MANNHEIMER ZENTRUM FÜR EUROPÄISCHE SOZIALFORSCHUNG

MZES

Working Paper

Nr. 65, 2003

The Politics of Institutional Path-Departure: A Revised Analytical Framework for the Reform of Welfare States

Martin Hering

UNIVERSITÄT MANNHEIM

Martin Hering

The Politics of Institutional Path-Departure: A Revised Analytical Framework for the Reform of Welfare States

Hering, Martin:

The Politics of Institutional Path-Departure : A Revised Analytical Framework for the Reform of Welfare States / Martin Hering. –

Mannheim : 2003

(Arbeitspapiere - Mannheimer Zentrum für Europäische Sozialforschung ; 65)

ISSN 1437-8574

Not available in book shops.
Token fee: € 2,60
Purchase: Mannheimer Zentrum für Europäische Sozialforschung (MZES), D – 68131 Mannheim
WWW: http://www.mzes.uni-mannheim.de

Editorial Note:

Martin Hering is a Ph.D. Candidate in the Department of Political Science at the Johns Hopkins University in Baltimore (USA).

Abstract

This paper argues that the existing theories of welfare state reform are powerful in explaining the path-dependent adjustment of welfare states from the 1970s to the 1990s, but that they fail to account for institutional path-departures which are becoming more common in the 2000s. By examining the deviant case of pension privatization in a frozen welfare state, the paper first confronts current theories with the reform experience in Germany between 1996 and 2001 and demonstrates that it contradicts their expectations and implications regarding the initiative, the process, the strategies as well as the outcome of welfare state reform. It then seeks to improve the existing analytical framework by suggesting a better concept of change in welfare states and by incorporating two additional theoretical components, termed “institutional interference" and "creative opportunism", that jointly lead to a better understanding of institutional path-departure in highly unfavorable settings. Finally, the paper uncovers the underlying assumptions of the three existing components – blame avoidance, vested interests and policy legacies – and shows that turning them into conditions further helps us to resolve the paradox of major institutional change in frozen welfare states.

Contents

Introduction*

The welfare state is one of the most resilient aspects of the postwar political economy, the German welfare state is one of the most reform-resistant within the advanced industrialized world, and mature pay-as-you-go pension systems are the most path-dependent element of contemporary welfare states (Pierson 1996). Yet, in 2001, a center-left government initiated the partial privatization of Germany's vast pay-as-you-go pension system. Germany is the first member of the Continental family of welfare states to partially privatize public pensions. The introduction of a new private pension tier breaks the monopoly of the public pension system in retirement provision. It also ends the pattern of development that dominated in the past 25 years. From the onset of the crisis of the welfare state in the 1970s until the end of the 20th century, the basic structure of the German welfare state was frozen. By contrast, in the 2000s the German welfare state has entered a period of transformation.

Pension privatization marks a departure from the development path of the Continental welfare state. The partial replacement of public pension benefits through private retirement savings diminishes the responsibility of the state and creates a new responsibility of the market in old-age security. Thus, by shifting responsibility from the state to the market, Germany is slowly moving into the direction of the liberal world of welfare capitalism. How do we explain the puzzle of major institutional change in a frozen welfare state? And how do we account for the sharp differences over time? The German welfare state exhibited extraordinary path-dependence throughout the 1970s, 1980s and 1990s. How, then, do we account for the break of path-dependence and the occurrence of path-departure in the 2000s?

The development of the German welfare state during the past three decades proved the power of the existing framework to study the “the new politics of the welfare state” (Pierson 1996). Even severe problems did not lead to structural changes. The structure of the German welfare state only compounded these problems (Scharpf 2000). If there were a prize for the welfare state that displays the highest resilience when confronted with the strongest pressures and the biggest problems, in the 1990s it would have probably gone to Germany. The partial privatization of public pensions, however, turns Germany into a deviant case. The obstacles that explained the resilience of the German welfare state in the past – strong popular support, strong vested interests and strong policy legacies – continue to exist in the present. And favorable conditions that could overrule these obstacles – centralized political institutions, a conducive structure of party competition or a successful policy discourse, for example – remain absent in the case of Germany.

It is not only the outcome of welfare state reform, however, that contradicts current theories of the welfare state. The process of reform is also inconsistent with a number of important propositions and

* The author would like to thank Mark Blyth, Bruno Palier, Fritz Scharpf, Kent Weaver and two anonymous reviewers for helpful comments and suggestions.

theoretical implications of the existing framework. There are three facts that are puzzling about the reform process. First, a blame-fearing government – and notorious welfare state defender – initiates the partial privatization of the core program of the German welfare state without securing the consent of its main competitor in the electoral arena. Second, reform-resistant trade unions approve substantial benefit cutbacks and the replacement of public pensions through private savings, although they were heavily opposed to these measures throughout the 1990s. Third, Germany has initiated the partial transition from its mature, public pay-as-you-go pension system to a new private and funded old-age security system irrespective of the enormous fiscal and political costs that this transition entails. The German case of pension privatization thus raises a number of critical questions that have general relevance for the politics of welfare state reform in advanced industrialized countries. Why do social democratic parties often take the lead in partially privatizing the welfare state? Why are governments willing to commit electoral suicide by choosing highly unpopular policies? What creates a "permissive consensus" about social cutbacks among voters who have strong attachments to the welfare state? Why do trade unions join a coalition to privatize the welfare state? Finally, why are transitions from pay-as-you-go to funded systems possible in mature welfare states?

The strength of contemporary theories in explaining welfare state resilience in the past 25 years contrasts with their weaknesses in accounting for the fundamental changes in welfare states that are happening in the current decade. The general remark that Peter Hall has made about comparative political economy applies especially to studies of the welfare state: the field "... must now come to grips with problems of change rather than continuity" (Hall 1999, 136). In the 1990s, the most important and nearly unanimous finding of the field was the remarkable stability of welfare states: the basic structure of welfare states remained unchanged throughout the 1970s, 1980s and 1990s (Esping-Andersen 1996b, 266-267; Pierson 1994, 182; 1996, 176; Weaver 1998, 187). This finding was an especially accurate diagnosis for the Continental welfare states which at the time were considered to be "immune to change" (Esping-Andersen 1996c, 67). The German welfare state was even marked by "depoliticized institutional rigidity" (Offe 1991, 128) which made major institutional change even more unlikely than in countries where at least one of the parties was programmatically committed to welfare state retrenchment.

In the comparative politics of the welfare state powerful theories were developed that were able to solve the puzzle of welfare state resilience even in the face of strong socioeconomic pressures and fundamental challenges from conservative governments (Pierson 1994; 1996; Pierson and Weaver 1993; Weaver 1998). These theories have been empirically corroborated by the development of welfare states in the second half of the 1990s (Pierson 2001b), and they continue to explain the bulk of the variation found in the current development of welfare states. Given that they are unable to explain the puzzle of institutional path-departure, this paper seeks to improve and amend current theories of welfare state reform. I will review the existing theories, confront them with the German reform experience, and after doing so, make suggestions for improving them. By studying the case of major institutional change in a frozen welfare state, I follow the logic of the "deviant case study" in comparative politics (Lijphart 1971, 692-693). My study of pension privatization in Germany has four purposes. First, it seeks to develop adequate concepts to capture fundamental changes in welfare states. Second, it discovers additional variables that were previously overlooked or neglected and makes suggestions about their impact on both the process and the outcomes of welfare state reform. Third, it refines and sharpens the three theoretical components that make up the existing framework for analyzing welfare state reform. Finally, it seeks to draw attention to novel facts that need to be explained by current theories.

The core of my argument is that pension privatization in Germany's frozen welfare state is the outcome of a dual dynamic of destruction and creation that I term "institutional interference" and "creative opportunism". For major institutional change to occur, strong causal forces need to pry open a window of opportunity. The emergence of powerful fiscal institutions at the European level, and the institutional goals and constraints embodied in them, was the single most important factor for pension benefit cutbacks in Germany in the period after 1995. The strong interdependence between European fiscal institutions and the German welfare state institutions resulted in massive institutional interference and produced substantial benefit cutbacks. EU-level fiscal institutions created an opening for major institutional change, but they did not lead to the creation of a new private pension tier. Pension privatization in Germany was the work of creative opportunists and of the ideas that guided their actions. These are innovative, risk-taking and determined political leaders who operate in an uncertain electoral environment, invent new electoral strategies and use half-baked institutional blueprints. Creative opportunists overrule vested interests, ignore electoral constraints and disregard institutional transition problems. Chancellor Gerhard Schröder was by far the most important creative opportunist in the politics of privatizing public pensions in Germany.

Strengths and Weaknesses of Theories of Welfare State Reform

In contemporary theories of the welfare state, there are two basic determinants of reform outcomes. The first determinant consists of a variety of socioeconomic demands and pressures for welfare state reform (Pierson 2001c; Scharpf 2000; Weaver 1998). The most important ones are the competitive pressures resulting from changes in the international economic environment, demographic pressures from population ageing, fiscal pressures stemming from the slowdown of economic growth, rising unemployment and the maturation of welfare states, as well as new demands for social protection arising from changes in the role and structure of households. These socioeconomic demands are either absorbed or reinforced by the welfare state and employment structures (Scharpf and Schmidt 2000b).

The second determinant are political obstacles against welfare state reform that are just as powerful as the socioeconomic pressures that force welfare states to adapt: strong and enduring popular support for the welfare state, strong vested interests, and strong institutional and policy legacies. Pierson has portrayed the politics of welfare state reform as a collision between "irresistible forces" and "immovable objects" (Pierson 1998; 2001a, 416). Within the new politics framework, there are three theoretical components that together account for the initiative, the process and the outcome of welfare state reform. These components can be traced back to Downs' theory of electoral competition (Downs 1957), Olson's theory of interest groups (Olson 1982) and North's theory of institutional path-dependence (North 1990).

The first and most important one is the theory of blame avoidance (Weaver 1986). It explains why governments have strong incentives to refrain from pursuing policies that are unpopular among voters. As Pierson has noted, “[t]he contemporary politics of the welfare state is the politics of blame avoidance” (Pierson 1996, 179). Second, interest group theories focus on the strength of organized interests, both on traditional welfare state supporters such as trade unions and on new welfare state constituencies such as elderly lobbies (Pierson 1994). In addition to resisting or vetoing reforms, strong organized interests also reinforce the blame avoidance incentives of governments because trade unions and elderly lobbies are able to mobilize large segments of voters in elections (Weaver 1986, 394-395). Finally, path-dependence theory highlights the importance of pre-existing institutions and policy legacies as major reform obstacles, especially in the case of mature pay-as-you-go pension systems (Myles and Pierson 2001, 312-320; Pierson 1994, 39-50).

The two basic determinants of reform outcomes are strongest – and at the same time most evenly balanced – in Continental welfare states. Continental welfare states face strong fiscal and demographic pressures, which are magnified by their distinctive welfare state and employment structures, and are confronted with massive resistance from voters and interest groups as well as with strongly path-dependent welfare state programs. The collision between socioeconomic pressures and political obstacles is weaker in Social Democratic and in Liberal welfare states. The former face less severe pressures, and their structures make them less vulnerable to pressures. The latter are confronted with much weaker pressures and generally have weaker obstacles against reforms (Scharpf 2000). Because of the distinctive constellation of pressures and obstacles found in Continental welfare states, they represent crucial cases for the existing analytical framework. They provide the most convincing evidence for the validity of its central theoretical proposition: that socioeconomic pressures alone are unable to explain reform outcomes. If socioeconomic pressures were the only determinant of welfare state reform, we should expect to see the most far-reaching reforms in Continental welfare states. The predominant observation, however, is that the status quo continues. Public pensions are the part of the welfare state that best confirms the power of current welfare state theories. Pensions enjoy the strongest popularity among voters and, in the case of pay-as-you-go pension systems, exhibit the strongest effects of path-dependence (Myles and Pierson 2001; Weaver 1998). In Continental welfare states, pensions are even “politically sacrosanct” (Scharpf and Schmidt 2000a, 331).

How is the collision between socioeconomic pressures and reform obstacles resolved, and what are the outcomes of this resolution? Very often, there is a balance of power between pressures and obstacles that favors the defenders of the status quo. As Esping-Anderson has noted, “... within the advanced industrialized democracies the contemporary politics of the welfare state is a politics of the status quo" (Esping-Andersen 1996b, 266-267). However, governments have increasingly found ways to overcome the dilemma that they are facing. Thus, the political obstacles in mature welfare states do not prevent reforms all together, but channel them into certain directions (Pierson 2001a, 432). Welfare state reforms do occur, but are bounded by the pre-existing welfare state structures. For Continental welfare states, Esping-Andersen has noted that "[a] common characteristic of cutbacks ... is that they are explicitly meant to safeguard – not destroy – the existing [welfare state] edifice" (Esping-Andersen 1996c, 84). Therefore, reform outcomes are generally modest and incremental. Major institutional change is highly unlikely.

There are three sets of favorable conditions that help governments to overcome the resistance from voters and interest groups and to succeed in implementing incremental reforms: first, strategies to reduce, spread or shift blame, second, favorable institutional capacities, and third, a successful policy discourse. The most important "blame avoiding strategy" (Weaver 1986, 384-390) is perhaps the creation of an all-party consensus to diffuse blame. To avoid blame generation, it is critical for governments to incorporate left parties and trade unions into a reform coalition, because they are the traditional supporters of the welfare state. By contrast, in countries where the major opposition party is not a credible defender of the welfare state, voters may be unable to blame the government for welfare state cutbacks because they have no reasonable alternative to turn to (Kitschelt 2001). Governments with concentrated political authority, such as in Great Britain and New Zealand, face fewer veto players when passing legislation (Tsebelis 2002) are sometimes able to implement reforms against the resistance of interest groups (Huber and Stephens 2001; Pierson 2001a, 430). Most of the time, however, the relationship between political institutions and welfare state reform is mediated and complex (Bonoli 2000; 2001; Pierson and Weaver 1993). A successful policy discourse that legitimizes welfare state reforms by appealing to commonly held values may also enable governments to overrule the resistence from interest groups (Schmidt 2000; 2002).

Within the existing framework for analyzing welfare state reform, the theory of blame avoidance is the most powerful theoretical component. It has the largest number of observable implications regarding the initiative, the process, the strategies and the outcome of welfare state reform. Interest group theories are capable of explaining additional features of the reform process and the reform outcomes. The power of path-dependence theory lies predominantly in explaining the absence of major institutional reforms. But unlike the theory of blame avoidance, it so far has little to say about how institutional and policy legacies are overcome, and in which ways the interaction between these legacies and possible facilitating factors shapes reform outcomes. A number of favorable conditions have been identified on the basis of individual case studies, but they have not yet been systematically incorporated into path-dependence theory (Anderson 2001; Myles and Pierson 2001; Weaver 1998). I will discuss the observable implications of these three theoretical components in more detail in the next section where I will examine the German case of pension privatization.

