Moving the Unmovable: Political Strategies of Pension Reform in Germany

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Abstract

This article has two aims: First, to present a descriptive analysis of the recent pension reforms in Germany, focussing on the reforms of 2003 and 2004 and on the political process instead of policy outcomes. Second, this article analyzes political strategies used by the red-green government (and its predecessors) in pursuing its pension reform agenda. In contrast to a majority position in the relevant literature, which claims a broad consensus is a precondition for successful pension reform, I will argue that in Germany, a large variety of political strategies have been applied. Most involve consensus or at least an attempt to create cooperation with trade unions or the opposition parties, but some also rely on unilateral governmental action. The article discusses advantages, disadvantages, benefits, costs and preconditions of the political strategies observed in Germany. It concludes with the remark that the complexity of the German polity with its high density of veto points goes along with a large variety of political strategies that can be used to circumnavigate veto positions.

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1. Introduction and research question

This article has two aims: First, to present a descriptive analysis of the recent pension reforms in Germany. This account starts with a brief overview over recent pension reforms in Germany. Second, this article analyzes the political strategies that have been used by the red-green government (and its predecessors) pursuing its pension reform agenda. Conventional wisdom (Myles / Pierson 2001; Pierson 2001) about the difficulties of policy change and welfare state adaptation in Germany has already been challenged in terms of reform outcomes. By now, there is a considerable amount of literature (Lamping / Rüb 2004; Schmähl 2003, 2004; Hinrichs / Kangas 2003; Tálos 2004; Busemeyer 2005), which documents the gradual, but in the long term significant process of system change that has been initiated by the pension reform of 2001. Given the extraordinary density of veto points in the German polity and up to the formation of the Grand Coalition, the increasingly fierce party competition between the CDU / CSU and the SPD, this may be surprising. This article adds to the analysis by focussing on the political process instead of policy outcomes. Here, most of the literature agrees that the enactment of major (pension) reforms is only feasible, when a broad consensus on the reform can be built (Myles / Pierson 2001; Pierson 2001: 418; Culpepper 2002; Rhodes 2001; Ebbinghaus / Hassel 2000): "[U]nilateral governmental action is the exception rather than the rule" (Schludi 2003: 204). Furthermore, pension reform takes place in two political arenas: The electoral arena and the corporatist arena (Natali 2004). The two are inherently connected, but as Schludi (2003: 205) argues successful pension reform is dependent on a formal or informal coalition either with the opposition parties (compromise in the electoral arena) or with the labour unions (compromise in the corporatist arena). The study of German cases of pension reform, however, shows that there is a much wider variety of strategies for successful pension reform. Most of them involve compromise or at least an attempt to create cooperation. The examples of the pension reforms of 2003 and 2004, however, show that unilateral governmental action can be a winning strategy. The article discusses advantages and disadvantages in terms of political risk and potential policy change, benefits, costs and preconditions of these strategies. All cases discussed are examples of successful pension reforms in the sense that the initial proposals became enacted in the end. Therefore, this article also argues that the complexity of the German polity with its high density of veto points and counter-majoritarian institutions (Schmidt 2000: 352; Immergut 1992) goes along with a considerably large variety of political strategies. The main purpose of these strategies is to circumnavigate and neutralize veto points, but they have specific advantages and disadvantages beyond that aspect.

The article is structured as follows: The second section presents a brief overview of the recent pension reforms in Germany. The third section discusses seven different political strategies that were applied in the cases of pension reform, building on recent pension reforms as case material. The final section concludes by giving a comparative assessment of the effectiveness of the different political strategies.

2. Overview over recent pension reforms in Germany

Taken together, recent pension reforms in Germany will result in significant modifications of the German pension system, even if each of the reforms taken individually would suggest otherwise. As has been argued by various researchers (Schmähl 2003, 2004; Hinrichs / Kangas 2003; Busemeyer 2005), the 2001 pension reform is a significant system change in the status quo of the German pension system. The retrenchment effect of the reform in the quantitative dimension is limited, as the magnitude of benefit cuts has been restrained due to the involvement of trade unions in the final stages of the decision-making process. However, in the qualitative sense, the 2001 pension reform is a significant modification in the existing pension system, whose ramifications will become apparent primarily in the long term. The goal of the reform is to strengthen the occupational and private pillars of the pension system in order to compensate for expected reductions in benefit generosity due to the weakening of the public pillar. The pension reform tries to achieve this goal through tax subsidies for private pension schemes and by expanding the role of existing occupational pension schemes (for a more detailed account, see Busemeyer 2005: 573).

Obviously, the 2001 reform did not go far enough to ensure the long-term fiscal sustainability of the German pension system, as the government was faced with a growing fiscal crisis in the public pension system and an estimated deficit of 8 billion Euro already in the fall of 2003. Consequently, the government put together a set of short-term measures that passed the *Bundestag* as part of a larger reform package in December of the same year. This 'emergency bill' contained the following policies: curtailing federal support for the pension system by two billion Euro (meeting demands for fiscal consolidation voiced by the Minister of Finance Hans Eichel), increasing the contribution rate of pensioners to the public nursing care insurance scheme from half the rate to the full rate of 1,7 percent, reducing the reserve fund ("Schwankungsreserve") of the system from 50 percent to

20 percent of one month's payments, suspending pension increases in 2004 and moving the date at which new pensioners would receive their first benefits from the beginning to the end of the month (cf. FAZ, 20.10.2003, p.1).

In 2003 and 2004, two other pension laws were passed. The 'Sustainability of Pensions' law aimed at maintaining the long-term fiscal sustainability of the public pension system. The center piece of the reform is the introduction of a "sustainability factor", which links benefit increases to developments in the life expectancy and the employment rate. Increase in life expectancy and rising unemployment therefore lead to lower increases in pension benefits. The estimated quantitative retrenchment effect of this bill is larger than that of the 2001 pension reform. In a way, these two bills complement each other with the 2001 reform setting in motion a gradual system change and the 2004 law delivering quantitative retrenchment in the public pillar, which had not been feasible in 2001.

The second pension law passed in 2004 was the 'Old Age Income' law, which aimed at gradually phasing in the taxation of pension benefits, while exempting contributions. This shift in the tax regime was mandated by a ruling of the Supreme Court, criticizing the unequal treatment of civil servants and employees.

3. Political strategies in German pension politics

The cases of German pension reform offer a wide variety of political strategies within a common institutional framework. What is more, in a certain way, all reform efforts were successful, that is the government was able to enact a reform. We know from the experience of other countries like France that this is not always the case in pension politics. In Germany, however, no pension reform failed completely. To be sure, amendments had to be made, and concessions had to be granted, but in the end, the respective governments could claim at least a partial victory. Therefore, when we discuss the effectiveness of reform strategies in Germany, we are not talking in the categories of success and failure (either in the procedural or qualitative sense), but about possible advantages and disadvantages of reform strategies. The complex institutional environment of German politics offers a wide variety of strategic options for policy-makers. And at least in the case of pension policy, the common prejudice of German immobility and reform fatigue does not seem to hold (cf. Lamping / Rüb 2004: 185).

