Pension Reform in Continental Europe

A comparative study of pension reform in Germany and France during the years of austerity 1990-2010.

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ABSTRACT

As demographic and economic contexts have shifted, the need for pension systems to reform has increased. Often, however, these systems have proved difficult to change – especially in continental Europe. Despite this, Germany, by many considered particularly reform resistant, succeeded in reforming its pension system; while France, with its strong executive power, has not. As research has yet to find a consensus on what factors makes welfare retrenchment possible, this field requires more attention. Therefore, the aim of this thesis is to analyse the developments of the German and French pension systems, from 1990-2010, and to unearth what factors made successful reform possible in Germany while it failed in France. Using a comparative case study, all major pension reforms in the two countries during the time period, are analysed from four institutionalist perspectives. The results point to three main factors explaining Germany’s successful reform. Firstly, the shock brought on by the reunification of East and West Germany forced politicians to act. France on the other hand, experienced no such shock. Secondly, the subduing of the unions removed the main veto player against reform. In contrast, the French unions, whose political power lies in their ability to call for manifestations and shift public opinion, could not be outflanked. Lastly, the new liberal ideas that permeated German politics around the turn of the century provided a locus for change that was lacking in France. These results suggest the importance of external pressure, veto players and ideational factors to major welfare reform.

Keywords: pension reform, welfare retrenchment, historical institutionalism, rational choice institutionalism
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LIST OF ABBREVIATIONS:

CDU Christian Democratic Union of Germany (Christlich Demokratische Union Deutschlands)

CSU Christian Social Union in Bavaria (Christlich-Soziale Union in Bayern)

OECD Organisation for Economic Co-operation and Development

PS Socialist Party of France (Parti socialiste)

SPD Social Democratic Party of Germany (Sozialdemokratische Partei Deutschlands)

The Greens Alliance 90/The Greens (Bündnis 90/Die Grünen)
1. Introduction

The first chapter introduces the reader to the differing prerequisites for welfare reform in Germany and France. Thereafter, the research questions are presented, together with the overall aim and expected contribution of this study. The chapter ends with an outline of the thesis.

1.1. Background

Jean Monnet, one of the founding fathers of the European Union, has been quoted saying that: “People only accept change when they are faced with necessity, and only recognise necessity when a crisis is upon them” (Jean Monnet, quoted in Dinan, 2010, p. 12).

This was to play out true in Germany in the early 2000s. After the post-war years of the Wirtschaftswunder, which had brought prosperity to a country torn by war, growth had stalled and unemployment was ticking up (Rinne & Zimmermann, 2013). Things were brought to the edge as the immense shock of unification was followed by an economic crisis (Vail, 2010, p. 27). With a pinch of historical irony, the previous strong-man of Europe had come to earn a reputation as its sick man (Rinne & Zimmermann, 2013, p. 2). The consensus in the 1990s put the blame on the Republic’s outdated welfare institutions. Especially its rigid labour market laws and over-generous pension system came under critical fire (Pierson, 1996, pp. 168-9; Vail, 2010, p. 117; Häusermann, 2010, p. 127). As follows, the resolution of the ailments of the Bundesrepublik spelled: reform. The necessitated reforms did, however, not come, which, by the beginning of the early 2000s, earned Germany the nickname The Blocked Republic in response to its proverbial resilience against socio-economic reform (Freier, 2008, p. 1).

Up until the new millennia, the case of Germany finds great resemblance in that of its Gaullist neighbour. Rising from the war with a devastated economy, France also experienced an economic boom, the Trente Glorieuses, that completely transformed its political, social and economic landscape (Palier, 2010b, p. 73). Beginning in the 1980s, however, the tides changed and the economy started to deteriorate, following a pattern comparable to that of Germany (Bonoli, et al., 2000, p. 30; van Walden, 2003, pp. 6-7; Vail, 2010, p. 27). During a short time-span, not only the Keynesian experiment enacted on by Mitterrand, but the entire edifice of dirigisme, came to be dismantled (Levy, 2005). Even if some welfare reforms were enacted, the underlying trend could not be altered and, since 1993, France has run a continuous budget deficit (Economist 2017 30th). Particularly problematic, is the unabating unemployment, especially among youths, which, with only minor

\[ ^1 \text{Dirigisme (especially in France) refers to an economy where the state exerts a strong power over investment and not merely regulation.} \]
exceptions, has remained at high levels. Further, as growth levels have fallen, social unrest has amplified and, in ever greater numbers, voters keep sliding towards the political extremes. A haze of *morosité* (or gloom) had descended on the proud nation (Fenby, 2015, p. 405).

By 2010, however, the trajectories of the two Republics had started to diverge. The critical juncture came with the election of Gerhard Schröder as chancellor of Germany at the head of a Red-Green coalition. Inspired by prominent figures such as Bill Clinton and Tony Blair\(^2\), Schröder sought to unearth a ’third way’ between traditional socialism and neo-liberalism. The result was a massive reform programme that, subsequently, has been described as the most far-reaching transformation of the German socio-economic landscape in a generation (OECD, 2009a, p. 223). In addition, many argue that these reforms came to lay the foundation for the economic success of Germany today (Rinne & Zimmermann, 2013). In France, on the other hand, political inertia, or *immobilisme*, had the nation in its tight grip and, in spite of several attempts, no reforms sufficient to tackle the more fundamental problems has been implemented (Lindvall, 2017, p. 92) and now, fifteen years later, it is France that is seen as blocked (The Economist, 2017).

The question is why Germany came to succeed in implementing such major welfare reforms when France did not. After all, many factors acted against it happening where it happened. For instance: The political affiliation of Schröder’s government, the rigidity of the German political system and the strong presence of vested interests – just to mention a few (Manow & Seils, 2000, p. 139; Thelen & Palier, 2010, p. 123). Indeed, Germany often has been singled out as particularly reform-resistant (Scharpf, 2000; Trampusch, 2005, p. 203). France, on the other hand, with its strong executive and weak veto players, should have been both able and capable to enact the necessary measures (Streeck & Thelen, 2005, p. 17). Thus, these differing outcomes in welfare reform is the puzzle that I, in this thesis, intend to explore.

### 1.2. Research Question

Among all policy areas in developed welfare states, two stand out as particularly important: the labour market framework and the pension system (Martin, et al., 2016, p. 3) and, in the last decades, the awareness of the need to reform these areas has grown in most industrialised countries (Bonoli, 2000, pp. 37-8). However, pension policy, the centrepiece, and largest social policy program, of most developed welfare states (Häusermann, 2010); has proved particularly resistant to reform, especially in, so called, *Bismarckian* countries such as Germany and France. Indeed, the pension systems of these countries, in the words of Bonoli and Palier, can be said to “[…] represent the quintessence of

\(^2\) In fact, in 1999 Blair and Schröder co-authored a paper delineating the future of social democracy and the *Third Way* between Thatcherism and the traditional left. The German title is: *Der Weg nach vorne für Europas Sozialdemokraten* and in its English translation it was, simply, called: *Europe: The third way*.
difficulties to be associated with Bismarckian welfare institutions: benefits being financed by social 
contributions are as if ‘earned through work’ and therefore very legitimate and difficult to cut; old-age 
insurance funds (Kassen, caisses, etc.) are managed with the participation of the social partners, and 
therefore well defended by trade unions. Nevertheless, they are facing the greatest difficulties: being 
very sensitive to demographic changes, and financed by high levels of social contribution (payroll 
taxes), which undermine economic efficiency” (Bonoli & Palier, 2007, p. 556). In essence: the pension 
system has been under tremendous pressure to cut costs while, at the same time, encountering some of 
the fiercest opposition from defenders of the status quo. This is the reason why I, in this thesis, will 
look at pension reform in Germany and France. Thus, the purpose of this study is to shed light on why 
Germany succeeded in its reform-efforts (that is: stabilising its pension system) while France did not.

In order to form an understanding of what has allowed for these differing outcomes in pension reform, 
two research questions will be posed. The first question, designed to describe the two reform 
trajectories of these countries, is:

1) Which attempts to reform the pension system are to be found in Germany and France between 
1990 and 2010?

The second research question, aiming at explaining the different outcomes between the two countries, 
is:

2) What factors made successful reform possible in Germany while it failed in France?

This thesis will, firstly, strive to shed light on what enables reform in developed welfare states, 
allowing for some generalisability with cases that share similar features and, secondly, contribute to 
the theoretical knowledge of institutional change.

1.3. Outline

By conducting a comparative case study, this thesis will analyse the pension reforms of Germany and 
France between 1990 and 2010. Chapter 2 begins by introducing the reader to the general literature on 
welfare retrenchment in developed welfare states, after which the focus will be directed to pension 
reform. In chapter 3, the methodology of this thesis will be expounded upon. This entails, among other 
considerations, a discussion on the case selection and the decision to primarily base the empirical 
investigation on secondary sources. The theoretical outline will be drafted in chapter 4. In sum, this 
comprises four institutionalist theoretical explanations and their hypotheses on why major reform 
occurs. The empirics, presented in chapter 5, encompass a concise overview of the political 
institutions and pension systems of both countries and a review of all major pension reforms (and 
reform attempts) that occurred within the selected timeframe. In chapter 6, the empirical data is
analysed according to the theoretical framework and the hypotheses answered. The final chapter will reflect on the results and answer the research questions.

2. Previous Research

This chapter, divided into two parts, provides an overview of the academic debate on welfare reform from around the 1980s and onward. Firstly, the general features of the literature on welfare retrenchment will be delineated, after which focus will be shifted towards the pension system, looking at general drivers for, and factors related to, reform.

2.1. Welfare Retrenchment

In the three decades after the end of the World Wars, developed welfare states generally geared towards expansion by improving social policy programmes or introducing new ones (Bonoli, et al., 2000, p. 29). Since the 1980s, however, growing pressure has redirected the overall direction of policy towards retrenchment and cost containment (Pierson, 1994; Esping-Andersen, 1999; Bonoli, et al., 2000, pp. 29-36; Vail, 2010). For instance, Kalisch et al, in their 1998-study of developments in health care policy in OECD countries were able to shed light on the increasing focus on different cost containment strategies, such as a heightened emphasis on efficiency or a partial transfer of costs on to patients (Kalisch, et al., 1988). The reasons for this retrenchment were several. Two early dislocators, often referred to, are the oil price shocks that took place in the 1970s, whose ensuing recessions were countered by an array of expansionary labour and social policy that, in the end, came to overstretch the economic capacities of many welfare states (Martin, et al., 2016, p. 9). Additionally, several countries, from the 1980s and onwards, saw a renaissance of liberal and conservative ideas that, gradually, began to shift the consensus on social and economic policy (Pierson, 1994, p. 1). In fact, several trends (such as: globalisation, new gender roles, migration, changing demands and the demographic transition) have come to fundamentally alter the environment of modern welfare states (Esping-Andersen, et al., 2002; Häusermann, 2010). Based on forecasts of such trends, several scholars were led to anticipate an (often massive) contraction in social policy expenditures (George & Taylor-Gooby, 1996; Standing, 1997). However, these projections did not materialise and today most agree that there is no major downward trend in social expenditure (Castles, 2004). But change would, come; albeit in another guise.

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3 For countries such as France, Germany, and Sweden; retrenchment would not come until at least another 10 years.

4 Richard Titmuss once called the welfare state an indefinable abstraction, in response to the difficulty of framing its actual scope and, even today, the literature struggles to find a non-disputed definition - an argument that well can be extended to welfare retrenchment.
The, perhaps, most influential contribution to this debate, highlighting the resilience of the developed welfare states, is Paul Pierson’s *Dismantling the Welfare State* (Pierson, 1994). Pierson’s main argument is that retrenchment represents something much more difficult than simply an unwinding of the politics that previously expanded it - pointing towards studies demonstrating that neither Thatcher, nor Reagan, actually managed to shrink their public spending as a share to GDP. The reason, as advanced in the book, is that welfare programs become subject to powerful feedback effects, as they create new constituencies with vested interests in their maintenance. This new environment was, in a subsequent article by Pierson, described as the *new politics of the welfare state* - highlighting the new complexities that surround the political processes of welfare retrenchment (Pierson, 1996).

Later studies, however, came to downplay the difficulties of retrenchment by pointing to an ample flora of ‘successful’ cases (Clayton & Pontusson, 1998; Starke, 2005). In addition, Korpe and Palme came to question Pierson’s conception of new politics: instead arguing that the *old politics* (with its focus on class) still provided a more viable explanation (Korpi & Palme, 2003). Other research, in turn, has added to Pierson’s original thesis by showing that, while expenditures often has remained relatively stable, the composition of spending and taxation has not (Kato, 2003; Korpi & Palme, 2003; Vail, 2010; Bonoli, 2013). In essence, this means that retrenchment often focuses on incentive structures and efficiency enhancements; rather than explicit cutbacks. In addition, later studies have nuanced the image of welfare retrenchment as a clear vote-shredder. For instance, as shown by Armingeon & Giger and Giger & Nelson, the likelihood of losing votes in the next election appears to be the same for governments that enact retrenchment policies and governments that do not – passing the determinant to other factors (Armingeon & Giger, 2008; Giger & Nelson, 2011).

**2.2. Pension Policy**

Just as the welfare state in general came to encounter structural pressure to reform in the latter half of the 20th century, so did the pension systems. Most urgent, around of the turn of the century, were the demographic trends (with people living longer and having fewer children – unsettling the ratio of retirees to workers), unemployment, migration and low growth rates (World Bank, 1994; Taylor-Gooby, 1999). This dual pressure of the need to balance budgets and counter demographic trends led to many countries introducing cost cutting measures from the 1980s and onward (Kalisch, et al., 1988; Myles & Quadagno, 1997). In addition, several countries came to use their pension systems as a buffer to reduce unemployment by allowing older workers to pre-retire (Bonoli, 2000) which, as more people retired earlier, came to exacerbate the systems financing problems (Ebbinghaus, 2006). Further, systems built on the assumption of full male employment - commonplace among conservative welfare states - increasingly encounters opposition (Palier, 2012). As Finlayson puts is, it is evident that

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5 In addition, Pierson adds two more reasons: firstly, he makes the socio-psychological argument that people tend to respond more strongly to potential losses than to potential gains. Secondly, that retrenchment tend to inflict immediate costs on certain groups in return for vague, and uncertain, long-term benefits.
today’s pension schemes, especially continental ones, “[...] have been developed by men with men in mind” (Finlayson, 1988, quoted in Häusermann, 2010, p. 36). This anachronistic model is encountering pressure from factors such as: new family trends, declining family stability and calls for gender equality. In addition, as we enter the post-industrialist era (with big stable industries withering away) the number of people destined to receive low pensions – or not qualify for access to a public pension schemes at all – (often termed outsiders) are bound to increase (Häusermann, 2010).

