The New Approach to Welfare State Reform in German Social Democracy

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ABSTRACT: The Schröder government has recently passed a major welfare state reform which will transform Germany's contribution-financed old-age security system. Schröder's success is a paradox: the government's pension reform is a radical break with past policies and present programs of the Social Democratic Party, but received broad and active support in the SPD parliamentary group. First, I claim that the SPD's support for the Schröder reform is the result of a change in ideas and interests about pension reform. Second, I argue that it was Schröder's strategy of polarization that led to ideational change in the SPD: after weakening the influence of "traditional" Social Democrats and consolidating his power in the party, the chancellor staged a coup by presenting an authoritative definition of "modern" pension policy principles without prior consultation. Ideational change in the SPD was neither the outcome of a gradual process of persuasion nor a response to an exogeneous shock. Schröder's sudden exercise of power converted many Social Democrats to new ideas and marginalized the defenders of the party's policy inheritance.

On January 26, 2001, the Schröder government achieved a major breakthrough: the German Bundestag enacted the Old-Age Provision Act, which Walter Riester, the labor and social affairs minister, hailed in parliament as "the biggest welfare state reform in post-war Germany" (Deutscher Bundestag 2001, 14429). Together with the tax reform passed in the year before, the pension law is one the two most important reform projects of the red-green government coalition since taking office in 1998. Two of its features in particular are highly innovative: first, the addition of a new private pension pillar, and second, the long-term stabilization of contribution rates in the once unrivaled public pension system. The stabilization of contributions is coupled with the gradual reduction of public pension benefits.

After the opposition parties had decided to vote against the government's pension reform law, chancellor Schröder relied on the unity of his own party to get his reform plans adopted in the Bundestag. Gerhard Schröder's success is a paradox: the Old-Age Provision Act breaks with inherited social democratic policies, with SPD party programs as well as with the coalition agreement between the SPD and the Green Party. For Rudolf Dreßler, the key architect of SPD social policy during the 1980s and 1990s, the Schröder reform is nothing less than a "paradigm shift in pension policy". Exactly as we would expect, the pension reform plans were heavily contested within the SPD throughout most of the reform process, particularly by the party's left-wing and by the trade unions. Nonetheless, Schröder did not push his reform through parliament against intra-party opposition or against resistance from the trade unions. Contrary to our expectations, the

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1 The pension reform law of the Schröder government was divided into two separate pieces of legislation by the Bundestag's Labor and Social Affairs Committee: the *Altersvemiöngsgesetz* (Old-Age Provision Act) and the *Altersvemiöngsergänzungsgesetz* (Old Age Provision Extension Act). When I refer to the Old-Age Provision Act, I mean both of these acts.

pension law's final passage was based on a broad consensus within German social democracy. The SPD parliamentary group was highly united in voting for the legislation. The left-wing of the Social Democratic Party and the trade unions now actively support the reform of the pension system and even claim credit for modernizing the German welfare state. Moreover, in view of Schröder's triple break with policies, party and governmental programs, the resistance within the party and the trade union movement was relatively short-lived, and the building of a new pension consensus proceeded rapidly. The pension law was adopted a year and a half after labor minister Riester started the reform process in June 1999. By German standards, this is a surprisingly short time frame for such a major policy innovation.

Why does the SPD support policies which constitute a radical break with past policies and present programs? Do legislators and the party leadership fear that the SPD-led government will not get re-elected if they don't support their chancellor and party leader? Or did Schröder bring his party in line by enforcing party discipline? Although these factors might have played a role, my argument is that neither strategic agreement nor political pressure are an adequate and satisfactory explanation for the SPD's support, which is active and not merely reluctant. I argue that the most important factor for the party's consent – and thus for Schröder's legislative victory – is a change in ideas and interests about pension reform in the SPD. The shift in pension policy entails a departure from several long-held, "iron" principles in the German Social Democratic Party, in particular from the guarantee of status-maintaining public pension benefits (Lebensstandardsicherung), parity financing of employers and employees, and solidary old-age insurance. Considering the magnitude of the SPD's policy shift, strategic incentives and party discipline are insufficient to account for Schröder's success in overcoming the "vast deadweight of accumulated practices and ways of thinking" (Heclo 1974, 17-18) in the Social Democratic Party. I claim that ideational change and interest redefinition is a necessary condition for the SPD's active support for abandoning such a strong policy inheritance. As studies by historical institutionalists have shown, ideational resilience and path-dependence represent major obstacles in reforming welfare states. Attempts by governments to directly impose policy shifts through the exercise of power are mostly unsuccessful (Pierson 1994, 1996, 2000).

More important than this theoretical argument, however, is the empirical evidence of a change in ideas and interests on the part of the SPD left-wing, the most likely collective actor to reject Schröder's pension plans. Along with the trade unions, the SPD left-wing in fact displayed the strongest hostility towards the government's pension reform at the beginning. In the middle of the reform process, however, the SPD left-wing abandoned its fundamental objections against the Schröder reform, formed an alliance with the trade unions and started to bargain with the government over the reform of the pension system. I argue that the willingness to bargain evidences a change in ideas and interests. Bargaining requires actors to share basic principles. By contrast, fundamental differences are detrimental to bargaining, since principles cannot be traded off. This was the case in 1997 when the SPD refused to enter negotiations with the Kohl government over the reform of the pension system on the grounds of divergent principles: the SPD saw the pension reform law of the CDU/FDP government as a violation of the principle of Lebensstandardsicherung. Initially, the SPD left-wing rejected the reform plans of the

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3 I treat ideas and interests not as separate concepts, but as mutually constitutive. For a good discussion of the relationship between ideas and interests, see Blyth (2000).
Schröder government on the same grounds. By the end of 2000, however, the conflict between the left-wing and Schröder's labor minister was no longer about the defence of principles. It had turned into a conflict about differences in degree.

I claim that both bargaining and the consensual passage of the reform law became possible as a result of changes in the SPD's ideas and interests about pension policy. Consequently, to understand the causes for major policy change in German social democracy, we need to examine the factors that led to the radical and rapid redefinition of ideas and interests. In this paper, I want to trace the process of the most recent pension reform in Germany, roughly from mid-1999 to early 2001, in order to generate hypotheses about the conditions for ideational change and for the redefinition of interests.

