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Grand Coalitions for Unpopular Reforms: Building a Cross-Party Consensus to Raise the Retirement Age

Martin Hering

SEDAP Research Paper No. 233

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Grand Coalitions for Unpopular Reforms: Building a Cross-Party Consensus to Raise the Retirement Age

Martin Hering (McMaster University)

Abstract: This article argues that an increase of the retirement age from 65 years to 67 or higher, which is the most unpopular pension reform measure, is politically feasible if the major parties build either a formal or an informal grand coalition. It argues further that institutional rules and agreed standards, especially the goals expressed in relation to pension policy, facilitate the formation of a grand coalition and increase the autonomy of governments vis-à-vis trade unions. Specifically, by restricting key policy instruments for responding to fiscal pressures, they lead political parties to consider the controversial option of raising the retirement age and to engage in a coordinative discourse about the necessity of this change and the limits of other reform options. This argument implies that the success of a retirement age reform does not depend on a negotiated agreement between a government and trade unions. By examining the agenda-setting and decision-making processes in Germany from the mid-1990s to 2007, this article shows that governments raise the retirement age only if they face constraints that rule out tax increases and benefit cuts and that they are able to enact even comprehensive retirement age reforms that increase not only the normal age but also the earliest eligibility age for both public and private pensions.

Keywords: welfare state, pension politics, retirement age, policy paradigms, institutional constraints, blame avoidance

JEL Classifications: D70, H53, H55

Résumé: Cet article tente de démontrer qu'une hausse de l'âge de la retraite de 65 à 67 ans ou plus, une des politiques de réforme du régime des retraites les moins populaires, est politiquement réalisable si les principaux partis forment une grande coalition, qu'elle soit formelle ou informelle. Il souligne que les règles institutionnelles et les normes en place, particulièrement par apport à la finalité des politiques relatives au pension, facilitent la formation d'une grande coalition et renforcent l'autonomie des gouvernements vis-à-vis des syndicats. Plus précisément, en restreignant certaines politiques instrumentales clés afin de répondre aux pressions fiscales, elles permettent aux partis politiques de considérer l'option controversée, à savoir l'augmentation de l'âge de la retraite, et de s'engager dans un discours de coordination à propos de la nécessité de ce changement et des limitations des réformes alternatives envisageables. Cet argumentaire implique que le succès d'une réforme de l'âge de la retraire ne dépend pas de la concertation entre le gouvernement et les syndicats. En examinant le processus de prise de décision et l'agenda fixé par l'Allemagne entre le milieu des années 1990 et 2007, cet article démontre que les gouvernements augmentent l'âge de la retraite seulement lorsqu'ils sont dans un environnement qui prévient l'augmentation des taxes et la baisse des allocations. Ils peuvent ainsi mettre en place des réformes encore plus profondes, non seulement par apport à l'âge normal de retraite, mais aussi par rapport à l'âge minimum d'éligibilité qu'il s'agisse des régimes de retraite des secteurs public et privé.

Introduction

A striking feature of pension reforms in the advanced industrialized countries is their scant use of the most effective solution to the problems of pension expenditure growth and income insecurity in old age: the increase of the retirement age to more than 65 years. If workers retired only one year later, pension expenditure could be reduced by close to 1 percent of GDP, and pension benefits could be maintained at their existing levels (European Commission and European Council 2006, 7). The European Union has found that a significant increase of the retirement age would solve the fiscal challenge of population aging: "… by raising the effective age by five years …. without any additional accrual of pension rights, public pension expenditure could be kept, by and large, at its current level" (European Commission and European Council 2006, 55). Without policy reforms, public spending on pensions is expected to grow by 3 or 4 percent of GDP over the coming decades (OECD 2001, 153).

At the international level, the policy option of raising the retirement age has become the new focus of the pension reform agenda. The European Union recently defined an increase of the actual retirement age by five years as its medium-term goal (European Council 2002, 12), and the OECD recommended that governments introduce comprehensive reforms that promote longer employment (OECD 2006). But at the national level, benefit cuts have remained the rule, and increases of the retirement age the exception. In 2006, the European Commission complained that only a few member states were committed to the "Barcelona target" of increasing the retirement age by five years

and that even the committed countries had not proposed policies to achieve this target (European Commission and European Council 2006, 50). To date, only three advanced industrialized countries—the United States, Germany, and the United Kingdom—have made the decision to raise the statutory retirement age from 65 to either 67 or 68 years.

