

Anna Caroline Warfelmann

The Politics of Parliamentary Pensions in Western Democracies

Understanding MPs' Self-Imposed Cutbacks



PETER LANG
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Bibliographic Information published by the Deutsche Nationalbibliothek

The Deutsche Nationalbibliothek lists this publication in the Deutsche Nationalbibliografie; detailed bibliographic data is available in the internet at <http://dnb.d-nb.de>.

Zugl.: Bremen, Univ., Diss., 2014

Library of Congress Cataloging-in-Publication Data

Warfelmann, Anna Caroline.

The politics of parliamentary pensions in Western democracies : understanding MP's self-imposed cutbacks / Anna Caroline Warfelmann. — Peter lang ed.
pages cm

Includes bibliographical references.

ISBN 978-3-631-66278-6

1. Legislative bodies—Pensions—Western countries. 2. Legislators—Western countries—Salaries, etc. 3. Democracy—Western countries. I. Title.

JF536.W37 2015

331.25'291328091821—dc23

2015014296

D 46

ISBN 978-3-631-66278-6 (Print)

E-ISBN 978-3-653-05445-3 (E-Book)

DOI 10.3726/978-3-653-05445-3

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Internationaler Verlag der Wissenschaften

Frankfurt am Main 2015

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Peter Lang – Frankfurt am Main · Bern · Bruxelles · New York ·
Oxford · Warszawa · Wien

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This publication has been peer reviewed.

www.peterlang.com

The Politics of Parliamentary Pensions in Western Democracies

Acknowledgements

Prof. Dr. Karl Hinrichs advised me on this project from its initial conception through its completion. He read several drafts over the years and encouraged me throughout this time. He was (and still is) a keen and interested tutor and teacher, friendly reviewer and advisor. His ideas contributed significantly to the present study on MPs' self-imposed cutbacks. I am deeply grateful for his effort and motivating comments. I also want to thank my second supervisor, Prof. Dr. Frank Nullmeier, for his interest in the topic of MPs' pension and his generous support.

The Bremen International Graduate School of Social Sciences (BIGSSS) provided me with excellent working conditions to enable me to write my dissertation. I sincerely thank the entire administrative staff and the IT staff for their assistance. Additionally, I am grateful to the Friedrich-Ebert-Stiftung for funding and supporting this project.

Colleagues from the thematic field "Welfare State, Inequality and Quality of Life" became close friends during the last few years. First and foremost, I want to thank Dr. Catherine L. Blair, Dr. Julia Gieseler, and Dr. Philine Weyrauch-Herrmann for their constructive recommendations and friendship.

At all times, my sister Antonia and I have always had our parents' love and support. They laid the foundation for our character and behavior. I thank my parents, Christina and Ulrich Wessel, for their continuous faith, their constant support, and the sense of basic trust they place in us. My husband Jens is familiar with this project and its process like nobody else. He never gets tired of discussing arguments over and over again, and provided me with the most important gift to write a dissertation: time. I dedicate this dissertation to him and to our daughters Klara, Frieda and Lise.

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1 Introduction

The privileges politicians enjoy are a recurring topic of domestic political conflicts and discussions. Hood and Peters stress that politicians' remuneration goes, "as close as any issue can do to the heart of the relationship between rulers and the ruled" (Hood & Peters 1994: 1). In particular, the remuneration and compensation of both active and retired parliamentarians seem to be at the core of all debates dealing with MPs' privileges. Historically, there have always been disagreements about parliamentary remuneration and as Eschenburg points out, malicious exaggerations of these benefits have tended to characterize the conflict about political pay since the very beginning, when it was first introduced in Classical Athens (Eschenburg 1959: 17).

