

Subsidiarity in old-age security in the enlarged European Union*

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Introduction

This paper discusses old-age security, consisting in Europe mainly of general social pension systems, in the light of subsidiarity. Main focus is on the consequences of the last Enlargement by ten, primarily Central and Eastern European countries. They have brought into EU partly different experiences of old-age security which may have some importance for EU as a whole.

Both horizontal and vertical subsidiarity are discussed. Although subsidiarity is clearly a normative concept, the approach here tries to be as positive as possible. The aim of the paper is to analyze the situation so far, possible arguments and perspectives.

The paper starts with a discussion of terminology. The next two sections deal with both dimensions of subsidiarity in the area of old-age security in the EU: horizontal and vertical subsidiarity. Both sections have similar structure: start with some conceptual introduction, then discuss situation in the EU before Enlargement and finally consequences of accession of the new member states. The fourth section is about the future of old-age security in the EU in the light of subsidiarity.

Most issues of this broad topic can only be touched here.

1. Terminology

1.1 The origins: Roman Catholic Thought

The principle of subsidiarity has its origins in Roman Catholic thought, and was developed in the Encyclical "Rerum Novarum" of 1891 by Pope Leo XIII. The principle is based upon the autonomy and dignity of the human individual. All other forms of society, from the family to the state and the international organizations, should be in the service of the human person. The principle emphasizes the importance of small and intermediate-sized communities or institutions, like the family, the church, and voluntary associations. A higher-ranked community should undertake an initiative only if the smaller community cannot solve the problem. The state (government) is an "instance of last resort". It should, however, as well as other intermediate-sized communities, create conditions necessary to the development of the individual.

The principle was originally developed as a "middle course" between laissez-faire capitalism on the one hand and the various forms of totalitarianism, which subordinate the individual to the state, on the other.

1.2. Subsidiarity- contemporary interpretations

There are at present various meanings and interpretations of the term "subsidiarity". Subsidiarity is usually considered in two dimensions: vertical/ horizontal and negative/positive (table 1).

Table 1 Dimensions of subsidiarity

<i>Dimensions of subsidiarity</i>	Vertical subsidiarity	Horizontal subsidiarity
<i>Subject</i>	Distribution of powers among different levels of government and sovereignty: the EU, national states, regions and municipalities	Responsibility and freedom of human beings as well as social and economic powers (relations between state, society and market)
Negative subsidiarity	The central government (or an international organization like the EU) should not take action unless the government at a lower level (or a member state) cannot solve the problem or it is more effective to do it at the higher level.	The state should not violate freedom and individual responsibility (in both society and the economic sphere), which must be respected in a maximum degree.
Positive subsidiarity	The government at a higher level should support the government at a lower level in fulfilling its functions.	Support must be given by a “superior power” whenever freedom and individual responsibility do not suffice for the achievement of ends necessary for the dignity of human beings

Source: Author, based on Curzio 2003.

1.3. Vertical subsidiarity

Much more often, and in the context of the EU almost exclusively, the concept of vertical subsidiarity is discussed. It is useful to distinguish two levels of vertical subsidiarity: the first concerns relations between an international organization, like the EU and its member states, the second is about relations of different levels of government in one country.

The EU Glossary states that “the subsidiarity principle is intended to ensure that decisions are taken as closely as possible to the citizen and that constant checks are made as to whether action at Community level is justified in the light of the possibilities available at national, regional or local level. Specifically, it is the principle whereby the Union does not take action (except in the areas which fall within its exclusive competence) unless it is more effective than action taken at national, regional or local level” (Glossary: Subsidiarity).

(Vertical) subsidiarity has been formulated since the Treaty of Maastricht in the EU law. Article 9 of the new European constitution states: “Under the principle of subsidiarity, in areas which do not fall within its exclusive competence the Union shall act only if and insofar as the objectives of the intended action cannot be sufficiently achieved by the Member States, either at central level or at regional and local level, but can rather, by reason of the scale or effects of the proposed action, be better achieved at Union level” (Constitution 2003).