My findings are that the change in ideas and interests does not follow the usual patterns discovered in the ideational literature. First, structural explanations emphasize the importance of exogeneous shocks and policy failure for ideational change (Hall 1992, 1993; McNamara 1998). However, they cannot account for the German case: Germany's contribution-financed pension system is not confronted with an exogeneous shock, and the path-departing reforms of the Schröder government are not a response to policy failure. Second, actor-centered explanations emphasize the role of persuasion in ideational change (Heclo 1974; Kingdon 1984; Majone 1989). In the German case of pension reform, however, the policy content of the Old-Age Provision Act is not the outcome of consultation and reciprocal persuasion. I argue that it was Schröder's strategy of polarization that led to ideational change within the SPD. The chancellor's exercise of power thus had an indirect effect on policy change through the redefinition of ideas and interests. Schröder did not force his party members to adopt the Old-Age Provision Act in the Bundestag. But the German chancellor imposed new policy principles and successfully defended them against intra-party opposition.

My paper is divided into three main parts. The first part describes the SPD's inherited programs and policies in relation to the reform of the pension system. The second part analyzes the turnover of key personnel and the resulting changes in power relations in the SPD. Schröder's position in the SPD was weak when he became the party's candidate for chancellor in spring 1998. These changes in power relations were an important precondition for Schröder's ability to pursue a strategy of polarization in a highly unfavorable setting characterized by a strong policy inheritance. The third part examines how Schröder successfully established new principles in SPD pension policy by polarizing the party and how his strategy led to the a change in ideas and interests in the German Social Democratic Party. I conclude with a brief discussion of some theoretical implications of this case study for conceptualizing the role of power in ideational theory.

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4 I conceptualize Schröder's pension reform as a case of path-departure. I think that the commonly employed dichotomy of path-dependence and path-switching does not capture the changes occurring in continental welfare states. Political actors do not intend to switch to another path, and the institutional changes we observe do not qualify as a path-shift, even though they transform the existing institutional arrangements. Therefore, I suggest to use the term path-departure: it is not clear yet how much continental welfare states will deviate from their own established path, or how close they will get to a different established path. For the dichotomy of path-dependence and path-switching, see in particular Paul Pierson (Pierson 2000, 251-267).
THE SOCIAL DEMOCRATIC POLICY INHERITANCE

The leadership of Gerhard Schröder is vitally important for the shift in SPD policies, specifically in pension policy. The choice of Schröder as the SPD candidate for chancellor in March 1998 and his election as Germany's head of government following the federal election in September 1998 paved the way for the 2001 pension reform. The impact of Schröder is strongest in specifying the alternatives, and less important in relation to setting the agenda. In fact, pension reform was on the agenda long before Schröder took office: in January 1996 speculations surfaced that an unexpectedly sharp increase in contribution rates to over 20% was necessary to keep pension finances in balance in the short-run. 1996 became the first year in which contribution rates surpassed this psychologically important level. Afterwards, public pensions became the object of intense political conflicts, especially between the two major parties in Germany, but also within the CDU and the SPD. Very unusual for German politics, pension policy became one of the most important issues in the 1998 electoral contest. Before 1996, the area of old-age security was kept outside the realm of party competition. Pension policy in Germany was dominated by a "grand coalition of social policy experts" and was based on a highly-valued bipartisan pension consensus.

Schröder's problem was thus not the lack of attention the issue of pension reform received in the political arena. What stood in his way were the SPD's well-developed pension reform plans which were the exact opposite of Schröder's understanding of modern social policy. In June 1996, the SPD created a 29-member Old-Age Security Commission in order to develop an alternative to the reform plans of the Kohl government. Rudolf Dreßler, the veteran social policy expert in the SPD parliamentary group, served as the commission chairman. After one year of work, the Old-Age Security Commission presented its proposals in May 1997. The title of the commission report, Structural Reforms instead of Benefit Cutbacks, summarizes the SPD's reform intentions well (SPD 1997a). First, the existing benefit level of 70% of former income is inviolable. Any reduction in the standard replacement rate amounts to a break with the principle of public provision of status-maintaining pensions (Lebensstandardsicherung). According to the commission, the guarantee of status-maintenance during retirement is "part of the core of our social protection system" (SPD 1997a, 1). Second, there is no reason for the transformation of Germany's Bismarckian pension system. To ensure the long-term financial sustainability of the existing contribution-financed pension scheme, a number of so-called structural reforms within the framework of the present system are sufficient. The most important measures are, first, tax-financing of non-contributory benefits paid to East German pensioners, and second, the broadening of the revenue base by extending the liability to pay pension contributions to casual employment and to self-employment. These measures were seen as a win-win solution, making the system financially sustainable in the long-run and allowing a significant reduction in contribution rates at the same time.

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5 For the conceptual distinction between agendas and alternatives see Kingdon (1984).
6 After the bipartisan and highly consensual 1992 pension reform, the lower boundary of 70% has become the commonly agreed definition of status-maintenance. The standard replacement rate of 70% is different from the average actual replacement rate in the German pension system. The standard rate refers to a fictitious standard pensioner who has paid contributions for a period of 45 years while receiving average annual earnings and is computed as a percentage of current average annual earnings.
The 1997 report of the Old-Age Security Commission came to define the content of the SPD’s political program, and until recently also the content of its pension policies. Although SPD pension policy has undergone a dramatic shift, its programmatic position has remained the same. Therefore, the Social Democrats are presently in a situation in which their governmental policies contradict their party program. The next Federal Party Congress at the end of 2001 will be an opportunity for the SPD to resolve this conflict. The SPD party program has closely followed the recommendations made in the commission's report. In December 1997, the SPD Federal Party Congress in Hanover endorsed the commission report. The delegates passed a resolution that demonstrates the party's determination, first, to repeal the unilateral pension reform of the Kohl government after an election victory in 1998, and second, to implement the alternative plan developed by the Old-Age Security Commission (SPD 1997b). The SPD program for the 1998 federal election, adopted at its Special Party Congress in Leipzig in April 1998, made the withdrawal of the Kohl reform one of the party's key promises in the election campaign. Moreover, the SPD election program restated the reform measures advocated in the commission report and reaffirmed the party's commitment to preserve the contribution-financed public pension system (SPD 1998).