This topic is a rather sensitive political issue that occasionally resurfaces on the political agenda in representative democracies – where constituents elect representatives who decide on their behalf, as well as for themselves. According to popular opinion, the 'political class' is primarily interested in making decisions based on their own interests that will line their own pockets, regardless of the social problems currently at hand. Consequently, the privileges MPs receive (either subjectively perceived by the public or indeed real) contribute to the public's low level of trust in their representatives. An international survey that measured people's degree of trust in different professions corroborates this trend. Among nearly 20 occupational groups, politicians are the occupational group consistently given the lowest trust ratings in recent years in 15 EU countries, as well as in the USA, Brazil, Colombia, and India (GfK Custom Research 2010; see also GfK Custom Research 2011; GfK Custom Research 2014). However, the line between "justified prejudice and unreasonable blame" is often left out of discussions about parliamentarians' privileges (Neisser & Wögerbauer 1991: 325).¹ Nevertheless, it is clear that the relationship between the rulers and the ruled is tense in many parts of the world.

Today, fallout from the 2008 world financial crisis and the financial challenges facing national social security systems are compelling politicians to implement cuts and to reduce social security benefits – particularly public pension benefits. At the same time, headlines such as "Gold-plated MP pensions are now platinum" (Edmonton Sun (Canada) 4 December 2003) signal people's discontent and dissatisfaction with the remuneration of their officials throughout OECD

1 All English translations from German texts are by the author.

countries. Discussions in the popular press tend to emphasize the generosity of parliamentarians' pensions and contrast them with public pension reforms, as these reforms generally entail reductions in benefits. As Hinrichs notes, "public pension reforms regularly harmed (future) beneficiaries" (Hinrichs 2000: 353) and by the end of the 1990s, "almost all of the OECD countries had gone through at least one major reform" (Myles & Pierson 2001: 305).² All industrial states faced similar pressures to implement reforms; the demographic pressures associated with increasing life expectancy and falling birth rates are a challenge for every social security system. Recent reforms to public pension schemes in OECD countries include raising the retirement age, introducing incentives to get people to work longer such as stricter eligibility criteria for early retirement, as well as implementing a larger pension benefit decline for early retirees and a larger benefit increase for later retirement. Furthermore, public pension reforms link pension benefit levels to life expectancy, the expansion of private pensions, and a shift from defined benefits to defined contributions (OECD 2011b; OECD 2013a). As a consequence, public pension retirees are facing lower (public) pension benefit levels, are encouraged to save privately, and thus are becoming responsible for accumulating an adequate income during old-age themselves. Additionally, citizens are exposed to greater risks, because increasing amounts of the pension income are fully-funded.

In representative democracies, MPs do not only decide whether to implement reforms to public pension schemes, which generally entail cutbacks for public pension beneficiaries as previously mentioned. MPs also have the right to set their own pay and pension levels, just as they would in other parliamentary affairs. My interest in parliamentary pension schemes (PPS) developed from the fact that MPs occupy a privileged position. Parliamentarians are the only occupational group that independently determines their own pay. As such, MPs are in the unique position to amend their own pension scheme and to alter their own level of pension benefit. To be clear, MPs make these decisions on their own – and do not have to delegate the authority to someone else. As a consequence of this autonomy, however, MPs are under significant pressure to be seen as legitimate (Hoffmann & Hinrichs 2006). Therefore, the focus of this study is on the remuneration of *former* members of parliament. As will be shown, compensation both during and *after* legislative service plays a vital role in representative democracies with professionalized parliaments.

2 See also Hinrichs (2000) and OECD (2007).

The most interesting question that arises in this examination is whether members of parliament cut back their own old-age pension benefits. It is considered potentially scandalous by many that MPs are covered by their own pension scheme, which is only modifiable by the MPs themselves. Based on the preliminary comments, one would expect politicians to increase – or at least not change – their own pension benefits. Thus, it is all the more surprising that politicians in OECD countries have indeed implemented cuts for themselves since the late twentieth century (Hinrichs & Wessel 2008). If one assumes that MPs act as an occupational group or a political class in pursuit of its own interests, that fact that MPs have indeed cut their retirement benefits raises many questions. These instances would indicate that parliamentarians do not necessarily take advantage of their position with respect to their own pension benefits. This puzzling situation leads to the main underlying research questions of this: *Why, when and how* do MPs cut their own pension benefits?