Table 1: Political strategies of pension reform in Germany

Strategy	Packaging unpopular reforms	"Gamble on success"	Modified "pushing through"	Unilateral („Pushing through")
Characteristics	- packaging unpopular reforms of pension system together with unpopular reform in other policy fields	- adopt a constructive stance towards opposition, but do not yield too much - try to split opposition	- swift decision-making process, dominance of (party) leadership - but: partly inclusion of and adaptation to left-wing and union interests through bargaining within the governing party collation - external legitimation: involvement of experts	- government decides unilaterally on content of reform and decision-making process
Example	Pension 'Emergency' Bill 2003	'Old Age Income' Law 2004	'Sustainability of Pensions' Law 2004	Consolidation Package 1996, Pension Reform 1999, Austria 2003
Advantages	- concentrate unavoidable electoral costs on one point in time - exploit agenda-setting power by framing a yes / no question - increase chances of involvement of opposition party, because of obfuscation of responsibility for specific	- content possibly closer to government's ideal point - potentially high electoral gains: opposition is isolated	- avoid inconsistencies, increase potential policy change - decrease electoral costs by accelerating the decision-making process and avoid unnecessary bargaining (which increases visibility), enhance the potentially positive image of "reform	- on average: larger policy change if implemented

	measures		government"	
Disadvantages / Costs	- high electoral costs (also with regard to *Länder* elections), uncertain benefits in the future	- high risk of failure - depends on the quality of "cards" the government holds (in this case: Supreme Court ruling) - not advisable in every case	- precondition: opposition party has no formal veto powers - high problem pressure is needed to maintain unity of government coalition - high risk of failure	- reform might be overturned by current opposition (f.e. suspension of Pension Reform 1999 under red-green government), this can decrease trust in pension system in the long run - from the perspective of government: uncertainty about political costs (what is the political benefit of reform in the short and the long run)

Graph 1: Political Reform Strategies compared

Reliance on consensual mechanisms
Reliance on
hierarchical mechanisms

Grand Coalition Strategy
Experimental law-making
Pushing through
Compromise in Corporatist Arena
"Gamble on
success"
Time-wise separation
Packaging
unpopular policies

Political Risk (of failure or at least incurring high political costs)
Low
High

Potential for short-term significant policy change
Low
High

Potential for long-term policy change: undetermined!
Possibly high
risk of policy revision
after next election

Table 1 contains an overview over the relatively large variety of strategies that have been used in German pension politics during the last 15 years. The reform strategies can be grouped along an axis, which measures the degree of reliance on consensual policy-making mechanisms versus the reliance on hierarchical governance (see graph 1). Thus consensual decision-making covering both the electoral and the corporatist arena (the "Grand Coalition Strategy") is placed one end of the axis, whereas unilateral, hierarchical decision-making ("pushing through") constitutes the other. Each strategy has its advantages and disadvantages, which I will spell out in more detail below. Governments choose between different strategies according to the perceived pros and cons. The underlying trade-off that governments have to face it one between political risk of failure or of incurring high political costs on the one hand and the potential for significant short-term policy change in the preferred direction. Each strategy offers a specific combination of political risk and potential for policy change. The final choice of strategy depends on the inherent characteristics of the strategy itself as well as the political environment.

Relying on consensual strategies decreases political risk. The underlying assumption here is, of course, that in the era of the 'new politics of the welfare state' (Pierson 2001), pension reforms are mostly exercises in blame avoidance rather than credit claiming. If compromise can be found in the electoral and the corporatist arena, the blame for unpopular policies can be put on a larger number of shoulders. On the other hand, the potential for significant policy change in the preferred direction is limited, because the government has to accept demands from other actors. In contrast, reliance on hierarchical governance mechanisms increases the scope for significant short-term policy change in the direction preferred by government leaders. This holds true not only *vis-à-vis* the opposition, but also within the governing coalition of parties. The downside of hierarchical decision-making is increased political risk. In that respect, Germany's institutional environment with its large number of formal and informal veto points is different from the political environment of other countries like the UK or Scandinavia. Whereas in majority democracies (Lijphart 1999), hierarchical strategies carry political risks in terms of potential future electoral losses and decreasing popular support, in Germany, attempts of unilateral decision-making can easily lead to the abolishment of the whole project.

Considering policy change, I deliberately emphasize the potential for *short-term* change, because the potential for long-term policy change in turn depends on the content of the reform, but also on the concrete manifestations of the political environment. For example, a bold reform that entails significant policy change and relies on hierarchy can fail to pass in the end (although this has not happened during the last 15 years of pension reform in Germany) or it can be overturned by a new government (as happened with the pension reform 1999). What can be assumed is that the reliance on consensual strategies increases the long-term sustainability of enacted reforms. If all relevant actors agree to a reform, it is unlikely that it will be revised completely with a new government in power. Therefore, the potential for *long-term* policy change using consensual strategies might be equally high or higher than the potential of change using hierarchical strategies. In fact, this has long been the secret of success for the German political model of a "grand coalition state" (Schmidt 1996).

As can be seen from table 2 and as will be argued in more detail below, the strategy of "experimental law-making" (Lamping / Rüb 2004) occupies a category of its own. This is because it entails elements of hierarchical and consensual decision-making, while focussing on the minimization of political risk or rather the maximization of chances of success.

In the following, I will outline the character of each of the strategies introduced above, discuss advantages and disadvantages in terms of political risk and potential for policy change, and elaborate on a concrete example.

Grand Coalition strategy

The ‘Grand Coalition’ strategy can be seen as the classical way of German pension policy-making (Schmidt 1996, 1998; Schmähl 2004: 155; Lamping / Rüb 2004: 181) before 1996 / 1997. Insofar, the pension reform of 1989 (called the Pension Reform 1992 because of the year the large part of its provisions came into force) is the last example of the classical, consensus-oriented policy-making style. The ‘Grand coalition strategy’ is characterized by a consensus (mostly) between the two large parties: the Christian Democratic CDU / CSU and the Socialdemocratic SPD. The policy network of pension politics, however, reached beyond partisan politics and included a group of policy experts from the powerful Association of German Pension Providers (VDR), the Federal Agency for the Social Insurance of Employees (BfA) and from the social partners (unions and employers). A closely knit policy network of about 30 people had largely influenced and managed German pension politics since the 1970s (Nullmeier / Rüb 1993). A high degree of trust and mutual respect prevailed and facilitated consensual solutions.

One advantage of the ‘Grand Coalition strategy’ is that electoral costs for unpopular retrenchment reforms are spread widely among political actors. What is more, opportunities to mobilize against proposals are not acted upon by political adversaries. Secondly, a consensual solution increases the sustainability of a reform. Because all stakeholders have a say in the reform project, the likelihood that the reform will be overturned when a new government comes to power is decreased. This again improves the predictability and trustworthiness of pension policies. From the perspective of the national economy and society, predictability of pension policies improves the economic climate and can increase social and political trust.

One imminent problem of the 'Grand Coalition strategy' is that it is hard to build and sustain cooperation between political adversaries. Schludi (2003: 208-209) argues that chances for a bipartisan reform coalition are higher if the policy distance between the two parties and the degree of electoral competition (in his words: "positional conflict") between the two party blocs is relatively low. In the case of Germany, the policy distance between the SPD and CDU / CSU is rather small: Both parties are "welfare state parties" (Schmidt 1998: 168). However, electoral competition between the two is relatively fierce. One reason for this is that they partly compete for the same middle class voter constituencies. In times of welfare state expansion, the closeness in policy positions facilitated compromise. After all, no party would want to grant the other side the benefit of increasing pension benefits. In times of welfare state retrenchment, however, the temptation to mobilize against the current government in the name of "social justice" is big. The SPD mobilized against the last pension reform of the Kohl government in the election campaign of 1998, and the CDU / CSU mobilized against the benefit cutbacks of the new red-green government only two years later.

