

# **„Beyond Continuity“: Coalitional dynamics as drivers of gradual transformative policy change in continental pension politics**

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*Draft. Comments welcome.*

## **Abstract**

When and how does far-reaching policy change take place? Most institutionalist theories argue that major change is rare and driven mostly by exogenous forces. Contesting these assumptions, more recent institutionalist theorists (such as Streeck and Thelen 2006), however, argue that endogenous transformative change is possible, too, whereby existing institutions are gradually complemented and replaced by new ones. This literature describes several mechanisms of change, such as „layering“ or „drift“, but it fails to provide a theorization of the *politics* of gradual transformative change: How are political majorities built? Under what conditions is incremental path-shifting change possible or likely to occur?

In my contribution, I argue that in order to answer these questions, we need to focus on three points: a) Policies are *multidimensional*. This means that reforms take place along several lines of conflict and that the actors of the same subsystem may pursue different goals. B) We need a stronger focus on the behavior and preferences of actors, who can combine these different dimensions in ways as to allow for political exchange, and for the formation of variable, heterogeneous reform coalitions. And C) the success of such mechanisms of exchange and coalition-building depends on the institutional framework, within which they take place. Institutions shape the positive and negative incentives of actors to engage in coalition-building.

Empirically, I test my argument with regard to continental pension policy, a field that – according to all institutionalist assumptions – should be the least favorable to major policy change. I analyze major pension reforms in France (1993, 2003), Germany (1992, 2001) and Switzerland (1995, 2001). The data include the positions of all relevant political actors on the reform proposals. Methodologically, I use factor analysis to analyze the dimensionality of the policy space, the positions of actors and the coalitional dynamics. The impact of the institutional framework is analyzed through a cross-national comparison of the reform-trajectories.

## **Introduction: revolutionary or evolutionary change?**

Many theories of policy change focus on the stability of preferences, coalitions and institutions, and argue that major change is possible only under “special” circumstances, such as exogenous shocks, “crisis” or major economic and/or ideational change. Most of these “punctuated equilibrium-approaches” (see e.g. Baumgartner and Jones 2002, Sabatier and Jenkins-Smith 1993, Pierson 2000) conceptualize policy change as an alternation of “normal” periods of stability and “critical junctures”. This view seems highly plausible in the light of what we know about the effect of institutions on reform politics: once they are in place, institutions foster cognitive schemata that enshrine existing policies, they create increasing returns, and they reinforce power asymmetries. Therefore, there exists a status-quo bias in the institutional arrangements of policies, which Pierson has analyzed with reference to “institutional policy feedbacks” (1996). By means of sequencing and increasing returns-mechanisms, institutions perpetuate power asymmetries between the early “winners” and early “losers” of institutional creation (Pierson 2000, 2004). The early winners not only capture the immediate gains from newly created institutions, they also tend to adopt a key role in the control and management of these policy schemes. In this fashion, they consolidate their power over the early losers, and may even prevent institutional change further down the road. This is one of the most prominent mechanisms of institutional path-dependency. In addition, institutions also tend to produce their own constituencies of beneficiaries. Over time, the number of stakeholders in existing policy schemes grows, adding an additional (electoral) break on subsequent change. In these models of institutional development, policy change is rare, but revolutionary, and largely ascribed to exogenous “critical junctures”.

Pierson’s analysis seems highly convincing at first glance. It explains why governments who want to transform existing policies face a tremendously difficult task. A more recent literature, however, - mostly dealing with welfare state change - focuses on the fact that far-reaching policy change has indeed taken place over the last decade or so. In their tellingly entitled book “beyond continuity”, Streeck and Thelen (2005) and their co-authors present an account of far-reaching institutional change in a wide range of areas of welfare state and economic policies and a wide range of countries. They demonstrate that – against the assumptions of the “critical juncture”-

argument – transformative change has taken place in a mostly evolutionary, continuous fashion, an observation they label gradual transformative change. Several forms of gradual transformative change are presented, such as “drift” (Hacker 2002) whereby the functions of existing institutions gradually erode over time, or “layering” (Palier 2005), which means that existing policies are complemented at the margin with new elements that gradually take more importance and eventually come to dominate the former policy principles. This very recent literature contains the important insight that even transformative policy change is indeed “evolutionary”, i.e. it takes place within the logic of the policy subsystem and can to a large extent be explained by factors that are part of this very subsystem. However, this literature also has the problem of remaining largely descriptive so far. It lacks an explicit conceptualization of the *politics* of this gradual transformative change. Who advocates change? Why? How are these actors able to build majorities for reform? And under what conditions is incremental path-shifting change possible or likely to occur?

In this contribution, I would like to propose an answer to these question. I argue that in order to understand recent transformative change, we need to put a stronger focus on three points: A) Policies are *multidimensional*. This means that reforms take place along several lines of conflict and that the actors of the same subsystem may pursue different goals. Therefore, we need to acknowledge that different actors may approve of or reject the same reform for very different reasons (Palier 2005). Once we adopt this view, it becomes very clear that the key to understanding policy change may lie in the variable coalitional dynamics of policy change. B) We need a stronger focus on the behavior and *strategies of actors*, who may combine these different dimensions in ways as to allow for political exchange, and for the formation of variable, heterogeneous reform coalitions. And C) the success of these strategies of coalition-building depends on the *institutional framework*, within which they take place. The behavior of political actors in policy reform processes is not only driven by their substantial policy-preferences, but also by electoral and other institutional incentives. Depending on the institutional framework, actors have more or less leeway to engage in flexible and variable coalition-building.

I will test my argument with regard to pension policy reform in continental welfare state, because this is probably the field, which – according to everything we

know from institutionalist theories of policy change – is the least likely to change. Hence, pension policy provides a particularly interesting case of “hard testing” for my argument on policy change.

## **1. The politics of gradual transformative change**

How can we make sense of gradual transformative change in the light of Pierson’s highly accurate insights, which all point against the likelihood of paradigmatic change? The key to this puzzle lies in the examination of the role of *actors*. Pierson’s view on power asymmetries wrongly assumes some sort of “institutionalist hegemony” of the early winners (Thelen 2004: 32), preempting subsequent contention. However, the more recent literature on institutional change shows that institutions never eliminate the underlying political struggles for two main reasons:

First, institutions rely on a “coalitional basis” of interests that may shift gradually, when the social, political or economic context changes (Thelen 2004: 33). The preferences of “early winners” are not “frozen,” and may change in the wake of structural developments. Structural developments may change the costs and benefits actors derive from existing institutions. Hence, actors may change preferences over time and/or pursue different or entirely new policy goals. Second, institutions also remain contested, because they entail their very own, endogenous sources of change: Indeed, identities and interests of actors are not given, but depend on the institutions themselves. Institutions structure the field of actors in a policy subsystem. Pierson indeed acknowledges of this effect when he argues that institutions create new ranges of beneficiaries that prevent policy change further down the road. However, institutions may also create new ranges of “losers”, i.e. actors who are affected negatively by the existing policies and whose power to claim policy change may rise over time.

In sum, the field of actors, their interests and their goals remains *always heterogeneous and is constantly evolving*. A particular institutional arrangement is only the reflection of a momentous power equilibrium that may be put into question

subsequently, for structural or endogenous reasons. The main insight that results from this discussion is that we must pay attention to the (potential) *multidimensionality* of policy reform spaces. Most policies deal with several challenges at the same time. Family policy, e.g., has several functions as social policy of material redistribution, as value policy for the preservation of existing gender roles or as employment policy regulating female labor market participation. Similarly, environmental policy deals with pollution problems, economic competition regulation, and values at the same time. These are just two examples illustrating that different actors may pursue entirely different agendas and/ or multiple goals within the same policy field. Hence, the analysis of policy change requires that we inventorize the range of actual and potential conflict dimensions that mark a policy subsystem, and the preferences of the relevant actors with regard to those dimensions. This inventory of the relevant policy space is crucial because it provides the conditions for reform a government is confronted with.

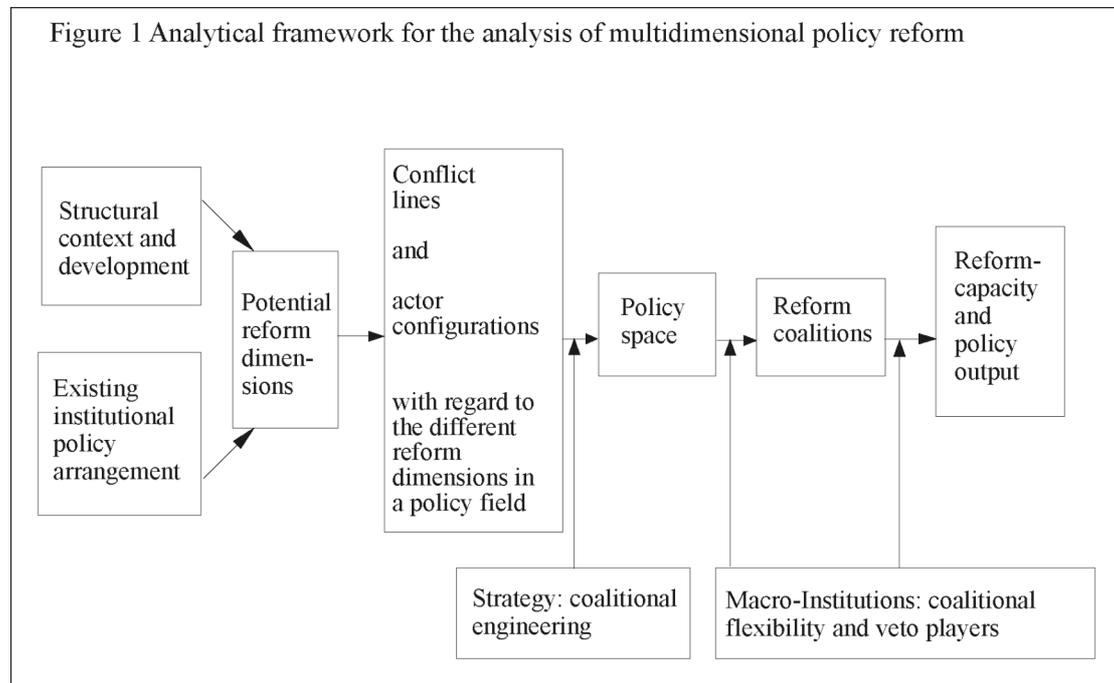
The role of governments and other policy entrepreneurs is the second point that tends to be undertheorized in the institutionalist accounts of policy change. These actors may build on the plurality of reform-dimensions, in order to foster particular reform-coalitions and divide others. This is what I would call the strategies of “*coalitional engineering*”. Riker has formulated this idea most powerfully in his conceptualization of “heresthetics” (Riker 1986). Heresthetics, as an “art of political manipulation,” denotes an attempt to “structure the world so you can win” (1986: ix). It consists in an attempt to overcome political opposition and foster winning majorities by framing the debate in a way that it divides potential opponents and thereby weakens the opposition to change. In policy-making, this relates directly to the capacity of governments to formulate policy proposals, which include several reform dimensions, thereby creating strong opportunities for *political exchange* in a multidimensional reform space. With regard to our examples, this may mean that e.g. family policy is designed in a way as to enhance the labor market participation of skilled women. Thereby, it may divide the opposition of employers to state intervention by providing some specific sectors with the necessary labor force.

