treasury announced that the Age Pension should be considered integral rather than peripheral to retirement incomes

(House of Representatives, 2006). The Coalition government had not just made the Age Pension significantly more encompassing; it had also moved away from the ALP's vision of increasingly residual state pension provision.

The Australian case shows how a left-of-centre government, eager to prove its fiscal rectitude to business, tightened pension eligibility conditions and extended private saving with the explicit intention of making the state pension increasingly residual over time. By contrast, the Coalition had the reputational leeway to partially offset the ongoing residualisation of the Age Pension resulting automatically from the maturing of mandatory superannuation (Kudrna & Woodland, 2013); by introducing a succession of popular expansionary reforms easing the mismatch between targeting and private pensions that was affecting increasing numbers of people.

Even for the Coalition however, the decision to loosen the means test was not an obvious one. When it came to power the Coalition initially continued to emphasise deficit reduction and tighter targeting. It was only after superannuation industry representatives started to publicly emphasise low private savings that means tests were loosened. Although these reforms were popular, the Coalition had played a large part in the construction of the fiscal imperative during its time in opposition and felt the need to justify expansionary pension policies by highlighting how they would reduce disincentives to save and improve national savings.

Low national savings facilitated but did not drive the reforms. When low national savings were first identified as a primary policy concern in the 1980s, the ALP responded by targeting social spending more tightly to increase state saving. Similarly in its first term in government, the Coalition framed the problem of low national savings as business representatives and the ALP had done, as one of fiscal profligacy to be tackled primarily by

increasing state saving. But by its second term, the Coalition had taken the superannuation industry's lead and reframed the problem of low national savings to emphasise deficient private saving. The narrative shows that the 'private savings' logic of reform is not a functional response to low savings. It is eminently political, driven by the potential electoral popularity of universalizing reforms.

The next section maps the changes that have occurred in other private-heavy pension systems since 1980, and finds a trend towards more universal state pensions. To test the generalizability of the 'private savings' logic as an explanation for these reforms, I conduct a fuzzy-set QCA. This formalized process of comparison involves breaking cases up into variables – a number of conditions and an outcome – which can be systematically compared to find the conditions that are present or absent when an outcome of interest is observed. It works well with small-to-medium n research designs where in-depth case knowledge is possible, and is capable of capturing conjunctural causation, where causally relevant conditions do not display their effects on their own but only together with other conditions. This is crucial for the argument of this paper, where means testing and private pensions lead to universalizing reform only when combined, and under favourable political circumstances.

Testing and refining the argument – A fuzzy-set QCA of private-heavy pension systems

I define private-heavy pension systems as those where the ratio of private to public expenditure is higher than the OECD average (OECD, 2013a, 2013b), and focus on the eighteen mature welfare states included in *The Three Worlds of Welfare Capitalism* (Esping-

Andersen, 1990) and commonly used in comparative research thereafter.[4] This yields a set of nine private-heavy pension systems: Australia, Canada, Denmark, Ireland, the Netherlands, New Zealand, Switzerland, the United States and the United Kingdom.[5]

The trend towards more universal state pensions in private-heavy systems

Overall between 1980 and 2008 there has been an increase in the number of universalizing reforms to the state pension in private-heavy pension systems, and a simultaneous decrease in 'de-universalizing' reforms that increase the role of targeting. Table 1 presents the number of universalizing and de-universalizing reforms that occurred per decade.

**** Table 1 here ****

This trend towards more universal state pensions has been driven by Australia, the UK, New Zealand and Ireland.[6] In Ireland, reforms over the last three decades have pushed the pension system in a consistently more universal direction. They have dramatically increased the number of people qualifying for pensions based on their social insurance record rather than through means testing, by extending the coverage of the contributory state pension to the self-employed (1988) and to part-time workers (1991), introducing a system of disregards for carers (1994) and loosening the means test (2007).

