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Pensions on line, workers walk

Protests in Europe over benefit cuts

By Eric Pfanner

Across Europe, workers are taking to the streets this spring in a battle to protect the most highly prized perk of the postwar welfare state — the right to retire, often early, on a generous, government-guaranteed pension.

French teachers and railway workers, among others, are walking off the job in protest against a proposal by Prime Minister Jean-Pierre Raffarin to overhaul a pension system that will soon run out of money. In Germany, unrest is growing over plans to scale back unemployment benefits, and pensions are next on the government's list.

Even in Austria, where strikes are virtually unheard of, a cozy partnership between labor and government that has set the tone for postwar political peace and prosperity is giving way to rancor, as long-placated unions turn out for the biggest protests in half a century. The reason for the outbreak of discord in Austria is Chancellor Wolfgang Schuessel's effort to sharply scale back benefits for future retirees. It is perhaps the most radical proposal in Continental Europe to deal with a simple problem: the numbers no longer add up.

In Austria, as in France and Germany, most retirees still rely on the government to provide most of their incomes. Under these so-called pay-as-you-go systems, pension payments are financed through taxes on workers. That worked fine when Otto von Bismarck, the "Iron Chancellor" of Germany, created the modern welfare state in the late 19th century. He set the age at which retirees could start collecting at 70, which was well above the average life expectancy at the time, so the government could easily afford the modest costs.

But now, to borrow a phrase from another practitioner of realpolitik, the problem is "old Europe." Donald Rumsfeld, the U.S. defense secretary, may have been aiming a barb at the foreign policies of Germany and France when he made his comment, but he might as well have been speaking literally; Europe is getting old, faster than most other industrialized societies.

On the Continent, life expectancy has generally risen into the mid- to late-70s. Yet work starts later, as school often extends into the late 20s, and ends earlier than ever, as companies often shed their most expensive employees with generous early retirement packages.

In France, the average male worker retires at age 59, according to the Organization for Economic Cooperation and Development. In Belgium, only 35 percent of men from 55 to 64 were working

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in 2000, down from 48 percent in 1980.

That means retirees in some cases must count on pensions to finance a third or even a half of their adult years. Yet most countries on the Continent have been unable to wean workers off government-provided benefits, unlike Britain or the United States, where private and company-sponsored plans make up the bulk of retirement income.

"In a society where people live easily into their 80s, you can't have them retiring in their mid-50s," said Bernd Marin, executive director of the European Center for Social Welfare Policy and Research, an organization in Vienna that is affiliated with the United Nations.

If reform does not occur, economists warn that many governments will be unable to foot the bill by 2015 or 2030, depending on economic and demographic trends in individual countries.

As their economies stagnate, Germany and France have run afoul of rules governing European monetary union, which require deficits to stay under 3 percent of gross domestic product.

That is one reason for Raffarin's plan, and for a push by Chancellor Gerhard Schroeder of Germany to trim unemployment benefits with an eye toward cutting pension expenditures next. Though Austria's finances are in better shape, Schuessel says his proposal would save €2.2 billion ($2.5 billion) over the next four years.

But politicians, particularly in France, are treading carefully. Most remember the last time Paris broached the subject of pension reform, in 1997. That cost the conservative prime minister, Alain Juppe, his job, and the Socialists, who governed until last year, stayed clear of the minefield.

Economists say Raffarin's proposal is modest, and will not solve France's long-term budget problems, but could help stave off an immediate crisis. Under the plan, presented at a cabinet meeting on Wednesday and headed for parliamentary debate in June, workers in France's public sector would have to pay into the retirement system for 40 years, up from 37.5 years, to receive a full pension. There would be incentives to encourage public and private-sector employees, who now contribute for 40 years, to stay on the job longer, over a phase-in period.

To the country's trade unions, the Raffarin plan is a threat to the momentum they built under the Socialist government, when the workweek was shortened to 35 hours. Several unions have called for nationwide strikes on Tuesday, building on smaller actions by individual groups of workers.

