Layering or erosion? The unsettled trajectory of Italian pensions

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Abstract

Neo-institutionalist theories have characterised pensions as extremely change-resilient and only available for parametric change. Pension scholars have thus welcomed concepts of incremental but transformative change, such as drift, conversion, and layering in order to explain empirical evidence of policy change. Such concepts provided a new way to characterize how reform packages or patterns altered the status quo. This research agenda, however, presently faces two major shortcomings. The first is a conceptual ambiguity in interpreting the new concepts, which identify sometimes objective modes of policy change and sometimes a strategy for introducing change. The second one is the inadequate specification of the causal mechanisms at work. The present paper focuses on the concept of layering, understood as a factual process of policy change, and attempts to refine it with an in-depth study of the introduction of a notional defined contribution (NDC) formula in Italy. NDC formulas are typically adopted on top of the existing – deeply institutionalised – pension system, gradually replacing the latter as they phase out. Therefore, they constitute a clear example of layering. Nonetheless, if reformed systems fail to produce new positive feedbacks, they may be ‘counter-reformed’ and undergo a process of erosion. In order to generate testable hypotheses on the mechanisms that bring about layering or, conversely, erosion, we employ Eric Patashnik’s notions of political sustainability, identity/affiliation feedbacks, and investment feedbacks. We will test our conclusions within a larger country sample in further research.

- Work in progress. Please do not quote without permission.-
**Introduction**

It is well-known that population ageing, international demands for budget discipline and the persistence of low economic growth create considerable financial challenges, in particular for old age pension systems. The need for structural reforms has been evident for more than two decades and important pension reforms have been enacted in a large number of countries (see Feldstein and Siebert, 2002; Bonoli and Shinkawa, 2005; Schludi, 2005; Immergut et al., 2007). The present paper builds on this literature, asking about the conditions promoting politically stable or sustainable reform outcomes. More specifically, we are interested in the post- adoption fate of reforms meant to introduce new pension rules on top of long institutionalised systems: a mode of policy change recently labelled *policy layering*. Such is the case of supplementary pension schemes topping up lower public benefits after a round of subtractive reforms.

More intriguingly, it is also the case of new public pension formulas that only affect contributions paid after their introduction. The best known example of a similar reform is the introduction of a notional defined contribution (NDC) formula in a traditional ‘post-war’ earnings-related system. More than 15 years have passed since the first NDC reforms in Sweden and Italy, allowing us to draw some empirically grounded conclusions on the level of policy change that has been achieved. Have the new rules been capable of displacing the old ones over time? Or have they been somehow watered down or counter-reformed? Can we conclude something on the way new institutional layers succeed or fail in bringing about wider policy transformations? To answer these questions, we take step from a recent article, in which we compared the pension reform trajectories in Sweden and Italy after they switched from defined-benefit to notional defined contribution (NDC) pensions in the public pillar in the 1990s (Schoyen and Stamati, 2013).

Here, we broaden our theoretical ambitions and look for a more elaborate analytical framework for understanding the stability or reversal of model-breaking policy changes. What are the conditions that contribute to consolidating policy innovations? And conversely, under which conditions are they likely to erode? Empirically the focus is on the Italian case, which offers the largest overtime variation in institutional, political and structural variables among the countries that have introduced NDC pensions. Methodologically, we rely on an in-depth case study of the Italian pension reform trajectory since the adoption of NDC pension model in 1995. The Italian case has been chosen because it is an empirically interesting case with considerable overtime variation. Notwithstanding the path-shifting changes of the 1990s, the ‘pension question’ has remained high on the political agenda. The high number of policy adjustments occurred thereafter is of great theoretical interest for studying whether and how reforms introduced through layering manifest political sustainability. Our main research method is process-tracing, a procedure that is ‘intended to explore the processes by which initial conditions are translated into outcomes’ (Vennesson, 2008).

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1 Our approach comes closest to a hypothesis-generating case study, in which the purpose is to ‘generate new hypotheses inductively and/or refine existing hypotheses’ (Vennesson, 2008: 227). In the words of Lijphart (1971: 692) this
The present paper is relevant for both the inter-disciplinary research agenda on how to design old age pension systems for the 21st Century (European Commission, 2012; Barr, 2002; Feldstein and Siebert, 2002; Streeck and Thelen, 2005; Immergut et al., 2007; Ebbinghaus, 2011; Hinrichs and Jessoula, 2012) and the literature on how to analyse and interpret institutional stability and change (Hall, 1993; Pierson, 2001; Blyth, 2002; Thelen, 2004). We contribute to the former by looking at the future political prospects of much-discussed reform settlements. If recently adopted policies are already on their way to being undermined, today’s forecasts of future contribution or replacement levels will offer no guide to evaluate their fiscal prospects. We contribute to the latter debate with an analysis informed by real-case knowledge, complementary to the stylised assumptions about individual preferences and behaviour typical of the economic literature on the political sustainability of pension reforms (e.g., Casamatta et al., 2000; Galasso and Profeta, 2004).

We will proceed as follows. Section 1 discusses the core concepts in our analytical framework. Section 2 contains a brief and non-technical introduction to NDC pension systems, as well as a more specific application of Patashnik’s framework to the case of NDC systems. Section 3 provides an analytical narrative of the Italian case. Section 4 interprets the Italian post-adoption pattern in the light of our operationalisation of Patashnik’s framework. Section 5 discusses the political sustainability of layering NDC reforms. The conclusion wraps up the analysis presented in the paper and identifies avenues for future research.

1 Understanding politically sustainable pension reforms

Over the last three decades, population ageing and the internationalisation of economic activities have forced many countries to restructure and recalibrate their pension spending (Bonoli and Shinkawa, 2005; Immergut et al., 2007; Häusermann, 2010). These reforms were realised in several rounds of legislation, adding up to substantial policy change as well as to more contradictory and complex institutional setups. Compelling policy legacies – such as the unfunded liabilities of many public programs or the legal protection of individual acquired rights – and the sensitivity of the pensions issue in rapidly ageing societies confronted politicians with hard trade-offs. Little room existed for introducing consensual and conclusive reforms.

Not without hindsight, neo-institutionalist scholars, especially the influential “New politics of the welfare state” (NPWS) approach (Pierson, 1993; Pierson and Weaver, 1993) came to portray pensions as the textbook example of policy stability: “a locus classicus for the study of ‘path-dependent’ change” (Myles and Pierson, 2001). In Myles and Pierson’s account, pensions had every reason to be self-reinforcing institutions, characterized by positive policy feedbacks and increasing returns. Given that policymakers had to select alternatives on a policy menu strongly constrained by past choices, the room available for dramatic turns in policy trajectories was very limited. Pension kind of case study generally “starts out with a more or less vague notion of possible hypotheses, and attempt to formulate definite hypotheses to be tested subsequently among a larger number of cases.”
systems in the greatest need for reform rested on a pay-as-you-go (paygo) financing method, in which contributors paid for current benefits in exchange for an unfunded claim on future income. No shift to a funded system could take place without running into a “double payment problem”: that is, financing the old liabilities and the new capitalized funds with the same generation’s income.

In sum, pensions showed all the features leading to increasing returns: large set-up costs (the double payment problem), adaptive expectations (strong sense of entitlement), learning effects/asset specificities (the crowding out of market-based alternatives), and coordination effects (power asymmetries turning ever more in favour of the supporters of the status quo). While the demands and the popularity of pension spending were still growing, politicians were torn between the need to keep the system sustainable and the risk of electoral backlash. In the attempt to avoid political blame, elected officials had to divide their opponents, hide the true extent of their cuts, and selectively compensate the constituencies they could not overcome. This inevitably led to minor, highly technical, and mainly parametric revisions. By the early 2000s, the expectation that pension systems could hardly undergo major reforms had become the benchmark against which empirical policy trajectories were assessed. Most research in the field took step from the puzzle that “reforms, while unlikely, do happen” (Schludi 2005; Natali 2007).

In order to explain the first successful reforms, however, pension scholars started to look for sources of policy dynamism inside and outside institutions. Some of them totally agreed that recent changes were heavily influenced by past choices, but were more confident than Pierson in two correctives of path dependency: (political) competition (e.g. Green-Pedersen 2002) and (policy) learning (e.g. Ferrera and Gualmini 2004). In turn, authors like Bonoli (2000), Natali (2009), and Jessoula (2009) have rather stressed the “dual” role of neo-corporatist institutions and practices (enabling as well as constraining). Stability-inducing feedbacks, they argued, could be circumvented by seizing the opportunities available in the broader “institutional matrix” (North 1990). While interested in understanding change, most of these scholars accepted, to different degrees, the argument that welfare/pension systems are akin to institutions and enjoy positive (self-reinforcing) feedbacks.

At the same time, an influential strand of research tried to classify endogenous change-inducing dynamics such as layering, conversion, and drift (Thelen 2004; Hacker 2004; Thelen and Streeck 2005), eventually rediscovering the role of agency in terms of non-compliance and grievance (Streeck 2009; Mahoney and Thelen 2010). Kent Weaver’s conceptualisation of negative policy feedbacks argued that policies are “also frequently characterized by self-undermining dynamics and powerful pressures for change” (Weaver 2010; Jacobs and Weaver 2012:3). Some scholars attempted to reconceptualise public policies not just as institutions, but as more dynamic “policy regimes” (Worsham and Stores 2012; Jochim and May 2010; May and Jochim 2012), while others, determined to take evolution seriously (see Steinmo 2010), offered even more ambitious configurative accounts of policy change.

Two main points stand out against this theoretical backdrop. First, transformative (path-shifting) reforms had occurred and one of the major innovations in the field, perhaps the most notable, has been the introduction, in several countries, of NDC pension formulas on top of traditional
earnings-related pensions. Second, in order to assess and account for this kind of policy change, the dominant approach (NPWS) needs a less deterministic conceptualisation of how institutions work. Whereas neo-institutionalism still provides the most convenient framework to study the politics of large social policy programmes, it lacks a theory explaining how self-enforcing policy dynamics can be undermined when new rules inspired by a rival political logic are introduced. Such an explanation would come in three steps, clarifying how similar reforms: (1) can be enacted in the first place; (2) get consolidated enough not to be reverted soon thereafter; (3) manage to challenge and progressively overcome the old institutionalised political logic. So, in order to assess whether introducing a NDC formula in a given country is a durable reform one should ask three questions. The first is how innovation came along. The second is what may or may not determine its political sustainability. Finally, and more importantly, one should ascertain how both elements influence the chances that the institutionalised logic of the system may eventually be subverted.

If neo-institutionalist studies come short of a systematic theory answering all of these questions, they nonetheless provide analytical tools useful to the task. Most notably, notions such as conversion, layering, drift, and others (Thelen 2004; Hacker 2004; Thelen and Streeck 2005; Mahoney and Thelen 2010) as well as, more in general, the intuition that institutions may also experience self-undermining dynamics (Weaver 2010; Jacobs and Weaver 2012) help explaining how innovation may occur in highly institutionalised policy fields. Unfortunately, concepts such as layering can only be acknowledged by looking retrospectively at positive cases. Their usefulness is instead diminished when one has reasons to call into question the ability of a given reform to initiate a process of endogenous change. Success cannot be taken for granted when looking prospectively at policy change. In order to fruitfully contribute to the evolution of a policy, the new institutional layers must be kept in place and left to work, but this could well be the exception than the rule.