Another important factor determining the chances of bipartisan consensus is the degree of internal cohesion. According to Tsebelis' veto player theory (Tsebelis 2002: 48), the probability of policy change decreases, when the internal cohesion of a veto player increases. I would argue, however, that the opposite is the case (at least in German pension politics): When internal cohesion is not defined in policy terms exclusively, but refers to the degree of party unity in the politics dimension as well, then a lower internal cohesion will lead to more difficulties in achieving consensus and therefore lower the probability of policy change. One example: The red-green government repeatedly tried to negotiate a consensus with regard to the 2001 pension reform with the opposition parties, but the new leader of the party, Angela Merkel, could not afford to strike a consensual deal with the SPD. To mobilize against the reform proposals of the SPD was a good opportunity to unify the party and consolidate her leadership. Giving in to the SPD would have weakened her position. In contrast, after she had solidified her grasp on the party leadership, she agreed to negotiate reforms in labour market and health policies with the Schröder government in 2003 and 2004. However, party unity is only a necessary, not a sufficient condition for consensual politics as can be seen from the example of then-president of the SPD, Oskar Lafontaine, and his confrontational opposition strategy to the Kohl pension reforms.

Another disadvantage of the 'Grand Coalition strategy' is the long decision-making process. A lot of actors are involved. The bulk of the bargaining with regard to the Pension Reform 1992, for example, was conducted in non-parlamentarian bodies consisting of delegates from the social partners, pension experts, and political parties (Nullmeier / Rüb 1993). In addition, the necessity to include the interests of a lot of different stakeholders carries the risk of ending up with policies on the lowest common denominator. Especially in times of welfare state retrenchment, it is possible that the magnitude of policy change in a consensual reform will be lower , because more constituencies have to be protected. Finally, a compromise between the most important stakeholders and the two big parties is broad, but it is not universal. There is a danger that the “blind spots” of a consensual agreement between the two large parties hurt interests of outsiders, who do not have the right to participate in the consensus process. For example, in the bargaining process for the Pension Reform of 1992, all major parties (CDU, CSU, SPD, FDP) were included, but not the Greens.

Compromise in the corporatist arena

As Natali (2004) rightly points out, pension politics can often be regarded as a two-level game in the electoral and the corporatist arena. This is especially true for the case of Germany, where the social partners actively participate in the self-administration of the public pension insurance institutions. The pension reform of 2001 (in its final phase) is an example of a consensus coalition between trade unions and the government with the exclusion of the opposition parties. After attempts of consensus talks with the CDU / CSU had largely failed, the Schröder government looked to the trade unions for support. One reason for this was to prevent the division of the government and to get the support from SPD left-wingers (Schludi 2003: 219). To include trade unions in the reform coalition was necessary to avoid large-scale public mobilization against the reform, which the CDU / CSU opposition had already tried to organize before. Chances are high that Schröder would have had to withdraw the reform bill if he had faced the joint opposition from the trade unions and the opposition parties.

Besides avoiding large-scale counter-mobilization, there is another advantage: Including trade unions in the process and allowing them to determine at least partially the content of the reform increases union support for the continuation of the reform process in the long run. For example, by including occupational pensions in the collective bargaining framework and by granting occupational pensions privileges over private pensions, the unions will have a strong interest in expanding the second pillar of the German system, thus contributing and accelerating the transformation of the German pension system. This increases the long-term sustainability and predictability of pension reform.

The other side of the coin is that the impact of special trade union interests on the content of the reform can decrease its potential contribution to the common good of the society. For example, granting privileges for occupational pension schemes might leave employees worse off if the development of a market for private pensions is hindered. Another example is the inclusion of the 67 percent benefit level guaranty on the request of the unions: In the short term, this seems to benefit everybody, but in the long run it might hurt the younger generations, who have to pay higher contributions.

Another disadvantage of the 'consensus in the corporatist arena'-strategy is that the potential for counter-mobilization through opposition parties is not neutralized. In so far, this strategy is inferior to the 'Grand Coalition strategy', because the latter ensures against any kind of counter-mobilization. However, to form a coalition with the trade unions might be a second-best option if the formation of a Grand coalition is not feasible. What has to be added, though, is that the danger of credible counter-mobilization of opposition parties against a coalition consisting of the governing parties and the trade unions is relatively low, when the reform coalition is formed between leftist parties and trade unions (like in the German 2001 case). When trade unions support the government reform, it is hard for the opposition parties to mobilize on grounds of social injustice.

A final point that has to be added with special regard to the German case is that the risk of failure of the "corporatist" strategy is high, when the opposition parties have formal veto powers as it was the case in the 2001 pension reform. In this case, the opposition party has considerable potential to 'blackmail' or the government has to accept costly side payments (as it has in the German case).

Temporal separation of bills

Because the *Bundesrat* has formal veto power on most of the major pension reforms, governments try to circumvent this veto point by separating those legal matters that need consent of the *Bundesrat* from those that do not. As we will see below, introducing two separate bills is not enough, however. It pays off to let some time pass between the introduction of the two. The cases of the 'Old Age Income' bill and the 'Sustainability of Pensions' bill are also examples of a such strategy of temporal separation of bills, of which one needs the consent of the *Bundesrat* and the other does not. While it makes sense to package reform bills that *all* need the consent of the *Bundesrat*, it might make sense to separate temporally those who do from those who do not. Both bills were decided in the government cabinet on the same day (December 3 2003), but the 'Sustainability of Pensions' Law was decided before the bulk of negotiations with the opposition on the 'Old Age Income' bill started. A part of this temporal discrepancy can be explained by the fact that the decision-making process of consent bills is longer than for other bills because of involvement of the conference committee and other bargaining institutions. However, I would argue that the strategy of temporal separation makes sense beyond that and that it has been applied in the cases of pension reform bills in 2004.

The obvious advantage of the strategy of temporal separation is this: When the opposition has formal veto powers (because of a majority in the *Bundesrat*) and the government tries to organize a compromise about a consent bill, it can force the government to include *all* parts of a reform in the negotiations, even the ones that are not in need of consent. This happened in the 2001 pension reform: The government had already split the reform in two bills, one that needed the consent of the *Bundesrat* and one that did not. The opposition, however, demanded in the negotiations that the reform as a *whole* and not only the consent bill should be put on the table. A substantive separation of bills is therefore not enough to neutralize the influence of the opposition. A temporal separation of bills is more effective. If the non-consent bill has already passed the *Bundestag* and there is a significant time gap between this and the negotiations about the consent bill, the opposition will find it harder to claim a right to say on the content of the non-consent bill. A further help is to draw a clearer line of separation in the substance of the proposals. In the 2001 reform, the two bills (one introducing a new pension formula and the other governing the new state support scheme for private pensions) were seen as integral parts of one large reform. In the 2004 reform, the 'Sustainability of Pensions' Law clearly had different goals and a different content from the 'Old Age Income' Law. Admittedly, these two proposals were aiming at different legislative projects from the beginning. However, a substantial separation of law proposals can also be achieved by political communication and framing of policy goals. What is more, the government added some reformed provisions regulating the "Riester pensions" to the 'Old Age Income' bill, which were not connected to the project of gradual phase-in of taxation. This shows that the government knew about 'packaging' reforms that are in need of consent in the *Bundesrat* and about separating these from the enactment of non-consent bills. The temporal separation of consent and non-consent bills also enables the government to follow different strategies for each bill.

