Dismantling private pensions: Effects of varying cost-benefit analyses on the choice of dismantling strategies by governments in Slovakia and the Czech Republic

Vittek, Adam

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Adam Vittek

s2812134

S2812134@vuw.leidenuniv.nl

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Supervisor: Dr. Ellen van Reuler

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1. Introduction

In 2005, the center-right Slovak government implemented a significant reform of the pension system. On top of the old two-pillar pay-as-you-go (PAYG) system, a new form of pension provision was created, named the II. capitalization pillar. The reform represented a significant privatization of the system. As part of a broader set of neoliberal policies termed “Slovakia’s neoliberal turn,” (Fisher et al., 2007) this reform attracted significant praise from Western international observers (US Department of State, 2012). Yet at home, the government of Christian Democrats and Liberals faced a series of scandals and internal disagreements which eventually led to its resignation and a subsequent loss of power in the June 2006 parliamentary elections. Since the 2006 elections, left-leaning governments have been in power in Slovakia for 12 out of the last 17 years. However, the framework created by the 2005 pension reform still exists, defying the expectations of conventional wisdom in the “politics matters” strand of comparative welfare state literature.

Similarly, the Czech Republic introduced private pension schemes in 2013. The goal of this reform was the implementation of the II. capitalization pillar, functioning on similar principles to the Slovak version. However, just a few months after the reform had been passed by parliament, the center-right government was forced to resign after a series of corruption scandals. Early election in October 2013 saw the rise of a left-leaning coalition with a very clear message: we will cancel the II. pillar (ČSSD, 2013a). Soon enough, the motto became a reality, and the system returned to its two-pillar form. As such, today, the Slovak and Czech pension systems constitute an empirical puzzle: despite numerous similarities between the two countries, there is a significant private component to pension provision in Slovakia, with this component absent in the strongly public Czech system.

This thesis investigates this empirical puzzle in the pillarization of pension policy in the two countries. It will do so by investigating the cost-benefit calculations made by the left-leaning governments in both countries in relation to the II. pillar, and by conceiving of the political decisions of both governments as processes of dismantling a public policy. Due to the almost constant sustainability concerns faced by PAYG systems, pension reform continues to be a salient political topic in both countries today. By investigating this empirical puzzle, this thesis aims to in turn contribute to academic literature on the conditions under which politicians undertake decisions to dismantle a specific social policy. The thesis will first review relevant academic literature on Eastern European welfare states, processes of reform in Bismarckian pension systems, as well as processes of policy dismantling more broadly.

Afterwards, the theoretical framework used in this thesis will be conceptualized and operationalized. Then, the research method, along with the case and data selection, will be explained. Finally, case studies of the pension reform in each country and the subsequent political developments will be constructed. These case studies will feed into the discussion, after which the thesis will conclude with the main findings and an evaluation.

2. Literature review

In this section, academic literature relating to the empirical puzzle will be reviewed. Firstly, the welfare states of both Czech Republic and Slovakia share certain characteristics that make them examples of the Eastern European welfare state type. As such, academic literature on *Eastern European welfare states* will be reviewed. Secondly, the pension systems of both Slovakia and Czech Republic are both based on Bismarckian principles (Botek, 2020; Sirovátka & Ripka, 2020). Therefore, academic literature on the processes of *reform in Bismarckian pension systems* will also be reviewed. Finally, as both cases constitute examples of governments dismantling a social policy, it is fitting to review comparative welfare state literature on the processes of *policy retrenchment and dismantling.*

Eastern European welfare states

Perhaps the most seminal work in comparative welfare state literature is Gøsta Esping-Andersen's (1990) book *The Three Worlds of Welfare Capitalism,* which argued that welfare states of 18 OECD countries cluster around three ideal-type welfare regime types: Liberal, Conservative, and Social-Democratic. Esping-Andersen distinguished between these three regimes based on the degree of decommodification afforded to the citizen, and the kind of stratification they produce in society. Comparative welfare state literature quickly took interest in welfare states in Eastern Europe following the 1989 revolutions against Communist regimes. The debate around Eastern European welfare states can be grouped into two groups: convergence and divergence. The convergence group argued that the Eastern European welfare states can be expected to converge with the Western welfare regimes, meaning they would eventually fit neatly within Esping-Andersen's (1990) typology and any differences with Western welfare states can be considered only transitory (Deacon & Standing, 1993; Esping-Andersen, 1996). However, later studies that revisited this claim have shown that convergence has largely not transpired, and that distinct differences exist between Western and Eastern European welfare states (Aidukaite, 2009; Fenger, 2007; Sirovatka & Mares, 2006).

Considering these findings, the debate turned to identifying the aspects in which Eastern European welfare states diverge from their Western counterparts. Jolanta Aidukaite (2011) provides perhaps the most in-depth analysis of these divergences, identifying several institutional features of the Eastern European welfare regime: a corporatist, PAYG social insurance system, high levels of coverage, low benefit levels, and a shared experience of the Communist welfare state implying deeply embedded expectations of solidarity and universalism (Aidukaite, 2011, p. 218). Further research has also identified that decisions on social spending are often subject to more intense political debates and partisan activity than in Western welfare states (Cook, 2013; Dolls, Fuest & Piechl, 2010), meaning the political ideology of the government in charge is likely to play a major role in the development of welfare. While some internal differences in welfare within the region can still be identified, it is generally argued that Eastern European welfare states have more in common with each other than with the Western welfare states (Aidukaite, 2009; Aidukaite, 2011).