Governments neglect the retirement age option despite its impressive effectiveness in solving major policy problems because they face strong opposition from voters, parties, and trade unions. To guarantee the financing of public pension systems, the majority of European citizens prefer either higher contributions or lower benefits to a higher retirement age (European Commission 2004, 62-63). Less than a fifth would accept to work longer (European Commission 2005, 54-55). In the United Kingdom, the main conclusion from a public opinion study about retirement age policies was that "any government that raised the state pension age would be punished for it, by people from all social backgrounds" (Robinson et al. 2005, 25). In order to reduce blame from voters, the three countries that decided to increase the formal retirement age used long transition periods and delayed the start of this period by many years. While long transition periods weaken the electoral constraints, they also weaken the fiscal effects of retirement age increases in the long term and, most importantly, preclude short- and medium-term spending reductions. By studying the factors that lead to an increase of the retirement age, this article seeks to close a gap in the literature on pension reform politics which has thus far focused on analyzing the opportunities and constraints for benefit cuts and partial privatization (Bonoli 2000; Immergut et al. 2007; Myles and Pierson 2001; Weaver 2004). Specifically, this article examines two key questions: first, which conditions lead

governments to consider seriously this option despite its electoral risks? Second, how do governments overcome the political obstacles to legislating an increase of the retirement age, especially the likely opposition from competing parties and trade unions?

This article suggests that both institutional constraints and the paradigms that shape pension policy are important factors in the agenda-setting and decision-making processes that lead to the successful adoption of unpopular retirement age reforms. It develops two arguments about the politics of raising the retirement age. The first is that governments consider an increase of the retirement age if institutional and ideational constraints rule out two key options: higher contributions and lower benefits. Since the number of options for reforming public pensions is limited, the combined effect of institutional and ideational factors can severely restrict governments' choices; if contribution increases and benefit cuts are not permitted, raising the age of retirement is the last resort in making public pension systems fiscally sustainable. The second argument is that institutional and ideational constraints increase the chances of successful reform because they facilitate the building of coalitions among political parties and enhance the political autonomy of governments vis-à-vis trade unions. Thus, they affect not only the governmental agenda, but also the decision-making process. This argument implies that retirement age reforms are adopted successfully if the main parties that compete for office are able either to form a grand coalition or to cooperate informally with each other; a social pact, a negotiated agreement between the government and the trade unions, is not necessary for raising the retirement age.

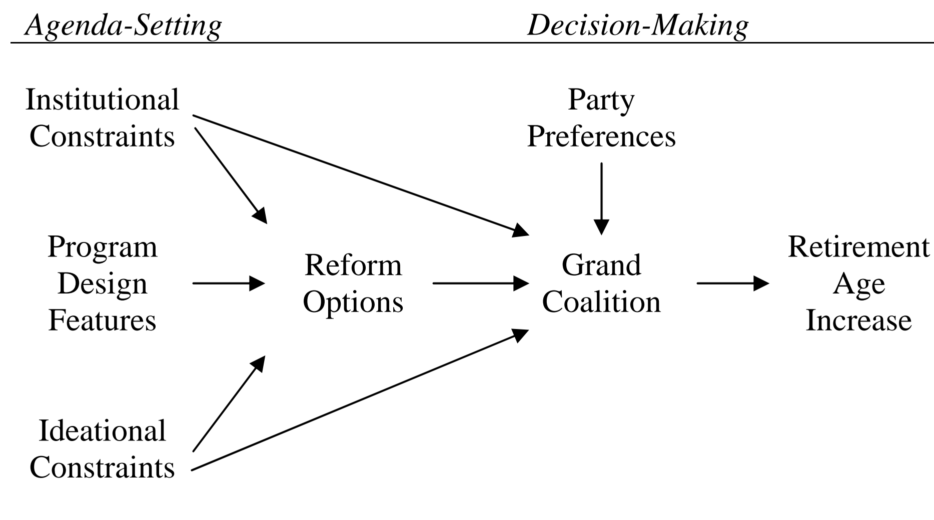
This article examines in three parts why the grand coalition government in Germany, in 2007, was able to pass legislation for raising the retirement from 65 to 67 years. The first part outlines a framework for explaining retirement age increases. The second part explains why German governments considered the option of raising the retirement age from 65 to 67 years, and the third part explains why the Christian Democratic Party (CDU/CSU) and Social Democratic Party (SPD) were able to build a grand coalition for a higher retirement age and to pass reform legislation without negotiating a settlement with the trade unions. In order to examine the factors that produced these outcomes, this article uses information from interviews with policy-makers, civil servants, interest group officials, and experts, and from documents such as policy papers, election manifestos, public speeches, and news reports.

Explaining Retirement Age Increases

Retirement age increases can be explained by the formation of either a formal or an informal grand coalition for a higher retirement age. The emergence of a grand coalition depends on four key factors (see figure 1): (1) the institutional constraints for pension reforms, (2) the contraints created by the dominant pension policy paradigm, and (3) the design features of a country's public pension program which restrict the policy instruments that could be used as an alternative to a retirement age increase; the effects of these factors and (4) the preferences of the major political parties, both regarding the settings of the ideationally constrained instruments and regarding the available

instruments, either facilitate or counteract the formation of a grand coalition for a higher retirement age.

