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6 How German Welfare Parties Enabled Pension Reforms

This chapter tries to explain chapter five’s puzzling findings. Chapter five outlined that German social democrats have pursued social democratic pension reforms from 1998 to mid-1999. However, they have subsequently implemented a more market-liberal reform agenda than their Christian-liberal predecessors between 1982 and 1998.

Here, I study the explanatory power of the two propositions on organizational change and pensions as discussed in section 2.5. The first proposition implies that, against a background of austerity and de-industrialization, failure to dominant government is the catalyst triggering a coalition of pragmatists to become dominant in a social democratic party like the SPD. As to the CDU, by far the largest Christian democratic party in a unique partnership with the Bavarian CSU, I expect that failure to dominate government triggers a coalition of pragmatists to become dominant. Once a coalition of pragmatists has become dominant within the SPD or the CDU, the party is enabled to seek new solutions to cope with welfare austerity, including private pensions and pension retrenchment.

The chapter is structured as follows. The first section analyzes pension reforms implemented by the Christian-liberal coalition between 1982 and 1989, that is, German unification. The second section then turns to the period until 1998, the moment the CDU went in opposition. The third section studies pension reforms between 1998 and 2005, the period when red-green coalitions were in office. Finally, section four concludes.

6.1 Pension Politics until the late 1980s: A Strong Position for Traditionalists within the CDU

The initially very moderate change in pension policy under the Christian-liberal government can to a large degree be explained by the strong position of the employees’ faction within the CDU (the CDA) until the late 1980s. Whereas the CDA aimed to preserve existing welfare state structures and expand several forms of state support for workers, the CDU business wing aligned with the FDP in advocating more radical retrenchment and market-oriented reforms (Schmid 1990; Winter 1990; Alber
In the early 1980s, the second oil shock triggered West German unemployment levels to rise to unprecedented levels. Unemployment reached a level of 8 percent in 1983 and stayed there until 1985. An economic recovery in the late 1980s let it decrease to 4.2 percent in 1991. Further, many older workers retired early. Accordingly, the labor force participation rate of male workers aged between 60 and 64 dropped to 31.5 percent in 1986 (Huber and Stephens 2001: 265).

Because of diminishing revenue and rising benefit expenditure in the early 1980s, the FDP demanded more substantial cuts in pensions and, especially, early pensions. These suggestions contributed to the eventual breakdown of the SPD-FDP government, with the FDP leaving the coalition and aligning with the CDU-CSU in a new government in October 1982 (Clasen 2005: 64-5). Chancellor Kohl’s government declaration of October 1982 pointed in the same direction of a major change in socio-economic policy. Kohl (CDU) identified a deep economic crisis, blamed the preceding government for it and announced the new government’s market-liberal solutions in order to overcome the crisis. First, budget consolidation was required. A second prerequisite concerned a new division of labor between state and market that would relieve the state, strengthen personal responsibility and strengthen the role of the market (Kohl in Schmidt 1998: 59).

Nevertheless, we have seen in the previous chapter that the change of government in 1982 had virtually no impact on pension reforms. In 1983 and 1984 the Christian-liberal coalition adopted the previous pattern of small cuts, affecting all pensioners as well as early retirees in peripheral sectors. The SPD refrained from raising serious objections to these measures, not least since most of the measures had already been planned when the party was in government. Besides, there was a basic consensus between the SPD and the CDU-CSU to uphold the existing system (ibid: 105). This consensus was facilitated by the fact that the CDA, with its leader and social minister Norbert Blüm as its figurehead, set the agenda in pension politics during the 1980s (Zohlnhöfer 2001b 30-2; Clasen 2005: 105).

Blüm was a Catholic trade union member and the only minister to participate in all four Kohl governments until 1998. Especially until the mid-1990s, he was given
relatively free space by Kohl. The latter was not very interested in issues of social policy (Zohlnhöfer 2001b: 30-2), but supported Blüm in his basic goal to preserve the existing pension system (Schmid 1998: 103-4). Blüm put high standards on evidence in favour of welfare reform. As he once said in 1987, no one knows ‘so much about the future that he can justify radical solutions’ (in ibid: 104). Blüm’s trade union membership and closeness to the preferences of trade unions enabled him to function as a bridging person between the Kohl government and both trade unions and the SPD. This was exemplified by his selection of employees. Apart from allocating several management positions to trade union representatives, Blüm also appointed a social democrat and even made him under-minister in 1988 (Billing 2001: 147).

The strong position of the CDA in social policy became manifest on many occasions. After the 1983 elections, it successfully resisted the FDP’s demand for a general cut in unemployment benefits. Instead of opting for retrenchment, the CDA ensured that contribution rates for unemployment benefits increased from 4.6 to 4.8 percent (Zohlnhöfer 2001b: 80). Towards the end of the 1980s, the FDP also called for a cut of unemployment benefits. Again, the proposal remained unsuccessful against a broad coalition of the CDA, the oppositional SPD and trade unions (Clasen 2005: 66). Another example concerned the demands of the FDP and the CDU business wing to liberalize dismissal law in 1985. However, this attempt failed due to an intervention by the CDA and minister Blüm. The latter two tried to satisfy employers and trade unions by expanding training and education programs throughout the 1980s in order to fight unemployment (Billing 2001: 148-9; Zohlnhöfer 2001b: 110-41).

For similar purposes, the Christian-liberal government expanded early pensions from 1984 on. Such expansions surely were facilitated by the improvement of the economic and fiscal situation in the mid-1980s. However, the CDA in general and Blüm in particular played a crucial role (see table 6.1). In 1984, for example, Blüm pushed through the possibility to retire at age 58 against the demands of the FDP economics minister and the CDU finance minister (Billing 2001: 148). The latter was the key exponent of the CDU business wing (Bösch 2002: 52). Between 1985 and 1987, the CDA and its leader Blüm benefited from their agenda setting role by introducing and expanding both early retirement schemes and child raising credits for women in the old age pension system (Zohlnhöfer 2001a: 4).
But how can we explain the strong position of the CDA within the CDU in social policy? For one, chapter four has shed some light on this question by noting that over a third of all Protestant workers and more than half of all Catholic workers voted for the CDU in 1976 and 1990. With around 90 percent of the West Germans adhering to Catholicism and Protestantism, the CDA proved to be a crucial electoral asset for the CDU. Related to this, Zohlnhöfer poses that the German economy performed quite well from the mid-1980s on, at least in comparison with most OECD countries. Accordingly, most CDU politicians did not perceive the necessity to pursue potentially unpopular retrenchments of major welfare state programs. Hence, party competition probably played a role (Zohlnhöfer 2001c).

Second, though by far the most party members do not belong to either the CDA or the CDU business wing, their influence cannot be underestimated easily. According to Zohlnhöfer, their importance is shown by the fact that about half of the CDU fraction in the Bundestag belonged to the business wing and 25 up to 30 percent to the CDA. Furthermore, both the finance and the economics ministry have been the domain of the business wing throughout the postwar period, whenever the CDU obtained these portfolios. The same applies to the social ministry and the CDA. In addition, the CDA’s internal position was strengthened by the fact that the Catholic Heiner Geissler, a CDA member and member of the trade unions, was the CDU’s general executive from 1977 to 1989 (Zohlnhöfer 2001a: 5-9). As Geissler put it himself, ‘the implementation of social policy is a power issue. If the general executive of a people’s party is simultaneously a member of the CDA and the trade unions, this has a different weight for general policy priorities than when a general executive is relatively uninterested in these issues and cannot, will not or dare not set the agenda in this direction. I have never accepted this’ (Geissler 2001: 807).

We can identify two additional factors contributing to the CDA’s strong position within the CDU in the 1980s. First, the women’s union and the youth union had been co-operating rather tightly together in a truly stable manner between the mid-1970s and the late 1980s (Zohlnhöfer 2001a: 8). This joining of forces was labeled the ‘Mannheim Coalition’, named after the party conference of 1975 in Mannheim (Nüllmeier and Rüb 1993: 397). Second, during the 1980s and early 1990s, a decision within the CDU was only made once all intraparty party groups agreed with it. Accordingly, the CDA obtained a powerful veto position and disagreements between different wings were usually solved by means of informal
compromises. Hence, the CDA was able to moderate demands of the business wing to opt for more radical welfare retrenchment and market-oriented reforms (Zohlnhöfer 2001b).