One disadvantage of the strategy of temporal separation is that it entails the risk of having to incur the electoral costs of reform twice instead of once. This depends on the ability of the government to 'sell' the non-consent bill and the willingness and ability of the opposition party to cooperate on the consent bill. What is more, if one bill fails this can impact negatively on the other. This is especially true when the bills have a substantial connection in terms of content despite their temporal separation. Because risk of failure is higher for the consent bill, it is advisable to decide on the non-consent bill first.

'Experimental law-making'[1]

As has been argued by Lamping and Rüb (2004: 182), the 2001 pension reform has been characterized by a certain style of decision-making, which they call "experimental law-making". The decision-making style of the red-green government has indeed been "experimental" in that different combinations of political strategies have been tried, depending on the political circumstances. For Lamping and Rüb, the defining characteristic of "experimental law-making" is that in a process of trial and error, reform proposals and ideas are thrown into the political arena in a "relatively unprepared and unplanned" manner, reactions of the relevant actors to these ideas are observed, and governmental actions are adapted ad hoc (ibd.: 181-182). To me, the central question here is, in how far the 'strategy' of "experimental law-making" was indeed conscientiously chosen and in how far it was an 'ad hoc reaction' to changes in the political environment, thus, at the same time confirming and disproving Lamping's and Rüb's thesis.

The 2001 pension reform is an example for how governments try different strategies when they fail with pursuing the most favoured one. In contrast to the pension

[1] Lamping / Rüb 2004.

reforms of 2003 and 2004, there is by now a considerable body of research on the important reform of 2001 (cf. Lamping / Rüb 2004 and in this issue; Schmähl 2003, 2004; Kohl 2001; Leibfried / Obinger 2004; Talós 2004; Busemeyer 2005; Anderson / Meyer 2003; Schmidt 2005; Hinrichs / Kangas 2003). Therefore, I will only briefly outline the shifting actor coalitions that have been mobilized by the government in order to secure the passing of the reform bills.

In June 1999, the then Minister for Labour and Social Affairs, Walter Riester, came forward with first thoughts about pension reform. One new element was the introduction of a mandatory contribution to a funded private pension scheme and the introduction of a minimum pension. The government at first tried to engage the CDU / CSU in consensus talks to revive the 'grand coalition tradition of pension policy-making' in Germany. The union parties criticized the mandatory character of the contribution to private pensions. The government eventually dropped this proposal, but the union parties (CDU / CSU) left the consensus talks in the summer of 2000, also because the CDU was preoccupied with building a new leadership after the party finance scandals of 1999.

In the fall of 2000, Riester presented the first draft of the pension reform bill ("Referentenentwurf") that contained some concessions to the union parties (among others: contributions to private pension schemes should be made voluntary, not mandatory). Also, the proposal to introduce a minimum pension was dropped in favour of increasing the connections between the pension insurance system and the existing social aid and welfare programmes. However, the CDU / CSU were largely opposed. The trade unions had become opposed to the government's policy proposals as well, because the Minister of Finance, Hans

Eichel, had planned to suspend pension increases in 2000 and 2001 to consolidate public finances.

The draft of the bill also contained a provision to introduce a ‘reduction’ factor that would have reduced pension benefits by 0.3 percents per year for new pensioners after 2011. Massive critique from the Association of German Pension Providers (VDR) and other experts led the government to drop this proposal. However, the final bill contained a reduction factor (the “Riester-Abschlag”) of 0.5 percent for the years between 2002 and 2008 to reduce pension benefits by the rather ‘fictional’ amount of contributions, which were supposed to be channelled to private pensions ‘voluntarily’.

After the government had failed to bind the union parties opposition in consensus talks in the fall of 2000, it decided to strike a deal with the trade unions instead. The later Minister for Health and Social Security, Ulla Schmidt (SPD), largely managed this process of rapprochement. Up to this point, the trade unions had protested massively against the reform proposals of the government. The price Chancellor Schröder had to pay to get the trade unions’ support was a generous protection of confidence for existing occupational pension schemes. What is more, the final proposal of the reform bill contained some privileges for occupational pension schemes, among others the inclusion of occupational pensions in the collective bargaining agreements, which had not been the case before (Busemeyer 2005: 585; Schmähl 2004).

The *Bundestag* voted positively on the pension reform (which had been split up into three bills to increase the chances of passage in the *Bundesrat*), but the CDU / CSU remained largely opposed. Therefore, to maintain a consensus with the trade unions became important for the government to be able to claim a moderately large public consensus for reform.[2] After the passage of the reform bills in the *Bundestag*, the government tried to engage the CDU / CSU in consensus talks again, because one part of the reform (the bill regulating the new subsidizing scheme for contributions to private pension plans) needed the consent of the *Bundesrat*, where the red-green government did not have a majority. Although the pension reform was split into three separate bills and the support of the CDU / CSU would be needed only for one of those bills, the CDU / CSU insisted on putting the provisions of the whole reform on the negotiating table (Busemeyer 2005: 586). After consensus talks with the union parties failed in late March of 2001, the red-green government tried to build support in the *Bundesrat* by making specific concessions to certain *Länder* governments.[3] As can be seen from the impact of the involvement of the trade unions, the politics of making concessions to specific interests has left some marks on the pension bill. The final outcome of the process, however, was the successful adoption of the pension reform bill on May 11 of 2003.

This brief political history of the 2001 pension reform shows how the government tried to mobilize

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[2] Shortly before the final decision on the bill in the Bundestag, the head of the influential IG Metall union, Klaus Zwickel, called Schröder’s office to point out that he had found a passage in the law that he could not accept. The provision in question was indeed very important, because it contained the obligation for the government to guarantee a certain level of pension benefits. Schro¨ der was immediately contacted and himself talked with Riester and the head of the parliamentary faction, Peter Struck, to make sure that the union’s request was fulfilled (Der Spiegel, 29 January 2001). This example shows how dependent the government became on the trade unions.

[3] The government, for example, promised Berlin and Brandenburg to set up the federal agency that would take care of the certification of investment products in their territory, thereby creating about 1,000 badly needed new jobs. On the demand of Rhineland-Palatinate, in which the liberal FDP was in the government coalition, the government included the recognition of real estate as private savings in the bill.

different supporting coalitions, first with the opposition, then the trade unions, then the opposition parties again, and finally compromise minded *Länder* governments. The government wanted to include the opposition to spread electoral costs, but the opposition did not want to pass on the possibility of blaming the government for unpopular reforms. Only after it became obvious that the CDU / CSU would not give the government the support it wanted did the red-green coalition engage in a process of rapprochement with the trade unions. In other words: They shifted from the 'Grand Coalition' to the 'corporatist strategy'. One reason, why the government switched strategies so easily and adopted a style of "experimental law-making", is that the feat of being able to enact some kind of pension reform was in itself a huge political victory, especially given the lack of a majority in the *Bundesrat*. The content of the reform was less important, therefore the government was more willing to incorporate different actors' interests.

The advantage of "experimental law-making", i.e. switching strategies, is that in the short term, it maximizes chances of being able to pass a reform. Preferences of shifting actor coalitions are built into the reform bill to ensure its enactment. The disadvantage of this approach is that the impact of special interests on the content of the bill increases costs (side payments to *Länder* governments in the *Bundesrat*), lowers the coherence of the reform, and results in smaller policy changes (the trade unions pressed the government to limit the magnitude of benefit cuts). Another disadvantage of this 'strategy' is that the decision-making process is protracted. It took almost two years from the first proposals of Riester on pension reform until the bill finally passed in the *Bundesrat*. A long decision-making process is not a disadvantage per se, but it entails the risk of loss of credibility for the government as well as the risk of higher political costs (for example in terms of losses at *Länder* elections). What is more, new actor coalitions have to be formed constantly. This fuels the public perception of a wavering government. The cumulative effects of a long decision-making process, the involvement of shifting actor coalitions, and the continuous development of new proposals impacts negatively on the credibility of the government's policies and in the long term on the public pension system itself.

