Introduction
The emergence of a pension fund champion: Switzerland in the worlds of welfare

In a September 2003 article forewarning of a looming debacle in European pension systems, *The Economist* emphasized the need to shift old age provision from the first pillar of pay-as-you-go public pensions to the second and third pillars of funded occupational pensions and individual savings accounts. The weekly also listed recommendations to “cut back on the promises of the state pension system” and to “encourage” – I would say prod – people “to save for their own retirement”: extending the number of contributing years needed to qualify for benefits, limiting indexing methods to price inflation, and raising the retirement age, or even scrapping it altogether to give pensioners the “free choice” to decide the timing of their retirement. Lamenting that the “transition from the first to the third pillar cannot happen overnight”, *The Economist* insinuated that if individuals did not channel their savings toward individual schemes, governments should step in to introduce “an element or two of compulsion”. A cartoon representing would-be pensioners escaping the “crumbling pillars” of state and corporate pensions for the alleged safe haven of individual old age provision underscored the argumentation.1

These proposals summarize the current welfare reform orthodoxy, which aims to redraw the boundaries between state-based pay-as-you-go pension systems and financialized forms of old age provision. The multi-pillar approach pictured in *The Economist* has been popularized in the last decade of the twentieth century by international organizations that hailed this concept as the solution to “avert the old age crisis”, in the words of a famous 1994 World Bank report.2 These “three pillars of


2 *Averting the old age crisis: policies to protect the old and promote growth* (Oxford: Oxford University Press/World Bank, 1994). See also Emily S. Andrews, *Pension reform and the...
Solidarity without the state?

Wisdom” have progressed in great strides around the globe. Privatization and free-market reform efforts have led to the development of individual pensions in countries such as Chile and Argentina and the introduction of mandatory occupational pensions in eastern Europe. Besides public pension cutbacks, the agenda of pension reform has also opened new space for private provision in countries as diverse as Sweden, Germany, France, and Italy. Despite the “mis-selling” scandal that tainted British individual retirement accounts during the 1990s, the steep losses of pension funds during the last stock market downturn of the early 2000s, and the current downsizing of corporate pensions in both the United States and the United Kingdom, the multi-pillar horizon and its accompanying financialization remain at the center of pension debates.3

From the World Bank to the Organization for Economic Cooperation and Development (OECD), international organizations have repeatedly singled out the Swiss three-pillar system of old age provision as a pioneer. The World Bank has designated this combination of a universal pay-as-you-go pension (first pillar), supplemented by compulsory, funded occupational pensions (second pillar) and fiscally encouraged individual savings accounts (third pillar), as a “triumph of common sense” and the “way forward for pension reform”.4 Switzerland anticipated by almost a generation the late-twentieth-century multi-pillar gospel. After the establishment of federal old age and survivors’ pensions (Alters- und Hinterlassenenversicherung, AHV) in the aftermath of World War II, the three-pillar doctrine was formulated in the early 1960s and anchored in the federal constitution in 1972. It took its definitive shape in the development of pension systems: an evaluation of World Bank assistance (Washington: World Bank, 2006).


decade that followed the implementation of the 1982 federal law on occupational provision (berufliche Vorsorgegesetz, BVG) that introduced both a mandatory second pillar and voluntary third-pillar retirement accounts.

Echoing praise from foreign commentators, Swiss economists have emphasized the flexibility of the pension system and its lower reliance on the state, as well as the close integration of the second and third pillars in financial markets. For social scientists, the three pillars form the core of a welfare state that may well represent “a third way” between “neo-liberal retrenchment and old statist welfare policies” and “is already set on rails toward which the European welfare train will most likely follow”. In the era of social policy retrenchment, privatization, and financialization of old age provision, Switzerland’s impressive pension assets (which peaked at 149 percent of the gross domestic product in 2000, see Table A.7, p. 303) offer a welcome success story for proponents of market-oriented pension reforms. While emphasizing the need to downsize the state share of social provision, a senior analyst at Swiss Re, the world’s leading reinsurance company, boasted that “the Swiss pension system comes off rather well in comparison to the rotten social insurance systems of its European neighbors [and] rightly deserves the high esteem it receives from abroad: its foundations are properly laid”.

What are the origins and rationale of the division of labor between pay-as-you-go pensions and funded occupational provision? Is the second pillar, in the provocative words of a proponent of the people’s pensions, “a social program or a for-profit business”? Were corporate pension plans, as the main pension lobby group argued in 1950, really able to “achieve social progress without statist solutions”? What are the contradictions between pay-as-you-go and funded pensions? What is the contribution of individual pension solutions, or the third pillar in current parlance, in overall old age provision? As the multi-pillar option becomes the dominant norm, and Switzerland faces the challenges of welfare retrenchment

5 Lars P. Feld, Gebhard Kirchgässner and Marcel Savioz, Financing social security in the future: the Swiss pension system as an example (St. Gallen: Universität St. Gallen, Volkswirtschaftliche Abteilung, 1997).
with an aging population and unstable stock markets, does its famed “model” really offer a rosier picture for pension reform? In this book, I answer these questions by scrutinizing the long-term and intertwined development of social insurance and occupational provision in Switzerland. In order to answer the question of whether this pension system is truly “distinct”, I also compare its path toward a multi-pillar pension system with those followed by several other countries, such as the United States, Canada, the United Kingdom, and the Netherlands, where funded pensions have long played a key role in old age provision. Charting the position of Switzerland’s pension system thus challenges assumptions generally held by scholars of social policy about continental European and Anglo-Saxon welfare states.