Table 6.1 Main pension reforms under the CDU-CSU-FDP coalitions, 1982-1998

<table>
<thead>
<tr>
<th>Year</th>
<th>Pension reforms</th>
<th>Role of traditionalists in CDU</th>
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<tbody>
<tr>
<td>1984</td>
<td>Introduce possibility to retire at age 58</td>
<td>Strong</td>
</tr>
<tr>
<td>1985-87</td>
<td>- Expand early retirement schemes</td>
<td>Strong</td>
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<tr>
<td></td>
<td>- Introduce child-raising credits</td>
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<td></td>
<td>- Expand active labor market policies for older workers</td>
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<tr>
<td>1989</td>
<td>- Gradually phase out some early retirement plans by 2001</td>
<td>Strong</td>
</tr>
<tr>
<td></td>
<td>- Cuts of non-contributory benefits (exception: improved credits for child-rearing)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Switch from gross to net wage indexation</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Increase the federal grant to 20 percent of expenditures</td>
<td></td>
</tr>
<tr>
<td>1990-91</td>
<td>Extend West German pension system to Eastern Germany</td>
<td>Strong</td>
</tr>
<tr>
<td>1991-92</td>
<td>- Introduce early retirement scheme for workers aged over 55</td>
<td>Strong</td>
</tr>
<tr>
<td></td>
<td>- Introduce a ‘social supplement’ for pensioners</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Expand active labor market policies for older workers</td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>- Cuts in non-contributory benefits</td>
<td>Quite strong</td>
</tr>
<tr>
<td></td>
<td>- Increase retirement ages for workers receiving unemployment pensions from 60 to 63 by 1999</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Accelerated phasing in of the increase of retirement ages and actuarial deductions outlined in the 1989 pension reform</td>
<td></td>
</tr>
<tr>
<td>1997</td>
<td>- Introduce a demographic factor in the pension formula (leading to a reduction of a standard pension from 70 percent to 64 percent)</td>
<td>Quite strong</td>
</tr>
<tr>
<td></td>
<td>- Tighter eligibility criteria for disability pensions</td>
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</tr>
<tr>
<td></td>
<td>- Increase in the federal subsidy of 1 percent (approximately 17 billion DM)</td>
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<tr>
<td></td>
<td>- Child credits raised from 75 percent to 100 percent in addition to employment related-benefits</td>
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</table>

By the late 1980s, the CDA’s strength had weakened somewhat. For instance, its membership rates declined from 40,000 in 1980 to approximately 32,000 to 35,000 in the late 1980s. As to the business wing, the Wirtschaftsrat had 5,500 members in 1980 and the Mittelstandsvereinigung 20,000. Hence, the CDA had almost double as many members as the business wing in 1980 (Zohlnhöfer 2001a: 6). In addition, it is worth noting that the absence of a Christian democratic trade union had the odd effect that the CDA attempted to represent the DGB, whose demands were also channeled through the SPD (Van Kersbergen 1995: 118). As such, the CDA was somewhat weakened due to a gradual decline in union density rates from 32.5 percent in 1980 to 29.9 in 1989 (FOWID 2006a: 8). A more direct weakening was that the chairman of the CDA was neither represented in the highest executive organ of the CDU nor in government after Blüm resigned as chairman in 1987 (Zohlnhöfer 2001b: 677).

Last but not least, several prominent CDA representatives and likeminded supporters of existing welfare state structures had suddenly lost their position in September 1989. At the time, the position of Kohl had considerably weakened due to subsequent electoral defeats of the CDU at the national and the federal level. Accordingly, several prominent internal critics demanded that the party undergo organizational and programmatic reform, and that Kohl resigns, in order to maintain its dominant position in office. Amongst others, these critics included included Blüm, party executive Geissler, the chairwoman of the women’s union and the chairman of the CDA. Nevertheless, Kohl managed to disempower these rivals at a party convention in Bremen and all, except for Blüm, lost their post afterwards. Moreover, Kohl replaced Geissler by Volker Rühe who was very loyal to Kohl and can be described as an economic liberal. All in all, these events had particularly reduced the influence of the CDA and the women’s organization. Consequently, the CDU had already become a different party before unification took place (Jäger 2001: 372-3; Bösch 2002: 129-33).

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10 Unfortunately, no data are available for the business wing.
Nonetheless, the weakening of the CDA and the women’s organization by September 1989 did not influence the pension reform of November 1989, since it was already in its final phase by then. The key features of this reform are:

- Gradually phase out some early retirement plans as of 2001
- Cut non-contributory benefits (exception: improved credits for child-rearing)
- Change from gross to net wage indexation
- Increase the federal grant to 20 percent of expenditures

The reform was prepared in a lengthy process of meetings and negotiations of a relatively small policy network, including the labor ministry, the CDU-CSU, the SPD, the FDP and the social partners. The trigger proved to be a joint report by the social partners. This had been withheld deliberately until after the 1987 Bundestag election, and helped to marginalize radical reform proposals made by individual MPs in favour of lowering the role of public pensions (Clasen 2005: 107). In terms of policy substance, the BDA (the main employer federation) had pushed for a switch from gross to net wage indexation, but this practice had already been abandoned by the late 1970s. As such, trade unions hardly contested the BDA proposal. Moreover, all actors agreed that pensions had to at least approximately maintain the previous living standard during retirement (Schludi 2005: 132). How to get there, however, was unclear. For instance, the BDA, the FDP, a group of rather liberal CDU politicians around Kurt Biedenkopf and CDU representatives of smaller and medium sized employers argued that the role of private funding should be increased at the expense of public pensions (FDP 1986: 10; Nullmeier and Rüb 1993: 213, 331, 374, 392). Instead, the SPD, the trade unions and the CDA argued that the existing public scheme was to be maintained and that only small reforms within the system were necessary (Schludi 2005: 133-5).

Especially the CDU was thus internally divided and this may help to explain why the 1987 coalition agreement, in comparison to other policy fields, was very vague on a proposed pension reform. Accordingly, a commission led by Blüm was

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11 The following discussion of the 1989 pension reform to a large extent draws upon an excellent study by Nullmeier and Rüb (1993).
ordered to come up with a policy proposal by early 1988. Here, it is worth noting that all specialists within the commission had a background in trade unionism and shared similar views on the challenges to the pension scheme and the direction of reforms (Aust 2002: 8). Furthermore, the CDU’s internal discussion sessions on pension reform were usually attended by Blüm, many representatives from the trade unions and the CDA, and Rita Süssmuth, the CDU family minister and chairwoman of the women’s union. Whereas Blüm, the CDA and trade unionists mainly aimed to uphold the existing pension scheme, the improved credits for child-rearing can largely be traced back to the women’s union. The discussions eventually led to a paper prepared by the social ministry. This was discussed at a special party conference on pensions in September 1988.

Despite Blüm’s agendasetting role, arguments favouring an overhaul of public pensions and their replacement by funded pensions did enter the debate at the party congress. Kurt Biedenkopf, a former professor in economics, had pleaded for market-liberal reforms since the mid-1970s, and continued to do so at the party conference. However, his model was not directly supported by the business wing. In fact, politicians with traditionalist orientations, most notably Blüm, felt especially insecure due to proposals developed in 1987 by the Mittelstandsvereinigung. These proposals boiled down to retrenching public pensions and expanding private arrangements along rather similar lines as suggested by Biedenkopf. Blüm’s fear was triggered by the large presence of representatives from the Mittelstandsvereinigung in the Bundestag. Moreover, the youth union had aligned with the Mittelstandsvereinigung due to its fears of having to pay increasingly more for current pensioners without building up anything for future pensioners. As such, the CDA had lost one of its informal allies and only the women’s union would continue the informal co-operation. Consequently, it was not clear whether the paper prepared by the CDA and the women’s union would be accepted at the party conference. In fact, the support of both Blüm and Kohl proved to be decisive and the paper became the CDU’s official policy proposal to be negotiated with the FDP and the SPD.

According to Schludi, the government had a powerful motive for seeking the SPD consent because it had an interest in sharing the blame for unpopular pension retrenchments with the largest opposition party in order to minimize vote losses. Moreover, Blüm explicitly looked for SPD support because he advocated a more modest reform than the FDP and the strong market-liberal forces within his party. As
such, Blüm and the CDA could strengthen their own standing within the party (Schludi 2005: 134).

Blüm’s policy proposal would eventually be largely implemented. The exception to the rule is that the SPD achieved a postponement of the increase in age limits of some early retirement plans by eight years (ibid: 133). This went against the demands of the FDP but certainly not against those of the CDA and the trade unions (Richter 2001: 36). At the end, a CDA spokesman even labeled the new pension legislation ‘a reform out of the spirit of the CDA’ (in Nullmeier and Rüb 1993: 402). Indeed, we have thus far verified this claim to a large degree. However, we should not forget that the agreement among the social partners was highly influential in the beginning stage of the negotiation process, and helped to marginalize reform proposals made by individual MPs in favour of lowering the role of public pensions. In addition, the SPD’s support prevented a further strengthening of those embracing market-liberal reforms within the CDU.

6.2 Pension Politics from the Early 1990s to 1998: A Quite Strong Position for Traditionalists within the CDU

With hindsight the timing of the 1989 reform was intriguing. The reform was agreed upon in the Bundestag on 9 November 1989, approximately an hour before the Berlin wall fell down (Clasen 2005: 109). A few years later, we would witness a worsening economic situation and a weakened position for traditionalists in the CDU. Nonetheless, labor minister Blüm could to a large degree counterbalance the weakening of traditionalists, since he managed to prevent more severe pension retrenchment as demanded by the FDP, radicalizing employers’ associations, the CDU’s business wing and other CDU politicians with more pragmatic orientations.

Needless to say, unification was the most exceptional challenge faced by the German welfare state since the mid-1970s. What is perhaps most surprising then is that the government responded in a routine manner to such a non-routine situation (cf. Manow and Seils 2000). Whereas the FDP proposed to leave East German economic developments to the market (FAZ 13.12.1994), Blüm and the CDA attempted to safeguard East German pensions and purchasing power by directly extending the West German pension system to the East German Länder (Billing 2001: 150-1). Consequently, pension payments for East Germany increased severely. Furthermore,
benefit claims for women in the new Länder were higher than in West Germany because of the higher labor market participation of Eastern German women. Most importantly, the collapse of the East German economy led to a strong decrease in employment rates (Schludi 2005: 135). Between mid-1990 and late 1991, the number of employed in the former GRD dropped from 9 million to 6.75 million (Zohlnhöfer 2001c: 671). Blüm and the CDA responded by supplying special arrangements like an early retirement scheme for workers over the age of fifty-five, a ‘social supplement’ for pensioners and active labor market policies for older workers (Schmid 1998; Billing 2001). We have seen that Blüm and the CDA had also pursued such an approach during the 1980s.