So far, I agree with Riker’s idea of “heresthetics,” and the corresponding analysis of policy-making dynamics in a multidimensional reform space. Particular

policy proposals may divide existing coalitions of actors and thereby open new avenues for reform. However, I do not share the implicit assumption Riker makes, namely that actors are entirely free to take any stance in the political reform space. Such a pure rational-choice model neglects two intervening variables. First, *ideological loyalties and solidarities* between actors may impact on their coalitional behavior, since there may be sanctions for stepping out of line. Employers of certain sectors may not support a policy proposal, just for the sake of class homogeneity, rather than for substantial reasons. Similarly, different sectoral trade unions may strive to defend similar positions, even though a certain policy affects them differently. This “barrier” to coalitional flexibility depends on the strength of *class polarization* in a country. Second, the *electoral framework* can influence the costs a political party incurs when changing policy-specific coalition partners. Some coalitions may involve costs in terms of credibility and legitimacy in the eyes of the electorate. In a *majoritarian system*, the opposition parties are highly unlikely to support policy proposals of the government, regardless their actual policy preferences. Hence, majoritarian electoral institutions may prevent policy change for purely institutional reasons, whereas *consensual institutions* allow for more policy-specific coalition-formation. Both factors – class polarization and electoral institutions - are important, because they constrain the coalitional flexibility of political actors. Now, in a system where the consent of encompassing majorities is required for policy change – i.e. in a system with a high number of veto players – a lack of coalitional flexibility may prevent policy change altogether.

Hence, *institutions* determine the *prospects of success for coalitional engineering* and, as a result, the *reform capacity and reform outputs* in a given country. In a similar vein, Shepsle (1979) and Laver and Schofield (1990) have argued that institutions create incentives for particular coalitional “equilibria”, thereby limiting the “unpredictability” (Laver and Schofield 1992: 126) of policy outputs in legislative processes that involve multiple reform dimensions.

The following figure 1 summarizes the analytical model of policy change I would like to develop and test in the following:



The interplay of the (evolving) structural context and existing institutions accounts for the policy-specific reform agenda, i.e. the potential reform dimensions in a policy field. Each of these reform dimensions may result in a political conflict line and entails a specific actor configuration, i.e. a specific alignment of actors along this conflict line. Governments may act upon this potential multidimensionality by proposing reform bills that span a multidimensional space of policy reform, which allows for political exchange between otherwise very different actors. Finally, the macro-institutional context accounts for the reform-coalitions that are likely to emerge and hence for the reform-capacity and policy output in a given country.

## 2. The post-industrial politics of pension reform

I will test this framework with regard to continental pension policy. Many studies have argued that continental welfare states are sclerotic and like “frozen landscapes” (Esping-Andersen 1996: 2, Pierson 2001), highly unlikely to transform substantially. This assumption is based on the fact that continental regimes rely on social insurance schemes, whereby all contributors acquire their own rights to social

benefits. Hence, the range of beneficiaries of the existing institutions is constantly growing over time, especially with regard to pensions. Therefore, pension reform, notably retrenchment, is electorally highly risky (Kitschelt 2001, Immerguth and Anderson 2006) and thus particularly unlikely. For all these reasons, pension policy is a particularly interesting case for the “hard testing” of my argument on multidimensionality.

## **2.2. Multiple dimensions and conflict lines in pension reform politics**

Much of the literature on recent pension reform wrongly assumes that the post-industrial pension reform agenda deals with retrenchment vs. the preservation of existing pension levels *only* (see e.g. Busemeyer 2005, Schludi 2005, Kitschelt 2001). Certainly, financial and demographic threats to existing benefit levels have become a dominant topic on the reform agenda, but simultaneously, other reform issues have emerged, as well (see e.g. Bonoli 2005 and Armingeon and Bonoli 2006 on new social risks, Hinrichs 2005 on capitalized pension funds). The reform-agenda can be derived from the clash between the evolving structural context on the one hand and the institutions of continental pension policy on the other hand. This clash results in four (potential) reform dimensions. All the reform proposals that have been under consideration in recent continental pension politics can be subsumed in one of these four categories:

a) *Insurance*: this reform dimension refers to the restructuring of existing insurance conditions in the basic public pension schemes. In all continental welfare states, the benefit levels in the basic pension schemes have been raised considerably after 1945. Until the late 1970s, replacement rates for a full pension reached 70% of the former income or even more. In addition, the (effective) age of retirement has been lowered strongly, as well. With the advent of a context of “permanent austerity” (Pierson 2001) since the 1970s, however, generous insurance conditions have come under attack and thus these reforms mostly dealt with questions of retrenchment. Reforms cutting back on existing insurance rights can be subsumed in this category. This dimension comes closest to the distributional view of “more vs. less” protection, underlying much of the retrenchment-literature (Pierson 1996, Korpi and Palme 2003, Kitschelt 2001).

Insurance reforms affect all insured in the same way. Hence, all employees are negatively affected by cuts, while the costs of high contribution levels affect all employers negatively in the same way. Therefore, the traditional *class conflict*, opposing labor to capital and left- to right-wing parties, is most likely to occur with regard to insurance reforms.

b) *Capitalization*: this second reform dimension refers to the introduction of new capitalized pension layers. It results from the clash between the shifting demographics and the intergenerational redistribution implied in the traditional PAYG-schemes. Capitalized pension funds, by contrast, tend to individualize pension insurance and to weaken the redistributive character of pension systems. They are only weakly redistributive, because the risk pools are much narrower than in the basic public pension scheme. However, they do not affect all employees in the same way. High-skill workers benefit more from capitalization than low-skill workers for two reasons. On the one hand, low wage earners rely on the redistributive effect of PAYG-schemes, and second, employers tend to use capitalized pension schemes to reward their most valuable, i.e. highly skilled workforce. Hence, capitalization is likely to drive a wedge in the labor movement, between trade unions in *high- and low-skilled sectors*. In addition, capitalization may divide the parties of the new left – notably the Greens and the Social Democrats – and the trade unions, because these left-wing parties mobilize a highly skilled electorate, while the trade unions are more strongly rooted in low-skilled sectors.

1) *Targeting*: Targeting reforms deal with the (means-tested) coverage of specific occupational groups. Indeed, continental pension insurance grants rather generous rights to standard workers. Atypically employed, such as part-timers, by contrast, often fail to collect a sufficient contribution record for a full pension. Therefore, continental economies foster rather strong divides between labor market *insiders and outsiders*. In a post-industrial labor market, such atypical outsider-employment biographies become more and more frequent, so that the traditional pension scheme becomes largely dysfunctional with regard to new social risks. Consequently, claims for targeting reforms have appeared on the reform agenda. These include policies such as minimum pensions, early leave for old workers with particularly long and precarious employment careers, particular pension rights for part-timers, or also the abolition of special pension privileges for specific

occupational groups such as civil servants. Targeting reforms redistribute welfare depending on need, rather than the contribution record or previous income. Such targeting reforms clearly benefit to outsiders, whereas insiders have hardly any interest in changing the traditional insurance system, which was precisely designed with regard to their standard employment biographies. Hence, targeting reforms are supposed to divide the actors not according to class, but according to insider-outsiders cleavages.

2) *Recalibration*: Recalibrating reforms focus on societal modernization, i.e. the adaptation of the pension system to new family and gender roles. Continental pension schemes are designed to meet the biographies of male standard workers. Most women in these countries have discontinuous employment biographies, which tend to be penalized in these schemes. This orientation of the industrial institutional arrangement, however, has become completely at odds with post-industrial family structures and the rise of libertarian values, namely individualization and gender equality (Kitschelt 1994). Therefore, the adaptation of pension insurance has become an important issue in all continental welfare states (see e.g. Allmendinger 2000, Anderson and Meyer 2006, Bleses and Seelaib-Kaiser 2004). This category of reforms includes issues, which grant pension rights independent from labor market participation. Pension credits for educational tasks or the splitting of pension rights between spouses are examples. The difference with targeting is that here, there is no more link to labor market participation, at all. In addition, the beneficiaries of recalibrating reforms are not only outsiders, but most clearly women. Therefore, recalibrating reforms are supposed not only to divide actors according to *insider-outsider divides*, but also with regard to *libertarian vs. authoritarian values*. Since the beneficiaries are not active on the labor market and those issues benefit mostly to weakly organized women, these policies might be less important to trade unions, but more so to left-wing libertarian parties (Kitschelt 1994). The conflict line would therefore oppose conservative and libertarian values and split parties and trade unions.

In sum, I would expect *class conflict* with regard to insurance reforms, *skill level conflicts* when it comes to capitalization, *insider-outsiders conflicts* on reform issues dealing with targeting and recalibration, and – finally - *libertarian-authoritarian value conflicts* on recalibrating policies. Therefore, these different

reform issues should also divide trade unions, employers and political parties in distinct ways in the actual policy-making processes. Political entrepreneurs may build on this multidimensionality in order to engage in processes of political exchange and coalition-formation.

## **2.2. The impact of actor strategies and institutions on coalition-formation**

Authors such as Pierson (2001) or Kitschelt (2001) have analyzed post-industrial pension politics in order to demonstrate how difficult institutional change must be in an era of retrenchment. Indeed, pension rights create a wide range of beneficiaries who are likely to defend the existing insurance levels. These authors deal *exclusively* with the reform dimension of insurance. They demonstrate convincingly, that employers and few market-liberal parties as advocates of cost containment will oppose a strong majority of trade unions, left-, center- and even conservative parties, who all represent beneficiaries of the existing insurance rights. Therefore, the polarization with regard to insurance is likely to prevent any policy change in the level of benefits.

This, however, is where the *dynamics of political exchange* come into play. In a policy space that combines different dimensions of reform, the ranks of supporters and opponents of specific policies may be split. If different actors prioritize different reform dimensions, the mechanisms of political exchange may open the way for “*coalitional engineering*”. Hence, I expect that in such a context, governments will try to foster packages of reform that include elements of insurance (notably retrenchment), *as well as* expansive reform elements on capitalization, targeting and/or recalibration. With these package deals, they may erode the opposition of high-skill labor, outsiders or libertarian parties. Thereby, they hope to *divide the ranks of the opponents* against cost containment and to pave the way for encompassing *cross-class or value-coalitions*.

So far, I have argued that similar developments towards more diverse and multidimensional reform agendas are likely to occur throughout the continental welfare states and that in all these states, governments are supposed to engage in strategies of coalitional engineering.

The chances of success of these strategies, however, depend on the *institutional framework* in each country. Where the class polarization of labor and capital is high, concessions with regard to capitalization and targeting may not divide the trade unions. Therefore, the conflict line of insurance is likely to prevail in the decision-making process. Similarly, majoritarian electoral systems tend to divide the political parties in two ideological blocks of the left and the right. In such a system, the opposition party is unlikely to support any government reform package, regardless of their actual policy-preferences. Hence, here too, the class conflict on insurance is supposed to prevail, whereas in consensual systems with oversized or minority governments, the *coalitional flexibility* is stronger, which improves the chances for encompassing cross-class and value coalitions.

Such encompassing coalitions are a necessary condition for the reform-capacity, if trade unions, employers and opposition parties are *veto players*. Therefore, a combination of low coalitional flexibility and a high number of veto players may result in a reform deadlock. Where coalitional flexibility is intact, however, pension policy is likely to be reformed in the direction of both insurance *and* expansive reforms on capitalization, targeting and/or recalibration.