Reform of Bismarckian pension regimes

Academic literature on the causes of reform of Bismarckian PAYG systems argues that pressures for reform can be broadly grouped into two system-specific concerns, both of which are interlinked (Schludi, 2005). First, social contributions paid by employees and employers mean that any increases in the contribution rate (for example to pay for more generous pensions) increase non-wage labor costs, the effects of which are most likely to be felt by low- and middle-income workers as well as smaller employers (Scharpf, 2001; Myles & Pierson, 2001). Second, the PAYG principle means the pensions of contemporary pensioners are paid by the social contributions of current workers. This means that PAYG systems are particularly vulnerable to demographic shocks that impact the old-age dependency ratio, such as declining fertility rates and increasing life expectancy (Schludi, 2005, p. 15). In turn, the demographic shocks may significantly increase the deficits created in the Bismarckian system, always putting a significant fiscal strain on public finances. Combined with external fiscal pressures, such as the EU Growth and Stability pact that binds states to keeping public deficits under 3% of the GDP, the demographic concerns constitute a significant threat to the long-term sustainability of pension systems financed through PAYG methods.

Policy retrenchment and dismantling

Policy retrenchment has generally been seen as a phenomenon largely associated with periods of economic austerity, and as a symptom of the "politics of hard times" more broadly (Gourevitch, 1986). This account of policy dismantling also figures prominently in Pierson's

(1994) seminal work on retrenchment, within which he argued that a period of dismantling is characterized by "imposing concentrated costs in return for diffuse benefits." The politics of policy retrenchment is seen as a much more "treacherous" activity: insights from prospect theory (Kahneman & Tversky, 2018) tell us that people are predisposed to have a greater emotional reaction to losing something than an equivalent gain. As such, Pierson concluded that the "new" politics of retrenchment can be described as "an exercise in blame avoidance" for politicians (Pierson, 1994, p. 2). In his analysis, Pierson observed a significant degree of resilience displayed by the welfare state to well-organized retrenchment efforts. The resilience was attributed to strong path-dependence created by the inherited structure of a particular social policy, meaning any extensive retrenching is highly unlikely (Pierson, 1994; Pierson, 1996).

Pierson's writings subsequently inspired active sub-fields of research that are concerned with identifying the conditions under which retrenchment of specific social policies occurs (Starke, 2006). Many authors have identified significant external pressures pushing governments towards retrenchment, such as rapidly changing economic and demographic conditions (Castles, 2004; Pierson, 1998; Iversen, 2001) and the impacts of globalization (Garrett & Mitchell, 2001; Scharpf, 2000; Schwartz, 2001). Relevant institutional factors may also influence the consideration that governments make in relation to retrenching. Following Pierson's original observation of strong path-dependence in welfare arrangements, these factors are thought to relate to the institutional structure of the social policy in question. Specifically for pension systems, Siegel (2002) argues that pensions with an emphasized earnings-related component contain strong institutional safeguards against retrenchment, due to the contributions being largely seen as accrued property rights of active workers. Furthermore, pension systems with private components run by organized business or labor interests contain an additional layer of protection against retrenchment in the form of new actors in the social policy realm with the resources to resist retrenchment (Palier, 2002; Siegel, 2002; Swank, 2001). More broadly, institutional factors may relate to the presence of veto-points in the structure of the political system (Bonoli, 2000; Immergut, 1990; Immergut, 1992).

However, the policy retrenchment literature is argued to lack a clear definition on retrenchment as the dependent variable, leading researchers to conceive of retrenchment in a variety of ways (Starke, 2006) Considering this general fragmentation in the field, Bauer and others (2012) proposed a new research agenda under the umbrella term of "policy dismantling." Within this agenda, the authors attempted to systematize the analysis of policy dismantling by incorporating more general accounts of policy change (van Kersbergen & Vis, 2007) along with insights from literature on welfare retrenchment. Perhaps the largest contribution of this research agenda was the proposed analytical-theoretical framework, which focuses the study of policy dismantling on the interaction between political preference constellations and opportunity structures, which together influence a government's choice of dismantling strategy. Political preference constellations incorporate the insights of the retrenchment literature on both external and internal pressures for reform. Opportunity structures draw heavily on the literature of Wilson (1980) on the effects of the perception of political costs and benefits by governments. The authors build on the fragmentation in the literature on strategies of blame avoidance (Weaver, 1986; Pal & Weaver, 2003) by proposing four ideal-type dismantling strategies, which can be identified retroactively according to the effects they produced on the social policy in question. By providing for analytical variation in the dependent variable along with a unified operationalization, Bauer and others (2012) addressed the dependent variable problem (Green-Pedersen, 2004), which affected the retrenchment literature.

Research question

This thesis aims to systematically analyze a specific instance of policy dismantling by governments in Slovakia and the Czech Republic. In turn, the findings of this thesis aim to contribute to literature on the conditions under which social policies are dismantled. The literature reviewed above yields a three-fold contribution to this research project. First, as Eastern European welfare states, a high degree of partisan contestation over decisions on welfare can be expected. Second, any attempts at dismantling earnings-related and private-run components of pensions (such as the II. pillar) can be expected to be contested in both countries by the actors created by the institutional structure of the pension policy. Third, the policy retrenchment literature has yielded important contributions towards explaining what may motivate politicians to retrench or dismantle. However, the retrenchment literature lacks a unified, systematic approach to studying specific instances of dismantling. As such, the framework proposed by Bauer and others (2012) appears appropriate to use in this project. Yet, Bauer's approach can be further adapted to draw upon insights from literature on the institutional factors that may impede dismantling efforts. Thus, the following research question will guide the research in this thesis: ***What was the effect of political preference***

constellations and opportunity structures on the choice of dismantling strategy for governments in Slovakia and the Czech Republic?

3. Conceptualization

Political preference constellations

Literature on policy retrenchment provides multiple insights into what might motivate governments to pursue dismantling. However, due to the wide range of possible motivations, a systematic approach is required to identify the motivations relevant for the governments at the time of dismantling. Therefore, political preference constellations will be conceptualized as the two broad preference constellations predicted by Bauer et al. (2012). The advantage of using this approach is that it includes a constellation in which dismantling may also be politically beneficial to the government.