Initially, an economic ‘unification boom’ in West Germany led to increases in public pension fund reserves, thereby enabling West-East transfers to be funded and pension contribution rates to be decreased. After 1992, however, annual deficits rose fast and existing reserves dwindled rapidly (Clasen 2005: 109). Between 1993 and 1997, pension contribution levels rose from 17.5 to 20.3 percent. Simultaneously, the public budget, still portraying a surplus of 0.1 percent in 1989 had become a deficit of 3.4 percent in 1996. Given the 3 percent criterion of the EMU, this constrained the possibility of increasing subsidies to the pension scheme in order to reduce contribution rates (Schludi 2005: 135-6).

These developments had strong political implications. By early 1993, for instance, the government parties started to negotiate a retrenchment package. According to Zohlnhöfer, proposed measures included abolishing social assistance for the unemployed, limiting entitlement to unemployment benefits from three years to two, decreasing social benefits by three percent, and cutting family allowances for higher income groups. Although pensions were to be excluded on Blüm’s insistence, especially the cuts in unemployment benefits triggered criticisms from the SPD, the trade unions and Christian democrats from the new Länder. Moreover, thirteen CDA members voted against the reform package and nine abstained at a special party conference (see also FAZ 14.07.1993). On the other hand, the FDP, the CDU Wirtschaftsrat, the CSU finance minister and Christian democratic finance experts demanded more radical reforms. By early December 1993, the government parties somewhat surprisingly refrained from abolishing social assistance for the unemployed and limiting the entitlement period of unemployment benefits. Whereas the CDA did welcome this, it did not manage to moderate the initial proposals. As the CDA’s
chairman criticized the retrenchments as being too liberal, his room of manoeuvre within the CDU was immediately decreased by Kohl. Instead, the Eastern German Christian democrats and the SPD were able to do moderate the proposals, since they had a two thirds majority in the Bundesrat. This would have been sufficient to block the whole reform package (Zohlnhöfer 2001b: 215-36).

Another notable example of limited influence from the CDA concerns the so-called Growth and Employment Promotion Act of September 25, 1996. The reform intended to cut sick pay from 100 percent to 80 percent and to liberalize dismissal law, two measures that were absolutely unacceptable to the trade unions and the SPD (Schludi 2005: 137). As regards pension policy, the reform entailed the following elements:

- Further cuts in non-contributory benefits
- Increase retirement ages for workers receiving unemployment pensions from 60 to 63 by 1999
- Accelerate the period envisioned by the 1989 pension reform within which retirement ages and actuarial deductions increase

In response to massive protests by the SPD and the trade unions, the government postponed the latter for three years. The proposed cutbacks not only led to the breakdown of the “Alliance for Jobs” between the social partners, but also provoked the hitherto largest demonstration (about 350,000 participants) against the Kohl government’s welfare retrenchments. Moreover, the reform implied the end of the collaboration on pension reforms between the government parties and the SPD. In May 1996, the SPD officially revoked to participate in the government’s pension reform commission, which was establishing further reforms. By then, the SPD considered pension retrenchments unnecessary and actually argued in favor of increased state financing (Schludi 2005: 137-8).

The government passed this law unilaterally without consulting the SPD and the trade unions, despite the fact that the CDA repeatedly argued in favour of seeking their consent (FAZ 09.04.1996, 16.09.96). Furthermore, Blüm and the CDA unsuccessfully attempted to limit the cut in sick pay and the liberalization of dismissal law (Zohlnhöfer 2001b: 274-9).
If we wish to understand why the government parties pursued the two most criticized measures despite the opposition by the SPD, the CDA and the trade unions, we cannot ignore increasing problem loads, the chancellor’s role, a radicalizing FDP and the weak involvement of the SPD in the Bundesrat. To start with problem loads, the number of unemployed had risen above the psychologically important threshold of 4 million during the winter of 1995-1996. This seriously threatened the coalition’s re-election opportunities (Zohlnhöfer 2001c: 676).

Accordingly, and this brings us to the chancellor’s role, Kohl announced the will to halve the number of unemployed by 2000. More radical reforms seemed necessary, given that the approach of expanding early retirement and active labor market policies as pursued by Blüm and the CDA had thus far proven expensive and ineffective (ibid). Once the threat of losing office had become clear, social policy became a regular key issue in the chancellor’s office (Trampusch 2005: 9). Here, it is worth noting that becoming the so-called “re-unification chancellor” had helped Kohl to regain authority within his party. Accordingly, the CDU had become a “chancellor’s party” between 1990 and 1994 as Kohl made all the large decisions himself and his authority was seldom questioned. Party committees met less and less. If they met, Kohl dominated the sessions (Bösch 2002, 2004).

To the regret of the CDA, the FDP took a more neo-liberal and assertive stance since 1992 (FAZ 13.12.1994). By then, the electoral success of the Greens severely threatened the pivotal position of the FDP as the latter suffered a loss of voters with a social-liberal orientation. By the early 1990s, this threat was amply demonstrated by declining election results and declining participation at the Land level as well as shrinking figures in national opinion polls. As the FDP loomed dangerously close to the 5 percent hurdle of the German electoral law by now, the party could be guillotined out of federal existence (Poguntke 1999). Accordingly, the majority faction within the FDP, which was primarily concerned with economic liberalism, argued that a more a neo-liberal stance would compensate the loss of social-liberal voters by gains on the right. As such, the electoral defeat of 1994 only further weakened the internal position of social-liberals (Zohlnhöfer 2001b: 59). As the FDP managed to gain large vote shares in three Land elections in early 1996, the party (read: the dominant coalition of economic-liberals) saw its increasingly neoliberal position confirmed. Accordingly, the FDP further promoted sound public
finances and tax cuts. This was only feasible if the welfare state would be considerably trimmed (Weishaupt 2008: 264).

The fact that the CDA could not rely on the SPD’s support made things even worse for the CDA. While the SPD proved to be an important ally of the CDA in 1993 that helped to moderate cuts in unemployment benefits, hardly any legislative changes introduced since then required the SPD’s approval, including the cut in sickness benefits and the liberalization of dismissal law (Clasen 2005: 71). In addition, the SPD took a more radical position by condemning welfare state reform and trying to become Germany’s largest party. It is worth stressing that this is only one part of the story, since a polarization strategy was risky in the sense that the SPD could be blamed by the government parties for not taking its share of responsibility and blocking much needed welfare state reform. In fact, a minority within the SPD, including Gerhard Schröder, made rather similar proposals as the government parties and was in favour of a consensual approach (Aust 2003: 4). Nonetheless, the SPD aimed for a polarization strategy, especially after Oskar Lafontaine had become party chairman in November 1995 (Jochem 1999: 42).

Be that as it may, we may still wonder why the CDA did not use its vetoposition as in the 1980s, in particular if we bear in mind that the majority of the government parties had shrunk to ten seats in the Bundestag. As such, five votes would have been sufficient to block the reform. However, only the CDA chairman voted against the proposal (SZ 11.05.1996). To explain this, we can identify at least four developments. First, there was an element of policy learning involved. Once the magnitude of the collapse of the Eastern German Labour market became apparent - reinforced by the 1993 recession, globalization discourses and the need to comply with EMU criteria - many CDA members became convinced that some liberalization of the labor market, especially in dismissal law, would promote employment growth (Zohlnhöfer 2001c: 676; Clasen 2005: 87). Second, this context of austerity implied that those CDA politicians opposing retrenchment also had to oppose several other cuts proposed by the CDU business wing (FAZ 14.01.1996; Zohlnhöfer 2001c: 676). Third, Blüm and the CDA responded by mainly concentrating on introducing the long-term care insurance scheme in 1994 and securing this scheme as well as old age pensions (Zohlnhöfer 2001c: 677).

Fourth, and finally, the CDA’s position within the CDU had weakened. We have seen that the CDA’s internal influence had already been reduced by the late
1980s. In addition, the CDA lost influence in the Bundestag. This became painfully clear after the election of a market-liberal CDU politician as chairman of the parliamentary group ‘Labor and Social Affairs’ (Zohlnhöfer 2001a: 12). This had been the CDA’s key domain since it had been established in the early fifties. Accordingly, the parliamentary group increasingly reoriented itself in a neo-liberal direction (FAZ 09.12.1995).

The CDA’s influence decreased further when, Rainer Eppelmann, a former Eastern German became chairman in 1993 after the former chairman had criticized the 1993 retrenchment package as being too liberal. This was because the CDA hardly had any members in the new, rather secularized Länder and because membership rates sank rapidly in the increasingly secularized West (Zohlnhöfer 2001c: 677). Its membership rates declined from 40,000 in 1980 to approximately 32,000 to 35,000 in the late 1980s and 24,782 in 1997. Instead, membership rates of the business wing had increased sharply. The Wirtschaftsrat had 5,500 members in 1980 and the MIT 20,000. By 1997, these numbers had nearly doubled to 8,500 and 40,000, respectively (Zohlnhöfer 2001a: 5, 12). Hence, while the CDA had almost double as many members as the business wing in 1980, the opposite was the case in 1997. To say the least, this development was not really outbalanced by the decline in trade union density rates from 33.6 percent in 1991 to 25.7 in 1997 (FOWID 2006a: 8). Moreover, Eppelman was almost completely loyal to Kohl because he did not want to bring Kohls position as chancellor into danger on the issue of the 1996 retrenchment package (Zohlnhöfer 2001: 677; Bösch 2002: 46). Hence, the CDA had given up its vetoposition and, all in all, had lost its profile as a significant social and left-wing organization within the party.