Until June 1999, when labor minister Riester presented the first outlines of the government's pension reform plans, the commission report shaped the SPD's policies significantly, before as well as after taking office. As party in opposition, the SPD parliamentary group introduced an identical draft resolution in the Bundestag in June 1997 (Deutscher Bundestag 1997). As party in government, the SPD fulfilled its election promises at an impressive pace. The coalition agreement between the Social Democratic Party and the Green Party of October 1998 included the SPD positions on pension reform as formulated in the SPD election program (SPD and Grüne 1998). Thus, through the coalition agreement, the main elements of the report of the Old-Age Security Commission became official governmental policy. Shortly after the formation of the new government, the SPD delivered on the promises the party had made during the election campaign. In December 1998, the red-green coalition first rescinded the pension reform of the Kohl government with the so-called Correction Act (Korrekturgesetz). The SPD thus succeeded in preventing cutbacks in the level of pension benefits. The reform of the CDU/FDP government was to take effect in 1999 and would have gradually reduced benefits from 70% to 64% through the inclusion of a "demographic factor" in the pension adjustment formula. In a second step, the SPD-led government implemented the two most important measures suggested in the 1997 committee report: tax-financing of the financial transfers from West German to East German pension insurance schemes and the widening of the base of contributors. These measures proved the feasibility of the policies recommended by the Old-Age Security Commission, ensured the financial stability of the public pension system in the medium-term and allowed the government to substantially reduce pension contributions in one big step from 20.3% to 19.5% in 1999.

Until spring 1999, SPD pension policy strictly followed its well-established path. The election victory in 1998 gave Social Democrats the chance to implement the political program that the party had developed over the course of several years. Governmental policy and party program were highly consistent. There were no signs of ideational change. The SPD presented itself as the last defender, and guarantor, of the formerly bipartisan, traditional pension consensus from which the CDU had unilaterally departed in 1997. These conditions were highly unfavorable for major policy innovation. Policy change would imply, first, a break with the long-established party program, and second,
the reversal of governmental policies on which the political credibility of the SPD depended. Moreover, social policy experts in the SPD saw the initial measures, tax-financing of the costs of unification and the broadening of the base of contributors, only as the beginning of the pension reform they envisioned. They wanted to continue with the reforms along the lines outlined in the commission report.

The chancellor, by contrast, never liked the course of the SPD pension policy. Trying to position himself as a modernizer and policy innovator, Schröder contradicted the party's official programmatic positions on pension policy on several occasions. In May 1997, a few days after the Old-Age Security Commission had presented its influential report, Schröder advocated the reduction of the generous, income-replacing pensions to a basic, poverty-preventing pension and suggested to give more room to individual responsibility by encouraging private retirement provision. At the time, the social policy experts in the SPD were able to dismiss Schröder's out-of-line suggestions as the dissenting voice of a single person that has nothing to do with the party's position. This situation changed, however, when Schröder became the SPD candidate for chancellor in March 1998. As one of the top leaders of the party, Schröder was no longer a dissenter and was now in the position to effectively challenge the party's positions and policies. Nonetheless, Schröder's influence in defining the pension policy of the red-green government was highly limited at the beginning. Both the content of the coalition agreement and the substance of governmental policies did not lead into the direction of a partly privatized pension system favored by Schröder, but followed the inherited programmatic path.

CHANGE OF KEY PERSONNEL IN THE SPD

The strength of the "traditional" social policy-makers and the weakness of Schröder in the SPD was a formidable obstacle for major policy change. According to my argument, the change in power relations within the party is vitally important for understanding the occurrence of ideational change and interest redefinition in the SPD. In the context of such a strong policy inheritance, the removal of the SPD's well-developed, strongly supported and even partly implemented alternative is as important as the proposal of a new alternative. I argue that ideational change critically depends on the removal of the old alternative from the menu of options. In structural accounts of ideational change, it is an exogeneous shock that invalidates the old alternative and opens a space which policy innovators can fill with a new alternative. By contrast, in the absence of an exogeneous shock and policy failure, policy innovators have to actively remove the old alternative from the set of options, either by discrediting the existing alternative and persuading policy-makers of their new approach, or by reducing the political influence of the leading supporters of the old alternative.

Schröder's strategy clearly emphasized the diminution of political influence over the argumentative battle with his opponents in the SPD. In fact, Schröder and his labor minister made no reference to the problems or deficiencies of the old approach. During the 19-months long reform process, Schröder did not engage in a debate over what the best alternative is. The government did not appoint a fact-finding and deliberative body of similar stature as the SPD's Old-Age Security Commission or the expert commission appointed by the Kohl government in 1996. Instead, Schröder moved forward with a definition of fixed and non-negotiable key elements of his pension reform: first, the
introduction of private pensions, and second, contribution stabilization through benefit cutbacks. The weakening of the SPD's policy inheritance was the precondition for Schröder's ability to give an authoritative definition of these new principles. A number of personnel changes in the SPD were advantageous for the redefinition of the party's pension reform alternative. These changes reduced the political influence of the key supporters of inherited Social Democratic policies and consolidated Schröder's power. I claim that the change in power relations within the SPD allowed Schröder to pursue a polarization strategy without putting the stability of his government, his position as party leader and the success of his pension reform plans at risk.

The most prominent of the personnel changes in the SPD is Oskar Lafontaine's unexpected resignation as minister of finance in the red-green government. The importance of this event for the reorientation of German social democracy is undeniable, and I will discuss Lafontaine's surprise move in more detail later on. However, in the area of pension policy, a surprise move by Schröder deserves just as much attention. In April 1998, the SPD enthusiastically chose Gerhard Schröder as candidate for chancellor at the Special Federal Party Congress in Leipzig. The SPD rallied behind Schröder primarily due to his popularity among the public and his promise to lead the party to victory, not because of Schröder's programmatic appeal among party delegates. The SPD found itself in an odd situation. The party needed Schröder to win the federal election, and Schröder needed the party to become chancellor. What the pact between Schröder and the SPD left unanswered was the question whether Schröder endorsed the party's policies in order to become chancellor or whether he wanted to become chancellor in order to implement his own policies. In a move that caught the SPD by surprise, Schröder nominated Walter Riester as shadow labor minister only a few days after the Leipzig congress and one month before he presented the other members of his shadow cabinet.