In Australia, New Zealand and the UK, reforms shifted away from universalism in the 1980s but have been replaced in recent years with universalizing reforms. As discussed in the

[4] This excludes less frequently analysed Iceland and Israel, as well as the more recently privatized systems of Latin America and Central and Eastern Europe.
[5] Data for the full list of OECD countries is presented in the online appendix.
[6] See online appendix for a full list of reforms (Table A2), as well as for detailed discussion of the universalizing effects of these reforms (Box 1).

case study, reforms in the 1980s made the Australian Age Pension less universal by tightening the means tests (1983, 1985), but the trend since has been reversed with the introduction in the 2000s of two universalizing reforms that together extended coverage significantly by loosening the means test. In New Zealand the affluence test that was introduced in 1986 and increased further in 1990 was repealed in 1997, leaving a universal flat-rate state pension conditional only on residence. The UK moved towards targeting initially, by moving from earnings to price indexation of the state pension in 1980. But in the last decade the UK passed three reforms that made the state pension more universal, introducing credits for carers and disabled people with broken work records to enable them to build up entitlements to the state pension (2000), loosening the means test on the Minimum Income Guarantee (2002), and re-introducing earnings uprating as well as lowering the required contributions for a full basic state pension from 45 years to 30 years (2007).

In Switzerland and Denmark no clear trend emerges. In Denmark reforms loosening the income test for the pension supplement (1987) and introducing contribution credits for benefits recipients (1996) alternated with reforms that shifted towards targeting (1993, 2003), whilst in Switzerland reforms tightening the means test (1983) and shifting individuals towards targeting (2003) have been punctuated by the introduction of contribution credits (1995). In the meantime the US, Canada and the Netherlands did not introduce any relevant reforms.

Thus, although private-heavy pension systems overall have seen an increase in reforms that make the state pension more universal, there is cross-national variation around this trend, which has been driven by four countries – the UK, New Zealand, Australia and Ireland. The fsQCA harnesses this variation to identify the conditions under which moves towards more universal state pensions have occurred.

Setting up the fsQCA

The fsQCA covers reforms in the nine private-heavy pension systems between 1980 and 2009. The data is split into three decades 1980-1989, 1990-1999, and 2000-2009, and the analysis is run not with nine country cases, but with twenty-seven country-decade cases. This offers analytical leverage by introducing variation in causal conditions over time.

The choice of country-decades as cases strikes a balance between the idea that change in relevant causal conditions leads to reform and the idea that reform is not an instant reaction to such change. In addition, the fsQCA was conducted using country-five-years. The results, which are included in the online appendix, are consistent with the analysis of country-decades and lend further support to this choice of analytical unit.

The outcome of interest is the presence of universalizing reform. For each country-decade, membership is calibrated in the fuzzy-set '*reform*' according to how much any needs-based or contributory arrangements restrict coverage.

Three of the five causal conditions included in the model follow directly from my theoretical argument and case study. The *first of these conditions is the prevalence of targeting within the pension system (hi_targ)*, which, in combination with prevalent private pensions, should result in key political actors having an interest in universalizing reform.

Since all the countries in my analysis are private-heavy, I do not include a separate condition to capture the 'private savings' logic of reform. However, to capture the expectation that in the post-industrial context it may be difficult for left-of-centre governments to respond to this logic, *the second condition included in the analysis is the presence of a right-of-centre government (non_left), as proxied by its cabinet seat share*.

Notwithstanding the fact that the ideological profiles of political parties have changed significantly over recent decades (Döring & Schwander, 2015), a constant measure of partisanship serves to capture the on-going reputational effects of issue ownership that are emphasised in this paper.

A low rate of national savings (lo_natsav) is included as a condition since the Australian case shows how low rates of national saving can be used by governments to legitimize a shift in focus, from fiscal restraint to the encouragement of private savings.

Two further conditions are included in the model on the basis of the case knowledge gained during the iterative QCA research process (Ragin, 2000; Schneider & Wagemann, 2012: 81). The first of these conditions is *the absence of a significant earnings-related state pension (lo_erel)*, which turns out to be a crucial part of the private savings logic of reform. As the UK case study will show, a low earnings-related state pension mobilizes pension industry representatives to put disincentives to private saving on the political agenda.

These second is *the presence of social insurance finance rather than general taxation finance (broad_fin).* This condition is included to capture the exceptional nature of the Irish reforms. In the 1980s and early 1990s, Ireland was unique among private-heavy systems in excluding large social groups from the contributory pension. By the early 1990s, the restricted coverage of the contributory pension had created a reliance on means-testing that in turn generated an interest in universalizing reforms among those who paid for both their own pension through social insurance contributions as well as the means tested benefits of others through general taxation. This interest was manifested politically in the union-driven extension of contributory pension coverage first to the self-employed and certain public sector workers in 1988, and then to part-time workers in 1991 (Schulze & Moran, 2006a). Thus, rather than reflecting a private savings reform logic stemming from a mismatch

between means-testing and private pensions, early Irish reforms reflect a 'cost sharing' logic stemming from a mismatch between means testing and a restricted contributory system.