This genealogy of the three-pillar pension system brings new understanding to the development of a welfare state that has been neglected by historians of social policy. However, this study does more than show how and why Switzerland became a model for pension reformers in the late twentieth century. The issues investigated in this book – the role of taxation in the development of occupational provision, the role of insurers in the making of social policy, and the connections between pension provision, collective bargaining, and financial markets – constitute key issues in studies of welfare states. The boundaries between public and private provision are now being redrawn, and the financialization of pensions is progressing. A critical reappraisal of these interactions can open new perspectives on the history of the welfare state.

This introduction will first review the traditional explanation of Swiss welfare development, then present the methodological building-blocks that I have used to shed light on the distinctive trajectory of the three-pillar pension system, and, finally, outline the comparative perspectives followed throughout this book.

I

Traditional accounts of social policy development point out the distinct position occupied by Switzerland among western European welfare states. In comparison with other OECD countries of equivalent industrial development, social insurance programs were introduced belatedly (see Table 0.1). Federal pensions (AHV) came in 1947, more than a decade after the 1935 implementation of Social Security in the United States. Before the 1930s, Swiss national-level (or federal) social expenditure on unemployment, health, and pensions ranked at the bottom end of eighteen industrialized countries. Federal expenditure on old age provision hovered at 0.3 percent of the national income by 1930, a level that put the Confederation just above the United States, Finland, Italy, and
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Table 0.1 The introduction of core welfare state programs in Switzerland.

<table>
<thead>
<tr>
<th>Program</th>
<th>Switzerland (federal level)</th>
<th>OECD average</th>
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<tbody>
<tr>
<td>work accident</td>
<td>1911 (implemented in 1918)</td>
<td>1905</td>
</tr>
<tr>
<td>old age</td>
<td>1947</td>
<td>1917</td>
</tr>
<tr>
<td>health</td>
<td>1912 (subsidization of health plans)</td>
<td>1924</td>
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<tr>
<td></td>
<td>1994 (mandatory basic health insurance)</td>
<td>1929</td>
</tr>
<tr>
<td>unemployment</td>
<td>1924 (subsidization of unemployment schemes)</td>
<td>1944</td>
</tr>
<tr>
<td></td>
<td>1982 (mandatory unemployment insurance)</td>
<td></td>
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<tr>
<td>family allowances</td>
<td>1952 (only for farmers and agricultural workers)</td>
<td>2006 (federal guidelines to harmonize existing cantonal schemes)</td>
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Japan, the only industrialized countries with no national pension program at that time. Both OECD and International Labor Organization statistics point out that Swiss social expenditure remained modest during the post-war growth decades and trailed far behind that of its western European neighbors.9

In sum, the trajectory of the Swiss welfare state could be summarized by its course on the social insurance development index devised by Peter Flora (see Figure 0.1). Despite a quantum leap related to the 1947 introduction of the AHV, the Swiss trajectory was at odds with those of western European welfare states. Its slow and incremental development put Swiss social policy “in line with the creeping welfare state development” that is characteristic of the North American welfare states and produced a “continental European welfare state with a liberal face”.10

The dominant causal explanation for this has emphasized the role of political institutions such as federalism and direct democracy in the making of social policy. For scholars such as Ellen Immergut, Herbert Obinger, and Giuliano Bonoli, the high level of fragmentation of the political system between federal (national), cantonal (state), and local tiers of government has led to contentious tugs-of-war between a weak

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central state and regional interests opposed to centralization and emphasizing cantons’ rights. The weakness of the federal state vis-à-vis cantons has also magnified the opposition of conservative forces that resisted the growth of the fiscal capacity of the Confederation. Attempts to introduce social insurance have thus led to protracted debates to secure the constitutional basis of each social policy program, as well as the financial means to implement them.  

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11 Ellen M. Immergut, *Health politics: interests and institutions in western Europe* (Cambridge: Cambridge University Press, 1992); Obinger, “Federalism, direct democracy, and
Extensive direct-democracy mechanisms have also considerably retarded social policy development. As we will see in Chapters 1, 2, and 3, conservative referenda demanding the repeal of social policy projects often unraveled carefully crafted policy compromises during the formative period of the welfare state. After the acceptance in 1890 of the constitutional article allowing the Confederation to legislate on social matters, universal health insurance was twice challenged by referenda (in 1900 and 1911) before being accepted by voters in 1912. A quarter-century separated the adoption of a constitutional article on old age insurance (1925) and the implementation of federal pensions (1947) that was also challenged twice by referenda (in 1931 and 1947).