The SPD parliamentary group did not like Riester's nomination for three reasons. First, Riester was not a member of the Bundestag. He was vice chairman of the IG Metall, the metal worker's union, and known as an independently minded modernizer within Germany's largest trade union. Second, Schröder completely ignored the parliamentary group's candidate of choice, Rudolf Dreßler, who had served in the SPD parliamentary group as the leading critic of the Kohl government's social policies for 16 years. Finally, Schröder did not consult the SPD parliamentary group before making his announcement. Schröder's nomination of Walter Riester and his disregard of Rudolf Dreßler were a blunt demonstration of his willingness to use the powers available to him as candidate for chancellor. Even after he had announced his nomination, Schröder did not confer with Dreßler about his decision. After Schröder's surprise move no doubts remained about the answer to the open question: becoming chancellor is not all Schröder cares about; he has clear political goals and intends to implement them after becoming chancellor. In May 1998, Schröder reaffirmed his conception of the pension system of the future: a contribution-financed basic pension combined with a new private pension scheme. This time, Schröder's controversial statements carried much more weight than a year before and prompted strong reactions from the SPD parliamentary group, particularly from their leading social policy expert. Dreßler insisted that the SPD election program, not Gerhard Schröder, defines the party's pension policy.

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7 Interview with Rudolf Dreßler, Süddeutsche Zeitung, May 25, 1998, p. 3.
8 Interview with Gerhard Schröder, Der Spiegel, May 10, 1998.
Schröder did not want the proponents of "traditional" SPD social policy to have any influence in his cabinet, and he succeeded by nominating Riester as labor minister and by leaving the health ministry to the Green Party. But as long as the old approach to pension policy had outspoken promoters and strong backing in the SPD parliamentary group, unsurmountable barriers for the replacement of the old alternative with a new one continued to exist. Schröder regarded the reduction of Dreßler's influence in the parliamentary group as especially important: shortly after the SPD's election victory, Schröder offered two attractive job positions to Dreßler, head of the Federal Employment Office and ambassador to Israel. But Dreßler declined and remained member of parliament. However, his influence in defining the SPD's pension policy was diminished as a result of changes within the parliamentary group. Although Dreßler was re-elected as one of the deputy chairpersons in the parliamentary group in November 1998, he lost his long-term responsibility for labor market and pension policy to Ulla Schmidt, a newcomer in the SPD's parliamentary leadership who was backed by the female members in the caucus.10

The election of Ulla Schmidt proved to be favorable for Schröder. First, she belongs to the SPD right-wing, the so-called Seeheim Circle (Seeheimer Kreis) and thus does not have a strong attachment to the SPD's social policy principles. Second, she quickly became known in the media and presented the pension policy of the SPD parliamentary group as modern and innovative. Third, Schmidt developed good relations with labor minister Riester, placing herself in a position to broker deals between the government and the parliamentary party. Probably in part because of her skillful management of the government's pension reform in the legislature, Schröder rewarded Ulla Schmidt with the appointment to head the ministry of health in January 2001, the month the Old-Age Security Act was successfully passed. Presumably as a consequence of seeing his political influence vanish, Dreßler eventually decided to leave the Bundestag in July 2000 and to take up the position as ambassador to Israel that Schröder had offered him before.

Lafontaine's resignation in March 1999 was in fact a double resignation: he quit both his job as finance minister and his position as chairman of the SPD. As the most influential cabinet member next to Schröder, Lafontaine had the ability to block a shift in pension policy. Until his resignation, the party chairman ensured the survival of the alternative that the SPD had defined in its 1997 commission report. Lafontaine always defended the SPD's reform plans against Schröder's challenges. In May 1998, when Schröder generated a pension controversy in the party after publicly floating his new ideas about the pension system of the future, Lafontaine warned against the destruction of the SPD's "lead in expertise" (Kompetenzvorsprung) in pension policy and demanded to end the intra-party pension debate.11 As finance minister, Lafontaine had himself a major stake in the reform of the pension system. The creation of the new eco-tax (Ökosteuer), the instrument that allowed the red-green government to decrease contribution rates by increasing the federal subsidies to the pension system, fell into Lafontaine's jurisdiction. Lafontaine portrayed the government's environmental tax reform as "a core project of modernization". Referring to Anthony Giddens, Lafontaine argued that making labor cheaper and pollution more expensive is an important aspect of Third Way politics.

(Deutscher Bundestag 1999, 1815-1818). The fact that chancellor Schröder and labor minister Riester remained completely silent about their pension plans before Lafontaine left office, but presented the outlines of their reform shortly afterwards, gives us some indication of Lafontaine's veto power. With Lafontaine in his cabinet and at the top of the Social Democratic Party, Schröder was strongly restricted in proposing a new reform alternative. In addition, given that Lafontaine was in control of the party, the survival of a newly proposed alternative would have been anything but guaranteed.

After Lafontaine left the cabinet and the party leadership, Schröder assumed the chairmanship of the SPD. Together with the personnel changes that followed Schröder's election as SPD leader, this event changed the power relations within the party substantially: Schröder consolidated his power step-by-step, while the SPD left-wing was in disarray after losing its powerful leader. The period of power consolidation, roughly from March to September 1999, involved several important changes in personnel. First, Schröder replaced Ottmar Schreiner, the SPD's federal party secretary, with Franz Müntefering, for whom the new and much more powerful office of SPD general secretary was created. Schreiner belongs to the SPD left-wing, was appointed by Lafontaine a year before and is member of the same SPD district organization as Lafontaine, the small Saarland state. Müntefering was a key figure in organizing Schröder's 1998 federal election campaign, is generally a Schröder loyalist and heads the SPD in North-Rhine Westphalia, by far the largest SPD district organization that represents about 25% of all party members. Müntefering’s appointment as SPD general secretary has stabilized Schröder's relationship with his party. For the longest time, Schröder did not care much about good relations with the party leadership. Although Schröder has been a member of the party's leadership for several years due to his former position as head of government of the state of Lower Saxony, he often did not attend the meetings of the SPD Executive Committee. As a notorious dissenter from the party line, the party officials in the SPD leadership did not particularly like Schröder.

