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Welfare Restructuring without Partisan Cooperation:
The Role of Party Collusion in Blame Avoidance

Martin Hering

SEDAP Research Paper No. 142

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Requests for further information may be addressed to:
Secretary, SEDAP Research Program
Kenneth Taylor Hall, Room 426
McMaster University
Hamilton, Ontario, Canada
L8S 4M4
FAX: 905 521 8232
e-mail: sedap@mcmaster.ca

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Welfare Restructuring without Partisan Cooperation: The Role of Party Collusion in Blame Avoidance

Martin Hering (McMaster University)

Abstract: This article argues that welfare state restructuring, which is highly unpopular among voters, is politically feasible if government and opposition parties collude informally with each other. Contrary to key arguments made in the literature, restructuring does not require the formation of a formal grand coalition which diffuses blame from voters. Party collusion is a distinctive blame-avoiding strategy that differs not only from other party-oriented strategies such as building a grand coalition, but also from voter-oriented ones. By analyzing the politics of pension reform in Germany from 1995 to 2004, this article shows that party collusion, which emerges through repeated signaling and informal agreements, enables political parties to restructure the welfare state without running the risk of electoral failure. Finally, it suggests that collusion likely explains recent successes of Austrian, French and Italian governments in legislating unpopular welfare cutbacks.

Keywords: Political Parties, Blame Avoidance, Collusion, Welfare State, Pension Policy

JEL Classifications: D72, D78, H53,H55, J26

Résumé: Cet article soutient que bien qu'elle soit très impopulaire auprès des électeurs, la restructuration de l'Etat-providence est politiquement réalisable si les partis de la majorité gouvernementale et de l'opposition arrivent à s'entendre officieusement. En opposition à un des arguments clés avancés dans la littérature, une restructuration n'exige pas la formation formelle d'une grande coalition nationale pour diffuser le mécontentement des électeurs. La collusion informelle des partis est une stratégie distincte de diffusion du mécontentement des électeurs qui diffère non seulement des autres stratégies dépendant des partis, telles que la formation d'une grande coalition nationale, mais également des stratégies orientées vers les électeurs. L'analyse des politiques de réforme des pensions en Allemagne de 1995 à 2004, montre que la collusion informelle des partis, qui émerge à la lumière de divers signaux et des nombreux accords, a permis aux partis politiques de restructurer l'Etat-providence sans courir le risque de subir un échec électoral. En conclusion, cet article suggère que la collusion informelle explique probablement les succès récents des gouvernements autrichien, français et italien dans la mise en place de législations impopulaires de diminution du rôle de l'Etat-providence.

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Contact Address: Martin Hering, Assistant Professor, Centre for Gerontological Studies/ Department of Political Science, McMaster University, Hamilton, Ontario, L8S 4M4, Canada, E-Mail heringm@mcmaster.ca

Introduction

What would happen if a government announced that it planned to make a large cut to a very popular social benefit that most voters receive in their lifetime? Most likely, the opposition parties would try to bring the government down by mobilizing disaffected voters against these cutback plans; the government in turn would try to control the resulting damage by assuaging some of its opponents' objections, and perhaps also by covering up the planned benefit cutbacks; and many voters would decide not to support the parties in government in the next election, if the cutbacks were enacted. The likely results would be a policy blockade and electoral failure: the government's plan to cut social benefits would be either withdrawn or significantly scaled back; and the parties in government would be either thrown out of office or suffer major electoral losses that would make governing much more difficult in the subsequent legislative period. Governments would thus be blamed for unpopular policies and punished in elections. And since they prefer to preempt such outcomes, they would use all available means in order to avoid being blamed. The most effective way for them to accomplish this would be to bring the opposition parties on board, thereby preventing them from mobilizing voters against them. This is in short the rationale for one of the key arguments made in the literature on the reform of welfare states: since welfare retrenchment and restructuring is mostly about avoiding blame, governments seek to adopt unpopular social cutbacks and structural reforms with the formal consent of the opposition parties, and would not dare to legislate such changes with only the majority of their own votes (Myles and Pierson 2001; Pierson 2001).