How Traditionalists Managed to Soften Retrenchments in 1997

Bearing in mind the worsening economic situation and the strong weakening of the CDA, we may by now even start to wonder why the 1997 pension reform was not as large and path-breaking as the 2001 pension reform implemented by the red-green coalition. The main features of the 1997 pension reform were to:

- Introduce a demographic factor in the pension formula (leading to a reduction of a standard pension from 70 percent to 64 percent
- Tighter eligibility criteria for disability pensions
- Increase the federal subsidy with 1 percent (approximately 17 billion DM)
- Raise child credits from 75 percent to 100 percent in addition to employment related-benefits

The initiative came from the FDP, employer organizations, the CDU business wing, the party’s youth union and CDU politicians with more pragmatic orientations. Normatively, these actors justified pension reforms by pointing at the importance of intergenerational justice. Cognitively, they referred to contextual factors such as declining economic conditions, the costs of unification, constraints posed by EMU convergence criteria and population ageing as justifications for more severe retrenchment in public spending and an increased role of private pensions (FAZ 23.04.1993, 03.01.1994; Nullmeier 1997; Richter 2001). Strategically, all these contextual factors provided much impetus for those who had already advocated less state and more markets since the late 1980s (cf. Clasen 2005: 110).

As a consequence, social minister Blüm and chancellor Kohl agreed to establish a commission on pension reform in May 1996, chaired by Blüm, despite the fact that Blüm in particular was not convinced of the need for structural reform. Initially, the commission was supposed to include representatives of the major parties and all relevant interest group. However, from the start, the SPD refused to co-operate and Lafontaine set up the SPD’s own pension commission. As to the government commission, Blüm selected only one CDU politician with market-liberal orientations. By and large, the other commission members were in favour of maintaining the status quo. Not surprisingly, the commission’s proposal of January 1997 recommended that the basic principles of the pension scheme (e.g. wage replacement and pay-as-you-go financing) should be maintained (Richter 2001: 54-82; Schludi 2005: 139-40). In fact, apart from the increase in the federal subsidy, the key elements of the eventual reform (see above) can already be found in the commission’s report (BMAS 1997).

At this point, one may ask why the report included the introduction of the demographic factor which reduced the net replacement rate for a standard pensioner from about 70 percent to 64 percent. Interviews suggest that the proposal came from Bert Rürup, a professor in economics and a member from the SPD. As we shall see below, Blüm himself opposed the measure. However, Blüm and the CDA were convinced that the SPD would moderate the cut later onwards (FAZ 03.02.1997).
The commission’s report became the key document to be discussed by the CDU’s highest executive organ in March 1997. However, CDU politicians in favour of retrenching public pensions and expanding the role of private provisions complained that they were not given sufficient time to read the proposal and that they were actually confronted with an accomplished fact (FAZ 29.01.1997; Richter 2001: 55, 75). In fact, one of the few changes achieved by the youth union, the CDU business wing and politicians with more pragmatic orientations was to improve conditions for private pensions as soon as the situation on the labor market improves. About six weeks later, however, this element was withdrawn on Blüm’s insistence (Richter 2001: 98-9). In addition, the report of the government commission was altered by proposing an increase of the federal subsidy. This modification was primarily enforced by Blüm and his allies from the CDA against the vehement resistance of the CSU Finance Minister (Richter 2001; Schludi 2005: 140). A few weeks later, Blüm successfully pushed through the proposal at a party conference by threatening to resign if it was not be adopted (SZ 03.02.1997, FAZ 04.02.1997). Consequently, the CDU’s official position virtually did not incorporate the opinion of internal skeptics and largely reflected Blüm’s position.

Frustrated by the CDU’s official position, the FDP, the smallest coalition party, set up its own pension committee (SZ 03.02.1997). From the perspective of the liberals, more severe retrenchment of public pensions was needed. Moreover, the FDP also fiercely opposed the intention to raise the federal subsidy. Last but not least, the party even threatened to leave the coalition if the CDU did not drop its plan to extend social insurance coverage to various groups in atypical employment (like persons with low-paid jobs), a suggestion made by the government commission (Richter 2001; Schludi 2005: 140-1).

In April 1997, the government parties formed a joint working group, which basically agreed upon the CDU proposal. However, as a concession to the FDP and the CDU business wing, the proposal to extend social insurance coverage was withdrawn (Richter 2001: 97). Afterwards, Blüm and the CDA once again tried to bring the SPD on board (FAZ 07.05.97). However, the SPD had its own reform agenda and was unwilling to co-operate. From the perspective of the SPD, revenues were to be further increased by extending social insurance to groups in non-typical employment. As such, no retrenchments were needed (Richter 2001: 160-1; Schludi 2005: 141). This position hides internal disagreements between traditionalists and
pragmatists within the SPD. Whereas the majority within the SPD was opposing pension cutbacks, Gerhard Schröder and Hans Eichel embraced the government’s proposed cuts and collaboration with the government (FAZ 09.11.1997, 01.12.97). To the regret of the CDA, however, the FDP chairman had repeatedly warned the CDU not to form an informal grand coalition due to internal disagreements between the CDA and the business wing (FAZ 03.02.1997, 07.05.1997).

In May 1997, Blüm offered to negotiate with the social partners. It was only at this stage, that the social partners were given any direct access to the policy-making process. However, Blüm already was largely bound by the decisions made by the government parties and thus had only limited room to compromise (Richter 2001: 84-9; Schludi 2005: 142). At the same time, employers’ associations had been able to exert some influence due to their programmatic proximity to the CDU business wing and the FDP (Richter 2001: 133). In particular, it is worth recalling that the initiative for the reform came from the FDP, employer organizations, the CDU business wing, the party’s youth union and CDU politicians with more pragmatic orientations. As to the trade unions, it is worth recalling that the measures adopted in the 1996 Growth and Employment promotion Act had seriously worsened the relations with the government parties. Whereas the CDA and Blüm asked the trade unions to convince the SPD to return to a consensual path (FAZ 04.08.1998), the trade unions generously supported the 1998 election campaign of the SPD in the hope that this party would restore welfare cuts implemented by the Christian-liberal government. In hindsight, this strategy turned out to be successful (Schludi 2005: 142).

At the other side of the political spectrum, the FDP, the CSU finance minister, the CDU business wing, the CDU’s youth union and CDU politicians with more pragmatic orientations continued to oppose the reform since it did not go far enough (FAZ 20.03.1997, FAZ 29.06.1997). One of these more pragmatic politicians was the CDU fraction leader leader in the Bundestag, Wolfgang Schäuble (FAZ 03.01.1994, 20.03.1997). Schäuble had a background in economics and welcomed the demographic factor as a ’revolutionary step forward’. He poses that ‘by July 1997, after long resistance by Norbert Blüm, we (the CDU) finally agreed to cope with the problems of the pension system in a structural way by introducing the demographic factor’ (Schäuble 2000: 22).

Afterwards, we witness a change in the pension bill proposed by the government parties. Initially, it required the approval of the SPD, since it had a
majority in the Bundesrat. However, the government now circumvented the veto potential of the Bundesrat by splitting the reform package into two parts. The first part comprised the actual reform, including the demographic factor. This did not require Bundesrat approval. The second part concerned the increase of the federal subsidy, which was actually proposed by the SPD as well. Nevertheless, the SPD’s approval was not to be taken for granted since the party’s approval could also be understood as collaborating with the pension reform in general. After long negotiations, the SPD eventually approved the bill without major modifications in December 1997. This was because the SPD’s disapproval would have resulted in an increase in the pension contribution rate from 20.3 percent in 1997 to 21 percent in 1998, a development for which the party did not like to be blamed for (Richter 2001; Schludi 2005: 142-3).

The strategy of the SPD seems to have paid off. Despite several warnings by Blüm and many CDA members (FAZ 30.01.1997), the SPD won the 1998 elections and the CDU-CSU lost disproportionately among older age groups (Schludi 2005: 143-4). Furthermore, to the regret of the CDA, the lack of support from the SPD further strengthened those embracing market-liberal reforms within the CDU. Nonetheless, backed by chancellor Kohl, Blüm was very successful in pushing through his traditionalist preferences. Most notably, despite declining economic conditions and a strong weakening of the CDA, he effectively prevented his intra-party opponents from joining forces with the FDP and therefore managed to prevent more severe cuts.

6.3 How’s Life after 100 Days in Government? The Marginalization of Traditionalists within Social Democracy

By the late 1990s, the public pension system’s persistent financial problems continued. Furthermore, economic growth rates increased from 2 percent in 1998 to 3 percent in 2000 but declined afterwards. In early 2002, the economy went into a recession and unemployment rates declined from 10 percent in 1998 to 8 percent (Bleses and Seeleib-Kaiser 2004: 30-33). However, whilst acknowledging the importance of these figures, parties again did not respond mechanically.

Especially within the SPD, it was far from clear which social policies would be pursued when the party formed a government with the Greens in late October 1998 (Egle and Henkes 2003: 67). During the first hundred days, the government restored several cuts that had been implemented by the Christian-liberal coalition and had
received fierce criticisms from the trade unions and most within the SPD. These included the so-called demographic factor, retrenchments of disability pensions, the cut in sick pay and the liberalization of dismissal law. However, once a coalition of pragmatists had become dominant within the SPD by early March 1999, the party sought new solutions to cope with welfare austerity, including private pensions and pension retrenchment.