Figure 1: A Model for Explaining Retirement Age Increases



Since raising the retirement age is among citizens the most unpopular option for pension reform, governments consider the legislation of an increase only as a last resort. The two most important sources of constraints are institutions and ideas. Institutional rules determine which options for reform are either available or restricted (Scharpf 1998). For example, the EU's deficit rule, which limits public budget deficits to 3 percent of GDP, restricts the ability of national governments to cover deficits in contribution-financed pension systems with transfers from general revenue. Sets of ideas, such as policy paradigms, also constrain the options of governments (Hall 1993). An example is the principle of a stable pension contribution rate in the United States: even though it is not an institutional rule, it structures the pension policy-making process by ruling out contribution increases as an option for paying for the costs of population aging (Weaver

2004, 71). Even though paradigms define the policy goals and restrict the policy instruments, they still allow for choices about the settings of the constrained instruments. For example, even if the dominant policy paradigm prescribes a stable contribution rate, governments could still set the level of the contribution rate.

Institutional and ideational constraints have a strong effect on governments' choices because public pension programs have only a limited number of parameters. The policy instruments for responding to the challenge of population aging could be classified within the following four types: (1) tax increases, (2) benefit cuts, (3) changes of eligibility conditions, and (4) use of reserves. Within each type, the number of theoretically possible instruments depends on the design of the public pension program, which varies significantly across the OECD countries (OECD 2007). For example, the closing of early retirement pathways could lead to significant reductions in pension spending only in countries which have multiple public exit options. Institutional rules and ideational prescriptions limit the available reform options, but they do not completely determine the instruments that governments consider. Even if there are many constraints on changing taxes and benefits, raising the retirement age is rarely the only available option for changing eligibility conditions. Governments have the option of closing early retirement pathways and of changing the incentives to retire, for example by increasing financial penalties for early retirement or creating possibilities and incentives for longer employment. Most governments in OECD countries prefer these options to raising the normal retirement age (OECD 2006, 11).

Governments that have decided to pass unpopular welfare state reforms face three obstacles in the political decision-making process: (1) opposition from voters, (2) resistance from trade unions, and (3) institutional path dependence (Weaver 2004; Pierson 1996; Myles and Pierson 2001; Ebbinghaus 2006). Electoral opposition is the main obstacle in the politics of raising the retirement age. A significant increase of the long-established retirement age of 65 years is a highly visible change, which voters tend to perceive both as a restriction of choice and as a benefit cut. But unlike pension benefit cuts, which can be masked by altered indexation formulas (Weaver 2003, Table 2.1), a retirement age increase cannot be easily disguised. Only a grand coalition or informal cooperation—which are the most effective, yet rarely available, blame-avoiding strategies—enable governments to overcome electoral constraints (Myles and Pierson 2001; Hering 2008). Since trade unions are extremely reluctant to serve as signatories of an age increase, the politics of retirement differs from the normal politics of pension, which has been "backed by either the active or passive consent of organized labour" (Myles and Pierson 2001, 326). Trade unions fundamentally oppose a retirement age increase because their members, especially the prime-aged and older workers, do not accept it (Ebbinghaus 2006, 34-43; European Commission 2004, Chart 46). If trade unions supported a retirement age increase, they would likely suffer from a loss of members. Path dependence is less important in retirement age politics than in pension privatization: even though processes of path dependence exist in early retirement (Ebbinghaus 2006, 250-277), the institutional problems in the transition from 65 years to 67 years are small compared to the double payment problem which severly constrains the transition from a public, pay-as-you-go system to a private, funded one (Myles and

Pierson 2001, 312-315). An increase in the retirement age does not necessarily impose a double burden on younger generations; it prevents rising life expectancy from leading to a further rise in the number of years spent in retirement.

Institutional and ideational constraints facilitate the building of a grand coalition for a higher retirement age and increase the governments' autonomy vis-à-vis the trade unions. If they rule out tax increases and benefit cuts, but do not constrain changes of eligibility conditions, the main competitors for office are likely to reconsider their preferences regarding the remaining options and engage in a "coordinative discourse" (Schmidt 2002, 209-256) about the necessity of raising the retirement age. In addition, if they rule out the options that trade unions find acceptable, governments are able to avoid negotiations with organized labor. Like institutional rules, policy paradigms can thus improve the ability of governments to resist the demands of interest groups (Hall 1993, 290).