Packaging unpopular reforms

A strategy that has been used to pass the Pension 'Emergency' Law in the fall of 2003 is to combine a significant number of reforms, some more, others less popular, in one large package. In fact, most of the provisions of the 'emergency' bill could be passed with the simple majority of the red-green coalition in the *Bundestag*. Only the proposal to move the payment date of benefits for new pensioners from the beginning to the end of the month needed the consent of the *Bundesrat*. This seems like a minor point, but the effect of this measure is to reduce pension expenditures by an estimated 500 to 700 Mio. Euro (Die Welt, 09.12.2005: „Widerstand der Union reißt Loch in die Rentenkasse"). What is more, the CDU / CSU at first refused to give consent to the 'emergency' bill and criticized the government for its fiscal policies. Eventually, however, the opposition supported the reform in the last session of the *Bundesrat* before Christmas 2003, but is was only a minor point in a larger reform package of labour market and other reforms.

One advantage of the 'packaging' strategy is the concentration of unavoidable electoral costs at one point in time. To avoid a lengthy decision-making process, the government sent the bill to parliament immediately after the pension summit of October 2003. This also helped to concentrate electoral costs. Furthermore, the packaging of unpopular, but 'necessary' reforms enhances the agenda-setting power of the government. While the electoral payoffs of a reform-oriented policy programme are uncertain at best, the opposition could not afford to block reforms completely. Given that the opposition would have to corporate at least minimally to avoid political punishment, the best strategy for the government is to exploit its agenda-setting power by building a large policy package and then face the opposition only with a yes / no-choice. In effect, the packaging of unpopular reforms actually makes it easier for the opposition to give its consent, because the sheer number of proposals allows for obfuscation and the blurring of responsibilities.

The disadvantages of the 'packaging' strategy are obviously the high political costs. In the German polity, elections for *Länder* parliaments take place frequently between federal elections. If unpopular reforms are not concentrated at one point in time, there is a danger that the government coalition with the majority in the *Bundestag* will face increasingly stronger constraints: If opposition parties mobilize against the government and win *Länder* elections, this changes the partisan composition of the *Bundesrat* in favour of the opposition, making it harder for the government to organize a reform compromise. And while the 'emergency' pension bill of 2003 is a rather successful example, an assessment of the whole period of red-green government from 1998 to 2005 would come to a different conclusion. Instead of being able to (or willing to) build a large reform package shortly after being elected in 1998, the Schröder governments moved forward rather hesitantly and oftentimes erratically. In the end, this has probably caused higher political costs than a decisive strategy of packaging unpopular reform would have.

Unilateral action: "pushing through"

The counterpart to the 'Grand Coalition strategy' outlined above is a strategy of unilateral action. In times of welfare state retrenchment, it might be in the interest of the government to "push through" with unpopular, but necessary reforms as fast as possible in order to concentrate electoral costs at one point in time and to ripe potential benefits as soon as possible. However, in the case of pension policies in contrast to labour market policies for example, reform is more a game of distribution of losses (Schludi 2003: 205) and not of shifting costs and benefits along the time line. Still, it might make sense to make 'one big cut', which hurts once, instead of several small ones, which hurt repeatedly. The German pension reform of 1997 (Pension Reform 1999), the consolidation package of 1996 and the Austrian pension reform of 2003 (cf. Busemeyer 2005) are examples of policies that have been decided without the consent of the opposition parties nor the trade unions. Because competencies for pension policies (for example with regard to the pension formula) are located exclusively at the federal level in Germany, a unilateral strategy is feasible for certain reform projects, because the consent of the *Bundesrat* is not needed.

Potentially, unilateral reform strategies can result in a larger policy change, if they are enacted and implemented. On the other side, however, unilateral reform action concentrates political costs on a smaller number of political actors (Pierson 1996: 154). Governments have to carry a larger burden in terms of electoral costs if they move forward with large retrenchment reforms. In addition, they have to make sure that the unity of government parties is large enough and the grip of the party leadership on the rank and file strong enough to prevent the breaking-apart of the government camp. Alternatively, governments could opt to proceed more cautiously and implement smaller reforms. Which strategy they choose also depends on the degree of problem pressure.

Apart from this uncertainty about political costs and benefits of large-scale reform, unilateral action increases the danger that a new government will overturn the reform. This has happened with the last pension reform of the Kohl government, when the new red-green government coalition first suspended and then abolished the respective law. In the long term, this puts the sustainability of the pension system in question and will hurt both party camps.

During the seven years of pension politics under the red-green government, the case of the ‘Sustainability of Pensions’ bill of 2004 comes closest to the model of a unilateral strategy of pushing through. The case also shows that “experimental law-making” is not necessarily the default strategy of the red-green government for major pension reforms. In contrast to the 2001 pension reform, the decision-making process was less erratic and the government was able to move forward with a much higher pace. This streamlined decision-making process went along with a dominance of the party leadership, which frustrated parts of the SPD parliamentary group. In contrast to the strategy of “pushing through” as practiced by the Kohl government, the 2004 pension reform had two additional characteristics: First, because of the extremely small majority of the red-green government in the *Bundestag*, the coalition had to incorporate critics from the left wing of the parliamentary group. These were protesting the content of the reform as well as the hierarchical style of decision-making. Secondly, Ulla Schmidt’s and the party leadership’s attempts to ‘sell’ the recommendations of the Rürup commission to the parliamentary group show that the government made a stronger attempt to legitimize the reform through expert involvement than the Kohl government had.

Shortly after the 2002 elections, Ulla Schmidt, the Minister for Health and Social Security, established an expert “Commission on Sustainability in Financing the Social Security Systems”, chaired by Bert Rürup, who had already acted as an advisor for the Kohl government and its pension reform of 1997. Pressure for pension reform was mounting again: At the beginning of 2003, the pension contribution had to be increased from 19.1 to 19.5 percent and by May, the Association of German Pension Providers (VDR) proclaimed it would be necessary to increase contribution rates again in 2004 (FAZ, 31.5.2003, p.11). What is more, it was criticised that the 2001 pension reform had introduced a "virtual" reduction factor in the pension formula, which was supposed to correct for the increased importance of private pensions, although only a minority of about 15 percent made use of the state-supported "Riester pensions" (FAZ, 25.3.2003, p.13). Thus, the 2001 pension reform got under pressure not only because it did not achieve the goal of stabilizing the financing of the public pension system. Critics also claimed it would not set enough incentives to ensure that citizens invest more in private pensions instead of solely relying on the public system. The set-up of the Rürup commission (and its official name) indicates that Schmidt and the government were more prepared to deal with the financing side instead.