Historically, the DGB has influenced the SPD’s policy direction to a large extent (see chapter five). In 1983, the relationship between the SPD and the DGB cooled when the party included some left-libertarian demands in its election campaign. It improved only when the 1987 chancellor candidate catered to the party’s core blue collar constituency (Kitschelt 1994: 247). The attempt to synthesize diverse values was personified by Oskar Lafontaine, the leading candidate in 1990, who combined a left-libertarian image with an appeal to manual workers in his home state (Padgett 1994: 22-3). Under the leadership of Rudolf Scharping, the party cautiously started to orient itself more towards neo-liberalism. As the party remained in the opposition benches, Lafontaine replaced Scharping at a party congress in 1995. By then, Lafontaine had joined forces with the trade unions (Hörnle 2000: 413). He had Keynesian economic ideas, reinforced the SPD’s image as ‘the party of social justice’, and perceived employees, the elderly and the unemployed as the party’s core constituencies (Lafontaine 1999: 105; Hering 2004: 112).

Instead, Gerhard Schröder, the chancellor candidate in the September 1998 elections, was more in favour of a rapprochement with neo-liberalism. According to party insiders, he had already advocated this position when he was active in the SPD’s rather leftist youth organization in the 1970s (cf. also Schröder 2006: 33-4). Moreover, Schröder was among the few within the SPD who actually was in favour of both the 1996 retrenchment package and the 1997 pension retrenchments. Both Schröder and Lafontaine were born during the Second World War, were raised in poor families, became SPD member in the mid-1960s, had a long party career outside the DGB and had been prime minister of a Western German federal state since the mid-1980s. As such, we have a case of diverging orientations despite comparable backgrounds.

Schröder and Lafontaine represented two types of SPD voters. Lafontaine appealed to the party’s core constituencies with promises to restore welfare cuts under a leftist government. This group comprised two thirds of the SPD’s electorate in 1998
of which 20 percent was a trade union member. The other category included one third of the SPD’s 1998 electorate of which 13 percent was a trade union member. Within this group, two thirds had supported the CDU-CSU and one third the FDP during the 1994 elections. Schröder appealed to these swing voters by promising ‘not to make everything different, but to improve many things’. Despite the fact that the share of people in industrial employment had declined from 40 percent in 1980 to 30 percent by 1999, industrial workers were well-represented in both groups (Falter 2001). Indeed, the issue of pension cuts can hardly be overestimated as a key factor in the disastrous defeat of the Christian democrats among workers and elderly voters (Schludi 2005: 143-5).

Though likeminded within the SPD were the most dedicated supporters of Schröder’s candidacy, many left-wingers also supported him because his electoral popularity in his home state and the polls seemed to foreshadow the way back into government. Accordingly, Lafontaine supported his candidacy once Schröder managed to win the elections of Lower Saxony a few months before the Bundestag elections (Lafontaine 1999: 81-92).

However, the position of those most oriented towards neo-liberalism, including that of Schröder himself, remained weak within the party. To quote Schröder, ‘Lafontaine was the unchallenged star of the party. I instead was perceived as someone who was too pragmatic and too focused upon power, and who diverged from the party’s soul’ (Schröder 2006: 119). As such, the party congress easily passed an election manifesto that had been prepared by Lafontaine, against the demands of pragmatists within the party like Schröder and Wolfgang Clement (Lafontaine 1999: 102). The program emphasized traditional social democratic goals: defending the status quo of the welfare state, lowering taxes for people with low and medium incomes, and protecting workers, the elderly and the unemployed (SPD 1998; Lafontaine 1999: 98-110; Hering 2004: 104). In addition, Lafontaine had written a so-called Hundert Tage Program (Hundred Days Program) in collaboration with the SPD’s trade union faction (FAZ 16.03.1998). The aim was to restore several cuts that had been implemented by the former government, including the demographic factor. Furthermore, Schröder unsuccessfully tried to appoint an entrepreneur without a SPD career as economics minister. The intention was to show that the new government would also be near to business (Schröder 2006: 106).
Nonetheless, the moment when Schröder became chancellor candidate was the beginning of a radical change of power distributions within the SPD. First, Schröder appointed Walter Riester as social minister, whilst ensuring that Rudolf Dressler did not receive any responsibility for social policy in government. Riester was the vice-chairman of the metal workers’ union but was known as an independently minded pragmatist without any experience in the Bundestag. During the last years of the Kohl government, he had consistently argued that major cuts in public pensions were inevitable due to demographic changes (Trampusch 2005: 19; Stiller 2007: 116-20). Dressler, by contrast, was a prominent traditionalist who was not convinced of the need for such retrenchments. Dressler had been the key architect of SPD social policy during the 1980s and 1990s. Since 1984, he had also been the chairman of the Arbeitsgemeinschaft für Arbeitnehmerfragen (the SPD trade union faction). Dressler was the parliamentary fraction’s candidate of choice. Though he remained a member of parliament, his influence over social policy diminished due to personnel changes within the parliamentary fraction. Accordingly, he gave up all his party functions in August 2000, and was replaced by the former educationalist Ulla Schmidt, a pragmatist who developed good relations with Riester.

Second, and most importantly, after the government had implemented Lafontaine’s Hundred Days Program and Lafontaine had ironically enough been in office for about hundred days, Oskar Lafontaine suddenly resigned as finance minister and party leader in March 1999. In his memoirs, Lafontaine argues that Schröder was the key person responsible for his retreat (e.g. Lafontaine 1999: 129, 229). Throughout this book, Lafontaine is skeptical about SPD politicians, notably Schröder and Clement, who embrace neo-liberal principles and co-operate with business representatives (e.g. ibid: 46, 62, 222). By contrast, ‘successfull social democratic politics is only possible through tight co-operation between social democrats and trade unionists’ (ibid: 115). Hence, Lafontaine perceived the trade unions to be at the heart of the SPD, despite the fact that union density rates had decreased from 33.5 percent in 1991 to 24.5 percent in 1998 (FOWID 2006a: 8).

The loss of its powerful leader would leave the left wing in complete disarray until June 2000, and implied the quite sudden marginalization of traditionalists. In that month, the by then small group of 70 left-wingers elected Andrea Nahles, a young

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12 The following overview of changing power distributions within the SPD partly draws on a fascinating analysis by Martin Hering (2004) focusing on the 2001 pension reform.
member of the Bundestag and former chairwoman of the SPD’s leftist youth organization, the Jusos. Instead, Schröder managed to strengthen his internal position considerably by becoming the new party chairman on March 12th 1999. Moreover, Schröder nominated the former educationalist Hans Eichel as finance minister who, unlike Lafontaine, shared the chancellor’s ideas about the need to pursue budgetary restraint (Schröder 2006: 435). We have seen earlier that Eichel, like Schröder, had been among the few SPD politicians who had actually supported the 1997 pension retrenchments and had argued in favour of co-operating with the Christian-liberal government on this issue.

Third, personnel and organizational changes further helped Schröder to strengthen his internal position from March to September 1999. For instance, Schröder created the office of general secretary, in effect the party executive, above the existing position of the federal secretary. He filled this influential position with Franz Müntefering, a Schröder loyalist who was also respected by the left wing. To pave the way for Müntefering, a left-winger and social policy expert, resigned as SPD federal secretary. Moreover, Schröder incorporated the leader of the SPD’s Bundestag fraction in a small inner circle of governmental decision-making in order to replace Lafontaine. The fraction leader had been one of the few people in the SPD who immediately supported the *Neue Mitte* (New Centre) paper. Given that Lafontaine’s power in government was lost, the threat to veto legislation in the Bundestag became more important for the left wing to represent its interests. Therefore, the role of the parliamentary party became more important.

However, this did not imply that the SPD left wing had much influence. In June 1999, Nahles proclaimed that the reconstituted left wing would end its isolation from governmental policy making and build an alliance with the party’s center of power rather than concentrating its work on criticizing the party’s leadership. From his part, Schröder replaced the head of the chancellor’s office by the deputy to smoothen the relationship between the chancellor and the parliamentary party. Both were longtime Schröder confidants (Schröder 2006: 103). However, while the deputy was an experienced back-ground negotiator, the head as co-author of the *Neue Mitte* paper and the architect of Schröder’s pension reform plans was not popular among

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13 Without prior debate, Schröder went public in June 1999 with a paper that he had jointly authored with Tony Blair. This provoked deep intra-party conflicts, especially because the proposed policies conflicted strongly with the traditional social democratic goal of reducing earnings inequality. Instead, the FDP embraced the paper and pleaded for immediate adoption by the Bundestag.
SPD parliamentarians. Schröder filled the deputy’s previous position with someone who belonged to a group called the “youngsters”. This group comprised at least 40 parliamentarians by then (FAZ 20.03.1999). It was an attempt by pragmatists within the SPD to integrate young generations whilst bypassing the leftist Jusos. Its pragmatic orientation makes it an important counterweight to the Jusos (Bösch 2003).

A Liberal Reform Agenda after the Marginalization of Traditionalists within the SPD

From the outset, Schröder and Riester had been convinced of the necessity to retrench public pensions in order to compensate for the retraction of the demographic factor. Moreover, the pension scheme became a primary target of cost containment measures once Eichel had replaced Lafontaine in March 1999 (Aust et al 2002: 5). In June 1999, to gain time for a more comprehensive pension reform, the red-green coalition took a number of immediately effective measures aimed at containing rising pension cuts (see table 6.2). One of the most important measures concerned the suspension of the indexation of net wages for two years and the switch to consumer price indexation. This was even expected to exceed the impact of the retracted demographic factor (Schludi 2005: 147).