The measurement and calibration of both outcome and causal conditions are presented in detail in the online appendix. Fuzzy-set conditions contain more information than crisp-set conditions and are used wherever possible. The resulting analysis is therefore fuzzy-set, and conducted using the specialist software *fsQCA2.5*. Since an analysis of necessary conditions found no causally relevant necessary conditions for universalizing reform, the discussion focuses on sufficient conditions.

Conditions associated with universalizing reform in private-heavy systems

The results of the analysis of sufficient conditions are summarised Table 2 below[7]. The Boolean algebraic solution term at the top of the table reveals three combinations of conditions that are sufficient to bring about more universal pensions in private-heavy systems. Together, these three combinations of conditions cover every significant universalizing reform in market heavy pension systems in the past three decades, and they each do so with a solid degree of consistency, meaning that there is little empirical evidence to contradict the statement of sufficiency set out in the solution formula. The statement of sufficiency is not logically contradicted by any cases.

**** Table 2 here ****

[7] As is standard practice, the 'intermediate' solution forms the centre of discussion. Directional assumptions, 'parsimonious' and 'conservative' solutions can be found in the online appendix.

The first combination of sufficient conditions consists of a non-left government, a low rate of national saving, the absence of a significant earnings-related pension, a reliance on targeting and general taxation financing. This combination of conditions uniquely covers the Danish reform of 1987 that loosened the income test for the pension supplement, the abolition of the affluence test in New Zealand in 1997, and the Australian reforms of 2000 and 2007 that loosened the means tests for the Age pension. No cases logically contradict the statement of sufficiency, and the consistency score is adequate at 0.77**.**

I interpret this combination of conditions to be a manifestation of the 'private savings' logic of reform, in which a mismatch between the prevalence of means targeting and the prevalence of private savings means that large parts of the electorate are likely to have an interest in universalizing reform. In line with the expectation that in a time of austerity it will be difficult for left-of-centre governments to respond to this logic, the reforms in Denmark, New Zealand and Australia all occurred under non-left governments. Low rates of national saving were also present in all these reforms, supporting the idea that low national savings allow right-of-centre governments to legitimize a shift in focus, from fiscal restraint to the encouragement of private savings. The reforms also all occurred in absence of a significant earnings-related pension. The UK case that follows offers an explanation as to why this may be the case.

The second combination of conditions consists of a non-left government, the absence of a significant earnings-related pension, a reliance on targeting, and contribution rather than general taxation finance. It uniquely covers the Irish reforms that occurred in the 1980s, the 1990s, and the 2000s. Again, no cases logically contradict the statement of sufficiency, and the consistency score is passable at 0.7. This 'Irish path' to universalizing reform reflects the exceptionalism of Irish pension politics since the 1980s**.**

The third combination of conditions consists of the absence of a significant earnings-related pension, a reliance on targeting, contribution rather than general taxation finance and a low rate of national saving. It uniquely covers the universalizing reforms introduced by the UK in the 2000s, with a consistency score of 0.7. Although the UK thus seemingly emerges from the analysis as an exceptional case of universalizing reform under a non-left government, the next case study shows that the causal logic behind the UK reforms was in fact no different to that which drove the universalizing reforms in Australia, Denmark and New Zealand.

Aside from the Irish state pension reforms therefore, which were largely driven by a mismatch between targeting on the one hand and a contributory system from which large social groups were excluded on the other, the analysis in this section suggests that recent trends towards more universal state pensions can be explained by a single logic. This logic has at its root a mismatch between private pensions and targeting which leads to reform to make the state pension more universal when combined with the absence of a significant earnings-related pension, a low rate of national savings, and the presence of a non-left government. Despite the fact that QCA does not assume causal symmetry (Schneider & Wagemann, 2012), this 'private savings' logic extends to explain why reform did not occur in most of those cases where it was absent[8].

The next section examines the UK, which seemingly emerges from the QCA as a 'deviant' case of universalizing reform. The case study offers further support for the idea that reputational politics are involved in universalizing reform. It further clarifies the 'private savings' logic, and why the absence of an earnings-related pension emerged from the QCA as part of this logic.

[8] See online appendix.

United Kingdom: a deviant case of universalizing reform?