The Shift to Retirement Age Increases

The new German pension reform agenda is very different from that of the 1990s. From the mid-1990s to 2004, both CDU/CSU and SPD-led governments primarily considered changes to taxes and benefits (Deutsche Bundesbank 2008, 53, 60-61; Bundesregierung 2004, 25); changes to eligibility conditions played only a minor role (Ebbinghaus 2006, 208-230). Since 2004, German governments have changed the

hierarchy of options: the importance of changes to taxes and benefits has declined, and changes to eligibility conditions have emerged as the key measures in pension reform initiatives. The SPD-led government was the first that considered an increase of the normal retirement age from 65 to 67 years, and this in spite of very high electoral risks: close to 80 percent of German voters rejected this measure (Forschungsgruppe Wahlen 2006). In 2004, the government did not make a decision regarding an increase of the retirement age, but wanted to keep this option on the agenda. It included in the Sustainability Act of 2004 the requirement that every four years the federal government reviews whether or not an increase of the statutory age was necessary (Bundesregierung 2003, 19). The proposal of raising the retirement age from 65 to 67 years had been developed by the government's Council of Economic Experts and its Commission on Sustainability in the Social Insurance Systems, both of which were chaired by Bert Rürup, one of the government's key economic and social policy advisors (Sachverständigenrat Wirtschaft 2001, 161-162; Bundesministerium für Gesundheit und Soziale Sicherung 2003, 81-96). Based on new fiscal projections, the Rürup Commission had argued that "in the long run there is no alternative to increasing the statutory retirement age from 65 to 67 years" (Bundesministerium für Gesundheit und Soziale Sicherung 2003, 82) and that the restriction of early retirement pathways would not be sufficient to achieve fiscal sustainability. The SPD-led government had supported the Rürup Commission's conclusion: it had suggested that, in the long run, the phasing out of the unemployment and partial pensions pathways, which was a key element of the Sustainability Act of 2004, could not serve as an alternative, but rather only as a complement to a retirement age increase (Bundesregierung 2003, 19). The gradual shift

of the reform agenda from tax increases and benefit cuts to changing eligibility conditions, including the normal retirement age, resulted from the convergence of new ideational and institutional constraints. Specifically, a new pension policy paradigm, which gradually emerged after the mid-1990s, constrained the options of governments by defining a contribution rate ceiling and a benefit floor. In addition, EU fiscal institutions restricted higher federal transfers financed from general revenues.

The Reform Options in the 1990s

In the mid-1990s, German governments could still choose from a relatively broad range of effective options for reform. They could address the cost pressures from population aging by increasing revenues, reducing benefits, and changing entitlement conditions. Unlike most earnings-related pension programs, which were financed only from wage-based contributions from employers and workers, the German pension program had a second source of revenue, transfers from federal tax revenues, which amounted to about a fifth of program expenditure. Even though the level of pension benefits in Germany was not as high as those in other countries with social insurance-type pension systems, it was possible to decrease it substantially without creating much poverty among pensioners. Germany had more possibilities for changing eligibility conditions than most OECD countries. The entitlement conditions could be restricted not only by an increase of the normal retirement age, but also by an increase of the retirement ages for the many kinds of early retirement benefits such as unemployment pensions, special early retirement pensions, and disability pensions. The number of options for

using the pension program's reserves were much more limited in Germany than in most OECD countries because the size of the reserve fund was insignificant. In the mid-1990s, its small cash reserves could cover only small and temporary deficits, but could not contribute to paying for the costs of population aging (Deutsche Rentenversicherung Bund 2007, 201). Because of ideational constraints, German governments considered only a subset of these options. Since the social insurance paradigm, which guided German pension policy-making from the 1950s to the mid-1990s (Ruland 1990; Nullmeier and Rüb 1993), defined income maintenance and retirement after a long history of employment as the most important pension policy goals, it ruled out both large benefit cuts and an increase of the normal retirement age. In order to maintain these goals, it allowed major tax increases (Bundesregierung 1989) and defined small benefit cuts and a shift of the costs of early retirement from the public pension program to privately financed ones as acceptable options (Bundesregierung 1997).

The Paradigm Shift in Pension Policy

In the late 1990s, the social insurance paradigm was gradually replaced by a new one: the multi-pillar paradigm (Hering 2004; Hinrichs 2005). The first phase in this process was the emergence of the idea that the pension contribution rate be kept stable in the long term. Since the late 1980s, governments had conducted several long-term projections of pension finances which showed that the rate would rise from close to 20 percent in the 1990s to more than 25 percent in 2030 (Bundesregierung 1998a, 242). Both Christian Democratic and Social Democratic pension policy-makers found gradual

increases of the contribution rate acceptable because they sought to distribute the costs of population aging fairly between workers, pensioners, and the federal government (Bundesregierung 1989, 138). But in the mid-1990s, the CDU/CSU and SPD's acceptance of contribution rate increases rapidly declined (Bundesregierung 1997, 1-2, 1998b, 15); low economic growth and high unemployment led to large shortfalls of contribution revenues, which required an almost annual increase of the contribution rate. Concerned about the negative employment effects of high pension contributions, economic policy-makers and employer organizations called for an immediate and permanent reduction of the contribution rate (Louven and Kauder 1996; BDA 1998). Both the Christian Democrats and the Social Democrats defined the level of 20 percent, which had been exceeded for the first time in 1995, as the upper limit for the contribution rate. In order to reduce the rate and keep it below 20 percent in the face of persistent and growing cost pressures, they committed themselves to a large increase of revenues from general taxes, the pension program's second source of financing, and to a significant reduction of pension spending.