The first constellation is termed "vice into virtue" (Levy, 1999). In this constellation, the political benefits of dismantling clearly outweigh the costs, meaning the motivation to engage in dismantling is particularly strong. Therefore, governments within this constellation can be expected to engage in dismantling that is "highly visible and clearly attributable to them" (Bauer et al., 2012, p. 37). As the benefits of dismantling outweigh the costs, the government does not feel compelled to "hide" the dismantling decision. As such, this constellation can be observed retroactively when the government signals its decision to dismantle a specific policy as clearly as possible.

The second constellation is termed "lesser evil" (Giaimo & Manow, 1999). The government expects that the costs of not dismantling a specific policy will likely be higher than dismantling, meaning the government is compelled to dismantle, but nevertheless the political costs of dismantling outweigh the benefits. Given the potential to incur political costs, the government is expected hide the decision as much as possible. Thus, this constellation can be observed retroactively when the government pursues reforms that are advertised as somehow improving the inherited social policy, but in effect they dismantle or weaken some parts of the policy in question.

Opportunity structures

In Bauer's (2012) approach, opportunity structures are conceptualized using the typology of cost-benefit calculations by governments developed by Wilson (1980). This approach argues that dismantling decisions which impose concentrated costs in exchange for diffuse benefits for the entire population are likely to be confronted by relevant interest groups who oppose dismantling. Yet, Wilson's work provides little specification about the nature of the relevant interest group or what connection the group may have to the social policy in question. In this aspect, insights from the policy retrenchment literature on institutional factors that may impede dismantling efforts appear more suitable for this thesis. Thus, opportunity structures will be conceptualized as the institutional set-up of the social policy in question (Siegel, 2002), which in this case is the II. pension pillar as implemented in both countries. Because the pensions systems in both Slovakia and Czech Republic are based on a strong earnings-related component, any attempts at dismantling this component can be expected to be the subject of intense political discussions. Furthermore, the specific reforms studied in both countries involved decentralization through the introduction of private pensions schemes (within the II. Pillar) largely administered by business interests. Therefore, the focus of this thesis will be on identifying relevant business interests that were opposed to dismantling the II. pillar in both countries.

Choice of dismantling strategy by the politician

The choice of dismantling strategy by the government is conceptualized using the ideal type dismantling strategies developed by Bauer et al. (2012). Literature on blame avoidance strategies occupies an important position within the retrenchment literature. However, this literature generally lacks research on strategies that may want to increase the visibility of the dismantling decision, i.e., in constellations of vice and virtue. As such, the dismantling strategies suggested by Bauer and others (2012) are a better fit for the analysis in this thesis, as the spectrum of potential strategies is not limited to ones that look to only "hide" the dismantling decision. Four ideal dismantling strategies are identified: dismantling by default, by arena shifting, by symbolic action, and active dismantling.

Dismantling by default can be identified through substantial non-adjustment of existing social benefits to changing external conditions, for example inflation. This strategy ensures low visibility for the dismantling efforts by the government. Similarly, *dismantling by arena shifting* also ensures low visibility of the dismantling decision, but with a more active approach by the government. This strategy can be identified when governments manipulate the "organizational or procedural bases of a policy" with he goal of producing dismantling effects, for example through changing the eligibility requirements or organizational features of a specific policy. On the other side, *dismantling by symbolic action* implies high visibility for the dismantling decision, meaning governments that use this strategy may openly declare their intention to dismantle a specific policy. However, these declarations are then not followed up on in terms of real policy. Finally, *active dismantling* is characterized by high visibility for the dismantling decision, meaning governments will clearly declare their intention to dismantle, and then subsequently follow up on these declarations in terms of real policy (Bauer et al., 2012, pp. 43-45).

Specific dismantling strategies can be identified retroactively through the observed effects on policy outputs during the dismantling period. Each of the strategies has expected effects on the policy being dismantled, through which a particular strategy can be identified. The expected effects of specific dismantling strategies are detailed in the table below.

Dismantling strategy	**Observed effect**
By default	Non-adjustment of benefit levels to external factors, for example inflation
Arena shifting	Transfer/delegation of whole policy responsibilities; manipulation of eligibility requirements, enforcement/administrative capacities
Symbolic action	Announcement of a dismantling decision; relabeling of policies; commissioning consultations/evaluations
Active dismantling	Abolition of whole policy or specific policy instruments

Table 1: effects of dismantling strategies. Source: Bauer et al., 2012, p. 46.

It is important to note that the dismantling strategies suggested by Bauer et al. (2012) are ideal-type types, meaning each instance is likely to feature of combination of the strategies, rather than each instance constituting a clear case of a particular dismantling strategy.

4. Theoretical framework

Drawing on literature on both policy retrenchment and dismantling, this thesis will use an adapted version of the analytical-theoretical framework developed by Bauer and others (2012). Within this framework, the decision to dismantle is centered around governments, which are presumed to have a “meta-preference” for re-election for all their decisions (Budge & Laver, 1986). The government is assumed to be boundedly rational, meaning the decision to dismantle can be understood to be the product of a cost-benefit calculation by the government considering the information available to them.

In this framework, the cost-benefit calculation by the government is highly dependent on the specific perceptions and beliefs held by the politician, which together constitute the specific *political preference constellations*. The two possible constellations predicted by the framework are explained in the section above. At the same time, the choice of a dismantling strategy by a government is expected to be dependent on *opportunity structures* in which the governments operate. As mentioned, this thesis conceives of opportunity structures as the institutional set-up of the social policy in question, and how this set-up creates new actors in the social policy realm with opportunities to oppose dismantling efforts by the government (Bauer et al., 2012, pp. 37-38, 39-42).