When relations between different levels of government within a country are subject of analysis, vertical subsidiarity is especially applied in the context of federal states, concerning the division

of powers and responsibilities between the federal and regional (state, provinces etc) governments. In this meaning vertical subsidiarity is an equivalent for federalism (in economics mainly developed as fiscal federalism). The issues where a given competence should be located are, however, relevant also to non-federal states with regional structures of government.

Both levels of vertical subsidiarity: between (say) EU and member states, and between various levels of government in one country, are interrelated. Subsidiarity is about whether a given competence is (should be) located at the EU level, at the central (federal) government level of member states, or at a regional (local) level of member states.

1.4. Horizontal subsidiarity

Horizontal subsidiarity is a much less known concept. It is neither present in the EU law nor in the glossaries, where under subsidiarity only vertical subsidiarity is understood. This does not mean, however, that the problems which are described with the term are new. One could even argue that some crucial questions raised by horizontal subsidiarity, especially relations between state and market, are a central issue of many disciplines, including economics. The problems are there described under different labels, e.g. "public-private mix".

The principle of horizontal subsidiarity has been recently introduced in the Italian Constitution. Horizontal subsidiarity is an enlargement of the subsidiarity concept. "This enlarged vision of subsidiarity obviously implies a new vision of public management, which can be defined "shared administration" (Active Citizenship 2003).

Also at the EU level, horizontal subsidiarity has in reality developed very substantially recently. The internal European market has created a new kind of economic freedoms and increased competition. This has also important consequences for social security.

1.5. Concluding remarks

Subsidiarity is related to some other principles. Because of the lack of space only two are shortly mentioned here. In the EU law (including Constitution) it is the principle of proportionality ("the content and form of Union action shall not exceed what is necessary to achieve the objectives of the Constitution", Constitution 2003).

In a broader sense, the other crucial principle both in the construction of the EU as well as for every society is solidarity (Curzio 2003). It could also be argued that one of the crucial issue facing contemporary social security systems is to realize both solidarity and subsidiarity.

The concept of subsidiarity is still open to different interpretations. Especially the horizontal subsidiarity is a rather vague term. Sometimes it is seen as a complete opposition to the "state versus market" question: "The EU is the outcome of an alliance between the state and the market (implying an institutionalization of individualism), while horizontal subsidiarity implies a societal citizenship, completely different from the dyadic (State-Market) model (Active Citizenship 2003)".

In the above citation, horizontal subsidiarity has a strong normative meaning. Subsidiarity is indeed a normative concept. In this paper however, a more positive approach to the issues is attempted. Taking the vertical subsidiarity as an example, the main question here is therefore *not*: "What should the relations between various levels of government and between the EU and member states be?" The article tries to answer what the relations are like at present, how they can change, and what arguments exist for and against changes?

Taking into account that in old-age security horizontal subsidiarity seems to be both the traditional and indeed very modern fundamental question (without using the term explicitly), we will start with this issue.

2. Horizontal subsidiarity in old-age security in the enlarged EU

2.1. Old-age security between person, society, market and state

In the following, the term “*old-age security*” is broadly understood as all regular sources of financing consumption in old age. There can be different “producers” of old-age security, including the individual, saving for his/her old age, a given community, organizing for example a support fund, market, for example insurance companies or banks, and state, organizing a social security system. In this sense, horizontal subsidiarity has always been present in old-age security, as it has always been delivered by these various “actors”. What has changed throughout the history of social security, is the relation of those various sources. It has remained one of the crucial issues in debates on pension reforms in the world and will be discussed further in this paper. Whatever the source and whatever the design, every pension system is a mechanism for organizing claims on future production (Barr 2002).

