

The 'New Politics' of the Bismarckian Welfare State: Pension Reforms in Continental Europe

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How do veto-heavy European welfare systems engage in reform? In this paper we analyse the pensions policy reform process in four Bismarckian welfare states against the background of recent theorizing about the scope and nature of welfare reform. We develop the notion of a 'double trade off' – involving both politics and policy - to illustrate how governments manage to push reforms forward despite the opposition of strong vested interests. In the process we also reach a number of conclusions about recent theoretical understandings of reform in continental Europe, including both the process of reform and the nature of reform outcomes.

1. Pensions Reform – the Nature of the Problem

From the 1970s, a series of pressures have shaken the social protection structures created and developed in Europe in the 19th and 20th centuries. These include an increase in the demand for services (beyond the expansion of available resources), the transformation of the family, the ageing population, general budgetary strains (compounded in some countries by the EMU convergence criteria) and an ideological shift towards neo-liberal principles and values.

Europe's 'conservative-corporatist' regime of countries faces the most difficult combination of problems due to strong challenges to its foundational assumptions (strong and constant economic growth, full employment, family stability, a low level of female work force participation), and an institutional structure that is resistant to reform (popular but fragmented social schemes financed by social contributions and managed by social partners and the state).

Pensions are a paradigmatic case. The Bismarckian pensions model is based on the overarching goal of income maintenance. Financing is provided mainly by employers' and employees' contributions, entitlement is conditional upon a contribution record and most benefits are earnings-related. Public pension schemes are organised on a *pay-as-you-go* (PAYG) basis and funded by compulsory contributions that are not capitalised, but are immediately employed to cover payments to current pensioners. As for management, there is a mix of responsibilities between the state and organised interests: the state has a supervisory role (especially regarding the system's financial viability) while many decisions are negotiated with trade unions and employers' organisations.

The intense political debate on recasting pensions in Continental Europe has centred on the following:

1. **Financial Viability.** The financial imbalances of social security programmes are one of the main challenges and have obliged decision-makers to reduce social outlays and increase contributions. The political debate has centred on the distinction between contributory and non-contributory benefits and the need, emphasised especially by the unions, to clearly distinguish expenses directly attributable to the state (and to be covered by general taxation), from those attributable to the pension scheme (and to be financed from contributions). There

has been disagreement about how best to restore financial equilibrium. Some actors have stressed the need to reduce benefits, while others have proposed an increase in the flow of funds.

2. **Economic Competitiveness.** The financial crisis has been related to general economic difficulties including a low level of annual growth and a relatively high level of unemployment. The prevalence of Catholic familialism and labour market rigidities contribute to low overall levels of employment (Esping-Andersen 1995). And since social insurance schemes are still largely financed by employers' and employees' contributions, their direct influence on labour costs can impede job creation and undermine competitiveness, especially at low skill levels.
3. **Equity.** Equity problems derive both from the uneven distribution of protection and costs between social and occupational groups, and differences in funding resources between the various social programmes. They assume different dimensions in different countries, are perceived in different ways by public opinion and demands different reform responses. In Italy the 'equity deficit' is due mainly to a gap in coverage between the core of the labour force and the periphery; in Spain between workers and other social categories (e.g. widows); and in Germany between different age cohorts.
4. **Effectiveness.** Part of the dilemma for decision-makers is how to reorganise welfare programmes to reduce financial imbalances while also improving their 'cover' of different (both old and new) risks. An example is the need to maintain the average level of benefits for recipients after implementing cost-containment measures. Another is the need to extend the 'pension net' to new occupational groups (e.g. part-time workers). In Southern European countries (Italy, Spain and Greece) the effectiveness problem also consists of administrative inefficiencies.

All of these policy goals are related to what Pierson (1996; 2001) has called the '*irresistible forces*' for reform. '*Immovable objects*' take the form of counter-pressures in defence of current welfare programmes and the rights and privileges of their direct or indirect beneficiaries. These forces of resistance are particularly strong in mature PAYG systems. Virtually every citizen is concerned by public pensions. Current pensioners as well as future beneficiaries are likely to object to new measures that diminish entitlements. Support for current pensions programmes remains intense and represents potentially strong opposition to reform. Such opposition can be expressed via two different channels: the electoral and the corporatist. Other *sticky elements* are represented by institutions themselves, with veto points and path-dependent processes responsible for reform inertia.

Figure 1. The Parameters of Bismarckian Pensions Reform



These numerous pressures for or against reform have shaped the debate on recasting pensions systems in every European Bismarckian welfare state. They determine the space for reform and suggest that blockage is much more likely than innovation (Figure 1). And yet reform does occur. Our objective in this article is to

explain precisely how and when it occurs in mature, veto-heavy *pay-as-you-go* pensions systems.

While the multidimensionality of the reform space creates many impediments to change, we argue that it is also the source of reform opportunities. Following Rhodes (2001), we argue that the co-existence of different priorities (as an effect of different strains on welfare programmes) can increase the opportunities for innovation, and even for painful policies, including cutbacks. The more reform dimensions there are, the more opportunities exist for ‘trading’ them with one another. In each country, the room for policy manoeuvre depends on the nature of such interaction. Commitments by actors to different ‘ideal’ reform packages provide the basis for *trade-offs* in which both political and policy goals are subject to a particular form of ‘political exchange’.

But how best to understand this process of reform and its outcomes? We begin our investigation in part 2 with an appraisal of ‘the state-of-the-art’ in contemporary welfare state analysis. We focus on Pierson’s ‘new politics of the welfare state’ approach, and identify a number of limits that we seek to respond to in our own analysis, the foundations of which we lay down in part 3. Our core argument is that pension reform proceeds in the Bismarckian welfare systems via a *double trade off* that is quantitative and material as well as political and institutional. While blame avoidance is considered to be the major motive of reform strategies in the ‘new politics of welfare’ literature, *credit seeking* and *claiming* is in reality a major spur to participation in these ‘bargains’ and a key explanation for why reforms succeed. Part 4 presents our empirical analysis of the double trade off – of its processes and outcomes – in four cases: France, Germany, Italy and Spain. Part 5 concludes by addressing some broader implications for our understanding of welfare state reform.

2. Pensions and the ‘New Politics of the Welfare State’

The ‘new politics’ of the contemporary welfare state, as defined by Pierson (1994; 1996), purportedly follow a quite different logic from those of the ‘golden age’ of welfare expansion. The ‘new politics’ can be summarised in terms of the goals of reformers, driven by so-called *irresistible forces*; the constraints of electoral incentives (consistent with vast support for welfare programmes); and the institutional ‘stickiness’ produced by veto points and path-dependent mechanisms. Welfare programmes – attracting widespread support and subject to political inertia - are characterised as *immovable objects*. Reform attempts are assumed to be highly incremental and more conducive to a general state of stability than radical change.

In Pierson’s (1998) analysis, the goals of policy-makers are defined in terms of the retrenchment (rather than expansion) of welfare benefits. Financial strains put policy-makers under pressure to recast social policies and reduce social costs. Endogenous factors - slower productivity growth, the extension of government commitments and population ageing - combined with certain exogenous forces have produced an era of permanent austerity. These are the *irresistible forces* for the curtailment of welfare programmes. From an electoral perspective, the adoption of cutbacks is defined as an exercise in *blame avoidance*, for two reasons. First, because the costs of austerity measures are concentrated while the gains are diffuse, and second because the reaction of the public to cutbacks (losses) and gains is asymmetric: they are more sensitive to the first than to the second.

From an institutional perspective, Pierson argued that welfare programmes created ‘dense interest-group networks’. According to the path-dependence and

policy-legacy approaches, welfare institutions create their own constituencies capable of blocking major changes. This may explain why social institutions have persisted even when the power resources of the social and political actors that were decisive for their construction (i.e. left-wing parties and trade unions) have been in decline. For all of these reasons, implementing policy in a phase of ‘permanent austerity’ requires that the social, political, and electoral costs of doing so are minimised (Pierson 1994; 1996).

But while this approach is useful for analysing the problems of welfare reform, it is somewhat less helpful for understanding the nature of reform *processes*. A major limit is the argument that reforming welfare programmes means retrenchment, assuming a certain linearity in welfare evolution after the ‘golden age’. Much has been written on welfare state retrenchment, stressing the inability of policy-makers to reduce social outlays. However, decision-makers have also sought to reorganise welfare institutions rather than simply retrench welfare spending (Ross 2000; Hering 2002; Palier 2002b).

In subsequent work, Pierson (2001) agreed that analysing change along a single dimension has been counterproductive. He subsequently redefined the content of reforms in terms of *recommodification*, *cost containment* and *recalibration*. *Recommodification* reverses measures that distance the citizen from the market and encourages active labour force participation. *Cost-containment* responds to pressures on government budgets and prioritises cutbacks. *Recalibration* consists of two kinds of change: *rationalisation* (modifying social plans in line with new ideas for achieving traditional welfare goals), and *updating* (adapting social programmes to changes in the economy and society, such as the nature of the labour market or population ageing) (Pierson 2001).

This approach provides useful theoretical tools for analysing social policy change. It also helps in understanding the reform path of each welfare regime. While conservative-corporatist countries tend to engage in cost-containment and recalibration, social-democratic countries prioritise cost-containment and the liberal countries recommodification. The main virtue of this approach is its multi-dimensional analysis of reform content. Not only can it be used to study different outcomes in different welfare models, but also each policy sector can be characterised by a certain reform path producing a particular reform outcome.