In April 2003, the central recommendations of the Rürup commission became known (cf. FAZ, 25.4.2003, p.1, cf. BMGS 2003): The commission recommended to increase the pension entry age from 65 to 67. The experts also proposed the introduction of a so-called "sustainability factor" into the formula to calculate pension benefits.[4] The

[4] A similar idea had been proposed by the 'Commission on the Further Development of the Pension Insurance' (of which Rürup had been a member) to the last Kohl government, which included a "demographic factor" into its pension reform of 1997. Ironically, one of the first acts of the red-green government in office had been the temporal and eventually final abolishment of the "demographic factor" of the Kohl reform. The difference between the old "demographic factor" and the new "sustainability factor" is that the former reduces pension benefits in proportion to changes in life expectancy. The "sustainability factor", however, adopts pension benefits in relation to the ratio between contribution payers and benefits receivers. This ensures that pension

CDU / CSU partly welcomed these proposals, but demanded more consideration of the situation of families in the pension reform (FAZ, 25.4.2003, p.1). Not surprisingly, the recommendations of the Rürup commission, especially its proposal to increase the pension entry age, met strong resistance from trade unions and parts of the SPD. The 'assault' on the public pension system was seen as part of the major reform program that had been launched by Chancellor Schröder under the label of "Agenda 2010" in the spring of 2003. The Greens sharpened their profile of 'budget hawks' in the name of generational justice: They demanded to suspend adjustments in the pension benefits in 2004 and, in contrast to the more reluctant SPD, supported the Rürup proposal of increasing the entry age to 67 (FAZ, 07.06.2003, p.11).The president of the powerful Association for Social Affairs ("Sozialverband" (VdK)), Walter Hirrlinger, mobilized old-aged voters to protest against the pension reform (FAZ, 24.08.2003, p.25), although the costs of most of the reforms to come would fall mainly on younger age cohorts.

In the fall of 2003, pressure to act was building fast. Schmidt tried to build support for her pension reform plans in the parliamentary group of the SDP (FAZ, 20.08.2003, p.13). Franz Müntefering, the president of the SPD at that time, and Chancellor Schröder already proclaimed "Rürup is not the bible" and began to move away from the policy goal to rise the pension entry age to 67 (FAZ, 02.09.2003, p.11). This can also be seen as reaction to protests from the SPD organization for the elderly ("AG 60 plus") (FAZ, 04.09.2003, p.2). While resistance to the reform plans was mounting, the problems on the financing side worsened as well. In October 2003, experts estimated a deficit of about 8 Bio. Euro in the pension system. What is more, Schmidt

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benefits are not only adopted in proportion to changes in life expectancy, but also to changes in the employment rate: The higher the unemployment, the lower the increases in pension benefits.

was pushed by Hans Eichel, Minister of Finance, to curtail the federal support for the autonomous pension insurance system by 2 Bio. Euro to stabilize public finances (FAZ, 19.10.2003, p.4). [5]

In mid-October 2003, Schröder organized a retreat of the government and the leadership of the coalition parties to talk about pension reform. Here, the government decided on some short-term measures to be implemented as soon as possible to stabilize the finances of the pension system. The CDU opposition heavily criticized the government's plans. The "emergency operation" of the government would threaten the stability and credibility of the public pension system and would be the first step towards "pensions according to fund availability" ("Rente nach Kassenlage") (FAZ, 18.10., 2003, p.1). And yet, beneath the fierce rhetoric, all parties of the *Bundestag* saw the inevitability of reform. In all parties (the SPD, the Greens, the CDU / CSU, and the FDP), there was a strong resistance against increasing the pension entry age, because it was largely unpopular with the voters. The introduction of a "sustainability factor", that is a reduction of future benefit increases, was widely supported in all parties. One issue that divided the CDU / CSU from the other parties was the question of reduced benefits for contributors with children or similar family-related pension policies. However, all parties favoured a partial reform and

[5] At about the same time, the Herzog commission, an expert commission set up by the CDU leadership under the chairmanship of the former Federal President Roman Herzog, put forth its recommendations (Kommission "Soziale Sicherheit", 2003). The Herzog commission demanded an increase in the pension entry age to 67, like the Rürup commission had done already. In contrast to the government commission, the final report of the Herzog commission talked more about the role of families and the necessity to give support through the pension system (for example by counting times of child-rearing or lower contribution rates for employees with kids) (Herzog Commission 2003).

improvement of the "Riester pensions", which were widely thought to be plagued by administrative overregulation (FAZ, 11.09.2003, p.14).

Despite the potential for consensus, the governments' proposals were heavily criticized. The Greens (and the CDU opposition) criticized Ulla Schmidt's proposal to eliminate pension credits given for 3 years of post-secondary education. This was thought to be counterproductive to the government's education policy agenda (FAZ, 23.10.2003, p.1). The CDU / CSU made the withdrawal of the Schmidt proposal a precondition for its willingness to cooperate (FAZ, 25.10.2003, p.1). The draft of the "sustainability" bill also included a provision to move the date of benefit adjustment from the 1st of July to the 1st of January, which would have resulted in another suspension of benefit increases in 2005 (FAZ, 04.11.2003, p.11). Eventually, the government coalition decided against that measure (FAZ, 29.11.2003, p.9). On December 3, the government decided positively on Schmidt's proposal of the "sustainability of pensions" bill (Die Welt, 3.12.2003: "Kabinett beschließt Rentenreform") and forwarded it without much delay to the *Bundestag*. By February 2004, protest stirred in the labour unions and parts of the SPD. Health reform policies of the red-green government, decided upon in consent with the opposition, increased the contribution rate for the public health insurance system to the full rate for occupational pensions. This, the emergency pension bill, the "sustainability" bill and the gradual phase-in of the taxation of pension benefits was seen as a heavy burden on pensioners ("ein dicker Brocken", in the words of Harald Schartau, then-president of the powerful SPD Land association of North-Rhine-Westphalia) (Die Welt, 10.02.2004: "Werden die Reformen verwässert?").

Ursula Engelen-Kefer, the vice president of the German Confederation of Trade Unions (DGB), warned of a "free fall" of pension benefits and demanded the introduction of a safety clause in the bill, which would keep the benefits from falling below a certain level (Die Welt, 11.02.2004: “Rentenpolitik der Regierung in der Kritik”). Klaus Kirschner (SPD), the chairman of the committee for social affairs in the *Bundestag*, also demanded such a clause. The CDU opposition and their spokesperson for pension policy, Andreas Storm, also supported this idea (FAZ.NET, 11.02.2004: “Koalition prüft Untergrenze für Rentenniveau”).

The coalition leadership finally revised the reform proposal and included a guaranteed minimum benefit level in the bill to allay the critics in its own rows. This was especially important as there were rumours the government was lacking seven votes and would not be able to assure a majority in the *Bundestag* (Die Welt, 06.03.2004: “Koalitionsmehrheit wackelt bei Rente”). The bill now prescribed to limit the fall of pension benefits from 53 percent of adjusted gross income[6] to 46 percent in 2020 and 43 percent in 2030. The 2001 Riester reform would have resulted in a reduction of benefit levels to 46 percent.[7] The “sustainability of pensions” bill included a mandate for the government to propose measures to the *Bundestag* if the average benefit level falls below 46 percent.

The CDU and CSU were not unified, either. Andreas Storm was in favour of introducing a guaranteed benefit minimum level, Horst Seehofer from the CSU opposed it, because it remained largely open, how such a

[6] Up to then, levels of pension benefits had been calculated as percentage of average net income. The gradual phase-in of the taxation of pension benefits, however, results in different tax rates on benefits and pre-pension income depending on the age of the pensioner. Therefore, it is not possible anymore to compare pension levels as percentages of net income. The average pension benefit is therefore calculated using the “adjusted gross income” (gross income minus social security contributions) of pensioners and workers as reference.