The new goal of stable contributions led to two massive increases of federal transfers to the public pension program in 1997 and 1998 (Bundesregierung 1997, 1-2, 1998b, 15). Even though these measures allowed a reduction of the contribution rate in the short term, they did not stabilize it in the long term: projections showed that the rate would reach almost 24 percent by 2030 (Bundesregierung 1999a, 135). But after 1999, additional, large increases of transfers from general revenue were out of the question because the EU's fiscal rules required member states to keep their general government

budget deficit below 3 percent of GDP and achieve a balanced budget in the medium term (Bundesregierung 1999c). Both the SPD and the CDU/CSU were committed to meeting these requirements (SPD 2005, 58; CDU/CSU 2005, 29-30). Since Germany's deficit exceeded the 3-percent limit in the period from 2002 to 2005 (European Commission 2006), both the SPD-led government and the grand coalition government ruled out the option of transferring more general tax revenues to the public pension program. To reduce the budget deficit, they tried to cut the existing federal transfers (Bundesregierung 1999b, 164-165; CDU/CSU and SPD 2005, 80). Since these transfers accounted for more than 30 percent of the federal budget (Bundesministerium der Finanzen 2003, 61), they were an important component of a strategy for balancing the budget.

Since the two refinancing options—the contribution rate increase and the general revenue increase—had been ruled out, German governments started accepting a substantial reduction of pension spending, including major benefit cuts. In 2001, the SPD-led government made a pension reform that cut benefits substantially and gradually transformed the social insurance system into a multi-pillar system (Bundesregierung 2000, 1-2). Even though the Christian Democrats voted against this landmark reform, they informally agreed with the Social Democrats on the restructuring of the pension system (Hering 2008, 173-174). The most important feature of the Old-Age Provision Act of 2001 was the creation of a fixed ceiling for the pension contribution rate: 20 percent up until 2020 and 22 percent in the period from 2020 to 2030. In addition, it created a quasi-automatic, action-forcing mechanism that was supposed to implement the

new contribution rate goals. If the 15-year projections of pension finances, which the government had to present to the parliament on an annual basis, showed that the contribution rate ceilings would be exceeded, the government was forced to propose effective solutions (Bundesregierung 2000, 408). This rule created a strong incentive for the government to propose effective pension reform measures before the annual pension report was published. If the government was successful in keeping the contribution rate within the defined limits, it could avoid a politically damaging debate about the fiscal sustainability of the public pension program.

The Old-Age Provision Act defined and partly institutionalized the new multi-pillar paradigm which was adopted both by the SPD and the CDU/CSU (CDU 2001, 78; SPD 2001, 83; Bundesregierung 2000, 35-37). Since this paradigm defined stable contributions and poverty prevention as the most important goals of pension policy, it precluded large increases of the contribution rate and reduced the constraints on benefit cuts. It accepted major benefit cuts unless they undermined the new goal of poverty prevention; the old constraint of income maintenance was no longer an important criterion. In order to keep the contribution rate stable and maintain poverty-preventing benefits, the paradigm permitted an increase of the normal retirement age and a closure of early retirement pathways (Bundesregierung 2003, 17-19). In 2004, the Social Democrats and Greens enacted a reform that operationalized and institutionalized the new goal of poverty prevention. Since the economic and projected demographic conditions had changed since 2001, the SPD-led government proposed additional, major benefit cuts as an effective measure to keep the contribution rate at a level below 20 percent up until

2020 and below 22 percent up until 2030 (Bundesregierung 2003). In order to prevent poverty among retirees, it also defined a minimum benefit level (for an average earner who paid contributions for 45 years) of 46 percent of gross wages up until 2020 and 43 percent up until 2030. To ensure that these limits were respected, the government created another quasi-automatic, action-forcing mechanism: if the projected benefit level fell below the defined levels, the federal government was obliged to propose effective measures that would not conflict with the contribution rate ceiling (Deutscher Bundestag 2004, 23). Even though the CDU/CSU was against the Sustainability Act of 2004 (CDU/CSU 2004, 1-2), it supported the new floor for pension benefits (CDU/CSU 2006, 2). In 2004, the Social Democrats and the Christian Democrats thus increasingly agreed on the settings of the key instruments: the contribution rate, the federal transfers, and the benefit level. But the issue of whether or not the retirement age should be raised remained controversial.