Second, through additional personnel changes, Schröder improved his relationship with the SPD parliamentary group, which became particularly important after Lafontaine's resignation. Before March 1999, the independence of the SPD parliamentary group was heavily circumscribed, first, by Schröder's leadership as chancellor, and second, by Lafontaine's leadership as party chairman. Schröder and Lafontaine managed the bulk of the accommodation between the government and the party base. After Lafontaine stepped back, this coordinating role was partially transferred to the SPD parliamentary group. As a result, Peter Struck, the parliamentary group's chairman, gained in importance. The greater role of the parliamentary group as channel of representation for the SPD party base made it easier for Schröder to propose a new alternative and to ensure its survival. Lafontaine believes in the inherited SPD pension policy as a matter of principle, Struck does not. Although Struck is not strictly a Schröder loyalist, his political positions are flexible enough to arrange compromises through bargaining.

Nonetheless, the relationship between the Schröder government and the SPD parliamentary group was not smooth. The obstacle for effective coordination with the parliamentary group was not Peter Struck, however, but Bodo Hombach, Schröder’s minister for special tasks (Minister für besondere Aufgaben), who headed the Office of the Chancellor. Hombach was frequently criticized by SPD Bundestag members for his lack of coordination skills. In June 1999, Schröder replaced Hombach with Frank-Walter Steinmeier, formerly Hombach's deputy in the chancellor's office, who has proven skills as
a successful background negotiator. To further improve the coordination with the SPD parliamentary group, Schröder filled Steinmeier's former position with Hanns Martin Bury, a young member of the Bundestag who distinguished himself in the SPD caucus by making innovative proposals for the reform of the pension system.

By installing a new general secretary and by restructuring the chancellor's office, Schröder laid the groundwork for a functioning coordination between the government, the party and the SPD parliamentary group. Schröder's consolidation of power contrasts sharply with the disintegration and marginalization of the SPD left-wing. First, as a consequence of Lafontaine's resignation, the SPD left-wing was no longer represented in the small circle of coordinators where important decisions about governmental policy were made. Second, the loss of their leader led to a loss of orientation, a state that lasted well over a year. In June 2000, the SPD left-wing decided to renew its organizational structure and its leadership, which shows how deep the crisis of the left must have been. The Frankfurt Circle (Frankfurter Kreis), which represented the SPD left-wing for more than 30 years, was replaced with the Democratic Left Forum 21 (Forum Demokratische Linke 21).

The new chairperson of the Left Forum is Andrea Nahles, a 30-year old member of the Bundestag and formerly the head of the SPD's youth organization. In a paper in which she outlines the reasons for founding the Left Forum, Nahles argues that the organizational restructuring should be followed by a strategic and substantive reorientation of the SPD left. The SPD left-wing should no longer concentrate its activities on criticizing the government, developing visionary concepts and on representing the party's "social conscience". Instead, "the left will develop pragmatic solutions for the future" (Nahles 2000, 2). Nahles wants the Left Forum to participate in the modernization of the party and to enter into an alliance with the center of the SPD. The fact that the SPD left-wing started to bargain with the Schröder government over the reform of the pension system in fall 2000 shows that the members of the Left Forum followed Nahles' leadership.

REDEFINING THE PENSION REFORM ALTERNATIVE

The policy content of Schröder's Old-Age Provision Act is fundamentally different from previous SPD policies that grew out of the influential report of the Old-Age Security Commission. The old alternative declared the 70% benefit level as inviolable and restricted reforms to changes within the existing Bismarckian pension system. The preservation of the long-established system of public pension provision was the condition for the acceptability of reform measures. The main feature of Schröder's new alternative is precisely the departure from the path of public pension insurance. As Schröder has repeatedly stressed, the introduction of a private pension plans is at the heart of his pension reform. The 70% benefit level is no longer sacrosanct. On the contrary, the reduction of public pension benefits is a precondition for the growth of private pension plans as well as a requirement to guarantee the long-term stabilization of contribution rates. How did Schröder manage to redefine the SPD's pension reform alternative in such a fundamental way? How did the chancellor move "the vast deadweight of accumulated practices and ways of thinking" (Heclo 1974, 17-18) in the Social Democratic Party, although the stickiness of old ideas usually advantages the defenders of the status quo?
Considering that inherited policies and the ideas they are based on are generally highly resilient, the process of removing reform obstacles is one of the central theoretical issues in ideational scholarship. John W. Kingdon's Agendas, Alternatives and Public Policies is an important actor-centered account of ideational change. According to Kingdon's theory, ideational change is a very long process of persuasion in which policy innovators "soften up" both policy communities and larger publics, thus slowly getting them used to new ideas. The process of ideational change resembles a bandwagon effect: after new ideas are floated, they are gradually diffused among political actors until they reach a take-off point. After the take-off point, the bandwagon gains momentum, leading to an explosive diffusion of new ideas. The redefinition of alternatives is thus "the culmination of years of agitation" (Kingdon 1984, Ch. 6).

In the case of pension reform in Germany, however, the process of redefining the alternative was very different: Schröder skipped the first phase in the process of ideational change, the "softening up" stage, and directly entered the second phase. Schröder paved the way for the SPD's new pension reform alternative through a coup. Before Schröder replaced Lafontaine as party leader, he did not attempt to push his new ideas. Moreover, no attempts were made to resist the implementation of the SPD's long-established alternative. After the change in leadership, however, Schröder acted without delay, took advantage of the open policy window and pushed his new ideas to the forefront of the political agenda. But instead of merely injecting new ideas into the pension reform process and promoting their gradual diffusion, Schröder attempted to make his ideas authoritative from the beginning by giving them the status of new and unchallengeable principles of SPD pension policy. Schröder's intention was the abrupt replacement of the SPD's long-held principles, in particular the guarantee of status-maintaining public pensions and the preservation of the solidary public pension system. The new principles that Schröder advocated, specifically the long-term stabilization of contribution rates and the introduction of private pension plans, were diametrically opposed to the SPD's old principles. By accepting them, Social Democrats effectively abandoned their principle of status-maintaining public pensions and their commitment to the Bismarckian pension system. Consequently, Schröder's new ideas implied the complete replacement of the old alternative.