In *The Politics of Pension Reform*, Guiliano Bonoli lists five primary options for reforming pension systems (Bonoli, 2000). Most importantly, Bonoli suggests that *pay-as-you-go* funding, schemes where current benefits are financed by current contributions, should be shifted to *defined-contribution funded schemes*, where contributions of current contributors are invested in order to finance their own future retirement. On this point, most analysts agree (World Bank, 1994). The problem with pay-as-you-go financing is that, as the ratio of contributors to beneficiaries shifts, the burden on those currently working is bound to increase. Thus, making the system very sensitive to economic and demographic trends. However, as demonstrated by Natali and Rhodes, shifting from pay-as-you-go has proved extremely difficult, as it entail heavy losses on big portions of society (Natali & Rhodes, 2004a). Nevertheless, the main driver behind reforms in the 2000s were pressures caused by pay-as-you-go systems, with the tendency to shift towards funded systems strengthening (Myles & Pierson, 2001; Ebbinghaus & Whiteside, 2012, p. 267). Other targets for reform, according to Bonoli, are increasing the retirement age, targeting benefits, changing the indexing forumla for calculating benefits and changing the way pensions are indexed; all aimed at cutting costs (Bonoli, 2000, pp. 23-8). The aforementioned pressures has prompted reform in all European countries (Ebbinghaus, 2005), in many cases, resulting in fundamental changes in the architecture of the systems. For instance, socialdemocratic, and conservative, systems alike have come to follow the lead of liberal systems and implemented multipillar systems as a mean to reduce risk (Ebbinghaus & Whiteside, 2012). In three nordic countries, as Kangas, Lundberg and Ploug points out, this led to a definite break with the previously universalist socialdemocratic model (Kangas, et al., 2010). Likewise, as shown by Bonoli and Palier, most continental countries (such as: Austria, France, Germany and Italy) each have gone through several waves of pension reform; often expanding their systems by adding voluntary private savings alternatives (Bonoli & Palier, 2007).

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6 See, for instance, the so called *double payment problem*, according to which a shift to a funded system would entail the current working population to finance both their own future pensions as well as, during a phasing out period, the future commitments to the current retirees (Myles & Pierson, 2001).
3. Methodology & Data

In this chapter, the methodology of this thesis is described - beginning with an overview of the overall research design. This will be followed by a discussion on the case selection, the object of this study (i.e. pension reform), the time period and, lastly, the data collection. Strengths and potential drawbacks with the selected methodology will be treated throughout this section.

3.1. General Approach

In order to explore what factors cause successful pension reform, a qualitative, diachronic, comparative case study, looking at Germany and France, will be conducted according to deductive principles. Following Gerring, a case study is understood as an in-depth study of a single unit for “the purpose of understanding a larger class of (similar) units” (Gerring, 2004, p. 342). In this thesis, Germany and France - often, with reference to their welfare systems, bracketed together by scholars (Scharpf, 2012, p. 16) - will be analysed following a Most Similar System rationale (Przeworski & Teune, 1970, p. 32). In this design, by comparing these similar cases (but with differing outcomes), the objective is to uncover casual factors, present in both cases, affecting the contrasting outcome. In addition, as variation will be examined for both across- and within these units, the design fulfils the criteria for a comparative-historical design (Gerring, 2006, p. 27). The logic behind the case selection will be expanded upon in section 3.2. The analysis of the development of the two countries’ pension systems will, in line with most case studies, build on observations sampled from periods of significant change (Gerring, 2006, p. 32). For the purpose of this thesis, and in line with other studies within this field (e.g Bonoli 2000 & Béland 2001), these observations will be represented by major pension reforms (See section 3.3). The time-period of interest coincides with a wave of general retrenchment that occurred among developed welfare states from the 1980s and onward. As neither of the countries treated in this study began this process until the early 1990s, the time period will be set to comprise the years 1990-2010 (See section 3.4). In order to provide a sufficiently in-depth description that stretches over several fields (e.g. economic projections, political analyses and systemic developments), the study primarily will rely on secondary sources, i.e. academic research and institutional reports (See section 3.5).

The most apparent advantage, following the choosing of a qualitative design, has to do with depth; as the reforms will be studied in more detail. In addition, this approach is well adapted for complex circumstances, such as the political process surrounding pension reform, where the exact boundaries of the phenomena are not overtly comprehensible. Following Scharpf, it can be argued that the qualitative method often makes a better fit in comparative policy studies as, adopting a too quantitative focus risks bringing overgeneralised results because of both the current, as well as the historical, heterogeneity of states (Scharpf, 2000, pp. 773-4). Thus, for comparative case studies, where the state makes out the unit of analysis, a more in-depth approach often is preferable. This
supports the case study’s underpinning rationale of locating explanatory findings and, within reasonable limits, to extrapolate them to other cases (Grix, 2010, p. 50). However, it will be essential to keep the study firmly linked to academic research, in order to maintain its theoretical relevance (Mitchell, 1983, p. 192; Scharpf, 2000, p. 773; Mikkelsen, 2005, p. 92).

A problem inherent with this method has to do with correlation. As stated by Lijphart, the comparative study’s objective of establishing relationships between two basic elements, while holding all other elements constant (as in a laboratory milieu), is but an ideal (1971, p. 685). For instance, this touches on the problem of multiple causation, or *equifinality* - that the same outcome in different cases might depend on disparate factors (George & Bennett, 2004, p. 156). This is of particular significance when considering political interdependence, i.e. the idea that policy decisions made in a given place are influenced by policy decisions made elsewhere. In comparative politics, this normally goes under the label *Galton’s Problem*, indicating that countries do not constitute independent observations (Przeworski & Teune, 1970; Jahn, 2006). For instance, Sarah Brooks has shown that political leaders, when implementing pension reform, tend to be highly influenced by policy developments in other states (Brooks, 2005). Indeed, interdependency tends to be especially strong in cases characterised by geographic proximity, sociocultural connections or parity in their economic standing (Jordana & Levi-Faur, 2005; Brooks, 2007, p. 709) - a fact that makes interdependency between two countries such as Germany and France probable. Thus, in order not to overstate any conclusions drawn, a special focus will be directed towards analysing the sources of interconnection among the observations (e.g. the reform attempts) for hints of political interdependency or borrowing (Snyder, 2001, pp. 95-6).

### 3.2. Case Selection

As previously stated, the two cases selected for this study, Germany and France; will be analysed following a most similar design. A natural point of departure, often used when classifying developed welfare states, is the regime typology developed by Esping-Andersen (Lange & Meadwell, 1991, p. 84; Bonoli, et al., 2000, p. 12). In his widely celebrated work, *Three Worlds of Welfare Capitalism*, Esping-Andersen defines a welfare regime as the complex cluster of systematically interwoven legal and organisational features that make out the relation between state and economy (Esping-Andersen, 1990, p. 2). The regimes (or ideal types) as outlined by Esping-Andersen, classify capitalistic welfare states into three basic groups: *conservative*, *liberal* and *social democratic*. According to this typology, Germany and France (with Germany as the prototype) are placed in the conservative group. After the ground-breaking work of Esping-Andersen, a wide range of similar studies clustering along the same lines have followed (Arts & Gelissen, 2002). Most of these have classified Germany and France together under labels such as: *advanced Christian democracy* (Siaroff, 1994), *Bismarckian* (Ferrara,
1996), Continental (Bonoli, 1997) and Corporatist7 (Korpi & Palme, 1998). While working with typical cases often has been stressed as important when generating generalizable results (Blakie, 2010, p. 193), it is necessary to emphasise that this always falls within a margin of error, especially when comparing such complex cases as countries. No matter how thorough the selection process, there always will be room for deviations. Three points of particular importance for this thesis can be mentioned. Firstly, while France often has been presented as a highly centralised and strong state (Streeck & Thelen, 2005, p. 17), the Federal Republic Germany8, as its name implies, is a decentralised entity. Secondly, and more on the subject; France early started to diversify its pension-system away from its Bismarckian origin (see the following section), while Germany’s process was deferred (Vail, 2010, p. 145). Lastly, while Germany is conceived of as a highly corporatist economy, France often is branded as one of the least corporatist countries (Siaroff, 1999). These deviations can, however, be circumvented by either: providing an appropriately thick description of the context, effectively enabling the readers to form their own judgement (Geertz, 1973; Blakie, 2010, p. 194); or, according to Yin, by linking the different cases with theory (Yin, 2003, pp. 32-3). This thesis will try to accomplish both.

3.3. Pension Reform

In analysing the development of the pension systems of Germany and France, the observations, as aforementioned, will focus on major reforms (and reform attempts). In academic literature, classifications of pension policy typically have focused on two historically distinct models (Bonoli, 2000, p. 10). Firstly, the liberal Beveridgean model, based on the means-tested pension systems developed in Denmark and New Zealand in the 1890s9 (Myles & Quadagno, 1997). The second system, created slightly earlier in 1889 by Bismarck (and consequently termed Bismarckian), aimed at containing the rise of the labour movement by providing retirees (initially limited to industrial workers) with an income-level linked to their work-related earnings. In France, following the re-annexation of Alsace and Lorraine from Germany after World War I, the compulsory system of social insurance already prevalent in these newly conquered regions effectively was rolled-out to the rest of the country (Bonoli, 2000, p. 11). Even if the trajectories of the different Bismarckian systems have led to different outcomes it still makes sense to compare Germany and France as they, according to Bonoli and Palier, “display all the features making the pension problem particularly intractable in Bismarckian welfare states” (Bonoli & Palier, 2007, p. 558). As shown by Pierson, reforming pay-as-you-go schemes is notoriously difficult due to the incremental growth of vested interests in these

7 Even though France, repeatedly, has been described one of the least corporatist countries in the OECD (Crepaz & Lijphart, 1991, p. 240).
8 When the political arrangements of West Germany were being discussed in the aftermath of the war, France, together with the other occupiers, had an interest in creating a decentralised nation as a bulwark against another dictator seizing power (Roberts, 2009, p. 106-7).
9 The type of scheme commonly referred to as Beveridgean, was introduced well before the presentation of the Beveridge Report of 1942 in the UK and do differ in some essential respects (Bonolo, 2000, p. 11).
systems (Pierson, 1994; Myles & Pierson, 2001). Hence, it can be expected that this policy area will experience great pressure to change, while, simultaneously, instigating fierce opposition among those who stand to lose on retrenchment. Hereinafter, Bismarckian and continental will be used interchangeably to denote a type of welfare state sharing many of the characteristics stated here.

Within these systems, change usually entails major political processes, affecting a lot of people and engaging several societal actors. In political science, this is captured in the term ‘reform’, which usually is employed as shorthand for ‘important change in public policy’ (Lindvall, 2017, p. 3). This simple definition will serve as a general criterion for selecting the reforms to investigate. Hence, all reforms (understood as: major pension policy change) that occurred during the selected time period will serve as observations, based on the year they were implemented. In addition, this definition will comprise those reform-attempts that, for some reason or other, were not implemented. These will be based on the year that the reform was abandoned. While this approach risks overlooking minor changes, following that pension reform generally happen in clusters, the risk must be deemed negligible.

As the objective of this thesis not only requires us to recognise change – but also to appreciate its scope – an additional definitional layer is necessary. Following Lindvall, our understanding of the term reform, in this case, must not comprise change of policy in an overly generic sense. Rather, our definition will include only the adoption of ‘superior policy’. However, while a full definition of superior policy would be too copious for the scope of this thesis, it will suffice to assume that there exist some public objectives that most people would consider desirable. For instance, letting all personal wants aside, most people, no doubt, would agree that financial stability, institutional longevity and intergenerational, as well as societal, fairness are good. (Lindvall, 2017, p. 5) This connects to the research question in such a way that the closer a reform is in implementing superior policy, the more successful the reform will be considered to be. As we proceed, reform that come closer to this ideal will be considered as major. Thus, when assessing the scope of a reform, heed will be taken to how its adoption, in a general sense, benefits society. While rather vague in its formulation, this definition will provide an indication of the direction and breadth of reform.

### 3.4. Time Period

In this study, the data analysed will cover the period between: 1990-2010. Around the early 1990s commenced a period in which most welfare states came to undergo major transformations (Bonoli, 2000, p. 1; Häusermann, 2010, p. 126). This came as the culmination of a longer trend of growing economic, social and demographic pressure (Pierson, 1996, p. 1; Bonoli, et al., 2000; Schmidt & Scharpf, 2000) ushering in a phase of welfare retrenchment in Germany and France (together with
most other developed economies). For the pension system, this period of managed austerity\textsuperscript{10} (Vail, 2010, p. 12) or liberalisation (Streeck & Thelen, 2005, p. 30), entailed a break with the previous expansionist development and drastically changed its modus operandi. By applying the time-period as such, it will, more or less, encompass the entire wave of welfare-cutting reforms in both countries and, consequently, most of the actual change (which is what I am out to study). Certainly, by extending the time-period in either direction, a more holistic picture would emerge. However, this would come at the prise of scant data and, in the end, only offer change of meagre interest.

3.5. Data

The principal aim of this thesis will be to tap into the general literature on pension reform during the set time period. A scope that, in some instances, will be broadened into comprising related literature (e.g. on political parties or corporatist studies). The data gathered for this study will build on secondary sources such as previous studies, institutional reports and academic literature. Additionally, the relevant pieces of legislation and, in those cases when a reform was not implemented, reform proposals; are used. By relying on secondary sources, it will be possible to both widen and deepen the scope of the research – something that other methods (e.g. document analysis or interviews) would have precluded. This is of particular importance when seeking to understand such complex issues as pension reform, where so many factors converge. The downside of this approach, as Blakie rightly points out, is that it will leave me, as the researcher, at least one step away from the original data and, consequently, unable to control for potential distortions caused by subjective interpretations, omissions or errors (Blakie, 2010, pp. 160-1). In order to slightly curtail these risks, I will strive towards creating what anthropologist Clifford Geertz termed a thick description, albeit in a different context, by viewing each phenomenon through the lens of as many sources as possible (Geertz, 1973). Another problem, one arguably might contend, is that this approach will not generate new data. However, as the purpose of this thesis lies in testing hypotheses and generating theoretical knowledge, this will not be an issue.

\textsuperscript{10} According to Vail, the period of austerity management in Germany disembarked slightly later, in the mid-1990s, as the full consequences of reunification were starting to be felt.
4. Theoretical Framework

In this chapter, an overview of the theoretical framework used to understand change in pension systems will be provided. After a brief introduction, four theoretical explanations, building on institutional theory, will be enumerated; each of which will be summarised in a hypothesis.

4.1. Introduction

In order to provide the tools necessary to understand how the pension systems of Germany and France have developed, this study will rely on institutional theory. In an article published in 1984, James March and Johan Olsen, in response to what they conceived of as a burgeoning literature with a more multifarious and less undersocialised conception of social action; coined the term New Institutionalism (March & Olsen, 1984). Among the many schools of thought that came to develop under this umbrella term, two of the most prominent are: Rational Choice Institutionalism (RCI) and Historical institutionalism (HI) (Peters, 2011, pp. 20-1). The first, building on an increasing rapprochement between political science and economics (Hall, 2007, p. 130), argue that behaviours are caused by rules and incentives which, in turn, are systematised within the framework of institutions (Peters, 2011, p. 20). Historical Institutionalism, on the other hand, emphasise the importance of history and perceive of action as path dependent - with earlier choices constraining future actions (Mahoney, 2000, p. 508). In this thesis, these broad perspectives – RCI and HI – will provide two competing models of explanation. Neither approach, however, can be described as a distinct theory. Nor are they mutually exclusive, with scholars tending to lend from both traditions. Rather, they are best portrayed as differing approaches. Thus, from each approach, two theoretical models for understanding political change will be provided. The first HI-theory presented (see section 4.2), which might be described as traditional, has a focus on ‘the bigger picture’ and tends to conceive of institutional change as caused by exogenous shocks that, rather haphazardly, fall upon long periods of stability (Skocpol & Pierson, 2002, pp. 3, 8). The second HI-theory (see section 4.3), based on writings of Kathleen Thelen and Wolfgang Streeck (Streeck & Thelen, 2005; Mahoney & Thelen, 2009), look beyond this overly sharp distinction between institutional stability and change (Thelen, 2000, p. 106), by introducing a typology of tools for describing gradual change. The first RCI-inspired theory builds on Johannes Lindvall’s writing on reform capacity (see section 4.4). In short, Lindvall argues that institutional change will be dependent on the propensity of institutions to facilitate political bargaining and reduce commitment risks (Lindvall, 2010, p. 360). Lastly, Tsebelis’ theory on veto players (see section 4.5) offers an approach that (in contrast to Lindvall) suggests that the level of significant change of the status quo is correlated to the number of veto players and their ideological fragmentation (Tsebelis, 2003). These four theoretical approaches will seek to explain causes for

11 An example of the ambiguity between the actual borders between RCI and HI is that Thelen and Streeck do share with some RCI scholars the emphasis on strategic behaviour (Streeck & Thelen, 2005, p. 11).
major reform and, in keeping with the argument in the previous chapter, successful reform. Following from the complex nature of institutional change on this level, the existence of multiple causational factors cannot be excluded. As such, it is a reasonable to retain a certain degree of openness to the possible existence of alternative explanations (e.g. charismatic leadership or strictly economic factors). In accordance with Igor Guardiancich, who sees historical institutionalists as forerunners when it comes to explaining institutional change, the two HI-theories will be presented firstly (Guardiancich, 2011, p. 978).