The existing framework of welfare state reform also has some serious shortcomings, however. Most importantly, it cannot account for major institutional change, especially in frozen welfare states. There are two reasons for the failure to account for path-departure. First, the most fundamental problem, yet perhaps the easiest to solve, is that existing theories focus their efforts on explaining the incremental changes in welfare states in response to common socioeconomic pressures. The problem is not so much that there is disagreement within the field of comparative welfare state research about the assessment of outcomes, that is, *how much* change has happened in welfare states (Pierson 2001a, 419-421). The problem is that the field lacks adequate concepts to capture the fundamental changes that occur in empirical reality, and thus the ability to distinguish between *different kinds* of change. Therefore, to explain fundamental change, the field needs to have a concept of fundamental change that is widely agreed upon. Second, current theories usually employ a three-stage causal model to account for the variation of reform outcomes over time and across countries. This causal model consists of pressures, countervailing pressures, and what might be termed "counter-countervailing pressures". The problem is that current research concentrates its efforts on, first, looking for variations of the conditions found in stages two and three, and second, adding new variables to stage three. But it overwhelmingly neglects stage one, and thus the search for the existence of new causes.

Here is an example that illustrates the logic of the three-stage causal model. Pressures emanating from the international economic environment force countries to reform their welfare states. But necessary reforms are blocked by vested interests. The resistance of these vested interests, however, can be partly overcome by centralized political institutions that increase the power of governments. By taking variations in the strength of pressures, the strength of countervailing pressures, and the presence or absence of "counter-countervailing pressures" into account, current theories of welfare state reform are able to explain a large portion of the variation in reform outcomes. I argue, however, that we cannot explain a less frequent, yet more important type of change – major institutional change – through variations in the existing variables that current causal models of welfare state reform have specified. Neither can fundamental change be sufficiently explained by specifying additional "counter-countervailing pressures".

I make three suggestions to address the weaknesses of current causal models of welfare state reform. First, we need to take new and previously neglected causal forces into account, specifically the ideas and interests of governments and – in the case of EU member states – the institutional goals and constraints at the European level. Second, we need to expand recent efforts to analyze the vulnerability of welfare states, that is, how different welfare state structures absorb, or reinforce, the causal forces of welfare state reform. Current research has systematically addressed the issue of vulnerability with respect to socioeconomic demands and pressures (Scharpf and Schmidt 2000c; 2000d). But similar efforts with regard to the vulnerability to institutional goals and constraints at the EU-level are lacking in welfare state research. Third, we need to make the assumptions explicit that underlie the three core theoretical components of the existing framework – the theory of blame avoidance, the theory of path-dependence and interest group theories – , assess the accuracy of our assumptions, and revise them if necessary. But before I present these suggestions for improvement, I confront current theories of welfare state reform with the case of major institutional change in Germany's frozen welfare state, and by doing so, pinpoint their weaknesses in more detail.

The Paradox of Major Institutional Change in a Frozen Welfare State

The German case of pension privatization is puzzling in almost every respect. The political obstacles for welfare state reforms are remarkably strong, and they have grown even stronger during the 1990s. Moreover, the case of Germany does not conform to the theoretical expectations and observable implications of the current framework with regard to the initiative, the process, and the strategies of welfare state reform (see Table 1). The differences over time are also striking: the politics of pension reform in Germany in the post-1995 period is the exact opposite of the German reform experience before the mid-1990s. The first reform period can be explained well with existing theories, but the second one cannot. The mid-1990s were a watershed for the politics of pensions in Germany. In this section, I will first discuss the reinforcement of reform obstacles in the wake of German unification. Next I will turn to the four puzzling issues: the initiative, the process, the strategies and – most importantly – the outcome of welfare state reform in Germany.

Table 1: Pension Reforms in Germany, 1996-2001

	Implications of Existing Theories of Welfare State Reform	Growth and Employment Promotion Act (1996)	Pension Reform Act 1999 (1997)	*Social Insurance Correction Act (1998)*	Budget Consolidation Act (1999)	Old-Age Provision Act (2001)
Initiative	Conservative or Market-Liberal Governments	Christian Democratic-Liberal Coalition	Christian Democratic-Liberal Coalition	*Social Democratic-Green Coalition*	Social Democratic-Green Coalition	Social Democratic-Green Coalition
Grand Coalition	Yes	No	No	*No*	No	No
Union Consent	Yes	No	No	*Yes*	No	Yes
Process	Consensual	Conflictual	Conflictual	*Conflictual*	Conflictual	Conflictual
Implementation of Cutbacks	Long-Term	Mostly Medium- and Long-Term	Mostly Short- and Medium-Term	*[Expansion]*	Short-Term	Mostly Short- and Medium Term
Visibility of Cutbacks	Low	High	Very High	*[Expansion]*	Very High	High
Outcome	Path-Dependence	Path-Dependence	Path-Dependence	*Path-Dependence*	Path-Dependence	Path-Departure
Electoral Consequences	Return to Office	Loss of Office (1998)	Loss of Office (1998)	*Winning of Office (1998)*	Loss of Bundesrat Majority (1999)	Narrow Return to Office (2002)

Reinforced Reform Obstacles

The welfare state enjoys strong and widespread support among the German public (Andreß, Heien, and Hofäcker 2000), German trade unions remain powerful (Iversen 1999; Thelen 2001), and the institutional legacies of Germany's mature pay-as-you-go pension system constitutes a nearly insurmountable barrier (Myles and Pierson 2001). In fact, as a result of German reunification, the reform obstacles are even stronger in the 2000s than they were in the 1980s. First, the immediate one-to-one institutional transfer of the West German pension system to East Germany in the early 1990s created massive new commitments that reinforced the path-dependence of the pay-as-you-go system. German unification added 5 million new pensioners to West Germany's 18 million retirees (Verband Deutscher Rentenversicherungsträger 2001, 30). Second, as Roller has shown, more than half of the population in East Germany lives mostly or completely from social transfers. Moreover, East Germans have an amazingly strong attachment to the welfare state because they were socialized into a “socialist social policy culture”. These orientations are unlikely to fade quickly (Roller 1997).

For political parties, the political costs of welfare state reform are very high in West Germany, but they are even higher in East Germany. Whereas in West Germany, the great majority of the population would be satisfied with the maintenance of the welfare state status quo, almost three quarters of East Germans expect the government to expand the welfare state (Roller 1999a). In united Germany, the political costs of welfare state reform are especially high with respect to the partial privatization of core social programs. When Germans are asked whether they prefer state responsibility or individual responsibility for old-age security and health care, the picture could hardly be clearer: 60 percent of West Germans and 80 percent of East Germans favor state responsibility, only 20 and 10 percent, respectively, prefer individual responsibility (Roller 1999b). Moreover, the new Eurobarometer survey on pensions shows that Germans remain strongly attached to their public pensions. A large majority of voters, both retirees and current employees, is in favor of maintaining the existing level of pension benefits even if it requires to raise taxes or contribution rates (Kohl 2002).

The unanimous finding of the welfare state literature is that Germany faces one of the strongest sets of reform obstacles in the advanced industrialized world (Clayton and Pontusson 1998, 90; Offe 1991; Pierson 1996, 170). German reunification has strengthened these obstacles: it created massive new commitments and led to an unprecedented support of the welfare state among the public. Whereas the likelihood of major welfare state reform was extremely low before reunification, the reinforcement of reform obstacles that occurred in the 1990s decreased this likelihood even further. Following Pierson's theoretical proposition that “... the likelihood of privatization declines in direct relation to the scope and maturity of a pay-as-you-go scheme” (Pierson 1997, 286), the likelihood of pension privatization in Germany seems miniscule: its scope has been expanded by almost one-third in the wake of reunification, and it is one of the world's most mature pension insurance systems.

Social Democratic Reform Initiative

With respect to the initiatives for fundamental changes, the theoretical expectation of current theories is that they are undertaken by conservative governments which have a programmatic commitment to transforming the welfare state and which are also the main channel of representation for business demands for welfare state retrenchment (Huber and Stephens 2001; Keeler 1993; Pierson 1994; 1996). Social democratic governments, by contrast, are highly unlikely candidates for initiating fundamental reforms. But in Germany, the first initiative for the partial privatization of pensions came from a government led by the German Social Democratic Party (SPD).

The welfare state literature gives three reasons why social democrats usually resist, but do not initiate, welfare state reforms (Esping-Andersen 1985; 1990; Huber and Stephens 2001; Korpi 1983). First, social democratic parties were one of the most important builders of the welfare state and can therefore be expected to be fierce defenders of their welfare state legacy. Second, the members and core constituencies of social democratic parties are among the strongest supporters of the welfare state. Social democratic parties thus quickly alienate both voters and members if they initiate large-scale reforms. As a result, the incentives to avoid blame are probably strongest for left parties. Third, left parties often have strong linkages with trade unions, which are the second most important welfare state builder. For these reasons, social democratic parties are much more likely to join the political support coalition for defending the welfare state than to initiate welfare state reforms. In fact, it is usually important for conservative governments to seek the consent of leftist opposition parties in order to achieve at least a small portion of their ambitious retrenchment agenda. Social democratic governments may, of course, be forced to respond to strong socioeconomic pressures, but the outcome of such “reluctant retrenchment” is usually incremental and modest adaptation of the existing structures to the new circumstances.

Most of these theoretical expectations and observable implications were confirmed by the German reform experience in the 1980s and especially in the 1990s. In the 1980s, the SPD opposition was incorporated into a grand coalition to safeguard the pension system. During the 1990s, the SPD fought numerous electoral battles against the modest social cutbacks legislated by the governing coalition of Christian Democrats and Liberals. After the failed attempt of the Kohl government to secure the SPD's support for the pension cutbacks legislated in 1997, the SPD heavily mobilized against the government, promised to rescind these cutbacks if elected into office, won the federal elections in 1998, and fulfilled its promises almost immediately. Moreover, the pension cutbacks implemented by the Schröder government in 1999 to consolidate public finances were highly controversial within the SPD, alienated large segments of its core constituency, led to a series of electoral losses – as well as to the loss of the SPD's majority in the Bundesrat – , and also produced deep frictions between the SPD and the trade unions. But in 2000, the Schröder government initiated the partial privatization of Germany's public pension system. The SPD's initiative contradicts the expectations of current theories of welfare state reform and contrasts sharply with the SPD's role as a fierce welfare state defender during the 1980s and 1990s.

Another important argument made in the literature is that governments are more likely to initiate welfare state reforms if they command a large majority in parliament and are in a powerful electoral position (Kitschelt 2001, 268-269). If governments have a large majority, are highly popular among voters and face a divided opposition party, they are more likely to absorb the negative electoral consequences of unpopular policies. However, none of these conditions was given when the SPD first proposed to introduce a new private pension tier: the majority of the SPD/Green coalition in parliament was small, there was the possibility that a sufficiently large number of MPs will defect (Schludi 2001), the SPD was internally divided, the popularity of the Schröder government had reached a low point (Köcher 1999), and the CDU was both popular and united under the new leadership of Kohl's “crown prince”, Wolfgang Schäuble. Therefore, two important favorable conditions for reform initiatives – the strength of the government coalition and the weakness of the major opposition party – were absent in Germany.

The strength of the SPD/Green coalition was further diminished when it lost its majority in the Bundesrat in 1999. During its oppositional years, the SPD held a majority in the second chamber throughout most of the 1990s, and it could frequently use its veto power to block major legislation, most importantly the Kohl government's tax reform in 1997/1998 (Lehmbruch 2000). The Schröder government started out with a Bundesrat majority when it took office in 1998, but a series of lost Land elections in 1999 led to a return of “divided government” in Germany that prevailed for the rest of the 1998-2002 legislative period. The fragmented power structure of Germany's political institutions – little conducive to the implementation of welfare state cutbacks in the first place, since they provide many veto opportunities (Immergut 1992; Katzenstein 1987) – was reinforced by an unfavorable distribution of power between the Bundestag and Bundesrat.

Conflictual Reform Process, Unilateral Reform Imposition

By far the most unanimous, and empirically best corroborated, theoretical proposition in the welfare state literature is the following: the process of welfare state reform is consensual and based on careful and extensive negotiations among the government, opposition parties and interest groups (Hemerijck 2002; Pierson 2001a, 455). But in Germany, the process was almost the exact opposite: the 2001 pension reform was unilaterally imposed by the governing coalition against the opposition from the CDU and the FDP, and the consent of the trade unions was only secured through a fragile, last-minute “peace treaty” after a long period of strong conflict.

The Schröder government first negotiated with the CDU opposition. But these negotiations broke down, partly because the CDU was ambiguous about cooperating, and partly because Schröder instrumentalized the bipartisan negotiations to embarrass the CDU. Despite the failure to reach an agreement, the SPD/Green government implemented the partial privatization of Germany's pension system. Moreover, chancellor Schröder put the trade unions on the defensive by resisting demands to drop the government's plan to introduce a private pension tier, cut pension benefits and stabilize contribution rates. The concessions that the trade unions secured by agreeing to a last-minute deal were rather modest compared to the big changes that they had to consent to: the substitution of public pensions through private savings, the departure from the principle of parity financing, and the freezing of the pension contribution rate even in the face of demographic change.

In the welfare state literature, broad reform coalitions are regarded as the most effective mechanism to diffuse blame and mute opposition against cutbacks, and thus the best insurance for governments against electoral retribution. The construction of broad reform coalitions is especially important in Continental welfare states because they are faced with the three-fold task to overcome vested interests, provide legitimacy among the public and assure the successful implementation and sustainability of reforms (Pierson 2001a, 451). Moreover, along with the Continental welfare states of Austria, France and Italy, Germany has the most unfavorable structure of party competition for unpopular welfare state reforms. Germany's party configuration leads to “political inertia”, even in economic and demographic crisis situations (Kitschelt 2001). Two credible welfare state defenders, the Social Democrats and the Christian Democrats, are the main competitors in the electoral arena. These hegemonic centrist parties are not counterbalanced by a strong market-liberal party that could push for welfare state retrenchment. Thus, as Kitschelt has noted, “... [i]n this configuration, only social democratic – Christian democratic coalitions that prevent either party from blaming the other for welfare cutbacks may be sufficiently daring to engage in painful social policy changes” (Kitschelt 2001, 286). By contrast, attempts to impose reforms unilaterally are highly likely to lead to the failure to implement the reform and the defeat in the next election. However, for governments that are committed to major welfare state reforms, creating broad coalitions involves a major trade-off: they prevent major changes and consistently produce incremental adjustments.

One of the most important observable implications of current theories of welfare state reform – that the reform process is dominated by negotiations and marked by consensualism – is strongly confirmed by the German reform experience until the mid-1990s. Claus Offe has perceptively described the process of welfare state reform in Germany as “smooth consolidation” (Offe 1991). The politics of the welfare state in Germany was mostly consensual, sometimes even entirely depoliticized, especially in pension politics (Nullmeier and Rüb 1993). As Offe has noted, “... basic controversies over social policies have been extremely rare in the history of the Federal Republic. ... The policy debate has never ... extended to matters of principle and basic institutional features” (Offe 1991, 128).