Building a Grand Coalition for a Higher Retirement Age

The shift in the pension reform agenda from tax increases and benefit cuts to changes of the eligibility conditions was a necessary but insufficient condition for a formal agreement between the Christian Democrats and the Social Democrats regarding an increase of the retirement age. Even in the face of institutional and ideational constraints, the grand coalition government, which had come into office in 2005, was able to avoid a retirement age increase. Specifically, it had two possibilities. The first was

to change the instrument settings of the new pension policy paradigm: the grand coalition could have proposed either to increase the ceiling for the contribution rate or to reduce the minimum level for pension benefits. Between 1996 and 2004, the CDU/CSU and SPD had readjusted these instrument settings more than once. In the late 1990s, they accepted a long-term contribution rate of 24 percent and considered a benefit level of 64 percent, relative to net wages, necessary for preventing poverty; in 2004, they accepted a maximum contribution rate of 22 percent, and a benefit level of 52 percent. The second possibility was to use other available options for changing eligibility conditions: the CDU/CSU and SPD could have continued the course of closing early retirement pathways and increased the actuarial deductions for an early receipt of pension benefits, which were very low compared to those in most other OECD countries (Werding 2007, 20). These measures would have restricted and discouraged retirement before the age of 65 and thus raised the effective retirement age without an increase of the normal one (Berkel and Börsch-Supan 2004, 21).

Neither the CDU/CSU nor the SPD attempted to change the instrument settings of the new pension policy paradigm. In the 2005 federal election campaign, the Christian Democrats and the Social Democrats engaged in a coordinative discourse about pension reform in which both parties reaffirmed their commitment to keeping the pension contribution rate below the defined ceilings. The SPD claimed credit for having stabilized the contribution rate through pension reforms (SPD 2005, 7), and the CDU/CSU stated clearly that "in the long term, the pension contribution rate should not deviate from its current level" (CDU/CSU 2005, 28). Since the new risk of old-age poverty was not a key

issue on the political agenda, the parties' commitment to poverty-preventing pensions was not as prominent in their election manifestos as that to stable contributions. Both the SPD and the CDU/CSU made vague promises that public pensions would remain the most important source of retirement income (SPD 2005, 53; CDU/CSU 2005, 28); in addition, the SPD also promised security in old age and opposed more cuts of public pension benefits (SPD 2005, 53).

The Convergence of Pension Policy Preferences

Neither the CDU/CSU nor the SPD regarded the closing of early retirement pathways as an alternative to raising the statutory retirement age. In addition, neither party considered the option of increasing the actuarial deductions for early retirement since there was a consensus among German pension experts that the existing deductions were fair (Werding 2007, 20; Bundesministerium für Gesundheit und Soziale Sicherung 2003, 86). In the 2005 federal election campaign, the Social Democrats and Christian Democrats held similar views on changes of eligibility conditions: they found the closing of early retirement pathways insufficient and a retirement age increase necessary and unavoidable in the long term. The SPD made a clear commitment to the reversal of early retirement. For electoral reasons, it neither advocated nor ruled out an increase in the retirement age from 65 to 67 years. It stated that its goal was "to bring the effective retirement age closer to the statutory retirement age of 65 years" (SPD 2005, 53), but did not mention the option of increasing the normal retirement age. However, the SPD's track record in office, especially the Sustainability Act of 2004, clearly showed that it

sought to consider this option in the near future. In addition, both Ulla Schmidt, the SPD's labour minister, and Franz Thönnes, the SPD's parliamentary state secretary in the Ministry of Labour, found a retirement increase necessary (Bundesrat 2004, 16; Mihm and Schwenn 2003). The CDU/CSU favored an age increase. To avoid an electoral backlash, it made only the following vague and conditional statement in the 2005 elections: "[a] lengthening of work lives is necessary for stabilizing the public pension system in the long term. … A gradual increase of the retirement age becomes an option when the labor market conditions allow it" (CDU/CSU 2005, 28). The Christian Democrats did not refer explicitly to an increase of the statutory retirement age of 65 years in their election manifesto, but they had clearly expressed their preference for this option in the resolution on Change and Fairness in Germany, which had been endorsed by the CDU's party congress two years before the federal election (CDU 2003a, 41). This resolution called not only for a complete reversal of early retirement, but also for a gradual increase of the normal retirement age from 65 to 67 years. These measures had been recommended by the CDU's Commission on Social Security Reform, named the Herzog Commission after its chairman, former federal president Roman Herzog (CDU 2003b, 42). The Rürup Commission's fiscal projections and analysis of reform options had convinced the Herzog Commission that raising the statutory retirement age by 2 years was necessary (Personal Interview 2008e).