In the 1980s, pension politics in the UK were contested in a rather straightforward way. The Conservative government wanted state responsibility to be confined to poverty relief through means tested benefits, with earnings replacement provided by private pensions. Unable to abolish the State Earnings Related Pension Scheme (SERPS) that supplemented the flat-rate contributory Basic State Pension (BSP), the Conservatives instead extended incentives to 'opt-out' of the SERPS into private schemes, as demanded by employers and pension industry representatives (Oude-Nijhuis, 2009; Pemberton, 2010). In addition the state pension was re-indexed, gradually eroding its value and pushing onto means tested benefits people who otherwise would have received their pension on the basis of contributory right (Schulze & Moran, 2006b: 73).

By contrast, throughout the 1980s the Labour party was strongly committed to contributory rather than means tested benefits (Hills, 1998). In its 1983 and 1987 Manifestos Labour promised to restore wage-indexation and reverse the decline in the value of the BSP, and the party went to the 1992 general election insistent that the top rate of tax and middle-income national insurance contributions should be increased to finance adequate earnings-related state pensions (Hills, 1998).

After four successive electoral defeats, the message drawn by the new Labour leadership was that the party had to lose its tax and spend image (Driver, 2002). The Labour party conference in 1996 was a turning point in this direction. The party abandoned its commitment both to wage-indexation and to restoring the SERPS. By the time New Labour came to power in 1997 promising to stick to spending limits set by the Conservatives, it was no longer social insurance but rather poverty relief that was the party goal (Hills, 1998: 22).

New Labour's first pension reform, the *Welfare Reform and Pensions Act* of 1999, introduced a new means tested pension. The 'Minimum Income Guarantee' was to be substantially more generous than its predecessor and hold its position against average earnings while the value of the price-indexed BSP continued to shrink. One year later, the *Child Support, Pensions and Social Security Act* replaced SERPS with the flat-rate Second State Pension (S2P), moving the state gradually out of earnings replacement and marking the unambiguous end of the Labour party's commitment to social insurance.

These reforms faced fierce internal opposition from both party traditionalists (Driver, 2002) and from modernisers worried about the disincentive effects of means-testing (Castle & Townsend, 1996). They also faced increasing opposition from pension industry representatives. The pension industry had long been united in its focus on minimizing the crowding-out of private saving by the earnings-related state pension – it did this by lobbying to protect and extend financial incentives to 'opt-out' of the SERPS. As the SERPS was eroded however, pension industry representatives shifted their attention to how means-testing was creating disincentives to save. They began to lobby in favour of a more universal state pension, receipt of which would be less affected by private retirement savings.

The National Association of Pension Funds (NAPF) was the first organisation to propose reforms in this direction. The proposed reforms were radical. The NAPF wanted the various state pension strands combined to create a universal, non-contributory 'citizen's pension' with eligibility based on a residency test (Hills, 1998: 20).

The Labour government rejected the NAPF's proposal outright on grounds of cost (Skypala, 2002). The opposition's response however was much more accommodating. The Conservatives promised to back proposals for a single state pension sufficiently generous to

take people off means tested benefits if these proposals commanded support from ‘the occupational pension fund movement and employers’ (Timmins & Eaglesham, 2002).

Support from the pension industry was consolidated in early 2003 when the Association of British Insurers (ABI) joined the NAPF in calling for 'a simpler, less means tested system' (Timmins, 2003). Three months later, the Conservatives began to publicly advocate a more generous state pension, less reliant on means-testing, in order to restore private saving. They proposed scrapping the S2P and providing in its place an average earnings-linked Basic State Pension which would be 'much higher' than it was at the time, and ‘arguably higher’ than the means tested pension (Timmins & Newman, 2003; Timmins & Turner, 2003). This new policy stance was a clear move away from Thatcherite attempts to residualize the state pension. Cost concerns from traditionalists within the party were pushed aside (Timmins & Turner, 2003), as were the reservations of the Confederation of British Industry (Timmins & Newman, 2003).

Pension saving was now 'set to be a main issue in the general election' (Timmins, 2004a). Faced with the opposition’s pledge to expand the state pension, the Labour party began to rethink its policy stance. In September 2004, the Financial Times reported that after three years of denying the disincentive effects of their pension policies, ‘the government is acknowledging that its critics have a point’ (Hall, 2004). At the Labour party conference the Prime Minister announced that in a third term Labour would redesign the state system, putting more money into pensions while ensuring that the non means tested basic pension was ‘at the core’ of the redesign (Timmins, 2004b).