In the mid-1990s, however, Germany's famous “pension consensus” broke down (Hinrichs 2000, 307-312). Ever since, the politics of pensions in Germany has been dominated by intense party competition and high levels of conflict. None of the five important pension reform laws since 1995 was jointly legislated by the classic bipartisan welfare state coalition between the CDU and the SPD. All were unilaterally imposed over the objection of the major opposition party, either by the Kohl government (in 1996 and 1997) or by the Schröder government (in 1998, 1999 and 2001). Similarly, while the trade unions were part of the coalition that initiated the safeguarding of the pension system in the late 1980s, German governments did not attempt to secure their agreement in three out of five cases in the 1990s, and only half-heartedly in the most recent case. Myles and Pierson have argued that the non-consensual 1997 pension reform is a “rare exception” and have speculated that it “... may turn out to prove the rule” that pension reforms are produced through negotiated settlements (Myles and Pierson 2001, 322). The uninterrupted series of unilateral reforms in Germany since the mid-1990s demonstrates, however, that a new rule has been established in the politics of pension reform. In sum, the challenge for theories of welfare state reform is to explain, first, why governments would risk to legislate reforms unilaterally, and second, under which conditions unilateral reforms are implemented successfully and unlikely to be reversed.

Current theories of welfare state reform specify several other favorable conditions that contribute to the success of governments in overruling the resistance from voters and interests groups and in overcoming policy legacies. I will discuss three of them here only briefly: blame shifting strategies, a legitimizing policy discourse, and parallel paths/alternate policy legacies. First, instead of diffusing blame by forming an all-party reform coalition, governments may use the strategy of blame shifting, or what Weaver refers to as “scapegoating”. It is possible to employ such a blame avoiding strategy in federal or multi-level policies, especially in the European Union, where national governments can blame Brussels for unpopular reforms (Moravcsik 1994; Pierson 1996, 178-179; 1997, 289-290). It has been used by governments in Italy and France, with more or less success. The fact that participation in monetary union (EMU) directly depended upon the consolidation of public finances was crucial for Italian governments in enlisting the support of trade unions for the reform of the pension system (Dyson and Featherstone 1996). But in Germany, as well as in France, the possibility of exclusion from monetary union was not given. The start of monetary union without Italy would have been a possibility – and the German finance minister shocked Italy by entertaining that possibility in public – , but it would have been impossible without France or Germany. Moreover, the German government was unable to instrumentalize EMU as an external constraint, because the Kohl government was the initiator of both the Maastricht convergence criteria and the Stability and Growth Pact (Costello 2001; Dyson and Featherstone 1999; Moravcsik 1998; Stark 2001). Therefore, shifting blame to the European Union was not possible in Germany.

Second, Vivien Schmidt has shown that variations in reform outcomes in the face of vested interests and popular support for the welfare state can be explained by the presence or absence of a successful policy discourse that legitimizes unpopular reforms through the appeal to shared values. Schmidt has also shown, however, that German governments have so far been unsuccessful in constructing a discourse that convinces voters and interest groups both of the necessity and the appropriateness of welfare state reform (Schmidt 2000, 274-281). The Kohl government's neoliberal globalization discourse in the mid-1990s did not resonate well with voters and contributed to its electoral defeat in 1998 (Köcher 1996a; 1997b; 1998a; 1998b). Schröder's social democratic version of the neoliberal discourse – the Third Way/Neue Mitte – has so far not been any more successful (Köcher 2002). Table 2 shows that the SPD lost a lot of the credibility that it had gained in the 1998 federal election by campaigning against the Kohl government's social cutbacks. Voters think that the main beneficiary of Schröder's reform policies between 1999 and 2002 were the state, employers and the wealthy as opposed to employees, the unemployed, the poor and the elderly.

Table 2: Who Benefits from the Government's Reform Policies? (Responses in Percent)

	CDU/FDP Government (1998)	SPD/Green Government (1998)	SPD/Green Government (2002)
The State	57	38	50
Employers	53	19	43
The Wealthy	45	14	39
The Young	24	36	21
Employees	10	42	12
The Unemployed	7	35	7
The Poor	6	33	6
The Elderly	3	23	7

Source: Institut für Demoskopie Allensbach

Finally, conducive conditions for overcoming the policy legacies of mature pay-as-you-go (PAYG) pension systems are the availability of parallel paths and the existence of favorable pre-PAYG policy legacies. The transition from the public pay-as-you-go system to private pensions was possible in Britain because of the prior existence of a viable private pension tier (Pierson 1994, 171-175). In Canada and Sweden, the transition to partial pre-funding occurred in the context of a postwar history of capitalization. Both countries' pension insurance systems were more or less fully funded in the 1960s (Myles and Pierson 2001, 319-320). By contrast, neither of these conditions was given in Germany. First, a parallel path did not exist in Germany before the 2000s. A private pension tier first had to be created by the Schröder government. Private retirement savings and occupational pensions played a truly negligible role (Deutsche Bundesbank 2001). Second, in the postwar period, the German pension insurance systems operated consistently on the basis of the pay-as-you-go principle and was never more or less fully funded.

Visible Reform Strategies, Immediate Cutbacks

The imperative to avoid blame and the need to secure the agreement of trade unions and beneficiary groups critically shapes the reform strategies that governments employ to successfully implement welfare state reforms. Weaver makes the following theoretical proposition: “[t]he more obscure the changes and the longer the delay between when painful decisions are made and when they actually take effect, the better the chances that politicians will be able to avoid blame” (Weaver 1998, 215). Similarly, Pierson argues that “[t]here is every reason to believe that policy makers will seek systematically to engineer changes that produce their major expenditure implications only at a later point in time” (Pierson 2001a, 421). The theory of blame avoidance is thus able to explain, first, why increases in the retirement age or reductions in the pension replacement rates, for example, are delayed and stretched out over long periods of time. Second, it also explains why governments attempt to lower the visibility of reforms by making cutbacks automatic (Weaver 1988).

The theory of blame avoidance is very strong in explaining German pension reforms before the mid-1990s, especially the bipartisan Pension Reform Act that was legislated in 1989. The transition periods for the increase in the retirement age were long, and benefit cutbacks were made automatic through an invisible mechanism in the benefit adjustment formula: if higher pension expenditures necessitate a contribution rate increase, pension benefits are automatically reduced. But four of the five pension reforms in Germany since the mid-1990s (in 1996, 1997, 1999 and 2001) do not conform well to the implications of blame avoidance theory. Governments implemented highly visible and immediate cutbacks, and the 1996 reform shortened the transition period for retirement age increases significantly.

The pension reforms legislated by the Schröder governments are excellent examples of visible, short-term cutbacks. The key measure of the 1999 reform was the switch from wage indexation to inflation indexation for the years 2000 and 2001. Since wage indexation – the most important founding principle of the modern German pension system – is highly popular among voters, these highly visible cutbacks were heavily contested within the SPD and strongly opposed by the CDU and the trade unions. The controversy over lowering pension benefits by indexing them to inflation instead of wage growth for a two-year period contributed to major electoral losses of the SPD in three Land elections in the fall of 1999. The expenditure implications of the 2001 reform were also heavily tilted towards the short-term. The level of pension benefits will be reduced over a 30 year period, from 71 percent in 2000 to 64 percent in 2030. However, two-thirds of this benefit cutback will be achieved within the first 5 years, and only one-third during the next 25 years (Hain and Tautz 2001, 369-372).

Two aspects of the Schröder government's reform strategies can be explained well by blame avoidance theory, however. First, in order to obscure the magnitude of cutbacks, the SPD/Green government redefined the way the pension benefit level is calculated. The benefit cutbacks thus appear less severe: instead of 64 percent, citizens are told that they will only be reduced to 67 percent. Second, the government built these cutbacks into the benefit adjustment formula and thereby made them automatic. In cases of major institutional change, however, it is practically impossible for governments to lower the visibility of reforms. A government cannot hide the partial privatization of a public pension system from voters. The creation of a new private pension tier, as well as the fact that public pension benefits will be cut back, received extensive coverage in the German media and was strongly publicized by the financial industry and by the trade unions. Almost everyone in Germany now talks about the *Riester-Rente*, the new tier that the financial industry named after Schröder's minister of labor.

To conclude, the pension reform process in Germany since the mid-1990s evidences that governments do not shy away from engineering visible, short-term cutbacks, even if this leads to massive electoral losses. Blame avoiding strategies are employed as much as possible to obscure cutbacks, but only if they do not compromise the overriding objective of implementing immediate expenditure cutbacks. Therefore, the challenge for theories of welfare state reform is to explain what motivates governmental cutback actions even in the face of electoral retribution. Blame avoidance incentives alone are clearly insufficient to explain these actions.

Explicit Privatization in a Frozen Welfare State

The outcome of the reform process in Germany is the most puzzling fact: it goes entirely against the expectations of current theories of the welfare state that partial privatization occurs in a frozen welfare state with a mature pay-as-you-go pension system. The German case contradicts contemporary theories for two reasons. First, the general expectation is that welfare state reform is modest and incremental, not radical. Second, the German welfare state is almost unanimously regarded in the literature as amazingly stable. In the 1990s, Offe emphasized the "remarkable historical robustness and continuity" of the German welfare state (Offe 1991, 124). Pierson has drawn the following conclusion from his analysis of the German case in the mid-1990s: "[a] fundamental rethinking of social policy seems a remote possibility" (Pierson 1996, 170). Esping-Andersen diagnosed the German welfare state as stuck in a "self-reinforcing negative spiral" from which it is unable to escape (Esping-Andersen 1996c).

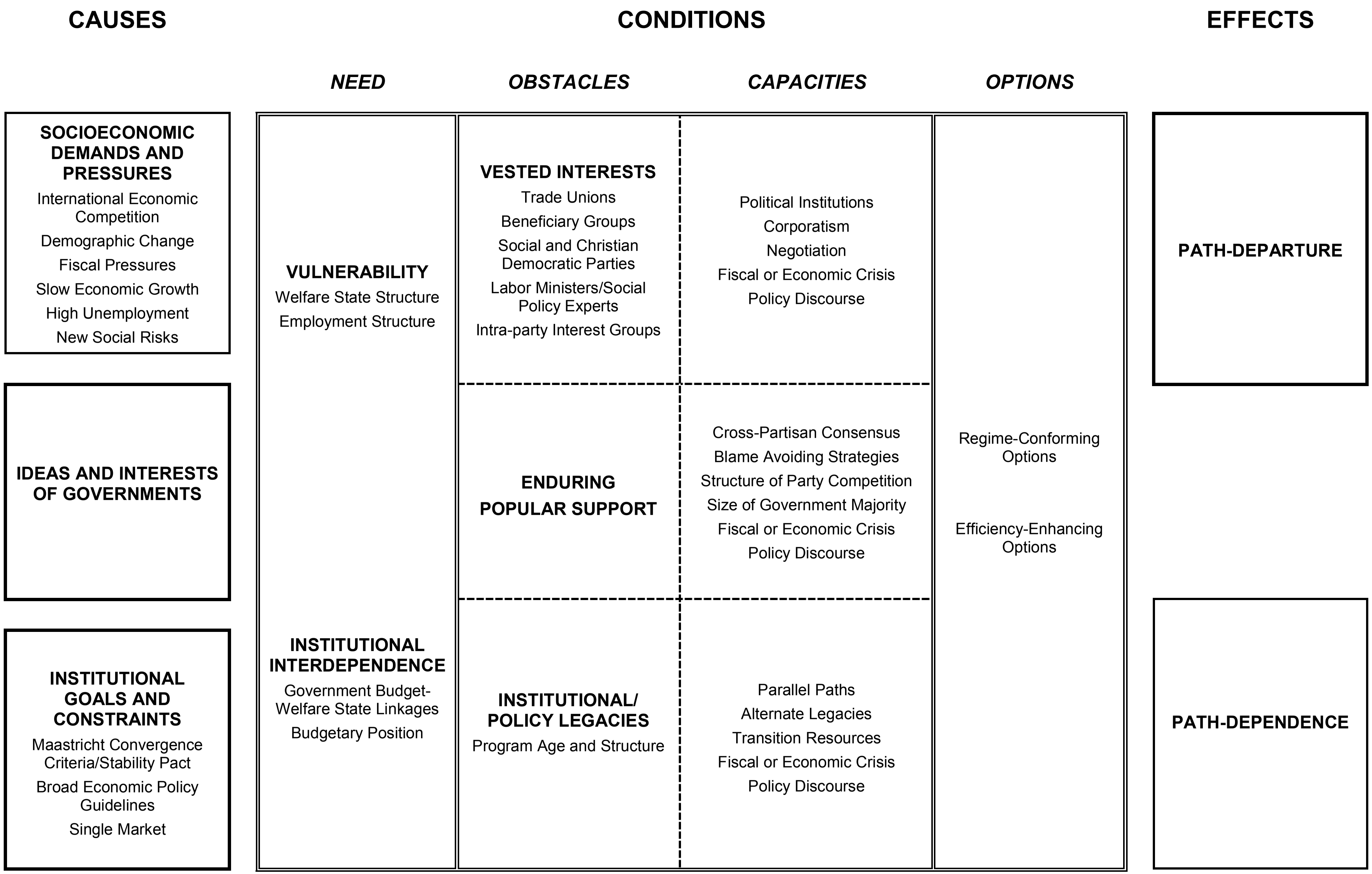
One of the weaknesses of the literature is that it lacks clearly defined concepts of fundamental change. Nonetheless, there is widespread agreement that privatization equals radical reform, especially in welfare states whose trademark is the crowding out of the market (Esping-Andersen 1990). Pierson has noted that "[e]stablishing what constitutes 'radical' reform is not an easy task", but classifies "major transfers of responsibility to the private sector" as an instance of radical change (Pierson 1996, 157). Similarly, in the area of pension reform, Weaver classifies the creation of a new tier as a case of fundamental restructuring of pension systems (Weaver 1998, 209-212). Privatization entails the transfer of responsibility from the state to the market. We can distinguish between two forms, explicit and implicit – or "creeping" – privatization (Esping-Andersen 1996a, 26; Pierson 1994). The first is a qualitative shift, the second a gradual, quantitative shift that over time has eroded public social benefits so much that it amounts to a qualitative shift. Explicit privatization is easier and earlier to detect, since it is based on legislation that defines the course toward privatization for the coming decades. Implicit privatization, by contrast, can only be detected after the fact. What has occurred in Germany is the explicit partial privatization of the public pension system. The critical feature of the new private pension tier is the design as a partial substitute for – and not merely a supplement to – the existing public pension tier. There is an explicit linkage between the reduction of public pension benefits and the build-up of private pension benefits. Therefore, the new private pension in Germany is an instance of explicit privatization. According to Brooks' definition, explicit privatization involves the diversion of a portion of the statutory payroll contribution to individual pension accounts. By contrast, tax incentives for private pension savings do not amount to explicit privatization (Brooks 2002, 492).