One option to get rid of this difficulty is to complement the study of endogenous policy change with another neo-institutionalist research agenda: the one focusing on the political sustainability of path-shifting reforms. For instance, following Eric Patashnik, one could focus on the ability of the reformed policy to produce its own self-reinforcing feedbacks (Patashnik 2003; 2008). Combining the two insights – the possibility of undermining dynamics and the uncertainty of political sustainability – allows asking questions about their interaction. In other words, do the strengths and weaknesses of the status quo influence in any way the sustainability of the new institutions? And, if so, how? We consider this to be a promising way of thinking systematically about layering and the mechanisms that bring it about. In order to understand how regimes can be reformed – actually and effectually – it is crucial to investigate how positive and negative feedbacks operating within the status quo constrain or enable policy feedbacks within reformed regimes, influencing the political sustainability of the new settlements. In the following paragraphs, we will discuss the main concepts underlying our analysis of NDC reforms and how they might be useful to improve existing conceptualisations of institutional layering.

\[2\] This may not be a challenge for purely retrospective historical analyses, but it is a key concern for reformers as they formulate their strategies.
1.1 Self-undermining institutional dynamics: layering and negative feedbacks

As noted above, theoretical efforts to overcome institutional determinism resulted in the individualization of “an inventory of commonly observed patterns of gradual institutional change” (Mahoney and Thelen 2010:3). With minor distinctions among different authors, this “inventory” includes four modes of gradual and endogenous policy change: drift (that is, obsolescence and maladjustment due to policy stability within a changing environment); conversion (that is, redeployment of old institutions to the advantage of new policy principles or goals); displacement/replacement (that is, substitution of existing rules with latent alternatives); layering (that is, the introduction at the margin of competing rules meant to progressively displace the status quo).  

As anticipated, here we focus on layering (see Schickler 2001), the concept that best fits the pattern and logic of NDC reforms. We interpret it as a factual process of policy change unfolding over time, even in the absence of a conscious political strategy. We are primarily concerned in the mechanism supposed to fuel it: “differential growth” (Thelen 2004; Thelen and Streck 2005). The idea of differential growth suggests that, for layering to work out in practice, the new institutions must outcompete the old ones in producing their own positive feedbacks. Clearly, this should be unlikely to happen in a world of path-dependent developments, self-reinforcing feedbacks, and stability-inducing dynamics. In this light, we agree with authors such as Kay that the term is underdeveloped, since it “…does not provide us with a guide to the fresh analytical challenge that it raises; that is, how does the layering of new policies onto existing ones affect the subsequent politics of policy development (Kay, 2007: 580). In other words, why should the new rules, layered upon a much bigger and more embedded core, ever be able to beat the status quo at its own game of institutionalization and self-reinforcement? And, if so, how and under what conditions?

As we suggested in the previous section, the first way to tackle the issue is to look at the conditions that favour the emergence of layering in the first place. In a pioneering essay, Jacob Hacker (2004) argued that, whenever change-seeking agents are present, layering is more likely to occur in contexts where rules are difficult to renegotiate or reinterpret without being rewritten, but where veto opportunities are low. His understanding fits well his own case study: the expansion of tax-favoured defined contribution schemes in the private sector of the US pension system. Interestingly, however, Mahoney and Thelen’s more encompassing theoretical framework (2010) provides a different identification. Layering, they argue, is more common where both interpretative and legisla-

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3 In the intentions of their proponents, these concepts serve two goals. First, they systematise empirical evidence that institutions evolve even in the absence of external shocks. Second, they help to point out that rule compliance should never be taken for granted, as the losers and opponents of the status quo could be waiting for (or be subtly cultivating) new opportunities for change (see Hacker 2004; Thelen and Streck 2005; Mahoney and Thelen 2010). So, while references to the “inventory” are widespread in the most recent literature, two main research agendas appeared to further their theoretical development. The first focuses on the outcomes of the four patterns of change in terms of institutional coherence and efficacy (see e.g. Howlett and Rayner 2007). The second one is more interested in studying the causes behind each pattern, in order to define their likelihood in terms of political and policy variables, such as the number of veto points or the presence of change-inducing agents with a specific profile (Hacker 2004; Mahoney and Thelen 2010).
tive changes face higher barriers: that is, when change-inducing agents do not only face little margin for reinterpreting the rules, but their proposals are also highly likely to be vetoed. While this second classification may better suit the case of public pension reforms, the point we need to stress is that the preconditions for the emergence of layering have not been univocally identified.

In order to strengthen their theoretical argument, Mahoney and Thelen also tried to connect each of the four patterns to a specific profile of change-inducing actor. According to their model, layering should be brought about by agents called “subversives”. The latter are defined as:

“actors who seek to displace an institution, but in pursuing this goal they do not themselves break the rules [...] following institutional expectations and working within the system [...] waiting for the moment when they can actively move toward a stance of opposition. As they wait, they may encourage institutional changes by promoting new rules on the edges of old ones, thus [...] subversives may be especially associated with patterns of layering…” (Mahoney and Thelen 2010: 25-26)

 Nonetheless, as they close the circle between actors, modes of change, and the institutional context, the authors also argue that:

“depending on the features of the political-institutional context, they may also encourage institutional conversion and [...] drift. Either way, subversion brings change as developments on the periphery make their way to the center [...] significant features [may prove] crucial to the ability of subversives to work against the system from within it.” (ibidem)

At a first look, the defining characteristics of “subversives” do little to specify under which conditions and for which reasons layering processes occur. For instance, their preferences in favour of institutional change remain exogenous to the model. Subversives’ role of “losers of the status quo” seems to be a time-invariant feature of the political system or, at least, one whose evolution over time is not deserving of any theoretical focus. Although arguing that every institution will, over time, elicit some opposition is commonsensical, it would nonetheless be useful to relate the emergence of change-seeking actors to some more specific self-undermining dynamics of the institutions at study. Unfortunately, Mahoney and Thelen’s subversives only translate into the realm of agency the constraints already existing at the policy and political level. As far as nothing prevents them from looking for other endogenous change patterns (conversion or drift) they confound, rather than sharpening, our expectations that layering will indeed take place.

In sum, current theoretical elaborations on the preconditions for layering do not seem to shed light on whether a new institutional layer is more likely to benefit from “differential growth” or to be reabsorbed in the old political logic of the status quo. A more useful way to study whether a given policy is about to experience change due to a process of layering is to focus more directly on the functioning of policy feedbacks. One option, recently suggested by Kent Weaver, is to model

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4 In a sense, they are modelled as unhappy with the status quo as a matter of principle: there is no way of saying whether some specific features of the institutions in place are more or less likely to alienate their support.
institutions as open to both self-reinforcing and self-undermining feedback loops, whose balance changes in time and under different contextual conditions. According to Jacobs and Weaver (2012), negative feedbacks characterise, as much as positive ones, the functioning of a policy and of its institutional backbone. They define negative feedbacks as:

“consequences of a policy that impose significant losses on some groups in a society relative to the status quo ante prior to t1, although we will see that in practice the literature on feedback effects is often ambiguous in whether wins and losses are relative to a point in time, to outcomes or other groups, or to a counterfactual alternative.” (Jacobs and Weaver, 2012: 4-5)

In the same paragraphs, the authors nest their theory within the neo-institutionalist mainstream, taking part with the definition of negative feedbacks that is current in economic disciplines:5

“a parallel with Pierson’s approach would suggest that they may involve an opposite endogenous process from that of positive feedbacks: over time they raise the relative costs (or reduce the relative benefits) of the status quo for at least some actors and make it more likely that those actors will seek to change current policy.” (Jacobs and Weaver, 2012: 4-5)

Finally, they exemplify a number of potential negative feedbacks, distinguishing them in three sorts: socio-political, fiscal, and administrative. While fiscal negative feedbacks refer to perceptions of crisis due to sudden and unpredictable spending hikes or shortfalls in dedicated revenue sources, administrative negative feedbacks mainly deal with organisational overload. Much more complex is the first category of socio-political feedbacks. Without delving in details, it comprises: objective as well as perceived gains/losses from the status quo, political mobilisation, agenda setting dynamics/events (so-called menu effects), and “political opportunities structures” (such as the configuration of veto points in the polity). A close empirical examination of this wide array of political events and conditions overreaches the limits of this paper, at least in its present form.

More useful to our current attempt is to move a step back to the negative feedbacks and the available regime-switching patterns that Weaver associated with traditional Bismarckian systems,6 such as the Italian one (Weaver, 2010). Bismarckian systems are particularly vulnerable to population aging, since its generous unfunded benefits are difficult to finance when the ratio of workers to pensioners declines. Occupationalism further reinforces this vulnerability, since some professions (e.g. farmers or miners) might also suffer from an even faster process of “occupational” ageing, due to secular changes in the composition of the workforce. Parametric corrections, such as cutting benefits or rising payroll taxes, are possible, but cuts undermine the legitimacy of the system, while

5 For most economists, in fact, negative feedbacks represent decreasing returns on a given asset or technology, which drive decision-makers’ substitution rates to stable equilibrium in preferences, strategies, or consumption choices. An approach in political science that more closely resonates with the economists’ was proposed by Baumgartner and Jones (e.g. 2002). They defined negative feedbacks as self-correcting mechanisms enforcing long term equilibriums and positive feedbacks as externalities that may even sum up to path-breaking changes.

6 Bismarckian systems follow the insurance principle and cater to workers, not citizens. They pay generous earnings-related benefits financed by contributions, providing the most important occupational groups in society with separate pension schemes and differentiated rules (occupationalism).
higher labour costs damage the economic competitiveness of national firms. In addition, Weaver suggests that, once these temporary remedies are exhausted, the room for shifting to a radically different pension approach is extremely limited. This is the case partly because of the self-undermining effects of the system at the fiscal level, and partly because positive feedbacks further restrict the viability of previously discarded alternatives. Against this backdrop, the NDC model is presented, for reasons to be discussed in short, as the only viable path-breaking reform option.

Applying Weaver’s notion of negative feedbacks the introduction of a new NDC layer on top of post-war Bismarckian models is explained by specific features of policy status quo. Our understanding of the rationale behind the new layer is stronger than when we just claimed that public pensions are difficult to renegotiate/reinterpret (a questionable assumption in itself). As regards the political sponsors of the reform, whether we want to call them “subversives” or not, we also know more about their preferences, that is, we are better equipped to understand what they actually do not like about the status quo. In order to model the discontent of change-seeking actors, we would rather look for self-undermining processes eventually at work in the old institutions, tracing their evolution over time. While this approach is fully compatible with the basic definition of layering as a process (the introduction at the margin of a new institutional layer whose positive feedbacks grow faster) it provides a more nuanced understanding of its early phases. Moreover, as we will see in a while, it primes another key building bloc in our reasoning: the analysis of the political sustainability of the new rules in terms of positive policy feedbacks.

1.2 Political Sustainability

Legislation does not represent the end point in a policy process. If the objective is to assess the impact and significance of a policy reform it surely makes sense to examine whether, subsequent to legislation, the reform has been left to work as intended. There are several reasons to study what happens after the adoption of path-breaking reforms. At a practical level, political sustainability is important for individuals’ and businesses’ ability to plan for the future. Without predictable policies it is difficult to make good, well-informed choices, and the policies themselves are unlikely to produce the intended effects. More importantly, in consolidated representative democracies the course of public policies depends on past, current and future political processes that involve a multitude of actors and complex feedback effects (Pierson, 1993; Beland, 2010; Weaver, 2010).

As Heclo (1998: 71) has elegantly put it, assessing the political risks facing a policy ‘is like evaluating the structure of a vessel and its capacities not only to stay afloat but to maintain its course amid inevitable but unpredictable storms.’ This boils down to asking: what extent has the reform changed the playing field and rules of the game in a significant way? To be sure, very few reforms are passed without being followed up with further adjustments. However, the point is that such adjustments can either consolidate the overall reform process – by upholding its new policy logic – or they can erode and eventually reverse a supposed regime shift.
The voluminous literature on pensions and pension reforms has only incidentally dealt with the question of political sustainability. Sociologists generally share an interest in policy outcomes. However, their main focus tend to be on distributional outcomes of given policy reforms. So far at least, they have been silent about how new policies might affect pension politics and its consequences for future policy adjustments. Economists have generally studied pension reforms with a normative intent, looking at their cost and general economic impact. True, pension scholars such as Barr and Diamond (2008) have directly posed questions about the fiscal, political, and social sustainability of pension reforms. Moreover, the notion of political sustainability has been paramount to the study of the transition towards the market economy model in Eastern European countries, including large scale pension privatisations. Nonetheless, the economists who considered the political dynamics of policy enactment, implementation and capacity to endure, they have relied upon stylised politico-economic models based on an ageing median voter, focusing on individual incentives regarding tax compliance and retirement choices. These models entirely side-step the question of whether reformed systems are implemented and actually function as intended or theorized.