The choice of a dismantling strategy is further dependent on *external factors* (Bauer et al., 2012, pp. 38-39). These can include macroeconomic conditions such as “the stability of financial system, technological change, the spread of certain ideas to reform the public sector (like economic neo-liberalism), or the political saliency of specific topics.” In practice, external factors act to control for intervening variables in the analysis. For Slovakia and Czech Republic, the external factors relate to common pressures faced by Bismarckian PAYG pension systems, namely demographic and fiscal concerns for the sustainability of the system.

In the final step, the analytical framework predicts four ideal-type dismantling strategies according to the desired visibility and extent of dismantling, as explained in the conceptualization. Each dismantling strategy carries theoretical expectations about the conditions that may lead governments to choose them. Dismantling by default is expected in a “lesser evil” constellation with opportunity structures that ensure institutional constraints against dismantling. Arena shifting also implies the “lesser evil” constellation, meaning governments have an incentive to “hide” their dismantling efforts; however, the opportunity structures impose fewer constraints on government activity. Symbolic action implies a “vice into virtue” constellation, but the dismantling efforts are mediated by the opportunity structures. Finally, active dismantling indicates also indicates a “vice into virtue” constellation along with opportunity structures that are permissive to dismantling efforts by the government, meaning the actors in the social policy realm would be unable to contest any dismantling efforts (Bauer et al., 2012, pp. 42-45).

5. Research design

This study is designed to be a comparative case study of two instances of policy dismantling in Slovakia and Czech Republic. The chosen method of data analysis will be a historical study (Trachtenberg, 2009). The research in this project will aim for a rich case description for each of the cases, to ascertain the specific conditions that influenced the varying choices of dismantling strategies. Case studies around the neoliberal pension reforms and the subsequent dismantling periods in each country will be constructed. The case studies will initially focus on identifying the effects of the dismantling periods in each country, through which a particular dismantling strategy can be identified for each case. Afterwards, the case studies will focus on identifying the politician's political preference to dismantle, and the opportunity structures within which they operated. This study will be largely informed by the analytical framework explained above. This design allows for the construction of historical narratives on how the different conditions, which influence one another, ultimately influenced the diverging outcomes in both cases. A high importance is placed on the role of context for each of the cases in this study, and as such, a historical study is better suited to this research than content analysis. The data that will make up the analysis will be based on primary sources such as reports from pension reform commissions in both countries, policy documents, and public comments. Secondary sources such as Slovak and Czech newspaper articles and academic literature about the dismantling efforts in each country will supplement the primary sources in establishing a historical narrative. The data for each case will be selected in time periods relating to the original pension reforms and their subsequent dismantling periods in both countries: 2004-2010 in Slovakia and 2011-2016 in Czech Republic.

Case selection

The choice of Slovakia and Czech Republic is justified based on the cases constituting an empirical puzzle. Numerous similarities can be observed between the two countries. Both countries share a common historical heritage through Czechoslovakia (1919-1993) As such, the two welfare states share a common starting point. In the early years after the dissolution of Czechoslovakia, the two countries were observed to be on similar welfare reform path, but at differential speeds, largely influenced by the deep recession caused by the transition from socialism to a market-based economy (Potůček & Radičová, 1997). Therefore, a difference in the two countries' pension systems is puzzling.

Beyond this consideration, both cases share crucial characteristics which will be particularly helpful in ruling out confounding variables for the analysis. Both countries are consensus-based democracies, with multi-party systems with elections based on proportional representation. They are both EU member states and joined the EU at the same time (2004), meaning they largely share macroeconomic outlooks, i.e. the immediate effects of economic crises are likely to be similar for both. Furthermore, and crucially, the pension systems in both cases are based on Bismarckian principles of social insurance gained from employment (Botek, 2020; Sirovátka & Ripka, 2020). As such, it may be argued that they both experience pressures experienced by most Bismarckian systems: short term financial concerns linked to the generation of deficits in the economy, and long-term sustainability concerns linked to demographic shifts (Schludi et al., 2021). The difference of concern for this analysis is in the II. pension pillar. Both cases are examples of a left-leaning government attempting to dismantle a social policy instituted by a previous right-leaning government. This similarity tackles party ideology as another confounding variable in this analysis, as the role of the political beliefs of the involved politicians in choosing a specific dismantling strategy can be held to be constant.

6. Case studies

Slovakia

Overview of original pension reform and subsequent dismantling period

The 2004-2005 pension reform in Slovakia was conceptualized and implemented by a center-right governing coalition of Christian Democrats and Liberals. At the time of the reform, the government held a slight majority of 78 out of 150 seats in the Slovak parliament.

There were numerous goals which the reform was trying to achieve. On one side, the reform sought to transfer some of the burden of responsibility for providing adequate pensions from the state to the individual themselves. On the other side, the reform sought after a supply-side boost to the economy by injecting capital into the “relatively dormant” Slovak capital market (Fisher et al., 2007, p. 983). These goals were largely achieved through the implementation of a mandatory II. pillar of personal pension plans, which constituted a significant privatization of a part of the public system. The main parts of the 2004-2005 pension reform are visualized in Table 3 in the appendix.