### **2.3. Recapitulation of the hypotheses**

In applying the general model of policy change in a multidimensional policy space to post-industrial pension politics, I have developed the following four hypotheses, which are key to the empirical analysis.

H1: In the era of post-industrialism and austerity, pension reform debates become increasingly *multidimensional*, combining issues of insurance, targeting, capitalization and recalibration.

H2: The new “post-industrial” conflict dimensions of capitalization, targeting and recalibration *cross-cut the class-cleavage*.

H3a: Capitalization gives rise to intra-labor heterogeneity, because it affects different skill-levels in different ways.

H3b: Recalibration and Targeting give rise to divides within the left, because they affect labor market insiders and outsiders in different ways;

in addition, they foster heterogeneity between advocates of libertarian and authoritarian values.

These hypotheses are basically the same for all countries, because they are based on structural developments, which are similar in all continental welfare states.

The following hypotheses, by contrast, are based on cross-country variation in the institutional frameworks of decision-making:

H4: The *institutional incentives for class and electoral polarization* influence the chances for *coalitional engineering*. The stronger the incentives for polarization, the smaller the leeway for the mobilization of new and varying conflict dimensions in the pension policy space.

H5: A combination of consensus-requiring institutions (*veto players*) and strong class polarization leads to highly conflictual reforms or even reform deadlock. By contrast, weakly polarized systems have better chances for encompassing pension reform, regardless of the number of veto players.

The empirical test of these hypotheses includes major pension reforms in three countries, namely France, Switzerland and Germany.

### **3. Case selection, data and methods**

#### **3.1. Case selection**

France, Germany and Switzerland have been included in the *most similar systems* design, because they differ on the institutional framework of decision-making (Lijphart 1999), while having a similar, conservative pension system, based on industrial employment and the male breadwinner model (Bonoli 2005). Switzerland is the prototype of a consensual regime with a fragmented system of trade unions and weak electoral polarization. Hence, the coalitional flexibility in Switzerland is high and the chances for political exchange are particularly good. Germany, by contrast, has known considerable electoral bi-polarization since the early 1980s and it also has highly concentrated labor and capital movements (Visser 1987). Therefore, class polarization is rather high. As long as the government holds a firm majority in parliament, this must not necessarily impede the reform capacity, but if the opposition parties acquire veto power in the second chamber, the danger of policy gridlock

becomes more acute. France, finally, is a hybrid case. Electoral polarization is very high, but opposition parties have almost no say in policy-making, so that this polarization is not an obstacle to reform. In the area of trade unions and employers, however, fragmentation is very high, so that class polarization is weak, which increases the chances for political exchange.

As to the actual *reform processes*, I include the two major reforms that have taken place since the 1990s in each country. The following tables provide the elements of each reform and their categorization according to the four reform dimensions (insurance, capitalization, targeting and recalibration).

For *France*, I include the 1993 Balladur pension reform and the 2003 Raffarin reform of the basic pension scheme.

|   |  |    |   |
|---|--|----|---|
| 1 | <b>Pension law 1993</b> (Loi du 22.7.1993 relative aux pensions de retraite et à la sauvegarde de la protection sociale) | 1  | Increase in the retirement age → Insurance  |
|   |  | 2  | Lower benefit levels (Extention of the calculation period) → Insurance                            |
|   |  | 3  | Indexation of pensions on prices → Insurance  |
|   |  | 4  | Increase of the Contribution de Solidarité Généralisée CSG (1% for pension insurance) → Insurance |
|   |  | 5  | Fund (FSV) for the financing of non contributory benefits → Targeting / Recalibration             |
| 2 | <b>Pension law 2003</b> (Loi du 21.8.2003 portant réforme des retraites)   | 1  | Lowering of benefit levels → Insurance  |
|   |  | 2. | Lowering of widow's pensions → Insurance  |
|   |  | 3. | Individual pension savings plans → Capitalization   |
|   |  | 4. | Harmonization of public and private pension schemes → Targeting                                   |
|   |  | 5. | Increase in the minimum pension → Targeting   |
|   |  | 6. | Early retirement for workers with particularly long careers → Targeting                           |
|   |  | 7. | Educational pension credits for civil servants → Recalibration                                    |

For *Switzerland*, the 10<sup>th</sup> reform of the basic pension scheme from 1995 and the 1<sup>st</sup> reform of the occupational pension scheme in 2003.

|   |  |    |   |
|---|--|----|---|
| 1 | <b>10th reform of the basic pension scheme 1995</b> (10. Revision der Alters- und Hinterbliebenenversicherung AHV) | 1. | Increase of the retirement age for women from 62 to 64 → Insurance                                      |
|   |  | 2. | Flexible retirement age (without public subsidies for lower income pensioners) → Insurance              |
|   |  | 3. | Splitting of contributions and pensions between spouses and educational pension credits → Recalibration |

|   |   |   |
|---|---|---|
| 2 | <b>First reform of the occupational pension scheme 2003</b> (1. Revision des Bundesgesetzes über die berufliche Vorsorge BVG) | <ol style="list-style-type: none"> <li>1. Cutbacks in occupational pension levels → Insurance</li> <li>2. Increase of the retirement age for women from 64 to 65 → Insurance</li> <li>3. Improved occupational pension coverage for low income earners → Targeting</li> <li>4. Improved occupational pension coverage for part-time employees → Targeting</li> <li>5. Ceiling of insurable income → Targeting</li> <li>6. Introduction of occupational pension benefits for widowers → Recalibration</li> </ol> |
|---|---|---|

For *Germany*, the 1992 pension reform of the Kohl government, and the 2001 “Riester”-reform of the basic pension scheme, implemented by the red-green Schröder government.

|   |  |   |
|---|--|---|
| 1 | <b>Pension reform law 1989</b> (Rentenreformgesetz 1989)   | <ol style="list-style-type: none"> <li>1. Increase of the retirement age → Insurance</li> <li>2. Indexation of pensions on net instead of gross wages → Insurance</li> <li>3. Consolidation of minimum pension regulations → Targeting</li> <li>4. Expansion of educational pension credits → Recalibration</li> <li>5. Summation of educational pension credits for early retirement → Recalibration</li> <li>6. Debate on the splitting of pension rights between spouses → Recalibration</li> </ol>  |
| 2 | <b>Pension reform law 2001</b> (Rentenreform 2001: Altersvermögensgesetz 2001 / Altersvermögensergänzungsgesetz 2001 / Gesetz zur Verbesserung des Hinterbliebenenrentenrechts 2001) | <ol style="list-style-type: none"> <li>1. Lowering of widow's pension benefits → Insurance</li> <li>2. Lowering of general pension benefit levels → Insurance</li> <li>3. Introduction of individual pension savings plans (Riesterrente) → Capitalization</li> <li>4. Introduction of a universal, means-tested minimum pension insurance → Targeting</li> <li>5. Improved pension coverage for parents → Recalibration</li> <li>6. Debate on the splitting of contributions and benefits between spouses → Recalibration</li> <li>7. Individualization of poverty relief (children to not have to pay for parents) → Recalibration</li> </ol> |

The above classification already shows that the reforms of the 1990s and 2000s indeed included very different issues, belonging to the different dimensions of reform. In the empirical analysis, I will show that each of these categories indeed fostered a very specific actor configuration, i.e. a specific conflict line.

## 2.2. Data and methods

In analyzing these reforms, I have drawn on several sources of data. In a first step, the important and contested issues of each reform have been identified through *documentary analysis* (mainly governmental reports and bill proposals, documentation of the consultation procedure and parliamentary debates) and *secondary literature*. The same sources have allowed me to identify the final strategic reform-coalitions.

In a second step, the *positions of each actor* on every element of each reform have been *coded* on a scale ranging from 0 to 2. While 1 means that the actor supports the bill proposal, 0 means that the actors favors a more generous and encompassing coverage and, conversely, 2 means that the actor claims a less generous and encompassing coverage of the risk or need at stake. The positions of the actors have been coded on four aspects of each element of each reform: 1) *intervention*: whether State intervention is required immediately to resolve the problem or not, 2) *scope*: who should be covered by the social policy measure, 3) *level*: which level of benefits should be adopted and 4) *competence*: at what state level the intervention should take place (firms, sectors, substate level...). Hence, each actor has expressed at most four positions on each element of each reform<sup>1</sup>. The average of the four positions has been used in the further empirical analyses.

Since these positions of the actors need to be observed as early as possible in the decision-making process, I have mainly relied on the responses to the official pre-parliamentary consultation procedure, the minutes of hearings, official statements, bill proposals and parliamentary debates<sup>2</sup>. For the case of France, the positions of unions and employers had to be complemented by means of interviews and archival data, since there are no regular hearings.

In order to study the translation of initial positions into the actual reform-coalitions at the end of the decision-making process, I also coded the final position of

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<sup>1</sup> Of course, actors' positions exist only with regard to those issues, which were relevant for the reform debate. The "competence"-issue, i.e. the level of intervention, for instance, was not important was not at stake in most of the reforms, since pension reforms are usually made at the federal level. Where this issue was absent, the overall average position of an actor consists only of a means of the 3 positions on intervention, scope and level.

<sup>2</sup> Where such sources were unavailable (no official consultation procedure has, for instance, taken place for the 10<sup>th</sup> reform of the pension scheme in Switzerland), I have relied on secondary literature and on interviews from previous research (Senti 1994, Häusermann et al. 2004, Bonoli 2000, Meyer 1998).

each actor on the whole reform package. This data comes from parliamentary documents, press articles and interviews.

With regard to *actor selection*, I have included all actors, which have intervened in the consultation procedures. Hence, the number of actors in each reform may vary. For the French case, I had to make a selection, since no official consultations take place. I have chosen CGT, CFDT and CGC on the side of trade unions and MEDEF and CGPME on the employer's side, since they can be argued to cover the main spectrum of positions on each side (with regard to sectors and skill levels). The coded data has been analyzed statistically, and those results are complemented with more qualitative information drawn from documentary analysis, secondary literature and interviews with leading representatives of the social partners.

I have analyzed the positions of the actors by means of *factor analysis*. Factor analysis allows determining the number of the *underlying dimensions* that structure the whole set of data. With factor analysis, thus, I can test the hypothesis of the emergence of several independent conflict dimensions. Because of the small number of actors, I have tested the robustness of the solution each time by repeating the factor analysis without the most radical trade union and the main employer association. The factor loadings of the issues on the different dimensions guide the interpretation of the underlying dimension (Insurance, Capitalization, Targeting, Recalibration) the factor represents.

In addition, I complemented the quantitative analyses with data from *documentary analysis* (minutes of the parliamentary debates, reports of the parliamentary committees) and information from *interviews* with representatives of the government, trade unions and employer organizations (about 10 interviews per country, see appendix 1). The data from the interviews allowed me to embed the quantitative results in a more qualitative understanding of the reforms.

## **4. Empirical analysis: transformative policy change in France, Switzerland and Germany**

For each country, I analyze in a first step the *actor positions* with regard to the different reform elements, in order to test whether they are indeed divided along different conflict lines. In a second step, I discuss how the dimensionality of the reforms translated in the *final reform-coalitions* under the influence of the institutional framework. The analysis will show that political exchange has indeed become a decisive mechanism for far-reaching policy reform. Where the political elites failed to design reform proposals in a way as to allow for a multidimensional policy space, reforms failed.