The new private pension tier that the Schröder government introduced in 2001 is designed as a full and comprehensive replacement for future cutbacks in public pension benefits. As the size of the private tier grows, the size of the huge public pillar shrinks. Moreover, public pension contributions will be frozen at their current level of about 20 percent of gross wages (shared equally between employers and employees). Private pension contributions are quasi-mandatory for employees and set at 4 percent of an employee's income. The government's original plan was to make private pension contributions mandatory, but this plan was stalled by party competition and by opposition from the trade unions. However, the 2001 pension reform law includes a provision that requires to reconsider that possibility in a few years. Moreover, private pension contributions are quasi-mandatory because the growth of private pension contributions will directly and automatically lower the annual adjustment of public pension benefits. Moreover, the government's goal is to ensure that employees end up with a combined level of pension benefits of about 70 percent of their income, and thus a level equivalent to that of guaranteed public pension benefits before partial privatization.

Considering that public pension contributions are 20 percent in Germany, the requirement for employee's to save 4 percent of their income, although substantial, does not amount to an immediate, “major transfer of responsibility to the private sector”. The outcome of the 2001 pension reform legislation is not wholesale path-switching, but path-departure combined with gradual path-deviation: it breaks the monopoly of the public system in providing retirement income, and by doing so, prepares the institutional ground for future path-deviation from the Continental welfare state model. Given that the monopoly of the public pension system has been broken, and a new parallel path established, further shifts of responsibility from the state to the market are possible and not too difficult to implement. Departing from an established part is extremely difficult and risky. By contrast, the political costs of subsequent path-deviation are considerably lower.

A Revised Analytical Framework for Welfare State Reform

In the previous section, the confrontation of current theories of welfare state reform with the empirical reality of pension privatization in Germany has generated six important questions that need to be addressed and explained. First, why does a social democratic party initiate the partial privatization of the welfare state, although it alienates its party members, core constituencies, and its key ally, the trade unions? Second, why does a government undertake ambitious and controversial reforms under the conditions of a slim parliamentary majority, divided power and low popularity? Third, why does a government unilaterally impose a fundamental reform against the major opposition party, notwithstanding the heightened level of conflict that leads to blame generation and electoral retribution? Fourth, why are trade unions willing to end their opposition *against* fundamental change, sharply reverse past positions, and join the reform coalition *for* privatizing public pensions? Fifth, why is a government willing to legislate immediate and highly visible welfare state cutbacks, although employing these strategies makes blame avoidance virtually impossible? Finally, why is major institutional change successful in a frozen welfare state despite the heavy weight of institutional legacies and the massive conflicts that the political process of partial privatization causes?


CAUSES
CONDITIONS
EFFECTS
NEED
OBSTACLES
CAPACITIES
OPTIONS
SOCIOECONOMIC DEMANDS AND PRESSURES
International Economic Competition
Demographic Change
Fiscal Pressures
Slow Economic Growth
High Unemployment
New Social Risks
IDEAS AND INTERESTS OF GOVERNMENTS
INSTITUTIONAL GOALS AND CONSTRAINTS
Maastricht Convergence Criteria/Stability Pact
Broad Economic Policy Guidelines
Single Market
VULNERABILITY
Welfare State Structure
Employment Structure
INSTITUTIONAL INTERDEPENDENCE
Government Budget-Welfare State Linkages
Budgetary Position
VESTED INTERESTS
Trade Unions
Beneficiary Groups
Social and Christian Democratic Parties
Labor Ministers/Social Policy Experts
Intra-party Interest Groups
ENDURING POPULAR SUPPORT
INSTITUTIONAL/ POLICY LEGACIES
Program Age and Structure
Political Institutions
Corporatism
Negotiation
Fiscal or Economic Crisis
Policy Discourse
Cross-Partisan Consensus
Blame Avoiding Strategies
Structure of Party Competition
Size of Government Majority
Fiscal or Economic Crisis
Policy Discourse
Parallel Paths
Alternate Legacies
Transition Resources
Fiscal or Economic Crisis
Policy Discourse
Regime-Conforming Options
Efficiency-Enhancing Options
PATH-DEPARTURE
PATH-DEPENDENCE

In this section, I will address these questions and make suggestions for improving our theoretical framework for analyzing the politics of welfare state reform. I will propose a revised analytical framework (see Diagram 1). In the first part, I will discuss different ways to conceptualize welfare state change, that is, the *effects* within the causal model of welfare state reform. To capture fundamental changes, I will propose an institution-centered conceptualization of reform outcomes. In the second part, I will introduce two previously neglected *causes* for welfare state reform, European fiscal institutions and the ideas and interests of governments. In the third part, I will refine the underlying assumptions of the three theoretical components of the current framework: the theory of blame avoidance, interest group theories, and path-dependence theory. Put differently, the third part revisits the *conditions* specified in current causal models of welfare state reform.

An Institution-Centered Conceptualization of Welfare State Change

It has been frequently criticized in the welfare state literature that the field lacks a systematic and commonly agreed conceptualization of the outcomes of welfare state reform (Clayton and Pontusson 1998, 69; Myles and Quadagno 1997, 265; Pierson 2001a, 419-422). The field seems to be overwhelmed by the diversity of responses found across all welfare states, within each world of welfare, and more recently also over time. The welfare state is very much a moving target, and this fundamental problem is unlikely to go away in the near future. Moreover, the orientation of the field is often more variable-centered than outcome-centered: the dominant theoretical interest is to examine and explain the diverse adaptation to common socioeconomic pressures rather than the determinants and the processes that produce particular outcomes of interest.

For these two reasons, attempts to improve the conceptual weakness of current welfare state research have so far been rare. In the literature on the new politics of the welfare state, there is nothing comparable to Esping-Andersen's typology of welfare states which had such a tremendous importance in unifying and structuring the old politics of the welfare state (Esping-Andersen 1990). In this part, I will suggest a provisional conceptualization of change that goes back to the conceptual tools of the old politics of the welfare state, builds directly upon Esping-Andersen's typology, and is thus regime- or *institution-centered*. It is a conceptualization of outcomes that is able to capture path-departures in the three worlds of welfare capitalism and to distinguish them from path-dependent development.

I follow Pierson's suggestion that rather than emphasizing cuts in spending per se, the focus should be on “reforms that indicate structural shifts in the welfare state” (Pierson 1996, 157). However, I define structural shifts not in relation to a particular political ideology – in Pierson's study, neoliberalism – , but in relation to the defining features of pre-existing welfare state structures and their respective developmental path. Pierson defines a radical change, among others, as “major transfers of responsibility to the private sector” (Pierson 1996, 157), irrespective of the welfare state regime in which privatization occurs. According to the conceptualization I am using here, privatization only constitutes a major institutional change if it occurs in welfare states whose defining characteristic is the crowding out of the market, that is, in social democratic and Continental welfare states (Esping-Andersen 1990). In liberal welfare states, by contrast, privatization does not necessarily contradict the existing development path. If liberal welfare states pursue privatization, the outcome usually is path-dependence – unless privatization reaches a point at which the liberal welfare state ceases to be a welfare state. But if Continental and social democratic welfare states partially privatize welfare state programs, the outcome is path-departure. Similarly, if social democratic welfare states increase the share of tax-financing of their welfare state programs, their development path is reinforced. But if Continental welfare states, especially those which rely almost exclusively on contribution-financing for their major welfare programs, shift from contribution- to tax-financing, they depart from their path or deviate further from it (Palier 2000).

New Outcomes, Neglected Causes, Different Processes

The main conclusion of recent research is that the politics of welfare state reform is different in liberal, social democratic and Continental welfare states (Pierson 2001b; Scharpf and Schmidt 2000d). As Pierson has noted, "... *there is not a single 'new politics' of the welfare state, but different politics in different configurations*" (Pierson 2001a, 455). What accounts for these differences are systematic variations in terms of need, obstacles, capacities and options (see Diagram 1). The causes for welfare state reform are similar, but the reform conditions are different. Therefore, both the process and the outcomes of reform are different.

What I want to suggest in this paper is that the new politics of the welfare state also differs depending on the type of change that occurs. By contrast, these differences do not only apply to the reform conditions. They extend to the causes of welfare state reform. More specifically, the driving forces, as well as the conditions and the process of reform, are quite different in cases of major institutional change (or path-departure) and in cases of incremental adjustments (or path-dependence). The requirements for major institutional change are much more demanding, and the process is a lot riskier. For governments, major institutional change is not a matter of compulsion or necessity, as in the case of incremental adjustments. It is predominantly a matter of political choice, and thus needs to be explained with reference to the ideas and interests of governments and their leaders. However, equally important are strong causal forces that pry open the window of opportunity for major institutional change.

Institutional Interference and Creative Opportunism

In Germany, there was no straight and smooth road from the frozen welfare state to the new, partially privatized pension system. Moreover, it is quite possible that major institutional change is generally anything but smooth. The road to partial privatization in Germany was rocky and risky. Partial privatization was the result of a dual dynamic of destruction and creation. First, European fiscal institutions forced the opening of a window of opportunity for major institutional change by leaving little alternative to substantial cutbacks of pension benefits. Second, innovative, risk-taking political leaders

– "creative opportunists" in Offe's terminology – used the opportunity created by the interference of European institutions, employed new and untested electoral strategies and attempted to forge a new coalition for pension privatization, irrespective of existing electoral constraints, massive resistance from vested interests and hard-to-overcome legacies of existing welfare state programs. These creative opportunists critically shaped the ideas and interests of their parties. Offe uses the term creative opportunists to "... emphasize the ability of these actors to make use of windows of opportunity and to capture options for winning agreements on new rules as they emerge, often on the basis of *ad hoc* proposals that are mixed, impure and second-best in terms of clear principles and priorities" (Offe 2001, 576)

I argue that only by studying the interaction of these two dynamics – partial destruction and incomplete creation – can we explain the outcome of welfare state reform in Germany. The pension privatization process in Germany was characterized by the mutual overruling of reform obstacles. First, the German finance minister – backed by the power of European fiscal institutions – overruled the resistance from the chancellor and labor minister against the legislation of substantial pension benefit cutbacks. Second, the chancellor and the labor minister overruled the resistance from the finance minister to provide generous tax incentives for the creation of the new private pension tier. I call these two dynamics "institutional interference" and "creative opportunism", borrowing from Orren and Skowronek's perspective of institutional development and Claus Offe's account of the 'messy' logic of institutional change (Offe 1996; 2001; Orren and Skowronek 1994). Institutional interference and creative opportunism are two additional theoretical components that complement those found in the existing framework. The creation, and subsequent development, of the fiscal framework at the European level provides an excellent case for studying the mechanisms and dynamics of institutional interference with the welfare state. Chancellor Gerhard Schröder as well as Wolfgang Schäuble, briefly the leader of the CDU and a long-time chairman of the CDU parliamentary party, are prototypical creative opportunists. The ideas and actions of these two creative opportunists had a tremendous impact on the politics of pensions in Germany during the period of institutional path-departure.

The theoretical implications of institutional interference and creative opportunism diverge from those of current theories of welfare state reform with regard to the political process of welfare state reform. These two theoretical components imply that the reform process is anything but consensual, not oriented toward negotiations, and not dominated by carefully crafted compromises. Institutional interference leads to severe conflicts about the primacy of institutions and their goals. If two sets of political actors meet who have the backing of powerful institutions, none of the two sides is likely to back down easily. Creative opportunists hold highly unconventional and previously untested ideas. Since they will not be able to easily persuade the leadership and membership of their parties of the advantages of the new electoral strategy and the new approach to reforming the welfare state that they advocate, their chances of success depend on their power within their parties. The clash of institutionally reinforced interests and strong convictions usually prevents the peaceful resolution of conflict through bargaining and persuasion. Powering and polarization, I argue, are necessary ingredients in the politics of privatizing public pensions, and possibly of major institutional change more generally (Hering forthcoming).

Even in the politics of major institutional change in welfare states, negotiation and accommodation continue to play an important role to silence opposition and avoid blame, but only towards the end of the reform process. The crucial difference is the following. In the politics of incremental adjustment, negotiation strategies are primarily employed to avoid the eruption of conflict and the generation of blame. It is the anticipation of conflict and blame that gives governments an incentive to seek an all-party agreement and the consent of the trade unions. In the politics of major institutional change, negotiation and accommodation is employed as a strategy, if at all, only at the end of a long period of conflict and blame generation. It is an effort to make peace, not one to avoid conflict in the first place. Governments do anticipate conflict and blame generation, but they know equally well that seeking consensus and negotiating too early in the process will compromise their goal to implement fundamental changes. Put differently, governments face a trade-off between legitimacy and effectiveness (Scharpf and Schmidt 2000a, 334). Unilateral reforms bring major change, but are electorally risky and very likely to be reversed. Consensual reforms reduce electoral risks and are sustainable, but are unlikely to be transformative.

How do governments find a way out of this trap? I argue that there is no easy solution for the legitimacy-effectiveness dilemma. But there are two conditions that contribute to its resolution: first, the willingness to take risks combined with the unwillingness to learn from failure, and second, the smart combination of powering first and negotiating later. First, major institutional change is a risky business for governments. However, the important point is that there are governments led by creative opportunists who are convinced that their ideas will work and who are thus willing to take these risks. Although they often fail, one should not underestimate the importance and impact of failed reform efforts and electoral defeats. These failures and defeats have the potential to unsettle existing equilibria and possibly strengthen the followers of creative opportunists within party organizations, especially if a return to a traditional strategy of welfare state defense is unlikely to produce electoral victories. The conclusions drawn from the experience of failure is often that the strategy was successful, but badly and half-heartedly implemented (Schäuble 2000). The reluctant implementation of the strategy – not the strategy itself – is thought to be the cause of failure. The conviction is that a more resolute implementation of the same strategy will lead to success in the next round of reform. Moreover, it is often believed that a first-time success could gain the party which pioneered the new political strategy a large and steady stream of electoral benefits in the future.

Second, governments can escape the legitimacy-efficiency trap through a smart combination of powering against vested interests first and negotiating with them later. Governments first need to power in order to establish the new terms of the reform agenda and force the reform opponents into the defensive. Governments need to be uncompromising with regard to the core principles of their reform, but remain accommodating and compromising with regard to almost everything else. Only through the sequential combination of unilateralism and bargaining can they guarantee the successful implementation of major institutional change and also secure the defensive consent of vested interests. Maximizing both legitimacy and effectiveness seems to be impossible, however. Electoral risks remain, and the outcome of reform, although effective in the sense that major institutional change is indeed accomplished, will likely be ineffective with regard to a whole range of design issues. The new institutions which emerge out of these long conflicts and last-minute compromises are often badly designed (Ebert 2001). Bad design is partly a direct result of the complicated reform process, and partly the consequence of half-baked institutional blueprints. As Offe has noted, exploiting opportunities for institutional change is more likely to be successful “... without relying upon the guidance of some master plan” (Offe 2001, 576). Thus, the conclusion is that major institutional change in frozen welfare states is possible, but both the reform process and the reform outcomes are likely to be 'messy', to use Offe's words.