The Dzurinda government explained its intention with the pension reform in its proposal titled “Conception of pension insurance reform” from 2003, primarily authored by the Minister for Social Affairs Ľudovit Kaník (MPSVR, 2003). Kaník strongly argued for the need for mandatory entry for all new workers entering the labor market in 2005. According to the government, the II. pillar had to made mandatory due to the “moral hazard of individuals from lower income groups” on one side, and “the existence of shortsightedness in the decision-making of individuals” on the other (MPSVR, 2003). The contributions to the II. pillar are paid directly to a pension savings account, managed by government-certified pension management companies (PMCs). The PMCs in turn invest the contributions into pension capitalization funds, which in turn yield a return on the investment over time. Contributors were allowed to choose an “investment strategy” which determined what kinds of funds was the PMC allowed to invest the contributions into. The entire savings account is then used as a personal pension plan for the contributor along with the pension provided by the mandatory I. pillar. Kaník argued that this design will “make the PMCs subject to mutual competition on the market, which would generate pressure for quality improvement in the management of pension assets” (MPSVR, 2003). The 2004-2005 pension reform introduced PMCs as an important interest group in the pension system, united by the Association of pension management companies (ADSS).

Once the reform was passed, a significant public relations campaign was launched by the Ministry of Finance in coalition with the newly entering PMCs. By 2006, around 1.39 million active workers, or about half of the working population in Slovakia, entered the II. pension pillar and begun paying contributions to it. This significantly contributed to a smooth transition from the previous system (Fisher et al., 2007). It can also be argued that the mandatory component of the II. pillar for young workers also significantly improved the likelihood of success of the policy.

Political preference constellations

The 2006 parliamentary elections saw the victory of Smer-SD led by Prime Minister Fico, who formed a left-populist coalition with the Slovak National Party (SNS) and ĽS-HZDS. In its program, the newly formed Fico government stated that the II. pension pillar “will be preserved by this government,” but that an “element of voluntariness” will be implemented “so that the existence of the II. pillar does not disturb the stability of the continuously financed system” (Programové vyhlásenie vlády SR, 2006). This program statement suggests that the Fico government planned to embark on making changes to the II. pillar, but that it was opposed to completely dismantling the entire policy. Yet, just 2 weeks after the election in June 2006, Fico was quoted saying that his government will “change the II. pillar,” arguing further that “half of the money (contributions) flows to private companies” (SME, 2006b). An overview of the major legislative changes to the II. pillar over the 2006-2010 dismantling period is found in Table 5 in the appendix.

The most significant legislative change to the II. pillar came in the form of removing the mandatory entry requirement for new workers after 2007. The mandatory entry was replaced with voluntary entry, which significantly curbed the influx of new entrants into the II. pillar after 2007. The government broadly justified these changes either based on managing deficits created in the I. pillar (SME, 2006b) or as "giving people a choice" (SME, 2006a; 2007e). However, the government itself did not expect many people leaving the II. pillar (SME, 2007e). During the periods that the II. pillar was open, around 107,000 people (7% of all contributors to the II. Pillar) chose to leave the II. pillar and to move all previous contributions made back to the I. pillar (INEKO, 2007). Curbing the regulated profit margin of PMCs can be understood as ideologically motivated legislative changes coming from a left-leaning government, which partly served to diminish the position of PMCs as an interest group resisting dismantling. PMCs argued that these changes would cause lower profits for the PMCs as well as lower pension levels (ADSS, 2019). Finally, forbidding PMCs from investing into un-guaranteed funds was largely seen as a response to the developments surrounding the 2007-2008 global financial crisis. Deputy government officials argued that "we don't want PMCs to invest into risky capital" (SME, 2007a). In effect, these legislative changes transformed the II. pillar into "a form of a bank savings account" (Ódor & Povala, 2020).

Alongside the formal legislative changes, the Fico government engaged in frequent verbal criticisms of various aspects of the II. pillar, often without any significant proof provided. In 2007, Fico stated that his government saw the II. pillar as "bad," and that they only "respect it" because "people have money in it" (SME, 2007a). The leading Slovak think-tank, the Institute for Economic and Social Reforms (INEKO) describe these verbal attacks by Fico as attempts at "showing the risks of investing pension savings, often without any truth to them" (INEKO, 2007). Another example of these attempts is seen in another interview, where Fico disparaged the PMCs' financial management of private pensions, without providing any evidence of wrongdoing (SME, 2007b). In a later interview in April 2008, Fico declared that he himself is not saving in the II. pillar, and advised all of those currently contributing to the II. pillar to "run away from it very quickly" (SME, 2008b). Around the same time, the Ministry of Social Affairs begun distributing letters containing information on the supposed impacts of the global financial crisis on the performance of private pension funds operated in

Slovakia, distributed to all active contributors to the II. pillar (Nový Čas, 2008; SME, 2008a). Later, Finance Minister Počiatek (Smer-SD) argued that the II. pillar "was unprofitable for 500,000 people," once again without significant evidence (SME, 2009). Finally, on numerous occasions, Fico appeared to suggest that the proportional split in contributions between the I. and the II. pillar should increase in favor of the I. pillar, which could severely threaten the revenue for PMCs (SME, 2006b; SME, 2007d).

Opportunity structures

Both the verbal and the legislative offensive mounted against the II. pillar and PMCs by the Fico government provoked frequent media reactions those opposed to dismantling, namely the ADSS. The conflict of Fico and the PMCs already begins in 2006, when the CEO of VUB Generali (PMC) Kouřil suggested that Fico "is trying to change the rules in the middle of the game" in response to the suggestion that II. pillar contributions should proportionally decrease. Kouřil further argued that as all PMCs are foreign owned, "this move would not cause any satisfaction in Europe" (SME, 2006b). When Law n. 555 (which "opened" the II. pillar) was being proposed, the ADSS went on a public relations offensive, suggesting they will seek to block the government efforts and seek compensation through the Constitutional court. ADSS also published and medialized its own analysis, which suggested that dismantling the II. pillar would make the pension system unsustainable (SME, 2007c). In reaction to the infamous letter from the Ministry of Social Affairs about the supposed disadvantages of the II. pillar, the ADSS produced its own letter which denied the claims of the government and accused it of misleading contributors (Nový čas, 2008). These public relation campaigns by the ADSS serve as proof of the PMCs often acting against government dismantling efforts as an interest group with a vested interest in keeping the II. pillar in place.