Of course, political scientists should be in a privileged position to address the issue of political sustainability of pension reforms. It is, therefore, rather puzzling that, as far as we are aware, very few efforts have been made to explore the question. The discipline of political science does, however, have a considerable stake in the impressive body of comparative welfare state literature. It makes sense to lean on this scholarship when approaching the question of political sustainability from a political science perspective. Thus, for the purpose of this paper it may seem fruitful to turn to the works of scholars who have studied former Communist countries’ transition to market economies. Political scientists dealing with transition countries have shared with the economists an interest in the durability of market-building reforms in the East. Scholars like Guardiancich (2013), Armeanu (2011), and Frye (2010) have explicitly addressed the issue of political sustainability from a political science’s perspective. However, these authors present frameworks which are not readily applicable to the reform processes taking place in Western Europe, being too heavily informed by the peculiarities of the countries they study.

Instead the work of Eric Patashnik (2003; 2008; Patashnik and Zelizer, 2010) and his definition of political sustainability represent a more useful point of departure for developing an analytical framework. According to Patashnik, political sustainability refers to the

“capacity of any public policy to maintain its stability, coherence, and integrity as time passes, achieving its basic promised goals amid the inevitable vicissitudes of politics (Patashnik 2003: 207).”

This reasoning starts from the intuition that policies have to be implemented and left to work as intended in order to produce lasting impacts. But while implementation studies look at the extent to which a policy actually works on the ground or at the principal-agent relation between politicians
and bureaucrats, Patashnik looks, as we do, at the consistency between the introduction of new institutions and the subsequent rounds of legislation. The core concern is whether, over time, politicians themselves reverse or revise previous reforms, without attention to how well they have been implemented (Patashnik 2008). For instance, key to the analysis of NDC reforms is to examine patterns of political consensus or conflict and the extent to which the new model has depoliticised the pension issue.

In his analysis of various policy fields in the US, Patashnik (2008) suggests four possible post-adoption trajectories for key policy reforms (Table 1a).

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<th>Group investments feedback</th>
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Source: Patashnik 2008

In this framework, reforms can either persist or fail to consolidate. Some reforms remain in place after their enactment, but fail to reconfigure the underlying political game. Patashnik calls this outcome *entrenchment*. Alternatively, reformed policies can bring about a major restructuring of the old political game, a dynamic he labels *reconfiguration*. When policies are unsuccessful, once again two kinds of dynamics are identified. Some experience abrupt *reversal*, while others undergo *erosion* over a longer time span. Responsible for the emergence of one of these four trajectories are two kinds of policy feedbacks. The first feedback progressively redefines ‘group identities and affiliations’ among the policy stakeholders. The second one results from (and, over time, further stimulates) irreversible ‘group investments’ in the new rules. *Reversal* occurs when neither effect takes place, whereas *reconfiguration* only happens when both are present. *Erosion* emerges when old group identities are reconfigured but investments in the new rules are scarce. Finally, *entrenchment* is a result of old actors adapting to the new rules and investing resources in compliance with the new institutional design.

We find Patashnik’s conceptualisation appealing in many respects. First, it provides a sophisticated but accessible theorisation of what can happen to a policy after a major reform, and it is explicit about the mechanisms at work. Second, it offers a way to systematically assess different theoretical expectations, which happen to fit well the main positions that emerged in the scholarly debate on the NDC model and on pension reforms more generally (see below). Finally, we believe that this model, in conjunction with the notion of negative feedbacks within the status quo, may help scholars who are trying to refine the concept of layering.

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7 The main lesson of this literature is that politics does not end with legislation (Pressman and Wildavsky 1973, Elmore 1979, Sabatier 1998). Whenever their actions are indispensable to turn reforms into reality, bureaucrats (but also non-institutional actors) who oppose the new policy can, in fact, sabotage or hijack it as it operates on the ground.
Political sustainability, in fact, plays an important and still insufficiently acknowledged role in the unfolding of a layering process, as it is necessary for differential growth. Unsustainable reforms can well be layered on top of an old system ridden with negative feedbacks, but they will not last long enough to bring about a change through layering. In this sense, change through layering is, in Patashnik’s terms, a process of policy reconfiguration. This implies that the benefits of differential growth can no longer be taken for granted. Two elements must conspire for it to work in the expected direction. First of all, the new layer should take advantage of the self-undermining dynamics of the old system. Second, the political sustainability of this same layer has to be guaranteed by the appropriate positive feedbacks.

In sum, whenever one is interested in using a forward-looking perspective when tracing a process of change through layering, differential growth must be empirically ascertained whenever a new layer is added. The analysis should rather tell if the latter is going to enjoy positive feedbacks anytime soon, or if it is heading towards erosion. Thinking of layering in terms of political sustainability means looking at how good the new institutional layers are in bringing about their actual consolidation. It also means keeping in mind that layering attempts can fail and be aborted.

### 2 Notional defined contribution: policy, politics, and sustainability

The NDC model combines a defined contribution (DC) formula with *pay-as-you-go* (*paygo*) financing. It does not promise a predefined benefit level, like traditional ‘defined benefit’ (DB) programmes used to do. NDC pensions are instead calculated as a function of lifetime contributions, which are virtually credited to an individual account. So, while DB schemes sheltered the individuals from the risk connected with the revaluation of their pensions, unfavourable demographic and economic developments may reduce the value of future NDC benefits. At the same time, no transition cost will be imposed on current workers, since no prefunding is required for the new system, thanks to the continuation of *paygo* financing. NDC systems permit, in fact, the payment of hybrid benefits to the transition generation, whose pensions partly follow the old rules and partly the new ones. This circumvents the so-called “double payment problem” (Myles and Pierson, 2001) avoiding its political and economic costs.

The rationale of the new model is its ability to adjust (more or less) automatically to economic and demographic fluctuations, while keeping total contributions and benefits in balance. Every year, individual pension accounts are indexed at a notional rate, usually a moving average of macroeconomic parameters (GDP growth or the growth of the contribution bill). At retirement, the formula converts lifetime contributions into a stream of benefits, using a parameter (the so-called annuity divisor), that takes into account the statutory rate of return and the current average life expectancy at retirement. A flexible window of retirement ages allows workers to choose when to retire. Each

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8 The *paygo* principle implies the immediate spending of payroll taxes to cover current benefits.
pensionable age has its own divisor, so that the same overall value of contributions may give rise to a lower or higher benefit amount in a non-distortive (actuarially neutral) way.

As regards pension politics, the intended political outcome of NDC programmes is to insulate pension programmes from opportunistic political interventions, preventing the deliberate creation of new financial imbalances (Holzmann and Palmer, 2006). This has a number of important normative implications. The new rules should work as ‘clean hands’ mechanisms (Brooks and Weaver, 2006). Automatic spending stabilization is, in fact, harder to trace back to the government. Politicians can thus to contain costs while reducing ‘political blame’ for themselves and their party. Beneficiaries and contributors would also adopt a more virtuous behaviour and adapt their work and retirement choices to the inbuilt incentives of the system. Transparent incentives and freedom of choice should further contribute to settling down and de-politicizing retirement issues (OECD, 2012).

The theoretical expectation that NDC rules would improve the way pensions are governed and get rid of bad incentives for both the rule-makers and the rule-takers, has been key to scholars’ and practitioners’ interest in the new model. Whether real-world NDC systems have lived up to these ambitions is still an open question, which has only recently become empirically ascertainable. This boils down to asking how sustainable NDC systems really are and under what conditions they perform at their best. The recent economic crisis has also provided a natural experiment to see whether real world politicians manage or fail to keep their hands off, when automatic adjustments produce visible cuts and arouse the opposition of pensioners and workers. The noted high expectations towards the NDC model, also makes it an excellent case for exploring at a more abstract level the mechanisms underpinning (or undercutting) the post-legislation risks borne by policy reform.

2.1 Conceptualizing post-adoption NDC trajectories

In Schoyen and Stamati (2013) we assessed the variation of post-adoption NDC patterns in a comparison of Italy and Sweden, concluding that the functioning of the model is influenced by country-level economic, political, and institutional factors. This result is in line previous research on pension reforms (e.g. Kangas et al., 2010). In the following we build on and develop Patashnik’s approach to grasp more precisely how real world NDC systems interact with their national operative contexts. Our first step is to use Patashnik’s framework to systematise expectations already advanced by the pension literature about the prospects of NDC reforms (Table 1b).

<table>
<thead>
<tr>
<th>Group investments feedback</th>
<th>Group identities/affiliations feedback</th>
</tr>
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<tbody>
<tr>
<td>Weak</td>
<td>Weak</td>
</tr>
<tr>
<td></td>
<td>Reversal (New politics approach)</td>
</tr>
<tr>
<td></td>
<td>Erosion (Brooks and Weaver 2006)</td>
</tr>
<tr>
<td>Strong</td>
<td>Entrenchment (‘negotiated reforms’ literature)</td>
</tr>
<tr>
<td></td>
<td>Reconfiguration (NDC proponents)</td>
</tr>
</tbody>
</table>

Source: adapted from Patashnik 2008
Adherents to an orthodox reading of the New Politics approach would not expect any reform, including NDC reforms, to be effective in attracting new resources or in redefining long established group affiliations. We can interpret this reading as an expectation of reversal, and conceptualise it as a post-adoption trajectory in which pre-existing policy feedbacks leave little room for changing the identities of traditional pension constituencies and little resources to be invested in the new schemes. As a result, the reformed policy is easily weakened and counter-reformed in subsequent reform rounds. The logic of the old system, and sometimes even its institutions, survive and return. A concrete example to this end would be the recent renationalization of private pensions in Hungary.

Strong NDC proponents have argued exactly the opposite. As we saw above, the NDC blueprint carries great expectations of more transparent and rational policy-making. Those who believe in the virtues of the model would stress how it comes with a new notion of fairness (actuarial and intergenerational) that exposes the inequities of the old arrangements. By creating among large strata of pensioners and workers a new consensus against the privileges created by the old rules – founded above all on a tighter link between contributions and benefits – the NDC model has the potential for establishing new identities and affiliations. Moreover, the reliance on paygo financing allows, we repeat, the immediate application of the new rules to current contributions, without additional bearing on the pension budget. We can imagine this as a way to solve the ‘group investments’ problem in a phase of permanent austerity. In sum, we can re-conceptualise the arguments of NDC proponents as the hypothesis that pension politics reconfiguration would occur in the post-adoption phase.

Interestingly, Patashnik’s framework also encapsulates the literature on pension reforms ‘negotiated with the trade unions’ (Bonoli, 2000; Schludi, 2005; Natali, 2007) - an influential approach in the European scholarship on pension reforms. Applied to the question of what kind of post-legislation trajectory to expect, these accounts can be read as giving support for entrenchment of the new policy approach. On the one hand, given that trade unions and centre-left parties are among the proponents of NDC reforms, the reformed schemes enjoy positive feedbacks in terms of ‘group investments’. On the other hand, the case for a deep change in the ‘group identities/affiliations’ of pension constituencies is rather weak and, at best, dependent on the institutionalisation of neo-corporatist decision-making practices. As a result, the new rules can be expected to remain in place, formalised in one or more social pacts. However, at least as long as traditional pension proponents and defenders of the old constituencies remain a driving force behind the reform process, the new policy does not necessarily have the leverage to transform the politics of pensions as we know it. Therefore, the longer run will be characterised by a notable degree of uncertainty. Further pacts and negotiations might well call the new arrangements in question, depending on changes in the preferences or strategies of the stakeholders.