Institutional Goals and Constraints

The institutional goals and constraints embodied in the new fiscal framework at the European level are mostly neglected and sometimes misunderstood in current welfare state research. In the rare cases that European institutions are recognized as causes for welfare state reform, they are simply treated as a factor that reinforces existing pressures, but not as a significant causal force in their own right (Rhodes 2002). By means of a counterfactual demonstration, Pierson even argues that the added fiscal effect of monetary union is weak relative to the overall strength of fiscal pressures from other sources: “EMU is likely to have considerable consequences, exacerbating and channeling pressures for fiscal retrenchment. Yet it is essential to realize that the broad constraint on government debt/GDP ratios, and the implications of rising interest payments, would exist in a world without EMU” (Pierson 2001c, 92). A noticeable, reinforcing effect of European fiscal institutions on welfare state reform is most often acknowledged only in two cases, Italy and France. I argue, by contrast, that European fiscal institutions have been the single most important causal force for pension benefit cutbacks in Germany in the period after 1995, and thus in the crucial period of path-departure.

Systematic investigations of EU-level institutions on European welfare states are lacking, and so are analyses of the impact of monetary union on Germany, the most important institution-builder of EMU. Perhaps this is the case because Germany succeeded in modelling the monetary institutions at the EU-level after its domestic institutions. Moreover, Germany initiated the strengthening of the EU fiscal framework by proposing the Stability Pact. In short, it is true that EU-level institutions reflect German preferences regarding their design. But it would be wrong to draw the conclusion that these new institutions do not have an impact on domestic politics in Germany, especially on the politics of welfare state reform. The lines of conflict in Europe's multi-level polity are not neatly divided between different levels, but cut directly across levels of government. What we find in the politics of welfare state reform, for example, are coalitions between fiscal policymakers in Brussels and at the national level that compete against coalitions among social policymakers in Brussels and labor ministries and social insurance institutions at the national level.

I argue that EU-level institutions do have an impact on the German welfare state and that they are much more than just a factor that reinforces fiscal pressures from other sources. Equating fiscal institutions with fiscal pressures misrepresents the nature of institutions and underestimates their power. First, institutions have 'positive' as well as 'negative' features (Offe 2001). It is not only the constraints that count. Institutions have goals, sometimes even elaborate programs. They provide political actors with shared orientations that they can use as resources. These positive features of institutions are becoming increasingly important in the case of European fiscal institutions. What began with a set of fiscal convergence criteria without direct and necessary consequences for the welfare state has grown into an elaborate framework with multiple goals that implies welfare state cutbacks. More recently, EU fiscal institutions have openly developed a detailed program for the restructuring of pension systems along their preferred lines. These institutional goals are increasingly adopted and pursued by finance ministers and other fiscal policymakers at the national level (Bundesministerium der Finanzen 2000). Even without the existence of explicit constraints, European institutions thus have an impact at the national level.

Second, institutional constraints are usually a lot more powerful than socioeconomic pressures. For example, a country's failure to adapt to the pressures from international economic competition might lead to substantial job losses over time, but one more year of non-adaptation might not matter much, and tracing these effects back to the failure to adjust is a difficult task. But if a country such as Italy had failed to meet the budgetary constraints set forth in the Maastricht Treaty, the economic and political repercussions would have been enormous and immediate. Moreover, the failure to qualify for EMU could have been easily attributed to the political actors involved.

Third, a frequent misunderstanding in the welfare state literature is the reduction of the effect of EMU to the Maastricht convergence criteria in the run-up to 1997, the year in which the decisions about the participants in monetary union were made. But the constraining effect of European fiscal institutions is permanent, not temporary. The Stability Pact is a framework designed to guarantee permanent fiscal discipline, even in an economic downturn (European Commission 2000; 2001; 2002). Moreover, both the constraints and the enforcement capacities of European fiscal institutions have been strengthened in recent years. The Stability Pact turned the 3 percent deficit criterion from a target into an upper ceiling and defined both the procedure and the criteria for imposing sanctions in great detail (Costello 2001). Recently, there have been efforts to lengthen the time horizon of the Stability Pact from 5 years to 50 years, which makes the huge implications of public pension systems for the stability of public finances in the Euro zone plainly obvious and acknowledges them for the first time officially (European Commission 2002). As Orren and Skowronek have correctly pointed out, institutions reach outward and attempt to get their institutional environment under control (Orren and Skowronek 1994). In the case of EU fiscal institutions, the result is often massive institutional interference with the welfare state.

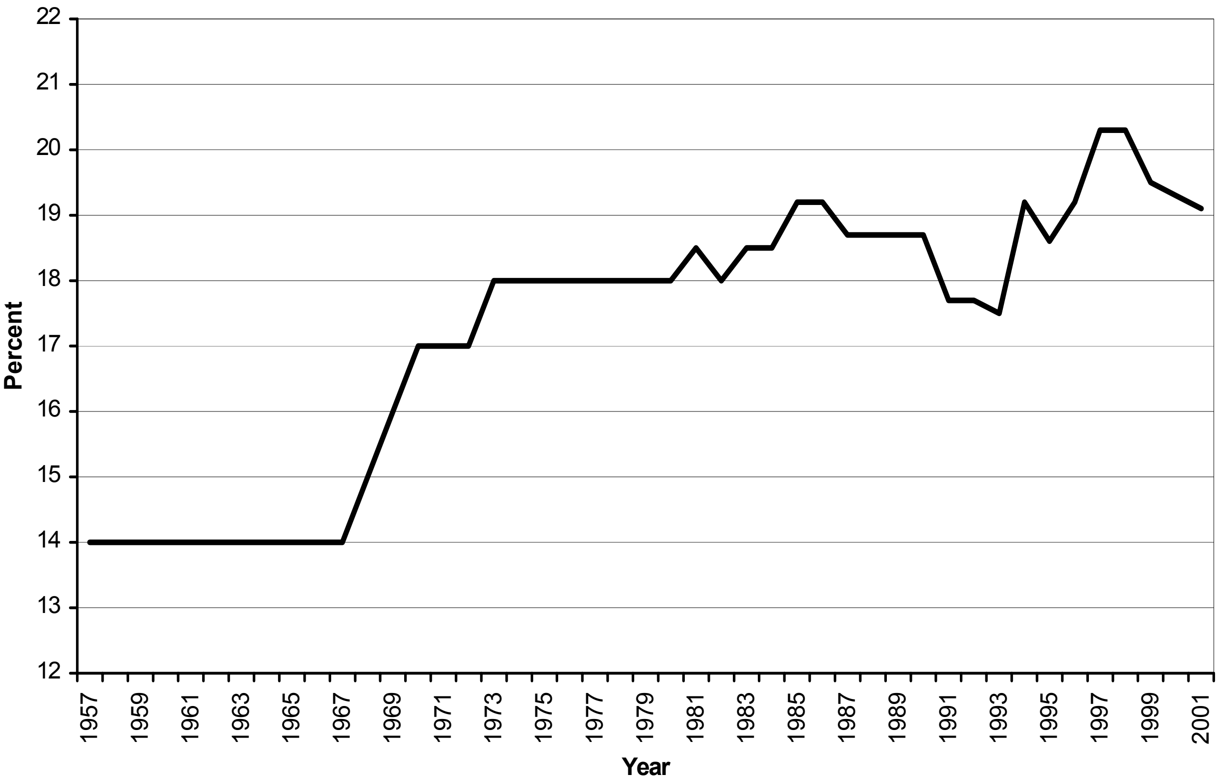
Graph 1: Federal Transfers to Social Insurance Schemes (Mostly Pensions) in Percent of Federal Expenditure, Germany, 1962-2000

Source: Bundesministerium der Finanzen, Finanzbericht 2002

However, the effect of European institutions is not uniform across member states and also differs over time, not least because institutions evolve. In order to analyze the impact of European institutional goals and constraints, it is essential to study the linkages between EU-level fiscal institutions and national welfare state programs. The greater the interdependence between these two institutions, the more do the goals and constraints embodied in the European fiscal framework matter. Just as different welfare state and employment structures absorb or reinforce the strength of socioeconomic pressures (Scharpf 2000), stronger institutional interdependence magnifies the force of institutional goals and constraints. In the case of Germany, the interdependence between government budgets and the pension system is very high, which has resulted in massive political conflicts at the national level. The federal government pays an annual subsidy to the public PAYG pension system that has grown in size from 10 percent of federal government expenditure in the 1980s to more than 30 percent in the 2000s (see Graph 1). Rising pension expenditure does not only crowd out other vital government expenditure (Bundesrechnungshof 2001). Most importantly, it frustrates and endangers the efforts of German governments to comply with the Stability Pact and to achieve a balanced budget by the mid-2000s, a goal to which the Euro zone members have jointly agreed.

Moreover, the German pension system is fiscally highly volatile as a result of its path-dependent institutional redesign in the late 1980s. Its fiscal volatility is best evidenced by the frequent fluctuations of the pension contribution rate during the 1990s (see Graph 2). It always operates at the brink of insolvency: it does not have any reserves to weather even a small economic downturn, and it is institutionally prohibited from accumulating any reserves in an economic upturn. The German pension system used to have sufficient reserves to deal with temporary economic downturns, but the federal government systematically depleted these reserves during the 1970s and 1980s. Its fiscal volatility directly translates into potential federal budget instability: because of an institutional rule legislated in 1989, the federal subsidy automatically increases every time pension expenditure increases. In the context of the institutional goals and constraints at the EU-level, and in conjunction with Germany's weak budgetary position, the German pension system is therefore a serious budgetary risk for the federal government, both in the short- and in the long-term. In the era of EMU, these tight institutional linkages – in interaction with the pension system's high fiscal volatility – have repeatedly led to massive political conflicts within German governments and between the CDU and the SPD (in 1996, 1997, 1999 and 2001). In all four cases, the finance minister overruled both the labor minister, the opposition party and vested interests. European integration may not have led to a general “strengthening of the state” (Moravcsik 1994). However, the Stability Pact has strengthened the power of finance ministers in social policy-making at the national level.

Graph 2: Pension Contribution Rate in Germany, 1957-2001



Source: Verband Deutscher Rentenversicherungsträger, Rentenversicherung in Zeitreihen 2002

European fiscal institutions can explain the implementation of a whole series of pension benefit cutbacks in Germany in the period after 1995, and thus the partial destruction of the old system. But institutional goals and constraints at the EU-level cannot explain the creation of a new private pension tier in Germany. In fact, the provision of generous tax incentives for private pension savings counteracts and possibly even neutralizes the budgetary savings achieved through cutting public pension benefits. Therefore, privatization is in partial conflict with European fiscal institutions. In Germany, there was enormous resistance from the finance minister against generous tax incentives for private pensions. To get the full picture of the politics of privatizing public pensions, we have to take the changing ideas and interests of German governments into account, especially the ideas of government leaders who are creative opportunists. These issues will be discussed in the next part.

Ideas and Interests of Governments

The limitations of contemporary theories of the welfare state with regard to the ideas and interests of governments are similar to those just discussed: they generally underestimate, and often misconstrue, the causal force of ideas in the politics of the welfare state. However, we cannot explain the occurrence of pension privatization in Germany, and the sharp intertemporal differences in the politics of pensions, without reference to the ideas and interests of governments. As Blyth has correctly pointed out, ideas need to be taken seriously in the comparative political economy of the welfare state (Blyth 1997). Ideas are a causal factor in their own right. Moreover, ideational change cannot simply be assumed to occur through learning from failure (Pierson 2001a, 452-453) – it needs to be explained.

In current theories, ideas are either considered irrelevant or constructed as a factor that reinforces socioeconomic pressures, or is a functional equivalent for them. Very often, the ideas and interests of governments are simply deduced from the structural situation, that is, the presence of socioeconomic pressures that governments face. For example, Pierson makes the assumption that all governments, no matter which party family they belong to, have a preference for welfare state retrenchment. Pressures are “irresistable” and because of that governments do not have much of a choice: they have to adapt their welfare states. The dilemma of governments is how to resolve the “clash between their policy preferences and their electoral ambitions” (Pierson 1996, 146). In some cases, the ideas of governments are selectively seen as a reinforcing factor for or functional equivalent of socioeconomic pressures. In liberal welfare states, especially in Great Britain and New Zealand, governments seek to implement substantial welfare state cutbacks although the socioeconomic pressures they are confronted with are not nearly as strong as those in many other countries. The explanation for welfare state reform in these cases is that conservative governments with a strong ideological commitment to welfare state retrenchment compensate for the weakness of socioeconomic pressures. To conclude, ideas are sometimes used selectively to explain welfare state reforms in cases where the dominant force of welfare state adjustment, socioeconomic pressures, cannot explain it. Moreover, the effect of ideas is unidirectional: ideas are conceptualized as a reinforcing, but not as a retarding factor for welfare state reform. They mostly explain the fact that welfare state reforms occur, but are rarely used to explain the non-occurrence of reforms.

There are two reasons why ideas are neglected or underestimated in current theories of the welfare state. They lie in the causal model they employ and in their dominant focus on the political obstacles against welfare state reform. First, Pierson's finding from the experience of welfare state retrenchment in Britain and the United States was that the welfare state remains stable even if it is confronted with ideological governments that are strongly committed to fundamental change. Thus, why should we attribute a strong causal force to ideas, if they seem unable to explain reform outcomes? In current theories, the political obstacles for reforms are regarded as more important explanatory factors for variations in reform outcomes than the causal forces themselves. Second, the ideas of governments are also dispensable in current theories of welfare states as a retarding factor for welfare state reforms. It is assumed that the presence of vested interests, strong popular support and policy legacies alone are sufficient to explain the remarkable stability of welfare states in the 1970s and 1980s. Why, then, should one study the ideas and interests of governments?

My argument is that the ideas of governments – and also the ideas and interests of other major political actors, such as opposition parties and trade unions – play a vital role in the reform of welfare states. They are able to explain both the stability of welfare states in the face of socioeconomic pressures and the transformation of welfare states in the face of massive political obstacles. For example, the stability of the German welfare state until the mid-1990s can largely be explained by the welfare state consensus among the government, the opposition, the trade unions and employer organizations (Nullmeier and Rüb 1993; Offe 1991). Political reform obstacles and blame avoidance incentives were secondary. The primary reason why German governments did not initiate fundamental changes was their explicit commitment to the preservation of the German welfare state. As Offe has correctly concluded from his analysis of "smooth consolidation" in Germany, "... the absence of open and polarized conflict was not only due to the tactics of its containment. ... The success of conflict containment must ... be partly explained by the fact that there was not much conflict potential to be contained in the first place" (Offe 1991, 140). Similarly, Vivien Schmidt emphasizes the "commonly held national values and conceptions of identity" that prevents governments from considering the option of major institutional change in the first place (Schmidt 2002).