The anti-centralizing resistance to social insurance, the time lag in implementation due to referenda, and the incremental development of social policy have greatly hampered the unification of social programs and led to the development of a patchwork of overlapping federal, cantonal, local, and occupational schemes. Institutional scholars have emphasized that the numerous interstices of the Swiss social security system have facilitated policy pre-emption and decentralized solutions organized by private sectors that are often subsidized by a federal state that delegates to them the organization of social provision.12

Recent OECD surveys remind us that taking into account private social programs can substantially modify social expenditure rankings. In Figure 0.2, countries with extensive private social provision, such as the United States, the United Kingdom, the Netherlands, Canada, and Australia, move closer to continental European welfare states when private social expenditure is added to the public. Because of the tangle of its federalized tax-system, Switzerland has yet to be included in these surveys.13 However, private social programs have played a key role in the recent increase in Swiss social expenditure. At the beginning of the 1990s, Switzerland still ranked fifteenth among OECD countries in terms of public social spending but moved to rank fourth (behind Sweden, Denmark, and France) at the end of the decade. In a recent account, institutionalist scholars have emphasized that “with the exception of health care policy, which was transformed by the 1994 reform, [this] dramatic increase in welfare state development”; Politische Institutionen und Sozialpolitik in der Schweiz; Herbert Obinger, Klaus Armingeon, Giuliano Bonoli et al., “Switzerland: the marriage of direct democracy and federalism”, in Federalism and the welfare state: New World and European experiences, ed. Herbert Obinger, et al. (New York: Cambridge University Press, 2005), pp. 263–306.

12 Ibid., pp. 300ff.
13 According to Willem Adema of the OECD Directorate for employment, labor, and social affairs, personal communication to the author, July 3, 2006.
social expenditure . . . did not result from any significant expansion of the Swiss welfare state”.14

According to this study, closing the gap with western Europe can be mostly attributed to slow economic growth and to the impact of the 1990s crisis in unemployment insurance, but also to the maturing of compulsory second-pillar old age provision and its integration in OECD statistics as “public” social expenditure. Funded occupational pension schemes alone account for almost one-fifth of overall social security financing, while the European Union average in this domain stands well below 5 percent. As compulsory health insurance in Switzerland is provided by registered insurance companies that levy per capita premiums, the Confederation ranks just behind the United States in terms of private health spending.15


Figure 0.3  Stock markets and pension funds in Western Europe and North America, 2003–2004.


Current developments thus undoubtedly hint at the long-term impact of private welfare arrangements in Swiss social policy.

Figure 0.3 charts the development of stock markets and funded pension assets in North America and Europe. Switzerland appears clearly as a pension fund champion: it not only overtakes the United States and the United Kingdom, the two usual suspects of Anglo-American pension fund capitalism, but also such countries as the Netherlands and Canada. This situation is far from a recent phenomenon. As we will see in Chapter 5, early postwar studies on the levels of social contributions among western European countries already pointed to the striking level of private voluntary welfare arrangements in Switzerland. At this time, funded pension assets represented one-third of the gross domestic product (see
Table A.7., p. 303), a level still unequaled by most European countries half a century later. Setting Switzerland apart from the “mechanized mass-assistance of a centralized welfare state” characteristic of continental Europe, free-market apologists praised during the 1950s the “colorful diversity of smaller and heterogeneous institutions” that made the Confederation a close relative of the American public–private welfare state.16

In his classic 1985 study of small European countries, Peter Katzenstein described the Swiss Confederation as a “rich man’s welfare state”. Characterized by the outstanding hegemony of right-wing (or, as they are called in Switzerland, bourgeois) parties and strong economic liberalism, modest social insurance expenditure and extensive private welfare schemes reinforced a “liberal capitalist” variant of democratic corporatism. Five years later, sociologist Gösta Esping-Andersen similarly ranked Switzerland among Anglo-Saxon “liberal residual welfare states” characterized by belated development, lower de-commodification of social risk, and higher reliance on private solutions.17 However, social scientists have neglected to explore the development of private social programs, and Switzerland remains largely absent from comparative research on the emergence of pension fund capitalism.18 The 2003 revision of the federal law on compulsory occupational provision (BVG) has encouraged institutionalist scholars to turn their attention to recent developments of the second pillar of old age provision.19 Yet their studies remain focused on the public and state-centered facets of the Swiss multi-tiered welfare system.

16 Francesco Kneschaurek and Werner Eisenbeiss, “Die sozialen Leistungen der Arbeitgeber in verschiedenen OECD-Staaten”, Aussenwirtschaft 1–2 (1958), pp. 119–41. For a discussion of this study, see also Chapter 5, Table 4.2. Wilhelm Röpke, Grenzen und Gefahren des Wohlfahrtsstaates (Frankfurt: Schriftenreihe der Industrie- und Handelskammer Frankfurt am Main, 1955), p. 5. For a discussion of Röpke’s views, see Chapters 4 and 5 of this book.