### **4.1. France: divided trade unions**

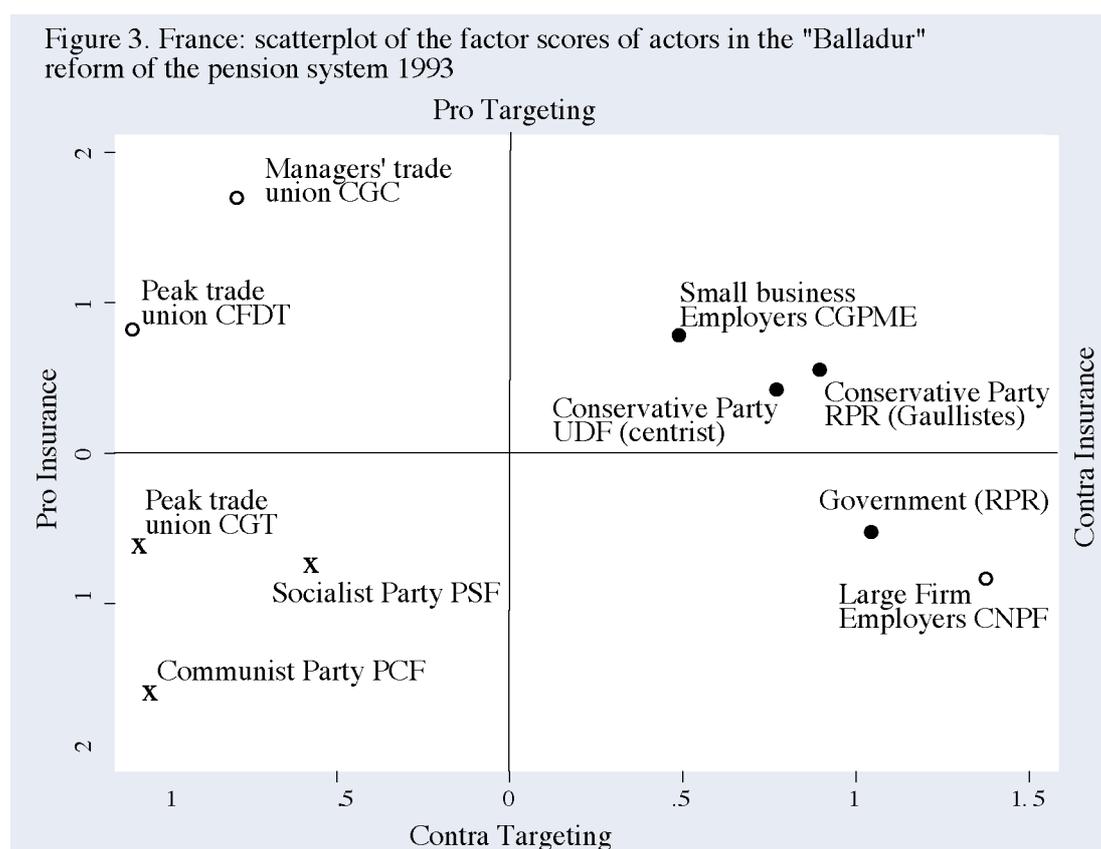
The main development in French pension politics from the 1990s onwards is indeed that targeting and capitalization increasingly *divide the labor unions*. While the high-skill union CGC and the reformist service sector union CFDT agreed on a reshaping of the general pension architecture to a more means-tested scheme, the CGT (representing rather low-skilled standard workers) remained more attached to the traditional insurance structure. Therefore, the CGC and CFDT were willing to accept a compensation of retrenchment with targeting and capitalization and thus joined an unusual alliance with the right-wing parties and employers in favor of the reforms. Hence, since the trade union movement is fragmented in France, the government was indeed able to implement each of these reforms with the agreement of part of the labor movement.

The two reforms of 1993 and 2003 illustrate this development. The following graphs and tables show the results of the factor analysis and the positioning of the main actors in the 2-dimensional policy space of the 1993 reform.

**Table 1 France: results of the factor analysis on the "Balladur" pension reform 1993**

| Issues of the reform debate                            | Insurance    | Targeting    |
|--|--------------|--------------|
| Indexation of pensions on prices                       | <b>0.951</b> | 0.05         |
| Increase of contributions (CSG)                        | <b>0.878</b> | -0.09        |
| Lowering of pension levels                             | <b>0.968</b> | 0.169        |
| Increase in the retirement age                         | <b>0.866</b> | 0.391        |
| Separate financing (FSV) for non contributory benefits | 0.07         | <b>0.987</b> |
| <i>Eigenvalue:</i>                                     | 3.49         | 1.04         |
| <i>explained variance</i>                              | 70%          | 21%          |
| Actors   | scores       | scores       |
| Peak trade union CFDT                                  | -1.091       | 0.821        |
| Peak trade union CGT                                   | -1.067       | -0.611       |
| Peak managers' union CGC                               | -0.788       | 1.696        |
| Peak large firm employer association CNPF              | 1.376        | -0.835       |
| Peak small business employers association CGPME        | 0.489        | 0.784        |
| Gaullist conservative Party RPR                        | 0.895        | 0.554        |
| Centrist conservative Party UDF                        | 0.771        | 0.423        |
| Socialist Party PSF                                    | -0.583       | -0.741       |
| Communist Party PCF                                    | -1.045       | -1.567       |

Factor analysis run on the coded positions of the actors; all factors with Eigenvalue  $\geq 1$ , Varimax rotation;



The horizontal axis mainly represents the actors' preferences on issues related to *insurance*, i.e. cutbacks in the general pension scheme (increase in the age of retirement, lengthening of contribution period, increase of contribution level). On this

dimension, one can see a classical distributional class conflict, opposing trade unions and left-wing parties to the right-wing parties and employers. On the vertical axis, however, which represents *targeting*, the left is deeply split. This axis reflects the introduction of the Fonds de solidarité vieillesse (FSV) as a separate scheme for the financing of non-contributory benefits, such as contributions for unemployed or educational credits. While the CGC and CFDT – despite initial criticisms (Schludi 2005) - welcomed the FSV as a means to tax-finance these solidaristic, redistributive measures on the one hand and to disburden the basic pension scheme on the other hand, the CGT and the left parties saw this measure quite differently. According to them, the FSV would endanger these redistributive measures, because they are not a part of the regular pension rights anymore. The right was more cohesive on this issue, even though the CNPF (large employers) advocated a very restrictive use of the FSV.

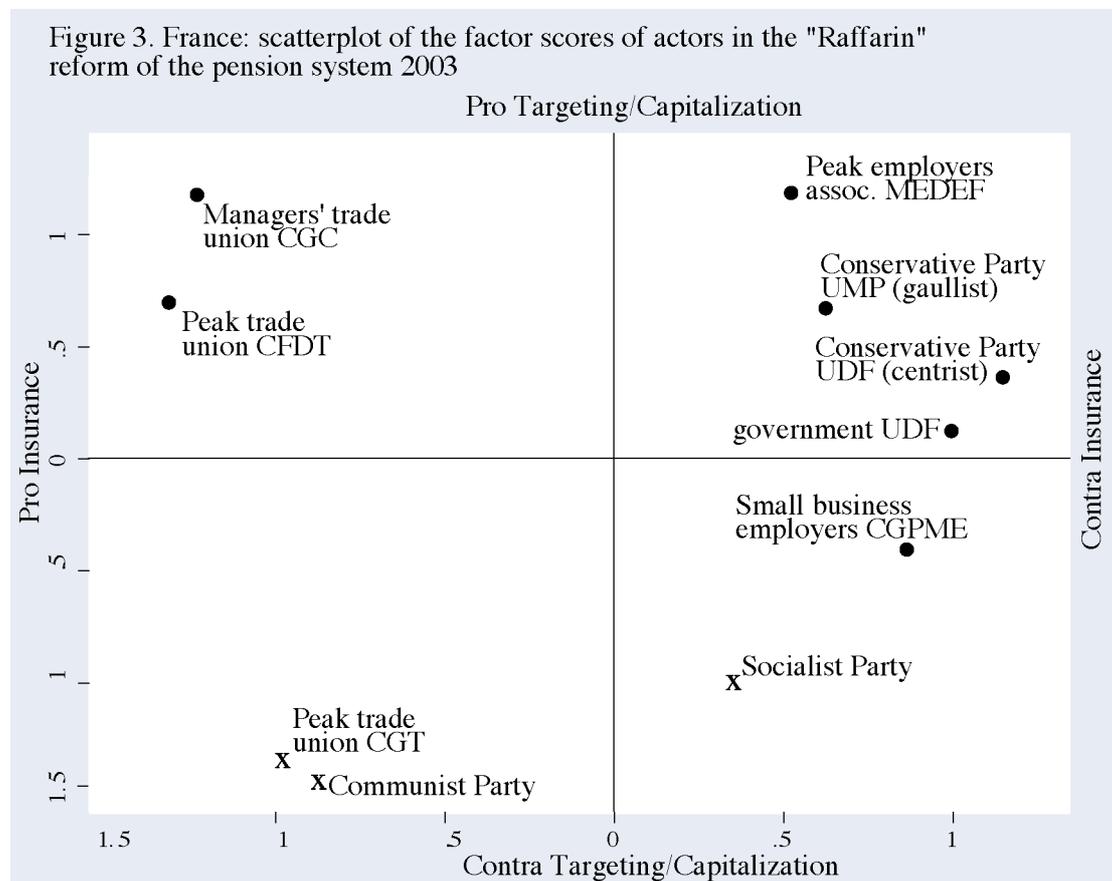
The actors whose position is marked by a cross eventually rejected the whole reform package, whereas the actors with a dark point agreed to it. The positions of CFDT, CGC and CNPF are symbolized by a ring, which means that they did criticize the reform throughout the whole process and also after its coming into effect, but they did *not* mobilize against it and hence somewhat implicitly put up with the reform. It seems that the CFDT and CGC had a stronger preference for targeting than for insurance and, conversely, CNPF insisted more heavily on insurance. This seems to provide a plausible explanation for the approval of the reform by CGC, CNPF and CFDT, because they could more easily make concessions on the issue that is secondary to them, in order to secure an output that meets their preferences on their most valued axis. In sum, the 1993 reform shows that targeting as a second conflict dimension cross-cut the class divide on insurance, and allowed the Balladur government to tie a package of reform-issues which could weaken the opposition from the left against the reform.

The 2003 Raffarin reform gives a very similar picture with some nuances. This reform was indeed 3-dimensional, but only the first two dimensions can be displayed in figure 3. The third dimension is composed mainly by pension credits to mothers, i.e. by recalibration.