Czech Republic

Overview of original pension reform and subsequent dismantling period

The 2012-2013 Czech pension reform, also named the "large pension reform," was conceived of and passed by a center-right government consisting of the liberal Civic Democratic Party (ODS), the liberal-conservative TOP 09 party, and the populist Public Affairs (VV). The government was led by Prime Minister Nečas (ODS). The 2010 government manifesto stated that the existing two-pillar PAYG system will be supplemented "with the option for private savings," with the goal of "preparing a financially sustainable system in the long term" (Programové prohlášení vlády ČR, 2010). For this purpose, the government created the Advisory Expert Committee of the Ministry of Finance and Ministry of Social Affairs (PES).

PES identified two main reasons for the need for a pension reform: on one side, the PAYG system at the time was "unsustainable in the long term, with a continually generated deficit of 4% of the GDP." On the other, the Czech pension system featured "a low degree of diversification and a high degree of solidarity, to the detriment of the state and the individual." The final findings of PES advised the government to undertake a pension reform which included the introduction of the II. pillar based on capitalization (PES, 2010). The main changes made through the "large pension reform" are specified in Table 4 in the appendix.

The "large pension reform" largely emulated the system of PMCs instituted in Slovakia (Klepárník et al., 2017). However, it is important to note some of the key differences in the Czech pension reform. A key feature of the Czech II. pillar was the voluntary entry component, which effectively left the decision to diversify their pensions entirely up to the citizen. Furthermore, the 5% contribution rate upon is comparably lower than other similar reforms in Central and Eastern Europe. While on one side, this feature allowed for lower deficits generated in the public I. pillar, on the other it significantly weakened the financial capabilities of private pensions funds to generate significant revenues as well as higher pension levels. These policy settings were criticized in hindsight by the governmental Information and Analysis Department of as "problematic" (Klepárník et al., 2017, p. 103). The Nečas government was forced to resign in June 2013 following a succession of scandals involving corruption and illegal use of the secret information service (iRozhlas.cz, 2013a; ČT24, 2013).

Political preference constellations

The political opposition, namely the Czech Social Democratic Party (ČSSD) quickly communicated their intention to "cancel" the II. pillar once they gained power (ČSSD, 2013a). Head of opposition and future Prime Minister Sobotka called the II. pillar "the dead-born child of the Nečas government" (ČSSD, 2013b).

Early parliamentary elections following the resignation of the The Nečas government in October 2013 resulted in the victory of a powerful left-leaning coalition holding 111 out of the 200 seats in Czech parliament, consisting of ČSSD, the populist Action of Dissatisfied Citizens (ANO), and the conservative KDÚ-ČSL. In its government manifesto, the government committed itself to create "an expert commission on the phase-out of the II. pillar" (Programové prohlásení vlády ČR, 2013). The result was the "Expert Commission on Pension Reform," who advocated for the progressive "closing of the II. pillar" in its 2014 report, approved by the Sobotka government (Vostatek, 2014). Soon enough, the Sobotka government begun to communicate its intention to completely dismantle the II. pillar by January 2016 (ČT24, 2014).

Opportunity structures

At the time of the reform, criticism for the policy design came from many directions, including professional unions, the political opposition, President Klaus and the wider public. Both the Czech Industry and Trade Union (SPO) and the Czech Moravian Confederation of Professional Unions (CMKOS) agreed that the II. pillar was "unnecessary" as well as "comparably weak relative to other private pension schemes in the region" (E15, 2011). In a poll from October 2011, 74% of respondents were against the implementation of the "large pension reform," including the II. pillar (Klepárník et al., 2017). President Klaus initially vetoed the proposed legislation for the creation of a II. pillar, stating: "Pension reform requires as wide-ranging social and political consensus as possible. Currently, no such consensus exists" (Klaus, 2012). The Nečas government managed to break Klaus's veto in December by the smallest margin possible – 101 votes out of 200 in the Czech parliament – to finally pass the reform (Klepárník et al., 2017).

There was broad agreement within the government about the need to dismantle the II. pillar completely, perhaps except for Finance Minister Babiš, who argued that the government "had to better explain the II. pillar to the people" and that "we should not get rid of it completely," and later admitting that dismantling the II. pillar "was a mistake" (HN, 2013; Aktualne.cz, 2014; E15, 2014). It is estimated that in 2013, only about 85,000 people entered the II. pillar, despite government expectations of up to 500,000 new entrants (iRozhlas.cz, 2013b; iRozhlas.cz, 2015).

In reaction to the government dismantling efforts, newly created PMCs who only just begun to operate in the country soon begun to "give up" on the II. pillar and "stop selling private pension plans to people" (Měšec.cz, 2014). The government committed to return all the money invested through PMCs within 1 year of the full dismantling of the II. pillar (E15, 2015).

7. Discussion

The case studies presented in the previous section will now each be discussed in relation to the research question: ***What was the effect of political preference constellations and opportunity structures on the choice of dismantling strategy for governments in Slovakia***

and the Czech Republic? The historical narratives and context provided by the previous section will be used to explain to observed connection between opportunity structures, preference constellations, and the choice of a dismantling strategy. The most relevant factors identified in the case studies are shown in the table below.

Relevant factors	*Slovakia*	*Czech Republic*
Mandatory or voluntary entry?	Mandatory	Voluntary
Main reasons for implementing II. pillar	Long-term sustainability concerns Supply-side boost to economy	Long-term sustainability concerns Diversifying pension options
Number of entrants into II. pillar after 1 year	~1,400,000	~50,000
Main source of opposition to dismantling	Pension management companies united via ADSS	Finance Minister
Identified political preference constellation	Combination of vice into virtue and lesser evil	Vice into virtue
Choice of dismantling strategy	Arena shifting + Symbolic action	Active dismantling

Table 2: analysis of relevant factors from each case study. Source: own analysis.