The Austrian Trade Union Confederation, which claims 1.4 million members in a country of 8 million, has called for protests on Tuesday, after the biggest labor action in half a century this week.

The Austrian chancellor's plan is more sweeping than Raffarin's proposal, and experts say it could lead to cuts of up to 30 percent in some retirees' checks. The plan seeks to keep Austrians in the workplace for 45 years, up from the current 40 years, and increases the penalty for early retirement, which Marin says 88 percent of Austrians now choose. Instead of calculating payments based on the best 15 years of a worker's 40 years of employment, an average would be taken of the entire career.

The latter provision of the plan, which Schuessel intends to introduce in Parliament in June, has drawn the ire of the left, which says it would unfairly penalize women and minorities. Because they sometimes go without regular employment for longer periods, the 15-year calculation has helped women and minorities close this gap in their pensions.

Schuessel's proposal even threatens to cause rifts in the government headed by his conservative People's Party. Some members of the junior partner in the governing coalition, the far-right Freedom Party, have vowed to join the opposition Social Democrats in opposing parts of the plan, and experts say it may have to be modified to gain approval.

"Austria may be a test case of whether governments have the stomach to push through reforms," said Holger Schmieding, an economist at Bank of America.

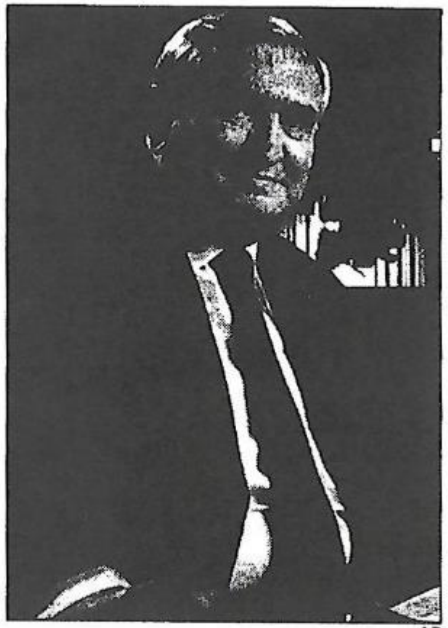
Few people will be watching more closely than Schroeder. The German government is studying proposals for an overhaul of the pension system, including a possible increase in the retirement age to 67 from 65 — along the lines of a change to be phased in for U.S. Social Security recipients. But if people are going to stay at work longer, there have to be more jobs; unemployment in Germany has risen to a post-unification high.

That is why Schroeder is putting his dwindling political capital on the line with his plan to shake up the labor market by sharply reducing the time limit for long-term unemployment benefits. Many economists have long urged Germany to take such steps, arguing that costly social protection discourages employers from creating jobs.

But the country's biggest labor organization has vowed to fight the plans, and Schroeder could face significant opposition from within his party.

Germany has taken small steps to reduce the dependence of retirees on the pay-as-you-go system, introducing a government-sponsored individual investment program that is similar to 401(k) retirement plans in the United States. But a three-year bear market in stocks has made many savers, as well as other governments, wary of such accounts.

The answer, some experts say, is the approach taken in Sweden. Though it has some of the most generous social protections of any European country, Sweden put its pension system on the road to long-term sustainability with a sweeping change in 1999. As in Austria, Swedish pensions used to be based on the best 15 years of pay. Now they are calculated from a worker's entire career, during which the worker must pay into a government-run account. While part of the account is operated as a traditional pay-as-you-go system, another part is invested in mutual funds.



AP

Raffarin faces massive protests next week.

The amount in each individual's account is divided based on a worker's life expectancy at retirement. In a feature intended to keep the plan solvent even if longevity increases further, the amount paid out every year can be adjusted.

Similar systems have been adopted in some Eastern European countries and Italy is phasing in adjustments to account for longer life expectancy. But in much of the rest of Europe, the battle is only starting.

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