Schröder's ideas gained prominence through a strategy of polarization, not through a process of persuasion. Put differently, the bandwagon gained momentum because Schröder exercised his power as chancellor and party leader over the definition of new principles for SPD pension policy. In the German case, the take-off of new ideas was thus a take-off by force rather than by persuasion. Since their prominence was not based on persuasion, the diffusion of new ideas during the take-off phase of ideational change was not automatic. Schröder's leadership, decisiveness and persistence in defending the new principles against resistance was essential for the survival of the new alternative. The infamous demonstration of Schröder's determination was his outright rejection of union protests against the government's pension reform plans in November 2000. At the congress of the large ÖTV union Schröder ended the pension debate by insisting: "we will do it! Basta!". This is the reason why unions, opposition parties and the media have dubbed him "Basta chancellor".

Two government proposals were important for the replacement of the SPD's policy principles and for the definition of the contours of the party's new alternative. In June 1999, Schröder's labor minister presented first outlines which determined the broad
direction of the reform of the pension system. In May 2000, Riester presented the first detailed proposal which was jointly developed with a special working group of the red-green coalition (Koalitionsarbeitsgruppe). The content of the 2001 Old-Age Provision Act was shaped by these two proposals. However, more important is that they set the frame for the subsequent process of ideational change by establishing the principles for the reform of the pension system. The proposals of June 1999 and May 2000 fundamentally changed the terms of the reform, although they were not well-developed blueprints for the Old-Age Provision Act. The principle of introducing a private pension pillar became firmly established, and the long-term stabilization of contribution rates became the dominant criterion for "sound" pension policy. The presentation of these two proposals evidences Schröder's strategy of polarization. I claim that polarization was an essential condition for the change of ideas and interests in the Social Democratic Party.

On June 15, 1999, labor minister Riester presented the first outlines for the reform of the German pension system in a short paper entitled The New Old-Age Provision Package (Das neue Altersvorsorgepaket). This paper provoked a wave of criticism and protests from the SPD, the Green Party, the opposition parties and the trade unions. Only the Federation of German Employer's Associations welcomed Riester's reform plans as the beginning of a fundamental reform. Two measures of the proposal were particularly provocative. First, Riester suggested to reduce the benefit level from 70% to 67% in order to stabilize contribution rates in the long-term, mainly through changing the pension adjustment formula for 2000 and 2001. Instead of increasing pensions based on the growth in net wages, they would be indexed to inflation for the next two years. This measure broke with the most important principle in SPD pension policy, the principle of status-maintenance (Lebensstandardsicherung). In addition, Riester's plan departed from the net wage adjustment formula that was one of the main innovations of the bipartisan 1992 pension reform. Riester told his fellow party members that they have lived a lie by maintaining that the public pension system is able to guarantee a person's living standard during retirement (Deutscher Bundestag 1999, 3933-3936). The second provocative element was a new private pension pillar with obligatory contributions by employees. According to Riester's plan, employees were obliged to pay 2.5% of their gross wages into private pension plans, whereas employers were not required to make any contributions. The government's departure from the principle of parity financing fuelled particularly strong opposition from the trade unions. Klaus Zwickel, the chairman of the IG Metall, the metal workers' union, called Riester's pension reform plans "a shame for a social democratic government".

The presentation of Riester's outlines was a coup that Schröder had prepared in secret. The parliamentary groups of the SPD and the Green Party did not know about the government's pension reform plans before Riester presented them to the public. Only the chairman of the SPD parliamentary group, Peter Struck, knew about them and later received massive criticism from his deputy chairpersons for approving the reform plans.

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12 For the importance of the specification of new terms as an essential condition for political reforms see Bill Connolly's The Terms of Political Discourse (Connolly 1993).

13 The original New Old-Age Provision Package is documented in Süddeutsche Zeitung, June 19, 1999, p. 6. For the revised version see (Bundesministerium für Arbeit und Sozialordnung 1999).

Schröder's sudden shift in pension policy caught the members of the SPD parliamentary group unprepared. Moreover, they found themselves in a dilemma since only a day before, they approved the government's ambitious 30-billion mark budget consolidation goal which was supposed to prove the SPD's economic competence and problem-solving ability. The savings achieved through cutting pension benefits were essential to reach the 30-billion mark goal in 2000. Even though Schröder broke SPD policy principles without prior consultation, he was successful in pushing the reduction in benefit levels through cabinet and the SPD parliamentary group in record speed. The fact that Ulla Schmidt, not Rudolf Dreßler, was the spokesperson for pension policy in the leadership of the SPD parliamentary group was advantageous for Schröder. Schmidt publicly backed the government's plans, justified the substantial reduction in benefit levels as a necessity and promoted the introduction of a private pension pillar. Dreßler, by contrast, heavily criticized them. In addition, if Lafontaine had remained in Schröder's cabinet, he most likely would have attempted to veto Riester's reform plans.

The reduction of pension benefits to 67% became part of the government's Future Program (Zukunftsprogramm) (Bundesregierung 1999), which was reluctantly endorsed by the SPD parliamentary group only a week after Riester had presented his controversial plans. The Future Program for renewing Germany reaffirmed the government's commitment to introduce a private pension pillar, but as a consequence of the criticism from the SPD parliamentary group it did not mention Riester's detailed provisions for obligatory employee contributions. This was a setback for Schröder. Nonetheless, the Future Program defined a new principle for the government's pension reform which was eventually realized with the Old-Age Provision Act. Although the controversies in the SPD over the course in pension policy continued throughout the summer, the Budget Consolidation Act (Haushaltssanierungsgesetz), which contained the provisions to index pensions to inflation in 2000 and 2001, was passed in the Bundestag in November 1999. Schröder's assertion of authority was successful.