Nevertheless, despite its utility, this approach remains underdeveloped. We identify four areas in which refinement is required:

1. First, the three reform dimensions are too vague and problematic for a complete and in-depth analysis of reforms in different countries and policy sectors. As Pierson himself observes (2001; 427): “disaggregating these reform dimensions [will increase] our capacity to make sense of relative political processes, facilitating more nuanced accounts of actors’ interests and political activity”. We argue that disaggregation is especially important for analysing the interaction of key actors within the policy process. Since social and political actors do not struggle for recommodification or recalibration *per se* we need to define concepts more closely related to the concrete debate on policy reform in each sector. We therefore propose a number of less ambiguous terms of relevance to pensions reform. As set out in the introduction, the four different goals pursued by actors in the sector can be summarised as:

- the promotion of the *financial viability* of pension plans;
- the need to reconcile pension programmes with *economic competitiveness*;
- the search for greater *equity* (i.e., combating the uneven distribution of funding and benefits);

- and the adaptation of social programmes to contemporary socio-economic risks (*effectiveness*).

By analysing the pursuit of these goals and the compromises made among them, we also highlight the degree of choice and scope for political agency and leadership that continues to exist in welfare reform and that is played down in the ‘new politics’ literature (see Ross 2000).

2. Second, the notion of ‘cost containment’ needs to be contextualised, since many of the measures proposed to restore financial viability consist not of cutbacks but of increased funding for social programmes. Our argument – extending that of Myles and Pierson (2001) – is that the search for alternative means of improving the financial sustainability of social insurance has mitigated the imperative of retrenchment. From the 1980s onwards there have been moves to distinguish more clearly between social insurance benefits and non-contributory benefits. This strategy allows policy-makers to reduce social insurance deficits while also ameliorating the weight of social contributions on labour costs. The need to increase the flow of funds has also been proposed by major actors as complementary to or as substitutes for the reduction of benefits. Trade unions have frequently stressed the need to increase employment and enlarge the contribution base. Related proposals have recommended closing insurance gaps in employment histories (i.e. for parental leave, unemployment, etc.) and expanding insurance coverage to excluded groups (Ney 2001; Schludi 2002). The overall orientation of reform is therefore less towards cost-containment as such but rather the restoration of *financial viability* in pensions programmes via a range of alternative options.

3. A third related theoretical limit concerns the politico-institutional context. The focus in the ‘new politics’ literature on retrenchment and cost-containment implies that policy-makers are overwhelmingly concerned with *blame avoidance* to reduce the associated social and political risks (Weaver 1986; Pierson 2001). We argue, however, that a much more complicated game is being played between decision-makers, voters, and vested interests. For Pierson recasting welfare programmes is largely a blame avoidance exercise, and governments involve other actors in the reform process for reasons of legitimacy and the *diffusion* of blame (Myles and Pierson 2001: 321 ff). We argue that recasting frequently involves *credit claiming* as well. Some measures (e.g. cost-containment) do indeed imply the need to reduce or diffuse blame. But others (e.g. increasing the effectiveness of social programmes or improving equity) can be defined as classical credit claiming acts.

The introduction of supplementary, fully-funded schemes is a good example of a credit claiming exercise (Schludi 2001). The government thereby avoids an increase in contributions to public pensions schemes, the living standards of beneficiaries are safeguarded and since such schemes are usually implemented through generous tax incentives, they can be presented as an additional to rather than replacing other benefits. For the unions, occupational schemes are not only a means of boosting power resources if they participate in their management – or even, as in Italy, for democratising welfare capitalism (Lapadula and Patriarca 1995) – but they are also important for compensating the erosion of public schemes. Other examples are measures to increase the effectiveness of pension provisions, reduce contribution levels, or increase equity between generations, occupational groups and risks.

4. A fourth and final limit is empirical rather than theoretical. In comparing the reform paths pursued in Bismarckian systems we argue that the objectives of political and social actors are not only cost-containment and recalibration (as proposed by Pierson 2001) but all four goals mentioned above. Moreover, the comparison we conduct

below reveals the co-existence of all three Piersonian dimensions in the conservative-corporatist model; even recommodification (supposedly restricted largely to the liberal regime) has been part of the Bismarckian reform agenda (see Palier 1997; also Myles and Pierson 2001: 326-327). The introduction of a new private pension tier in Germany and Italy and the closer relationship forged between contributions and benefits in all four countries are clear examples of recommodification in pensions.

3. An Actor-Centred Approach to Understanding Pensions Reform

As argued in previous work (Rhodes 2001; Molina and Rhodes 2002), the broadening of social bargains has been a key factor in reinforcing corporatist trends in recent years, especially where the organisational prerequisites for corporatism have been weak. By co-ordinating different policy sectors (and/or different bargaining levels) policy-makers can extend and reinforce concertation. An extended and iterated process of exchange allows key policy actors to interact with each other and to negotiate and adopt reforms with reduced electoral and social risks.

We can apply a similar logic to studying the process of coalition building in the pensions policy sector. As pointed out by Myles and Pierson (2001: 332), in mature PAYG systems it is essential that policy makers gain at least the tacit consent of organised groups in advance of reform. Reform proposals in such systems usually take the form of policy packages for building consensus. In the countries we analyse below, engaging in a complex and novel process of ‘political exchange’ has been decisive for creating sufficient support for reforms. Indeed, the creation of policy packages allows decision-makers to act as policy *opportunists* (see Hering 2002). Given a particular economic and financial context, policy opportunists can enlarge the window for winning agreement to change, whereas non-opportunistic policy-makers fail. Reforms, in successful cases, are the result of trade-offs involving a series of policy goals. In the following study we demonstrate that recasting pensions usually involves a *double trade-off*: between policy and political goals.

While in some countries the *electoral arena* is the most important for defining reform initiatives, we argue that the *corporatist channel* is decisive for recasting Bismarckian welfare states. We focus on the role of labour organisations for, as argued by Schludi (2001), the consent of employers’ organisations is neither necessary nor sufficient to ensure the passage of pensions reforms. While employers’ influence on the agenda for pension changes may have been decisive, their support is less critical for the adoption and implementation of proposals. By contrast, and notwithstanding their declining resources, in many countries trade unions still play a critical role in introducing new pension provisions (see Myles and Pierson 2001: 322-323; 332-333). They act, and are perceived, as the main defenders of welfare programmes. They participate in a more or less institutionalised manner in both policy-making and policy-implementation and have multiple interests to defend (Béland 2001; Boeri et al 2002).

But what do they want? What are their policy preferences? Political parties and social actors in fact have multiple goals and the political game in which they engage needs a far richer account than traditionally provided for in the welfare reform literature. Parties are often depicted as driven by the need to make electoral gains or minimise losses. Social actors (unions) are assumed to be wedded the status quo. But a recent literature has demonstrated that party leaders have a complex set of parallel preferences and we argue that the same insight can be extended to the leadership of labour organisations. In line with our discussion above on the complexity of reform

agendas, these goals can be mixed and ‘traded’ to enlarge the opportunity for innovative reform.

Rosa Mulé’s (2001) analysis of political parties and income redistribution defines party behaviour as ‘many-sided and multifarious’. Contesting earlier models that assumed that different aims were mutually exclusive, Mulé, among others (Immergut et al. 2001; Della Porta 2001), argues that politicians adopt a plurality of strategic moves in competition with one another. Parties can be depicted as:

- *vote-seekers*, in trying to gain votes and control government;
- *office-seekers*, in expanding their control over political office in their quest for benefits and private goods;
- and *policy-seekers*, in their quest to represent particular groups, in line with social or other kinds of cleavage.

We argue that same approach can be extended to social partners. Trade unions defend their rank and file interests and their own organisational demands. In doing so their aim is not just to defend a particular social model but also to maintain key sources of legitimacy and organisational power. Not only do labour organisations defend their managerial role in social insurance programmes (as *office seekers*), but they also engage (as *policy and vote seekers*) in promoting the interests of their own members and the political parties to which they are linked (see Figure 2).

Figure 2. The New Politics of Pension Reforms in Bismarckian Countries

Common Policy Goals	Political and Institutional Context	Actors	Political Goals	Agenda	Reform Outcomes			
Financial viability Economic competitiveness Equity Effectiveness	<p>Electoral Arena</p> <p>Electoral incentives</p> <ul style="list-style-type: none"> Blame avoidance Credit claiming <p>.....</p> <p>Policy makers vs. voters</p>	Policy makers	<p>Vote-seeker</p> <p>Office-seeker</p> <p>Policy-seeker</p>	<p>Agenda</p> <p>↑</p>	<p>Path-dependent/ Innovative</p>			
	<p>Institutional stickiness</p> <ul style="list-style-type: none"> Institutional veto points Path dependent processes 					<p>Vote-seeker</p> <p>Office-seeker</p> <p>Policy-seeker</p>	<p>↓</p> <p>Agenda</p>	<p>Marginal</p>
	<p>Corporatist Arena</p> <p>Corporatist incentives</p> <ul style="list-style-type: none"> Blame avoidance Credit claiming <p>.....</p> <p>Policy makers vs. social partners</p>							

As pursuers of plural strategies, we argue that political decision-makers have a larger margin of manoeuvre than traditionally understood. They can engage, in effect, in *double trade offs* between policy goals on the one hand and political goals on the other. The defence of the social partners' administrative role (as *office-seekers*) can be traded with measures for increasing the financial viability of the welfare state. In other cases the labour movement's priorities – as *policy-seekers* and *vote-seekers* (e.g. in defending the interests of current pensioners and older cohorts of employees) - can be traded with concentrated losses on less-represented workers (i.e. younger cohorts and private sector employees), thereby mitigating their veto player role. Thus, even 'immovable' aspects of current welfare programmes can be transformed into positive tools for decision-makers in arranging reform packages.