There are two quite separate questions to be answered in every old-age security system, both related to horizontal subsidiarity. The first, about scale, is how big should the obligatory system be, and how much should be left to voluntary provision by the person, to his/her own responsibility. The second, rather technical question, is about structure: who should deliver the obligatory pensions, should they be publicly or privately provided, financed on the pay-as-you go basis or be funded (Barr 2001). Public-private mix mostly describes only the second issue. However, from the point of view of horizontal subsidiarity, the first question is equally important. Principle of horizontal subsidiarity suggests that the state should not violate freedom and replace responsibility of people for their old age, neither by delivering public pensions nor imposing obligation on people to participate in a private system.

The traditional *economic argument for state involvement in organizing pensions* have been negative external effects of non-insurance. People who choose not to insure for their old age will have to rely on others in financing their consumption in old age, thus imposing external costs on the rest of society. In this sense, an obligatory pension system can be seen as a protection of society against shortsightedness or deliberate “free rider behaviour” of a minority. In fact, this is an argument for an obligatory system, not necessarily organized by the state. Secondly, it can be a justification only for a pension system which guarantees only a minimum protection.

Economic arguments which traditionally have been raised in favour of state involvement in some other social areas, like health, not always concern pensions. The strong development of state role in pension systems can thus be more attributed to equity than to efficiency arguments (a classical presentation of efficiency and equity arguments for social policy – see Barr 1998).

However, this statement underestimates the problems with information. They can be a justification of a larger state pension system and of an important role of the state in organizing and supervising private provision for old age. The welfare state in this sense not only fulfills its “Robin Hood” function, through poverty relief, redistribution of income and wealth, and the reduction of social exclusion. It also has the “piggy-bank” function: ensuring mechanisms for insurance and for redistribution over the life cycle (Barr 2001).

The economic arguments for or against state involvement in social policy can indeed be seen as an excellent example of principle of subsidiarity, although the term is not used. Where the markets are efficient, state should not intervene for efficiency reasons, and the distributional objectives are generally best achieved through income transfers. However, where the assumptions of an efficient market allocation do not hold, state intervention is justified, both for reasons of efficiency and equity. (Barr 1998, 2002).

What is the place of *society* in old-age security? Originally, family protected its members in old age. Today, such “informal systems of old-age support” are the only source of protection in old age for many people in poor countries (World Bank 1994). However in developed countries family now plays a minor role in supporting financially its members in old age.

In the history of social security, an important role has also been played by collective action of groups facing the same risks and organizing “self support” (e.g. friendly societies). Now, the role of such provision is relatively small. There is relatively little “society” in pensions, and the main role is played by dichotomy: state – market which is also typical for economics. Society has been largely absent from the discussion. If the horizontal subsidiarity is understood as implying a societal citizenship (see section 1.5), there is little horizontal subsidiarity in pensions at present. However, here the increasing role of market in delivering old-age security is seen as an increasing role of horizontal subsidiarity in pensions.

Another aspect of horizontal subsidiarity is also self-government, typical for social insurance.

2.2. The EU-15

There is the well known *diversity* of structures and solutions in old-age security systems in the EU-15 (MISSOC 2004, Council of the European Union 2003). This is also related to the vertical subsidiarity: the fact that social security systems, including their major branch: pension systems, are clearly in the competence of the member states (see section 3.2).

There is therefore no *European Social Model* if common solutions are understood under this term. However, EU countries have in common that it is the state which plays the major role as pension provider. In every country of EU-15 state pensions are the biggest item in the structure of their multitier systems.

It is thus the structure, the market-state division that makes the difference between Europe and, for example, USA. The scale, i.e. total net social protection expenditure, covering both public and obligatory private expenditure, is of a similar level throughout the industrialized world (European Commission 2004, p. 53). Its share in the GDP is at the level of 24.5 % in the USA, 24.4 % in Denmark or 22.3 % in Italy.

Of course, as there is no one European Social Model, the situation in various countries differs. As data from the first Joint Report on Pensions of 2003 demonstrate, for example in Austria only some 10 % of insured in social insurance have earned right to an occupational pension and only 2 % of current pensioners receive an occupational pension. On the other hand, in the Netherlands 91 % of all employees belong to a pension system of the second tier, and 83 % of pensioners households receive an additional pension (Council of the European Union 2003, pp. 31-32).