Starting with the Slovak case, the identified political preference constellation in which the Fico government operated is a combination of the "vice into virtue" and "lesser evil" constellations. This implies that the Fico government's cost-benefit calculation varied over time. Prior to the global financial crisis, the Fico government's main objection with private pension schemes appeared to be the deficits it had created in the public scheme by lowering the number of contributions flowing to it. This suggests that the Fico government initially operated in the "lesser evil" constellation. At the same time, the government had to operate in an opportunity structure in which the high number of new entrants into the system created a large constituency with newly accrued property rights within their pensions, heavily influenced by the mandatory entry requirement for new workers. This resulted in the use of arena shifting as the dismantling strategy. The government was clearly compelled to "hide" their dismantling efforts through numerous manipulations in eligibility criteria and administrative capacity of PMCs within the II. pillar. Justifications for these manipulations tended to portray the government's actions as improving the policy; however, most of the legislative changes served to weaken the policy overall in the long-term. Interestingly, one of the first major legislative actions of the Fico government was the remove the mandatory entry component. This action shows that the government clearly perceived mandatory entry as an important institutional impediment to their preferred policy. Separately, the frequent verbal attacks on the management of PMCs can be seen as an attempt to attach blame onto specific entities with a name (as opposed to a policy), showing evidence of attempts at shifting arenas.

As the global financial crisis impacted the Slovak economy, the Fico government begun to see the II. pillar as an inefficient policy, which may even threaten the pension level of future retirees. This transitioned the government's preference constellation into "vice into virtue," as the government begun to perceive the benefits of dismantling as higher than the costs. Simultaneously, the government's prior dismantling efforts had provoked the ADSS to begin actively opposing these efforts, which also arguably shifted the government's perception of the opportunity structures. The ADSS was not afraid to threaten the use of legal action against the government and was effectively forced to frequently correct the Fico government's non-factual statements about the profitability of private pension funds. While there is limited evidence that the actions of the ADSS had a direct influence on the decision-making in the Fico government, what is clear is that the Fico government saw the ADSS as the personification of its problems and treated it as such. This gradual shift in preference constellations and opportunity structures is also visible in the choice of dismantling strategy, as the government moved away from arena shifting towards symbolic action. This is evidenced by frequent suggestions of lowering the proportional split of contributions going to the II. pillar, with the government never pursuing the actual legislative change.

As for the Czech case, the identified political preference constellation is the "vice into virtue" constellation. This implies that the Czech government perceived the political benefits of dismantling as higher than the costs, compelling it to engage in dismantling that is "clearly visible and attributable to them." Prior to taking power, the future coalition parties, and the CSSD, signaled their intention to dismantle the II, pillar fully once they return to power. When compared to the Slovak case, the clear intentions to dismantle become apparent when comparing the government manifestos: whereas the Fico government in Slovakia still had to commit itself to "preserving" the II. pillar (despite obvious ideological differences with the policy), the Sobotka government outright committed itself to fully dismantling the policy. In relation to opportunity structures, the Sobotka government had to operate in an opportunity structure in which the number of new entrants into the II. pillar within the first year was relatively underwhelming, compared to the government's own expectations as well as the numbers seen in the Slovak case. As a result, the decision to dismantle must have appeared much simpler for the Sobotka government, which pursued an active dismantling strategy.

Furthermore, an argument could be made that there was an absence of a relevant interest group (such as the ADSS in Slovakia) acting as an opponent to the Czech government's dismantling activity, which may have "enabled" the active dismantling strategy. However, this cannot be considered the result of a specific causal mechanism. Rather, the absence of a relevant interest group to challenge the dismantling activity in the Czech case is a product of the shortened transition period caused by early elections in the Czech Republic being won by an ideologically opposed coalition. Compared to Slovakia, where the transition period from implementation until the next elections was around 1.5 years, the II. pillar in the Czech Republic only had about 6 months between implementation and the collapse of the Nečas government. In this way, it may be argued that the early collapse of the Nečas government ensured the dismantling of the II. pillar in the Czech Republic. On the other hand, the 2004-2005 Slovak pension reform was designed to survive the next electoral cycle, helped by its mandatory entry component which ensured a steady flow of new contributors to the II. pillar, precluding any substantial dismantling activity.

8. Conclusion and evaluation

Considering the research question, the main findings of this thesis are following. In Slovakia, the interaction of the "lesser evil" constellation and key institutional impediments against dismantling initially led the Fico government to use arena shifting as their dismantling strategy. Following the 2007-2008 global financial crisis, the Fico government transitioned to the "vice into virtue" constellation. Faced with the same institutional impediments against dismantling, the government shifted their dismantling strategy to symbolic action. The key institutional impediments which acted against the Fico government's dismantling efforts were identified to be the mandatory entry component for new workers, and the creation of new and relevant actors in the social realm in the form of PMCs. In the Czech Republic, the interaction of the "lesser evil" constellation with an opportunity structure that lacked these key institutional impediments led the Sobotka government to pursue active dismantling. As such, the II. pillar was abolished in the Czech Republic, leading to the empirical puzzle observed today.

The findings of this thesis contribute to academic literature on policy dismantling by showing that the presence of institutional impediments against dismantling may have mediating effects on a government's dismantling efforts, irrespective of the government's political preferences about dismantling. This finding is in line with the argument originally made by Pierson (1994, 1996) about the strong path-dependence exhibited by inherited social policy arrangements (also called "policy feedback"). Furthermore, it should be clear that the sequencing matters: opportunity constrains largely determine the preference constellation (and not the other way around), which in turn together influence the choice of dismantling strategy. On the other hand, the findings of this thesis challenge the wisdom that policy dismantling is an "extremely treacherous" activity for governments as argued by the policy retrenchment literature (Pierson, 1994, p. 18). The Czech case has shown that dismantling can, under certain conditions, happen quite smoothly. Equally, the Czech case has shown that dismantling does not necessarily have to be "inherently unpopular" either (Pierson, 1994, p. 18).