This study's main objective is to address the gap in scholarship on the relationship between parliamentarianism and welfare state. At present, the topic of parliamentary pensions has not been subject to significant academic study and comparative studies do not currently exist.

To date, the literature on *parliamentarianism* has been dominated by topics such as access to the parliamentary mandate, the exercise of legislative service, MPs' attitudes, and their legislative careers. Legislative recruitment, or the route to becoming a representative, is sufficiently analyzed by Norris (1997) and is also discussed by Cotta and Best (2007). MPs' roles and behavior during their term in office has also been examined (e.g. Müller & Saalfeld 1997). MPs' activities *after* parliamentary mandate, however, still need attention and an international comparison is warranted.

In Germany, Kreiner (2006; 2007) conducted several interviews with former members of parliament and identified that not all of them were able to smoothly reenter their previous occupations or alternative employment after legislative retirement (for Germany, see Kreiner 2006). Some previous MPs even faced financial hardship – their political parties do not provide a social safety net. This finding disproves the commonly held belief that once in office, parliamentarians are set for life. Researchers at the Collaborative Research Center 580 at the University of Jena studied the post-parliamentary careers of former German representatives, along with their attitudes and perceptions, and concluded that “the medial focusing on few top-ranking politicians leads to a distorted public perception of the occupational and political careers of former parliamentarians” (Edinger & Schwarz 2009: 75). These studies broached the issue of parliamentary pensions, but until now, this topic has not been the object of research itself.

Moreover, it is recognized that “legislative salary (...) is conspicuously absent from most legislative studies (...)” (Borchert 2003a: 18). Whenever the literature on *parliamentarianism* deals with financial aspects of MPs, they generally focus on the remuneration of current MPs (e.g. Hasler 1998). The income of parliamentarians – during and after legislative service – has not yet been subject to a comparative analysis.

The most comprehensive description of parliamentary remuneration from a comparative perspective is provided by von Beyme (1993). He provides a table of parliamentary benefits in various countries. Hood and Peters (1994) studied incomes for high public officials, including MPs, and conclude that their pay is diverse across countries and has been eroded in many cases. Additionally, the literature includes older comparative surveys from the time of the introduction of parliamentary pay. Ameller (1966: 71 f.), for example, describes parliamentary remuneration, including extra payments. Wilding and Laundry (1972) provide a list of parliamentary rewards for a number of countries in their *Encyclopedia of Parliaments*. Morgan (1976) investigated services and facilities in eight OECD countries (Australia, Canada, Denmark, France, Germany, Italy, the Netherlands, the UK, and the USA). In addition to the existing academic literature, the German *Bundestag* (1993) published a report on parliamentary rewards from an international perspective. The New Zealand Parliament offers a monthly up-to-date summary of news from overseas parliaments, including members’ pay and entitlements (New Zealand Parliament January 2015). However, it only provides the information and does not comment upon the politics of MPs’ remuneration. In short, although the academic literature on parliaments and legislative services and institutional reports provide extensive descriptions of overall parliamentary income packages, they all lack detailed analysis of *the politics behind parliamentary pensions*.

Secondly, *welfare state literature*, and more precisely, the literature on pension policy, has also not yet dealt with the old-age pension schemes of former MPs. Welfare state researchers are more interested in the design and reform of *public* pension schemes (Bonoli & Shinkawa 2005; Hinrichs 2000; Hinrichs 2009; Immergut, Anderson, & Schulze 2007). Other forms of pension provisions, such as private pensions (Ebbinghaus 2011) and for this reason a multipillarization of pension schemes (Gieseler 2012) have gained importance in the literature. Additionally, old-age pensions for special occupational groups such the self-employed are focused on (e.g. Fachinger, Oelschläger, & Schmähl 2004). However, pension arrangements and reforms for parliamentarians themselves are not dealt with in the literature. One of the main reasons for this is that parliamentary pensions play only a minor role in the overall state budget. The German *Bundestag* expenditures for former MPs amounted to €35,566,000 in 2012. This is a cost of €0.44 per citizen