The data show that in many European countries the scale of obligatory pension systems has become that large throughout the development of social security that it has replaced personal

responsibility for old age. Both elements: large scale of obligatory systems and the state dominance, suggest that there is relatively little horizontal subsidiarity in old-age security in Europe.

2.3. The new member states

As the focus of this paper are new member states of the enlarged EU, the presentation in this paragraph will be somewhat more comprehensive than it was the case with the relatively much better known situation in the EU-15.

Pension systems in the countries of Central and Eastern Europe have a long *tradition*. The different legacies from the time before the Second World War as well as differences in circumstances under socialism have led to differentiation of pension systems in these countries (on the “socialist legacy” see Voirin 1994, Schmähl and Horstmann 2002).

The fundamental thing in common in those countries was however the fact that pension benefits were in principle provided entirely by the state. The market in pensions, as in other areas of social policy, was non-existent.

Using the 3 tiers model of describing the present old-age security systems, the 10 can be divided into two groups (table 2). Five new EU-member states have introduced a *structural pension reform*: a mandatory second tier of the pension system: Hungary (1998), Poland (1999), Latvia (2001), Estonia (2002) and Lithuania (2004). The remaining countries can be labeled “*parametric cases*”: Cyprus, Czech Republic, Malta, Slovakia, Slovenia.

Table 2 Scale and structure (tiers) of old-age security in the 10 new EU member states in 2002

Country	Contribution in obligatory system for employees: Type and rate (% of wages)	Ceiling on obligatory contribution	1 st Tier Social security	2 nd Tier	3 rd Tier
Cyprus	Social insurance contribution 16.6%: Employees: 6.3% Employers: 6.3% Government: 4%	Ceiling: about 1.8 times average national wage and salary	Earnings-related	Voluntary occupational pension schemes (public sector)	Individual provision
Czech Republic	Global social insurance contribution 26%: Employees: 6.5% Employers: 19.5%	No ceiling for employees; ceiling for self-employed	Earnings-related with flat-rate component	Voluntary pension funds	Individual provision
Estonia	Social tax – part for pension insurance: 22%: Employees: 2% Employers: 20%	No ceiling on social tax	Flat rate plus earnings-related	Obligatory pension funds	Individual provision
Hungary	Pension insurance contribution 34% (both tiers):	Ceiling on contribution from employees (both pillars):	Earnings-related	Obligatory pension funds	Voluntary pension

	Employees: - First tier 8 % (if only in 1 st) or 2% - Second tier: 6% Employers: Only first tier: 18%	about 2.0 times average national wage and salary. Employers: no ceiling			funds and other
Latvia	Global social insurance contribution: 35.09%: Employees: 9% (if in 2 nd tier: 2% channeled to it) Employers: 26.09%	Ceiling on global social insurance contribution: around 8-9 times average national wage and salary	NDC	Obligatory pension funds	Private pension funds and other
Lithuania	Pension insurance contribution: 25%: Employees: 2.5% Employers: 22.5%	No ceiling for employees; ceiling for self-employed	DB social insurance with a flat-rate component	Obligatory pension funds (to start 2004)	Private pension funds and other
Malta	Social insurance contribution 30%: Employees: 10% Employers: 10% State: 10%	Ceiling: about 1.5 times average national wage and salary	Earnings-related	No	Individual provision
Poland	Old age insurance contribution (both tiers): 19.52%: Employees: 9.76% Employers: 9.76%	Ceiling: 2.5 times average national wage and salary	NDC	Obligatory pension funds	Occupational pension programmes or individual provision
Slovakia	Pension insurance contribution 28%: Employees: 6.4% Employers: 21.6%	Ceiling: around 2.5 times average national wage and salary	Earnings-related	Voluntary supplementary pension funds	Individual provision
Slovenia	Pension insurance contribution 24.35%: Employees: 15.5% Employers: 8.85%	No ceiling for employees; ceiling for self-employed	Earnings-related	Voluntary individual and collective pension schemes	Individual provision

DB: defined benefit

NDC: notional defined contribution

Source: Author, based on GVG 2003a,b,c; MISSCEEC 2002; EUROSTAT 2003; partly own estimates.