The final possible trajectory, erosion, has already been indicated as a likely outcome for NDC reforms by Brooks and Weaver (2006: 371), with an explicit reference to Patshnik’s earlier works:
“erosion is probably a greater risk than outright reversal [and] may be attractive to governments because it offers short-term political gains (or avoids short-term political costs), while the effects […] may not be immediately obvious.”

Erosion can occur in various ways, as politicians seek short term gains at the polls (Brooks and Weaver 2006). More concretely, two scenarios appear particularly plausible, especially during periods of intense budgetary stress. First, governments may be tempted to impute non-contributory credits without actually paying into the pension system, covering up pension deficits with assets from the general budget while avoiding benefit reductions.9 Second, politicians may adopt discretionary ‘crisis measures’ that either contain additional cutbacks or soften the automatic adjustment mechanisms. The former may happen in the event of strong external pressure to bolster budget discipline, while the latter may be difficult to avoid if the automatic adjustments built into the NDC model causes a very sharp reduction of current benefits.

It is easy to imagine that, from the viewpoint of elected politicians, no ‘group investment’ is irreversible enough to justify inaction, especially when their core constituents mobilise. Furthermore, changes over time in the partisan composition of the government may let in new legislators, who might have little interest in the proper functioning of the NDC model. Changes in the “group identities” of the government and politicians’ responsiveness to their constituencies may lead to the erosion of existing NDC programmes along the subsequent rounds of legislation.

2.2 Operationalizing post-adoption trajectories

Below we use Patashnik’s framework as a heuristic to structure our analytical narrative. We first want to assess which trajectory best approximates the Italian experience after its NDC reform in 1995. Moreover, we want to individuate which ‘branching points’ and driving forces have assumed the major role in the process. This is also a way to compare the explanatory power of the approaches that we have just associated with the four outcomes in Patashnik’s model, regardless of differences in their basic assumptions. In a second step, we will relate on our understanding of the Italian post-adoption trajectory to an evaluation of how different economic, political, and institutional factors, endogenous or exogenous, have influenced its unfolding.

We think that reversal is best operationalized in very neat terms, as a deliberate, declared, and outright repeal of the reformed system and of its logic. Thus we can say that, at a first look, no formal reversal of the 1995 reform has (yet) occurred in the Italian pension system. As regards the other three possible trajectories in Patashnik’s framework (reconfiguration, entrenchment, or erosion) we can assess their emergence by looking at three dimensions: policy outputs (whether they are consistent with the model or not), group identities/affiliations (whether they are redefined or not), and group investments (whether they take place or not).

9 Increasing the contribution rate is a less likely policy measure. With higher contribution rates, the notional pension accounts will grow faster and pay higher pensions, increasing future liabilities.
### Table 1 - Dimensions of analysis and evidence supporting each specific trajectory

<table>
<thead>
<tr>
<th>Trajectories:</th>
<th>Evidence of…</th>
<th>Evidence of…</th>
<th>Evidence of…</th>
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<tbody>
<tr>
<td></td>
<td>...Erosion</td>
<td>...Entrenchment</td>
<td>...Reconfiguration</td>
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<tr>
<td><strong>Dimensions:</strong></td>
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<tr>
<td><strong>Policy outputs</strong></td>
<td></td>
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<tr>
<td>- Frequent changes in the</td>
<td>- Lack of major revisions;</td>
<td>- Improvement of existing</td>
<td></td>
</tr>
<tr>
<td>functioning of core NDC</td>
<td>- Automatic revisions are</td>
<td>stabilizers;</td>
<td></td>
</tr>
<tr>
<td>parameters;</td>
<td>characterized by limited scope</td>
<td>- Lack of major revisions;</td>
<td></td>
</tr>
<tr>
<td>- Less exit age options;</td>
<td>and low discretion;</td>
<td>- Automatic revisions happen at regular commonly</td>
<td></td>
</tr>
<tr>
<td>- New DB-like parameters;</td>
<td></td>
<td>known intervals</td>
<td></td>
</tr>
<tr>
<td>- No revision of the divisors;</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Group identities / affiliations</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Unstable coalitions and</td>
<td>- Old dimensions of contention not depoliticized;</td>
<td>- Depoliticization of old dimensions of contention;</td>
<td></td>
</tr>
<tr>
<td>preferences;</td>
<td>- Old actors remain strong;</td>
<td>- Weakening of the old actors;</td>
<td></td>
</tr>
<tr>
<td>- Strong impact of ideology</td>
<td>- New revisions are negotiated and formalized with rigid consultation practices;</td>
<td>- New actors and coalitions;</td>
<td></td>
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<tr>
<td>and partisanship;</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>- New actors and coalitions;</td>
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<td>- New dimensions of conflict</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>and preferences;</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Group investments</strong></td>
<td>- Slow phasing in;</td>
<td>- Rapid phasing in;</td>
<td>- Rapid phasing in;</td>
</tr>
<tr>
<td>- Lack of dedicated NDC bodies;</td>
<td>- Lack of official research on the functioning of the system;</td>
<td>- Transfer of resources from the old to the new system;</td>
<td>- Transfer of resources from the old to the new system;</td>
</tr>
<tr>
<td>- Lack of official research on</td>
<td></td>
<td>- Creation of dedicated NDC bodies;</td>
<td>- Creation of dedicated NDC bodies;</td>
</tr>
<tr>
<td>the functioning of the system;</td>
<td></td>
<td>- Lack of official research on the functioning of the system;</td>
<td>- Official research on the functioning of the system;</td>
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</tbody>
</table>

In terms of policy outputs, we choose to focus on the stability of two defining characteristics of the NDC blueprint. The first is the flexible regime of pensionable ages, which is important for two reasons. On the one hand, it is a key to guarantee workers’ freedom of choice on their retirement; on the other, its logic prevents early retirement options to be newly introduced, keeping the system transparent and actuarially neutral. The second defining characteristic is the centrality of the annuity divisors in stabilizing the system, which should help to depoliticize the management of public pensions. As explained above, the NDC formula absorbs macroeconomic and demographic shocks with periodical revisions or updates of its parameters. In this respect, aligning the divisors to life expectancy trends is fundamental, since this keeps the expected benefits and the actual accruals of each participant in lifetime balance.\(^{10}\)

Since the financial sustainability of the overall system as well as the actuarial fairness of benefits both depend on this balance, revision of the divisors is a potentially very sensitive issue. Thus, one would expect that revisions which are based on clearly defined, codified rules to enjoy a

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\(^{10}\) This can be done in two ways: with a cohort-based approach as in Sweden, or with periodical revisions as chosen in Italy. Their different implications will be discusses later in the paper.
smaller risk of political controversy than updates that leave require political negotiations. Here the actual design of the divisors comes into play. The room for discretionary choices, in fact, is greatly reduced when demographic shocks are entirely absorbed by revising the divisors, as the NDC blueprint prescribes. Conversely, when other sorts of stabilisers are added to the framework, shock absorption has to be discretionally apportioned between multiple parameters. This requires a political decision, which may become hard to justify and even produce major systemic effects.

Considering instead the two policy feedbacks suggested by Patashnik (group identities/affiliations and group investments), we use them as a heuristic device to examine how well domestic actors have adapted to the new rules. With reference to ‘group identities/affiliations’ we study the role and positions of the main actors in the reform process, looking at whether a NDC consensus or a supporting coalition has emerged over time. The stronger this feedback, the more opportunities exist for reconfiguration, but also for erosion (as shown in Table 1). We interpret the feedback as stronger the more evidence we find of: lacking consensus on the two aforementioned ‘core features’; multiple changes in the policy positions of the main actors; the instability of pension rules corresponding to changes in the partisan composition of the government. We interpret ‘group investments’ as stronger when: independent authorities in charge of monitoring NDC programmes are established; transition rules and grandfather clauses are limited. The stronger this feedback, the more opportunities exist for entrenchment or reconfiguration at the expenses of erosion.

3 NDC Italian-style, an incomplete path-departure

Before the 1995 NDC reform, Italian pensions were characterized by the coupling of Bismarckian institutions with Beveridgean goals and by a widespread disregard for the costs of the system (Jessoula, 2009). The combination of high replacement rates, persisting occupational fragmentation, and overreaching redistributive aspirations limited the room for cross-financing the schemes. As a result, the burden on the state budget soon became unbearable. In turn, redistributive patterns

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11 Such as incentives/disincentives to discourage early retirement or exit ages indexed to life expectancy.
12 In a very extreme case, NDC divisors might cease to be revised. Shock absorption would then fall entirely on the other stabilizers. As a result, the system would de facto be transformed in a DB-DC hybrid, in which mandatory age increases or benefit cuts are chosen, legislated, and implemented by the bureaucracy. Pension politics would surely be affected by the change.
13 This implies that the new rules are quickly applied to current contributions, making money flow to the new system.
14 The financing of benefits changed: the original capitalized funds were first integrated (1945) and then progressively displaced (by 1969) by a paygo system. Between 1957 and 1966, coverage was extended to the large self-employed component of the Italian workforce (agricultural labourers and sharecroppers, artisans, and shopkeepers). Early retirement, previously available only to civil servants (20 years of service, 15 for wives and mothers), was extended to private employees on less generous terms (1965-69). The 1969 reform introduced wage indexation, a residual social security scheme for works who failed to earn a work pension, and a new ‘final wage’ DB formula for private employees, which assessed pensionable income over the last 5 years of contribution. In 1976, civil servants obtained a new, very favourable, reform of their pension rules. Finally, in 1990, DB benefits and early retirement options were extended to the self-employed as well, but keeping a very low tax rate.
15 Most often this practice implied a transfer from the main fund of private workers (FPLD) to those of the self-employed and of employees in public utilities and state-owned enterprises.
in the system were mazy and regressive. The final-wage model and the high replacement rates privileged workers with steeper wage patterns, regardless of income level. This approach suited well the profiles of civil servants and of private employees in public industries and services, who also benefited from the most generous rules. However, it gave workers vicious incentives to retire as soon as possible and to misreport their earnings early in their career.

Such a troubled outcome partly resulted from a number of structural traits, such as the relatively large share of self-employed workers in the Italian workforce, the late industrialization of the country, and the economic inequalities between the North and the South. Equal important was the role of political and industrial relation systems. Until the early 1990s, occupational fragmentation was reinforced by the centrifugal direction of political competition and by the strong ties between the parties and specific occupational groups. In addition, the contentiousness of Italian industrial relations prevented occupational supplementary pensions from developing and compromised the ability of the social partners to find consensus. In both the electoral and the corporatist arena, policy learning and pragmatic problem solving only took place for short periods (Jessoula, 2009; Ferrera et al., 2012). Even though pensions in Italy have always been very popular and, by far, the biggest component of the national welfare state, their flaws have been widely acknowledged since the late 1970s. The inconclusive debate of the subsequent decade also made clear that the pension status quo was not sustainable given the rapid ageing of Italian citizens. In addition, the long negotiations and many proposals of the 1980s unveiled a set of issues on which consensus was easier to reach. Still, profound disagreements between the socialists and the Christian democrats inside the government and increasing tensions within the corporate arena prevented any major subtractive reform.