4.2. Institutional Shocks

Simply put, historical institutionalism can be summarised as: “history matters”; or that the future is, at least to some degree, shaped by the past (Ebbinghaus, 2005, p. 5). Behind this reasoning is the assumption that self-reinforcing mechanisms, or what economists term increasing returns, makes a pattern, once it has been established, more difficult to deviate from (Mahoney, 2000, p. 508). From this assumption follows the conception of political actors as highly rule conforming rather than, primarily, being prone to maximise their self-interest (Thelen & Steinmo, 1992, p. 8). This can be illustrated by the difficulties associated with effectuating welfare cuts. Welfare retrenchment - even when deemed necessary by many – often do not happen following the blame avoidance of office seeking politicians (Weaver, 1986). One reason for this is that instances of institutional change (especially retrenchment) entail delayed and uncertain benefits, while cuts tend to be immediate and often painful (Pierson, 1996, p. 144). Consequently, accusing reform-willing politicians of making ‘things worse’ have a propensity to rake in ample approbation as, with the growth of the welfare state, entrenched interests and strong popular attachments have expanded with it (Pierson, 1996, pp. 144-6). Hence, to change course will be associated with political costs. Likewise, time, in historical institutionalism, is important. The most common example of this is that events that occur in the earlier sequences of a path dependant pattern will be of greater significance than those occurring later on (Pierson, 2000, p. 263). However, this does not mean that institutions can explain all change. For instance, Hall see institutions, in the area of policy-making, as structuring the power relations between actors and, in addition, as forming the objectives pursued by these actors (Hall, Governing the Economy, p. 19). This means, as underscored by Thelen and Steinmo, that institutions “constrain and refract politics” but they never can be said to be the sole cause of outcomes (Thelen & Steinmo, 1992, p. 3). But, if the institutional logic does not explain all that happens; then what else does? Naturally, the answer to this question is, to some extent, unascertainable; and moreover, highly dependent on the case in question. However, following the thinking of Rothstein and Weir, it is important to highlight the role played by leaders and ideas in prompting change (Rothstein, 1992; Weir, 1992). For instance, new ideas can change both how actors view institutions, and the formulation of their interests; and set path-changing mechanisms in motion that otherwise would not have spun. Similarly, leaders, as defined by an institutional logic, might play an important role in instigating a sequence of change.
However, change, when it occurs, often is described as the product of a *critical juncture* caused by some kind of chock or crisis, during which an unexpected path is entered upon (Pempel, 1998, p. 1; Mahoney, 2000, p. 513). What makes these junctures special is that, after a certain path-breaking option has been decided upon, it will be increasingly difficult to move back; thus, restarting the entire process. In the case of pension reform, this means that a crisis (e.g. war, economic recession or a system crisis) will be necessary to propel major pension reform. Thus, the first hypothesis is:

*Hypothesis 1 (H1): The occurrence of a shock will increase the likelihood of major reform.*

### 4.3. Processes of Gradual Change

For a long time, institutional theories have been characterised by an inaptness to explain gradual change (Streeck & Thelen, 2005, p. 6). Earlier literature on path dependency, with its focus on mechanisms of increasing returns and feedback loops, proved more apt to describe why change does not occur than why it does. However, as many authors have pointed out, change often occurs in small steps, that, nonetheless, end up having significant implications (Pierson, 2004, p. 84). In order to fill this void, Streeck and Thelen, building on an emerging body of literature on path dependency have proposed an enhanced theoretical framework designed to comprehend what they describe as ‘gradual transformation’ and which stands for institutional discontinuity caused by incremental, ‘creeping’, change’ (Streeck & Thelen, 2005, p. 8). Institutions, according to Streeck and Thelen, can be perceived of as the building blocks of a certain social order and that, as such, constitute a set of formalised rules (thus leaving aside looser definitions) stipulating expected behaviour and prohibiting other conduct as unwelcome. An important aspect is that these rules can be enforced by a third party. Thus, institutions can be said to comprise three parties: rule-givers that create the rules, rule-takers that (should) abide by the rules and, lastly, a third party enforcing the rules. In order to distinguish their definition from other theories, Streeck and Thelen term these social building blocks institutional regimes, or, simply, regimes (Streeck & Thelen, 2005, pp. 10-11). This view, encompasses the strategic behaviour of actors, fundamental to many rational choice theories, while, simultaneously, rejecting the idea of understanding institutions as products of collective action aimed at minimising transactions, as, among others, Douglas North and Tsebelis (see section 4.5) have done (Guardiancich, 2011).

As such, institutions can be said to be characterised by a *triadic* nature, where the power-balances of the three parties lay the foundation of the institution. Consequently, rather than the voluntarism of the early rational choice models, Streeck and Thelen, focus on obligation, enforcement and authority (Streeck & Thelen, 2005, p. 11). At the centre of this model lies the fact that the enactment of the social rules never can be faultless and that this forms gaps between the ideal, as expressed in the rule, and the ever-changing reality. This friction opens up for a theory in which institutions continuously
are being “created and recreated by a great number of actors with divergent interests, varying normative commitments, different powers, and limited cognition” (Streeck & Thelen, 2005, p. 16). Streeck and Thelen have developed five ways in which gradual change may be understood:

1. Displacement
   Institutional logics do not exist in a vacuum and are, thus, constantly prone to change, should actors defect from one shunned, or displaced, institutional configuration in favour of another (e.g. in the form of ideas, ideology or concepts). This can occur endogenously, as some previously suppressed possibility regains influence, or exogenously by the importation of foreign practices.

2. Layering
   According to theories of increasing returns, institutions tend to grow more static over time, and, consequently, more resistant to change (Myles & Pierson, 2001; Pierson, 2004). However, it might be argued that the reverse could be true as well. Instead of the formative big-bang, layering can be understood as the application of minor changes in the fringes, and less controversial elements of an institution (Streeck & Thelen, 2005, pp. 22-24). These, often minute, changes do not undermine the institution as such but they sow the seeds that, one day, might (Martin, et al., 2016, pp. 3-4). In addition, it has been argued that layering often is applied as a strategy when an institution is well guarded by a powerful veto player (see section 4.5) (Mahoney & Thelen, 2009, p. 20).

3. Drift
   Counterintuitively to institutions often being described as static, the maintenance of an institution, in fact, is a living process that, as previously stated, compels institutions to continuously reinvent themselves. Indeed, failing to adapt to changing conditions might make an, otherwise unaffected, institution blatantly outdated and could, in the end, force change to occur. Hence, drift follow as the outside environment change, while the institution remains intact; thus, forming a gap between the institutions previous purpose and the new. Additionally, it is not always the case that these gaps are the result of chance. Indeed, they may also be the product of policy entrepreneurs. In either case, this gap can be exploited either by political actors, or, seemingly haphazardly, spin the institution of into a new direction. (Streeck & Thelen, 2005, pp. 24-6)

4. Conversion
   Change can also occur as existing institutions are redirected, or converted, to tackle new objectives. In contrast to conventional theories regarding increasing returns, where actors...
adjust their political strategies to existing institutions, in this case institutions are readjusted to serve the goals of new actors. For instance, this can occur by accident, following the irrational acting, or short-term vision, of actors; resulting in unintended consequences. Alternatively, conversion can spring from the ambiguities that follow a blurry *compromise* that leaves the door open for future interpretational contestation. In fact, it is plausible to assume that actors, at all times, will seek to subvert the rules to fit their own interests. Lastly, as time passes and the original context, in which the institution was formed, falls into oblivion, conversion is all but bound to occur. (Streeck & Thelen, 2005, pp. 26-9)

5. Exhaustion

The fifth mode for change is termed *exhaustion*. This describes what happens when a properly working institution, that does what it was created to do, undermines its external preconditions, by, for instance, generating decreasing returns. Put differently, one can say that the seeds of the institutions destruction are part of its DNA. Strictly speaking, as Streeck and Thelen point out, this does lead to breakdown, rather than change (Streeck & Thelen, 2005, p. 29).

To conclude, all these factors help us understand how processes of gradual change, over time, can increase the likelihood of major change. Adapted to the case of pension reform, this means that the explanatory factors of a single major reform (as pension systems often progresses in leaps and bounds) should be found in one, or several, processes of gradual change or, alternately, that several minor reforms, seen as a whole, will amount to a major change. This takes us to our second hypothesis:

*Hypothesis 2 (H2): Processes of gradual change will increase the likelihood of major reform.*

4.4. Compensating the Losers

In his book titled *Reform Capacity*, Johannes Lindvall (2017) proposes a theory that goes against the commonly held view that the capacity to reform is higher in power-concentration systems than in power-sharing systems - as is argued by Tsebelis (see section 4.5) (1999, p. 591). At the heart of this theory lies the term *reform capacity*, which refers to the relationship between political institutions and political decision makers’ ability to implement reforms beneficial for society. More specific, this can be defined as “the highest level of conflict that a political system can tolerate before political decision-makers cease to adopt policy changes that benefit society as a whole” (Lindvall, 2017, p. 5). In addition, reforms, according to Lindvall, constitute the adoption of superior policies that, in some way or another, benefits society at large. Following from this definition, one might ask oneself, why not all beneficial changes are approved of. The answer, provided by Lindvall, is that some people always lose out on the reform and that these people, in turn, have strong incentives to resist the change. To circumvent this problem, political decision-makers can adopt and implement policy change in two
ways: either they construct institutions that enable them to ignore the losers of reform; or, which Lindvall advocates, they can compensate the losers.

Side payment, logrolling and issue-linkage lies at the centre of Lindvall’s theory (Lindvall, 2017, p. 22); with the ability to pass reform being dependent on the ability of the winners of reform, to pay off, or compensate, the losers. This reform strategy, as shown by (Knotz & Lindvall, 2015), is much more common in coalition governments, compared to single-party governments. This is so, while coalition governments include many political actors and, thus, provides an arena for discussions on compensation to occur (Lindvall, 2017, p. 55). Another way to create a similar institutional set-up is to establish committees, such as, for instance parliamentary mediation committees (Roberts, 2009, p. 157). Naturally, there are many obstacles to bargaining. Lindvall has divided these into four main categories: (1) Dilution costs, when compensation compromises the objectives of a reform; (2) deadweight costs, when compensation is costly to implement; (3) internal costs, when bargaining over compensation requires the expenditure of time, energy, and other scarce resources; and lastly (4) audience costs, when decision-makers pay a political price for being seen to negotiate with political opponents (Lindvall, 2017, p. 47). All these costs affect the reform capacity of different states. For instance, Lindvall argues that reform in power-sharing federal systems will face the choice of: either building support for a political platform in parliament, which would include high dilution and deadweight costs; or appealing for support among a broader range of political actors, including the regional actors, which would entail high internal and audience costs (Ibid., p. 52). From this follows that, despite federal states including more players in the decision making, it can be assumed that, as the political manoeuvre of the national government pushing for reform is diluted over many actors, reform capacity will remain low. For the same reasons, delegation to international organisations, such as the EU, limits the national policy making scope. Thus, a higher overall control of the policy process will decrease the bargaining costs.

Adoption does not constitute the only facet of a reform - it needs to be implemented as well. According to Lindvall, this represents a vital point, as knowing that the policies will get implemented according to compromise is paramount in attaining the support from the losers of the reform12 (Lindvall, 2017, p. 48). There are, however, several ways in which these risks (in the eyes of the losers) can be lessened. For instance, an independent bureaucracy will reduce the risk of political tampering; and, likewise, possibilities for the opposition to supervise the implementation process will moderate the perceived risk. Lastly, the case of informal power must be considered. The most important example is labour unions and their propensity to signal discontent via strikes (Tarrow, 1998, pp. 99-100), a practise that has been able to intimidate many politicians. Here, Lindvall assumes that the presence of both weak and, more radically, strong interest groups will encourage higher reform

12 On the subject on commitment risks, Lindvall distinguishes between the long-run and short-run. However, for this study this distinction will not be included.
capacity as: in the first case, they can be overrun; and in the second case, the unions will be a natural part of the negotiations. The problem occurs when the interest groups are moderately strong: as they will be too insignificant to be included in the policy process but still strong enough to threaten reform (Lindvall, 2017, p. 96). Looking at the area of pension reform - an arena bound to comprise influential interest groups – compensation will play an essential part in assuaging potential losers and enabling major reform. Hence, the third hypothesis is:

**Hypothesis 3 (H3): Compensation of those who stand to lose on reform will increase the likelihood of major reform.**

### 4.5. Veto Players

A growing literature that has come to occupy a central place in the field of comparative politics is *veto player* theory, especially as formalised by Tsebelis (Ganghof, 2003, p. 1). Compared to Lindvalls theory, this is a more static representation of reality. Simply put, the theory deals with how institutions shape policy outcomes (Tsebelis, 1995). As change is perceived of as a derived from the common action of multiple veto platers, it also differs from the perspective advanced by historical institutionalist writers such as Thelen and Streeck. According to Tsebelis, change in the status quo demands agreement between a certain number of political actors, be they single individuals or collective units, without which change cannot progress (Tsebelis, 2003, p. 19). Tsebelis makes the distinction between *institutional veto players*, whose rights are granted by the constitution, and *partisan veto players* whose sanctioning powers are granted by the political game, such as political parties. Other writers (Béland, 2001; Natali & Rhodes, 2004b) have, based on this division, added a third group, *ideological veto players* that although lacking any connection to formal veto players, still have the capacity to block reform. Furthermore, actors are assumed to act rationally in order achieve their predesignated preferences (Ganghof, 2003, p. 10). These preferences, in turn, are considered as fixed ideal points, with actors always preferring the proposal closest to their ideal, while being indifferent between policy suggestions that are on an equal ‘distance’ from the ideal point (Tsebelis, 1995, p. 295). This distance is illustrated by a *circular indifference curve*, originating from the veto player’s ideal point and, furthermore, delineating what the actor does not accept over status quo. Thus, the suggestions that the actor see as worse than no change at all. Depicted graphically (see Figure 1), veto players (A, B and C), with differing ideal points, will find their indifference curves overlapping over a certain area, representing: the “set of outcomes that can defeat the status quo” (Tsebelis, 2003, p. 21). Hence, this area, by Tsebelis called the *winset of the status quo*, is what determines the reform capacity of a certain polity; with a bigger winset signalling a higher propensity for change. There are several explanations for this. Firstly, a bigger winset - representing more policy proposals - will provide more openings for change. Secondly, a bigger winset will increase the chances that each veto player will find change more appealing than the status quo; and, thirdly, this will increase the
possibility that change more than offsets the transaction costs inherent of this change (Tsebelis, 1995, p. 295).