The measures stood in sharp contrast to the SPD’s election promises and triggered fierce public criticism, not less so from the SPD left-wing and the trade unions. With the support of the trade unions, the CDU accused the SPD of having spread an electoral lie (Schäuble 2000: 169; Schröder 2006: 270). As a consequence, the SPD suffered a large decrease in voter trust as a defender of the existing pension system. At the Länder level, the SPD, therefore, suffered substantial vote losses among traditional core voters (Schludi 2005: 147-8).

The two-year suspension of net-wage indexation was accompanied by Riester’s guiding proposals for structural pension reform. Two planned measures were especially criticized by the SPD’s left wing, the trade unions and the CDA. First, Riester proposed to reduce the benefit level from 70 to 64 percent. Second, to compensate for this cut, he called for the introduction of an obligatory second private tier amounting to 2.5 percent of gross earnings. According to a DGB representative, ‘this was a one-sided dispensation for employers. That was the purpose’ (interview). Moreover, the SPD left wing, the trade unions and the CDA feared that the public
pension scheme would degenerate into a system that, over time, offered hardly more than a minimum pension (FAZ 07.06.1999; Stiller 2007: 112-3).

Table 6.2 Main pension reforms under the SPD-Greens governments, 1998-2005

<table>
<thead>
<tr>
<th>Period</th>
<th>Pension reforms</th>
<th>Role of traditionalists in SPD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>- Abolish the demographic factor&lt;br&gt;- Retract tightenings in entitlement criteria for disability pensioners</td>
<td>Strong</td>
</tr>
<tr>
<td>January 1999</td>
<td>- Increase federal contributions&lt;br&gt;- Widen the base of contributors by making part-time employees liable to pay pension contributions</td>
<td>Strong</td>
</tr>
<tr>
<td>June 1999</td>
<td>- Index pensions to inflation rate in 2000 and 2001&lt;br&gt;- Reduce pension entitlements for periods of military service and receipt of unemployment assistance&lt;br&gt;- Increase tax subsidies to pensions with revenues from eco-tax</td>
<td>Weak</td>
</tr>
<tr>
<td>2001</td>
<td>- Create an additional private or occupational pension promoted by tax incentives&lt;br&gt;- Reduce standard public pension from 70 to 67 percent&lt;br&gt;- Cuts in survivors’ pension&lt;br&gt;- Introduce a means-tested basic pension&lt;br&gt;- Increase child-credits for parents with part-time work or low earnings and who have children aged from 4 to 10 by 50 percent upto a maximum of 100 percent of average earnings&lt;br&gt;- Retract indexation to inflation in 2001</td>
<td>Quite weak</td>
</tr>
<tr>
<td>2003</td>
<td>- Freeze pension benefit for 2004&lt;br&gt;- Pensioners fully contribute (1.7 percent of pension) to long-term care insurance (previously half)</td>
<td>Weak</td>
</tr>
<tr>
<td>2004</td>
<td>- Introduce a demographic component in pension indexation (expected to decrease the standard replacement rate by 17 percent from 2005 to 2030)&lt;br&gt;- Abolish education periods as credits for pension entitlements from 2009 (except for vocational education which is credited upto 3 years)&lt;br&gt;- Eligibility age for elderly unemployed raised from 60 to 63 between 2006 and 2008&lt;br&gt;- Maximum period for receipt of unemployment benefits for workers aged 55 or older reduced from 32 to 18 months&lt;br&gt;- Increase in the tax-privileged maximum amount for employee-funded occupational pensions</td>
<td>Quite weak</td>
</tr>
</tbody>
</table>

Source: Own composition. Information on reforms derived from Clasen (2005), Hinrichs (2005) and Schludi (2005).
It was advantageous for Riester and Schröder that the pragmatic Ulla Schmidt was the parliamentary party leader in social policy, and not the traditionalist Rudolf Dressler. Whereas Schmidt publicly supported the proposals and argued that they were unavoidable, Dressler vehemently criticized them (Hering 2004: 115).

Nonetheless, faced with a broad front of critics inside and outside the SPD, Riester made a number of concessions. These changes were primarily aimed at appeasing the Christian democrats. According to Schludi, we can identify three reasons for the need to seek Christian democratic approval. First, given the likely electoral salience, the government sought to share political costs of unpopular pension retrenchments. Second, the CDU’s support in the Bundesrat was needed, since SPD-Länder lacked a clear majority. Third, by forging an alliance with the main opposition party, Schröder attempted to limit the influence of trade unionists and leftist reform opponents within his own party (Schludi 2005: 152). By seeking a pension compromise with the Christian democrats, pragmatists within the SPD would be able to implement a more far-reaching reform than would be politically feasible if the preferences of traditionalists had to be incorporated.

Riester made concessions to basically all of the CDU’s criticisms. First, within a week, he withdrew the plan for a minimum pension and the mandatory element of the private pension pillar. Yet, even the voluntary scheme still faced considerable resistance by the SPD left wing and virtually all trade unions, including the metal workers’ union of which Riester remained a member. In addition, the minister even went beyond CDU demands for a substantial extension of state subsidies and tax relief to private pensions, especially for families with children and higher income groups. In September 2000, Riester also restored the return to net wage indexation for the year 2001 (Stiller 2007: 113).

Despite these numerous and comprehensive concessions, the CDU continued to reject a pension agreement with the red-green government. A strong case can be made for the claim that the CDU was not opposing the reform on policy substance grounds. Already in December 1999, Schröder and the CDU’s new party leader, Wolfgang Schäuble, had met to discuss comprehensive pension reforms (Schäuble 2000: 189). We have seen earlier that Schäuble had rather pragmatic orientations. According to Schäuble, ‘the proposed reform could be a step in the right direction of a fundamental pension reform’ (ibid: 340). Likewise, Angela Merkel, the party leader since April 2000, was in favour of retrenching public pension levels and expanding
voluntary private pensions (Langguth 2005: 220). According to a party insider, ‘politicians like Merz (the fraction leader at the time) and Merkel set more liberal accents. Merkel surely is not close to the CDA, but she is not close to the MIT either. In pension politics, however, she represents a rather liberal position which is close to the MIT. There is not much that the CDA can do against this’ (interview). Norbert Blüm, for instance, opposed the reform. Moreover, he regretted that a market-liberal politician was asked to chair a key commission rethinking the party’s approach in social policy, while he was not even asked to become a member (FAZ 04.09.2000). Accordingly, the CDU, like the government, acknowledged the need for cuts in public pensions and advocated expansions of private pensions. However, the party still sought to exploit the pension issue electorally (Schludi 2005: 153; Stiller 2007: 111).

Only after it had become clear that the CDU was not prepared to engage in consensual reforms in October 2000, did minister Riester start to look for support for his proposal within his party’s left wing and the trade unions (Stiller 2007: 126). By then, he had already presented a second proposal, developed jointly by the SPD and the Greens, which was more radical than the first one (Hering 2004: 116). Apart from cuts in survivor pensions for those younger than 40, this proposal included a reduction in benefit levels for future pensioners from 70 percent to 54 percent in 2050. These plans went far beyond those of the preceding Christian-liberal government, which had aimed at a reduction of the standard pension level to 64 percent (Schludi 2005: 148).

Again, the plans triggered vehement criticisms from the SPD left wing and trade unionists (FAZ 31.07.2000, 27.09.2000). Initially, Schröder was successful in averting the changes put forward by these groups. In the party executive, Schröder managed to use his position as general executive to push through the reform package as a whole rather than to decide on single elements. This is the more remarkable if we note that only four out of 45 did not demand any changes (Schröder, Riester, Franz Müntefering and one parliamentarian) (SZ 03.07.2000; FAZ 04.07.2000). However, in the autumn of 2000, about 30 SPD parliamentarians announced they would vote against the reform, unless the government significantly altered its plans. Without their support, the reform would lack a majority in the Bundestag (Schludi 2005: 154).

Consequently, Riester made a few notable concessions to his party’s left wing and to the trade unions, which had formed a strategic alliance. Only after two of their core demands were satisfied, did the unions and the SPD left wing offer their consent. First, collectively negotiated occupational pensions would take precedence over
individual private pensions. Second, the level of standard pension benefits had been altered from 54 percent by 2050 to 64 percent by 2030 in mid-July 2000, and was replaced by a reduction from 70 percent to 67 percent in December 2000. The latter was due to a threat to block the legislation by SPD deputies associated with the trade unions. This success of the unions was facilitated by the fact that the measure was also opposed by virtually all other actors (the Greens, the opposition parties, employers’ organizations and most academic experts). They were all critical because it only entailed gradual benefit cuts for those retiring after 2011. Hence, it would have violated generational justice (Schludi 2005: 154-5; Stiller 2007: 114).

During the final stage of the parliamentary process, the government was able to gain the required support from the Bundesrat by buying off two CDU governed Länder in May 2001. This deal included the establishment of a federal agency managing private pensions in the two Länder. As to policy content, cuts in widow pensions were reduced, tax benefits for private pensions were improved and the range of products to be included (and funded) under the private scheme was extended (Schludi 2005: 156; Stiller 2007: 115).

Given the numerous concessions during the process, the final pension legislation deviates strongly from the original proposal. Nevertheless, it remains quite remarkable that the red-green coalition initiated and implemented a more market-liberal pension reform than its Christian-liberal predecessor. Thus far, we have stressed the relevance of the marginalization of traditionalists within the SPD in general, and the roles of Riester and Schröder in particular. As to the smallest coalition party, the Greens, it is worth noting that the 1998 coalition agreement took over the SPD’s rather traditionalist position on pension reform from the SPD’s 1998 election program (Hering 2004: 109). Once Riester proposed his plans, however, the Greens usually backed Riester and Schröder (Stiller 2007: 111). Moreover, they were usually prepared to go further than the SPD (FAZ 04.09.2000). In fact, the SPD and the Greens had jointly developed the most radical plan. Moreover, the size of the private pension tier was originally set at 2.5 percent but was increased to 4.0 percent in response to demands by the CDU-CSU, the FDP and the Greens (Schulze and Jochem 2007).