Moreover, the politics of welfare state reform in recent years also cannot be explained without taking cross-national differences of governmental ideas and interests into account. Scharpf and Schmidt have drawn the following important conclusion from their extensive study of welfare state adjustment: "[w]hile all countries were and are under pressure to adjust, their adjustment paths differ: not only because they started from different initial positions, but also because their policy aspirations continue to differ" (Scharpf and Schmidt 2000a, 335). They show that the new international economic environment is in fact constraining, but that there are options to reconcile the maintenance of welfare state programs with the competitiveness of the economy. However, in the era of welfare state retrenchment, studying the impact of cross-national variations of ideas will not be as straightforward as in studies of welfare state expansion. It seems to be less and less possible to derive the ideas and interests of governments from their membership in a particular party family. In the 1980s, 1990s and 2000s, partisan differences are not as easily discernible as during the 1950s and 1960s (Huber and Stephens 2001). Especially the ideas of social democratic parties have changed dramatically in recent years, and there seems to be a much greater variation within this party family in the 2000s than in previous decades (Bonoli and Powell forthcoming).

Perhaps the most important explanatory role of ideas, however, lies in the explanation of the often radical intertemporal differences within countries. How do we explain, for example, the breakdown of the long-standing “pension consensus” in Germany in the mid-1990s and the gradual emergence of a new “privatization consensus” in the 2000s? These changes in ideas and interests on the part of governments, opposition parties and trade unions are increasingly acknowledged in current welfare state research (Pierson 2001a, 452-453). Pierson suggests that in the context of intense pressures and enduring popularity, “... even strong supporters of the welfare state may come to acknowledge the need for adjustment, and even severe critics may need to accept the political realities of continuing popular enthusiasm for social provision” (Pierson 2001a, 411).

Does social and political learning on both sides account for the occurrence of major changes in welfare states in the 2000s? Have actors recently become convinced of the need for reform, not least because of the objective circumstances? Have they finally learned that socioeconomic pressures are irresistible and that welfare states cannot afford to be immovable? In short, have they learned from past failures? Learning arguments have a lot of problems, and Pierson has convincingly discussed these problems in his studies of path-dependence. Ideas are path-dependent and as such extremely hard to change. As Pierson notes, “[e]ven if mistakes or failures in politics are apparent, improvement through trial-and-error processes is far from automatic” (Pierson 2000, 260). If this is correct, then simple learning arguments will not suffice to explain the changes of ideas and interests of governments, opposition parties and trade unions, especially those that break the ground for major institutional changes in welfare states. These are changes that “go against long-established policy legacies and long-standing preferences” (Schmidt 2002), as Schmidt has correctly pointed out. Learning from failure is unlikely to be a strong enough mechanism to overcome the deadweight of ideas. By contrast, I suggest that the change of ideas and interests is a highly political process that produces strong intra-governmental, intra-party and intra-union conflicts and is often initiated by creative opportunists (Hering forthcoming). The challenge for current welfare state research is to examine the politics of ideational change and discover the conditions under which ideational change does or does not occur.

The German case of pension privatization confirms a number of central theoretical propositions about ideas found in the literature on institutional change (Blyth 2002; Kohler-Koch 2000). Ideas matter in uncertain or ill-defined situations because they are open to widely competing interpretations. Under conditions of uncertainty, ideas critically shape actors' interests. Ideas are “guideposts” (Kohler-Koch) and provide “institutional blueprints” (Blyth). In Germany, ideas were especially important in two respects: first, as a strategic guidepost to find an escape route from the electoral dilemma that political parties have been faced with since the mid-1990s, and second, as an institutional blueprint for Germany's new old-age security system.

The electoral dilemma of the two major political parties in Germany is two-fold. First, they cannot win elections anymore by campaigning as traditional welfare state defenders, but also cannot afford to lose their traditional welfare state clientele (Köcher 1996b; 1998a). Second, they cannot win elections by presenting themselves predominantly as welfare state retrenchers and economic modernizers, but also cannot afford that younger voters switch to, and develop an identification with, the smaller, liberal parties in the German party system, the FDP and the Greens (Köcher 2002). Therefore, the two major parties are faced with electoral uncertainty: the challenge is to find a strategic synthesis that would allow them to include both groups of voters. Since there is no straightforward solution to their dilemma, the ideas of party leaders play an important role in defining their electoral interests and in designing a new electoral strategy.

Choosing the wrong strategies is dangerous in a situation where blame potentially comes from all directions. As Scharpf and Schmidt have noted, “[u]nder these no-win conditions, governments can expect to be punished for whatever they do” (Scharpf and Schmidt 2000a, 334). How do governments avoid blame in such a situation? In Germany, there are three empirically observable reactions of political parties in the post-1995 period, with variable success in solving their electoral dilemma. The first is an uncoordinated, conflicting “strategy”. Chancellor Kohl himself did not have a clear strategy and was pulled back and forth between the modernizers and fiscal conservatives in his government and party who openly advocated neoliberal retrenchment, and the traditionalists and social conservatives who strongly defended the welfare state. The outcome was disastrous: heavy intra-governmental and intra-party conflict led to internal divisions that contributed to the electoral defeat in 1998 (Schäuble 2000). The second is a coordinated, complementary strategy. It was successfully employed by the SPD in 1998. With the leadership split between Schröder and Lafontaine, the SPD was a janus-faced party (Köcher 1998c; 1999). Lafontaine mobilized the traditional clientele, and Schröder attracted swing-voters from the CDU and the FDP. The third strategy is to combine the two elements of success in a single person. It was employed both by chancellor Schröder and by Edmund Stoiber, the CDU's candidate for chancellor, in the 2002 federal election.

The search for a successful electoral strategy in an uncertain competitive situation is directly linked with the development of blueprints for major institutional change. Institutional blueprints only have a chance to get implemented if they are believed to lead to, or at least do not conflict with, success in the electoral arena. It is not surprising, then, that Schröder's blueprint for the partial privatization of Germany's pension system did not come from a pensions expert with a deep understanding of the subject, but from an electoral strategist who was able to turn a range of incoherent substantive ideas into a coherent electoral strategy, one that is both effective in avoiding blame and has credit claiming potential (Hombach 1998).

New Outcomes, Different Conditions

The political obstacles against welfare state reforms are the theoretical centerpiece of current welfare state research. The most important issues for theories of the welfare state are, first, how the political obstacles – vested interests, angry voters, and heavy policy legacies – are overcome, and second, how reform coalitions for a new welfare state are formed (Esping-Andersen 1996b, 265; Pierson 1996, 452). In this part, I will analyze the underlying assumptions of the theory of blame avoidance, interest group theories, and path-dependence theory and evaluate their accuracy in the light of the deviant case of German pension privatization. I suggest that instead of making implicit assumptions, we should define the conditions for blame avoidance by governments, the resistance from interest groups and institutional path-dependence. By doing so, we will be better able to resolve the paradox of major institutional change in frozen welfare states. I will begin with the theory of blame avoidance.

Blame Avoidance

Why do governments initiate and implement highly unpopular welfare state reforms, although it often directly violates their electoral interests? Why do they sometimes commit electoral suicide? I will discuss five implicit assumptions of blame avoidance theory that need to be converted into conditions in order to explain this puzzle: the dominance of the welfare state dimension, electoral certainty, the priority of strategic preferences, automatic blame generation by the opposition party, and automatic punishment by voters. First, the theory of blame avoidance, as it is applied in current welfare state research, rests on the assumption that the expansion and retrenchment of the welfare state is the dominant dimension for governments to claim credit and avoid blame. Only under extraordinary circumstances, when an economic crisis or funding crisis occurs, are other, cross-cutting dimensions important and diminish the dominance of the welfare state dimension.

However, I suggest that we need to take other electoral dimensions into account in order to fully comprehend the blame avoiding and credit claiming incentives of governments. The salience of dimensions may change over time and differ across countries. New, cross-cutting dimensions may emerge. In Germany, for example, a new dimension was politically constructed during the 1990s that cuts across the welfare state dimension. Lowering and stabilizing contribution rates has become an important opportunity for the government to claim credit and for the opposition party to generate blame, if contribution rates rise. The political conflicts in the 1990s have created a “contribution resistance” among the German public that is comparable to, but possibly not as strong as, the tax resistance in liberal welfare states. The emergence of this cross-cutting dimension has led to an electoral trade-off in the area of pensions. Pension benefit cutbacks are highly unpopular among voters and often lead to blame generation. But if pension benefit cutbacks lead to lower and stable contribution rates, the end results of these cutbacks are popular. Therefore, governments may be willing to forego blame avoiding opportunities if the consequences of these cutbacks create an opportunity to claim credit.

Second, the theory of blame avoidance assumes electoral certainty. Governments are able to anticipate which actions will lead to blame generation, and therefore refrain from implementing measures that are detrimental to their electoral interests. But electoral certainty cannot always be assumed, as I have argued in my previous discussion of the ill-defined strategic situation in which German political parties find themselves. If the electoral environment is uncertain, ideas about electoral strategies matter. If the electoral interests of governments are unclear, creative opportunists often introduce new and untested strategic ideas. Put differently, what makes the difference is whether party leaders think that they are able to avoid blame, or to compensate blame by generating credit in another dimension, when they are implementing social cutbacks. Their strategy may lead to failure, but failure does not constitute evidence for irrational, suicidal behavior. In uncertain situations, it is unclear what does and what does not lead to electoral success or defeat. Governments' electoral interests are defined by their ideas.

Third, the theory of blame avoidance assumes that strategic preferences have priority over substantive preferences. It is based on the Downsian notion that politicians "... worry first and foremost about getting elected" (Pierson 1996, 149). This assumption implies the following: in situations in which policy preferences and electoral preferences clash, the incentive to avoid blame wins. The German reform experience since the mid-1990s shows, however, that institutional constraints and substantive preferences can overrule electoral preferences. Put differently, when the blame avoidance imperative meets the Maastricht imperative, the former will lose. In some cases, substantive preferences may also overrule governments' strategic preferences. In Germany, chancellor Schröder is often denounced as a pragmatic politician with highly flexible "principles". His track record in office tells a different story, however. Schröder clearly is a policy-seeker and does not always put the electoral implications that his actions may have first. Already a year before he became the SPD's candidate for chancellor, Schröder publicly voiced his convictions about privatizing public pensions (Associated Press Worldstream – German, May 13, 1997). The persistence that Schröder displayed during the reform process is a direct reflection of the chancellor's conviction that pension privatization is the right thing to do.

Fourth, blame avoidance theory assumes that opposition parties generate blame whenever they have an opportunity to do so. But in Germany, the government's ignorance of blame avoidance was followed by the opposition party's avoidance of blame generation. While the SPD aggressively mobilized against the Kohl government's pension cutbacks in 1997 and 1998, the CDU has been amazingly tame in the 2000s. The CDU does not oppose cutbacks of pension benefits per se, but competes with the SPD about the best way to cut them. Moreover, what has emerged in the 2000s is an informal, bipartisan consensus on pension privatization. Again, the CDU does not mobilize against privatization per se, but competes about improving the design of the new private pension tier. Especially in the Eastern part of Germany, a campaign against privatization and benefit cutbacks would likely be highly successful. But the CDU refrains from employing such a strategy. The CDU's behavior cannot be explained by the structural situation in the electoral arena and the predominance of strategic preferences. What explains the avoidance of blame generation are the emergence of new substantive preferences within the CDU in conjunction with intra-party power shifts from traditionalists to modernizers. To conclude, if the opposition party abstains from generating blame, the government usually does not have to fear to be blamed by voters. Therefore, blame generation is not automatic, but dependent upon the decision of the opposition party to mobilize the public, as Scharpf has shown (Scharpf 1998, 183-185).

Fifth, it is frequently assumed that voters directly respond to the actions of policymakers and always punish them if these actions violate their interests. However, the responsible party government model rests on a whole series of conditions, some of which are quite demanding (Katz 1986; 1997, Ch. 3). Most importantly, the politics of blame avoidance is not a game between two players, but a sequential game between three or more players. It is the outcome of this game, not the actions of governments per se, that shapes the calculation of voters (Scharpf 1998, 183-185). Scharpf's model of democratic accountability assumes that "[i]f the opposition does not oppose a policy, ... the voters will always ignore it" (Scharpf 1998, 193, fn. 5). We also have to take additional players into account that are important in the blame generation game, most importantly cabinet ministers, coalition partners and intra-party factions. A lack of cabinet discipline, coalition discipline and party discipline usually leads to extensive coverage in the media, generates blame, and plays a crucial role in voters' calculation. The electoral punishment of the Kohl government in 1998 was in part the consequence of three years of conflict within the cabinet, between the coalition partners and within the CDU parliamentary party. In the face of a highly unified and aggressive opposition party, it was practically a guarantee for defeat. The series of punishments of the SPD in 1999 – four Land elections, one European parliament election and local elections in the heartland of German Social Democracy – were related to the conflicts within the SPD and to the lack of coordination between the SPD and the Greens.

But even if there is a substantial amount of blame generation, it does not automatically translate into punishment by voters. The theory of blame avoidance assumes constant perceptions and preferences among voters. Under certain conditions, however, voter preferences do change, slowly yet steadily. For the Western part of Germany, Fuchs and Roller found a substantial increase in the acceptance of social cutbacks since the mid-1990s, albeit from a very low level (Fuchs and Roller 2002). The de-facto bipartisan consensus on pension privatization should reinforce and accelerate this process. If the two major parties agree on the necessity of cutbacks and privatization, voters are likely to accept that there is no other alternative. If there is a bipartisan consensus, voters are likely to regard cutbacks as an objective necessity as opposed to a political choice. Moreover, in the German party system, voters who are disaffected by the SPD's and CDU's social policies have no alternative to turn to, unless they are willing to vote for the ex-Communists. In Eastern Germany, the PDS will thus likely be the main beneficiary of the new social policy consensus between the Social and Christian Democrats.

Vested Interests

There are a number of vested interests that resist welfare state reforms. The most prominent ones are trade unions, followed by left parties and elderly lobbies. In the causal model of welfare state reform suggested earlier (see Diagram 1), I added labor ministers and social policymakers as well as intra-party interest groups such as employees' organizations or elderly groups. Here, I will restrict my focus on the most important group with vested interests, the trade unions. Why do trade unions consent to substantial social benefit cutbacks and support the partial privatization of core social programs, although they are notorious welfare state defenders? There are three implicit assumptions in interest group theories that prevent us from making sense of trade union behavior: it is assumed that unions want to mobilize against welfare state reforms, have the capacity to mobilize, and are effective in preventing the reforms from being implemented or, at the very minimum, in punishing the government severely in the next election. All three of these conditions were not given in Germany in the crucial 1999-2001 reform period.