**Figure 1: Winset of a system with three veto players**

Building on a vein similar to Béland’s idea of ideological veto players, Immergut has proposed the idea of *veto points* that represent areas of institutional vulnerability that are particularly sensitive to the mobilisation of opposition (Immergut, 1992). The chapter by Immergut demonstrates that merely studying groups or actors in their own right is not enough when assessing their relative political strength in a political system (Thelen & Steinmo, 1992, p. 7). Rather, it is the actor’s location within a political system that is decisive (Immergut, 1992, p. 66). For instance, two equally ‘strong’ union movements might, depending on the political system, possess striking differences in their actual power to influence policy outputs. Thus, it will be important to assess both the strength, as well as institutional positioning of the political and ideological actors in order to complement the original theory as proposed by Tsebelis. Thus, according to this theoretical outlook, it will be essential to assess the amount, positioning and character of the veto players of each system. In the case of pension reform, the most important veto players should be organised labour (ideological veto players) and other left-wing political parties (partisan veto players), whose members stand to lose the most on reform. The propensity for reform, in turn, will depend on the number of possible policy solutions, in turn dependent on the ideological fragmentation of the actors that could defeat the status quo (i.e. the winset).

*Hypothesis 4 (H4): A greater winset will increase the likelihood of major reform.*
5. The Pension Reforms of Germany and France

This chapter contains the empirical analysis of this thesis. To begin with, the reader is introduced to the cases of Germany and France and some of the more common concepts related to their pension systems as they were in the late 1980s. Thereafter a chronological account of the reforms, stretching from 1990 to 2010, of first Germany, and then France, is presented.

5.1. The Pension Systems of Germany and France

As previously mentioned, Germany and France resemble each other in several aspects. For instance, both are part of what Esping-Andersen conceived of as typically conservative welfare states (Esping-Andersen, 1990). In addition, the welfare states of these countries share the same Bismarckian roots, namely employment-based systems of social contribution (Vail, 2010, p. 6), created by Otto von Bismarck in the 1880s (Börsch-Supan & Schnabel, 1999, p. 147), with a strong emphasis on equivalence between contributions and benefits (Martin, et al., 2016, p. 6). A combination, it has been argued, that is prone to face among the biggest difficulties as well as encounter the fiercest resistance to reform (Schmidt & Scharpf, 2000). But there are also important differences.

To begin with, France make out the prototypical example of a ‘strong state’ (Levy, 1999, pp. 17, 48) that, according to Wilson, has the strength to pursue its own ends against both organised interests and group pressures (Wilson, 1987, p. 238). Here, parliament plays a secondary role, in the shadow of a strong government, resting on its majority and an almighty president (except during times of cohabitation) (Bonoli, 2000, pp. 121-2). This, comparatively skewed power-symmetry, it has been argued, is one reason for France’s weak unions and employers’ associations (together referred to as: social partners). Indeed, unionisation in France counts among the lowest in the OECD13 and, the unions themselves, are considered as weak and ideologically fragmented (Levy, 1999, pp. 236-45). Therefore, it should not come as a surprise that France, according to a study by Lijphart and Crepaz, qualified as one of the least corporatist countries (Crepaz & Lijphart, 1991, p. 240). As such, no tradition of tripartite negotiations developed, as is common in other European countries (Bonoli, 2000, p. 118). Indeed, instead of focusing on traditional firm-level bargaining, unions in France have tended to direct their limited power-resources towards influencing the national arena (Levy, 1999, p. 243). However, as Béland points out, the weakness of the unions is somewhat balanced by their management of the social security funds (caisses) (Béland, 2001, p. 154). In this brief summary, it is also worth mentioning the major uprisings of 1968, described by Levy as a “scarring, formative political experience” that came to significantly affect Frances political climate by making politicians extremely reluctant to confront popular protests (Levy, 2005, p. 114).

13 Indeed, from the late 1970s to the 1990s, the French unions saw their membership halved from 18% of the working population to between 7 and 9% (Levy, 1999).
Germany, on the other hand, is a decentralised federal state. Here a competitive party system is compounded by the complicated jurisdictions between the state and the regional governments (Manow & Seils, 2000, p. 139). Not to mention the strong veto-position of the regions (or Länder) represented in the upper house (or Bundesrat). In Germany, the labour movement – with a unionisation rate double that of France - is highly centralised, comprising few non-competing unions, coordinated under the umbrella organisation the German Trade Union Confederation. Furthermore, the unions are integrated into the political system and, informally, led by the big metalworkers’ union IG Metall. Just as in France, the unions participate in the management of the social security schemes. (Thelen & Palier, 2010, pp. 120-3)

Regarding France’s and Germany’s political systems, the main political players in both countries can be divided into two groups: a major conservative party (sometimes seeking support from smaller liberal parties) and a social democratic party (sometimes seeking support from smaller communist, or green, parties). One symptomatic idiosyncrasy for these countries concerns the mainstream right-wing parties’ relationship with the welfare state as, in both cases; the right has administered major parts of its expansion (Levy, 1999, p. 60). This might explain why their view towards neoliberalism, at best, can be described as sceptic.

The pension systems of both countries comprise several separate schemes (France has over a hundred), applying to different societal groups (Bonoli, 2000; Börsch-Supan & Wilke, 2004). For instance, both countries have one major system covering all private sector workers, around 85% of the population in Germany and 65% in France; as well as one (or several in France’s case) for civil servants (which generally tend to be more generous). Also, in both systems contributions are payed through payroll taxes (split between employers and employees), rather than through general taxation (even though both systems are subsidised). From this follows two important consequences. Firstly, that the systems will be very sensitive to demographic and economic changes (Bonoli & Palier, 2007, p. 556); and secondly, that higher contribution rates make it more expensive for firms to hire (Vail, 2010, p. 6). While both pension systems bear clear Bismarckian traits, the French system also includes some strains of the universalist Beveridgean model – one example is a minimum pension adopted in 1956 (Häusermann, 2010, p. 45). In the following presentation, if nothing else is said, referring to the pension system will be equal to the major private sector pension scheme.
In the early 1990s, the German welfare state found itself under great pressure (Lehmbruch, 2003, p. 142). For several years unemployment had been ticking upwards, economic growth was sluggish and one alarmistic demographic forecast succeeded the other. This hit the pension system badly. As less people worked for fewer years, contribution levels (payments to the pension schemes) had to be increased. For Germany’s part, the situation had turned into a vicious circle in which higher contribution levels hampered growth, causing unemployment levels to tick up and, as a consequence, forcing contribution rates to be raised even further (Häusermann, 2010, p. 48). This background sets the stage for a period of intense pension reform aimed at securing the long-term viability of the system (Mierzejewski, 2015, p. 698). From the early 1990s, Germany has seen continuous bursts of reform, aimed at minor fixings or the plugging of loopholes (Börsch-Supan & Schnabel, 1999, p. 148). However, in this summary, I will shed light on the mayor reforms that took place between 1990 and 2010. These will be listed after the year they were put into law.

### 5.2.1. The Blüm Reform of 1992

The first reform aimed to tackle the problems at hand was initially passed in 1989\(^{14}\) by a government led by the Christian Democratic Union of Germany (CDU) under Helmut Kohl, barely two hours before the unexpected fall of the Berlin Wall – a juncture that would initiate the complicated process

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\(^{14}\) The pension reform law of 1992 (Deutscher Bundestag, 1989).
of unification\textsuperscript{15}. Consequently, many amendments and provisions were added during the reunification process, with the result that the reform was not implemented until 1992, as can be seen in figure 2 (Lüthen, 2015, p. 210). The reform was spurred by two main factors: firstly, the demographic transition, which had been highlighted in several well-discussed reports (Taylor-Gooby, 1999, p. 9) and an intention to reduce the practice of early retirement (Vail, 2010, p. 116; Streeck, 2010, p. 56). The highly popular practice of offering ‘routes’ to retire prematurely\textsuperscript{16} was, at this time, actively encouraged by, especially, labour unions, employers’ associations and politicians (Lehmbruch, 2003, p. 145). However, as this entailed passing costs on to the contributions-based pension system, and hence, towards employers and employees; there were incentives to put a stop to this (Martin & Thelen, 2007, p. 29). In the lead-up to reform, Kohl, in accordance with the German tradition of consensus and incremental change in social policy, initiated tripartite negotiations with the social partners\textsuperscript{17} (Häusermann, 2010, p. 162). For the reform to pass it also was essential to gain the assent of the Social Democratic Party of Germany (SPD), who represented the unions and, like so often in German history, controlled the Bundesrat. This support, however, did not come without several concessions being made. Among other things, some disincentives to early retirement were dropped and the expansion of private-sector pension schemes continued. (Vail, 2010, pp. 136-43)

While not removing the misguided incentive structures that existed within the system, the 1992-reform worked to diminish its negative effects (Börsch-Supan & Wilke, 2004, p. 17). The main changes were minor actuarial adjustments, aimed at nudging most workers towards deferring retirement (Schmähl, 1998, pp. 152-3; Börsch-Supan & Wilke, 2004, p. 27). In addition, the indexation of pensions was to be made net, rather than gross, effectively taking one step away from the vicious feedback loop where pensions rose as a consequence of increasing taxes and contribution levels (Ibid., p. 6). At the time, most central actors believed that the ‘pension problem’ had been dealt with. Indeed, after the reform, Norbert Blüm, minister of labour and social affairs, infamously claimed that the pension system would be secure until 2010 (Mangen, 1996; Bonoli, 2000, p. 157). However, in the shadow of the mounting problems, the reform proved unable to change the trend (Lehmbruch, 2003, p. 142; Börsch-Supan & Wilke, 2004, p. 6; Vail, 2010, p. 136; Mierzejewski, 2016, p. 319). As stated by Pierson, incorporating some “familiar pruning techniques”, the reform “[…] have generated substantial budgetary savings …” without altering the “basic structure of Germany's generous pension system” (Pierson, 1996, p. 167). Bearing in mind the fact that Kohl, according to his memoirs, took the decision to merge the pension systems of East and West Germany independently of economic considerations it is hardly

\textsuperscript{15} As Schmähl notes, the reform was based on “expected future developments of the social pension insurance in West Germany” – not for East Germany (Schmähl, 1998, p. 147).

\textsuperscript{16} That is, retirement earlier than the statutory retirement age, a practice that, in the German pension system, long was characterised by a remarkable degree of flexibility. For instance, in 1994 20% of all male pensioners claiming pensions in West Germany, and 40% in the East, used unemployment as a cause to retire at the age of 60 (Schmähl, 1998, p. 153-4).

\textsuperscript{17} Due to its sensitive nature, pension reform, since the founding of the West German Republic; had been decided upon in consensus (Anderson & Meyer, 2004, p. 145).
surprising that its effects came as a shock. The pension system, as Mietzejewski puts it, “... was in trouble before reunification. Reunification deepened that trouble” (2016, pp. 314-15).

5.2.2. The Blüm Reform of 1999\textsuperscript{18}

As previously stated, it soon stood clear that the 1992 reform had been insufficient. Instead of the economic miracle, promised by the Kohl government, reunification drastically exacerbated the situation\textsuperscript{19} (Lehmbruch, 2003, p. 144). It was during this time that the full constraints of integrating the Eastern part were beginning to be felt. As unemployment rose and a depression plagued the East, the government was immobilised by its unrealistic election-promise not to raise taxes to pay for unification. Thus, in order to cover its costs, as the social security system had been extended to East Germany, the government basically let the social system, via higher contribution rates, pay the bill. Another factor, drastically expanding the pension costs, came as the Western practice of rejuvenating the workforce via early retirement was exported to the East\textsuperscript{20}. This, in turn, led to a grave mismatch in the, by the early 1990s already skewed, relationship between contributors and recipients. Thus, far from a dependency ratio of 3:1, needed for pay-as-you-go systems to function smoothly, in 1998 the ratio was merely 1.45:1 (Mierzejewski, 2015, p. 700). As this message was hammered in by several high-profile reports, actors increasingly came to perceive of the pension system as in jeopardy (Lehmbruch, 2003, p. 143; Ebbinghaus, et al., 2011, p. 129).

In reaction to this, the reform-weary Christian Democrats in 1998 attempted a more substantial overhaul of the pension system\textsuperscript{21}. The most controversial element of the reform was the introduction of a, so called, demographic factor that would, in effect, drastically lower the replacement rate in accordance with demographic realities (Mierzejewski, 2016, p. 325). Additionally, the reform took aim to make it more difficult to retire before that statutory retirement age\textsuperscript{22} (Ibid., p. 323). These, highly unpopular, measures were important in counteracting the expanding practice among business interests, as Kohl saw it, to use early retirement as a mean to lay off workers and shift the costs on to the unemployment and pension insurance funds (Trampusch, 2005, p. 215). Lastly, steps to increase the low fertility rate were taken by making it less penalising to raise children (Mierzejewski, 2016, p. 325). In order to cultivate support for the reforms, Kohl, in true corporatist spirit, sought to form a

\textsuperscript{18} Enacted in 1997, the reform was, as its name implies, to be put in to law in 1999.

\textsuperscript{19} As East Germany was unified, the former GRD currency was replaced at a conversion rate that, according to Manow and Seils, literally made eastern industries uncompetitive overnight. Compounded with this, the unions managed to press for an agreement of rapidly reducing the wage differentials between the East and the West. Combined, these two measures explain how an economy, already in shambles after years of mismanagement, could capsize so rapidly; causing unemployment to escalate. (Manow & Seils, 2000).

\textsuperscript{20} For instance, only in the old GDR did, between 1993 and 2002, 675,944 men retire due to unemployment (Trampusch, 2005, p. 210).

\textsuperscript{21} The pension reform law of 1999 (Deutscher Bundestag, 1997).

\textsuperscript{22} One, particularly common, path – opened up after a series of laws passed in the 1980s – was, to stop working at 57, claim unemployment benefits for 32 months and thereafter retire with full benefits (Trampusch, 2005, p. 210).
tripartite alliance (*Bündnis für Arbeit und Standortsicherung*) in 1995, for discussions with the SPD, the unions and the employers’ associations (Ebbinghaus, et al., 2011). Initially, the social partners managed to force the government to step down from its insistence on abolishing retirement at 60 – instead opting for a modified version (Schmähl, 1998, p. 155). But in the end, however, as the explicit aim of the alliance, namely social security and contribution cuts, went straight against the core constituencies of the already weakened unions and the internally divided employers’ associations, Kohl was unable to muster support for his plans (Streeck, 2010, pp. 59 - 61). Likewise, the government encountered fierce opposition from the SPD 23, who also walked out on the negotiations. Instead, steps were taken to avoid pulling the proposal through the Bundesrat (Bonoli, 2000, pp. 157-8) by attaching a provision to increase the VAT (i.e. value added tax) to a separate bill. Thus, the government side-stepped the Bundesrat and passed the law via the Bundestag (Vail, 2010, p. 137). The reform would have passed into law in 1999, had it not been abolished after the Social Democrats, together with the Alliance 90/The Greens (the Greens), took office in 1998. Indeed, having campaigned fiercely against the law, the SPD had little choice but to follow through on their pledge 24 (Börsch-Supan & Wilke, 2004, p. 7).

### 5.2.3. The Riester Reform of 2001

The reform of 2001 25, drawing inspiration from the global wave of liberal social democracy (Menz, 2009, p. 85), has been hailed as one of the more fundamental reforms of the German social security system (Häusermann, 2010) and has widely been described as a paradigm shift away from its previous conservative model 26 (Bridgen & Meyer, 2014; Mierzejewski, 2016, pp. 329, 355). In addition, it signalled an even greater departure from the traditional stance of the SPD and has, subsequently, been described as an ideational tipping point for the party 27 (Hering, 2004, p. 117; Mierzejewski, 2015, p. 695). Building on the reform of 1999, that they just had jettisoned, the SPD and the Greens went even further than their heavily criticised Christian Democratic predecessors. Central to the reform, and most controversial, was the transformation of the previously monolithic pension system into a genuine multi-pillar system that effectively allowed the federal government to cut benefits in the compulsory savings plan 28 (Mierzejewski, 2016, pp. 327, 331). In short, heavily cuts of the replacement rates

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23 This would happen as Rudolf Dreßler, the SPDs spokesperson on social issues, thought the draft proposed by the CDU so radical that he formally ended the consensus on pension policy that had been upheld since 1957 (Mierzejewski, 2016).