As always in such comparisons, this is a simplification. For example, in Slovakia “earnings-relation” is extremely, but in Hungary only slightly regressive.

In both Mediterranean new EU member states old-age security is clearly dominated by the state. “The pension system in Cyprus is almost entirely public”. “There exists no second pillar pension system in Malta, by which workers would contribute towards a retirement fund. In the same manner, there exist no occupational pension schemes...” (GVG 2003a).

The majority of the 8 former socialist countries has changed the public-private mix in pensions

dramatically. This has led to a conclusion that “we can observe more convergence between the transition economies than it is possible to identify among current EU member states” (Pellny and Horstmann 2003, p. 250).

One of the explanations of the fact that more new than old member states have introduced a radical (or “paradigmatic”: Holzmann et al., eds., 2003) pension reform can be the socialist legacy of the first. They “have undergone a profound ideological shift” (Holzmann, MacKellar, Rutkowski 2003, p.10). The partial privatization of the old-age security in some of the countries may be seen as one of the results of that shift. It is an attempt to accelerate the developments which in Western European countries took several decades: development of market (and funding) in pensions. The aim was also to increase savings and growth, to catch up with the old EU (Holzmann, MacKellar, Rutkowski 2003, p.10).

There are again differences between the countries, concerning the depth, form and instruments of the reform. To understand the situation better, it seems useful to present country studies. One parametric case (Czech Republic) and one example of structural reforms (Poland) will be now presented. For the reasons of space, only some crucial elements will be demonstrated. The focus will also be on the public-private mix and the horizontal subsidiarity issue (on details see Schmähl and Horstmann 2002; GVG 2003 a, b, c, d; Schmähl 2003; Fultz 2003).

The case of the Czech Republic

There has been a series of important changes in old-age security in Czechoslovakia since 1989 and afterwards, after the separation of both parts in 2002, in the Czech Republic, without however breaking with the long-standing tradition of a social insurance system (see Potoucek 2001 on general overview of developments in social security after 1989 and Tomes et al. 2003 on the developments in the pension system).

The main changes between 1989 and 1992 included removing of inequalities in pension rules and starting regular indexation. In 1993 social insurance contributions were introduced. In 1994 new voluntary supplementary pension funds were introduced, one of the first in the region. Contributions of the insured were subsidized by the state. 44 funds were created, their number was reduced to 11 by 2002. Over 2.5 million people are now insured (50 per cent of the labour force). “By supplementing the mandatory pension system by a voluntary one the idea that people should take care of their future needs was successfully emphasized” (Tomes et al. 2003, p. 44).

In 1995 a “parametric” pension reform was realized. It tied pensions to periods of insurance, increased retirement age, and introduced a new two-tier pension formula (flat rate plus earnings-related). In 1999 a limited tax advantage to the supplementary pension funds was introduced. In 2001 some further changes into social insurance were introduced, aiming at encouraging later retirement.

In the opinion of the prominent Czech expert, „the pension system is adequate with regard to income security in old age for the low-income groups, but not for the middle and upper income groups... The intergenerational distribution is on European average level but if sustainability of the system is to be maintained, it will grow out of any proportion” (Tomes et al. 2003, p. 37).

The present old-age security system in the Czech Republic is thus clearly public and highly redistributive (a regressive pension formula, no ceiling on contributions). There has been however also

an important private element introduced, on a voluntary basis, subsidized by the state.