[7] However, the 2001 pension reform also entailed a guaranteed minimum level of benefits (67 percent of average net income).

minimum level would be paid for (FAZ 13.2.2004, p.15). However, the majority of the CDU / CSU in the *Bundesrat* rejected the "sustainability bill" on February 13, 2004. Erwin Teufel (CDU), the prime minister of Baden-Württemberg, argued the introduction of the "sustainability" factor was only "patchwork" and would not be enough to ensure the long-term sustainability and security of the public pension system (FAZ 14.02.2004, p.11). Heinrich Kolb (FDP), member of the *Bundestag*, called the guaranteed minimum level "window dressing" ("Augenwischerei"), because it created a sense of security for the citizens, which was not achievable.

In the *Bundestag*, members of the Parliamentarian Left (PL) of the SPD criticized the speed of the law-making process, the lack of thorough discussion, and the general management of the pension reform by the leadership of the parliamentary group (Die Welt, 9. März 2004: "Rente: 'Die Kanzlermehrheit wird stehen'"). The worries of the left were eventually assuaged by the party leaders and on March 11, the *Bundestag* voted in favour of the "sustainability of pensions" bill (Die Welt 11.03.2004: "Bundestag hat Rentenreform verabschiedet"). Because the consent of the *Bundesrat* was not needed in that case, the vote in the *Bundestag* had been the final hurdle.[8]

The political history of the 'Sustainability of Pensions' bill shows how the government tried to follow a strategy of decisive "pushing through", but was forced to make some concessions in the end. This modified strategy of "pushing through" ideally aims at striking a better balance between hierarchical coordination and corporatist bargaining than the simple unilateral strategy. By including critics from the left (and therefore also ensuring a certain participation of representatives of labour union interests)

[8] In effect, the *Bundesrat* voted on a rejection of the government bill on May 14. This rejection was dismissed by the *Bundestag* with the majority of its members on June 16.

and by delegating the ‘puzzling about policy’ to an expert commission, the government did not proceed completely isolated, but restricted the number of those involved. The modified “pushing through” strategy has similar advantages to the unilateral strategy: The internal consistency of the bill is generally higher as is the policy change to be expected from the law. Electoral costs can be lowered by speeding up the decision-making process, by decreasing visibility through political communication, and by credibly selling the image of a “reform government”. Protracted bargaining and conflicts with the opposition or corporatist partners increases visibility, and the government has to react to mobilization and communication efforts from the opposition. As has been argued above, “experimental law-making” also damages the credibility of the government as reform actor.

The modified strategy of “pushing through” has some serious disadvantages, however, which might make it unapplicable in a number of cases. First of all, the lack of formal veto power of the opposition (either because the government has a majority in the *Bundesrat* or because the consent of the second chamber is not needed) is equivalent to a precondition for the successful application of this strategy. When the opposition has formal veto powers through the *Bundesrat*, the risk of failure of a unilateral strategy is high, even if it entails some notion of building a consensus beyond the simple coalition majority. Because of the formal veto power of the *Bundesrat* in certain matters, the application of unilateral decision-making strategies is less feasible in Germany than in other (f.e. majoritarian) democracies. Secondly, a high problem pressure is needed in order to maintain the unity of the government coalition. Rising deficits in the pension system and dire warnings about the precarious state of the pension insurances in the face of population aging created a high pressure to act. Without this extraordinary pressure, it is hardly imaginable that the 2004 pension reform would have gained enough support in the government coalition.

"Gamble on success"

The 'Old Age Income' bill of 2004 concerning the gradual phase-in of taxation of pension benefits is an example of a political strategy, which is hard to grasp. "Gamble on success" is the term that comes to mind when analysing the political process of this reform bill.

The gradual phase-in of taxation of pension benefits had been mandated by a ruling of the German Supreme Court in 2002, which proclaimed the taxation of pensions of civil servants ("Beamte") unconstitutional if pension benefits from the public insurance systems remained largely exempted from tax payments. In contrast to the "sustainability" law, the project of pension benefit taxation was not discussed as controversially. This was partly due to the fact that is was mandated by a ruling of the Supreme Court, but also to the technical nature of the content of the bill. Another difference to the "sustainability" bill was that the taxation bill was not prepared by the Ministry for Health and Social Security, but by the Ministry of Finance. The point of departure was a model developed by another expert commission, chaired by Mr. Rürup as well. A first step would be to raise taxation (the share of pension benefits to be taxed) from 27 percent before to 50 percent in 2005 with an annual tax exemption as high as current average pensions. After that, taxation of pensions would gradually rise to 100 percent in 2040. At the same time, pensions contributions would be freed of taxation, starting with 60 percent in 2005 and reaching 100 percent in 2025. Each age cohort of pensioners, who started receiving pension benefits in 2005 or after, would have a specific combination of taxation rates of pension benefits and contributions. Once their taxation rates are computed, pensioners are taxed under the same conditions for the rest of their lives (FAZ 11.09.2003, p.14). Because individual income tax rates are generally lower for people in old age than in times of employment, the phase-in of the taxation of pension benefits results in a net loss of revenue for the public purse, starting with 800 Mio. Euro in 2005 and increasing to about 4,5 Bio. Euro in 2010 according to state secretary Barbara Hendricks of the Ministry of Finance (FAZ, 21.10.2003, p.13).

The law-making process of the bill to introduce taxation of pension benefits (the "old age income law" ("Alterseinkünftegesetz")) was less straight-forward and more protracted than in the case of the "sustainability" law. The "old age income" bill was decided in the cabinet on the same day (December 3) as the "sustainability" law (FAZ 20.11.2003, p.14). Public discussion about the bill, however, remained rather subdued. On a public hearing in the *Bundestag*, the Association of German Pension Providers (VDR) argued the proposal would lead to double taxation, because the full taxation of benefits would be reached already 15 years after (2040) contributions have been exempted (2025). However, pensioners of 2040 would have paid benefits for longer than 15 years (and therefore out of taxed income). (FAZ 26.01.2004, p.13).