This policy u-turn was soon supported by the independent Pension Commission, who identified an ‘emerging consensus’ that means testing had damaged incentives to save (Pensions Commission, 2005a: 26), and recommended reforms to make the state system less

means tested and more universal (Pensions Commission, 2005b). The government's specific proposals to uprate the Basic State Pension to average earnings and loosen eligibility conditions for both the BSP and the S2P closely followed the recommendations of the Pension Commission, and received cross-party support when brought before parliament in the form of the 2007 Pension Act.

The UK had taken the biggest step towards universalism in over thirty years. Since the reforms were introduced by Labour, a party reputationally constrained from pursuing expansionary measures, the UK emerges from the fsQCA as a deviant case of reform. However, the preceding narrative shows that it was not Labour but rather the Conservatives that played the crucial role in the introduction of universalizing reforms. It was the dramatic shift in policy stance of the Conservative opposition that forced New Labour to rethink the strategy of targeting that it had adopted less than a decade previously.

As in the Australian case, pension industry representatives shaped the development of the Conservative's new policy stance. As the earnings-related state pension was eroded and no longer threatened to crowd-out private savings, pension industry representatives turned their attention to the disincentive effects of increased means-testing, and both the ABI and the NAPF pushed decisively for a more universal state pension. Despite employer ambivalence, the Conservatives responded by adopting the language of 'incentives to save' to justify their first universalizing policy proposal in living memory and force the Labour party into a policy u-turn.

Conclusions

With the exception of Ireland, where early reforms to make the state pension more universal stemmed from a mismatch between targeting and a contributory system with restricted coverage, the fsQCA presented in this paper shows that *every* reform that made the state

pension more universal in private-heavy pension systems since 1980 had at its root a mismatch between a reliance on private pensions and a reliance on targeting.

Contrary to established institutionalist logics, private pensions and targeting do not necessarily shape political preferences such that the state pension becomes more residual over time. Rather, where the prevalence of means testing and the prevalence of private pensions coexist, this can lead to a less residual state pension with looser eligibility conditions and more people receiving the state pension as a matter of contributory right.

Prevalent means-testing has led representatives of the pension industry in private-heavy systems to develop an interest in universalizing reforms that aim to reduce disincentives to save for retirement. And unlike employers whose ambivalence regarding universalizing reform has been sidelined, the pension industry has been influential in bringing about reform. This pattern of interest group influence can be understood in light of the fact that pension industry representatives have not succeeded in the introduction of universalizing reforms by lobbying. Rather, as the case studies presented in this paper illustrate, they have succeeded by using their expertise to reframe these electorally popular expansionary reforms as economically beneficial.

Consequently, it has been in the electoral interest of right-of-center parties to promote universalizing reforms. Having built up strong reputations for macro-economic management, right-of-center parties in both the UK and Australia have felt able to propose fiscally costly yet electorally popular universalizing reforms in the name of reducing disincentives to save. They did this against a policy backdrop in which New Labour and the ALP, primarily concerned with proving their fiscal rectitude to the electorate, were targeting state benefits more tightly on the needy and supplementing targeted state provision with the regulatory extension of private pensions.

The analysis in this paper thus reveals a systematic relationship between political parties and reforms that make the state pension more universal. Yet contrary to the stylized picture that means-testing is driven by the secular right and universal state pensions by the left, the universalizing expansion of state pensions in the post-industrial context has been driven by non-left parties. Even in the seemingly deviant case of the UK, the Conservatives played a crucial role in the reform process.

The idea that targeting and private provision erode political support for state benefits features prominently among institutionalist understandings of welfare state change. By showing that the combination of targeting and private pensions can generate pressure for reforms that make the state pension more universal, and spelling out the conditions under which this pressure has lead to universalizing reform, this paper develops a more nuanced understanding of how the increasingly prevalent institutional patterns of targeting and private provision have interacted to shape pension politics.

The analytical focus of this paper has been the period between 1980 and 2009, that is, the three decades of pension reforms that took place in private-heavy pension systems in the wake of the Keynesian consensus, and before the financial crisis. In the spirit of case-oriented historical institutionalist research, the argument developed in this paper is of modest explanatory scope, contributing primarily to scholarly understandings of the 'distinctive political dynamic' that has characterized the development of private-heavy pension systems over three decades of permanent austerity (Myles & Pierson, 2001: 317).