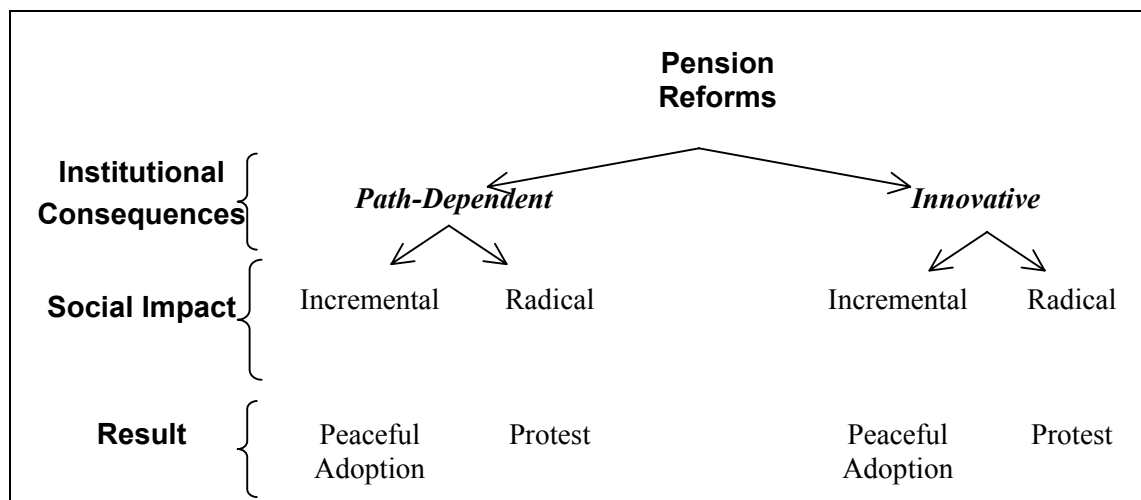
A final introductory point concerns the nature of reform. Following Bonoli and Palier (2000) and Palier (2002b) (who build, in turn, on Hall 1993) we also consider useful an approach that conceives of policy reform in terms of three different variables: the precise setting of instruments (in the case of social policies, the level of benefits); the techniques used in a particular programme; and overarching policy goals. Reforms have a different impact on each one and can be judged in terms of their varying levels of innovation. A *first order* (or instrumental) change alters the setting of instruments; a *second order* (or parametric) change alters the nature of those instruments; a simultaneous reform in both senses, as well as of the system's overall goals, represents a *third order* (or paradigmatic) form of change. Like Palier and Bonoli (2000), we consider first or second order change to be path-dependent and third order change to be innovative.

We find it especially intriguing that while some innovative proposals have been adopted by policy-makers with the consent (or acquiescence) of social partners and public opinion, much less radical path-dependent reforms have been blocked by trade unions and the mass mobilisation of their members. In some countries (e.g. Germany and Italy) path-departing reforms have been introduced and implemented notwithstanding their notoriously 'sticky' institutional contexts. Why is it that certain *innovative* changes to pensions systems have been implemented in recent years while mass opposition has blocked other *path-dependent* proposals?

As suggested by Palier (2002b), we distinguish between the *institutional consequences* and the *social impact* of reform. While a reform can be institutionally innovative or path-dependent, its impact can be radical or incremental (see Figure 3). New measures (whether innovative or not) can impact on sensitive areas of social regulation, e.g., by strongly reducing the level of benefits of well-organised welfare beneficiaries. Thus, even path-dependent changes can produce mass opposition. By contrast, innovative reform can be introduced incrementally and at the system's margin, thereby avoiding protest-triggering impacts on vested interests and voter groups.

Returning to our argument above concerning the scope for increasing the reform opportunities, when a reform package is incremental – in the sense that it avoids a radical effect on present beneficiaries - then it is approved. As discussed in depth in the following section, policy makers can therefore act as *creative opportunists* in defining a complex reform package that both responds to the pressures on present social institutions and minimises the social and political risks of change.

Figure 3. The Assessment of Reform Outcomes



4. Pensions Reform via Double Trade-Offs

France: a pre-emptive double trade off

Since the early 1990s, mounting deficits and perverse labour market effects have highlighted the need for reform in France. The financial burden of the welfare state has been mainly concentrated in the pensions sector. But public opinion has proven to be strongly attached to current pension arrangements. Until 1993, various marginal measures (*Plans de redressement des comptes de la sécurité sociale*) were limited to increasing contributions to balance the social budget (Bonoli 1997; Palier 2002a). Attempts to realise a general reform of the pension system were blocked (Teulade 2000).

At the beginning of the 1990s, the debate on pensions was centred on the Socialist Rocard government's 1991 White Paper. Both left-wing and right-wing parties agreed on the following:

1. The need to strengthen and adapt the French model of capitalism to new international circumstances due to economic stagnation and a high rate of unemployment (*economic competitiveness*).
2. That the French welfare state was a source of social exclusion and ineffective in helping system *outsiders* (*equity*) (Natali 2003).
3. The need to reduce social security deficits (*financial viability*). These could no longer be corrected simply by increasing social contributions (Palier 2002a).
4. The need perceived by some politicians and bureaucrats to reduce the role of the social partners. Their managerial role was increasingly seen as a source of inefficiency and increasing welfare costs (*effectiveness*).

Policy-makers proposed different measures to improve the financial sustainability of pension schemes: an increase in the number of contributory years for a full pension, lengthening the period for calculating the reference salary and less generous indexation mechanisms. The White Paper also advocated the introduction of an Old-Age Solidarity Fund (FSV) to finance non-contributory benefits (financed hitherto from social contributions) through general taxation and thereby reduce the

burden of social charges on labour costs. Other proposals concerned the introduction of fully funded schemes and the harmonisation of different pension schemes (*equity*).

The trade unions proposed a very different set of solutions and were much less concerned with the state of the social security deficit. The anarco-syndicalist Force Ouvrière (FO), for example, argued that the deficit was the result of inadequate financial contributions from the state, calling for a clearer separation between contributory and non-contributory benefits. The causal relationship between welfare inefficiencies and the high rate of unemployment was reversed: unemployment was depicted as the *cause* of low levels of contributions and financial problems. The unions' reform agenda was based, instead, on a defence of the co-management of social insurance programmes by the social partners (*office interests*), the introduction of a solidarity fund for financing programmes through taxation (*financial viability*), and the rejection both of fully-funded schemes and a reduction of benefits. The CFDT (the more reformist confederation) was more open to the need for innovative reforms.

The main issue in the French reform debate was the need to increase economic competitiveness by reducing the burden of social contributions. The reduction of social insurance outlays was seen by political actors as fundamental for increasing the financial viability of the system, while labour leaders wanted to redefine the relationship between national solidarity and social insurance and maintain the traditional character of pension institutions (Figure 4).

Figure 4. The Agenda for Pension Reform in France

Political decision-makers	Trade Unions
Economic competitiveness	Office interests
Financial viability (cost-containment)	Financial viability (increasing funds)

Historically, the relationship between social partners and the state in France has been particularly difficult. Institutional weaknesses and the ideological fragmentation of the labour movement have made it difficult to achieve a genuine social dialogue. This was as true of the 1990s as it was of previous decades when agreements between the government and social actors on pensions proved to be impossible (Labbé 1996; Mouriaux 1998). The formal meetings that did take place resulted in neither formal negotiation nor constructive dialogue.

Nevertheless, in the early-to-mid 1990s, the Balladur government formally expressed the need for a broad collaboration between the government and social actors (Natali 2002). However, the unions reacted negatively, with particularly strident opposition coming from FO and the communist CGT (Confédération Générale du Travail). In response, the government adopted a 'leaner' strategy. Apart from a number of formal meetings with the social partners, Balladur acted unilaterally in creating a reform that would trigger the least degree of opposition from the unions. The reform therefore sought to pre-empt the veto powers of the latter while also seeking remedial action in tackling the crisis of the French welfare state.