24 A decision Schröder later would regret (Martin, et al., 2016).


26 This argument follows what Wolfgang Streeck has been described as the liberalisation of the German welfare state. In contrast to this view, Pallier and Thelen has proposed a dualist argument (Pallier and Thelen, 2010) on the ground that the system still protects the, so called, core workers and, thus, still maintains its central features. In their paper (cited above) Bridgen and Mayer, however, find increased support for Streeck’s theory and, further, predicts that this, in the future, will entail increased liberalisation measures.

27 A similar conversion took place in the Green party (Menz, 2009).

28 The adoption of a private pillar had two principal objectives: firstly, it can be understood as a way to pool risk away from the state and into the market (Bonoli, et al., 2000, p. 48). Secondly, this followed the philosophy
would be counterbalanced by allowing people, who wished to retain their standard of living after retiring, to arrange for this by saving in private saving plans. This was accomplished by introducing, and expanding, private and occupational capitalised savings opportunities (called Riester-Pensions) and providing these with generous tax incentives and state subsidies (Mierzejewski, 2015, p. 695). Another step away from a strictly Bismarckian system was the introduction of a guaranteed minimum pension at 115% of the social benefit level (Börsch-Supan & Wilke, 2004, pp. 16, 41). Mirroring earlier reforms in France, this meant drawing a sharper line between those who would be supplied by the insurance funds and those who would have to rely on state solidarity (Thelen & Palier, 2010, p. 135). Breaking from the tradition of preserving benefits at 70%\(^{29}\), the new floor was placed at 67% which, coupled with a revision of the calculation methodology, meant a reduction of approximately 10% (Silvia, 2009, p. 40). Lastly, a contribution cap was set on 20%, until 2020, and 22%, until 2030 to minimise the tax wedge\(^{30}\) in order to boost hiring (Bridgen & Meyer, 2014, p. 41).

In bringing this reform about, Schröder, as previously mentioned, turned his own party on its head and, fundamentally, altered the political configuration of the SPD (Hering, 2004). The SPD, traditionally sceptic of capitalism, had, during the years in opposition, formed much of its political profile in conflict against the CDU’s welfare cuts. Consequently, it came as a huge surprise when Schröder, without having consulted his party, made clear that the SPD’s previously crafted traditionally social democratic pension plan\(^{31}\) was to be binned in lieu of a new cost-cutting alternative\(^{32}\) (Hering, 2004, p. 114). From the start, Schröder encountered severe opposition from the unions, who opposed the depth of the retrenchment, the employers’ associations who felt that the reforms did not go far enough (Martin, et al., 2016, p. 129), the CDU on political grounds and most of his own party. Even if, according to Hering, many socialists, at the time deemed this policy shift as tactically unproblematic considering that all mainstream parties agreed, albeit informally, on the solution\(^{33}\) (Hering, 2008, pp. 172-3). Hence, the SPD retained an insulated position where they, with relatively minor political risk, could pursue welfare retrenchment.

Initially, Schröder tried to form a consensus among the different key players by establishing a *Bündnis für Arbeit*, a corporatist concertation modelled on Kohls tripartite alliance (Lehmbruch, 2003, behind Schröder’s ‘activation state’ – in that was supposed to promote growth by making people more involved in the deliverance of their own welfare (Mierzejewski, 2015, p. 702).

\(^{29}\) A standard replacement rate at 70% had long been seen as necessary in maintaining the standard of living after retiring (Berner, 2011, p. 134).

\(^{30}\) The tax-wedge is the difference between the salaries received by the employees and the costs of the firm to hire them.

\(^{31}\) The plan, drafted by Dressler, the SPD’s spokesperson on social issues; not only rejected the notion of the “demographic problem”, it also advocated continued expansion of the system (Mierzejewski, 2015, p. 704)

\(^{32}\) Neither the Greens nor the SPD (parliamentary parties) knew anything about the government’s reform plans before Riester and Schröder made them public (Meng, 1999).

\(^{33}\) Indeed, Hering argues that, beneath the formal political animosity between the SPD and the opposition, there existed an informal consensus that was developed between leading representatives behind closed doors (Hering, 2008).
However, as Streeck points out, by this time the weakening unions\textsuperscript{34} had built so much prestige into their stances, that compromise became difficult (Streeck, 2010, p. 61). Thus, Schröder quickly adopted a top-down approach, intending to include neither social partners nor the CDU in the process because, as Schröder later stated - “it was not possible”. (Martin, et al., 2016, p. 129). This strategy had 3 main stages:

Firstly, Schröder consolidated his power over the SPD. This was accomplished in part by importing new blood to central positions. For example, Schröder formed an alliance with Walter Riester, a strongman from IG Metall, who, bringing with him contacts with the unions, developed the plans for the reform and, later, was made labour minister. By giving this important position to a newcomer, he surprised and infuriated the left-wing and, especially, Rudolf Dreßler who, as the long-serving spokesperson on social issues had expected to be the next minister (Mierzejewski, 2016, p. 328). Later on, his policy-shift provoked a revolt led by Oskar Lafontaine, informal leader of the left-wing and chairman of the party who, subsequently lost and resigned from the government, together with Dreßler (Mierzejewski, 2015, p. 704). The loss of two such prominent left-wing actors (together with other not so prominent ones) caused a major fragmentation among the left-wingers\textsuperscript{35} and opened a void that Schröder was quick to fill with his own people (Hering, 2004, p. 114; Mierzejewski, 2016, p. 334). As a consequence, Schröder managed to unify the left wing behind him and, in effect, gain complete control over the party (Hering, 2004, p. 117).

Secondly, with a more unified backing, Schröder engaged in negotiations with the Unions and the more pragmatic left wing. Relatively swiftly, in exchange for some minor changes\textsuperscript{36}, heeded in negotiations with Klaus Zwickel, the chief of IG Metall; the unions gave their support of the reform (Mierzejewski, 2015, p. 707). Publicly, the unions signalled victory over the government while privately, as Vail shows, lamenting the reform as a heavy defeat (Vail, 2010, p. 139).

Lastly, in order to get his reforms passed the two houses (as the SPD had lost its majority in the Bundesrat) the government followed Kohl’s example and split the bill in two parts. The less controversial bill could, with the reluctant support of some CDU-controlled Länder, be geared through the Bundesrat (Vail, 2010, p. 139). This tacit consent came in exchange for generous sweeteners that

\textsuperscript{34} The union density in Germany after the World War II never reached similar numbers as the Scandinavian countries and has declined ever since. From harbouring around one third of the active workforce in 1990 this number had fallen to 19.7\% in 2003 (Streeck, 2010, pp. 46-47).

\textsuperscript{35} The effects of Lafontaine’s departure are, according to Hering, twofold: firstly, this left the SPD’s left-wing without formal representation in the small councils that governed the party’s official policy stances. Secondly, it caused disorientation that led, or forced, the left wing to reorganise its organisational structure and renew its leadership. This process that lasted for over a year resulted in the adoption of a more pragmatic stance and opened up for discussions with the Schröder Government (Hering, 2001, p. 10).

\textsuperscript{36} These concessions concerned, primarily, the replacement rate which was increased from 64\% (the initial proposal) to 67\%.
the Länder could not resist\textsuperscript{37} (Lehmbruch, 2003, pp. 165-6). In the Bundesrat Committee for Labour and Social Affairs, the bill encountered criticism from the head of the influential \textit{Federation of German Pension Insurance Institute} which, in the ensuing discussion led to the balancing factor being dropped (Mierzejewski, 2015, p. 708).

To summarise, it can be said that this reform proved, as feared by many on the left, something of a game-changer that opened up for further retrenchment. Additionally, Streeck interprets the unilateral implementation of policies heavily opposed by organised labour and capital, after the two unsuccessful attempts to negotiate tripartite reforms; as a breaking point that, more or less, chipped “away their [i.e. the social partners] political status” (Streeck, 2010, p. 4).

\textbf{5.2.4. The Rürup Reform of 2004}

As it became clear that the Riester Reform would prove insufficient in stabilising the system, and while the economic downturn intensified\textsuperscript{38}, the pressure on Schröder to act intensified (Dyson, 2006, p. 125). Indeed, the, to quote Silvia, “extremely optimistic economic assumptions” underpinning the previous reform (Silvia, 2009, p. 43), largely a consequence of necessary concessions to the unions, made subsequent reform an economic imperative. The result was the establishment of a new reform commission, headed by Bert Rürup\textsuperscript{39}, the \textit{Commission for sustainability in Financing the German Social Insurance Systems}\textsuperscript{40} (Börsch-Supan \& Wilke, 2004; Silvia, 2009, p. 43) – which would lead up to the reform of 2004\textsuperscript{41}. Thus, in order to make up for the shortcomings of the previous reform, the commission, in august 2003, left four major recommendations. Firstly, to, finally, eliminate all incentives for retiring early. Secondly, to add a sustainability formula, remarkably similar to those proposed – and subsequently abolished – by two previous governments (Mierzejewski, 2015, p. 711) that, in the light of changes in the relationship between contributors and beneficiaries, would lower the growth of payments. Thirdly, the commission proposed that annual benefit adjustments should rest on the income changes of the insured, and not on all insured (Mierzejewski, 2016, p. 342). Lastly, they recommended an increase of the retirement age from 65 to 67 (generally seen as the least popular reform-option) and a modification of the pension benefit indexation formula (Börsch-Supan \& Wilke, 2004, p. 52). Other important proposals were a simplification of the regulation concerning the private

\textsuperscript{37} For instance, Berlin and Brandenburg were promised 1,000 new jobs in a bureaucracy to administer the \textit{Riester-Pensions} and the Rhineland-Palatinate got subsidies for home mortgages (Mierzejewski, 2016, p. 338).

\textsuperscript{38} The economic problems, in turn, called for the reduction in non-wage labour costs, capital market stimulation and, naturally, financial sustainability. One other important factor, according Ebbinghaus et al. was meeting the Maastricht budget criteria (Ebbinghaus, et al., 2011, p. 129).

\textsuperscript{39} Bert Rürup, a member of the SPD, had previously advised Kohl, in his 1999 reform on the configuration of the demographic factor and, later, Schröder on the design of the Riester-Pensions (Dyson, 2006, p. 127)

\textsuperscript{40} According to Busemeyer, relying on the recommendations of experts was a tactical move by the government to gain more legitimacy for their proposed actions (Busemeyer, 2006, p. 426).

\textsuperscript{41} The pension reform law of 2003 (Deutscher Bundestag, 2003).
pensions\textsuperscript{42}, changes in the taxation and the implementation of a new kind of private pension plan, the Rürup Pension (Silvia, 2009, p. 42; Berner, 2011, pp. 136-7).

This, last, major pension reform-effort of the Schröder government came after the 2002 general elections where the Socialists, once again, suffered major losses. Indeed, the only thing that enabled the SPD to keep their grip on power was the gains of its coalition partner: the Greens. Notwithstanding this electoral calamity, Schröder intensified his ambitions to realise his new vision of German society by launching his famous \textit{Agenda 2010}, a broad reform programme aimed at stimulating growth and reducing unemployment, of which the Rürup reform was an integral part (Dyson, 2006, p. 125). As was the case during the \textit{Riester Reform}, the government could expect little support in its reform efforts. In so violently breaking with the social democratic tradition, it hardly was surprising that large parts of the SPD felt alienated; nor that the unions were furious (Busemeyer, 2006, p. 426). Similarly, the opposition had little support to offer; no doubt it was but all too tempting to step aside and let the SPD tear itself to pieces. Underscoring the politicised animosity predominant at the time is the fact that, even though a commission hosted by the opposition came to, in all but detail, the same conclusions as the SPD, this changed little (Mierzejewski, 2016, p. 341).

Although many of these proposals went against the very heart of the, previously dominant Social Democratic philosophy of the SPD, Schröder managed to get his reform passed. According to Dyson, one important reason for this was Schröder’s strength of will when it came to enforcing discipline, as he, for example, did when he threatened to dissolve Rürup’s Commission - would not its public squabbles come to an end (Dyson, 2006, p. 126). Another important reason was the weakness of the unions, who had first been overrun in an important wage-deal in 2003\textsuperscript{43} and, later on, completely failed to mobilise a credible opposition to Schröder’s Agenda 2010. Likewise, the left had seen their opposition firmly brushed aside (Hinrichs, 2005, pp. 67-8). In the end however, all of Rürups proposals (with only minor modifications), bar the controversial proposal to increase the retirement age, became law in 2004 (Silvia, 2009, p. 44). As it was not necessary to pass the bill through the Bundesrat, where it, according to Busemeyer, probably would have had been stopped; the bill could be passed by a unified government with the left-wing, in exchange for minor sweeteners, keeping rank (Busemeyer, 2006, p. 432).

\textbf{5.2.5. The Müntefering reform 2007}

Even though most agree that the reform efforts of 2001 and 2004 were sufficient in ensuring the system’s long-term survival, pension reforms have long term gains - while its negative side-effects often are short-term. In 2005 the still weak liquidity of the system erupted in a full-blown crisis, with

\textsuperscript{42} Which, subsequently, would led to a rapid increase of the number of Riester contracts (Silvia, 2009, p. 42)
\textsuperscript{43} This happened as work-councils disintegrated after the defections of work council leaders who were afraid of inflicting harm to their companies (Streeck, 2010, p. 86)
the federal government having to cover the deficit (Mierzejewski, 2016, p. 346). This was one, but surely not the only, reason why, as the economic downturn intensified and Schröder’s approval ratings plummeted; he first stepped down as party leader and, later, came to risk early elections – which he and his party firmly lost. His fall from grace was somewhat softened by the fact that the Christian Democrats also had a bad election. In fact, they came in at a tie (Merkel, et al., 2008, p. 97). Later, in the negotiations that would make Angela Merkel chancellor over a grand coalition government between the SPD and the CDU/CSU, it was decided that the last recommendation of the Rürup Commission - to increase the formal retirement age to 67 - was to be implemented (Mierzejewski, 2016, p. 347). As Haverland and Stiller points out, implementing the reforms favoured by their own expert commissions was made possible only after the risk-reduction brought on by the grand coalition (Haverland & Stiller, 2010). Another interesting point worth mentioning is that, in carrying this last reform through, the grand coalition did not even bother informing the unions, even though IG Metall, for a long time, had held on to the retirement age as one of its most important questions (Streeck, 2010, pp. 61-2).

5.3. Pension Reforms in France 1990 – 2010

France entered the 1990s in a situation not all too different from Germany. Since the early 1980s, France’s pension system had run a structural deficit with its negative cash-flow being plugged by increasing contribution rates (Vail, 2010, p. 122; Palier, 2010b, p. 79). Moreover, demographic trends were undermining the institutional arrangements longevity (Palier & Mandin, 2005, p. 77). Combined with a series of influential reports (published from 1985 and onwards), this had sparked an intense debate on the future of the insurance system (Ruellan, 1993, p. 912). Arriving in the early 1990s, the old strategy of increasing contribution rates and lowering the labour supply seemed not only ineffectual but rather counterproductive (Palier, 2010b, p. 79; Ebbinghaus, 2012, p. 194). However, and despite a tacit consensus between all mainstream parties that change was necessary, no reform would come until 1993 (Bonoli, 2000, pp. 131-2).