First, it is incorrect to assume that unions are per se opposed to welfare state reforms, including fundamental changes. Several explanations have been proposed in the literature to explain union approval of welfare state reforms: unions are encompassing interest groups, not narrow clientele groups (Anderson 2001), they have a long time horizon (Pierson 2001a, 452), they receive quid pro quos (Bonoli 2001), and they see the necessity of reforms in the face of external constraints or economic crises (Anderson 2001; Ferrara and Gualmini 2000). Some of these arguments are able to explain a number of aspects of the German reform process. The generous tax incentives and social contribution rebates for occupational pensions are certainly a very attractive quid pro quo for unions, and common interest motivations played some role in the decisions of the DGB, the German trade union federation, and of the IGM, the metalworkers' union. But they do not sufficiently explain the wide variations in union positions within the German trade union movement, especially between the IGM and the IG BCE, as well as the change in positions of the IGM and the DGB. Moreover, although generous compensation sweetens a deal, the question remains why unions are willing to make a deal with the government in the first place. Why would they consent to something that they previously fiercely opposed on the grounds of principles?

I suggest that we need to take the ideas and interests of trade unions into account and pay attention to power shifts within trade union organizations. The IG BCE, the chemical workers' union, was the real innovator in building a comprehensive occupational pension tier. Because of a small change legislated by the Kohl government in 1997 (in response to a proposal by the "social partners" in the chemical industry), the unions received fiscal incentives to negotiate with employers about occupational pensions. Given that the IG BCE had successfully negotiated occupational pension benefits under the new rules, it was no surprise that the chemical workers fully embraced Schröder's plans to privatize public pensions from the very beginning. The much larger IGM had not used the new opportunities created by the Kohl government, resisted to negotiate about occupational pensions and completely rejected the idea of pension privatization. Due to the dominance of the IGM within the union federation, the DGB also attacked the Schröder government. A year later, by contrast, both the IGM and the DGB embraced privatization.

The key to explaining the differences between the IGM and the IGBCE, as well as the changes within the IGM, lies in the distribution of power between social policymakers and collective bargaining experts in trade union organizations. In the IG BCE, the collective bargaining department has always been in a much stronger position. And once occupational pensions were recategorized from an issue of social policy to one of collective bargaining, social policymakers lost their jurisdiction and no longer had much of a say in pension policy. In the IGM, by contrast, the social policy department has traditionally held a strong position. The experts in the collective bargaining department only gradually gained more ground as the pension reform process unfolded. As soon as Schröder offered massive tax incentives for private pension savings, the collective bargaining experts were not willing to forego the overly attractive opportunity to secure a large portion of these tax incentives. The ideas and interests of social policymakers within the IGM no longer defined the union's position on pension privatization.

Second, unions do not always have the capacity to mobilize against social cutbacks. The IG BCE, for example, has a very low mobilizing capacity in general. But even the large and powerful IGM was unsuccessful in mobilizing its membership against pension cutbacks. In the fall of 2000, the IGM threatened the government to mobilize against it by announcing nationwide mass demonstrations. The turnout was devastating: only 20000 members demonstrated against pension cutbacks in 7 big German cities. Third, in order to have an effective mobilization threat, trade unions have a similar problem as voters: they need an alternative to turn to. If conservative governments implement social cutbacks, they can often turn to the social democratic party in opposition. This happened in Germany in 1997/1998, when the trade unions protested against pension cutbacks and backed the SPD opposition in the 1998 federal election campaign. But if social democratic parties are in government and implement cutbacks, and if the major opposition party does not oppose these cutbacks, trade unions do not have any veto power. In such a situation, the best they can do is to negotiate with the government in order to achieve some compensation for essentially non-preventable cutbacks.

Institutional/Policy Legacies

Mature pay-as-you-go pension systems are a huge obstacle for pension privatization. A complete transition from a PAYG to a funded system leaves two extreme options that are totally politically unfeasible. Either one generation has to pay twice by funding the public benefits of the retired generation and by privately saving for their own retirement. Alternatively, the retired generation has to be expropriated, which would be a gross violation of Germany's constitution. How do governments overcome this so-called double payment problem? It has been correctly pointed out in the welfare state literature that the double payment problem makes sudden path switching impossible (Myles and Pierson 2001). But I argue that it does not preclude a path-departure and subsequent, gradual path-deviation. There is one implicit assumption in path-dependence theory that is frequently made: it is assumed that the initiation of a transition to a funded system depends upon the prior resolution of the double payment problem. The Schröder government, by contrast, started the partial transition to funding without resolving the double payment problem. It guaranteed the stabilization of the pension contribution rate at its current level and also promised the maintenance of a public pension benefit level of 64 percent or more. But these two goals are clearly in conflict with one another (Schnabel 2001). Thus, dealing with the double payment problem will likely become a recurrent issue in the politics of pensions in Germany in coming decades. To resolve the puzzle of partial transition to funding in a mature PAYG pension system, I suggest to reconceptualize the double payment problem and distinguish three different dimensions of the problem of transition: the double payment problem is an ideational problem, a blame avoidance problem and a distributional problem.

First of all, the double payment problem, and path-dependence more generally, has an ideational dimension. As I have mentioned before, the two major parties in Germany were firmly committed to the public PAYG system until the late 1990s. A transition to a funded system was not seen as a desirable option. Therefore, German governments were not confronted with the double payment problem in the 1980s and 1990s. The strength of these ideational commitments were reinforced by German reunification: by incorporating 5 million East German pensioners virtually over night, the PAYG pension system once again demonstrated its superiority in extraordinary situations such as hyperinflation, war, or the unification of two countries.

Moreover, even if governments find a transition to funding desirable, the ideas they hold may prevent them from considering it. For several decades, the German Ministry of Labor had an “instruction manual” that described the nature of the German welfare state. It was clearly stated that a PAYG system is essentially irreversible once it has been set up. This belief dominated the perspective of the German Ministry of Labor from the 1960s to the 1990s. German labor ministers did not believe that a transition is possible, and Kohl's labor minister frequently used the double payment problem as an “ideational weapon” (Blyth) against the advocates of capitalization within the CDU. But the power of ideas rests either on the power of the political actors who carry them or on institutional socialization and reinforcement. The turnover in personnel in the Ministry of Labor after the 1998 federal election brought people into powerful positions who believe that the double payment problem is solvable. The conclusion from the German case is thus the following: if governments are convinced that the transition problem cannot be solved, they won't even try; but if they have the will to initiate the transition, they find a way to solve the double payment problem.

Second, the double payment problem is also a problem of blame avoidance. The magnitude of the problem therefore directly depends on how much blame is generated and how visible the double payment problem is. The radical proposal of the British government to abolish SERPS in the 1980s made the double payment problem plainly obvious and stirred a strong public controversy (Pierson 1994, 60-62). By contrast, the German government made a point to reassure interest groups and the public that the public PAYG system will remain the dominant pillar, and it attempted to legitimize the partial shift to private pensions by arguing that Germany has always had a three-tiered pension system (public, occupational and private pensions), which is, of course, a gross distortion of reality. It thus communicated partial privatization as a slight shift in emphasis that preserves the structure of the existing system.

Another important factor that made the transition palatable to voters was the stabilization of the pension contribution rate at its current level in conjunction with the preservation of an overall level of benefits of about 70 percent. These two measures generated the impression that there is no additional burden for employees, and that they will continue to receive the same level of pension benefits: they will pay lower public pension contributions in the future and simply put these savings into their private retirement accounts. The fact that employees will pay an estimated overall pension contribution rate of 15 percent of their income in 2030 – instead of 12 percent before the Schröder reform – went virtually unnoticed. The fact that the benefit level of 70 percent is no longer guaranteed, but partially dependent upon the return on the employee's investments, was also successfully obfuscated by the Schröder government.

The blame avoidance strategy employed in Germany confirms Weaver's proposition that private pensions "... are more politically sellable as a supplement to rather than as a replacement for an existing pension tier" (Weaver 1998, 225). The German government even paid careful attention to semantics. It introduced a new term to characterize the new private pension tier. During the 1990s, there was a battle about *ergänzende Altersvorsorge* (supplementary, private old-age provision) and *ersetzende Altersvorsorge* (private old-age provision as a substitute). To avoid the word substitution and also avoid being charged with falsely advertising the new pillar as a supplement, the Ministry of Labor came up with a new term: *zusätzliche Altersvorsorge* (additional, private old-age provision). Finally, it was important that the Schröder government quickly dropped its initial plan to make private pension contributions mandatory from the beginning. This made privatization more acceptable for voters, because they tend to think that they are getting extra subsidies and tax benefits from the state for saving voluntarily. It also made privatization acceptable for employers who did not have to fear that the trade unions will insist on the principle of parity financing that is characteristic for the German welfare state.

One important question remains, however: why was the Schröder government able to employ all these obfuscation strategies without provoking the opposition party to generate blame? The passivity of the opposition has to do with the unattractiveness of generational politics. As Weaver has pointed out, political mobilization along generational lines is an unattractive position for political parties: they will offend pensioners and also alienate younger employees who "... are unlikely to begrudge the payment of adequate pensions to their parents, since it lessens their fears that their parents will become dependent upon them" (Weaver 1998, 224). German survey data evidences the non-existence of generational conflicts very clearly: voters' resistance against social benefit cutbacks is almost identical across age cohorts (Fuchs and Roller 2002, Table 6; Köcher 1997a). Because of the absence of generational politics, the double payment problem usually does not surface in the public discourse and thus may simply not exist in the minds of voters. Conceptualizing path-dependence as a problem of blame avoidance thus leads to the following conclusion: if opposition parties do not mobilize against the transition burden imposed on younger employees, employees are unlikely to know that they will be paying twice.

Third, the double payment problem is a "technical" problem to distribute the burden of transition among generations and between the citizens and the state. But for every technical problem, there is usually a technical solution. As Myles and Pierson have pointed out, a frequently employed partial solution is that governments shoulder a portion of the transition burden through tax subsidies. This strategy that was pursued in Britain. These subsidies often "... offset much of the budgetary savings anticipated" (Myles and Pierson 2001, 314). The same partial solution was used in Germany. The tax subsidies promised by Schröder – 10 billion Euros annually when fully phased in – are substantial and largely offset the federal budgetary savings achieved through pension benefit cutbacks. Moreover, these subsidies are most likely underestimated since they were announced by Schröder before the trade unions started to negotiate with the government about more favorable conditions for occupational pensions. A partial solution that was used in Sweden was not available in Germany: the use of pension reserve funds as a resource to finance the transition to a partially funded system (Anderson 2001). But German pension policymakers found a functional equivalent by using what might be termed "contribution subsidies". The contributions to occupational pension plans are not only exempt from income tax, but for an eight-year period also from social contributions for pension, health, unemployment and long-term care insurance, which currently amount to over 40 percent of an employee's income. The German transition solution is thus to build up the private, funded system by partially defunding the social insurance system.

Conclusion

The main conclusion from my analysis of the deviant case of Germany is the following: the existing theoretical framework for studying the reform of welfare states needs to be revised and amended. In the last part of this paper I have suggested a number of revisions and improvements for the three existing theoretical components that jointly explain variations in welfare state reform outcomes across countries and over time. The theory of blame avoidance needs to become more interactionist, pay attention to the emergence of new electoral dimensions, take electoral uncertainty into account and analyze the conditions under which institutional constraints and policy preferences overrule electoral preferences. Interest group theories need to pay close attention to the ideas, the power distribution and the political dynamics within trade union organizations, examine unions' mobilizing capacity and analyze the conditions under which unions are effective veto players. Path-dependence theory needs to deemphasize the technical aspects of the transition problem and focus on the ideational dimensions of path-dependence as well as on the blame avoidance issues inherent in transition periods.

But I have also demonstrated that the field needs a different causal model to explain major institutional changes in welfare states than the one it has employed to account for incremental adjustments of welfare states in response to changes in the socioeconomic environment. I have suggested two additional theoretical components that need to be incorporated into the existing theoretical framework: institutional interference and creative opportunism. These two components are able to account for the paradox of major institutional change in Germany's frozen welfare state. They offer an explanation for a number of empirical facts that current theories of welfare state reform cannot account for: the initiative for fundamental change by social democratic parties, the overruling of vested interests and overcoming of policy legacies, government's ignorance of blame avoidance, the highly conflictual, yet successful reform process and the bad design of new institutions. Institutional interference and creative opportunism enable us to explain the occurrence of major institutional change in Germany and might help us to account for major changes in other welfare states that are likely to occur in the future.

References

Anderson, Karen M. 2001. The Politics of Retrenchment in a Social Democratic Welfare State: Reform of Swedish Pensions and Unemployment Insurance. *Comparative Political Studies* 34 (9):1063-1091.

Andreß, Hans-Jürgen, Thorsten Heien, and Dirk Hofäcker. 2000. *Wozu brauchen wir noch den Sozialstaat? Der deutsche Sozialstaat im Urteil seiner Bürger*. Opladen: Westdeutscher Verlag.

Blyth, Mark. 1997. "Any More Bright Ideas?" The Ideational Turn in Comparative Political Economy. *Comparative Politics* 29 (1):229-250.

– – – . 2002. *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century*. Cambridge: Cambridge University Press.

Bonoli, Giuliano. 2000. *The Politics of Pension: Institutions and Policy Change in Western Europe*. Cambridge: Cambridge University Press.

– – – . 2001. Political Institutions, Veto Points, and the Process of Welfare State Adaptation. In *The New Politics of the Welfare State*, edited by P. Pierson. Oxford: Oxford University Press:238-264.

Bonoli, Giuliano, and Martin Powell. forthcoming. *Social Democratic Party Policies in Contemporary Europe*. London: Routledge.

Brooks, Sarah M. 2002. Social Protection and Economic Integration: The Politics of Pension Reform in an Era of Capital Mobility. *Comparative Political Studies* 35 (5):491-523.

Bundesministerium der Finanzen. 2000. Finanzpolitische Leitplanken: Sieben Wegweiser für eine zukunftsfähige, gerechte und europataugliche Finanzpolitik.

Bundesrechnungshof. 2001. *Bemerkungen 2001 zur Haushalts- und Wirtschaftsführung des Bundes*. Bonn: Bundesrechnungshof.

Clayton, Richard, and Jonas Pontusson. 1998. Welfare State Retrenchment Revisited: Entitlement Cuts, Public Sector Restructuring, and Inegalitarian Trends in Advanced Capitalist Societies. *World Politics* 51 (October):67-98.

Costello, Declan. 2001. The SGP: How Did We Get There? In *The Stability and Growth Pact: The Architecture of Fiscal Policy in EMU*, edited by A. Brunila, M. Buti and D. Franco. New York: Palgrave:106-136.

Deutsche Bundesbank. 2001. Company Pension Schemes in Germany. *Deutsche Bundesbank Monthly Report* (March):43-58.

Downs, Anthony. 1957. *An Economic Theory of Democracy*. New York: Harper & Row.