### 3.1 Path-shifts in the first half of the 1990s

The severe economic and political crisis of 1992-93 radically altered the playing field. Structural pressures intensified on many fronts, and in 1992 the Italian Lira was severely hit by the speculative attacks on European currencies. National political dynamics was in no less turmoil. During the 1980s, the Italian society and productive system had grown more dynamic, fragmented, and globalized. The electorate no longer felt represented by the communist, socialist, and Christian-democratic ideologies. Union density had sharply decreased and industrial employment fallen,  

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16 We refer in particular to: longer vesting periods, the harmonization of pension rules between employees and self-employed workers, and the development of supplementary pensions (see Jessoula, 2009).
17 Deteriorating relations within the corporate arena prevented any consensual solution for two pressing concerns: decentralizing pay settings and replacing the wage escalator system.
18 The combination of fiscal expansions and monetary restrictions had brought Italy’s public debt from 55% to 98% of GDP between 1981 and 1991. Envisaging the creation of a European “Economic and Monetary Union” (EMU), the Maastricht Treaty of 1992 confronted Italy with a major challenge. In order to join in the EMU together with other founding members of the EU, Italy had to comply very quickly with an ambitious set of macroeconomic goals.
19 In 1989, the fall of the Berlin wall suddenly deprived the communists of their ideological reference, forcing them to make a pro-system turn and re-establish themselves as the PDS (Democratic Party of the Left) in 1991. With the end of the communist threat, also the Christian democrats and the socialists lost part of their legitimacy. Constitutional re-
leaving the workers’ movement weak and internally split against an increasingly vocal employers’ front. Pensions were soon caught in the crossfire (Ferrera and Gualmini, 2004). Taking advantage of the weakness of the party system, the Amato government (June 1992 - April 1993) combined some of the less contentious proposals advanced in the 1980s into a package of fiscal and economic reforms. The 1992 Amato reform brought about an unprecedented path-shift, bringing the overall pension debt from 400 down to 290 per cent of GDP and introducing supplementary market-based provisions.\textsuperscript{20} As regards supplementary pensions,\textsuperscript{21} high taxes on retirement savings long prevented their full take-off. Nonetheless, the creation of new schemes jointly managed by the social partners was crucial to win the consent of the unions on the reform package.

Gradualism in implementing the cuts helped the unions justify the reform to their members (Natali, 2007). Cost containment took place over the long run and workers with more than 15 years of seniority were excluded by most of the cuts. Early retirement in the private sector was not reformed and workers could use it to escape the most punishing provisions. Self-employed retirees were hit by a new ban on cumulating wage and pension income, but retained the generous 1990 system. Acquired rights were strongly protected, so that the intergenerational distribution of the costs was very uneven: more than 60 per cent of the losses were on workers 20 to 45 years old, and women and the atypically employed were disproportionately affected (Galasso, 2006). In April 1993, new corruption scandals forced the Amato government to resign and a technocratic cabinet was tasked with implementing its fiscal reforms. The new government signed a social pact with the unions and the employers, abolishing the last remains of the sliding wage scale (scala mobile).\textsuperscript{22} The new approach to wage-setting further reduced future pension costs and signified a period of more cooperative industrial relations. At the same time, Amato’s toughest revisions in terms of earnings-assessment and revaluation were softened. With pension costs still far from being under control, the reformers seemed to have reached the political limits of revising the DB system (Pizzuti, 1998).

As a consequence of the judiciary investigations, the socialists and the Christian democrats ceased to be major political players and split up in various offshoots.\textsuperscript{23} The centre-right won the forms, presented by the parties as the way to get out of a chronic political deadlock, had themselves run into the same sort of decisional stalemates. The parties themselves were split in many fractions, which had very different visions of Italy’s political future. Popular trust in the party system, already at its all-time low, was soon to be shocked by the outbreak of the “Clean Hands” investigation on political corruption (1992-93). Italian politics was heading towards a major transformation.

\textsuperscript{20} The reform increased the vesting period of old age pensions (from 15 to 20 years) and scheduled a gradual increase of the standard retirement age as well as the age required for the early retirement of civil servants. Earnings-related benefits were cut and indexation downgraded from wages to prices.

\textsuperscript{21} In this paper we do not deal with the evolution of supplementary provisions and we will not describe the reforms of the private system in any detail. Nonetheless, it must be stressed that the Italian NDC system was always conceived as the public component of a multi-pillar system.

\textsuperscript{22} The scala mobile was a mechanism that ensured the automatic adjustment of wages to inflation on a quarterly basis.

\textsuperscript{23} The electoral reform of 1993 introduced a mixed system: 75 per cent of the seats were assigned with a plurality method, while 25 per cent were proportionally distributed. Political competition was reconfigured and became centripetal. The 1994 elections saw the emergence of two poles competing for government. The pole of the centre-left gathered around the PDS a wide array of progressive forces, with ideologies ranging from neo-communism to social-Catholicism. The centre-right pole revolved around Forza Italia (FI), a new catch all party created from scratch by the
1994 elections and advanced a pension reform proposal, heavily influenced by the Chilean and British experiences of radical pension privatization. The attitude towards the unions, openly hostile to the neo-liberal ideology of the government, was very confrontational. In the budget law for 1995, the Berlusconi government proposed to further reduce benefit indexation and, for the workers exempted by the 1992 reform, to reduce from 2% to 1.75% the value of each year of seniority in the benefit calculation (between 1996 and 2000). In order to increase the effective retirement age, the government also wished to introduce benefit reductions for early retirement and to speed up the schedule of the Amato reform (Jessoula, 2009). The unions responded with a wave of mobilizations and protests. Divisions emerged within the majority, as the LN started to sense the distress of its blue-collar constituencies. In December, the government took a step back and agreed to a new social pact, which envisaged either a new structural pension reform by 1995 or alternatively an automatic payroll tax rate increase. In the meantime the PDS kept working on an alternative proposal together with the CGIL (the largest and leftmost union in Italy). The reform proposal of the centre-left envisioned the transition to a NDC system for all workers (Jessoula, 2009).

During the parliamentary stage of the Berlusconi reform, the PDS managed to present its counter-proposal to the MPs of the LN. Unexpectedly, the positions of the two parties converged on two issues. The first was the need to detach social insurance and assistance, making the system more transparent. The second was the incentive to shelter from the cuts a shared core constituency: workers with typical employment contracts and many years of seniority, a group who was both highly unionized and disproportionally concentrated in Northern Italy (Natali and Rhodes, 2005). Pensions surely were not the only point of disagreement between Berlusconi and the LN. Nonetheless, taking ownership of the issue allowed the LN to exit the centre-right without suffering a major electoral backlash. When Berlusconi resigned, the PDS, the LN, and the major force of the Christian Democrats voted in a new technocratic cabinet, led by the former Ministry of the Treasury Dini (Ferrera and Gualmini, 2004). New speculative attacks, hurried the structural reform foreseen in the 1995 budget law. The reform draft prepared by the PDS was, with a few changes, presented by the CGIL as a starting point for a rushed round of tripartite negotiations. In May 1995 a new pact was signed by the unions and the government (but not by the employers). After a quick legislative process, streamlined by the LN and the PDS from inside the committees of the Chamber and the Senate, the Dini reform was formally passed in August.

The new system applied to private, public, self-employed, and some atypical workers, achieving an unprecedented degree of occupational harmonization. NDC benefits were a function of lifetime contributions, revaluated in line with GDP growth. Accrued contributions were decumulated into a pension income stream through a number of age-specific divisors, meant to capture the re-

media tycoon Silvio Berlusconi. By combining Thatcherism, nationalism, and anti-establishment claims, Berlusconi managed to gather around his party the most conservative of the Christian democratic offshoots CCD (Christian Democratic Centre), the post fascist AN (National Alliance), as well as the regionalist and autonomist LN (Northern League).

24 -3 per cent per year below the standard exit age.
maining life expectancy of the new retirees. Benefits were price-indexed, but received a 1.5% advance interest rate at retirement. Retirement was flexible from 57 to 65 and the corresponding divisors were set to be updated every ten years by legislative revision. Old age pensions were vested with only 5 years of contribution. Minor revisions, beyond the scope of this paper, also addressed supplementary pensions. Finally, the reform revised the old system of minimum pensions, introducing a “social allowance” for the elderly poor, and new tax-financed credits for care activities and childcare (Natali, 2007; Jessoula, 2009). Introducing a brand new formula allowed the reformers not to touch highly politicized parameters, such as the 2% that Berlusconi had tried to reduce. Still, the contents of new law responded to a number of political compromises. Once again, acquired rights were generously protected and the new rules only applied to contributions paid since 1996. Moreover, workers previously exempted by the Amato reform were kept in the old DB system. As a result, flexible retirement under the NDC rules could not absorb the old early retirement options. On the contrary, the requirements for early retirement were set to rise to 57 years of age and 40 years of contributions (also known as maximum seniority) for everybody by 2008, according to a complex system of increasing age + seniority quotas (Natali, 2007).

3.2 Fine-tuning the new system: from consolidation to dismantling?

Between 1996 and 2007, the efforts to contain pension costs and expand the private pension sector continued. Statutory pensions were reformed in 1997, 2004, and 2007. A centre-left coalition led by Romano Prodi won the 1996 election. The Prodi government took the necessary measures to ensure that Italy was brought into the EMU by 1998. In doing so, it adopted a neo-corporatist policy-making style and constantly sought the consent of the unions. The pension reform of 1997 was initially conceived as the first step towards a broad revision of the Italian welfare state. However, its scope was severely limited by tensions between the centre-left coalition and the neo-communists, which provided external support to the Prodi cabinet. The main goal of the reform, shortening the phasing in of NDC rules, was abandoned. However, thanks to an intense cooperation with the unions, the government managed to quicken the phasing out of early retirement, harmonizing the requirements for public and private sector workers. Nonetheless, threatening a veto the neo-communists obtained a favourable treatment for industrial workers. Finally, the reform reduced the gap among the contribution rates of employees and self-employed workers (Ferrera and Gualmini, 2004).

After the successful attempt to join the EMU in 1998, the Prodi government lost the support of the neo-communists. Although the LN rejoined the centre-right coalition, the party system grew more fragmented in the following years. Tensions within the left and discontent with the work of the executive also worsened the climate in the corporate arena, where the neo-corporatist experience

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25 A second income requisite applied for retirement before age 65. The resulting pension had to be at least 20% greater than the social allowance available to the elderly poor.
26 Under the old DB rules 40 years granted the highest available replacement rate (80% for private workers).
of concerted choices and social pacts ended with the 1990s. In 2001, the centre-right won the elections, with a large majority in both chambers. Roberto Maroni, first-line member of the LN, was appointed Minister of Welfare in the new Berlusconi government. Acting in agreement with EU-wide initiatives, the centre-right soon initialized a new pension reform. Having learnt from past experience, this time the executive proceeded more cautiously, using its control of the legislative process to downplay the pension issue whenever major protests broke out. The government also managed to use reforms in other policy fields to split the workers’ movement, isolating the CGIL (Natali and Rhodes, 2005).

By 2004, the coalition had finalized its draft bills. The new reform mainly focused on speeding up the phasing out of early retirement and expanding the private pension market, but also produced potentially disruptive effects on the NDC system. As regards public pensions, the key measure was the so called ‘big step’, with effect from January 2008: an abrupt increase, from 57 to 60 years, of the age requisites for early retirement after 35 years’ contribution. The reform also reduced the number of ‘exit windows’ which defined the allowed starting dates for early retirement. However, it included a temporary payroll bonus for workers who would not seize early retirement opportunities in the period 2004-2007. Moreover, temporarily between 2008 and 2015, women with at least 35 years of effective contribution (including credits for care activities as an exception) could retire at 57 if they opted for a full NDC benefit.

In 2006, the centre-left won by a wafer-thin margin the first elections held with a new proportional electoral system. The new coalition was extremely heterogeneous and ranged from the neo-communists to former Christian-democrats previously allied with Berlusconi. Internal disagreement and a tiny majority in the Senate fatally compromised its policy-making capabilities. Still, the new government immediately tackled the pension issue. After implementing with few changes the measures already legislated by the centre-right on private pensions, it signed a new pact with the unions and passed a reform of public pensions in 2007 (Jessoula, 2009). Together with very minor expansive revisions, the ‘big step’ was repealed – as repeatedly announced during a heated electoral campaign – and replaced by a new quota system. Whereas the Maroni reform had unsuccessfully tried to lower payroll tax rates for labour market entrants, the centre-left legislated further increases in the payroll tax rates of self-employed and atypically employed workers. Still, more permissive early retirement options remained for workers in “particularly demanding” jobs. Finally, the government issued new NDC divisors with effect from 2010, mandating their automatic revision every three years. In exchange, the centre-left reassured the unions that the criteria for revision would be redefined in consultation with the social partners, possibly taking adequacy concerns into account. However, the outbreak of a political crisis in early 2008 prevented any step in this direction.