While the QCA approach supports 'limited historical generalization' (Ragin, 1987: 31) to similar cases (Berg-Schlosser, De Meur, Rihoux, & Ragin, 2009: 12), it is too early to say whether the argument of this paper will continue to have explanatory power in the post-crisis period. On the one hand, post-crisis developments in the pension systems of Australia

and the UK point towards the continued relevance of the argument of this paper. While the Conservative-led Coalition government has introduced further universalizing reforms in the UK (Disney, 2016), in Australia national savings have recovered, and the Coalition government has reverted back to tighter targeting of the Age Pension justified on the grounds of fiscal sustainability and fairness (Kudrna, 2016a).

On the other hand, the post-crisis reform context may turn out to differ in significant ways from that which has been the focus of this paper. At a time of rapidly changing patterns of party competition (Schumacher & Kersbergen, 2014), welfare coalitions (Gingrich & Häusermann, 2015), and reform discourses (Keskinen, Norocel, & Jørgensen, 2016), it is for future research to determine whether the reputational politics that underpin this paper are changing in such a way as to produce new logics of pension reform.

Bibliography

Berg-Schlosser, D., De Meur, G., Rihoux, B., & Ragin, C. C. (2009). Qualitative Comparative Analysis as an Approach. In C. C. Ragin & B. Rihoux (Eds.), *Configurational Comparative Methods: Qualitative Comparative Analysis (QCA) and Related Techniques*. California: Sage.

Business Council of Australia. (2001). Pre-Budget Submission to the Treasurer.

Castle, B., & Townsend, P. (1996). We CAN afford the Welfare State *Security in Retirement for Everyone*. London.

Castles, F. G., & Mitchell, D. (1993). Worlds of Welfare and Families of Nations. In F. G. Castles (Ed.), *Families of Nations: Patterns of Public Policy in Western Democracies*. Aldershot: Dartmouth Publishing Company.

Chomik, R., Piggott, J., Woodland, A. D., Kudrna, G., & Kumru, C. (2015). Means Testing Social Security: Modeling and Policy Analysis. *University of Michigan Retirement Research Centre (MRRC) Working Paper*(WP 2016-337).

Commonwealth Treasury of Australia. (2001). *Towards Higher Retirement Incomes for Australians: A History of the Australian Retirement Income System Since Federation*. Economic Roundup, Centenary 2001.

Costello, P. (1998). *Tax Reform: Not a New Tax, A New Tax System: An Overview*. Treasury of Australia Retrieved from http://archive.treasury.gov.au/documents/159/HTML/docshell.asp?URL=Overview.asp.

Costello, P. (2000). *Budget Speech 2000-01 Delivered on 9 May 2000 on the Second Reading of the Appropriation Bill (No. 1) 2000-01 by The Honourable Peter Costello, MP Treasurer of the Commonwealth of Australia*. Retrieved from http://www.budget.gov.au/2000-01/speech/html/speech.htm.

Costello, P. (2006). Budget Speech 2006-07 Delivered on 9 May 2000 on the Second Reading of the Appropriation Bill (No. 1) 2000-01 by The Honourable Peter Costello, MP Treasurer of the Commonwealth of Australia.

Cukierman, A., & Tommasi, M. (1998). When Does it Take a Nixon to go to China? *The American Economic Review, 88*(1), 180-197.

Disney, R. (2016). Pension Reform in the United Kingdom: An Economic Perspective. *National Institute Economic Review, 237*, 6-12.

Döring, H., & Schwander, H. (2015). Revisiting the left cabinet share: How to measure the partisan profile of governments in welfare state research. *Journal of European Social Policy, 25*(2), 175-193.

Driver, S. (2002). Frank Field's Fifteen Minutes. In A. Deacon (Ed.), *Debating Pensions: Self-Interest, Citizenship and the Common Good*. London: Civitas.

Emmenegger, P., Häusermann, S., Palier, B., & Seeleib-Kaiser, M. (Eds.). (2012). *The Age of Dualization: the Changing Face of Inequality in Deindustrializing Societies*. Oxford: OUP.

Esping-Andersen. (1990). *The Three Worlds of Welfare Capitalism*. Cambridge: Polity Press.

Frith, B. (2001, 23 May). Targeted stimulation - the new caring sharing Coalition. *The Australian*.

Gingrich, J., & Häusermann, S. (2015). The decline of the working-class vote, the reconfiguration of the welfare support coalition and consequences for the welfare state. *Journal of European Social Policy, 25*(1), 50-75.

Goot, M., & Watson, I. (2007). Explaining Howard's success: social structures, issue agendas and party support, 1993-2004. *Australian Journal of Political Science, 42*(2), 253-276.