5.3.1. The Bérégovoy Reform of 1992

After winning the presidential election of 1988, François Mitterrand called for early elections and received a presidential majority, with his Socialist Party (PS) becoming dependent on the communists (Bonoli, 2000, p. 135). The reform was put before the parliament in 1992, as can be seen in figure 3. As a mark of the instability of the government, two prime ministers followed in a

44 Also, the SPD found itself defeated in a series of state elections and, on top of that, around a fifth of party members terminated their membership (Merkel, et al., 2008, p. 97).
45 The pension reform law of 2006 (Deutscher Bundestag, 2006).
46 A presidential majority refers to a situation when, if no clear winner was produced in the last election, the president nominates a premier minister to lead a minority government.
47 The reform plan outlined in the National Assembly by Bérégovoy on the 8 April 1992 (Gouvernement Francais, 1992).
short space of time before Pierre Bérégovoy became head of the cabinet. As already stated, the Socialist Party was quite aware of the need to reform but, as a consequence of its dependence on the far-left, their scope of action was constrained. Besides that, an imminent election forced the government to act with caution and in consensus with the social partners (St Louis, 2011, p. 78). However, two major themes were on the table, namely: general retrenchment and different measures to change the governing of the basic pension system. Both issues were welcomed by the employers but, unsurprisingly, resisted by the unions who particularly objected to the latter, which was seen as altering the management of the caisses (the different social insurance plans). This was the case as the unions - who had been in a state of decline since the end of World War II (Guillemard, 1986) – increasingly had come to build their raison d’être on the management of the social insurance systems (Palier, 2010b, pp. 86-7).

The first major report to be published during Mitterrand’s second tenure came in 1989, and, in line with the previous reports, advocated several retrenchment measures. Among the more important proposals were: a higher retirement age, which was seen as inevitable, the indexation of wages net (rather than gross), extending the qualifying period (the number of year of contributions needed to get a full pension) and prolonging the reference period (the period during which the retirees’ previous earnings are measured). However, such proposals did not resonate well with the left. In consultations with the unions, the government produced a white paper that rejected all of the proposals of the previous reports, except for the extension of the qualifying period which, however, was reduced to 40, and not 42, years. In addition, it was decided to target only the less unionized private sector, while leaving the highly unionized public-sector employees unaffected (St Louis, 2011, p. 80) and to add some sweeteners for the unions. One of these was the proposal to set-up a tax-financed state governed fund, designed to cater for non-contributory benefits. The law, however, encountered opposition from the communists who, together with the right, were able to block the reform (Bonoli, 2000, p. 137).

5.3.2. The Balladur Reform of 1993

In 1993, the conservatives won a reassuring majority in the parliamentary election which allowed Édouard Balladur to become Prime Minister and form a government led by the main Gaullist party – with Mitterrand remaining as president until 1995. By this time, the relatively beneficial status of the French economy, compared to much of the rest of Europe, had given way with more than 11% of the workforce in unemployment, the French economy contracting with 1 percentage point and the state of

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48 In addition, the management of the insurance funds also provided many working for the unions with salaried ‘pseudo-jobs’.
49 This was of significance for the unions, who for a long time had had accused the state of burdening the, in their eyes, strictly private schemes by demanding that they pay for non-contributory benefits (Palier, 2010b, p. 75).
the pension system described as ‘catastrophic’ by Palier and Mandin (2005, p. 78). Harsher economic conditions, coupled with cohabitation under Mitterrand, made the, otherwise, strong majority overly careful50. From taking office, the Ministry of Social Affairs worked, in extensive consultations with the unions, on outlining a reform51 of the private-sector pension scheme (the régime général) with the ambitious objective to lower pension costs with 33% by 2015 (Levy, 1999, p. 387). The more generous pensions of the civil servants (the régime spéciaux), were not on the table. However, while Balladur adopted a consensual approach towards the unions, it did not, as highlighted by Natali and Rhodes, extend to “formal negotiations of constructive dialogue” (Natali & Rhodes, 2004b). According to interviews conducted by Bonoli, the policy-making was designed to bring the neutral French Democratic Confederation of Labour (Confédération française démocratique du travail - CFDT) on board, so as to have some support in the union camp, while merely trying to appease the more hostile Workers’ Force (Force Ouvrière - FO) and General Confederation of Labour (Confédération Générale du Travail - CGT); who were bound to be hostile either way (Bonoli, 2000, p. 139). The reform, quintessentially in the making since the mid-1980s, comprised two main elements: cutbacks and the set-up of a means-tested tax-financed fund run by the government (Vail, 2010, p. 124). The means-tested fund, a main demand from the unions, reinforced the social player’s grip over social security by highlighting the contributory character of the social insurance schemes by compensating them for the funding of non-contributory payments (Bonoli, 2000, p. 140; Palier, 2010b, p. 80).

The cutbacks – intentionally designed to affect those with high pensions most (as minimum pensions were not altered by the reform) – were in line with the previous recommendations. The reform comprised three main proposals. Firstly, the qualifying period was extended from 37.5 to 40 years (Palier & Mandin, 2005, p. 78). Secondly, the period deciding the pension level, was prolonged from the best 10 years, to the best 25 (St Louis, 2011, p. 83). Lastly, the indexation of the pensions was changed from gross wages to consumer price inflation during a five-year period – and subsequently made permanent (Bonoli, 1997, p. 117). These changes were, in turn, to be phased in during a ten-year period and only partially affect those already in retirement. Thus, the immediate impact would be rather limited. The initial responses of the unions were marked by hostility but, as the actual rank-and-file did not heed to the call, the opposition soon ebbed away. This was so, partly because the low level of unionisation in the private sector, and partly because of the smooth rapprochement of the Balladur government. In addition, the unions were soothed by the inclusion of the tax-financed fund (Bonoli, 1997, p. 119) and, lastly, the changes predominantly affected younger people who are underrepresented in union membership (Labbé, 1997, p. 43). In the end, however, the government

50 In addition, the fact that Balladur had his eyes set on the presidency probably strengthened its effect (Bonoli, 1997, p. 116).
51 The relevant pieces of legislation include: law No. 93-936 of 22 July 1993; and the decrees No. 93-1022 and No. 93-1023 of 27 August 1993.
managed to bring the moderate unions, the CFDT and French Confederation of Christian Workers (Confédération Française des Travailleurs Chrétiens - CFTC), on board while securing a half-hearted consent from the other unions, save the radical FO and CGT (St Louis, 2011, p. 85). According to Bonoli, the impact of the reform, despite its soft handling of vested interests, could be quite substantial (2000, p. 140), generating a reduction in pension expenses of around 5% by 2010 (Ruellan, 1993, p. 921). However, as Palier points out, these were second order changes that did not alter the foundation of the system (Palier, 2010b, p. 82).

5.3.3. The Juppé Reform of 1995

Over the course of Balladur’s term in office the economy brightened and in the presidential election of 1995, campaigning for increased state intervention and calling for an end of the neoliberal ideology, Jacques Chirac won against both Mitterrand and Balladur (Levy, 1999, p. 68). As, in addition, the next election was far off, the time probably seemed more than ripe to emulate the cutbacks of Balladur on the civil servants’ pension regimes (Bonoli, 1997, p. 120). Thus, not long after the victory, Alain Juppé, the new Prime Minister, announced an overhaul of the social systems. Bolstered by the good conditions, the Juppé government came to adopt a highly conflictual approach (Bonoli, 2000, p. 143). One example is Juppé’s blatant condemnation of the inequalities of the present system and questioning of the structure of the French welfare state (Ibid., p. 142). Accurate as these remarks may be, it still incited the highly unionised public sector, whose relatively over-generous pensions were the source of the inequality that Juppé commented on, and infuriated the unions, who were dependant on the management of the social security systems. The reform plan was prepared during the autumn of 1995, in consultations (but not negotiations) with the unions⁵², with the actual outline of the plan being kept secret until the very last minute⁵³ (Palier & Mandin, 2005, p. 79). True to his words, the reform plan Juppé presented in parliament on the 15th of November⁵⁴, was seen as a major restructuring of the social security system (Bonoli, 2000, p. 144). The reform contained two principal objectives: firstly, to ameliorate the financial sustainability of the system and, secondly, to reorient the system away from social insurance towards general taxation (Natali & Rhodes, 2004b, p. 12). Of these, the latter signalled an outright attack on the union’s role as welfare actors. Initially hailed by political commentators, the austerity package, resonating badly with Chirac’s leftist election campaign, did not go down well with the French public.

The union’s fierce response gave rise to the biggest manifestations in France since 1968. For six weeks strikes paralysed the country with public opinion running in favour with the strikers. (Levy, et

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⁵² In addition, the unions had been led to believe that public sector reform was not being considered, only to be surprised in the last instance (Bonolo, 2000).
⁵³ Indeed, Alain Juppé openly bragged that not 10 people had seen the actual plan before its presentation (Levy, et al., 2008).
⁵⁴ The reform plan outlined in the National Assembly by Juppé on the 15 November 1995 (Gouvernement Français, 1995).
al., 2008, p. 5) It soon stood clear that the strategy of Juppé had played out disastrously wrong in failing to muster support for the plan. While the reform plan bore many similarities with that of Balladur it differed on two essential points. Firstly, no attempts to include concessions for the unions were initially included and, secondly, no steps were taken to softening the impact on those (more prone to mobilise) who would get squeezed the most by the reform (Natali & Rhodes, 2004b, p. 13).

Lastly, Juppé’s staunch denunciation of the current system was perceived as an outright threat to dismantle the existing social insurance system, and thus the very life-line of the unions. Indeed, and contrary to the international media coverage at the time, the unions first and foremost opposed not to the cuts, but rather to the governments signalled clampdown on social security management (Bonoli, 1997, p. 121). Hence, the unions were in a situation where they, bluntly put, had nothing to lose and all to gain. In the end, the Prime Minister had to abandon the reform in order to set a stop to the strikes. This was not only a failure in its own right, to boot, it delegitimised future reform attempts, made politicians less inclined to risk their political capital and, not least, invigorated the unions (Levy, et al., 2008, p. 5).

5.3.4. The Fillon Reform of 2003

After almost ten years without reform, change came in 2003 from the conservative Raffarin government who, just like in 1995, had a reassuring majority and a president belonging to the same party. However, Jean-Pierre Raffarin was not to repeat the same problems as his conservative predecessor. Even while the more radical unions protested at their limited ability to affect the outcome (Lavigne, 2003, p. 732) it was not a unilateral project à la Juppé. Rather, Raffarin and his minister of social affairs, François Fillon, took pains to prepare the reform transparently and to include the more reform-minded unions in the process (Natali & Rhodes, 2004b, p. 15).

The scope of the reform was to align most of the public pension schemes with the private scheme – even though most schemes were affected in some way or other (Naczyk & Palier, 2011, p. 13). In short, the reform comprised different means to cut costs and expand the working time of workers (Hassenteufel & Palier, 2016, p. 70). One example of the latter was actuarial adjustments aimed to penalise retirement before the statutory age and rewarded those who postponed their retirement (Palier, 2010b, p. 91). Further, the indexation would, as is the case in the private pension scheme, now be based on prices rather than on wages (Lavigne, 2003, p. 730). Additionally, the contribution period was extended to 41 years. Finally, two important steps away from the pay-as-you-go system were introduced. Firstly, a legal framework of a voluntary personal (PERP), and occupational (PERCO),

55 What is not mentioned in this recapitulation is that Juppé simultaneously proposed measures to reform the health sector which, in contrast to the pension reform, were implemented.
56 The reform is named after Fillon (even though he was not Prime Minister at the time) as he was in charge of its implementation.
57 The relevant piece of legislation is law No. 2003-775 of 21 August 2003.
fully funded defined-contribution pension arrangements – both quickly attracting many subscribers. Secondly, a mandatory funded scheme for civil servants. (Palier & Naczyk, 2011, pp. 100-1).

The reform spurred hefty negotiations with unions who commanded their members to take to the streets. The breakthrough, came as the government, thanks to several concessions that significantly altered the bill; managed to win over the support of moderate unions, and, consequently, to split the movement (Natali & Rhodes, 2004b, p. 15; Palier, 2010b, p. 91). Examples of these sweeteners are: possibilities to retire early for people entered the workforce at an early age, new entitlements to certain special regimes and better conditions for people with atypical careers. As a consequence, the CFDT (the biggest reformist union) broke ranks with the other unions in siding with the government and, thus, averted another crisis like the one experienced in 1995. It did, however, come at a cost: as the CFDT experienced the disaffiliation of many prominent federations and a loss of, approximately, 10% of the total membership between 2002 and 2005. According to Chris Howell, this displays the limits of pragmatism in the highly competitive “world of French trade unionism” (Howell, 2008, p. 213). In sum, however, the reform (not using French measures) was rather meek. Not least because of the many exceptions that were granted to the unions (Natali & Rhodes, 2004b, p. 16). In addition, the reform also refrained from targeting several dozens of special schemes – for instance the railroads monopoly and the electric monopoly (Lavigne, 2003, p. 732).

5.3.5. The Fillon Reform of 2008

Directly after the presidential election of 2007, won by the energetic candidate of the right, Nicolas Sarkozy, a minor pension reform was passed via decree. The reform aimed at harmonising the pension system by targeting those special regimes (covering about 1.6 million workers) which had not been affected by the 2003 reform (Léger, 2011, p. 8). In effect, this reform represented something of a final step, extending from the first retrenchment reform, introduced by Balladur in 1993. However, this effect was slightly watered down as most changes only affected those hired after the reform (OECD, 2009b, p. 55). Leading up to the reform, many observers drew comparisons with the calamitous protests of 1995 and the last time the special regimes were targeted (The Economist, 2007). While the reformist CFDT (which had supported the reform in 2003) remained pragmatic, the other unions raised objections. From the beginning, negotiations were held with the unions. However, only after nine days of paralysing protest, with Sarkozy fearing the worst, a deal was cut with the unions (the net worth of which is yet to be disclosed) (The Economist, 2008). One of the concessions, according to Lindvall, that persuaded the unions was the promise of the government to take part in the company-based negotiations, in which these concessions would be fully decided on (Lindvall, 2017, p. 98)

5.3.6. The Fillon Reform of 2010

During the financial crisis of 2008-2009, France’s public finances were severely hit and, likewise, its pension system. As wages fell and the number of retirees continued to rise, the deficit among private sector pension schemes was pushed to 10% of the public deficit, in 2008, and close to 7% in 2010 (Lagoutte & Reimat, 2012, pp. 318-9). Thus, in 2010, two years before the next presidential election, Prime Minister Fillon announced a new major pension reform. In line with recommendations from the OECD, the main scope of the reform was to increase the statutory retirement age from 60 to 62 (OECD, 2009b). Worth noting is that after Moody, a credit rating agency, threatened to downgrade France’s credit rating the implementation phase (initially stretching to 2018) was accelerated (Hassenteufel & Palier, 2015, p. 10). This was an important step, but still left France well below most European countries (OECD, 2009b, p. 53). In addition, the minimum contribution period was increased to 41.5 years and measures were taken to reduce the possibilities to retire prematurely (OECD, 2011, p. 67; Hassenteufel & Palier, 2015, p. 11). Minor changes were implemented to nudge people into extending their working lives, by, for instance, adding a penalty for those retiring before 67; and, finally, maternity leave was made less costly (Natali, 2011, p. 17; Hassenteufel & Palier, 2015, p. 11). The unions reacted by calling for street protests, which raged for months while the reform was being debated in the senate. However, after the government delivered two minor concessions that, firstly, allowed for employees under ‘hard working conditions’ to retire at 60 and, secondly, for mothers born before 1956 to retire with a full pension at the age of 65; the reform was passed (Hassenteufel & Palier, 2015, p. 13). While the initiative displayed a willingness to tackle the problems of the pension systems, the OECD still deemed the future need for reform to be desperate (OECD, 2011, p. 68). For instance, as estimated by France’s Pension Advisory Board (COR), the retirement age (before this reform) needed to be raised by ten years, if the accounts were to be balanced by 2050 (COR, 2010). Consequently, as argued by Thelen and Palier, this reform has not shifted the fundamental principles of the system (Thelen & Palier, 2010). Indeed, according to Lagoutte and Raimat, the latest pension reforms seem to have been devised just to keep the system afloat; not seeing to the underlying problem (Lagoutte & Reimat, 2012).