Over the last five years, the global crisis and its repercussions on sovereign debts in the Euro area have severely affected the Italian economy. Pension expenditure grew by 4 per cent of GDP per year, peaking at 16.7 per cent in 2009, while real GDP fell below its 2001 levels. The main par-
ties of both coalitions merged, forming the PDL within the centre-right and the PD on the left. Back in government from 2008 to 2011, the centre right enacted several austerity packages and subtractive pension measures. By 2050, the new reforms were expected to produce savings for more than 13 per cent of GDP. Initially, the government sought short term savings through further retirement age increases. Later, the decision to update also the 40 years’ contribution requirement met hard criticism from the unions, which also lamented that revising the criteria used to update NDC divisors was no more on the agenda. Nonetheless, the centre-right managed once again to split the workers’ movement. In fact, it coupled its new pension cuts with changes in wage-income taxation, something that pleased the CISL and the UIL, the moderate trade unions. Only the CGIL (2011) expressed concern for the effects of the cuts on weaker career profiles. The other unions (see e.g. Proietti et al., 2010), instead, expressed satisfaction for the stabilization of pension spending, while Confindustria asked for a stronger reduction of indirect labour costs.

In November 2011, the sovereign debt crisis reached its apex and the Berlusconi government resigned. Once again the executive was weakened by disagreements within its supporting coalition and by the scepticism of the LN towards the new pension measures. Very soon a caretaker government led by the economist Mario Monti was established by a bipartisan majority. The new cabinet featured as Minister of Welfare the economist Elsa Fornero, a committed supporter of the NDC model. As a result, while focusing on short term emergency measures in various fields, the Monti government also took decisive steps towards greater harmonization of pension rules and a faster implementation of the NDC regime. Most notably, the new provisions obliged all the workers previously exempted by the 1995 reform to contribute to the NDC system from January 2012 onwards. Old age NDC pension were vested after 5 years of effective (that is, non-figurative) contribution at 70 or, before that age, after 20 years of effective contribution and provided that the actual benefit was no less than 1.5 times the social allowance. Flexible retirement was reintroduced between age 66 and 70 (indexed to life expectancy) and new divisors were issued with effect from 2013. At the same time, an early pension appeared for the first time in the NDC system under the following conditions: up to 3 years before the current standard age, with 20 years of effective contribution.

\[28\] An opportunity in this sense was offered by the EU. In 2008 and 2010, the European Court of Justice sanctioned Italy for discrimination in the workplace, due to the different retirement ages of male and female civil servants. As EU level procedures against Italy unfolded, new decrees were enacted in response. The final output was the equalisation of age requisites across genders and occupations by 2026. Moreover, with effect from January 2011, a new ‘single sliding window’ replaced the old exit windows for quiescence (see above). Exit from the labour market was allowed only 12 months (18 for self-employed and atypically employed workers) after qualifying for early retirement. The new exit regime was very contentious, as workers who had reached 40 years of contribution were obliged to work and contribute one year more with no benefit increase (see for instance UIL, 2011). Moreover, all age requirements in the system were set to be aligned to increases in life expectancy from 2015 and afterwards every three years. Finally, in 2011 the government discretionally set 67 as the standard pensionable age in 2026, even in the absence of a corresponding automatic adjustment (Jessoula and Pavolini, 2012).

\[29\] Among the emergency measures, the Fornero reform suspended the indexation of benefits equal or greater than €1400 a month in 2012 and 2013. As regards regulatory harmonization, it further increased the payroll tax rates of the self-employed and imposed a solidarity tax on funds with more favourable rules. Moreover, it made fragmented contribution records easier to unify and revised the regulation of privatized and special funds.

\[30\] This updates the analysis we provided in Schoyen and Stamati 2013.
tribution and a final benefit at least 2.8 times the social allowance. Amendments to the budget law for 2012 combined, as of 2013, the automatic adjustment of pensionable ages with the update of the NDC divisors, scheduling both revisions every other year from 2021 (Schoyen and Stamati, 2013).

Standard pensions became payable at 66. The maximum seniority requirement for early retirement at any age (previously 40 years) was raised to 42 (men) or 41 years (women) plus 1 month, to be further incremented by one month a year until 2014. The programmed increase of the standard retirement age to 67 was moved forward to 2021 and the quota system for early retirement was abolished. With few exceptions, no more than 3 years of early retirement were allowed, but only at maximum seniority or in particularly demanding jobs. In both cases, retirees younger than 62 would face benefit reductions, proportional to the contributions paid before January 2012.31 32

The sudden preclusion of so many early retirement opportunities had a harsh social impact. The unions recently adopted a unitary stance against most provisions of the Fornero reform, denouncing in particular the abolition of the quota system and its social consequences. Even the employers, who welcomed austerity measures and the reduction of indirect labour costs, were concerned by the consequences of higher retirement ages on industrial restructuring settlements. In order to relieve the career profiles most severely hit by the changes, the centre left pushed the Parliament to adopt a punctilious set of exemptions. Yet, the new rules left without any wage or social benefit more than 300.000 redundant older workers (known as esodati) and many more to come by 2020.

The restrictive economic policies of the Monti government stabilized financial pressures on the Italian public debt, but visibly depressed economic activities in 2012. The decreasing sense of urgency and the shift in focus on labour market and institutional reforms bogged down the activism of the technocrats. The 2013 electoral campaign was characterised by a mounting anti-austerity sentiment. Both the centre-left and the centre-right announced revisions and amendments to the Fornero reform, in order to tackle the needs of the esodati. The outcome of the elections was inconclusive, leading to the formation of a PD-PDL grand coalition government. Due to the severity of the crisis and of the austerity packages, the pension reform debate has resurfaced in recent times. A joint document by CGIL, CISL, and UIL asked for less restrictive (or non-indexed) exit requirements, for the full harmonization of contribution rates, and for more exceptions for the esodati and workers in particularly demanding jobs. In addition, the CGIL lamented the absence of cohort based divisors, while the UIL suggested making them progressive. More innovatively, the CISL proposed the introduction of early/part-time retirement options funded with a mutualistic approach and a new min-

31 Penalizations were defined as follows: -1% of benefit for each year below age 62 up to age 60, and -2% for each other year below 60. Workers qualifying before 2018 and able to meet maximum seniority with no recourse to figurative credits were exempted from the cuts.
32 The new norms in this paragraph were not applied to women in the experimental regime, whose age requisites were however indexed to life expectancy.
imum pension that would be partly means-tested and partly based on contributions. Finally, the UIL asked for lower taxes on pensions and new subsidies for the lowest pensions.  

Back in August 2012, the PD and the LN advanced a bipartisan draft bill to expand the guarantees for the *esodati* and to add a new exit option similar to the experimental regime for women of the Maroni reform. During the electoral campaign, however, the LN promised a reversal of the Fornero reform. More recently, the deep crisis of Italy’s unemployment schemes and the agency of the 5-star movement gave credit to the introduction of a universalistic minimum income scheme. After the unexpected appointment of a grand coalition government, however, this option is far less likely. Instead, the new Premier Letta and the Minister of Welfare, the economist Enrico Giovannini, have recently announced their intention to revise the exit regime to facilitate retirement for the *esodati*, notwithstanding the scepticism of the Minister of the Economy about the true extent of the emergency. The most plausible scenario seems to be that early retirement will be allowed 3 or 4 years earlier than according to the Fornero reform with a benefit cut. In this regard, the basis for discussion might be provided by a draft bill advanced by the PD in the previous legislature and recently resubmitted. The proposal would slow down the indexation of retirement ages until 2016 and open, from 2014 onwards, a 62-70 flexible exit window for workers with at least 35 years of contribution, provided that the final benefit is at least 1.5 times the social allowance. The new exit option would not require workers to opt for a full NDC benefit, but rather impose old style incentives and disincentives.

4 Making sense of the Italian NDC trajectory

Having constructed an explicit bridge between the conceptual level and concrete indicators, we can now turn to an interpretation of the empirical evidence. In this regard, first, we reassess the Italian post-reform developments by evaluating which of the four trajectories in Patashnik’s framework best describes the Italian case. Second, we will discuss the role of a number of causal factors that may have influenced Italy’s post-adoption trajectory after the 1995 Dini reform. We have previously observed that Italian pension policymaking after the 1995 reform has been “fraught with contradictory interventions” (Schøyen and Stamati, 2013: 95). There have been revisions out of tune with the logic of the Dini reform and episodes of system consolidation. Next we carry out a systematic assessment through the application of the framework and criteria set out above. We consider each of the three dimensions – policy output, group identifies/affiliations, and group investments – in turn.

33 Statements collected from unions’ commentaries and from various quality newspapers articles.  
34 Opting for a full NDC benefit, employees with at least 35 years of effective contribution would be allowed to retire at 58 (57 for women) until the end of 2015 or at 59 (58 for women) until the end of 2017.  
35 See for instance: [http://www.corriere.it/International/english/articoli/2013/05/20/contracts.shtml](http://www.corriere.it/International/english/articoli/2013/05/20/contracts.shtml)  
36 A 2% benefit reduction would be imposed on each year of age below 66 and a 2% benefit increase would be granted for each year above 66, up to -8% at 62 and +8% at 70.
Looking first at policy outputs, we associated erosion with increased limitations to the original flexibility in the choice of retirement age and missed or irregular updates of annuity divisors. Both events have occurred in the Italian case. In 2004 new efforts were made to increase the average effective retirement age. This was done by speeding up the removal of the generous seniority-based early retirement options, which were remnants of the old pension system, and by re-introducing a fixed legal retirement age (of 65 for men and 60 for women). As far as the annuity divisors are concerned, they were not updated after 10 years by the then incumbent Berlusconi government as the rules prescribed.

At the same time, one may argue that there has recently been some – albeit unsettled – signs of reconfiguration. In 2012 the Monti government reintroduced a flexible retirement age. Currently the age range within which a standard retirement benefit can be accessed is between age 66 and 70. Also, long-overdue, the instable centre-left Prodi government issued a set of updated annuity divisors in 2007 as part of a larger welfare reform package. The updated divisors took effect in 2010, and future revisions were to happen automatically every three years. As planned, the divisors were again adjusted ahead of 2013. Along with the release of the new divisor values, the Monti government also announced biennial revisions of the divisors from 2021. In short, automatic revisions are now set on a fixed schedule, but it is too soon to tell whether this element of reconfiguration is actually institutionalised.

### Table 2a: Policy outputs and trajectories

<table>
<thead>
<tr>
<th>Trajectories:</th>
<th>Evidence of…</th>
<th>…Erosion</th>
<th>…Entrenchment</th>
<th>…Reconfiguration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dimensions:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Policy outputs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Frequent changes in the functioning of core NDC parameters;</td>
<td>- Lack of major revisions;</td>
<td>- Improvement of existing stabilizers;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Less exit age options;</td>
<td>- Automatic revisions are characterized by limited scope and low discretion;</td>
<td>- Lack of major revisions;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- New DB-like parameters;</td>
<td>- Automatic revisions happen at regular commonly known intervals;</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- No revision of the divisors;</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Bold entries have occurred, while barred ones have not. Entries in italics indicate temporary or unsettled developments.