Unlike our other three cases, where the trade-off was the consequence of active concertation, the Balladur reform was the result of a *pre-emptive* double trade-off. In other words, it sought the tacit consensus of the social partners without actually engaging them. This consensus was decisive for the adoption of a pension reform in the summer of 1993. It had three main elements (Figure 5):

1. A first measure consisted in setting up the FSV (*Fonds de Solidarité Vieillesse*). The aim was to charge non-contribution-linked expenses (previously

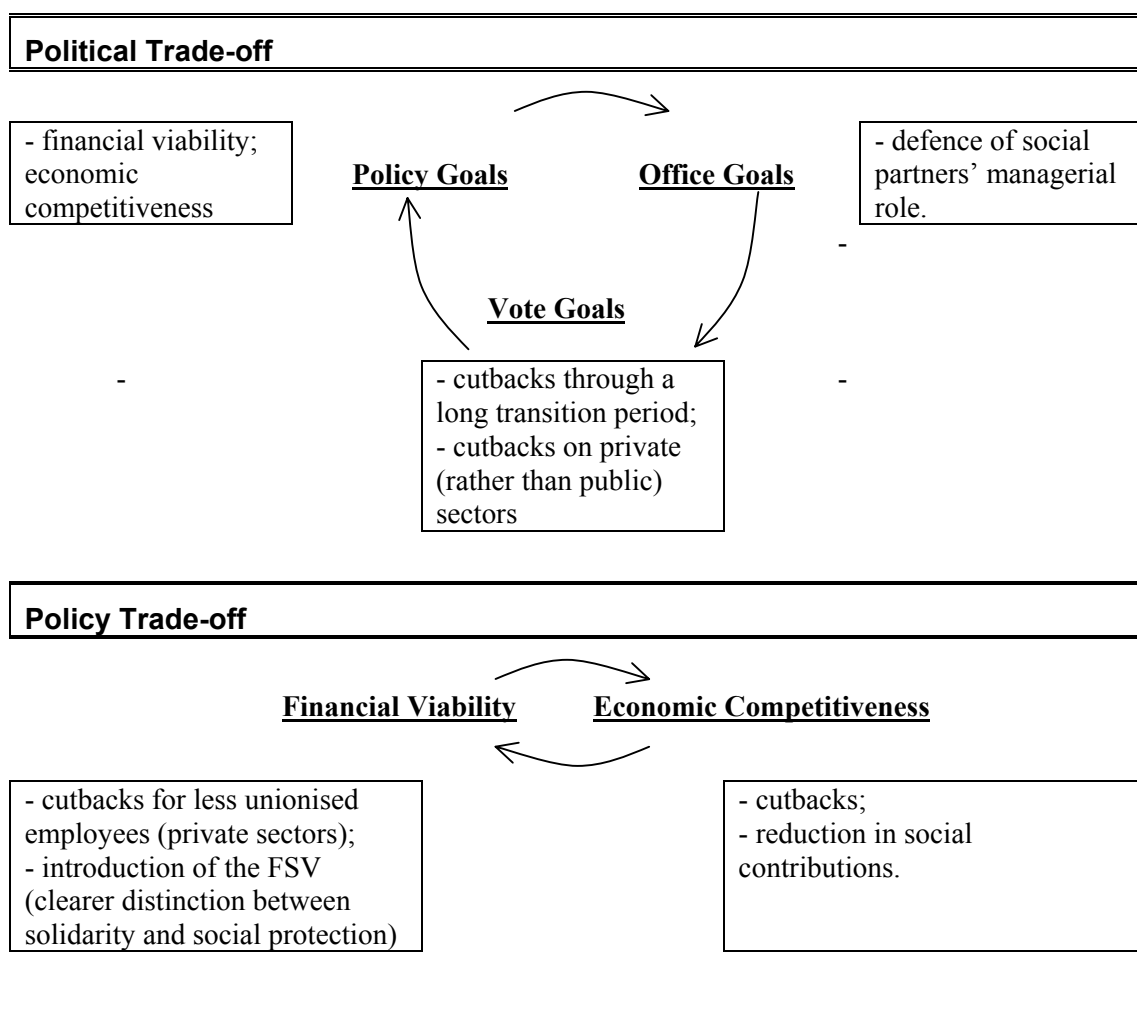
covered by the pension regimes, with resources obtained through contributions) to the national solidarity fund and finance them from general taxation. As stated above, this was one of the labour movement's major proposals;

2. To reduce the system's costs, the criteria for measuring pension benefits were modified. The number of contributory-years needed to gain a full pension was increased from 37,5 years to 40, as was the reference period for calculating the average annual (reference) wage. The reform also modified (in a more restrictive sense) the indexation criteria for calculating pension benefits (*cost containment*) (Blanchet and Legros 2002);

3. As for the *Sécu's* administrative and financial organisation, the unions' position as managers of the system was guaranteed, allowing them to retain their key organisational resources.

Under the *policy trade-off*, the new old age solidarity fund was directed to the reduction of financial strains and decreasing the burden of social contributions (*economic competitiveness*). Other measures (new mechanisms for the calculation of pension benefits) were introduced as cutbacks (*financial sustainability*). Yet, by increasing the link between contributions and benefits they transformed the pension system in line with the actuarial principle. The reform package was thus the result of a complex trade-off between two different (policy) goals (Figure 5).

Figure 5. The Balladur Reform's Pre-emptive Double Trade-Off



Concerning the political side of this pre-emptive trade off, the government adopted measures to reduce the financial burden of pension schemes and to maintain the traditional logic of social protection *à la française*. These efforts were combined with measures for increasing economic competitiveness via the reduction of social contributions (*policy seekers*). The reform also sought to avoid protests by public opinion in general and union members in particular. Balladur obtained the acquiescence of the labour movement by maintaining their organisational resources (*office seekers*), and reducing as far as possible the impact of new provisions on their members. First, the government introduced changes through a gradual transition that shifted the impact of the reform away from the more unionised, mature worker cohorts and on to less unionised younger employees. Second, the reform concerned only the less unionised private sector workers and did not affect their more unionised public sector counterparts, thereby limiting the risk of blame for both political and social decision-makers (*vote seekers*).

As for the main effects of the reform, it was an example *par excellence* of path-dependent change. There were no particular innovations concerning the mode of financing, the benefit structure or administrative control. All of the new measures were consistent with the logic of the existing social institutions (Palier 2002a). As regards their impact, the new plans have been implemented incrementally over a long transition period and all of the above-mentioned provisions were adopted for the general regime (covering private sector employees) but not for the special regimes covering public sector employees. In a country where the unionisation rate in the private sector is 50% lower than in the public sector, this was clearly an attempt to mitigate any hostile reaction from the unions (Labbé 1996).

Germany: forging an innovative reform

At the beginning of the 1990s, Germany was an example, *par excellence*, of the 'Bismarckian disease'. Two interrelated threats were perceived as particularly dangerous for Renish welfare capitalism: the declining competitiveness of the German economy and increasing financial strains on pensions due to population ageing (Clasen 1997; Meyer 1998; Ney 2001).

The unsatisfactory evolution of the labour market and the increasing social contribution rate were seen as undermining Germany's capacity for economic adjustment, generating a vicious circle of employment decline and rising benefit costs. The use of early retirement and disability pensions as a tool for labour market adjustment only aggravated the system's dependency ratio between beneficiaries and contributors (Manow and Seils 2000; International Reform Monitor 2002a). The unification of East and West Germany produced a parallel debate on its effects on pensions financing. The extension to the new *Länder* of Western pension rules was considered the main cause of instability in the social insurance budget, producing further strains on the economic and financial viability of the welfare state as a whole. A third issue in the reform debate concerned the inter-generational equity problem facing younger cohorts (Hinrichs 1998; Alber 1999).

While in the other European countries political actors now had similar priorities amidst a growing consensus on the need for reform, in Germany the views of the major actors had actually diverged by the 1990s. Social-democratic modernisers (represented by Prime Minister Schroeder and Minister of Labour Riester) proposed to stabilise (or even reduce) contribution rates (*economic competitiveness*) and to balance pension budgets (*financial viability*) through cutbacks (*cost-containment*), increasing

the flow of resources from general taxation, and extending the pensions net to flexible and independent workers (*increasing the revenue base and improving equity*) (Figure 6). Retrenchment measures would involve new indexation mechanisms and a general reduction in benefits. The decline in the replacement rate would require other forms of pension provision, namely a second pillar based on market capitalisation (Ney 2001).

Traditionalist social democrats and trade unions opposed the introduction of supplementary fully-funded schemes as a source of prohibitive burdens on contributors and a threat to the PAYG general scheme. The unions feared an associated loss of organisational power because such schemes would be beyond their control. They proposed instead an increase in funds rather than cuts via an extension of insurance coverage to system outsiders and increasing federal grants to finance all non-contributory benefits (Leisering 2001; Seeleib-Kaiser 2002).