Dyson, Kenneth, and Kevin Featherstone. 1996. Italy and EMU as a 'Vincolo Esterno': Empowering the Technocrats, Transforming the State. *South European Society & Politics* 1 (2):272-299.

– – – . 1999. *The Road to Maastricht: Negotiating Economic and Monetary Union*. Oxford: Oxford University Press.

Ebert, Thomas. 2001. Rentenreform 2001: Sozialverträgliche Modernisierung? *Sozialer Fortschritt* 50 (8):182-187.

Esping-Andersen, Gøsta. 1985. *Politics against Markets*. Princeton: Princeton University Press.

– – – . 1990. *The Three Worlds of Welfare Capitalism*. Princeton: Princeton University Press.

– – – . 1996a. After the Golden Age? Welfare State Dilemmas in a Global Economy. In *Welfare States in Transition: National Adaptions in Global Economies*, edited by G. Esping-Andersen. London: Sage:1-31.

– – – . 1996b. Positive-Sum Solutions in a World of Trade-Offs? In *Welfare States in Transition: National Adaptions in Global Economies*, edited by G. Esping-Andersen. London: Sage:256-267.

– – – . 1996c. Welfare States Without Work: The Impasse of Labour Shedding and Familialism in Continental European Social Policy. In *Welfare States in Transition: National Adaptions in Global Economies*, edited by G. Esping-Andersen. London: Sage.

European Commission. 2000. *Public Finances in EMU 2000*, *European Economy*. Brussels.

– – – . 2001. *Public Finances in EMU 2001*, *European Economy*. Brussels.

– – – . 2002. *Public Finances in EMU 2002*, *European Economy*. Brussels.

Ferrara, Maurizio, and Elisabetta Gualmini. 2000. Reforms Guided by Consensus: The Welfare State in the Italian Transition. *West European Politics* 23 (2):187-208.

Fuchs, Dieter, and Edeltraud Roller. 2002. Demokratie und Sozialstaat. In *Datenreport 2002*, edited by Statistisches Bundesamt. Bonn: Bundeszentrale für politische Bildung:607-615.

Hain, Winfried, and Roland Tautz. 2001. Finanzielle Auswirkungen der Rentenreform. *Deutsche Rentenversicherung* 56 (6-7):359-377.

Hall, Peter. 1999. The Political Economy of Europe in an Era of Interdependence. In *Continuity and Change in Contemporary Capitalism*, edited by H. Kitschelt, P. Lange, G. Marks and J. D. Stephens. Cambridge: Cambridge University Press:135-163.

Hemerijck, Anton. 2002. The Self-Transformation of the European Social Model(s). In *Why We Need A New Welfare State*, edited by G. Esping-Andersen. Oxford: Oxford University Press:173-213.

Hering, Martin. forthcoming. Turning Ideas into Policies: Implementing Modern Social Democratic Thinking in Germany's Pension Policy. In *Social Democratic Party Policies in Contemporary Europe*, edited by G. Bonoli and M. Powell. London: Routledge.

Hinrichs, Karl. 2000. Von der Rentenversicherungs- zur Alterssicherungspolitik: Reformen und Reformprobleme. In *Kontingenz und Krise: Institutionenpolitik in kapitalistischen und postsozialistischen Gesellschaften*, edited by K. Hinrichs, H. Kitschelt and H. Wiesenthal. Frankfurt/ New York: Campus:291-317.

Hombach, Bodo. 1998. *Aufbruch: Die Politik der Neuen Mitte*. Munich: Econ.

Huber, Evelyne, and John D. Stephens. 2001. *Development and Crisis of the Welfare State: Parties and Policies in Global Markets*. Chicago: University of Chicago Press.

Immergut, Ellen M. 1992. *Health Politics: Interests and Institutions in Western Europe*. Cambridge: Cambridge University Press.

Iversen, Torben. 1999. *Contested Economic Institutions: The Politics of Macroeconomics and Wage Bargaining in Advanced Democracies*. Cambridge: Cambridge University Press.

Katz, Richard S. 1986. Party Government: A Rationalistic Conception. In *Visions and Realities of Party Government*, edited by F. G. Castles and R. Wildenmann. Berlin: de Gruyter:31-71.

– – – . 1997. *Democracy and Elections*. Oxford: Oxford University Press.

Katzenstein, Peter J. 1987. *Politics and Policy in West Germany: The Growth of a Semisovereign State*. Philadelphia: Temple University Press.

Keeler, John T. S. 1993. Opening the Window for Reform: Mandates, Crises, and Extraordinary Policy-Making. *Comparative Political Studies* 25 (4):433-486.

Kitschelt, Herbert. 2001. Partisan Competition and Welfare State Retrenchment: When Do Politicians Choose Unpopular Policies? In *The New Politics of the Welfare State*, edited by P. Pierson. Oxford: Oxford University Press:265-302.

Köcher, Renate. 1996a. Allensbacher Berichte und Umfragen: Die Sparmassnahmen--unpopulär und notwendig. *Frankfurter Allgemeine Zeitung* (September 11, 1996).

– – – . 1996b. Allensbacher Berichte und Umfragen: Rückwärtsgewandte Fortschrittspartei. *Frankfurter Allgemeine Zeitung* (May 15, 1996).

– – – . 1997a. Allensbacher Berichte und Umfragen: Denken im Generationenverbund. *Frankfurter Allgemeine Zeitung* (January 15, 1997).

– – – . 1997b. Allensbacher Berichte und Umfragen: Unbehagen über die Reformdebatte. *Frankfurter Allgemeine Zeitung* (March 12, 1997).

– – – . 1998a. Allensbacher Berichte und Umfragen: In der neuen Lage hat die CDU neue Aufgaben. *Frankfurter Allgemeine Zeitung* (October 14, 1998).

– – – . 1998b. Allensbacher Berichte und Umfragen: Renaissance der Sozialstaatsgläubigkeit. *Frankfurter Allgemeine Zeitung* (December 16, 1998).

– – – . 1998c. Allensbacher Berichte und Umfragen: Wahlkampf als Verheissung. *Frankfurter Allgemeine Zeitung* (July 1, 1998).

– – – . 1999. Allensbacher Berichte und Umfragen: Der Kanzler und seine Basis. *Frankfurter Allgemeine Zeitung* (August 18, 1999).

– – – . 2002. Allensbacher Berichte und Umfragen: Des Kanzlers Schweigegebot an die SPD. *Frankfurter Allgemeine Zeitung* (July 10, 2002).

Kohl, Jürgen. 2002. Meinungen und Einstellungen der Bürger zur sozialen Sicherung, insbesondere zur Alterssicherung. *Deutsche Rentenversicherung* 57 (9-10):477-493.

Kohler-Koch, Beate. 2000. Framing: The Bottleneck of Constructing Legitimate Institutions. *Journal of European Public Policy* 7 (4):513-531.

Korpi, Walter. 1983. *The Democratic Class Struggle*. London: Routledge and Kegan Paul.

Lehmbruch, Gerhard. 2000. *Parteienwettbewerb im Bundesstaat: Regelsysteme und Spannungslagen im politischen System der Bundesrepublik Deutschland*. 3rd ed. Opladen: Westdeutscher Verlag.

Lijphart, Arend. 1971. Comparative Politics and the Comparative Method. *American Political Science Review* 65 (September):683-693.

Moravcsik, Andrew. 1994. Why the European Community Strengthens the State: Domestic Politics and International Cooperation. *Center for European Studies Working Paper, Harvard University* (52).

– – – . 1998. *The Choice for Europe: Social Purpose and State Power from Messina to Maastricht*. Ithaca: Cornell University Press.

Myles, John, and Paul Pierson. 2001. The Comparative Political Economy of Pension Reform. In *The New Politics of the Welfare State*, edited by P. Pierson. Oxford: Oxford University Press:305-333.

Myles, John, and Jill Quadagno. 1997. Recent Trends in Public Pension Reform: A Comparative View. In *Reform of Retirement Income Policy: A Comparative View*, edited by K. Banting and R. Broadway. Kingston: Queen's University, School of Public Policy Studies:247-272.

North, Douglass C. 1990. *Institutions, Institutional Change, and Economic Performance*. Cambridge: Cambridge University Press.

Nullmeier, Frank, and Friedbert W. Rüb. 1993. *Die Transformation der Sozialpolitik: Vom Sozialstaat zum Sicherungsstaat*. Frankfurt/ New York: Campus.

Offe, Claus. 1991. Smooth Consolidation in the West German Welfare State: Structural Change, Fiscal Policies, and Populist Policies. In *Labor Parties in Postindustrial Societies*, edited by F. F. Piven. Cambridge: Polity Press:124-146.

– – – . 1996. Designing Institutions in East European Transitions. In *The Theory of Institutional Design*, edited by R. E. Goodin. Cambridge: Cambridge University Press:199-226.

– – – . 2001. Institutional Design. In *Encyclopedia of Democratic Thought*, edited by P. B. Clarke and J. Foweraker. London: Routledge:363-369.

Olson, Mancur. 1982. *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities*. New Haven: Yale University Press.

Orren, Karen, and Stephen Skowronek. 1994. Beyond the Iconography of Order: Notes for a "New" Institutionalism. In *The Dynamics of American Politics*, edited by L. C. Dodd and C. Jillson. Boulder: Westview Press:311-332.

Palier, Bruno. 2000. "Defrosting" the French Welfare State. *West European Politics* 23 (2):113-136.

Pierson, Paul. 1994. *Dismantling the Welfare State? Reagan, Thatcher, and the Politics of Retrenchment*. Cambridge: Cambridge University Press.

– – – . 1996. The New Politics of the Welfare State. *World Politics* 48 (2):143-179.

– – – . 1997. The Politics of Pension Reform. In *Reform of Retirement Income Policy: A Comparative View*, edited by K. Banting and R. Broadway. Kingston: Queen's University, School of Public Policy Studies:273-293.

– – – . 1998. Irresistable Forces, Immovable Objects: Post-Industrial Welfare States Confront Permanent Austerity. *Journal of European Public Policy* 5 (4):539-560.

– – – . 2000. Increasing Returns, Path Dependence, and the Study of Politics. *American Political Science Review* 94 (2):251-267.

– – – . 2001a. Coping with Permanent Austerity: Welfare State Restructuring in Affluent Democracies. In *The New Politics of the Welfare State*, edited by P. Pierson. Oxford: Oxford University Press:410-456.

– – – , ed. 2001b. *The New Politics of the Welfare State*. New York: Oxford University Press.

– – – . 2001c. Post-Industrial Pressures on the Mature Welfare States. In *The New Politics of the Welfare State*, edited by P. Pierson. Oxford: Oxford University Press:80-104.

Pierson, Paul, and R. Kent Weaver. 1993. Imposing Losses in Pension Policy. In *Do Institutions Matter?*, edited by R. K. Weaver and B. A. Rockman. Washington, DC: Brookings Institution:110-150.

Rhodes, Martin. 2002. Why EMU Is, Or May Be, Good for European Welfare States. In *European States and the Euro*, edited by K. Dyson. Oxford: Oxford University Press:305-333.

Roller, Edeltraud. 1997. Sozialpolitische Orientierungen nach der deutschen Vereinigung. In *Politische Orientierungen und Verhaltensweisen im vereinigten Deutschland*, edited by O. W. Gabriel. Opladen: Leske + Budrich:115-146.

– – – . 1999a. Shrinking the Welfare State: Citizens' Attitudes towards Cuts in Social Spending in Germany in the 1990s. *German Politics* 8 (1):21-39.

– – – . 1999b. Staatsbezug und Individualismus: Dimensionen des sozialkulturellen Wertewandels. In *50 Jahre Bundesrepublik Deutschland: Rahmenbedingungen, Entwicklungen, Perspektiven*, edited by T. Ellwein and E. Holtmann. Opladen: Westdeutscher Verlag:229-246.

Scharpf, Fritz W. 1998. *Games Real Actors Play: Actor-Centered Institutionalism in Policy Research*. Boulder: Westview Press.

– – – . 2000. Economic Changes, Vulnerabilities, and Institutional Capabilities. In *Welfare and Work in the Open Economy: From Vulnerability to Competitiveness*, edited by F. W. Scharpf and V. Schmidt. Oxford: Oxford University Press:21-124.

Scharpf, Fritz W., and Vivien Schmidt. 2000a. Conclusions. In *Welfare and Work in the Open Economy: From Vulnerability to Competitiveness*, edited by F. W. Scharpf and V. Schmidt. Oxford: Oxford University Press:310-336.

– – – . 2000b. Introduction. In *Welfare and Work in the Open Economy: From Vulnerability to Competitiveness*, edited by F. W. Scharpf and V. Schmidt. Oxford: Oxford University Press:1-20.

– – – , eds. 2000c. *Welfare and Work in the Open Economy: Diverse Responses to Common Challenges*. Vol. 2. Oxford: Oxford University Press.

– – – , eds. 2000d. *Welfare and Work in the Open Economy: From Vulnerability to Competitiveness*. Vol. 1. Oxford: Oxford University Press.

Schäuble, Wolfgang. 2000. *Mitten im Leben*. München: Goldmann.

Schludi, Martin. 2001. The Politics of Pensions in European Social Insurance Countries. *Max Planck Institute for the Study of Societies Discussion Paper* (01/11).

Schmidt, Vivien. 2000. Values and Discourse in the Politics of Adjustment. In *Welfare and Work in the Open Economy: From Vulnerability to Competitiveness*, edited by F. W. Scharpf and V. Schmidt. Oxford: Oxford University Press:228-309.

– – – . 2002. *The Futures of European Capitalism*. Oxford: Oxford University Press.

Schnabel, Reinhold. 2001. *Die Rentenreform 2001: Gutachten zur Rentabilität, Generationengerechtigkeit und den wirtschaftlichen Annahmen der Regierung*. Cologne: Deutsches Institut für Altersvorsorge.

Stark, Jürgen. 2001. Genesis of a Pact. In *The Stability and Growth Pact: The Architecture of Fiscal Policy in EMU*, edited by A. Brunila, M. Buti and D. Franco. New York: Palgrave:77-105.

Thelen, Kathleen. 2001. Varieties of Labor Politics in the Developed Democracies. In *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, edited by P. A. Hall and D. Soskice. Oxford: Oxford University Press:71-103.

Tsebelis, George. 2002. *Veto Players: How Political Institutions Work*. Princeton: Princeton University Press.

Verband Deutscher Rentenversicherungsträger. 2001. *Rentenversicherung in Zahlen*. Frankfurt am Main: VDR.

Weaver, R. Kent. 1986. The Politics of Blame Avoidance. *Journal of Public Policy* 6 (4):371-398.

– – – . 1988. *Automatic Government: The Politics of Indexation*. Washington, DC: Brookings Institution.

– – – . 1998. The Politics of Pensions: Lessons from Abroad. In *Framing the Social Security Debate: Values, Politics and Economics*, edited by R. D. Arnold, M. J. Graetz and A. H. Munnell. Washington, DC: National Academy of Social Insurance:183-229.