The third indicator of reconfiguration – ‘improvement of existing stabilisers’ – is difficult to pass a judgement on. On the one hand, we have not seen improvements such as the introduction of a Swedish-style automatic stabiliser (aka ‘brake’) and/or a switch to cohort-based divisors. On the other hand, as part of a larger austerity package to address the economic crisis, Berlusconi’s centre-right decided that from 2015 the age requisites determining the access to pension benefits would be

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37 Whenever current assets are insufficient to cover the system’s inter-temporal liabilities, the ‘brake’ restores the balance by temporarily suspending the normal indexation rule.
revised every three years in line with increases in life expectancy. The measure may be seen as an improvement of the shock-absorption capabilities of the public pension system. Overall, therefore, with regard to policy outputs since 1995, the Italian trajectory is characterised in part by erosion and in part by reconfiguration.

In order to provide not only a descriptive categorisation but also take a step towards capturing the underlying mechanisms, we next explore how the main policy actors have related to and invested in the new system. Turning first to the question whether group identities or affiliations have changed with the introduction of the NDC model, table 3b summarises the findings. Did the new public pension system reconfigure the coalitions and preferences of the welfare stakeholders? Or was it instead unable to structure the policy-making process in a transformative way?

It is evident that the Italian pension system has remained very vulnerable to the preferred approach of the political forces in government: the centre-left, the centre-right, and even the technocrats. Splits within the workers’ movement and tensions within the political executives have made the evolution of Italian pensions unstable and unpredictable, while the impact of partisanship has affected policy-making both in terms of procedures (e.g., how the government has dealt with the unions) and legislative outputs (cf. the u-turn of the Fornero reform after the austerity packages of the centre-right).

### Table 3b- The group identities feedback and the trajectories

<table>
<thead>
<tr>
<th>Trajectories:</th>
<th>Evidence of…</th>
<th>…Erosion</th>
<th>…Entrenchment</th>
<th>…Reconfiguration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dimensions:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Group identities / affiliations</td>
<td>- Unstable coalitions and preferences;</td>
<td>- Old dimensions of contention not depoliticized;</td>
<td>- Depoliticization of old dimensions of contention;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Strong impact of ideology and partisanship;</td>
<td>- Old actors remain strong;</td>
<td>- Weakening of the old actors;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- New actors and coalitions;</td>
<td>- New revisions are negotiated and formalized with rigid consultation practices;</td>
<td>- New actors and coalitions;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- New dimensions of conflict and preferences;</td>
<td></td>
<td>- New dimensions of conflict and preferences;</td>
<td></td>
</tr>
</tbody>
</table>

**Bold** entries have occurred, while **barred** ones have not. **Entries in italics** indicate temporary or unsettled developments.

New actors and coalitions have emerged, and so have new cleavages. Among the new actors, one should certainly include the technocrats, both during caretaker governments and inside the two main political coalitions. Most notable in this respect, however, is the role of the Lega Nord (LN) in the reform process. Between 1995 and 2004 the LN managed to introduce a new territorial cleavage in the Italian pension politics and defend the interest of senior workers using ‘territory’ as a new powerful argument. Without the agency of the LN, the Dini reform would have faced formidable hurdles. However, the 2004 Maroni reform showed that the interest of the LN in the NDC system was selective and mainly limited to its low redistributive impact. Other crucial features of the NDC blueprint, such as the flexible retirement age, were less important to the LN.
Importantly, what failed to emerge, except for a short time during the centre-left government led by Romani Prodi between 1996 and 1998, was a new coalition truly pitched against the actuarial inequalities of the old pension system. In particular, according to the 1995 Dini reform, the old pension rules would be phased out only very slowly, and this slow transition clearly created a generational break disadvantaging young workers. Nonetheless, we have not seen any political divisions along generational lines. With hindsight we can say that the young have not mobilised in favour of a swifter transition to NDC. We note, furthermore, that old actors such as the unions have remained influential pension stakeholders, at least when the centre-left was in power. While they have failed to confirm their influence on the overarching goals of the reformed system and are weaker than in the 1990s, the unions still keep alive several conflict lines and micro-corporatist pressures. In sum, even if the Italian pension politics now rests on a broader actor constellation and includes new cleavages, the new coalitions and dimensions of conflict are not the most favourable to further consolidate the NDC model. On the contrary, erosion appears again to be the best fitting trajectory.

Table 33c- The group investments feedback and the trajectories

<table>
<thead>
<tr>
<th>Dimensions:</th>
<th>Trajectories:</th>
<th>Evidence of…</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group invest-ments</td>
<td>…Erosion</td>
<td>…Entrenchment</td>
</tr>
<tr>
<td>- Slow phasing in;</td>
<td>- Rapid phasing in;</td>
<td>- Rapid phasing in;</td>
</tr>
<tr>
<td>- Lack of dedicated NDC bodies;</td>
<td>- Transfer of resources from the old to the new system;</td>
<td>- Transfer of resources from the old to the new system;</td>
</tr>
<tr>
<td>- Lack of official research on the functioning of the system;</td>
<td>- Creation of dedicated NDC bodies;</td>
<td>- Creation of dedicated NDC bodies;</td>
</tr>
</tbody>
</table>

Bold entries have occurred, while barred ones have not. Entries in italics indicate temporary or unsettled developments.

Finally, we turn to the intensity of the group investments feedback. As we noted above, thanks to the continuation of paygo financing, the introduction of NDC rules faced no “double payment problem”. Contributions used to pay current pensions entitled the younger part of the workforce to future NDC or pro rata benefits. However, no extra financial resources have been invested in support of the new system. This means that no buffer fund like in Sweden is available to smooth the expected spending hike caused by the retiring baby-boom generation. Cuts on current pensions were only imposed in order to address short term budget constraints.

At the same time, the extremely long phasing in of the Dini reform greatly lowered policymakers’ stakes in the new rules. No agency comparable to the Swedish “pension group” was created in Italy to play the role of “guardian” of the system. The Pension Spending Evaluation Team (NVSP) set up by the 1995 reform remained chronically underfunded and understaffed, until its demise in 2012. The task of monitoring the evolution of pension spending and the fiscal effectiveness of the annuity divisors was progressively transferred to the State’s Accounting Office (RGS).
Overall, it seems fair to say that both financial and political investments in the reformed system have been limited.

Finally, policy-makers’ cognitive investment has been small. Efforts to improve the functioning of the new system and to reach a greater understanding of its mechanisms mainly rested on independent academic research.\textsuperscript{38} The absence of systematic official studies could have been a way to take pressure off the negotiation table with the unions. This was a leitmotiv of social policy-making in the second half of the 1990s, which resurfaced in a weaker form in the period 2007-08. Most likely, however, this cognitive deficit contributed far less to social peace than it facilitated revisions out of tune with the original logic of the Dini reform.

5 Eroding the layer: from decreasing returns to sustainability (or lack thereof).

In the last paragraphs we used our operationalisation of Patashnik’s framework to give a theoretical characterization of Italy’s unsettled pension trajectory. While one finds evidence in favour of both erosion and reconfiguration by looking solely at policy outputs, the expansion of the analytical framework to include “group identities/affiliations” and “group investments” feedbacks, sharpens the picture.\textsuperscript{39} The first feedback reveals a policy in transition between an old and a new actor constellation. Whereas some of the old actors, namely the unions, still take on a major role within the pension policy regime, new actors and new dimensions of conflict have also emerged, although not exactly the ones expected by NDC advocates. Moreover, most innovations in policy preferences and in the actor constellation are exogenous to the new functioning of the system, rather than being due to the new rules. Most notably, the system has become increasingly sensitive to changes in government, as the major political coalitions and the latest technocratic government have followed three different approaches when carrying out revisions. In turn, the second feedback decisively tilts the balance in favour of erosion, stressing the absence of adequate financial, political, and cognitive investments on policy-makers’ part.

Now we can finally turn to the question of why the Italian NDC system has taken this path, becoming so exposed to a process of erosion. More precisely, still following Patashnik’s model, we ask which factors have affected the two policy feedbacks, preventing them from consolidating the new system. In particular, we ask whether the factors that brought about decreasing returns within the old system have influenced the way the group identity/affiliations and the group investments feedbacks have unfolded in the post-enactment phase. We begin answering this question from what we concluded at the end of our previous work: the policy context matters, even for “clean hands” mechanisms such as the NDC model. Peculiar configurations of contextual factors steer policies in case-specific directions, letting them evolve according to highly specific patterns. Contextual fac-

\textsuperscript{38} Interviews with Sandro Gronchi, Elsa Fornero, and an anonymous Senior Civil Servant of the Italian Ministry of Labour (March-April 2010).

\textsuperscript{39} Provided that one accepts Patashnik’s theoretical backdrop and the link between the feedbacks and the trajectories, as we do in this exercise. See Section 2.2.
tors include economic and political circumstances, but also configurations of institutions and policy legacies. Over time, they informed and accelerated the crisis of the old system and the establishment of an institutional alternative.

Here we try to achieve a more accomplished and systematic understanding of the influence and effects of contextual factors. As regard their influence on the status quo, we look at it through the lenses of the negative feedback concept. Then, we consider how these same negative feedbacks influenced the group affiliations/identity and the group investments feedback in the post-reform phase. One of the advantages of single-case studies is the possibility to zoom in at a level of detail that allows disentangling which factors have the greatest explanatory power. We will carry out this exercise in the light of the narrative in Section 3. In so doing, we also look at the pre-adoption phase, taking into account eventual continuities and discontinuities between the old and the new pension system.

As a result, in the next paragraphs we will propose the following interpretation. Over time, the old system generated two kinds of diminishing returns. First, at the socio-political level, it produced increasing discontent for its own patterns of redistribution. For different reasons, the technocrats, the regionalist party (LN), as well as the left together with the unions moved a critique to the functioning of the system. In 1995, these three criticisms found enough common ground to coalesce in support for the Dini reform and the shift to a NDC system. Nonetheless, the same economic, political, and institutional factors that fuelled this negative feedback and fostered the adoption of the Dini reform exerted some detrimental effect on its sustainability (in terms of both group affiliations and investments). Second, the persistent fiscal crisis of the Italian pension system and national budget created a strong case for adopting automatic stabilizers such as the NDC pension formula. However, it also prevented policy-makers from removing the sensitive pension issue from the agenda, achieving enough stability to settle the transition. In sum, if the ‘Italian style’ NDC has taken on a path of erosion, this is partly the result of a path dependent process. However, in this case, path dependency is mainly driven by the negative feedbacks of the old system, rather than by its increasing returns.

5.1.1 The socio-political feedback: discontent with existing patterns of pension redistribution

The negative feedback. The narrative in Section 3 pointed at the chaotic and regressive character of redistribution within the Italian DB system. As we saw, the pension policymakers had chosen quasi-Beveridgean goals while maintaining the old Bismarckian policy legacies in place. This choice was particularly problematic given some features of the Italian political economy: low employment rates, a relatively high level of self-employment, industrial production heavily concentrated in the Northern regions, and a large role for state interventionism in the economy. Several distortions emerged as a result. Redistribution largely catered to the middle classes (civil servants and the self-employed) or to Southern constituencies (minimum and invalidity pensions). The public pillar disproportionately grew, torn by the ambition to provide universal assistance and that of giving high replacement rates even to the best paid careers. Falling employment rates, the bad re-
results of public interventionism in the South, and population ageing did not only put the system on an unsustainable financial pattern, but also magnified its distributive distortions.

So, while the legacy costs and adaptive expectations of the old system prevented a full overhaul of existing pension arrangements and a radical path-break, something started to creak at the socio-political level. The unions, especially the peak organisations, were discontent with regressive redistribution patterns and with the inequality of rules among the various schemes, which negatively affected a sense of social solidarity within the workforce. The LN was as determined as the unions to defend the acquired rights of continuously employed workers, but wanted at the same time a less redistributive system, based on an average wage formula and a larger role for private insurance. Finally, the technocrats considered the old system too costly for Italian firms and criticized its vicious incentive structure, which favoured early retirement and contribution evasion. Even though each of the three actors had a different diagnosis of the problem and catered to different social interests, there was enough common ground among them to build a majority able to pass the Dini reform and the introduction of the NDC system. Looking in particular at the position of the unions, but also at the specific way in which the LN claimed to represent the interest of Northern workers with continuous careers, it is evident that the system had created its own opponents though a negative socio-political feedback. Even more than budgetary concerns, this decreasing return to the current arrangements entailed strong potential for a path-shift within the pension policy regime. The next paragraphs draw a line of continuity between this mechanism’s favourable impact on the reform and its more ambiguous contribution to its political sustainability.