The case of the Czech Republic clearly differs from the regional pattern of structural reforms with partial privatization (like in the neighbouring countries Poland and Hungary). However, as the financial sustainability of the system has not been secured by the previous reforms and the deficit of the social insurance is growing, the discussion on the future direction of old-age security in the Czech Republic continues. The options include also introduction of obligatory pension funds (Laursen 2000; Lasagabaster et al. 2002).

The case of Poland

As other countries of the region, Poland has a long-standing tradition of social insurance, influenced originally by German and Austrian patterns. The state old-age pension system inherited from socialist era in 1989 was almost the only source of old-age security.

In the first period after 1989 some parametric changes were introduced into the system, like new pension formula and indexing mechanism. Also, extensive earlier retirement possibilities were introduced which was intended to decrease pressure on labour market in the face of rapidly growing unemployment. Due to increase of pension level, incomes of retirees have been relatively protected in this difficult time, but financial situation of pension system deteriorated.

After several unsuccessful attempts, in 1996-1998 a major pension reform concept under the title *"Security through Diversity"* was worked out (on details see Zukowski 2003). The reform aimed both at solving structural problems of pension system and was influenced by macroeconomic considerations. The new system, completely different from the old, started in 1999. People after 50 years of age at 1 January 1999 stayed in the old system and all the pensions granted now and in next years will be based on previous rules. All the younger were covered by the new rules. However, those between 30 and 50 had one year to decide whether to join also the second pillar or to stay wholly in the new first one (in both cases the total contribution is the same). The youngest, under 30 in 1999, were fully covered by both pillars of the new system.

The new system consists of two obligatory parts ("pillars"). The first one is an NDC system, based on Swedish or Latvian model. The second are privately managed fully funded competing pension funds, based on Latin American models. The reform thus means partial privatization of old-age security (an excellent analysis of pension privatization in the whole region and comparison to Latin America - Müller 2003).

This has been a clear shift from state to the market, a new public-private mix has been introduced. Of course, the state has an important role to play in the second pillar even if it has left direct provision to the market companies. However, also the overall scale of the system has changed only slightly. Now, people earning more than 2.5 times national average do not have to pay contributions on income above the ceiling. Until the ceiling however the freedom of a person is reduced only to the choice of a pension fund. This should be considered when analyzing the Polish case as apparently moving clearly into the direction of subsidiarity. No elements of self governance have been introduced into the system either.

Fundamental pension reform like in Poland, similar to those in some other CEECs raises interesting questions for the future of old-age security in Europe (see section 4).

3. Vertical subsidiarity in old-age security in the enlarged EU

3.1. Old-age security on various levels of government

Old-age security is a broad concept. It may consist of many tiers (pillars) organized on various levels and with different scope, ranging from employees of one company until all citizens or residents of a country. Clearly, various elements can (and should) be organized locally. There is thus certainly a case for vertical subsidiarity in the old-age security within a state. A special issue are pension systems in a federal state.

As far as the main elements of old-age security systems is concerned, that is the general obligatory system, organized by the state, it seems to be a clear case for a national (federal) system. Theory of fiscal federalism seems to support such conclusion (an excellent essay on fiscal federalism: Oates 1999). Such a system can make use of economies of scale, of spreading risks on a larger scale. It has also one crucial advantage: it does not hinder mobility of people – an argument raised now even on a higher level – for a supranational system (see section 4.3).

3.2. The competences so far: central governments of member states plus coordination

Two issues should be raised when considering vertical subsidiarity in old-age security in the EU-15. First is about division of public responsibilities in that area within member states. The second is about the relations of competences between member states and EU.

In the EU-15 central governments have clearly the main competence in old-age security, especially in its main element: social security. Old-age security is probably one of the most centralized social systems. However, especially in federal states, certain division of powers between federal and regional governments does exist. An example may be administration of pension insurance in Germany. Decentralization of old-age pensions in federal states is subject of a separate presentation at this conference.