**Table 2 France: results of the factor analysis on the "Raffarin" pension reform 2003**

| Issues of the reform debate  | Targeting/<br>Capitalization<br>(F1) | Insurance<br>(F2) | Recalibration<br>(F3) |
|--|--------------------------------------|-------------------|-----------------------|
| Harmonization of the required contribution periods in public and private sectors | <b>0.909</b>                         | 0.247             | 0.041                 |
| Lowering of retirement age for long career workers                               | <b>0.838</b>                         | 0.225             | 0.386                 |
| Individual pension savings plans   | <b>0.829</b>                         | 0.367             | -0.173                |
| Increase of minimum pension  | <b>0.786</b>                         | 0.177             | 0.518                 |
| Lowering of widows' pensions   | 0.488                                | <b>0.82</b>       | 0.224                 |
| Indexation of pensions on prices   | 0.195                                | <b>0.946</b>      | 0.19                  |
| Increase of educational pension credits for civil servants                       | 0.073                                | 0.216             | <b>0.932</b>          |
| <i>Eigenvalues</i>   | <i>3.11</i>                          | <i>1.89</i>       | <i>1.4</i>            |
| <i>explained variance</i>  | <i>44%</i>                           | <i>27%</i>        | <i>20%</i>            |
| Actors:  | scores                               | scores            | scores                |
| Peak trade union CFDT  | 0.698                                | -1.315            | -0.806                |
| Peak trade union CGT   | -1.349                               | -0.968            | 0.372                 |
| Peak managers' trade union CGC   | 1.179                                | -1.232            | -0.378                |
| Peak large firm employer association MEDEF                                       | 1.187                                | 0.521             | 1.729                 |
| Peak small business employer association CGPME                                   | -0.404                               | 0.862             | 1.451                 |
| Gaullist conservative party UMP  | 0.672                                | 0.622             | 0.115                 |
| Centrist conservative party UDF  | 0.364                                | 1.145             | -1.622                |
| Socialist Party PSF  | -1.036                               | 0.346             | -0.480                |
| Communist Party PCF  | -1.435                               | -0.883            | -0.069                |
| Government (UDF)   | 0.125                                | 0.994             | -0.311                |

Factor analysis run on the coded positions of the actors; all factors with Eigenvalue >=1, Varimax rotation;



The horizontal axis represents the factor on which issues related to *insurance* load high (indexation of pensions, lengthening of contribution period, lowering of widows' pensions). Again, a rather clear distributional class conflict can be observed, even though the socialist party has moved considerably to the right on this distributional axis. However, the left and the right were deeply split internally on the vertical axis, formed by issues related to *targeting* (minimum pensions and early retirement for workers with long careers, aligning public sector pensions on the régime général) and *capitalization* (introducing capitalized private saving plans for civil servants). CFDT and CGC rejected the cuts on insurance, but accepted a reorientation of the system towards a more redistributive and targeted coverage of particular risk groups, such as low-income workers and a more egalitarian benefit structure between public and private sectors. The MEDEF, the UMP (Gaullist party) and the UDF (centrist party) agreed to this orientation, too. However, the CGT, the communists, the socialist party and – to a somewhat lesser extent – the small business employers, opposed this reorientation and defended the status quo.

Again, the symbols indicate the final stance of the actors on the whole reform package. It appears very clearly that the targeting/capitalization-axis became the *decisive conflict line* in this reform. CGPME conceded the systemic changes in targeting and capitalization in order to secure its strong preferences on benefit cuts in general pensions, and CGC, conversely, accepted the cuts in order to favor targeting and capitalization. The socialist party declined the reform package, because of its skepticism against targeting and capitalization. Again, multidimensionality allowed the government to implement far-reaching changes in the French pension system.

As has been shown, targeting and capitalization have become so important mostly because of the *split within the trade union movement*. While all unions share similar positions against retrenchment, their preferences differ significantly with regard to targeting and capitalization. This within-class divide remained relevant even in the formation of the final reform-coalitions, because the institutional incentives for class cohesion within labor and within capital are weak in France, where especially the trade unions are fragmented. This confirms the expectations of my hypotheses.

Hence, the French institutional context allows for the necessary coalitional engineering. If governments act skillfully, they can exploit the potential multi-

dimensionality of the policy-making space and foster sufficient cross-class support for pension reforms.

#### **4.2. Switzerland: the rising importance of recalibrating compromises**

Whereas in France, targeting and capitalization have become the decisive conflict lines, dividing the trade union movement, targeting and recalibration have become highly important in the Swiss pension politics. They not only fostered strong heterogeneity within the labor movement, but also a split between the trade unions and the left-wing parties, the latter privileging value-related issues of recalibration to purely distributional insurance reforms. Therefore, the multidimensional space of policy reform provided an opportunity for a social-liberal value alliance among the new left parties, the liberal parties and parts of the employers – a rather “unlikely coalition”, which implemented far-reaching policy change.

Table 3 and figure 4 provide the results of the factor analysis of the 1995 reform of the first tier public pension scheme (for more details, see also Bonoli 1999 and Häusermann et al. 2004).

In figure 4, the horizontal axis represents the actors’ positions on insurance (supporting or resisting an increase in the age of retirement), and the vertical axis is most clearly linked to recalibration (splitting and the flexibilization of the retirement age). Several findings are particularly interesting: First, the Green party is the main advocate of recalibration, promoting libertarian values in pension policy-making. Second, a social-liberal alliance formed with regard to recalibration (the actors at the top of the graph), including the Social Democratic party and the Greens, but also the liberal parties FDP and LDU, and the main employers association (SAV) and the women’s associations. Opposition to recalibration was most apparent from the conservative Christian Democratic Party and the Small business employers (SGV). Third, the restrictive position of the Union of Swiss Trade Unions SGB on the recalibrating issues is striking. The SGB did not reject recalibration in favor of non-working spouses, but took a very moderate stance on this issue and made it clear that it prioritized the issue of the retirement age instead. Hence, the Social Democratic party (SPS) was clearly at odds with the SGB with regard to this dimension. On the

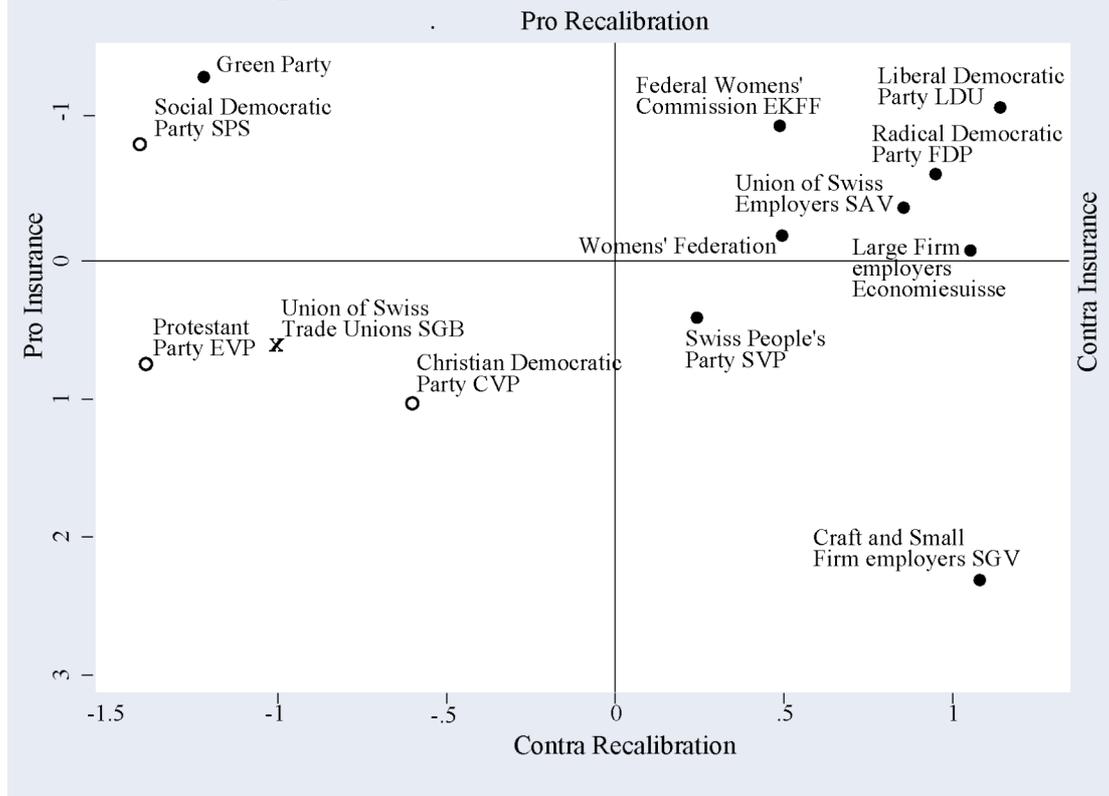
issue of insurance, however, the SPS also took a very clear pro-distributive position, in concert with the SGB. On this second dimension, a clear left-right conflict can be observed in the graph, with the left-wing actors and Christian Democracy opposing right-wing parties and employers.

**Table 3. Switzerland: results of the factor analysis on the 10th reform of the basic Swiss pension scheme 1995**

| <b>Issues of the reform debate</b>      | <b>Recalibration</b> | <b>Insurance</b> |
|---|----------------------|------------------|
| Splitting of contributions and benefits | <b>0.95</b>          | -0.078           |
| Flexibilisation of retirement age       | <b>0.771</b>         | 0.507            |
| Increase of the retirement age          | 0.047                | <b>0.973</b>     |
| <i>Eigenvalues</i>                      | <i>1.498</i>         | <i>1.21</i>      |
| <i>explained variance</i>               | <i>50%</i>           | <i>40%</i>       |
| <b>Actors:</b>                          | <b>scores</b>        | <b>scores</b>    |
| Green Party GPS                         | -1.335               | -1.221           |
| Liberal-democratic Party LDU            | -1.115               | 1.142            |
| Federal womens' commission EKFF         | -0.981               | 0.488            |
| Socialist Party SPS                     | -0.848               | -1.411           |
| Radical-Democratic Party FDP            | -0.632               | 0.950            |
| Union of Swiss employers SAV            | -0.388               | 0.855            |
| Womens' federation Alliance F           | -0.187               | 0.495            |
| Large firm employers Economiesuisse     | -0.078               | 1.054            |
| Swiss Peoples' Party SVP                | 0.409                | 0.243            |
| Federal office for Social Insurance BSV | 0.501                | -0.677           |
| Union of Swiss Trade Unions SGB         | 0.568                | -1.004           |
| Protestant Party EVP                    | 0.745                | -1.393           |
| Christian-Democratic Party CVP          | 1.030                | -0.601           |
| Craft and small firm employers SGV      | 2.312                | 1.081            |

Factor analysis run on the coded positions of the actors; all factors with Eigenvalue  $\geq 1$ , Varimax rotation;

Figure 4. Switzerland: scatterplot of the factor scores of actors in the 10th reform of the Swiss pension system 1995



As in the previous chapters, the symbols indicate the *final positions* of the actors with regard to the whole, strategically tied reform package.<sup>3</sup> The peak union, (the SGB, whose position is connoted with a cross) rejected the reform most strongly and launched a referendum campaign against it. By contrast, all actors with a preference for retrenchment agreed on the overall reform (connoted by the black dots on the histogram), even the Association of small Businesses and Trade (SGV), who had a very conservative stance on recalibration.

Most important, however, are the positions of the Green Party and the Social Democrats. The Green party's preference for recalibration was more or less as strong as its refusal of retrenchment. But the party clearly privileged splitting in the end, making the *value-conflict the key conflict dimension* in this reform. The Social Democrats, for their part, were deeply divided over what voting recommendation to give on the referendum. While they had a strong preference against retrenchment,

<sup>3</sup> The combination of the insurance- and recalibration-related elements was employed mainly by some liberal parliamentarians to split the opposition by the left against retrenchment (Interview, federal office for social insurances (Brechtbühl, vice-director), June 21<sup>st</sup>, 2006; Interview, FDP (Allenspach, member of the parliamentary committee in charge of the 10<sup>th</sup> reform of the old age pension system and former director of the Swiss Employers' Association SAV), July 4<sup>th</sup>, Zurich.).

several highly influential Social Democratic Party MPs had contributed to the agreement on splitting with the other parties.<sup>4</sup> After an internal vote within the party, the SPS decided to support the package, in effect going *against* the peak trade union (SGB), their traditional ally in social policy making. For the SGB, the new benefits for non working women were less important than the rise in the age of retirement of working women. By contrast, the issue of social recalibration for divorced women had been on the agenda of Social Democrats for a long time already (Häusermann et al. 2004). Hence, this reform shows quite clearly that *recalibration* had become a conflict line that had the potential to split the “old” unionist left from the “new” value-libertarian left in social policy making.