Figure 6. The Agenda for Pension Reform in Germany

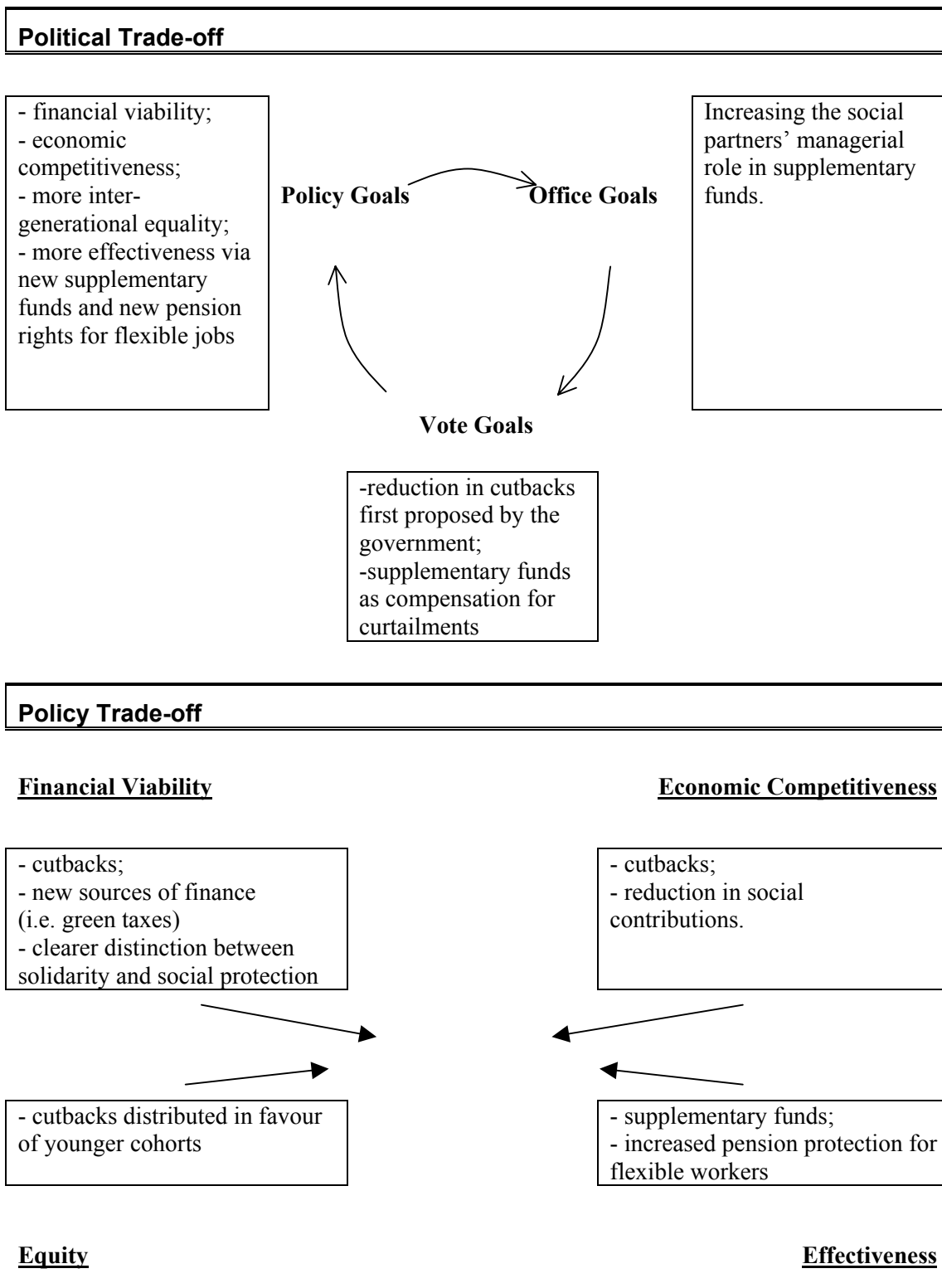
<p>Political decision-makers <i>Neue Mitte Argument</i> Economic competitiveness Financial viability (cost-containment and increasing the revenue basis) Effectiveness (supplementary schemes)</p> <p><i>Traditionalist Social Democratic Argument</i> Financial viability (increasing funds from taxation) Intra and inter-generational equity</p>	<p>Trade Unions Financial viability (increasing funds) Defence of office benefits Effectiveness (Inter and intra-generational) equity</p>
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The Social-Democratic Government put the ‘pension problem’ at the top of its agenda. But the reform was finally adopted only after considerable conflict between different political and social actors and within the governing coalition (Bonker and Wollmann 2000; Ney 2001). Led by the prime minister, the modernisers initially tried to reach a compromise with the right-wing opposition, and then seek agreement from their own traditionalist MPs. The result was a *quid pro quo* reform based on a coalition of left-wing MPs, trade unions and a heterogeneous majority in the upper house (*Bundesrat*) (Hering 2001; 2002). As a policy trade-off, the 2001 Pension Reform consisted of different measures targeting two main policy goals: the introduction of benefit cuts and the promotion of private pension funds:

1. First, the standard pension level was reduced for all pensioners through cutbacks for new beneficiaries and new indexation rules for existing ones. Thus, pension cutbacks were lower than initially proposed by the government and safeguarded the benefit level for younger cohorts of workers as requested by the unions (*financial viability plus inter-generational equality*);
2. While the first draft of the reform proposed mandatory, fully-funded private schemes, the version finally approved introduced subsidies (i.e. tax deductions) for non-compulsory private funds. A further concession made by the government to the parliamentary opposition and unions proposed that the new supplementary funds be managed through collective agreements, thereby defending the managerial role of the social partners (Anderson and Meyer 2001; Schludi 2001).
3. Before the general reform the government implemented other measures to increase the role of the federal grant and reduce the contribution rate (*increasing*

revenues and economic competitiveness) and suspended the indexation of pension benefits to net wages.

Figure 7. The Double Trade-Off in Germany, 2001



More than a simple policy trade-off, the 2001 *Rentenreform* represented a double trade-off constructed by the unions and the government as policy-seekers, vote-seekers and office-seekers (Figure 7). The cost-containment measures (which were massively reduced compared to the government's first draft) were defined so as to guarantee the living standard of future recipients and the administrative role of the unions was actually strengthened (*office seekers*). The Schroeder reform's cost containment measures were quite similar to those of the failed Kohl reform of 1999 (Schludi 2001). But it encountered a lower degree of opposition because its benefit curtailments were perceived as less intense. Countervailing measures reducing the real level of decline in public and private benefits were important in pre-empting labour protests. Opposition was also defused by the introduction of supplementary funds, a positive-sum solution that also guaranteed new powers and organisational resources for the unions (*office-goals*).

The new plans have begun to modify the nature of the pension system (in a more radical sense than in France) while they have had a more limited effect on pension expenditures. As we suggested earlier, even innovative changes can be implemented with the consent of vested interests if they do not have a huge impact on their most sensitive claims. Cutbacks were implemented together with a reduction in contributions (in line with the priority of the modernisers) but to a lesser extent than originally aimed for by the government (Anderson 2002). At the same time, other measures increased revenues (new taxes) for funding non-contributory arrangements (in line with traditionalists' demands).

Italy: a quid pro quo exchange

By the beginning of the 1990s, Italy had already long experienced unbalanced growth in social contributions and outlays: the latter continued to rise while revenues stagnated (Ferrera and Gualmini 2000). At the same time, current expenditure was growing rapidly and was financed from the public budget (and deficit). Exogenous developments in the international economy and the imperative of joining EMU forced Italian policy-makers to adopt a retrenchment strategy targeting the public sector deficit and debt.

Political and social actors had to come to terms with the need for reducing financial stress (*cost-containment*). New right-wing movements (the Northern League and Forza Italia *in primis*) provocatively proposed path-breaking measures along the lines of the Chilean model, while their left-wing counterparts advanced rather marginal measures for reducing deficits and distributing the burden fairly between different socio-economic groups. But all agreed on the need to introduce market-oriented mechanisms, increasing the relationship between contributions and benefits, and introducing new fully-funded schemes to maintain the average level of coverage after retrenchment (Natali 2002).

The issue of equity was also high on the reform agenda due to differences in entitlements between occupational categories: between self-employed workers and employees and, within these, between private and public-sector employees. Other problems included the high level of fraud and benefit abuse due to inefficient institutions. Moreover, as in the French case, welfare arrangements and institutions were perceived to be less and less competitive in an increasingly global market, as reflected in economic stagnation and a high rate of unemployment. In the early 1990s, the deep economic and political crisis (related to the end of the 'First Republic' and the beginning of judicial investigations into political corruption) enlarged the window

for reform, allowing Italy to embark on a ‘winding road to adjustment’ (Ferrera and Gualmini 2000; Antichi and Pizzuti 2000).

We focus here on the pension reform adopted in 1995 by the Dini ‘technocratic government’ (supported by a left-wing parliamentary majority) after the first Amato reform plan of 1992 and the failure of the Berlusconi reform in 1994. This new plan was the most ambitious to be approved to date in Italy. All key actors in the policy-making network agreed on the need for an innovative rather than marginal consolidation.

The main priority for the government was an improvement in financial viability (Figure 8). The problem was to distribute the financial burden of reform in such a way as to defend the under-protected (*equity and effectiveness*). The main proposal was the introduction of new formulae benefits calculation for both old age and seniority pensions. It was also planned to make the supplementary schemes introduced by the Amato government in 1992 more effective (and better able to compensate for the diminished role of public schemes). The trade unions, on the other hand, stressed the importance of protecting ‘*acquired rights*’, i.e., the pension entitlements of the mature cohort of workers (those about to retire) and present pensioners. They also proposed new plans for reducing contributory fraud and for increasing the weight of contributions for particular categories (i.e. self-employed and public employees). Finally, they agreed that supplementary schemes should be reformed. In this respect, the unions were acting as both office and policy seekers. They saw supplementary schemes as a means of increasing their administrative role (and for ‘democratising’ Italian capitalism) as well as a source of benefits for compensating for losses in the first pillar (Lapadula and Patriarca 1995).

Figure 8. The Agenda for Pension Reform in Italy

Political decision-makers	Trade Unions
Financial viability (cost-containment)	Financial viability (increasing funds)
Effectiveness	(Intra-generational) equity
Economic competitiveness	Effectiveness

In 1995 the reform process developed according to a logic quite similar to that of the earlier Amato and Ciampi reforms. The relationship between the government and unions had become more and stable and constructive than in the past, and able to withstand an intensive phase of bargaining (Regini and Regalia 1997). During the months that separated the beginning of the pension reform negotiation from its conclusion in May, union experts and Ministry of Labour advisors jointly developed the parameters of change. The final project was essentially based on union proposals (Cazzola 1994; Braun 1996).

Exceeding the limits of the Amato reform, the 1995 reform aimed to render the system more sustainable and fair, while also adjusting it to the modern world of work and the economy. The precise goals were the reduction of privileges between different social insurance schemes, the further promotion of pension funds and changes to benefit formulae. In a marked departure from previous experience, the reform also sought to increase the flexibility of benefits provision to cover the least protected sections of the work force.

1. The benefit structure was modified to control costs (*financial sustainability*), setting aside *earnings-related formulae* in favour of *contribution-based formulae*, thereby strengthening social insurance principles. The plan also introduced a

flexible-retirement age (from a minimum of 57 to a maximum of 65) by calculating benefits in a progressive manner (*cost-containment*).