The EU's fiscal constraints, the adoption of the multi-pillar paradigm, and the convergence of pension policy preferences facilitated the building of a formal grand coalition on raising the retirement age. Shortly after the 2005 federal election, the

CDU/CSU and SPD were able to reach a written agreement on pension reform which included an increase of the retirement age from 65 to 67 years. Their coalition agreement formalized the cross-party consensus on the instrument settings and laid out a detailed plan for raising the retirement age (CDU/CSU and SPD 2005, 96-97). Since Germany was under pressure to comply with the EU's budget deficit rules, the Christian Democrats and Social Democrats explicitly ruled out the possibility of increasing the federal transfer to the public pension program (CDU/CSU and SPD 2005, 80). Even though they decided to increase the pension contribution rate from 19.5 to 19.9 percent in response to short-term budgetary problems, they agreed that the 20 percent ceiling would not be exceeded (CDU/CSU and SPD 2005, 28, 96). For the first time, both parties formally supported the new pension benefit level that had been defined in the Sustainability Act of 2004. In addition, they promised that there would be no nominal cuts of pension benefits (CDU/CSU and SPD 2005, 96).

The Grand Coalition's Agreement on Raising the Retirement Age

In order to achieve the goals of stable contributions and poverty-preventing pensions within the EU's fiscal constraints, they focused on the option of raising the retirement age. They stated in their coalition agreement that the reversal of early retirement was insufficient and "a gradual increase of the statutory retirement age over the long term necessary" (CDU/CSU and SPD 2005, 97). Specifically, they agreed that they would pass legislation in 2007 that would raise the retirement age from 65 to 67 years, starting in 2012 and ending "at the latest" in 2035 (CDU/CSU and SPD 2005, 97).

To strengthen the acceptance of the retirement age increase and reduce the risk that the small parties, especially the Left Party, mobilize voters against the government, the CDU/CSU and SPD used many of the classic strategies of blame avoidance (Personal Interview 2008b, 2008c; Pal and Weaver 2003, 25-33): they exempted workers who had paid contributions for 45 years, compensated older workers at risk of unemployment through a set of active labor market measures (CDU/CSU and SPD 2005, 97), passed the reforms at the beginning of the legislative period, and delayed the implementation of changes until after the next election (Personal Interview 2008b, 2008e). In addition, the Christian Democrats and Social Democrats developed a successful "communicative discourse" (Schmidt 2002, 209-256) for persuading party members of the necessity of a higher statutory retirement age. Angela Merkel, the CDU's leader and new German chancellor, told party delegates that the coalition government had chosen to increase the retirement age because it wanted to avoid nominal pension cuts (Merkel 2005, 4-5). Franz Müntefering, the SPD's chairman and labor minister in the grand coalition government, provided a similar justification for the retirement age increase: at the SPD's party congress, he described it as a tough decision that was necessary for avoiding further benefit cuts (Müntefering 2005, 6). The party congresses of the Christian Democrats and Social Democrats approved the coalition agreement almost unanimously and thus accepted the detailed plan for raising the retirement age (FAZ 2005).

Overcoming Opposition to the Retirement Age Increase

The grand coalition for raising the retirement age, and the plan set out in the coalition agreement, shaped the decision-making process at the levels of the cabinet, of the coalition, and of the parliament: at each level, it helped to overcome resistance from opponents of the shift from 65 to 67 years. At the cabinet level, labor minister Müntefering made a controversial proposal to complete the transition much earlier than expected and argued that it was "in line with the coalition agreement" (Bovensiepen et al. 2006). Despite much criticism from both Social Democratic and Christian Democratic policy-makers, who were upset that the reform would be fully implemented six years before the deadline given in the coalition agreement, Müntefering's proposal was approved unanimously by the cabinet members, including by the CSU's strongest critic, Horst Seehofer (Personal Interview 2008b). At the coalition level, a special bipartisan pension working group, which the grand coalition had set up to implement the key measures of its pension reform plan (CDU/CSU and SPD 2006), reached an agreement very quickly because the provisions set forth in the coalition agreement were seen as non-negotiable (Personal Interview 2008a, 2008b). The members of this group even agreed on measures that were more radical than those in the coalition agreement: they proposed to raise not only the statutory retirement age from 65 to 67 years, but also the earliest eligibility age from 62 to 63 years, the age of eligibility for tax-favored private pensions, both personal and occupational ones, from 60 to 62 years, and the normal and earliest retirement age for disability pensions by 2 years (CDU/CSU and SPD 2006). By proposing this comprehensive set of measures, the bipartisan working group sought to

achieve both a societal paradigm shift and a significant change of retirement practices in companies (Personal Interview 2008b). At the parliamentary level, there was only weak opposition from CDU/CSU and SPD members despite the reform's unpopularity among constituents. The Labor and Social Affairs Committee did not recommend any changes to the reform bill (Deutscher Bundestag 2006). Almost all of the Christian Democratic and Social Democratic members of parliament approved it. Only 11 members of the SPD's left wing, who represented less than 3 percent of the grand coalition's votes, rejected the reform (Deutscher Bundestag 1998, 8688-8690); they were unable to defend the old pension policy paradigm and substantially alter the increase of the retirement age (Deutscher Bundestag 1998, 8755-8761).