Green-Pedersen, C. (2001). Welfare State Retrenchment in Denmark and the Netherlands, 1982-1998: The Role of Party Competition and Party Consensus. *Comparative Political Studies, 34*(9), 963-985.

Green-Pedersen, C. (2003). Still There But For How Long? The Counter-Intuitiveness of the Universal Welfare Model and the Development of the Universal Welfare State in Denmark. *Revue Francaise des Affaires Sociales, 4*(4), 105-120.

Hall, B. (2004, 4 Sept.). Unions step up drive for rise in contributions from employers. *Financial Times*. Retrieved from http://find.galegroup.com/ftha/infomark.do?&source=gale&prodId=FTHA&userGroupName=lse_ttda&tabID=T003&docPage=article&docId=HS2306310331&type=multipage&contentSet=LTO&version=1.0

Hicks, A. (1999). *Social Democracy and Welfare Capitalism*. Ithaca, NY: Cornell University Press.

Hills, J. (1998). Thatcherism, New Labour and the Welfare State. In C. f. A. o. S. Exclusion (Ed.). London: London School of Economics.

House of Representatives. (2006). *Tax Laws Amendment (Simplified Superannuation) Bill 2006. Second Reading Speech*.

Huber, E., & Stephens, J. D. (2001). *Development and Crisis of Welfare States. Parties and Politics in Global Markets*. Chicago, IL: Chicago University Press.

Jensen, C. (2015). The power of talk and the welfare state: evidence from 23 countries on an asymmetric opposition-government response mechanism. *Socioeconomic Review, 13*(2), 215-233.

Kavanagh, J. (1996, 13th Nov.). Industry fired up over social security tests. *The Australian*.

Kelly, P. (2001, 23 May). Atoning for the GST sin - Budget 2001. *The Australian*

Keskinen, S., Norocel, O. C., & Jørgensen, M. B. (2016). The politics and policies of welfare chauvinism under the economic crisis. *Critical Social Policy, 36*(3), 321-329.

Korpi, W., & Palme, J. (1998). The Paradox of Distribution and Strategies of Equality: Welfare State Institutions, Inequality and Poverty in the Western Countries. *American Sociological Review, 63*(5), 661-687.

Korpi, W., & Palme, J. (2003). New Politics and Class Politics in the Context of Austerity and Globalization: Welfare State Regress in 18 Countries, 1975-95. *American Political Science Review, 97*(3), 425-446.

Kudrna, G. (2016a). Australia's retirement income policy: means testing and taxation of pensions. *CESifo DICE Report, 14*(1), 3-9.

Kudrna, G. (2016b). Economy-wide effects of means-tested pension: The case of Australia. *The Journal of the Economics of Ageing, 7*, 17-29.

Kudrna, G., & Woodland, A. D. (2013). Macroeconomic and Welfare Effects of the 2010 Changes to Mandatory Superannuation. *Economic Record, 89*(287), 445-468.

Liberal Party of Australia, & National Party of Australia. (1996). Super for All - Security and Flexibility in Retirement. The Federal Coalition's Superannuation and Retirement Incomes Policy.

Lynch, J. (2006). *Age and the Welfare State*. Cambridge: CUP.

McAllister, I. (1996). The End of a Labor Era in Australian Politics. *Government and Opposition, 31*(3), 288-303.

Megalogenis, G. (1999, 20th Nov.). Half-baked super. *The Australian*.

Moene, K. O., & Wallerstein, M. (2001). Inequality, Social Insurance and Redistribution. *American Political Science Review, 95*(4), 859-874.