**Effects on group identities/affiliations.** In Patashnik’s model, this feedback produces erosion (or reconfiguration) when the actor constellation become fluid, new actors appear, and coalitions or interest groups are not cohesive. In the narrative, we have encountered several features with a bearing on the fluidity and cohesiveness among pension stakeholders. The negative socio-political feedback described above allowed the formation of a majority supporting the Dini reform. However, this majority had no other reason or interest to build a shared pension agenda. In this respect, an important political variable to consider is the structure of political competition among Italian parties. A large literature on the evolution of the welfare state in Italy suggests that fragmentation and fiscal imbalances were the product of the centrifugal direction of political competition during the First Republic. However, we have seen in the narrative that, even during the Second Republic (with a new electoral law and a new party system) new centrifugal dynamics, this time within the centre-right and centre-left, rendered pension policy-making more chaotic and unpredictable. Prevailing centrifugal forces deepen the syndrome of “nobody’s reform” and elicited temptations to “reform the reform” even before implementing it. They posed a major challenge to the cohesion/consistency of the actor constellation operating in the field of pensions.

A similar reasoning can be applied to Italy’s industrial relations. The Dini reform was the result of an unprecedented round of bilateral and trilateral negotiations. When the neo-corporatist parenthesis of the 1990s closed, however, extensive cooperation between the government and the unions
became difficult to reactivate. Moreover, tensions within the unions and frequent break-ups of the labour front during the 2000s further contributed to fluidity among the pension stakeholders. Finally, the technocrats, while very effective in enacting path-breaking legislation, decisively contributed to weaken its sustainability in the reform aftermath. First of all, they ended up offering an alibi to irresponsible “politics as usual”. Moreover, by opting for an active political career after taking office, technocrats like Dini and Monti further contributed to the fluidity and unpredictability of the Italian party system.

Finally, also the inheritance of Bismarckian occupational fragmentation has to be taken into account. Longstanding divisions between public and private employees as well as self-employed workers contributed, in Italy just as in most other occupationalist pension system, to make representation more complex and selective in both the electoral and the corporate arena. On the one hand, this has not prevented the harmonization and unification of pension rules for the three categories. Most notably, their unified regime within a common public NDC system has never been called into question in the pension debate. However, the legacy of corporatism more broadly has certainly contributed to split the labour front during the 2000s. Moreover, micro-corporatist pressures and preferential party linkages have shaped some of the most divisive aspects of the post-adoption trajectories.

Effects on group investments. How did the socio-political feedback influence group investments? Here, the most important point is the lack of a broad and stable cross party consensus that could fuel a large investment of political capital in the new system. Looking at the electoral arena, the atypical commonality of views occurred between the PDS and the LN in 1995 was certainly related to the centrifugal dynamics that – in just a few months – pushed the LN out of the governing coalition. This surely did not help to build a stable bipartisan consensus in favour of the NDC system. Considering instead the corporate arena, two points stand out. First, the employers did not sign the social pact leading to the Dini reform, since they asked for more short term savings and reductions in payroll taxes. This break-up of the trilateral negotiations provided the centre-right with a basin of consent among the employers for cost-cutting measures that deviated from the NDC logic. Second, the three major unions competed among themselves to increase the price of their acquiescence. The progressive greying of the unions due to population ageing made them act in order to slow down the phasing in of the NDC rules, reducing the flow of resources to the new system. Although Dini’s final package deal was agreed “behind closed doors”, rumour has it among junior union officers that asking for a long transition helped CISL and UIL to respond to the CGIL’s hegemonic position during the negotiations. Should one trust this account, it represents a major example of centrifugal dynamics.

Obviously, these tendencies within the actor constellation of the Italian pension policy regime are largely a contextual feature, rather than a by-product of this negative socio-political feedback. However, we consider the inability to overcome existing tension and build a true convergence of preferences as one of the defining features of this negative feedback. Moreover, the selective/opportunistic interest in the NDC system of its main supporters prevented any cognitive in-
vestment in the system. Once the immediate distributional questions had been settled, nobody was really interested in investing in the future of the system or in expanding the available knowledge about its functioning.

5.1.2 The fiscal feedback mechanism: the never-ending pension question

The negative feedback. During the 1970s, Italy passed from having a low-spending pension spending to being one of the biggest pension spenders in the OECD. Before the 1992 Amato reform, the system’s unfunded liabilities were estimated to be 4 times the country’s GDP. Payroll tax rates increased year after year, reaching 33 per cent of gross wages for typically employed workers. Various social assistance provisions enter the budget of the public pension manager, creating the impression of a far higher public subsidy to the pension system than it used to be the case. Furthermore, various funds (including farmers but also managers) were systematically unsustainable, but failed to be reformed. This aggravated the sense that the entire system was under stress and destined to go bankrupt. At the same time, the Italian state budget more in general visibly deteriorated since the mid 1980s. High public debt and debt service heavily constrained the fiscal room of Italian governments, and the European economic agenda – from the Maastricht Treaty to the common monetary policy within the Euro Area – further contributed to a sense of economic urgency. From this perspective, pension spending was a straightforward target for spending cuts, when compared to public sector wages or the national health system. In sum, Italy perfectly fits Weaver’s description of the financial troubles of traditional Bismarckian pension systems. As a result, it showed almost all the defining features of a negative fiscal feedback mechanism: the image of an uncontrolled spending drive and the involvement of national and supranational “budget hawks”.

Effects on group identities/affiliations. The greatest single consequence of the negative fiscal feedback on the group identities/affiliations was to help consolidating the role of the technocrats within the Italian political system. Moreover, as we saw, this fed back again on group identities/affiliations when some of them decided to enter political competition. The role of the EU should also be discussed. The EU economic agenda has certainly accelerated some of the economic and political challenges Italy faced in the period under analysis. However, European integration and policy coordination within the EU have hardly been a divisive issue in Italy. Therefore, they should not be considered (at least until now) as a source of fluidity among Italian pension stakeholders.

Effects on group investments. The frequency of economic crises and the perennial instability of the Italian public budget go a long way in explaining why no extra resources were available to strengthen the NDC system. This outcome is the combination of resource scarcity and typically very limited time constraints in the decision making process: both are defining characteristics of the negative fiscal feedback. The short term cuts imposed by Amato in 1992 and Monti in 2012 were meant to stabilize the national budget and reassure the markets. In a similar vein, the savings realized in 1997, when the Prodi government harmonized the requisites for early retirement among public and private employees, were entirely devoted to the “greater good” of joining in the EMU. Fi-
nally, the money saved by the cuts of the Maroni reform was either given away as a payroll tax bonus or redistributed when the centre-left repealed the big-step. The latter was, however, a decisive move for introducing the automatic revision of NDC divisors. This kind of trade off is typical of the politics of Bismackian pension reforms. Faced with pension constituencies divided along occupational lines, a government may consider it necessary to offer side payments and selective compensations to secure the necessary acceptance for their favoured reform proposal. While this has certainly been the case in various moments of the Italian reform process, a closer examination is needed to assess whether these strategies have actually been detrimental for group investments.

**Conclusions**

In this paper, we attempted to refine the notion of institutional layering using Weaver’s concept of negative feedback and Patashnik’s political sustainability framework. We applied this expanded analytical framework to a case study of how a NDC formula has been introduced and periodically re-reformed in Italy. We discussed the concept of political sustainability in Patashnik’s work and, more broadly, in welfare studies. Second, we provided a brief introduction to NDC pension systems, operationalising Patashnik’s model to better suit the empirics of our case. We then presented a detailed analytical narrative of the Italian case and characterized its trajectory. In the last sections of the paper, we tried to bridge the analysis of the old system’s decreasing returns with that of the new system’s political sustainability. This work is still very much in progress and in need of further development.

Our case study showed that introducing a new NDC layer within the Italian pension system did not lead to a full reconfiguration of the old political logic. On the contrary, many elements pointed at the emergence of a process of erosion. The tension between the institutional core and the new layer, continually revamped by the structural vulnerability of the Italian political economy, produced an enduring conflict between the old legacies and the new principles. As a result, the Italian pension system adopted a number of rules that do not fit neatly into the theoretical NDC blueprint. More importantly, time after time, Italy’s pension system remained extremely permeable to the preferences of the government in office. In other words, the new institutions have not been able to stabilise and depoliticise pension policy-making as the warmest NDC supporters had hoped for. In particular, they have shown little power to solve the inevitable contradictions of the Italian pension transition in favour of the political logic of the 1995 reform.

These outcomes are traceable to the interaction between negative and positive policy feedbacks. Over time, the old system generated two kinds of diminishing returns. First, at the socio-political level, it produced increasing discontent for its own patterns of redistribution. For different reasons, the technocrats, the regionalist party (LN), as well as the left together with the unions all supported the Dini reform. Nonetheless, the same economic, political, and institutional factors that fuelled this negative feedback exerted some detrimental effect on the sustainability of the new system in terms of both group affiliations and investments. Second, the persistent fiscal crisis of the Italian pension system and national budget created a strong case for adopting automatic stabilizers
such as the NDC pension formula. However, it also prevented policy-makers from removing the sensitive pension issue from the agenda, achieving enough stability to settle the transition.

In particular, the inability to take the pension issue out of the agenda, the lack of any cohesiveness in the pro-NDC majority, and the absence of a true cognitive interest in the functioning of NDC rules negatively affected both the group identities/affiliations and the group investments feedback. As regards the first feedback, the actor constellation within the pension policy regime became more fluid and permeated by different policy ideas and goals than in the past. Fluidity, however, did not foster any new cohesive pension logic, but rather structured, amid the supporters of the Dini reform, a three-way conflict on how to close the pension transition. Turning to the group investment feedback, the selective, even opportunistic, interest of these actors in changing the way pensions redistributed resources prevented any real political and cognitive investment in the new system. Once the new rules had been introduced, no political or cognitive investment took place to consolidate them.

In sum, if the ‘Italian style’ NDC has taken on a path of erosion, this is partly the result of a process of gradual and path dependent change. This time, the change pattern was mainly driven by the negative feedbacks of the old system, rather than by its increasing returns. While our results are largely in line with existing research on the Italian case, we have offered a novel analytical focus. We did not examine policy change per se, but focused on negative feedbacks, political sustainability, and their implications for “differential growth”: the mainspring of layering. Further research is needed to calibrate the model and turn it into more specific hypotheses on the negative feedback - reform sustainability nexus that can be tested on other cases.

We believe, nonetheless, that scholars interested in institutional layering and policy change can already draw a lesson from the Italian experience. Introducing a new institutional layer – characterised by a new political logic – is not enough for a true layering process to take off. In order to actually produce change, new institutional layer must be able to initiate a process of differential growth. Differential growth is crucial for the new layers to evolve in line with the expectations that presently surround layering processes. Differential growth, however, cannot be taken for granted. In the end, our analysis suggests, it plays out as a lucky synergy among policy feedbacks. This synergy involves both negative feedbacks of the status quo and the positive feedbacks on which the fate of the new layer ultimately rest. Not lastly, it also involves some specific features in the design of both old and new institutions.

Provisionally, it seems fair to conclude that a precondition for differential growth to behave as expected is that the new layer gains credit as a political solution for the “vices” of the old system, while managing to avoid being stifled by its problem overload. The resulting implications in terms of policy design and sequencing, however, far overreach the ambitions of this paper.
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