As far as the second issue of vertical subsidiarity is concerned, social security in general, and old-age security in particular, belong to the areas, where policy decisions are taken at the national, and only some at EU level (a recent survey on the whole issue of relationship between the member states and the EU: Dashwood 2004). Old-age security is a competence of the EU member states. In a survey on relations between EU and member states in various areas, Longo (2003) locates “social welfare”, together for example with health, among those areas where only some political decisions are taken at EU level.

The main competence of the EU in the area of social security, including old-age security, is the “classical” coordination of social security system. This competence is following directly from the original competence in free movement of persons. The system of coordination may be seen as an excellent example of (vertical) subsidiarity: every member state is responsible for its own social security system, and the EU only solves problems which go beyond the borders of the member states and can more effectively be solved at the Union’s level.

This is a well known picture of division of powers in social security. However, it may be somewhat different if we understand old-age security broader, and not only as obligatory public social security systems, as is often the case in the EU. In areas important for functioning of private and funded pension systems, competences of the EU are stronger than in social security. “Competition” has been classified as an area in which decisions are taken at both national and EU level,

and “capital flows” as such in which mostly policy decisions are taken at EU level (Longo 2003).

As long as old-age security remains publicly organized and with little elements of markets, it will stay in the competence of the members states. However, both internal problems of sustainability of pension systems as well as external influences under globalization can rather lead to increasing role of market and competition in that sphere, and as a consequence, to increasing role of the EU (see section 4.3).

3.3. The enlarged EU

Old-age security systems are centralized in new member states. This can be explained by history of half century of highly centralized political systems, by the fact that no single new EU member is a federal state and also by the fact that most of the “new” are small countries (half of the “new”: Malta, Cyprus, Estonia, Slovenia and Latvia have population below 2.5 million). But also in the largest country Poland with population 38.6 million the whole old-age security is highly centralized, in the competence of national government.

Positions of the new member states on division of powers in the EU are as different as they are in the “old” EU. “The positions taken by representatives of governments and national parliaments at the European Convention show that divergences in the EU integration process do not occur between new and older member states (or between “new and old Europe” representation), but following sovereign interests of each particular country” (Franck and Pyszna-Nigge 2003, p. 4).

The new member states are similar to the old under many respects, but on a quite different level of income and welfare. This may lead to higher migration and as a result to an increase of problems with realization of free movement in the era of globalization. In this way Enlargement may facilitate change in competences concerning pensions in the EU, as may also accession of countries with new, market-oriented old-age security systems, where competences of the EU are stronger.

4. The future of subsidiarity in old-age security in the enlarged EU

4.1. Changes in scale and structure?

Interestingly, much more often the structure of old-age security is discussed than its scale. However, taking horizontal subsidiarity as starting point, the scale is exactly the main issue, i.e. how large the obligatory system (imposed by the state) should be, whether publicly or privately provided and how much can be left to the individual. Old-age security could rely more on responsibility of individuals and on societal action. New EU member states are not necessarily good examples as far as the scale of obligatory systems is concerned. In order to accelerate development of market and funding in pensions and reach all the expected objectives they opted for obligatory funded systems which did not change the scale of old-age security.

They may be however a good example of a new structure of old-age security, based on a new public-private mix. Seen sometimes as a danger to European Social Model (Vaughan-Whitehead 2003) they may also be seen as a chance to facilitate expected reform (Holzmann et al. 2003). New conditions (demography, labour market, society, mobility, globalization) require new solutions in pension design (Augustinovics 2002). Both NDC, introduced in some of the countries both in the old and the new EU and the obligatory pension funds, mainly a CEEC’s solution, may be examples of good practice for others, as a good answer to new conditions and challenges

(Holzmann 2004). These are however not the only options, as given objectives in a pension system may be reached by variety of solutions (Barr 2002), also by a package of carefully designed changes (European Commission 2004) which are labeled as “parametric” mainly by proponents of radical reforms.

4.2. OMC and subsidiarity

A reference to the principle of subsidiarity is appearing in every document on open method of coordination, including OMC in pensions. This issue will only be mentioned very briefly here as this is a separate topic at the conference.