Myles, J., & Pierson, P. (2001). The Comparative Political Economy of Pension Reform. In P. Pierson (Ed.), *The New Politics of the Welfare State*. Oxford: OUP.
Negline, T. (2007, 7 March). Super reforms easier on assets. *The Australian*.
OECD. (2013a). Factbook. from OECD
OECD. (2013b). Pensions at a Glance. from OECD
Oude-Nijhuis, D. (2009). Revisiting the role of labour: worker solidarity, employer opposition, and the development of Old-Age Penisions in the Netherlands and the United Kingdom. *World Politics, 61*(2), 296-392.
Palier, B. (2010). The Long Conservative Corporatist Road to Welfare Reforms. In B. Palier (Ed.), *A Long Goodbye to Bismark? The Politics of Welfare Reform in Continental Europe*. Amsterdam: Amsterdan University Press.
Parliament of Australia. (2006). *Bills Digest no. 65, 2006-07 - Tax Laws Amendment (Simplified Superannuation) Bill 2006*.
Pemberton, H. (2010). 'What matters is what works': Labour's journey from 'national superannuation' to 'personal accounts'. *British Politics, 5*(1), 41-64.
Pensions Commission. (2005a). A New Pension Settlement for the Twenty-First Century: Appendix B - Report on the Pensions Commission Consultation. London: The Stationery Office.
Pensions Commission. (2005b). A New Pension Settlement for the Twenty-First Century: The Second Report of the Pensions Commission. London: The Stationery Office.
Pierson, P. (1996). The New Politics of the Welfare State. *World Politics, 48*(2), 143-179.
Power, J. (1988, 21 Sept.). Opposition decides to keep modified assets test for aged. *The Australian Financial Review*.
Ragin, C. C. (1987). *The comparative method. Moving beyond qualitative and quantitative strategies*. Berkeley: University of California Press.
Ragin, C. C. (2000). *Fuzzy-Set Social Science*. Chicago: University of Chicago Press.
Richardson, D. (2001). *The Budget 2001-02: Online E-brief (Some Comments by Interest Groups)*. Parliament of Australia.
Ross, F. (2000). Beyond left and right: the new partisan politics of welfare. *Governance, 2*, 155-183.
Rothstein, B. (1998). *Just institutions matter: the moral and political logic of the universal welfare state*. Cambridge: Cambridge University Press.
Ryan, S. (2006, 12 May). Treasurer has recast himself as superhero. *The Australian*.
Schneider, C. Q., & Wagemann, C. (2012). *Set-Theoretic Methods for the Social Sciences: A Guide to Qualitative Comparative Analysis*. Cambridge: CUP.
Schulze, I., & Moran, M. (2006a). Ireland: pensioning the 'Celtic Tiger'. In E. M. Immergut, K. M. Anderson & I. Schulze (Eds.), *The Handbook of West European Pension Politics*. Oxford: OUP.
Schulze, I., & Moran, M. (2006b). United Kingdom: partisan politics in an adversarial system. In E. M. Immergut, K. M. Anderson & I. Schulze (Eds.), *The Handbook of West European Pension Politics*. Oxford: OUP.
Schumacher, G., & Kersbergen, K. v. (2014). Do mainstream parties adapt to the welfare chauvinism of populist parties? *Party Politics, 22*(3), 300-312.
Scruggs, L. (2004). Summary Dataset, Welfare State Entitlements: A Comparative Institutional Analysis of Eighteen Welfare States.
Scruggs, L., & Allan, J. P. (2004). Political Partsanship and Welfare State Reform in Advanced Industrial Societies. *American Journal of Political Science, 48*(3), 496-512.
Skypala, P. (2002, 8 Oct.). Call to Lift Retirement Age and State Pension Rate. *The Financial Times*.
Smith, P. (1998, 30 July). New focus on savings/mouthing off. *The Australian*.

Steketee, M. (2001, 23 May). No room for subtlety when there are votes to be bought - budget 2001 analysis. *The Australian*.

Tanner, L. (2006, 22 May). Santa Claus Budget fails to deliver for the future. *The Australian*.

Tepe, M., & Vanhuysse, P. (2010). Elderly Bias, New Social Risks, and Social Spending: Change and Timing in Eight Programs across Four Worlds of Welfare, 1980-2003. *Journal of European Social Policy, 20*(3), 217-234.

The Australian Financial Review. (1989, 11 Jan). Saving Australia. *The Australian Financial Review*.

Timmins, N. (2003, 17 Mar.). Call for Changes to State Pension System. *The Financial Times*.

Timmins, N. (2004a, 30 Sept.). Debate focuses on barriers to saving. *Financial Times*.

Timmins, N. (2004b, 20 July). Minister rejects CBI call to raise state pension age to 70.

Timmins, N., & Eaglesham, J. (2002, 20 June). Scrapping of Second State Pension Ruled Out. *The Financial Times*.

Timmins, N., & Newman, C. (2003, 18 June.). Duncan Smith urged to restore state pension link with earnings that was severed by Thatcher. *Financial Times*.

Timmins, N., & Turner, D. (2003, 7 Oct.). Aim of scrapping Second State Pension endorsed. *Financial Times*.

Vanhuysse, P., & Goerres, A. (2012). Mapping the field: comparative generational politics and policies in ageing democracies. In P. Vanhuysse & A. Goerres (Eds.), *Ageing Populations in Post-industrial Democracies: Comparative studies of policies and politics*. New Yoirk: Routledge.