59 The relevant piece of legislation is law No. 2010-1330 of 9 November 2010.
60 However, for those special schemes whose pensions already were below this limit (for instance railroad workers who were entitled to retire at 50) the limit was raised with only two years.
61 Later on, Fillon has stated that he fought for stretching the legal retirement age to 65 but that Sarkozy, not wishing to “create a public drama”, cut it to 62 (Martin, et al., 2016).
6. Analysis

In this chapter, the empirical findings will be analysed according to the theoretical framework presented in chapter four. This analysis will be delineated in the four following subchapters, one for each theoretical approach, and, additionally, assess the hypotheses posed. Throughout this section, alternative causes will be considered and reflected upon.

6.1. Institutional Shocks

The first historical institutionalist hypothesis (H1) predicts that a shock will increase the likelihood of major reform. This entails adopting a macro perspective. In the case of Germany, the chaotic uncertainty and economic crisis that reunification entailed can well be considered such a shock. Indeed, seeing the unification of East and West Germany as an institutional tipping point is not an uncommon claim in the literature (Hinrichs, 2010, pp. 68-9; Häusermann, 2010, p. 48; Streeck, 2010, p. 207). It is worth mentioning that factors such as the economic pressures in general or the specific conditions that abiding to the Maastricht criteria necessitated cannot be ruled out. However, taking the empirical findings into consideration, it is clear that pension reform followed a different logic before and after this shock. For instance, during Germany’s first welfare cutting pension reform, implemented in 1992, it is evident that the intention was not to shift away from the social insurance model – in spite of the dire consequences, as purported in several reports, neglect would entail (Taylor-Gooby, 1999). In addition, it followed the German tradition of consensus in the field of pension policy. In stark contrast, after reunification, the previous practice was put on its head. As hundreds of thousands retired prematurely, and millions (of easterners) connected to the system, without any previous contribution record to speak of, it is hardly surprising that it was received as a shock – especially if seen in the light of Kohl’s overoptimistic projections. As follows, two important things changed: firstly, the previous consensus, with which the reform of 1992 was agreed on, vaporised. By 1998, the previous harmony had morphed into a state of animosity, with all actors taking one step backwards (in their respective directions); ‘starting to dig trenches’. Secondly, the reform presented by the Kohl government in 1999, effectively, can be said to be the same reform that, in three subsequent blows, was hammered in by the Social Democrats. These two facts, taken together, displays a contradiction, as it shows that by 2001, despite their public unwillingness to compromise, all mainstream parties, had (by their actions) made public that an agreement on what had to be done existed. That is, in the reforms of 1999 and 2001, the CDU/CSU, the SPD, the Greens and the liberals all had stood behind, more or less, the same policy. As underscored by Hering, this indicates that the animosity was mostly a part of the political game (Hering, 2004). In reality, most political actors, following unification, came to view major change as an imperative. Consequently, viewing the shock, brought on by reunification, as path-altering seems plausible. For France, on the other hand, no shock comparable to the one in Germany occurred. But then, no major change ensued. However, arguably,
two significate events worth highlighting are the riots of 1968 and 1995. While the first was on a bigger scale, the latter came to be clearly associated as an insignia of the political peril of pension reform. Both served to increase the legitimacy and resilience of the unions who were led to understand that they, as Béland has argued, had the power to effectively act as a veto player (Béland, 2001). In addition, it made it clear to the political, office seeking, cadre that pushing through reform, against the wishes of the unions, entailed major political and societal risks (Levy, et al., 2008, p. 5). Instead of a shock causing a disjuncture in the path-trajectory, and opening the door for new path-changing choices, these minor shocks did the opposite. Thus, evidence indicates that H1 is accepted as, in the case of Germany a shock was followed by major change while, France, on the other hand, experienced neither shock nor major change.

**6.2. Processes of Gradual Change**

Leaving the ‘bigger picture’, and zooming into each of the different trajectories at play, new explanations will appear. According to the second hypothesis (H2), processes of gradual change will increase the likelihood of major reform. In order to evaluate this proposition, the incremental development of institutions - especially the pay-as-you-go systems – will be gauged. Following the typology developed by Thelen and Streeck, several important interpretations can be made.

From a *displacement* perspective (the adoption of a competing logic of action), the most important factor to influence policy during this time-period was the spread of new liberal ideals. These ideals, advocating a transition into a more individualistic and effective society, were manifestly hostile towards the principles underpinning the old welfare states. Interestingly, Germany and France displayed a varying degree of perceptibility in adopting these new value systems. For instance, Schröder – and consequently all reforms pursued by his party - was influenced by the new liberal-leaning social democratic movements that had sprouted in several other countries. Under the guise of the ‘new left’, he and the regenerated SPD, deemed breaking with the overly-nurturing welfare state, in favour of a system in which people were “encouraged to take responsibility for themselves as much as possible”, as an imperative (Martin, et al., 2016, p. 127). This fact, I argue, was essential in breaking the stalemate sclerosis, or *reformstau* (see for instance: Harlen, 2002a), of the polarised German political landscape. In line with writers such as Rothstein (1992) and Weir (1992), it must be noted that this ideational transformation could be explained by the shock rather than gradual processes of change. In contrast to Germany, France stands out as uncommonly anti-liberal – even if politicians, from time to time, have flirted with liberal values. Contrary to most other developed nations, the new (or neo) liberal tradition, sprung around thinkers such as Hayek, never really got a foothold here (Béland & Hansen, 2000, p. 48). Additionally, as shown by Brooks, international trends have played an important part in spreading pension policy-solutions (Brooks, 2005). However, considering contemporary developments in many neighbouring countries, it becomes obvious that Germany’s
belated decision to reform seems somewhat disjointed. For instance, based on the same universally held conception of acute crisis, Finland, Sweden and the Netherlands all managed to adopt substantial pension reforms earlier (Hinrichs, 2010). In contrast, the first responses of both Germany and France merely constituted short-term fixes. The European Union also has influenced policy; however, as shown by Hassenteufel and Palier, this has only affected France in a more general way (Hassenteufel & Palier, 2015, p. 10). Indeed, pension policy largely seems to represent an internal matter.

From a layering perspective, referring to changes in the fringes of an institution that gradually cause change, mostly observations of a forward-looking nature are due. Once again, Germany and France resemble each other. Here the focus is on the introduction of multipillar systems or supplementary savings schemes. In Germany, this transformation, acknowledged by several scholars (Streeck & Thelen, 2005, p. 23; Hinrichs, 2010, pp. 64-5), is represented by the establishment of the Riester Pensions and, later, the Rürup Pensions. These are seen as the two principal steps that, as time passes, risk undermining the old pay-as-you-go system. France has also witnessed the introduction of voluntary and occupational schemes under the Raffarin government (the first Fillon reform), however on a smaller scale and without comparable ‘nudging’ cuts in the regular systems. Nevertheless, these changes, it has been speculated by the OECD, may slowly lead to a change away from the still highly legitimate pay-as-you-go system (2007, p. 129). Thus, while not affecting the outcome seen in chapter five, these layerings might represent the initial sequence of a path altering juncture that in the future will amount to major change.

Drift, or the failure of an institution to adapt to major environmental shifts, is a common trait for most Bismarckian welfare states. While previously, the pension systems’ aim to provide for retired workers mostly concerned male workers in stable industries, the current climate is changing. This has materialised itself in a proverbial incapacity to include marginalised groups, women and those in atypical employment situations; into the systems. In addition, this fissure occurs concurrently with the transition towards, what has been dubbed a post-industrial society (Häusermann, 2010), a process diminishing the traditional, and highly unionised, industries in favour of a, weakly organised, service economy (Ebbinghaus & Eichhorst, 2006, p. 15). While affecting both countries, France has been so to a lesser extent due to its slightly differently configured institutional philosophy. For instance, France has a minimum pension, a more redistributive, as well as, progressive replacement rate (compared to Germany) and relatively high market participation for women (Häusermann, 2010, p. 45). This falls in line with the overall mission of the French state, since the failure of Dirigisme, to protect its populace from the market via an array of state interventionist tools. However, while some change has occurred (e.g. improvements for women and atypical workers), this fact seems to have been of a minor significance in generating pension reform.

62 This practice has, by Jonah Levy in Tocqueville’s revenge, been termed social anesthesia (Levy, 1999).
Conversion, defined as the redirection of an institution’s purpose in a way that leads to it generating decreasing returns, has played an important role in both cases. Of particular interest is the case of early retirement, used more or less similarly on both sides of the Rhine (Levy, 2005, p. 115). In Germany, this practice was developed concordantly between the state, wishing to polish the unemployment numbers (Mierzejewski, 2015, p. 700); the unions, wishing to benefit their constituencies; and big corporations (sometimes via the employers’ associations), wishing to rejuvenate their workforces by laying off older employees (Martin & Thelen, 2007, p. 29). The same was true in France (with the exception that the unions opposed this practice). Hence, one side-purpose of the pension system had developed: to host early retirees. The consequence of these, as history would make it, myopically pursued objectives, guided by each actor’s respective self-interest; caused massive costs to befall the pension system. However, as shown by Catherine Trampusch, the conversion of the systems’ aims in this direction clearly was untenable (2005) - especially following reunification which, consequently, forced the Schröder government to end the practice. In France, this conversion has yielded similar negative returns but, rather than changing this malfunctioning system, several incremental changes have enabled it to persist. In addition, one can argue that the Schröder’s pension reform of 2001 entailed an effective conversion of the institutions purpose. Instead of the retainment of workers standard of living after retiring, the pension system’s new objective is providing only the basic requirements. Everything above this more meagre level was shifted to the new private and occupational funds. However, this does not explain the actual change; it merely gives a hint of what might occur in the future.

Streeck and Thelen’s final mechanism is exhaustion and refers to an institution that, by functioning properly, begins generating decreasing returns. This mechanism, while playing a major role in both countries, offer the most convincing explanation for Germany’s major pension reform. As the external environment changed, the previously well-functioning system began generating decreasing returns as contribution rates ticked up and the labour market stalled - as hiring gradually grew costlier. These external changes already constituted an aggravating disbenefit when the shock of unification hit Germany, effectively multiplying its effects. That is, while reunification did affect the pension system via the inclusion of East Germany, the real shock came with the dramatic increase in unemployment levels and a surge in the use of early retirement. Thus, in the absence of the inherently defect nature of the system, the shock (H1) would not have entailed major reform and, counterfactually, had the shock not occurred, it is plausible to assume that the institutional alternation merely would have been postponed. Arguably, this is what happened in France. Seen through a counterfactual lens, it does not require too much of an imaginary stretch perceiving Juppé’s overhaul as a Schröderian game-changer. However, as the reform failed; instead the system was kept afloat via several ad-hoc fixes. Thus, it

63 For an analysis of the institution of early retirement see Trampusch (2005).
seems that the crux of the matter spells pressure. While the pension systems of both countries suffered from approximately the same ailments, the one factor that stands out is the shock of unification.

To summarise, the corollary of the mechanisms analysed for, paints a mixed picture. Drift and layering, for instance, seem to have been of little importance. Of greater significance, for Germany, was the displacement of the traditionalist ideology of the SPD by a new liberal, and reform-friendly, alternative. The same can be said of the conversion of the pension systems’ of both countries purposes, so that they comprised the catering for superfluous labour (via early retirement) and exhaustion, as the system from a perspective of hindsight appears to have been predestined to corrode. Though processes of gradual change were in play in both countries, only Germany experienced major reform. Thus, while gradual change appears essential in explaining reform, evidence points towards it functioning as an explanatory factor for H1. Weighing these observations, the evidence speaks against H2.

6.3. Compensating the Losers

According the theory proposed by Lindvall, the institutional aptitude of governments to compensate losers of reform will be paramount in generating a higher reform capacity. Following the third hypothesis (H3), compensation of those who stand to lose on reform will increase the likelihood of major reform. Thus, while the first historical institutionalist (Hi) theory applied its main focus on macro-level causes and the second Hi-theory searched for slow-changing causational factors in the structure of the institutional framework; this theory will direct its gaze more directly towards the interplay between actors within the institutional frameworks.

To begin with, it is important to note that Germany and France represent two differing state systems. Consequently, deal-making and bargaining does not follow the same principles in statist France as in corporatist Germany. While unions and employers’ associations possess a high level of concentration in Germany; in France, they do not. This has led unions in Germany to gain a higher level of inclusion into the political process. According to Lindvall’s theory, this set-up, as it includes more parties, should prove more sufficient in reaching viable and credible compromises, compared to France, where the ultimate power is highly centralised. Arguably, those who stand to lose most on pension cuts are represented by unions and left-wing politicians. Looking at the empirical evidence, it is possible to argue – as was done by several writers around the turn of the century - that compensating the unions is essential in securing pension reform (Bonoli, 1997; Bonoli, 2000; Levy, 2001; Natali & Rhodes, 2004a). Indeed, from studying the reforms that took place before 2000, it is evident that (if you discard France’s 1992 reform, which did not make it through parliament) two succeeded (France’s 1993 reform and Germany’s 1992 reform) after careful negotiations that resulted in well directed concessions. While the two remaining reforms (France’s 1995 and Germany’s 1999 reforms), pursued
in a unilateral fashion with, for different reasons, little room for concessions; failed. However, looking forward, this image falters; and that for two reasons.

Firstly, the transformative reforms that occurred in Germany after Schröder’s ascent to power do not seem to follow this pattern. This is so while the main logic behind these reforms seems to have entailed, not compensating the losers; but rather: outmanoeuvring and power politics. Indeed, Schröder went to great length in trying to involve as few as possible. Thus, while the social partners joined the negotiations, Schröder made sure that the bulk of the 2001 reform was prepared in secret (even to much of his own party). In similar fashion, the Rürup Commission, who prepared the reform of 2004, mainly comprised members handpicked by Schröder (The Economist, 2003). Only in the later stages, the social partners were allowed to partake in the negotiations and, to be sure, some deals were struck. Albeit, not too favourable ones and, as was the case in 2001, the concessions were thrown aside only three years later as the next reform went even further - with the unions, largely, reduced to the role of idle observers. Based on Schröder’s actions, it enables us to see Juppé’s, in the literature much condemned, secretive preparation of the reform of 1995 in a new light; and to question whether it actually was the lack of compensatory measures that doomed his reform attempt. At this point, it is worth mentioning the charismatic leadership of Schröder and its potential explanatory power. However, while this factor undoubtedly was of importance, it falls somewhat outside the scope of this thesis.