2. Further interventions favoured by the unions were a sharper distinction between national solidarity and social insurance and the enlargement of social insurance cover to new forms of employment (occasional, discontinuous, temporary etc.). Obliging flexible workers to pay contributions also extended the contributions base (*increasing revenues*);

3. To increase *equity*, public and private sector employees were obliged to contribute to the scheme in equal measure, while self-employed workers' contributions were raised.

4. Seniority pensions were not completely eliminated (at least not with immediate effect). New calculation rules (which were more restrictive and fairer) were introduced, but over a long transition period (Figure 9).

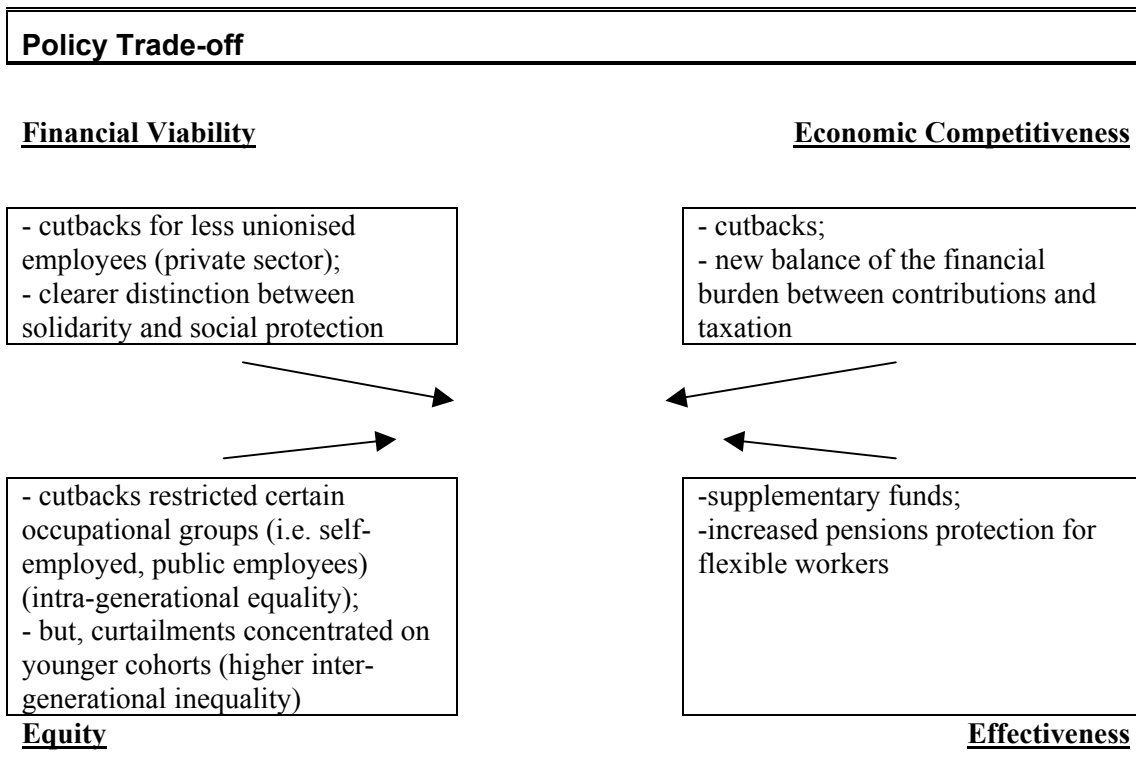
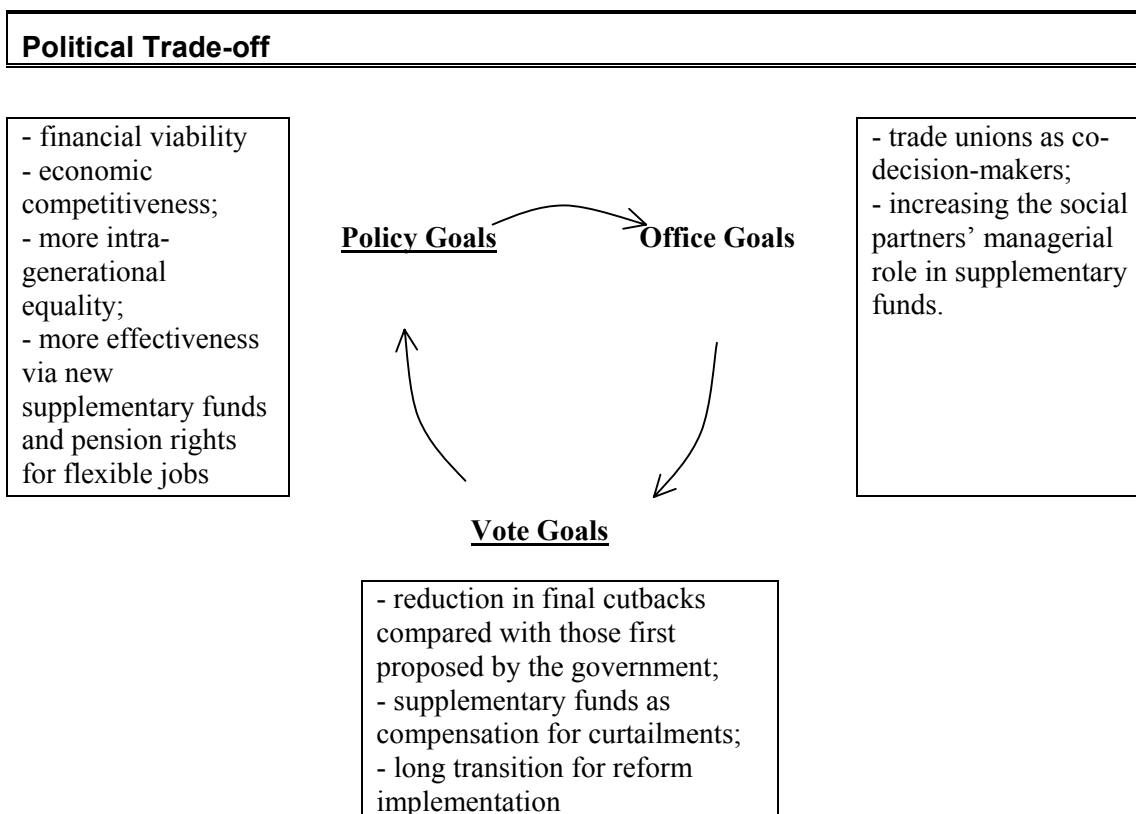
As elsewhere, the reform was achieved via a double trade-off. In the political trade-off, the government was able to reduce financial imbalances and improve the effectiveness and equity of pension schemes, while the unions gained new sources of organisational power under the new regulations for supplementary funds. The implementation of new measures through a long transition period, and the targeting of cutbacks on social groups not represented by the major labour confederations, were decisive for reducing the blame on both political and social actors.

The policy trade-off involved all four dimensions proposed in our model: financial sustainability (through both cutbacks and new sources of finance), equity (the burden of new measures fell on former privileged groups like the self-employed), effectiveness (a more flexible pension net covering both insiders and outsiders), and economic competitiveness (by distinguishing non-contributory from contributory benefits). However, there were inevitably losers – in this case the younger generations. The reforms decreased benefit levels for the younger, present and future cohorts of workers, while mature employees (in particular in the public sector) retained their social rights and incurred no significant reductions in benefits. Only some of the measures needed to balance the pension budget were adopted. These represented the first step - but not the decisive one - towards fully renovating the Italian welfare system.

The new plan reduced benefits, recalibrated the entire system (to deal with new social and economic challenges), and created a multi-pillar structure by introducing fully funded supplementary schemes (*recommodification*). From an institutional point of view, the reform was therefore innovative. The new provisions transformed the old institutions from a '*welfare without work*' regime to an '*employment friendly*' model (Palier 2002b). Together with the transformation of the benefit structure - from an *earnings-related formula* to a *contribution-based formula* - new provisions were also defined for supplementary occupational schemes.

By contrast, although the most incisive Italian reform to date, its cost-reducing impact was rather more modest (Beltrametti 1995). This was the price for avoiding the crisis provoked by the Berlusconi reforms of 1994 which would have seen more radical new rules for seniority pensions. Moreover, to preserve the acquired rights of the more mature cohorts of workers, the new legislation provided for a longer transition period that exacerbated the differences of treatment between new and older generations of workers. However, serious efforts were made to reduce the uneven distribution of benefits and contributions between insiders and outsiders, a reform that was either more limited or non-existent in our other three countries.

Figure 9. The Double Trade-Off in the Dini Reform



Spain: an incremental, path-dependent reform

In Spain, the Socialist government introduced a pensions reform unilaterally in 1985, but in the 1990s there was consensus among all political and social actors on the need to consolidate the social insurance system. The debate on pensions was characterised by an apparent paradox. For while the Spanish welfare state had yet to reach the same level of development (even in terms of spending) as other, more economically advanced, European countries, by the 1990s its social security budget was experiencing similar financial difficulties. Pensions were the main problem (Noguera 2002). The main issue for both political and social actors was financial viability. Demands were also being made for an improvement in the levels of certain benefits due to increasing inequalities between risks - some of them (old age) being relatively well protected, while others (widows and orphans) were insufficiently covered (Ayala 1994; Herce and Perez-Diaz 1995; Chulià 2000).