OMC seems to be a reasonable way both to achieve progress in an area which lies in competences of member states and fully respect these competences. The High Level Group states that the OMC takes an intermediate position in the whole range of available methods, from a mere inter-governmental cooperation to harmonization. “The strength of the open method of co-ordination is based on the fact that it encourages co-operation at European level to bring about structural reform in policy areas for which Member States remain entirely responsible” (European Commission 2004, p.72).

Accession of 10 new member states will make the whole process even more complicated and may in this way rather further strengthen the subsidiarity in old-age security. Such position is supported by the rather sceptical assessment of OMC by proponents of a more radical (“paradigmatic”) change. For them, OMC is insufficient because it is thought to be very slow, unlikely to lead to a comprehensive reform, but rather to parametric reforms, and “the method will not create a vision for a pan-European reform” (Holzmann, MacKellar, Rutkowski 2003, p.12).

4.3. Europeanizing old-age security?

What is the future of vertical subsidiarity in old-age security in the EU after Enlargement? If diversity has been a crucial obstacle to harmonization or “Europeanizing” of social policies so far (Scharpf 2002), now, when the differences have grown further, both as far as the welfare level as well as institutional structure are concerned (see section 2.2), a harmonization seems even less likely. But would it be desirable?

Feldstein (2001) has argued that the governments of the EU member states face a double problem in dealing with the future of the social security pension systems. Like in many other countries around the world, they must deal with the rising cost of pensions due, especially, to the aging of the population. But an extra problem also exists in the EU: pension systems should not be an obstacle for labour mobility. Feldsteins develops a solution to this double problem: an NDC system plus an “investment-based system of individual accounts”.

Holzmann (2004) uses similar arguments to Feldstein, but on a broader basis of demographic, social and economic changes. He is in favour of working towards a Pan-European pension structure which could both help to solve internal problems of pension systems as well as create less problems for mobility between countries with different structures of old-age security systems. This suggested structure is a “multi-pillar system, with a non-financial (or notional) defined contribution (NDC) system at its core, and coordinated supplementary funded pensions and social pensions at its wings”. The author points to the fact that some of the new EU member states already have such a desired structure of the old-age security. But: does it really call for a bigger role of EU (thus an issue of vertical subsidiarity) or rather for a more similar structure, including

more market and thus an issue of horizontal subsidiarity? Holzmann finds an approach initiated and led by EU Commission not likely and suggests instead a cross-country led government approach.

However, even if changes increasing the role of funded, private systems in the EU come “from below”, that is from the member states more than “from above”: the Union level, they may eventually lead to more Europeanizing of this field through the economic competences of the Union (see section 3.2). The accession to the Union of countries where the processes of moving old-age security systems in the directions “market” and “competition” have been partly even more developed may accelerate the process.

5. Conclusions

Questions like “How much responsibility should a person have for own old age?”, “How much market, why and how much state should be in old-age security?”, “What are (should be) the relations between society, market and (different levels of) state in old-age security?” have always been crucial in analysis of this field. These are issues of subsidiarity in old-age security, although they have been extremely rarely discussed under this label. The first conclusion is thus that subsidiarity seems to offer an attractive approach to deal with old-age security.

However not much discussed either, the EU Enlargement 2004 may have an influence on both horizontal and vertical subsidiarity in old-age security systems in the EU.

As far as horizontal subsidiarity is concerned, some of the new member states have brought into EU a different structure of their obligatory systems, partly more market in delivering pensions, although not necessarily more personal responsibility for old age.

On the vertical subsidiarity, diversity and migration, to increase due to Enlargement, may strengthen the case for more Europeanizing of that field, but on the other hand make it even more difficult. However, modernization in the sense of moving old-age security in the direction of market and competition may increase the competences of the EU in old-age security.

The Enlargement may thus influence both modernization and Europeanizing of old-age security in the European Union.

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