The Budget Consolidation Act was a prelude to Schröder's comprehensive 2001 pension reform. First, by reducing pension benefits to 67%, Schröder abandoned the principle of status-maintenance during retirement. But instead of "softening up" policymakers for this new idea, Schröder abruptly shattered their long-held principles. Although Schröder's coup was risky, the passage of the 1999 Budget Consolidation Act shows that his strategy of polarization paid off. Second, the cutback of benefits established a new method for stabilizing pension contributions which contradicted previous SPD policy. Before June 1999, the SPD achieved contribution reductions through revenue increases from the proceeds of the newly created eco-tax. The pension reform provisions in the Budget Consolidation Act enabled the SPD-led government for the first time to reduce contribution rates solely through changes on the expenditure side. In January 2000, the government reduced pension contribution rates from 19.5% to 19.3%.

The second proposal, which became the basis of the Old-Age Provision Act, was presented by labor minister Riester at the end of May 2000. The reform concept, entitled Renewing Germany – Pension Reform 2000 (Deutschland erneuern – Rentenreform 2000)

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15 Richard Meng, "'Rasiert ist Riester auf jeden Fall': Der Arbeitsminister, das Rentenkonzept und die SPD", Frankfurter Rundschau, June 19, 1999, p. 3.
16 Interview with Ulla Schmidt, Frankfurter Allgemeine Zeitung, June 22, 1999.
(Koalitionsarbeitsgruppe SPD und Bündnis 90/Die Grünen 2000), generated another wave of criticism from the SPD parliamentary group and the trade unions. In many respects, it was much more radical than the proposal of June 1999. Most importantly, Riester now planned to reduce benefits to a level below 64%, thus surpassing the cutbacks of the Kohl pension plans that were rescinded by the SPD in 1998. The proposal from May 2000 had three main elements. First, it contained details of the planned private pension pillar. Employee contributions to the private plan would amount to 4% of gross income, a much higher percentage than previously suggested by Riester. But they should be voluntary rather than obligatory and subsidized by the government. Second, the Riester planned to introduce a so-called compensation factor which would reduce the level of public pension benefits by an amount equal to the size of the voluntary private pension savings recommended by the government, far below the 67% level achieved through the previous change of the adjustment formula. Third, the plan specified very low levels at which contribution rates should be stabilized in the long-run: pension contributions should remain below 20% until 2020 and should not exceed 22% by 2030. In addition, it included a legal provision that would guarantee the stabilization of contributions at these particular levels by obliging the government to take adequate measures when rates are expected to rise above these ceilings.

Once again, Schröder pursued a strategy of polarization: after presenting an authoritative definition of the reform content, he pushed his proposal through the SPD parliamentary group and the SPD Executive Committee against massive opposition from his critics. The difficult decision-making processes in the parliamentary group and the Executive Committee reveal the power struggles within the Social Democratic Party. Riester's pension reform plans were first vetoed in both bodies, but then passed at the next meeting. The initial vetoes had a simple reason. At the June meeting of the SPD parliamentary group, Peter Struck, the parliamentary leader who tends to be loyal to Schröder, was absent due to illness. Rudolf Dreßler replaced him as chair of the meeting and was able to block the passage of Riester's proposal in the parliamentary group, at least temporarily. The June meeting of the SPD Executive Committee followed a similar pattern. Schröder attended the European Council meeting at the time. As a result of Schröder's absence, the supporters of the old alternative had the opportunity to veto the reform in the SPD's decision-making body. But Schröder and Struck were able to overcome the resistance within the SPD. On July 3, 2000, the SPD Executive Committee approved Riester's reform plans in a narrow and restricted vote. The number of committee members abstaining and voting against the plans was larger than the number of members voting yes. As chair of the meeting, Schröder did not allow any votes about amendments. The following day, the SPD parliamentary group, under the chairmanship of Struck, voted with a majority of only 70% for the government's pension reform plans.

With the decisions taken in July 2000 Schröder's new alternative became official party policy, and the old alternative was effectively removed. The 20% and 22% levels became firmly established as benchmarks for the principle of long-term contribution stabilization. The larger size and greater significance of the private pillar strengthened the SPD's commitment to reform the institutions of Germany's Bismarckian pension system. The old principles, on the other hand, became indefensible. First, the maintenance of the

17 Frankfurter Allgemeine Zeitung, June 8, 2000.
18 Frankfurter Allgemeine Zeitung, July 4, 2000, p. 2.
19 Frankfurter Allgemeine Zeitung, July 6, 2000, p. 17.
principle to preserve the existing system was made impossible by the party's commitment to introduce a new private pillar that partially substitutes the public pillar. Second, the supporters of the old alternative could no longer seriously defend the principle of status-maintaining public pension benefits given the party's endorsement of Riester's plans to reduce benefit levels to 64% or even lower.

IDEATIONAL CHANGE IN GERMAN SOCIAL DEMOCRACY

The majoritarian endorsement of Riester's reform concept by the SPD Executive Committee and the SPD parliamentary group was the tipping point for the change in ideas and interests. Afterwards, the building of a new consensus in pension policy proceeded rapidly. In September 2000, Riester presented the draft law of the Old-Age Provision Act (Bundesministerium für Arbeit und Sozialordnung 2000). By that time, Schröder had generated a critical amount of support within the SPD. The supporters of the old alternative had become a minority and found themselves politically isolated. The renewal of the SPD left-wing was primarily a reaction to the defeat and the marginalization of the supporters of the old alternative. The new leader of the Left Forum, Andrea Nahles, described the dilemma of the "traditional" Social Democrats well: the SPD left-wing has lost its power, but receives the blame for all the problems of the Social Democratic Party (Nahles 2000, 2). The effect of Schröder's strategy of polarization was thus two-fold. On the one hand, the chancellor succeeded in converting a significant number of people in the SPD Executive Committee and SPD parliamentary group to his new principles. On the other hand, he managed to strongly marginalize the remaining members who believed in the party's old principles, thus creating the conditions for the strategic and substantive renewal of the SPD left-wing. The reorganization of the party's left-wing in summer 2000 and the subsequent shift from obstruction to negotiation completed the SPD's change in ideas and interests.