In Germany, the resistance of the trade unions was overcome not only because of the grand coalition, but also because of the effects of institutional and ideational constraints: by reducing the government's reform options, the EU's fiscal constraints and the new pension policy paradigm increased the autonomy of the state vis-à-vis the trade unions. The DGB, the German Trade Union Federation, opposed an increase of the retirement age, the only option which the grand coalition government had considered. The DGB would have accepted a higher contribution rate in order to keep the retirement age at 65 years, maintain the benefit level, and avoid funding shortfalls (DGB 2008). Since this option was considered neither by the Social Democrats nor by the Christian Democrats, there was no room for reaching a compromise. The government did not negotiate the terms of the retirement age increase because the contribution rate ceiling and the minimum benefit level were difficult to reach even with the retirement age

increase (Personal Interview 2008d, 2008b, 2008c). Thus, it was not willing to scale back or slow down the age increase from 65 to 67 years and not able to offer generous exemption or compensation measures. In addition, the DGB was not willing to accept the increase from 65 to 67 years even in return for generous exemption or compensation measures since its biggest member unions, the IG Metall and Verdi, fundamentally rejected a higher retirement age (Deutscher Bundestag 2007, 11-19, 80-84; Personal Interview 2008d). Inspite of the trade unions' fundamental opposition, the government expected that the union members and leaders would gradually accept the retirement age increase after the decision had been made (SPIEGEL 2007). These expectations turned out to be correct. The trade unions' attempt to organize massive, nationwide protests against the retirement age increase largely failed (Personal Interview 2008d; SZ 2007). After the reform had been passed by parliament, the trade unions were increasingly willing to discuss with the government small and inexpensive changes to the public pension system that would give unions and employer organizations more options for negotiating gradual and flexible transitions from work to retirement (IGBCE 2007; Personal Interview 2008b, 2008c, 2008d). The first collective agreements of this kind were made in the chemical and metal industries (IGBCE 2008; IG Metall 2008).

Conclusion

This article has argued that governments are able to raise the retirement age despite high electoral risks and strong political opposition, especially from trade unions, if they build a grand coalition. The formation of formal or informal coalitions for this

very unpopular reform is facilitated by the convergence of multiple reform constraints that limit the available options for responding to fiscal pressures: (1) institutional rules, especially fiscal ones, (2) the pension policy paradigm, and (3) the design features of public pension programs. In addition, the building of a cross-party coalition depends on a convergence of parties' pension policy preferences: if the major parties develop similar views on the settings of key instruments, specifically on the level of taxes and pension benefits, and on the necessity of a higher retirement age, they are likely to come to an agreement on a retirement age reform.

This article has shown that the shift in the German pension reform agenda between the mid-1990s to 2005 from tax increases and benefit cuts to retirement age increases can be explained by the convergence of institutional and ideational constraints. German governments ruled out the option of tax increases because of two constraints: the EU's fiscal rules restricted the option of increasing transfers from the federal budget, and the multi-pillar paradigm put a limit on contribution rate increases and precluded additional cuts of pension benefits. Thus, German governments shifted their attention from taxes and benefits to the eligibility conditions, the only parameter of the public pension system that was largely unconstrained by the new fiscal rules and the new pension policy paradigm. The constraints on two of the key options for reforming the public pension system, tax increases and benefit cuts, were favorable conditions for the emergence of a grand coalition for a higher retirement age: they shifted the pension reform debate to the question of whether or not raising the retirement age was necessary for achieving a stable contribution rate and a poverty-preventing benefit level. If the two

major parties had still been able to use tax increases and benefit cuts as feasible alternatives, an agreement on increasing the retirement age would have been unlikely.

This article has suggested that the politics of raising retirement ages differs from the politics of pension retrenchment and privatization in three respects. First, in order to increase the normal retirement age, governments need to define not only a "hard budget line" for pensions (Myles 2002), but also a hard benefit line. If both of these key instruments are constrained, the retirement age is the last resort for achieving fiscal sustainability. Second, gradual age increases are feasible even in mature pension systems; path dependence constrains retirement age increases much less than pension privatization. Third, the autonomy of the state vis-à-vis interest groups, especially trade unions, is higher in retirement age reforms than in pension retrenchment: if ideational and institutional constraints restrict key reform options and political parties build a grand coalition for a higher retirement age, a negotiated agreement with organized labor is not a requirement for a successful reform. These three features were present not only in Germany, but also in the United Kingdom and in the United States: governments found neither tax increases nor benefit cuts acceptable; path dependence did not prevent a significant age increase; and the trade unions were excluded from retirement age reforms which were initiated and adopted either by a formal grand coalition for a higher retirement age (in the United States) or by an informal one (in the United Kingdom). Thus, if the institutional or ideational constraints on pension reforms increase, the OECD and EU's vision of raising the retirement age to more than 65 years will likely become a reality in other advanced industrialized countries.

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