Eight years later, the *occupational pension scheme reform of 2003* provided another striking example of such a divide within the left. The first factor in table 4 (the vertical axis in figure 5) represents the conflict over targeting (concerning the extension of access to low incomes and part-time employees, ceiling of insurable income) and recalibration (the introduction of widowers’ pensions). The second factor (the horizontal axis in figure 5) opposed supporters and opponents of insurance (lowering of pension levels, indexation and cutbacks in widow’s pensions).

Again, the Green party, womens’ organizations, the Social Democratic party, and some particularly moderate trade unions (the CNG and the white collar union (VSA) representing a particularly large female workforce) formed the *recalibrating pole* of the conflict. For those actors, the objective of including outsiders and women within the second tier became a battle for the recognition of female work and for the creation of incentives for female labor market participation.<sup>5</sup> These parties confronted a coalition of the conservative Swiss People’s Party (SVP), peasants, and the Association of Small Business and Crafts (SGV). The latter opposed the targeted extension of occupational pension coverage mostly because they employ a large

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<sup>4</sup> Interview, SPS (Haller, member of the parliamentary committee in charge of the 10<sup>th</sup> reform of the basic pension scheme), June 28<sup>th</sup>, 2001, Bern. Interview, SPS (Brunner, member of the parliamentary committee in charge of the 10<sup>th</sup> reform of the basic pension scheme and President of the Union of Trade Unions SGB), July 11<sup>th</sup>, 2001.

<sup>5</sup> Interviews FDP and SPS (Gutzwiller and Rechsteiner, both members of the parliamentary committee in charge of the 2003 reform of the second tier pension scheme), June 6<sup>th</sup>, 2002, Bern.

proportion of low-paid part-time workers that was to be newly covered in the second tier of occupational pensions.

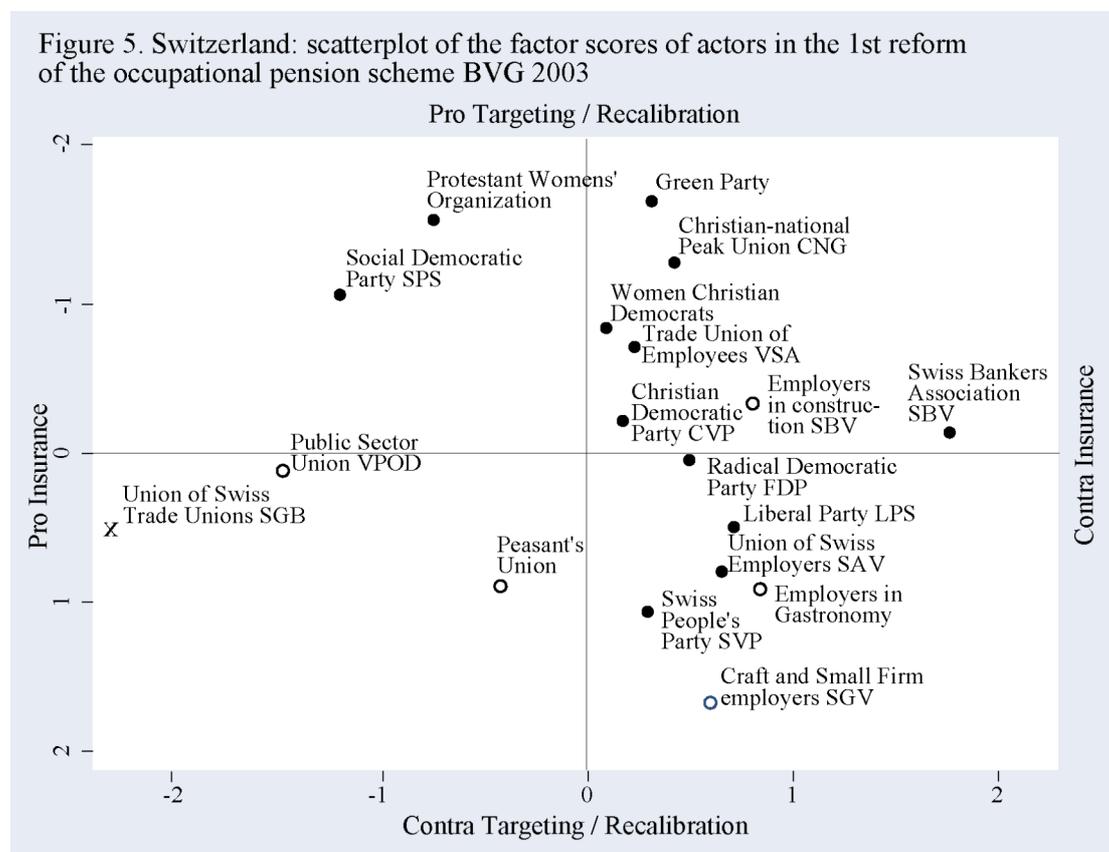
**Table 4. Switzerland: results of the factor analysis on the 1st reform of the occupational pension scheme BVG 2003**

| <b>Issues of the reform debate</b>                     | <b>Targeting /<br/>Recalibration</b> | <b>Insurance</b> |
|--|--------------------------------------|------------------|
| Lowering of access threshold for occupational pensions | <b>0.819</b>                         | 0.326            |
| Special conditions for part-time workers               | <b>0.919</b>                         | 0.149            |
| Introduction of widowers' pension                      | <b>0.827</b>                         | 0.144            |
| Ceiling of insurable income                            | <b>0.787</b>                         | 0.376            |
| Cuts in the level of benefits                          | 0.243                                | <b>0.826</b>     |
| Increase of the retirement age                         | 0.189                                | <b>0.853</b>     |
| <i>Eigenvalues</i>                                     | <i>2.913</i>                         | <i>1.702</i>     |
| <i>explained variance</i>                              | <i>0.490</i>                         | <i>0.280</i>     |
| <b>Actors</b>  | <b>scores</b>                        | <b>scores</b>    |
| Green Party GPS  | -1.693                               | 0.318            |
| Protestant Womens' Org. Ev.FB                          | -1.568                               | -0.745           |
| Christian-national Peak Union CNG                      | -1.281                               | 0.428            |
| Socialist Party SPS                                    | -1.064                               | -1.202           |
| Women Christian-Democrats                              | -0.843                               | 0.097            |
| Trade union of employees VSA                           | -0.714                               | 0.235            |
| Employers in construction SBV                          | -0.334                               | 0.810            |
| Christian-Democratic Party CVP                         | -0.219                               | 0.178            |
| Swiss Bankers' Association SBV                         | -0.140                               | 1.771            |
| Radical-Democratic Party FDP                           | 0.046                                | 0.502            |
| Public sector Union VPOD                               | 0.117                                | -1.480           |
| Liberal Party LPS                                      | 0.495                                | 0.719            |
| Union of Swiss Trade Unions SGB                        | 0.543                                | -2.324           |
| Union of Swiss employers SAV                           | 0.793                                | 0.660            |
| Peasants' union SBV                                    | 0.891                                | -0.376           |
| Employers in Gastronomy (Gastros.)                     | 0.901                                | 0.830            |
| Swiss Peoples' Party SVP                               | 1.063                                | 0.298            |
| Union of Liberal Professionals                         | 1.332                                | -1.322           |
| Craft and small firm employers SGV                     | 1.675                                | 0.604            |

Factor analysis run on the coded positions of the actors; all factors with Eigenvalue  $\geq 1$ ; Varimax rotation;

As figure 5 shows, intra-union conflicts were even stronger on the distributional divide (insurance) than with regard to targeting and recalibration. The SGB refused the pension cuts categorically, while other unions (such as the CNG and VSA) adopted a much more moderate position, signaling that their primary concern was the extension of the mandatory pensions to new risk groups. From this it is clear that, as in the 1995 reform, *a potential for a social-liberal alliance for outsider-*

interests on targeting and recalibration appeared in the 2003 reform of the occupational pension scheme.



When looking at the final positions of the actors on this particular reform package, the *split within the left* appears again very clearly: the SGB remained most critical of the reform, while the Social Democrats agreed to it. Overall, all actors with a preference for targeting and recalibration (motivated either by libertarian values or by the interests of their outsider-constituency) agreed on the reform - thereby privileging this aspect of the bill over their preferences on insurance. This again confirms the importance of this new conflict dimension for this policy reform.

Both reforms point out very strikingly that *new conflict dimensions split the left and blurred the class-conflict, which still prevailed on insurance*. The institutional context of decision-making in Switzerland clearly played a major role here. It requires large, oversized majorities in order to successfully push a reform through a popular referendum. Class polarization is weak in Switzerland and the institutional framework is very consensual. Thus, the actors can chose and change coalitions on specific

reforms rather flexibly, which allowed the governments to implement major reforms including elements, which alone would not have had the potential to gather a majority.

#### **4.3. Germany: Institutional obstacles to multidimensional reform politics**

In Germany, class polarization is more acute. Moreover, government formation follows a more majoritarian logic, so that the opposition parties tend to reject any reform the government proposes, irrespective of the content of the bill and the actual policy-preferences. Hence, the leeway for coalitional engineering is more restrained. Nevertheless, the government successfully engaged in processes of political exchange, in order to secure an agreement among the parties of the government coalition.

Table 5 and figure 6 provide the results of the factor analysis of actor positions on the 1992 pension reform. The reform-issues belonging to the conflict dimensions of *targeting and recalibration* (educational pension benefits, splitting) divided the actors in a different way from the cutbacks on *insurance* (increase of the retirement age, net wage indexation), the issue of pension minima being between the two. They formed two largely independent axes of conflict, which are displayed in figure 6: the horizontal axis shows the alignment of the actors with regard to insurance, and the vertical axis positions the actors with regard to targeting / recalibration.

The actors most in favor of recalibrating reforms are the welfare organizations of the civil society, the SPD, the Green party and the FDP. While the trade unions also supported recalibration, they are more pronouncedly to the left on the insurance-axis - suggesting that they rejected the cuts fiercely and probably gave more weight to insurance than recalibration. As expected, the left-wing parties were more clearly in favor of recalibration and targeting than the trade unions. Hence, with the left-wing parties and the FDP advocating recalibration, one can identify a potential for a *social-liberal alliance* in favor of these new reform directions, whereas the insurance axis gave rise to a *class divide* between the trade unions and the left-wing parties on the one hand, and the right-wing parties and employers on the other hand.