In November 2000, the approval of Riester's draft law by the SPD parliamentary group went smoothly. Of 298 members, only 10 members voted no and another 10 members abstained, which was far below the 30% no votes a few months earlier.20 The contrast is even stronger when we compare the positive reaction to Riester's draft law with the hostile reaction to the government's first proposal in June 1999. The broad agreement in the parliamentary group shows that a consensus had been created in the SPD regarding the long-term stabilization of contributions at the 20/22% level. The trade unions also converged on this position. At a summit with the bosses of the large trade unions, Schröder and Riester reached an agreement with the union movement. The agreement of December 17, 2000, stated that the trade unions support the stabilization goal.21 For labor minister Riester the unions' change in positions represented a "quantum leap". Schröder won the active support of the left-wing and the unions for his new principles in pension policy through a number of concessions, which were negotiated by Peter Struck, the parliamentary group's chairman. First, as a compensation for breaking with the principle of parity financing, the power of unions in bargaining with employers over employer contributions to the new private pension plans was strengthened. Second, the reduction in the level of pension benefits was minimized as much as possible by substituting the so-called compensation factor with a new pension adjustment formula. In another vote on the

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revised version of Riester's draft law shortly before Christmas, the SPD parliamentary group was even more highly united than in November 2000. There were only 5 no votes and 8 abstentions. The stage for the successful and consensual passage of the Old-Age Provision Act in January 2001 was set (Deutscher Bundestag 2001).

The SPD parliamentary group, the SPD left-wing and the trade unions were enthusiastic about these improvements and claimed credit for them. Struck proudly emphasized that "the SPD parliamentary group plays a special role". Nahles praised the Old-Age Security Act as a "success for the SPD left-wing" and as "a truly Social Democratic pension reform" (Nahles 2001, 4). The real winner, however, was Gerhard Schröder. Through his strategy of polarization and his persistence in establishing new principles in SPD pension policy, Schröder was successful in redefining the very meaning of "truly Social Democratic". Under Schröder's leadership, the SPD has undergone a profound change in ideas and interests. The fact that the SPD left-wing – the strongest supporter of the old principles and the most hostile opponent of the break with long-established SPD policies – now claims credit for the Old-Age Provision Act is the best evidence for the SPD's ideational reorientation. Over the course of a year and a half, the SPD has developed a strong interest in the long-term stabilization of contribution rates, which has become the overriding principle in SPD pension policy. It has thus replaced the previously most important principle of status-maintenance. Formerly, the benefit level was fixed and the contribution rate was variable. Now the contribution rate is fixed and the benefit level is variable. Only a few years ago, a variable benefit level would have been entirely unacceptable for the SPD.

POWER, IDEAS AND POLICY CHANGE

The pension reform of the red-green coalition in Germany is an excellent case to study the relationship between power and changes in ideas and interests. In the ideational literature, the role of power in policy change is often downplayed. Instead, ideational scholars emphasize the role of new ideas and the process of persuasion (Heclo 1974; Kingdon 1984; Majone 1989). In his influential study on Modern Social Politics in Britain and Sweden Hugh Heclo argues that changes in the relationships of power are an insufficient explanation for changes in policy. Heclo's findings are that "a great deal of policy development – its creation, alteration, or redirection – has been settled prior to or outside of substantial exercises of power. In the end, when analysis, deliberation, and persuasion failed to reach agreement ... political power has been resorted to and sometimes proven decisive" (Heclo 1974, 306).

I agree with Heclo that policy change is not the direct outcome of the exercise of power. As studies by historical institutionalists have shown, policy inheritance and path-dependence prevent governments from directly imposing major policy change. However, ideational scholars tend to overlook the importance of power in redefining alternatives and changing ideas. Persuasion is not the only force that drives ideational change. It may in fact play even a negligible role. As the analysis of the German case of pension reform shows, polarization is another means that policy innovators employ to redirect policies. But a strategy of polarization is risky. A sufficiently powerful position seems to be an

22 Frankfurter Rundschau, December 20, 2000, p. 4.
important condition for the feasibility and for the success of polarization. Otherwise polarization attempts might backfire and reinforce existing ideas and policies instead of redefining them.

We should not see the exercise of power solely as a factor that complements ideational change in producing policy change. In addition to its direct effects, the exercise of power has an important indirect effect on policy change that we should not neglect. Power plays an essential role in ideational change and is thus an integral part of ideational theory rather than merely an addition to it. Instead of persuading fellow policy-makers, powerful policy innovators have the ability to convert many of them to their new ideas and marginalize the defenders of the status-quo. Unlike persuasion, conversion is not a two-way interchange. In a process of persuasion, a new alternative gradually emerges through deliberation. In a process of conversion, by contrast, the main principles contained in the new alternative are predefined and remain fixed throughout the reform process. Put differently, the terms of the reform are set from the beginning.

One difficulty in studying the relationship between power and ideational change is to determine the underlying factors for actors' consent to policy change. To give an example, is the SPD's support of Schröder's pension reform based on a change in ideas and interests or the result of strong political pressure and strategic considerations? I have presented both theoretical considerations and some empirical evidence which support my argument about ideational change and interest redefinition. In addition, my argument contains a number of observable implications. If Schröder's political pressure or the strategic incentives he provides in fact explain the SPD's support of his pension reform plans, then we should be able to observe the true basis of the SPD's support in two settings: first, after Schröder has left office, and second, in a setting where his ability to exercise pressure and provide strategic incentives is much weaker than in the SPD Executive Committee or in the SPD parliamentary group. First, if Schröder left, would the SPD abandon the new principles in pension policy? Would the SPD revert to the pre-Schröder era? One implication of my argument about ideational change in the SPD is that the party would continue to support the Old-Age Security Act and the new direction in pension policy even without Schröder. Second, will the new alternative in pension policy be approved by an SPD Federal Congress? Will the contradiction between policies and program in the Social Democratic Party be resolved in Schröder's favor? A second implication of my argument is that the SPD will abandon its long-established pension reform program, possibly at the 2001 Federal Congress. Rudolf Dreßler has always maintained that Schröder's reform plans would never be approved at an SPD Federal Congress. If my argument about ideational change in the SPD is correct, future programmatic developments should prove him wrong: Schröder's forceful renewal of Social Democratic policies will be followed by a renewal of the SPD party program along similar lines.

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