The official statement of this broad consensus was the *Toledo Pact*, approved by the Chamber of Deputies in 1995. This agreement provided a *quid pro quo* basis for further reforms. As far as pensions were concerned, several recommendations emerged from a compromise between those promoting viability and those who favoured higher spending. As elsewhere, a clearer distinction between solidarity and social insurance was advocated to improve *financial viability*. Other proposals involved the creation of a reserve fund with surpluses from contributions, raising the retirement age and the introduction of supplementary schemes. A second set of proposals aimed to improve the *equity* of the system by changing the resource base (harmonising contributions among schemes and reorganising public pension programmes into two main schemes), and improving the balance of cover across risks. A third group of proposals focused on improving *administrative effectiveness* to combat fraud (Blanco Angel 2002).

Political parties (even the PPE) supported the introduction of a reserve fund (shifting funding from social insurance towards general taxation); cost-containment (a delay in the retirement age and a better ratio between contributions and benefits); increases in certain areas of spending (more favourable indexation mechanisms); and a reduction in inequalities between contributors (Herce and Pérez-Diaz 1995).

The trade unions shared the concern of political parties with demographic trends and the high level of unemployment as well as the more dysfunctional aspects of pensions resourcing and spending. However, they also believed that social institutions should be consolidated rather than radically transformed. They supported many of the reforms advocated by the parties, including combating benefit abuse. But they rejected increases in the retirement age and in the period of contributions, and called for higher spending on widows and orphans (*equity between risks*) (Figure 10) (Guillén 1999).

Figure 10. The Agenda for Pension Reform in Spain

Political decision-makers	Trade Unions
Financial viability (cost-containment)	Effectiveness
Effectiveness	Financial viability (increasing funds) with higher spending
Economic competitiveness	Equity (between risks)

The document known as the Toledo Pact was drawn up by an all-party committee and proposed a gradual reform to guarantee the sustainability of the Spanish welfare

system. It subsequently received the support of both trade unions and employers' organisations (Pérez-Díaz, Chulià and Alvarez-Miranda 1995). It was followed by a general 'Agreement on the Consolidation and Rationalisation of the Social Security System', negotiated by the Aznar conservative government with the unions, which was drafted into law by the Spanish Parliament in 1997 (Guillén 1999; Lagareze Pérez 2000).

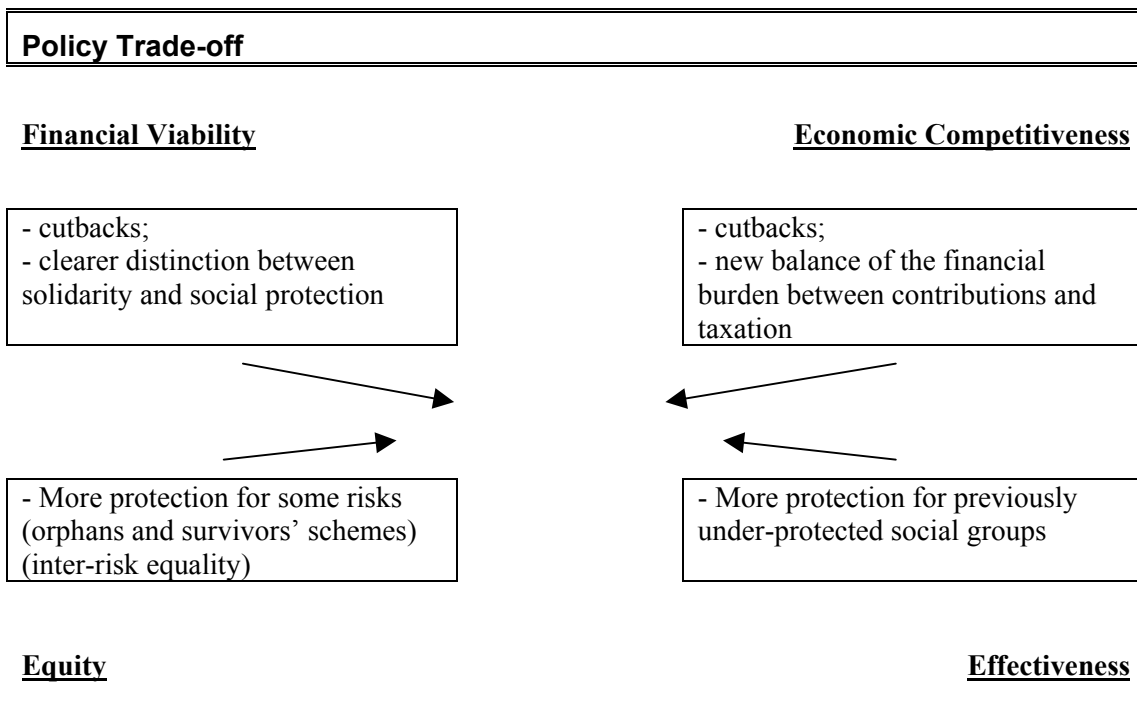
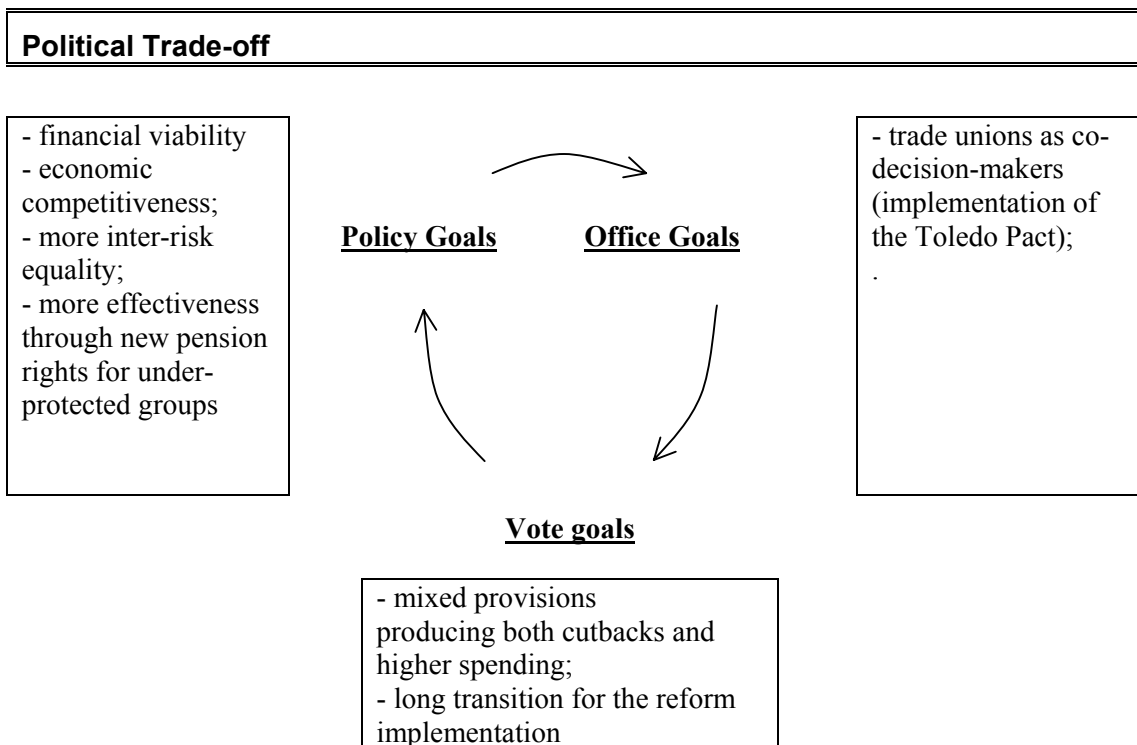
The two principal objectives of 1997 Reform Plan were a separation of different sources of finance and a reduction in the level of certain benefits alongside an expansion of others. In particular:

1. By establishing a clear separation between national solidarity (non-contributory benefits) and social insurance (contributory benefits), it aimed to tackle social insurance deficits without increasing social contributions or cutting benefits, while also reducing the burden of social charges on labour costs (*economic competitiveness*).
2. A reserve fund was created to meet the system's future financial needs (*increasing revenue*). To *contain costs*, new formulae for calculating retirement pensions were introduced which increased the period of contributions and lowered final pension amounts, thereby improving the relationship between contributions and benefits. All were consistent with the goal of making pension programmes *financially sustainable*;
3. Other measures increased minimum pensions for survivors and orphans (improving 'solidarity', or *equality between risks*) and maintained the purchasing power of pensions via more favourable methods of annual indexation (*effectiveness*) (Blanco Angel 2002).

In sum, "(...) by combining expansion and expenditure cut measures, these reforms [tried] to make social and economic aims compatible so as to obtain an operative consensus" (Chulià 2002. See also Leinert and Esche 2000; International Reform Monitor 2002b).

The reform did not change the nature of the system as such. It was both path-dependent and incremental (Figure 11). It contained a mix of measures: to contain financial strains, to introduce greater proportionality between benefits and contributions and to develop more of a 'market logic'. The financial effects of the reform were limited and only delivered results over the long-term (Chulià (2000)). The main goal of new provisions, following the guidelines set out in the *Toledo Pact*, was to ensure the future stability of the system rather than its radical change. But as in the other cases, the reforms introduced in 1997 (and later in 2001 when further changes deepened the logic of the earlier reform) were the result of a double trade-off. They combined both political and policy goals to square the circle in pensions. The more favourable economic context of the period was exploited to shape a 'blameless' reform project. In particular, economic growth and the decline in the rate of unemployment favoured the adoption of measures which expanded the system in favour of under-covered groups (outsiders). While, in other countries the reduction of inequalities focused on inter- and intra-generational aspects, the Spanish decision-makers focused on equality between different risks.