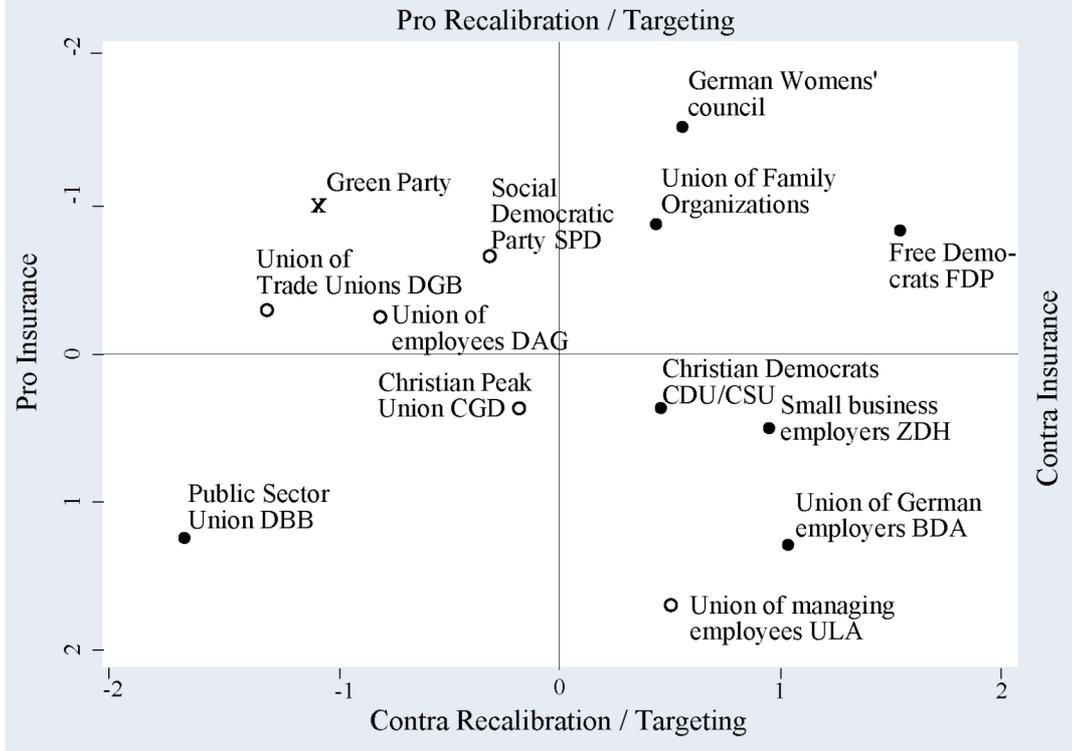
**Table 5. Germany: results of the factor analysis on the reform of the German basic pension system 1992**

| <b>Issues of the reform debate</b>                                | <b>Recalibration / Targeting</b> | <b>Insurance</b> |
|---|----------------------------------|------------------|
| Increase of educational pension credits                           | <b>0.876</b>                     | 0.395            |
| Summation of education credits for early retirement rights        | <b>0.926</b>                     | 0.295            |
| Debate on splitting of contributions and benefits between spouses | <b>0.871</b>                     | 0.116            |
| Consolidation of pension minima regulations                       | <b>0.673</b>                     | <b>0.707</b>     |
| Increase of the retirement age                                    | 0.355                            | <b>0.845</b>     |
| Indexation of pension to net wages                                | 0.119                            | <b>0.937</b>     |
| <i>Eigenvalue</i>   | 2.98                             | 2.35             |
| <i>explained variance</i>   | 49%                              | 39%              |
| <b>Actors</b>   | <b>scores</b>                    | <b>scores</b>    |
| German womens' council  | -1.54                            | 0.55             |
| Green Party Gruene  | -0.98                            | -1.10            |
| Union of Family Organizations                                     | -0.88                            | 0.43             |
| Free Democrats FDP  | -0.84                            | 1.54             |
| Social-Democratic Party SPD                                       | -0.66                            | -0.32            |
| Union of Trade Unions DGB   | -0.30                            | -1.33            |
| Union of employees DAG  | -0.25                            | -0.82            |
| Christian Democrats CDU/CSU                                       | 0.36                             | 0.46             |
| Christian Peak Union CGD  | 0.37                             | -0.19            |
| Craft / small business employers ZDH                              | 0.50                             | 0.95             |
| Public Sector Union DBB   | 1.24                             | -1.71            |
| Union of German employers BDA                                     | 1.29                             | 1.03             |
| Union of managing employees ULA                                   | 1.70                             | 0.50             |

Factor analysis run on the coded positions of the actors; all factors with Eigenvalue  $\geq 1$ ; Varimax rotation;

It is striking to note that already in 1992, the SPD had taken a rather centrist position on insurance. In this reform, the SPD and CDU were able to find a compromise (“Rentenkompromiss 1989”, see Nullmeier and Rüb 1993), because the SPD had taken rather moderate positions on insurance and because some of its recalibration-related claims had been taken into account.

Figure 6. Germany: scatterplot of the factor scores of actors in the 1989 reform of the basic public pension scheme



Again, the symbols denoting actor's locations represent their *final positions*. The Green party (marked by the cross) clearly rejected the reform package, whereas the trade unions and the Social Democrats criticized the reform, but eventually did not mobilize against it (as is marked by the ring). The actors to the right of the insurance-axis mainly approved of the reform. Hence, the recalibration-axis in Germany did not become the main dividing line, even though concessions on recalibration may have allowed the SPD and some unions to put up with the reform. However, the class conflict on insurance did not prevail clearly either, at the end of the reform process. Indeed, most left-wing actors eventually accepted the reform package. The 1992 reform shows clearly that the potential for a cross-class reform coalition along recalibration and targeting did not materialize in Germany as in the other countries, which can be explained by the effects of the institutional framework of decision-making.

A similar pattern appeared again in the 2001 reform of the old age pension system by the SPD/Green-government. As table 6 shows, the main issues at hand were *insurance cutbacks* (the lowering of widow's pensions and general cutbacks on benefit levels), expansive *recalibration* elements (Individualization of benefit rights, educational credits, splitting) and *targeting* („Grundsicherung“). *Capitalization*, however, emerged as an additional third factor, independent from the other two.

**Table 6. Germany: results of the factor analysis of the reform of the German basic pension system 2001**

| <b>Issues of the reform debate</b>                        | <b>Recalibration / Targeting</b> | <b>Insurance</b> | <b>Capitalization</b> |
|---|----------------------------------|------------------|-----------------------|
| Individualization of poverty relief                       | <b>0.865</b>                     | 0.172            | -0.051                |
| Universal minimum pension                                 | <b>0.744</b>                     | 0.045            | -0.231                |
| Increase of educational pension credits                   | <b>0.682</b>                     | 0.446            | 0.27                  |
| Splitting of benefits and contributions between spouses   | <b>0.872</b>                     | -0.164           | 0.103                 |
| Lowering of widows' pension rights                        | -0.165                           | <b>0.926</b>     | -0.161                |
| Cuts in the level of pension benefits                     | 0.305                            | <b>0.912</b>     | 0.0013                |
| Individual private and occupational pension savings plans | -0.047                           | -0.97            | <b>0.948</b>          |
| <i>Eigenvalue</i>   | <i>2.649</i>                     | <i>1.956</i>     | <i>1.064</i>          |
| <i>explained variance</i>                                 | <i>38%</i>                       | <i>28%</i>       | <i>15%</i>            |
| <b>Actors</b>   | <b>scores</b>                    | <b>scores</b>    | <b>scores</b>         |
| Green Party Gruene  | -1.69                            | 1.30             | 0.21                  |
| German womens' council                                    | -1.50                            | 0.10             | 0.94                  |
| Union metal industry IG Metall                            | -1.18                            | -1.06            | -0.16                 |
| Union of employees DAG                                    | -0.88                            | -0.34            | -1.30                 |
| Democratic Socialists PDS                                 | -0.73                            | -0.93            | -0.13                 |
| Social-Democratic Party SPD                               | -0.53                            | 0.95             | 1.00                  |
| Union of Trade Unions DGB                                 | -0.44                            | -1.20            | -1.21                 |
| Government (SPD/Gruene)                                   | -0.41                            | 0.66             | 0.08                  |
| Union chemical industry IG Chemie                         | -0.06                            | -0.14            | 0.11                  |
| Union of Family Org.                                      | 0.33                             | -0.55            | 0.27                  |
| Union of German employers BDA                             | 0.40                             | 1.72             | 0.06                  |
| Free Democrats FDP  | 0.64                             | 1.11             | 1.13                  |
| Small business employers ZDH                              | 0.87                             | 1.49             | -1.51                 |
| German Family Union                                       | 1.18                             | 0.21             | 0.83                  |
| Union of managing employees ULA                           | 1.25                             | -1.10            | -1.62                 |
| Christian Democrats CDU/CSU                               | 1.79                             | 0.00             | 2.07                  |

Factor analysis run on the coded positions of the actors; all factors with Eigenvalue  $\geq 1$ ; Varimax rotation;

Figure 7 displays the positioning of the actors in the two-dimensional space formed by the first two factors.

Figure 7. Germany: scatterplot of the factor scores (factors 1 and 2) of actors in the 2001 reform of the basic public pension scheme

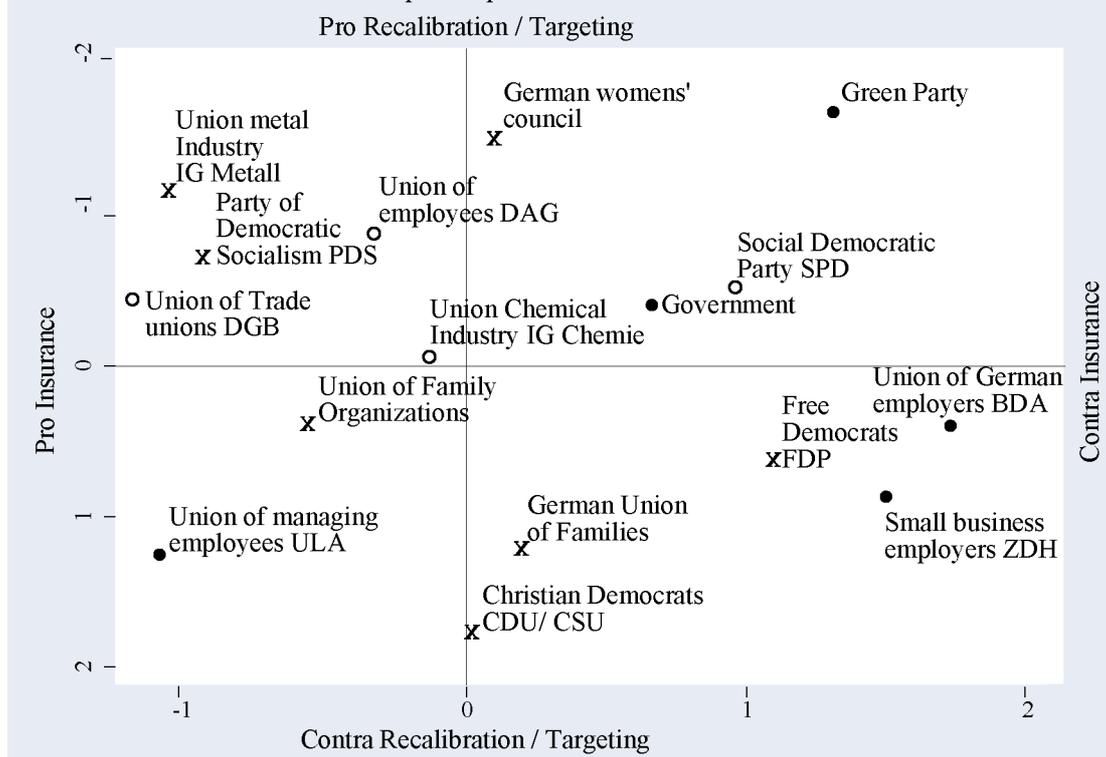


Figure 7 clearly illustrates that the Green Party was, once again and as expected, the most ferocious advocate of targeting and recalibration, and that the SPD took a more favorable position on these issues than the average union. However, the Green Party and the Social Democrats had shifted considerably to the right on insurance and – as seen above – advocated heavy cuts. This led to a clear *rift* between the unions and the left-wing parties over insurance. Figure 7 also shows that the Christian Democrats (CDU/CSU), family organizations, and the small business employers advocated conservative reforms on recalibration. Indeed, the red-green government created incentives for mothers to remain active in the labor force. The conservative actors rejected this dimension of the reform, because it would call into question the traditional organization of families.