However, these findings ought to be evaluated considering the weaknesses of this thesis. Firstly, it should be noted that the dismantling period that was analyzed in Slovakia is longer (4 years) than in Czech Republic (2.5-3 years). As such, there is simply more studied material coming from the Slovak context, leading to lower accuracy in ascertaining the conditions faced by the Czech government. Secondly, the findings for both countries are context-dependent, as per the design of this study. As such, the transferability of these findings to other cases of dismantling is severely limited. This is further impacted by the nature of this thesis as a comparative study with the use of case studies. Finally, given the use of historical analysis as the research method, the nature of the sources studied is quite eclectic, leading to findings that heavily rely on interpretation. The findings of this thesis could be further ascertained using methods that focus specifically on the identification of causal mechanisms while also being amenable to actor-centered approaches, such as process tracing (van Meegdenburg, 2022). Nevertheless, the example of policy dismantling shown in this thesis constitutes an area for future research to focus on. Reversals in pension policy, like the ones observed in this thesis, have also occurred elsewhere in the region of Eastern Europe around the same time, including Hungary and Poland (Naczyk & Domonkos, 2016). As such, these cases constitute options for future research in this topic.

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10. Appendix

Table 3– overview of main changes before and after the Slovak 2004-2005 pension reform.

Source: own analysis

<table>
<tr><th>Pensions before reform</th><th>Pensions after reform</th></tr>
<tr><td>

Mandatory security (I. pillar)

Contribution rate: 28.75%
Pay as you go
Pensions level calculated on the basis of 10 last years before retirement
Valorization of pensions by government decree every year; defined-benefit

Voluntary supplementary pension (III. pillar)

Various forms, availability dependent on the employer
Generally, workers can commit up to 3% of own gross wage to a savings account, employers incentivized to match the contribution

</td><td>

Mandatory I. pillar

Contribution rate: 18% (becomes 9% upon entry into II. pillar)
Pay as you go
Managed by the Social Insurer, a public institution
Pension level calculated on the basis of 10 best performing years
Automatic valorization of pensions; defined-benefit

Mandatory II. pillar

Contribution rate upon entry: ½ of I. pillar contribution (9%)
Mandatory entry for new workers after 2005; rest can join voluntarily if they have more than 10 years left until retirement
Once entered, leaving is not possible
Contributions paid directly into a savings account, managed by PMC
Pay as you go + Capitalization financing
Defined-contribution

</td></tr>
</table>

	• Voluntary III. pillar ○ No changes

Table 4 – overview of the main changes before and after the Czech "large pension reform." Source: own analysis

Pensions before reform	Pensions after reform

• Mandatory I. pillar
  ○ Contribution rate: 28%
  ○ Pay as you go
  ○ Pensions level calculated on the basis of 10 best years before retirement
  ○ Automatic valorization, defined-benefit
 	
• Voluntary supplementary pension (III. pillar)
  ○ Various forms, availability dependent on the employer
  ○ Generally, workers can commit any % of own gross wage to a savings account, employers incentivized to match the contribution, state contributes around 10-12% of nominal value contributed
	• Mandatory I. pillar
	  ○ Contribution rate: 28% (becomes 25% upon entry into II. pillar)
	  ○ Pay as you go
	  ○ Managed by the Social Insurer, a public institution
	  ○ Pension level calculated on the basis of 10 best performing years
	  ○ Automatic valorization of pensions; defined-benefit
	
	• Voluntary II. pillar
	  ○ Contribution rate upon entry: rate increases to 30% overall, out of which 5% is contributed to the II. pillar
	  ○ No mandatory entry requirements; once entered, leaving is not possible
	  ○ Contributions paid directly into a savings account, managed by PMC
	  ○ Pay as you go + Capitalization

	financing ○ Defined-contribution • Voluntary III. pillar No changes

Table 5 – overview of legislative changes relating to the II. pillar in Slovakia, 2006-2010. Source: Novysedlak, 2012; Odor & Povala, 2020. (These legislative changes are "coded" according to the operationalization found in Table 1.)

Law, number	Year	Notes	Change in policy density and intensity
Law n. 677	2006	Lowered the regulated profit margin of PMCs from 0.07% of the average monthly value of managed investmen Sts to 0.065%	Lowered formal policy intensity (enforcement, administrative capacities lowered)
Law n. 555	2007	"Opened" the II. pillar for the first 6 months of 2008; active workers who have chosen to enter are allowed to leave again. Mandatory entry for new workers removed; voluntary entry for all Extended the minimum period of coverage needed in both I. and II. pillar to be eligible for pensions from 10 to 15 years.	Lowered formal policy intensity (enforcement capacities removed) Lowered substantial policy intensity (lowered instrument/policy scope, regulatory stringency lowered)
Law n. 434	2008	"Opened" the II. pillar again between 15th	Lowered substantial policy intensity (regulatory stringency lowered)

		November 2008 and 30th June 2009.	
Law n. 137	2009	Lowered the regulated profit margin of PMCs from 0.065% of the average monthly value of managed investments to 0.025%	Lowered substantial policy intensity (enforcement, administrative capacities lowered)
Law n. 137 (amended)	2009	Outlawed PMCs investing into non-guaranteed funds, leaving state bond funds as the only investment strategy available. Lowered the number of investment strategies available to contributor.	Lowered instrument density (lower number of instruments available)