But why were the Greens willing to go down the road of potentially risky pension reforms? For one, the emphasis of the Greens lies on environmental issues and they had only limited incentives to exploit the pension issue during elections.
More specifically, the Greens’ core constituents – those with higher education and higher incomes – are to a lesser extent affected by pension cuts than the classic core constituents of the SPD and the CDU-CSU (FAZ 04.09.2000; Zohlnhöfer and Egle 2007: 34). Furthermore, the party is divided between the ‘realists’ who seek to advance policy causes through government participation and the ‘fundamentalists’ who believe that competing for office weakens the party’s policy posture (Harmel 1989). Whereas social policy orientations of the fundamentalists are closely related to the SPD’s left wing, realists are quite close to pragmatists within the SPD (Egle 2007: 107-8). To the regret of the SPD left wing (Lafontaine 1999: 146, 156), the Greens increasingly re-oriented into a neo-liberal direction after the realist wing had become dominant by 1998 with party leader Joschka Fischer as its figurehead (Egle 2003). As such, it may not be all that surprising that Schröder considers Fischer as the ‘stability guarantee’ of the red-green governments (Schröder 2006: 423).

The Continuation of Liberal Reforms under the Second Red-Green Coalition

Between 2002 and 2004, the economy plunged into a recession. Unemployment surpassed the psychologically important threshold of four million in mid-2002. And Germany failed to fulfill the EMU’s three procent deficit criterium from 2002 to 2005. All this provided strong political support for pragmatists within the SPD to push through market-liberal reforms. Chancellor Schröder and likeminded SPD-politicians were able to implement such reforms because of the marginalization of the SPD’s left wing and trade unions, the formation of an informal grand coalition with the CDU and the consistent backing by the Greens.

In March 2002, the weakening of trade unions accelerated. Unemployment again approached four million and the SPD’s re-election chances vanished in the polls. In this situation, Schröder skillfully exploited the approaching campaign and used his weakness in the polls as a source of strength. A scandal in job placement statistics was revealed in the Federal Employment Agency. While this was not news among federal politicians, it provided the opportunity to start another effort to reform labor market policies. Schröder appointed a commission under Hartz, the Volkswagen personnel director. It was to report in August, one month before the elections (Streeck and Hassel 2003: 118-9). Its 15 members included seven business representatives and only two trade union members (Trampusch 2005: 11). Eventually, it proposed ‘the
most comprehensive welfare retrenchment in postwar Germany’ (ibid: 3). However, according to a member of the Hartz commission, ‘the SPD left wing and trade unionists could not but support the Chancellor with the election looming’ (interview). Indeed, it is a widely held view amongst scholars on party behavior that internal wrangling wanes when electoral competition intensifies. ‘Once partisans focus on the general election, the interparty competition redefines the race and helps to mend interparty factions and divisiveness dissipates’ (Atkinson 1993: 275).

After the September election, Schröder allocated key ministries to three prominent SPD-pragmatists. Hans Eichel entered his second term as finance minister and shared the chancellor’s ideas about the need to pursue budgetary restraint. In addition, Ulla Schmidt, the former fraction leader, became social minister. We have seen that she had rather pragmatic orientations and played an important role in pushing through the Riester reform. Most notably, Schröder created a super ministry of economics and labor. He appointed Wolfgang Clement, who had a background in law and was a member of a neo-liberal thinktank funded by metal employers (Speth 2004). As one trade unionist put it, ‘the economics ministry traditionally belonged to the employer side and the labor ministry to the trade unions. Accordingly, there were natural differences of opinion which had to be solved in government. By merging the two ministries, however, they had robbed the ministry from the labor side. In fact, the ministry was dominated by the economics ministry’ (interview). Depriving the unions of their bridgehead inside the state facilitated large welfare cuts and expansions of private schemes (Hassel and Streeck 2003: 120).

Finally, Schröder managed to further weaken internal opponents by expanding loyal departments and abolishing a leftist department in the chancellor’s office. As such, the chancellor’s office was by now merely occupied by Schröder loyalists (Korte 2007: 180-1). This office monopolized the development of the so-called Agenda 2010. The latter contained a ‘comprehensive program for a far-reaching overhaul of the German welfare state’ (Hinrichs 2005: 21). This rendered the SPD’s 2002 election program and the coalition agreement meaningless (Korte 2007: 175).

A combination of fiscal deficits, bad economic performance, unpopularity in the polls and the continued opposition of the SPD’s left wing against retrenchments contributed to the development of the Agenda 2010 (Wagschal 2007: 351). The term Agenda 2010 suggests that the European Union’s Lisbon Strategy had a large impact on its development. This is because the Lisbon Strategy entails the ambition to make
the EU ‘the most competitive and dynamic knowledge-driven economy by 2010’.

According to Chancellor Schröder, however, his wife had made up the term (Schröder 2006: 393). Interviewees argued that the European Employment Strategy (EES) and the Open Method of Coordination on pensions played facilitating roles and were used very selectively by pragmatists within the SPD to help them to push through their proposals. Moreover, in an official publication of the DGB, trade unionists pose that pension reforms merely aimed at improving financial sustainability but neglected other ambitions of the OMC on pensions like reducing poverty risks and adapting pension schemes to changing societies and labour markets (Engelen-Kefer and Wiesehügel 2003: 10, 28). Although the EES has neither been the trigger of the Agenda 2010, it can still be considered in part as contributing to specific elements of the eventual reforms as there were some sonceptions that pragmatic SPD politicians tried to implement. According to a civil servant at the economics and labor ministry, ‘gender mainstreaming or life-long learning are concepts, which we always use. “Make work pay” corresponds to the basic idea of Hartz IV: “Fördern und Fordern” (actively supporting and demanding)... The next point is active ageing. There have been certain developments of consciousness... There are numerous measures, with the objective to provide incentives for the employers to offer jobs also to older employees’ (in Heidenreich and Bischoff 2008: 25). However, welfare reforms are not a direct result of the EES. These reforms have been developed in the chancellery and not in the ministry of economics and labor, which was responsible for the German contribution to the EES (ibid). As another civil servant puts it, ‘the Agenda 2010 was conceived relatively independently from the EES’ (in ibid).

Officially, the initiative to set up the Agenda 2010 was triggered by the failure of trade unions and employers’ associations to reach consensus on future welfare reforms in the ‘Alliance for Jobs’ on March 5, 2003 (Schröder 2006: 89-91). However, Schröder and the head of the chancellery had already started the preparations for the Agenda 2010 during the 2002 election campaign (Schröder 2006: 390-1; Korte 2007: 175). According to Schröder, ‘only Wolfgang Clement, Franz Müntefering and Joschka Fischer were informed. All agreed with the initiative’ (Schröder 2006: 391). Just before Christmas 2002, the chancellor’s office sent the plans to the press and Horst Seehofer, the social policy expert of the CDU-CSU, without having informed the SPD’s parliamentary party. Seehofer replied that ‘the paper could also have been written by Christian democrats’ (in Korte 2007: 175).
addition, the deputy fraction leader of the Greens noted that the Greens agreed with
the paper in general and its emphasis upon the need to lower supplementary wage
costs in particular. As such, they concluded that ‘the chancellor had mainly written
the paper for his own party’ (FAZ 21.12.2002).

Their conclusion seems correct. Whereas the SPD general executive labeled
the Agenda 2010 ‘a consistent modernization program’, the deputy leader of the
parliamentary party declared that he would not accept ‘neo-liberal politics with red-
green rhetorics’ (in De Korte 2007: 175). Moreover, trade unions threatened with
massive campaigns against the Agenda 2010 (Schröder 2006: 398).

In the wake of the development of the Agenda 2010, Schröder and minister
Schmidt had set up the Rürup commission (after its chairman the economist and SPD-
member Bert Rürup) on December 13, 2002. Moreover, since it was not yet clear
within the SPD which pension policies would be pursued, minister Schmidt raised the
contribution rate as an emergency measure. The Greens agreed with the reform, but
demanded that a commission on pension reform was set up. If not, they even
threatened to leave the coalition (FAZ 02.12.2002; Trampusch 2005: 14). The
commission’s task was to propose policy changes for a financially sustainable
development of pensions (and the health and long-term care scheme). Its 26 members
included nine academic experts, eight business representatives and four trade
unionists. The main proposals were:

- a gradual increase in the statutory retirement age from 65 to 67 from 2011 to 2035
- the introduction of a demographic factor in the pension formula (expected to
decrease the standard replacement rate by 17 percent between 2005 and 2030)
- an extension in private pensions to all tax-payers

The formation of the Rürup commission and the Hartz-commission legitimizes
reforms and especially reduced the influence of trade unionists and other
traditionalists (Wessels 2007: 163-4). Notably, the four trade union members of the
Rürup commission unsuccessfully opposed the commission’s proposals. Their main
complaint is that the majority of the commission merely focused at retrenching public
pensions and extending private pensions from an early stage on, whilst excluding the
possibility to extend coverage in order to secure the current scheme (Engelen-Kefer
and Wiesehügel 2003: 42-3). Moreover, the formation of commissions implied that
the SPD’s parliamentary party was not involved in developing proposals. This is remarkable, since more than half of the SPD politicians in parliament belonged to the party’s left wing by then (Meyer 2007: 92).