The *final position* of the actors on the whole reform package shows once again that *coalition-formation* in Germany is *not* determined by the preferences of actors only. Institutions also influence the leeway for coalitional engineering the government has. The Green Party and the employers clearly approved of the reform package (as connoted by the dark dots), whereas some trade unions (IG Metall), the welfare

organizations of the civil society, and the PDS rejected the whole reform package (cross). In between are the peak trade unions DGB, DAG, and IG Chemie, which criticized retrenchment heavily, but eventually did not mobilize against the reform (as shown by the ring). Even though the SDP approved of the reform, it appears in this last category, too, because it was internally split.

Hence, one could argue that the government's strategy to *divide the unions* by introducing targeting and recalibration *failed* to a large extent, since the latter remained very critical of the reform and did not support it publicly. However, this is not very surprising, because class polarization is rather strong in Germany. Rather, I would argue that the package was primarily composed with an eye to ensuring sufficient *consent within the government parties*. Their approval of the reform can only be understood with reference to the combination of conflict lines. The Social Democrats and the Greens were able to take the responsibility of the heavy cuts *only and precisely* because the reform simultaneously expanded benefits with regard to targeting, recalibration and capitalization.

For the employers (such as BDA), the reform was acceptable, because the savings it engendered outweighed the costs implied by recalibration and targeting. Indeed, the main employers organization, the BDA, stated that the recalibrating elements were "absolutely plausible" ("*durchaus nachvollziehbar*"<sup>6</sup>). But for the trade unions, such a re-orientation of the reforms was much less acceptable, since their priorities were clearly centered on the defense of the existing levels of insurance benefits.

In sum, the shift of the left-wing parties to the right on insurance upset the coalitional dynamics in German pension policy making entirely. It should be noted that this last reform illustrates perfectly how coalitional dynamics are not only driven by preferences, but also by institutions. Indeed, in a *different institutional setting* with low class polarization, this shift of the SPD and Green Party might have fostered a new cross-class alliance across all major political parties. In Germany, however, the institutional context of party competition did not allow for this coalition, because it exogenously fostered polarization.

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<sup>6</sup> Written statement of the BDA in the public hearing before the parliamentary committee, 8.12.2000, Ausschussdrucksache 14/1090: p. 196.

Nevertheless, the *capacity for pension policy reform* in Germany has remained intact as long as institutional conditions have allowed the government to have reforms accepted by its own majority in Parliament. As soon as the power balance started to incline towards the opposition, however, these opposition parties emerged as a veto player and reform gridlock became a serious problem. Indeed, the institutional effect of electoral polarization, which prevailed in Germany from the late 1960s until 2005, became particularly obvious in the last years of the red-green government, when the conservative opposition rejected *any* reform proposal by the government, irrespective of its actual policy-preferences. This lack of coalitional flexibility eventually led, most recently, to the formation of a grand coalition of the SPD and the CDU/CSU.

## **Conclusion**

In this contribution, I have tried to show that we need to conceptualize policy change in a *multidimensional policy space* in order to make sense of reform outputs. In all three countries, France, Germany and Switzerland, far-reaching, paradigmatic change has taken place in the pension schemes over the last two decades, particularly in the direction of retrenchment and cost containment. In the light of everything we know from “critical juncture”- and “punctuated equilibrium”-theories, the odds for such policy change were particularly bad: there is an overwhelming electoral majority of pension beneficiaries unfavorable to cost containment, there was no sudden major exogenous shock, and there were considerable power asymmetries and increasing returns in favor of the status quo of benefit levels. Nevertheless, the pension regimes have been gradually transformed over several major reforms.

The key to understanding these *very unlikely reform outputs* is to focus on the *very unlikely reform coalitions*, which enacted them. In France, parts of the trade unions implemented the reforms together with the right-wing parties and the employers’ organizations. In Switzerland, the left-wing parties and the right-wing market-liberal parties supported these reforms against the opposition of the trade unions and in Germany, the left-wing government enacted these paradigmatic reforms together with the employers organizations, and against the opposition of the conservative right-wing parties and the trade unions. It appears very clearly that these are not exactly the coalition patterns we would expect at first glance in pension reform, which is usually conceived as a typical example of distributive class politics.

My argument is that we cannot make sense of these recent coalitional dynamics, unless we understand that policies are multidimensional. Many actors participate in the reforms with very *different goals* in mind and with highly different preferences and priorities. If governments are able to build on this multidimensionality, they may create multidimensional policy spaces that allow for *political exchange* between actors who otherwise share little or almost no common interests, values or beliefs. Thereby, they may create “*ambiguous agreements*” (Palier 2005) for reforms, i.e. compromises between actors who agree to a reform for very different reasons. As I have tried to show in the above analysis, this is exactly what happened in recent continental pension politics.

This implies also that these new driving coalitions for policy change are not necessarily stable and long-lasting “advocacy coalitions” in a policy subsystem, but rather short-term, opportunistic alliances of actors who find a way to design the reforms, so that they correspond to their main goals. The consequence is a conceptualization of politics and policy change as a constantly changing configuration and reconfiguration of alliances and reform coalitions.

A further implication of this insight is that policy change becomes rather unpredictable to some extent. Indeed, there need to be policy entrepreneurs, mostly governments, who understand the multidimensionality of policy goals and the policy space and who are able to skillfully tie policy packages able to gather sufficient support from different actors. Governments are not necessarily rational and they may misperceive both the policy space and the preferences of the relevant actors. Two examples of recent reform failures suffice to illustrate the fact that successful reforms depend not least on the skills of political entrepreneurs. First, in 1995, French Prime-minister Juppé did not try to negotiate reform or to tie any recalibrating package, but proposed only elements aimed at pension retrenchment. No expert doubted that the cost containment measures he proposed were sensible and necessary, but they were not balanced by any modernization, and thus allowed no possibility for political exchange. Hence, Juppé failed precisely to exploit the heterogeneity within the unions. The result was a massive protest movement of the unified labor unions and a complete failure of the reform. Second, in 2003 the Swiss government and parliament

decided on a reform bill that was exclusively focused on retrenchment (insurance) and included no notable concessions to the left whatsoever, neither in terms of targeting nor recalibration. Thereby, the dominant right-wing parties alienated the potential social-liberal allies within the Green and Social Democratic Parties and provoked a unified opposition of these left-wing parties and the labor unions, which successfully fought the reform in a popular referendum.

The upshot of this whole contribution is that we need to develop an adequate understanding of the politics of reform in order to understand policy change. And the politics of reform always mean a coalitional dynamic that is constantly evolving and reconfiguring along a plurality of conflict dimensions.

# Appendix 1

## List of interviews

### a) France

- Anne-Marie Brocas, Secrétaire générale du Conseil d'orientation des retraites COR. July 12th, 2005.
- Bernard Caron, Directeur de Protection Sociale au Mouvement des entreprises de France MEDEF. July 13th 2005, Paris.
- Pierre-Yves Chanu, Conseiller Confédéral à la Confédération Générale du Travail CGT. July 20th 2005, Paris.
- Jean-Pierre Hutin, Représentant de la Confédération des petites et moyennes entreprises CGPME. July 19th 2005, Paris.
- Danièle Karniewicz, Secrétaire nationale du pôle protection sociale de la Confédération générale des cadres CGC. July 19th 2005, Paris.
- Prof. Bruno Palier, chargé de recherche CNRS au CEVIPOF. July 4th 2005, Paris.
- Alain Petitjean, Secrétaire confédéral de la Confédération française démocratique du travail CFDT. July 13th 2005, Paris.

### b) Germany

- Klaus Dauderstädt, stv. Bundesvorsitzender des Deutschen Beamten-Bundes DBB. September 21st 2004, Berlin.
- Anne Jenter, Abteilungsleiterin der Abt. Frauen- und Gleichstellungspolitik. Deutscher Gewerkschaftsbund DGB. April 6th 2005, Berlin.
- Judith Kerschbaumer, Leiterin des Bereichs Sozialpolitik. Ver.di. September 20th 2004, Berlin.
- Eugen Müller, Geschäftsführer, Bundesvereinigung der deutschen Arbeitgeberverbände BDA. September 23rd 2004, Berlin.
- Ingo Nürnberger. Referent für Alterssicherung. Deutscher Gewerkschaftsbund DGB. April 7th 2005, Berlin.
- Prof. Frank Nullmeier. Professor for Political Science at the University of Bremen. Member of the „Rürup“ committee. April 6th 2005, Berlin.
- Bernhard Schmalz, Abteilungsleiter Sozialpolitik des Zentralverbandes des deutschen Handwerks ZdH. September 21st 2004, Berlin.
- Wolfgang Schroeder. Leiter des Fachbereiches Sozialpolitik. IG Metall. September 16th 2004. Berlin.
- Andreas Zimmermann. Geschäftsführer Sozialpolitik Deutschland, Union Leitender Angestellter ULA. September 23rd 2004, Berlin.

### c) Switzerland

- Heinz Allenspach. Ehem. Direktor Schweizerischer Arbeitgeberverband SAV, former member of the parliamentary committee for social policy for the market-liberal party FDP. July 4th 2001, Zurich.

- Jürg Brechbühl, ehem. Vizedirektor des Bundesamtes für Sozialversicherungen. June 21st 2001, Bern.
- Prof. Giuliano Bonoli, Professeur de Politique Sociale, Idheap. May 21st 2001, Fribourg.
- Christiane Brunner, ehem. Generalsekretärin des Schweizerischen Gewerkschaftsbundes SGB, former member of the parliamentary committee for social policy for the Social-Democratic Party SPS. July 7th 2001, Geneva.
- Edouard Delalay, former member of the parliamentary committee for social policy for the Christian Democratic Party CVP. July 2nd 2001, Sion.
- Béatrice Despland, ehem. Generalsekretärin des Schweizerischen Gewerkschaftsbundes SGB. June 18th 2001, Lausanne.
- Kurt Gfeller, Vizedirektor des Schweizerischen Gewerbeverbandes SGV. June 6th 2002, Bern.
- Felix Gutzwiler, member of the parliamentary committee for social policy for the market-liberal party FDP, June 6th 2002, Bern.
- Gret Haller, former member of the parliamentary committee for social policy for the Social-Democratic Party SPS, June 28th 2001, Bern.
- Peter Hasler. Ehem. Direktor Schweizerischer Arbeitgeberverband SAV. August 10th 2001, Zurich.
- Liliane Nabholz, former member of the parliamentary committee for social policy for the market-liberal party FDP. June 21st 2001, Bern.
- Rudolf Rechsteiner, member of the parliamentary committee for social policy for the Social-Democratic Party SPS. June 6th 2002, Bern.
- Hans-Rudolf Schuppisser. Vizedirektor Schweizerischer Arbeitgeberverband SAV.s October 20th 2004, Zurich.

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