Figure 11 - The Double Trade-off in Spain



5. Conclusions: The (Not so Narrow) Path to Reform in Bismarckian Countries

The reforms adopted in our four countries followed similar paths. They sought to respond to the same pressures - large financial imbalances, an inability to create new employment and the need to promote higher economic growth - while also aspiring to reduce intra and inter-generational inequities, improve the effectiveness of pension programmes with regard to new flexible jobs and lower administrative costs. The measures adopted were consistent with the aim of tackling these problems. The ability of policy-makers to combine such goals was decisive for defining highly consensual proposals based on double – political and policy - trade offs.

With the exception of Germany (at least until more recently), many of these goals have been shared by all major political parties. This indicates a depoliticisation of the pensions debate in the last decade or so, in conformity with Pierson's 'new politics' argument as well as with the most recent evidence on the declining importance of partisan effects on social expenditure (e.g. Kittel and Obinger 2003). Although trade unions have shared the concern of political actors with persistent welfare deficits, their recipes for reform have been quite different. Instead of stressing the need for cost containment, they have advocated increasing revenue. But whereas in the 1980s they (like left-wing political parties) called for higher social contributions, in the last decade they proposed drawing a clearer distinction between social insurance benefits (financed by contributions), and solidarity provisions (funded from general taxation). Governments generally accepted this formula.

As the Italian and German cases show, unions also sought to extend insurance cover to excluded workers (i.e., those in part-time and temporary jobs) and irregular careers. This was a typical *win-win* proposal. If on the one hand it enlarged the pension net, improving both equity and effectiveness, it also produced an increase in revenues. These proposals were not incompatible with cutbacks. In fact, they increased the room for manoeuvre for policy-makers. For an increase in revenues allowed governments to implement a recommendation common to almost all parties: to reduce social charges and lower labour costs.

Increased space for change was also created by increasing pensions equity, a proposal advanced in different ways by trade unions in all four countries. In Italy the search for equity involved rebalancing the spread of burdens and benefits across occupational groups, with unions defending the interests of private-sector workers against the privileges of their public-sector and self-employed counterparts. In Spain, social actors focused on inequalities between risks, and especially the condition of the most disadvantaged - widows and orphans. In Germany they stressed the uneven distribution of contributions between workers and the self-employed, and the protection of younger generations to combat inter-generational inequity. While taking different form in each case, the equity goal provided important opportunities for *trade-offs* in all of them. Decision-makers could introduce, redistribute or subtract provision to increase equity in exchange for support for their own policy goals. The acceptance of innovative change by defenders of the 'welfare state *as we know it*' is particularly striking. In Italy, trade unions even agreed to enlarge the role of supplementary, fully funded schemes as part of a *quid pro quo* to reduce the negative impact of highly probable cutbacks.

Our study of pensions reform suggests some broader generalisations about the new politics of pensions in the Conservative-Corporatist regime. The first relate to the pensions policy network. The policy-making process has been gradually de-politicised

during the last decade. The main cleavage has not been within the party system, but between political actors and social partners. Germany is a partial exception, for only with the birth of the red-green coalition led by Gerhard Schroeder, have both the Christian Democrats and Social Democrats shared similar reform objectives. The inability to create a large parliamentary majority in favour of far-reaching innovation is due to tactical factors rather than major ideological differences (Schludi 2002; Ney 2001).

Thus, the corporatist arena has been the main locus for negotiations and union consent decisive for successful reform. In three of our four countries, when policy-makers' efforts to recast pensions were supported by trade unions (the Balladur Reform in France, the Schroeder Reform in Germany, and the Dini Reform in Italy), new laws were approved. When governments tried to reform unilaterally they failed (the Juppé reform in France in 1995, the Kohl *Renten Reform* in Germany in 1999 and the Berlusconi plan in Italy in 1994). On all of these occasions, trade unions acted as reform blocking veto players.

A second set of conclusions concerns the nature of the double trade-off. Policy-makers acted as 'creative opportunists', using all potential means for expanding their room for manoeuvre. In the *policy trade off*, the parameters of reform were shaped by debates over financial viability, economic competitiveness, equity and effectiveness. With trade union support, political decision-makers arranged a mix of such goals within the reform package. The array of measures used to achieve *financial viability* shows how such room for manoeuvre can be gained. Decision-makers still have two options for balancing pensions budgets: to increase revenues and reduce costs. By introducing measures that clearly distinguished between social insurance benefits and non-contributory benefits, they produced a shift in the burden of financial responsibility from social insurance to the public budget. Other measures sought to respond to gaps in employment (for parental leave, unemployment, etc.) and expand insurance coverage to excluded groups. Such measures were used to mitigate the impact of cutbacks by redefining pensions as a public good.

In the *political trade-off*, actors behaved not only as policy-seekers but as vote-seekers and office-seekers too. As policy-seekers they sought to produce an effective reform package. By forging links between different political and policy priorities, they increased the opportunities for trade offs and enlarged the space for reform (Rhodes 2001). In doing so they were also motivated by electoral incentives. Thus, while recasting welfare programmes is generally presented as a blame avoidance exercise (Pierson 1996; 2001), we argue that more often than not it combines both *credit claiming* and *blame avoidance* strategies.

The search for greater *equity* has been particularly important in making cutbacks more palatable in Italy, Germany and Spain. In Italy, tackling the large differences between the costs and benefits of different occupational groups was fundamental in counterbalancing the unavoidable reduction of benefits. It allowed *both* the government and trade unions to claim credit with organisational memberships and voters. In Germany, the aim of equity-linked reform was much more related to inter-generational differences, while in Spain it was 'functional' in that it related to the risks of poorly covered social categories (survivors and orphans). But in both cases, both social and political actors could claim credit for a reform that also addressed these priorities.

Improving the *effectiveness* of pension programmes also allowed actors to claim credit. This strategy was especially useful for decision-makers in Southern Europe where, because of a highly inefficient welfare administration and related

problems of widespread benefit abuse and fraud, a lack of effectiveness was perceived as one of the most important threats to the future stability of welfare institutions. The same goes for other innovations, including the implementation of a supplementary private pensions pillar, one of the most innovative reforms in Germany and Italy in the 1990s. Facilitated by tax incentives for contributors, we assume that the introduction of a supplementary pillar produced credit (rather than blame) from the electorate.

Credit claiming has been particularly important for securing trade union involvement in the double trade off. Unions have behaved as *office-seeking* strategists in this process. The trade-off between the defence of the office goals of labour organisations and the adoption of new pensions provisions has been used in all four countries of our study. We have demonstrated that even if labour organisations act as a narrow interest group they do not impede changes but rather reorient the path to reform. This does not mean, however, that they are able to act for the general rather than a particularistic good as encompassing organisations that “internalise the trade-offs inherent in the prospect of financing rising pension demands from the wages of younger cohorts of workers” (Myles and Pierson 2001: 332). In fact, in both France and Italy, trade unions acted egotistically in defending their narrow self-interest and ‘acquired rights’ (both in terms of organisation and membership) by shifting the burden of cutbacks on to non-represented groups (primarily the younger cohorts). They were ready to trade ‘*losses for someone else*’ with the defence of their own claims. Future conflict – and reform trade offs – will revolve around this issue.

A third general conclusion concerns the nature of concertation and policy trade-offs. Recent assessments of contemporary concertation have made two different arguments about political exchange. The first (Regini 1997; 2000) suggest that it now consists primarily of a trade off between cutbacks and institutional power, such as new opportunities for membership of a policy network, in a framework of regulative rather than redistributive politics. The second (Culpepper 2002) is more radical and asserts that a ‘logic of information’ rather than a ‘logic of exchange’ now underpins the dependence of policy-makers on social partners. Governments go to the unions not to engage in traditional corporatist exchange (e.g. to trade wage restraint for policies favourable to labour) but for the requisite information for designing successful blueprints for reform. These arguments have a point. As we have shown, the quest for institutional power has certainly been important for unions when pursuing their ‘office seeking’ objectives. Unions have also (especially in Italy prior to the Dini reform) played an important role in designing the blueprint for change.

But neither is able comprehensively to grasp the dynamics underlying these concerted processes of reform. We maintain that reform packages that tackle major redistributive problems have been the result of an exchange that is quantitative and material as well as political and institutional. Just to refer back to a core example of a policy trade off, in Italy, Germany and Spain, trade unions accepted cutbacks only if they were equitably introduced. Depending on the country, the trade-off was between cutbacks and improvements in inter- and intra-generational or functional (across social group) equity. Moreover, cutbacks were introduced together with new and more favourable rules for supplementary schemes aimed at saving the average benefit level, represented by the combination of public and private funds. Once our other trade offs are also fed in to this account, it is implausible to claim that the logic of political exchange no longer plays a role in constructing socially and politically legitimate, innovative or path-dependent, reforms.

Welfare institutions are still sticky and hard to reform. But the room for manoeuvre is not as limited as often argued. Policy-makers have different means for enlarging the path for reforms. The pensions sector has revealed unexpected opportunities for new positive-sum solutions to apparently intractable problems. The introduction of supplementary voluntary and fully -funded schemes (co-administered by social partners) has been perceived in some countries as valuable way of safeguarding rather than dismantling the public pensions system. It has also been perceived by trade unions as a means of increasing their role in the welfare capitalism. In each country the opportunity to extend pensions rights to new (and flexible) labour market participants has been used to increase revenues for different schemes, and thus to reduce financial imbalances. While some had argued that cost-containment was the only path to follow, new and innovative policies have been adopted and new – and broader - paths for reform have been opened up in recent years.

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