This leads us to the second point, according to which, there are reasons to question the viability of conducting major reform based on compensation. For instance, it has been argued that the institutional powers of the state in France tempt French governments to act in an authoritative and unilateral fashion (Bonoli, 2000; Lindvall, 2017). However, as bargaining has played an integral part of all reforms, this claim deserves being put into question. Instead, what is not clear is whether major reform can be achieved by compensating the losers. Indeed, it can be argued that while compensation has been of importance in delivering reform, it seems that it has rendered major reform improbable. For instance, compared with the failed 1995 reform, which well might be described of systemic, the scopes of the other reforms, unquestionably, are less significant. In addition, the 1995 reform targeted all public pension schemes, whereas the first Fillon reform of 2003 backed away from some of the most ‘well-guarded’ ones and Balladur, in 1993, left them out altogether. The result of the direct targeting of the special regimes in 2008 was both mild and ambiguous; and in the last reform of 2010, the special schemes were treated with kid gloves. Naturally, the difficulty of conducting major reforming might, to some degree, be accredited to the aforementioned complexity of the French pension system, with its profusion of schemes (and rules). However, as the reform attempt of 1995 shows, targeting all schemes is not impossible. Instead, the crux of the matter appears to concern the

64 For instance, see Harlen (2002b) and Patzelt (2006) for a deeper discussion on Schröder’s leadership.
scope of the reform. Thus, while governments that focused on bargaining fared better at pushing through reform, the successful examples also were mild in scope. Arguably, by targeting the fundamentals of the pay-as-you-go systems, generally seen as the most important source of much of the problems (e.g. Bonoli 2001), a forceful retaliation (in the form of manifestations and strikes) almost became an imperative as the unions had so much to lose on systemic change. Hence, one could argue that a consensual approach, as the stakes became higher, precluded major reform as, to use Lindvall’s vocabulary, the dilution costs become too high (i.e. that compensation compromised the objectives of the reform). This argument resonates well with the failures of both Kohl (in his second reform attempt) and Schröder, as the stakes rose after unification, to bring about consensus for major reform in their tripartite negotiations. Instead both had to rely on force and political cunning.

In addition, it is worth questioning to what degree bargaining actually was used as a mean to compensate the losers of reform. In Germany, bargaining played an important part in gaining the necessary support in the Bundesrat – where two Länder, more or less, were bribed with concessions that exclusively favoured their state. In this instance, however, the theoretical explanation falters somewhat, as it is difficult to conceive of Brandenburg, or the Rhineland-Palatinate; as losers receiving concessions. Rather, this looks like a shrewd political gamble on their part. Essentially, they were able to let pass a reform they probably believed reasonable (see section 6.1), while being handsomely rewarded for it. In France, it is likewise possible to interpret the concessions as only partially aimed at soothing the losers of reform; namely the unions. Indeed, both in 1993 and 2003, much point to the concessions being applied strategically to split the labour movement – a fact that is supported by the more radical unions continuing to call for intensified strikes even after the concessions were decided upon. Thus, concessions seem to have been applied more as a political tool, rather than a way to compensate. To summarise, compensation, as the stakes came to concern the very fundamentals of the pension systems, does not appear to have offered a viable road for securing reform. Hence, the evidence points towards a rejection of the third hypothesis (H3).

6.4. Veto Players

As with compensating the losers, analysing the veto players entails focusing on the actors (and their institutional setting) rather than looking on institutional change in a more general way. According to the fourth hypothesis (H4), a greater winset, i.e. the number of policy solutions all veto players can agree on, will increase the likeliness of major reform. Generally, the most important veto players in pension reform are the unions (Bonoli, 2000; Béland, 2001). Even though formally unable to affect policy, they still often are able to block reform and are considered important informal veto players, especially following their management of the insurance schemes (Immergut, 1992; Palier, 2002; Häusermann, 2010, p. 127). In Germany, another important veto player is the Bundesrat (the upper chamber of the Parliament, representing the Länder). In the case of France, the government in general
is all powerful, with the exception of those rare instances of minority rule (e.g. during the first reform in 1992) when the parliament has the ability to block policy. Some commentators (e.g. Bonoli, 2000), also has underscored the importance of risk of cohabitation but as the president, in these instances, wields little actual power this factor seems negligible (Tsebelis, 2003, p. 81). Admittedly, it would have been possible to include other veto players in this analysis (e.g. Germany’s Federal Constitutional Court), as indeed political systems tend to contain several institutional veto points and partisan veto players (Schmidt & Zohlnhöfer, 2006). However, in Germany and France, the most important veto players, and defenders of the status quo in pension policy, are the labour unions.

In both countries, two similar trends have affected the power symmetries between the government and the unions. Firstly, union membership has decreased drastically, causing unions to lose out in terms of both political- and bargaining power. Secondly, their political links has been weakened. In Germany, the labour unions have been closely tied to the Social Democrats on whom they have relied for access the political process (Hinrichs, 2010, p. 57). However, since the ascent of Schröder, and the outmanoeuvring of the labour wing of the SPD, this link was, more or less, cut. In short, this left the unions, more or less, outside the policy-making process. Especially after the regrouping of the left-wing behind Schröder, the unions found themselves in a position where their traditional link to influence was cut. The extent of this degeneration would become explicit when it turned out that the unions had no chance to stop the Rürup reform and that they were not even consulted before the adoption of the 2007 Müntefering reform. In short, without their (at least partial) control over the SPD, the unions seemingly could not do much. In France, the strongest political allies of the unions - the socialists and the communists - also have lost influence since the days of Mitterrand (Ancelovici, 2008, p. 89). However, and partly for this very reason, all unions have an interest not to give in for retrenchment, and, especially, their management rights of the social security schemes. The latter of which, constituting an important source of legitimacy and resources. As Béland has argued, the unions, despite their weakness, have come to build up a strong veto position; as manifested in their ability to oppose government policy (2001). This power originates from their ability to bring about massive manifestations and affect public opinion. At the heart of this lies the fact that the problems concerning France’s pay-as-you-go schemes are inherently intertwined with the union’s control over the insurance schemes. Thus, fundamental change would have to include, in some way or other, a realignment of the management of the social security systems away from the unions; and this they cannot allow. In addition, as their position - fragile, like a castle made out of sand – consists of little substance, they cannot afford to publicly give in. This line of thought, reconnects with an argument in the previous chapter (see section 6.3), where it was stated that: compensation or not, major reforms

65 A risk which, since then, has been drastically reduced following a harmonisation of the election cycles in 2002.
66 In Germany, the unions also drew benefits (in terms of work for its members and legitimacy in the eyes of its constituency) (Streeck, 2010, p. 215).
were not possible. As it appears to me, the reason is that the unions have become dependent on the preservation of the status quo and that they, as history has manifested, has become able to fend off calls for change. Regarding Germany’s other important veto player, the Bundesrat, two things can be highlighted. Firstly, as the Bundesrat is relevant as a veto player only in those cases when their consent is required (Immergut & Orlowski, 2013, p. 206), it is of significance to note the ease by which the political parties were able to bypass the Bundesrat by splitting the reform. Secondly, the tacit consensus on pension policy made this veto player less of an issue. Consequently, the situation in Germany was one where the preferences of most veto players were aligned, as the antagonistic unions were, in effect, incapacitated. Thus, the winset was substantial. In France, on the other hand, the unions had so much to lose on adopting a conciliatory attitude that the winset was very limited. According to the evidence, H4 is to be accepted.

7. Concluding Discussion

In the following chapter the results of the analysis will be discussed and reflected upon. The chapter ends with the conclusions of the study, as well as an account of contributions, limitations and potential avenues for future research.

7.1. Discussion of results

The analysis has highlighted important institutional differences that offer explanations to the varying outcomes of pension reform in Germany and France. In line with the historical institutionalist perspective (H1) the results underscore the importance of a crisis in propelling change. However, gradual mechanisms of change (H2) proved insufficient in accounting for the differences of outcome between Germany and France. This does not mean that these mechanisms are devoid of importance – as will be discussed further on. From the rational choice institutionalist perspective, the results indicate that compensation of the losers (H3) does not offer a viable explanation on why major reform succeeds. On the other hand, the evidence points towards a larger winset, i.e. combination of acceptable policy solutions (H4), as a significant explanatory factor. As the ideological fragmentation between the veto players, especially in the French case, rendered this winset very small, reform became difficult (as long as the unions retained their power). Compared to previous studies on pension reform in Germany and France, the results downplay the importance of concessions and coalition building (e.g. Bonoli 1997, 2001 and Häusermann 2010). Instead, by stressing the need for political and socioeconomic pressure (coupled with the ability of the current institutions to deal with these challenges), the results are more in line with authors such as Vail (2010) or Hinrichs (2010). In order to systematise the results, three points are presented:
Firstly, in line with a historical institutionalist perspective, the pension systems of both countries were affected by negatively yielding mechanisms of gradual change. Most importantly, the pay-as-you-go systems of Germany and France had begun to malfunction (as a consequence of economic factors, demographic trends, structural unemployment etc.) and negatively affect the labour market. In addition, the conversion of the system’s purpose to cater for surplus labour reinforced this tendency. However, while France did little to target the root of the problem, instead keeping the system afloat by minor fixes; the German system came to, under just a couple of years, undergo a major transformation. What, if similar gradual factors were in play in both cases, made Germany, renowned for its unwillingness to change (Starke, 2006, p. 14) enrol on this major undertaking? As previously argued, evidence suggests that the tipping factor is to be found in the crisis triggered by the reunification of East and West Germany. Not only did unification, following the short-sightedness of those in charge, massively overburden the system (as all easterners were connected); most importantly, it put enormous stress on those inherent flaws (i.e. gradual processes) that already made the system’s long-term viability untenable. Indeed, the sensation of crisis that this brought on managed to commit all mainstream political parties to the cause of saving the system by implementing drastic, and unpopular, reform. This viewpoint is to some extent echoed by scholars like Streeck (2010) and Hinrichs (2010). For France, Juppé’s failure to bring about major reform in 1995 demonstrates that while similar conceptions of what had to be done existed in the two countries, the absence of a shock appears to have subdued the pressure necessary to implement major reform. This is in line with the literature on historical institutionalism. Additionally, the incremental addition of minor reforms reduced the negatively yielding factors and kept the pressure to reform fairly constant. In effect, this appears to have lessened the French pension system’s propensity for change.

The second point originates from Tsebelis’ veto player argument. In France, by amassing massive demonstrations and influencing public opinion, unions have the power to affect public policy. Having too much to lose on change, notwithstanding potential compensation, major reform seems precluded – as long as the unions can help it. Thus, while compensation has been present in some way or another in all reform attempts, evidence points towards it not being a causal factor. Indeed, relying on compensation seems to have barred major reform. Following the union’s veto player position in France, it has been possible, as a result of the comparative approach of this thesis, to fully appreciate their importance in Germany as well. Following writers such as Hering (2004) and Mierzejewski (2015), it seems evident that before Schröder’s ascent, the SPD, controlled by the unionist left-wing, would have been highly unwilling to allow retrenchment to occur. Thus, had Schröder not been able to cut the political link of the unions by mollifying the left-wing of his party, it is probable that they would have constituted a strong veto player against pension cuts. These findings add to the knowledge of works such as (Immergut 1992 and Béland 2001) and go further in providing an example on how
veto players can be overcome (indicating Schröder’s capture of the SPD). This leads us to the last point.

Thirdly, an interesting factor to consider is the role played by Schröder’s, apparent, open-hearted adherence to the new liberal ideas of the ‘new left’. Indeed, I would like to argue that this ‘liberalisation of the left’ was paramount in securing major reform. One reason is that, traditionally, the SPD, in relation to which the unions often has been considered as a mere appendix (Ackers & Wilkinson, 2003, p. 250), long served as the main defender of the status quo of the welfare state (Starke, 2006, p. 111). However, as Schröder, bolstered by a new ideology that seemed to carry the answers to the problems at hand, managed to gain control over the Social Democratic party he, in effect, succeeded in extinguishing the main opposition, or veto player, inhibiting change. Thus, ideas appear to have been essential in opening a window for reform. As no comparable ideational transformation took place in France, this might be said to provide one factor explanation the differing outcome of pension reform. This finding connects a growing, but understudied field of literature (Starke 2008; Hemerijck, 2013, pp. 97-102), by stressing the role of ideational factors in motivating welfare reform (Schmidt, 2002; Béland, 2005; Stiller, 2010; Hemerijck & Visser, 2014).

7.2. Conclusion

The aim of this thesis has been to study the pension systems of Germany and France and to assess what factors enabled Germany to implement successful reform while France did not. By expounding on the still inherently relevant difficulties associated with welfare retrenchment in developed welfare states, especially in continental Europe, this thesis contributes to the literature on institutional change by shedding light on what propels major reform. This has been achieved by analysing five German pension reforms, of which the last three were central in balancing the system, and six French pension reforms, none managing to secure the long-term viability of the system, which occurred between 1990 and 2010.

Regarding what factors made successful reform possible in Germany while it failed in France, the answer can be divided into three points. Firstly, the unification of Germany multiplied the pressure on the already exhausted pension system, which was necessary to bring about major reform. In contrast, France, not experiencing any crisis, muddled through without being able to muster the muscle to implement major reform. Secondly, after Schröder had taken control of the SPD, the only veto player was, in effect, extinguished; leaving the door open for reform to take place. In France, on the other hand, the unions’ veto position was at best unaffected; at worst bolstered by a history of victorious

67 Indeed, after this breach, the unions led the way in the foundation of a new party: die Linke.
68 Hemerijck, also identifies this lack of adherence to ideational factors as something of a materialistic bias on the part of Streeck and Thelen (2005) – especially concerning their conception of Displacement (Hemerijck, 2013).
confrontations with the government. In short, leaving the union’s ability to block policy unaltered. Thirdly, Schröder, and the modernising Social Democrats, whose willpower and power-ascent were crucial in securing reform; all adhered to the new liberal ideas of the new left. While the full meaning of this ideational transformation partly falls outside the scope of this thesis, it is clear that these ideas both energised and provided a rationale, or substance, to the reformers. In contrast, France has proved resilient to the adoption of liberal-leaning ideas which, I argue, has hampered the formation of a comprehensible locus for change.

In extrapolating these results, they offer an interesting comparison to France today, after the 2017 election of Emanuel Macron. Like Schröder, the new president is bent on reforming the social systems, and, which is unique in French politics, explicitly liberal. Since the last reform, not much has improved and, indeed, in 2013 the Socialists cut back on the 2010 reform, shifting the statutory retirement age back to 60 (from 62) for people who started working before 20. According to the findings of this thesis, Macron’s infusion of liberal ideas, aimed to encourage change, and the increased pressure on the pension system, following years without reform, speak in favour of him succeeding. However, the unions, even if increasingly weakened⁶⁹, still have the potential to call for manifestations and try to shift public opinion. Thus, their veto point is intact; although dependant on their potential to influence society at large. Here, I argue, the liberal ideas – as an ideational driver for change – are of significance, as the new ideology of the president permeates into society at large, undermining the appeal of the unions. However, this confrontation appears bound to end up in a power struggle and only the future can tell who is going to come out on top.

In addition to the contributions, certain limitations of this thesis need to be considered. Initially, as is the case for most studies, there is always the risk of results being biased. Although this has been considered throughout the writing, for instance in always corroborating narratives by using more than one source, the risk cannot be disregarded. Secondly, nation states are complex entities, encompassing the interconnectedness of myriad political and non-political trajectories. Thus, following the problems of equifinality, it is probable that, had other factors been controlled for, the results would have been affected.

The results show that private and occupational alternatives have been layered on to the original pension systems of both countries. Moreover, the purpose of the German system has been converted from retaining workers standard of living after retirement to merely covering the basic needs. These changes represent cases of gradual realignment, and the initiation of new path-altering dynamics, with the potential to inflict institutional discontinuity. Future research, following up on the development of these processes, will be of relevance - theoretically as well as empirically. Another area of interest

⁶⁹ According to figures from the OECD, unionisation in France almost halved from 1980 to 2012 (the last year studied) (Direction générale du Trésor, 2014).
stems from the unearthing of the importance of ideational factors in motivating institutional change. Representing a somewhat understudied field of research, this would, I argue, offer an intriguing subject for future studies.
8. List of References