After the "sustainability law" had passed the *Bundestag*, the CDU / CSU came forward with proposals for the taxation project (FAZ 24.03.2004, p.15). The red-green government was interested in finding a consensual solution to avoid a lengthy procedure in the conference committee. The CDU / CSU did not disagree in principle with the content of the red-green proposal, but mentioned the need to protect existing occupational schemes and life insurances. Sensing the opportunity, the red-green government amended the "old age income" bill with proposed changes in the administration of the "Riester pensions". What is more and partly in reaction to discussions taking place at the EU level, the government included a provision in the bill that prohibited the discrimination of insurance payments on the base of gender for “Riester pension” products. This was criticized by the insurance industry, which warned of the consequence of rising insurance premiums for everybody (FAZ 01.04.2004, p.11). It also became evident once again, that the CDU / CSU did not have a unified position on pension reform. Horst Seehofer, the renegade social policy expert from the CSU, did not want the pensioners to have to accept new retrenchment measures (i.e. increasing taxation from 27 to 50 percent in 2005). According to newspaper reports, this mostly caused irritation in the leadership of the CDU / CSU parliamentary group, because the leaders saw the necessity of phasing in taxation of pension benefits because of the Supreme Court ruling (FAZ 02.04.2004, p.11). Nevertheless, during the next weeks, the CDU / CSU wavered between supporting and opposing the bill. They wanted to put the blame for the perceived cut-backs of pension benefits on the government (FAZ, 26.04.2004, p.13). However, shortly after, the CDU / CSU signalled it would be principally opposed to the bill (and therefore vote against it in the *Bundestag*), but organize the support of some of the CDU / CSU *Länder* in the *Bundesrat* (FAZ 28.04.2004, p.1) to ensure the bill would not need to be referred to the conference committee, because it was believed this protraction would damage the image of the CDU / CSU (FAZ 29.04.2004, p.2). On April 29, 2004, the *Bundestag* decided the “old age income” bill after the red-green government had accepted some amendments to improve the specific regulations of the bill that dealt with the reform of the “Riester pensions” (FAZ 30.04.2004, p.1). Some of the Christian democratic *Länder* governments, however, did not want to accept the strategy proposed by the CDU leadership and threatened to block the bill in the *Bundesrat* anyway (FAZ 05.05.2004, p.4). The conflict of the pension bill therefore became a power test between the then-president of the CDU, Angela Merkel, and the powerful minister presidents of the *Länder* governments. Consequentially, the *Bundesrat* voted against the “old age income” bill on May 14 and referred it to the conference committee. Soon, a compromise was reached in the conference committee by watering down the bill’s provisions on the taxation of life insurances (FAZ 28.05.2004, p.13). However, it was still not clear if the union parties would give their consent in the *Bundesrat*. The temptation to punish the government was strong: First, the government coalition would have to carry the burden of an unpopular reform alone. Secondly, if there was no decision on the bill, the Supreme Court ruling mandated that pensions of civil servants had to be freed from taxation completely by 2005, which would result in a loss of revenue of 10 Bio. Euro (FAZ 11.06.2004, p.4). This would have put the government in a very tight spot. In the end, it was coincidence that saved the bill: In a breakfast meeting shortly before the decisive session of the *Bundesrat*, the CDU / CSU *Länder* followed the leadership of the union parties and decided to block the bill. In the session, however, Hamburg and Saxony decided not to vote with the rest of the union *Länder* and supported the bill. Together with the additional votes from Rhineland-Palatinate, which had planned on abstention first, this was enough to enact the “old age income” bill. Apparently, this had not been planned by the union party leadership (FAZ 12.06.2004, p.4).

During the law-making process of the ‘Old Age Income’ bill, the government repeatedly tried to achieve a consensus with the opposition and made some concessions, but in contrast to the 2001 pension reform, it has done so with less fervour. In other words, the government adopted a constructive stance and was open to compromise, but it did not yield as far as in the 2001 reform. The obvious reason for the government’s more relaxed attitude is that it felt the weight of the Supreme Court decision on its side. Consequentially, the opposition camp was beginning to show cracks about the question if the government should be supported out of "constitutional-political responsibility" ("staatspolitische Verantwortung") or if it should be opposed against the unruly encumbrance of the pensioners.

The advantages of the "gamble on success" strategy are that the content of the bill will be closer to the government's ideal point, because the influence of the opposition and / or the social partners is limited. Secondly, if the government wins, the electoral pay-off can be considerable: Especially when a bill is backed up by a Supreme Court ruling, the government can paint the picture of an obstructive opposition, whose political responsibility is questionable at best.

The "gamble on success" strategy carries high risks, however. If Hamburg, Saxony, and Rhineland-Palatinate had not given support to the bill in the *Bundesrat*, and even the most critical political observer has to admit that the union parties leadership was indeed surprised about the behaviour of Hamburg and Saxony, the probable result would have been high losses in revenue for the federal government. The success of passage of the 'Old Age Income' Law, however, was also a political success: The erratic and obstructionist behaviour of the opposition parties in the light of a Supreme Court decision had improved the standing of the government.

Obviously, the potential success of the "gambling" strategy mightily depends on the quality of cards on hand. Without the authority of the Supreme Court decision, the "gamble on success" strategy is much more fragile and dangerous. It is not applicable in every case.

4. Conclusions: A comparative assessment of political strategies in German pension politics

As became obvious, pension politics under the red-green government covers a wide variety of political strategies. In a sense they were all successful: The red-green government was able to pass all major pension reform bills. Surely, modification and significant concessions had to be made, but in no case did the red-green coalition have to withdraw a proposal completely. What is more, because of the participation of the SPD in the new governing coalition in Germany, it is highly probable that the reform laws will stay in place. The 2001 pension reform and the 2004 pension laws as a whole are a significant policy change. The quantitative impact of the 2001 on benefit levels and the contribution rate was limited, but it initiated a gradual system transformation towards a defined-contribution system with a strong occupational and private component. The 2004 'Sustainability' Law complemented the 2001 reform in the sense that the quantitative retrenchment of benefits that was lacking before was carried through more consistently. Another pension reform under the aegis of the Grand Coalition is expected to increase the pension entry age to 67. All these reforms taken together are evidence of a surprising flexibility of German pension politics.

As I have argued, this flexibility is partly a result of the wide variety of political strategies that the German polity offers. Instead of forestalling any kind of policy change, the German system allows policy-makers to choose from a number of strategies of which each has its advantages and disadvantages in terms of political risk and potential for short-term policy change.

All in all, strategies with a high degree of hierarchical coordination ("pushing through") allow the government to stay closer to its ideal point and to achieve larger policy change. However, these strategies carry high political risks. Unilateral reform projects can be turned over by the next government (as happened with the Pension

Reform 1999). Support in the government coalition might falter, when the problem pressure is not extraordinarily high. And most importantly, these strategies have a powerful institutional precondition: The opposition parties must not have formal veto powers.

The 'Grand Coalition' strategy is the strategy with the best benefit-cost-ratio. Long-term sustainability of pensions is ensured, electoral costs are widely spread. In times of increasing partisan conflict between the two large parties in the 1990s (also a result of the "new politics of the welfare state"), the 'Grand Coalition' strategy was no longer viable. Trying to get the consent of the opposition parties and engaging in "experimental law-making" as did the red-green government in 2001, does not pay off. Instead, the corporatist strategy has established itself as a second-best option. The price for consent is high, however, and the impact of special interests damages the over-all consistency of reform bills. To not yield to the opposition party is a risky strategy, but it can pay off if one is willing to "gamble" as has been argued for the case of the 2004 'Old Age Income' Law.

Concerning the 'packaging and selling' of pension reforms, it became clear that packaging unpopular reforms, for which the consent of the *Bundesrat* is needed, makes sense. In contrast, the decision on consent and non-consent bills should be temporally separated in order not to allow the opposition to capitalize on its formal veto powers.

How restrained was the red-green government in choosing a specific strategy? Did it always choose the most rational strategy or could it have chosen another strategy and still be successful? In part, the red-green government was faced with changes in the political and institutional environment, which had a limiting impact on the availability of certain strategies. For example, the higher intensity of partisan competition since the 1990s decreased the chances of success of the 'Grand Coalition Strategy'.

On the other hand, I argue that there is not a single route to success. What is more, I tried to outline specific advantages and disadvantages in terms of political risk or potential policy change associated with different political strategies. So in a way, the government is free to choose between different strategies if it is willing to accept the respective cost-benefit-risk mix.

Future research on political strategies of reforms in general or pension reforms in particular could be aimed at finding out about the motivation of government actors in choosing a certain strategy. It would be interesting to see, which importance is ascribed to the goal of minimizing political risk versus potential policy change. Some governments might be more willing to risk re-election in order to pursue certain policy goals in principle, and some governments might be more willing to do so under certain political conditions (for example during Soccer World Cups).

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