By contrast, a BDA representative noted that his organization had participated in the Rürup commission, had suggested the proposals outlined above and had obviously supported these. ‘But we did not think, hope or expect that these proposals would be implemented so radically one to one by a red-green government. I also often announced publicly at the time: I am not sure whether the Kohl government would have taken such a radical step’ (interview).

In March 2003, Schröder announced the Agenda 2010 that embraced the proposals of the Hartz commission and the intention of the Rürup commission to retrench public pensions and expand private provisions (Schröder 2003). As a matter of fact, Schröder went beyond the proposals of the Hartz commission. For instance, he accepted the paradigm change from a salary-based to a means-tested benefit for the long-term unemployed, but also noted the government’s intention to reduce the maximum period for receipt of unemployment benefits for workers aged 55 or older from 32 to 18 months. Not surprisingly, the thus far marginalized SPD’s left wing and the trade unions responded furiously.

However, the unions were in a weak position for reasons outlined above and, moreover, failed to mobilize against the Agenda 2010. Likewise, the SPD left wing by and large fought in vain against it (Hinrichs 2005: 22). At a special party conference convened at their initiative in June 2003, Schröder managed to push through the agenda 2010 by putting his position as chancellor at stake (Bernhard and Roth 2007: 35). Nonetheless, the SPD left wing was able to push through a clause in the eventual law on pension reform that requires the government to put forward proposals once the standard replacement rate decreases below certain levels (Hinrichs 2005: 22; Schmidt 2007: 303).

The party conference was not the end of the opposition of the trade unions and the SPD left wing against the Agenda 2010. For instance, both the CDA chairman (SZ 22.10.2003) and the chairman of the trade union for the building industry publicly appealed to the SPD left wing to vote against the Agenda 2010 in the Bundestag (Schröder 2006: 402). Such a strategy was certainly to be taken serious, since merely five votes from the coalition parties would have been sufficient to block the reforms. In order to prevent a critical mass of SPD politicians from defection in the final vote
on pension legislation, minister Schmidt therefore dropped the intention to let people retire at age 67 (SZ 22.10.2003).

In November 2007, the law on pension reform was adopted in the Bundestag. minister Schmidt added two emergency measures. First, for the first time in German postwar history, the value of pensions witnessed a real decline due to a suspension of indexation in 2004. Second, from April 2004 on, pensioners were obliged to make a full contribution (1.7 percent of pension) instead of a half contribution to long-term care insurance. These emergency measures did not require the approval by the Bundesrat, in which the SPD-led Länder lacked a clear majority (FAZ 07.11.03).

This was only the first phase of the pension reform. Approval of the Christian democrats was required for the rest of the package and the government had sought approval of the Christian democrats from the outset on. This probably has also been partly due to the potential unpopularity of pension retrenchments. Nevertheless, most within the CDU did not seek to avoid such blame but instead argued that it was irresponsible not to support much needed reforms (FAZ 29.08.2003). In February 2003, CDU party leader Angela Merkel appointed the CDU’s own commission on reforming social security. Its proposals considerably overlapped with the government’s plans. Notably, it included a similar demographic factor, an expansion of private pensions in a comparable manner and a faster rise of the statutory retirement age to 67 years (CDU 2003: 37-51; Hinrichs 2005: 21). In a comparable manner as during the negotiations on the Riester reform, Schröder tried to limit the influence of trade unionists and leftist reform opponents within his own party by seeking the support of the CDU (cf. Zohlnhöfer 2004; Trampusch 2005).

Christian democratic politicians with more traditionalistic orientations, like the CDA chairman and the chairman of the CSU employee faction, opposed both the work of the CDU commission on social security reform and the government’s pension plans (FAZ 24.10.2003; SZ 08.03.04). They tried to blame the SPD for breaking its electoral promises (SZ 22.10.2003). However, they clearly formed a minority within their own party. To quote a party insider, ‘Blüm opposed the reforms during a party congress but was simply laught at. It seemed as if time had stood still for him’ (interview). As such, most within the CDU supported the pension reforms and the bill went through in the Bundesrat (Kornelius and Roth 2007: 35).

The so-called ‘informal grand coalition’ between SPD pragmatists and the CDU was a key feature of welfare state reform during the second term of the red-
green coalition (Trampusch 2005). For instance, chancellor Schröder and minister Clement had played a crucial role in pushing through the paradigm change from a salary-based to a means-tested benefit for the long-term unemployed (Stiller 2007: Ch. 6). However, six SPD politicians and six members of the Greens actually opposed it in the Bundestag. Nonetheless, it became law due to the support of the FDP and – with the exception of two politicians - the CDU (Zohlnhöfer and Egle 2007: 15).

As to the smallest coalition party, the Greens, it is worth stressing that they played an important role in setting up the Rürup commission and backed the government’s pension policies (FAZ 28.09.2003). For instance, the Greens had already pleaded in favour of the introduction of the demographic factor since early 1999 (FAZ 16.02.1999). However, the formation of an informal grand coalition and the fact that the Greens did not obtain a relevant ministry in social policy implied that the Greens were not all that influential (Egle 2007: 108). Finally, it is worth recalling that the dominant realist wing, with Joschka Fischer as its figurehead, was quite close to pragmatists within the SPD and secured the stability of the two red-green alliances. For example, the Greens’ left wing responded to the Agenda 2010 by claiming that red-green was not re-elected to ‘retrench the welfare state’ (in ibid: 107). However, its party leader Joschka Fischer pointed out that the welfare state ‘would be fully abolished by another government, if the red-green government did not implement the unpopular but necessary reforms’ (in ibid).

6.4 Conclusion

The Agenda 2010 hit the traditional core of the SPD’s constituencies. Its unpopularity impelled 100,000 leftist party members to leave the party (Zohlnhöfer 2007: 14). Moreover, the relationship between the SPD and the DGB was at an all time low (Hassel 2006: 22). As a consequence, in July 2005, a leftist faction of dissident SPD politicians and trade unionists formed an electoral alliance with the former Eastern German socialist party. It was to be led by Oskar Lafontaine. In September 2005, this alliance became the winner of the election. By contrast, the SPD and the CDU-CSU were the clear losers and their shares of the vote sunk to levels not seen since 1953. The key reason for the loss of the Union was an offensive campaign aimed at further welfare retrenchments (Kornelius and Roth 2007: 38). From his part, Schröder managed to limit the losses by embracing a traditional social democratic pro-welfare
program which had nothing to do with the Agenda 2010 (Schmidt 2007: 302). Nonetheless, the share of trade union members within the SPD’s electorate halved, shrinking from 18 percent in 1998 (Falter 2001: 215) to 9 in 2005. By and large, this occurred at the expense of the leftist alliance (Kornelius and Roth 2007: 55)\textsuperscript{14}.

All in all, the paragraph above clearly points at the electoral salience of the pension issue and other major welfare programs. Nonetheless, the current coalition between the SPD and the CDU-CSU agreed to complement active labor market policies for older workers with a gradual rise in the statutory retirement age to 67 until 2029 and a gradual increase in the early retirement age from 60 to 63 (Weishaupt 2008: 285-8). In the previous section, it became clear that a majority within the SPD and the CDU-CSU had already favored retirement at age 67 in 2003, but that it was blocked by the SPD left wing by then. This leads a trade unionist to conclude that, ‘though we are dealing with two traditional welfare state parties, I have the impression that the CDU business wing is stronger than its employees wing. I also have the impression that neo-liberal politicians within the SPD remain dominant. This explains why these parties implement the policies, like retirement with 67, that we are witnessing today, despite the fact that the election mandate is something completely different’ (interview).

This brings us to the propositions on the relevance of intraparty dynamics. The propositions imply that once a situation of failure to dominate government has triggered a coalition of pragmatists to become dominant within a social democratic and a Christian democratic party, the party is enabled to seek new solutions to cope with welfare austerity, including private pensions and pension retrenchment. In this chapter, I have argued that the initially very moderate change in pension policy under the Christian-liberal government can to a large degree be explained by the strong position of traditionalists, notably the CDA, within the CDU until the late 1980s. Between the early 1990s and 1998, the position of traditionalists weakened against a background of declining economic conditions and increased secularization. Nonetheless, minister Blüm, a key CDA representative, managed to prevent more severe pension retrenchment as demanded by the FDP, radicalizing employers’

\textsuperscript{14} The halving of the share of trade union members voting for the SPD is particularly remarkable because the SPD’s total vote share decreased from 40.9 percent in 1998 to 34.2 percent in 2005. Although this is partly counterbalanced due to a decrease in union density rates from 24.5 percent in 1998 to 19.8 in 2005 (FOWID 2006a: 8), the fact remains that over half of the trade unionists voting for the SPD in 1998 had left the party by 2005.
associations, the CDU’s business wing and other CDU politicians with more pragmatic orientations. Despite worsening economic conditions and de-industrialization, the social democratic-green coalition pursued a traditionalist reform agenda until the left within social democracy was marginalized by mid-1999. Since then, the party has implemented rather market-liberal pension reforms.

In agreement with my propositions, government exclusion spurred a critical moment of reflection, that is, puzzling within the CDU. This took place against a background of austerity and secularization. It had important consequences for the internal power distribution, triggering a coalition of pragmatists to become dominant in the CDU from 1998 to 2005. The importance of office-seeking behavior is also shown by the SPD. Although likeminded within the SPD have been the most dedicated supporters of Schröder’s chancellorship candidacy in the elections of September 1998, many left-wingers, including Lafontaine, also supported him since his electoral popularity in his home state and the polls seemed to foreshadow the way back into government.