In this article, I revisit the argument that welfare restructuring requires cooperation across the government-opposition divide. I examine a deviant case in which governments cut social benefits and restructured a large and highly popular welfare program without relying on cooperation with opposition parties: between 1995 and 2004, German governments made a large number of cutbacks and structural changes in the pension system, but they neither worked nor voted together with the major opposition party in a grand coalition. I argue that the puzzle of *welfare restructuring without partisan cooperation* can be explained by *party collusion*, a blame-avoiding strategy the role of which has not been studied much in the literature on welfare state reform. Collusion is mostly known as a firm strategy for fixing prices (Markham 1951; Rotemberg and Saloner 1990). But parties in government and major opposition parties are sometimes able to employ a similar strategy when they confront the "blame-avoiding imperative" (Weaver 1986). In order to reduce the risk of blame for restructuring the welfare state, parties seek an informal understanding with their competitors for office on the following two points. First, they will no longer offer voters the alternative of refinancing social programs, and will neither reject nor reverse welfare retrenchment. Second, they will restrict electoral competition to issues that are related to the management of welfare state restructuring, including the design features of a restructured program and the terms of the transition from an existing social program to a new one. Thus, like firms that refrain from undercutting prices or engage in price leadership, parties exclude more popular, yet costly, policy alternatives and converge on preferred, but unpopular reform options. In addition, like firms that use collusion on prices as an alternative to a price cartel, parties employ collusion on welfare restructuring as a substitute for a grand coalition. Thus, governments do not depend necessarily on reaching a formal agreement with the opposition parties. In order to avoid blame from voters for unpopular welfare state reforms, an informal understanding among parties is sufficient.

This article is divided into five parts. In the first part, I examine the phenomenon of pension restructuring without party cooperation in German pension politics and review the frequently made argument that a grand coalition is necessary for avoiding blame. In the second part, I present my argument that party collusion on policy alternatives is an effective and feasible blame-avoiding strategy for welfare state restructuring. In the third part, I show that party collusion is a distinctive type of blame-avoiding strategy and propose a new classification which distinguishes party-oriented strategies from voter-oriented ones, or *competition avoidance* from *mobilization avoidance*. In the fourth part, I analyze the emergence of party collusion in Germany and show how the Social Democratic Party (SPD) and the Christian Democratic Party (CDU/CSU) reached an informal understanding on shifting the focus of party competition from pension refinancing to pension restructuring. In the fifth and final part, I examine the patterns of blame-avoiding strategies in German pension politics and suggest hypotheses about the availability and effectiveness of different types of blame-avoiding strategies. In my conclusion, I extend my argument about party collusion from the case of Germany to those of France, Italy and Austria.

Welfare Restructuring without Partisan Cooperation

From 1995 to 2004, there has been an almost complete absence of cooperation between government and opposition parties in German pension policy. The two governments that were in power during that period—one led by the Christian Democrats (1995-1998), the other by the Social Democrats (1998-2004)—each proposed and adopted pension legislation once per year, on average. As shown in Table 1, with one partial exception, the CDU/CSU and the SPD did not vote together on these 10 pension bills, even though most reforms contained unpopular policy changes. In 1996 and 1997, the Christian Democrats increased retirement ages, cut pension benefits, and raised social contributions and general taxes. Between 1998 and 2004, the Social Democrats increased general taxes and cut pension benefits, and also partly privatized the provision of pensions. Even though the CDU/CSU and SPD, while in opposition, had proposed mostly similar measures, such as revenue increases and spending reductions, neither party agreed to cooperate with the government. The Social Democrats voted against the Christian Democrats' Growth and Employment Promotion Act (1996) and the Pension Reform Act (1997). After a change in government, the Christian Democrats voted against the Social Democrats' Social Insurance Correction Act (1998), which partly reversed the reforms that the CDU/CSU had enacted in the previous year. They also voted against the SPD's seven other reform bills, including the Budget Consolidation Act (1999), the Old-Age Provision Act (2001), and the Sustainability Act (2004). The Social Democrats' vote for the CDU/CSU's general tax increase, which was a part of the Pension Reform Act (1997), was the only exception to this rule of non-cooperation across party lines. But even in this case, the Social Democrats rejected the CDU/CSU's benefit cutbacks, which was the most important part of the 1997 pension reform.

Table 1. ***Restructuring without Cooperation in German Pension Politics, 1995-2004***

Party in Government	*Competition*	*Cooperation*
Christian Democrats	Growth and Employment Act (1996) Pension Reform Act (1997)	[Pension Reform Act (1997)]
Social Democrats	Social Insurance Correction Act (1998) Budget Consolidation Act (1999) Old-Age Provision Act (2001) Reserve Fund Act (2001) Contribution Stabilization Act (2002) Social Insurance Reform Act (2003) Sustainability Act (2004) Retirement Income Act (2004)	

The pattern of reform passage without cooperation across party lines contrasts sharply with that of pension policy-making from 1985 to 1994, which was predominantly cooperative. In that period, the CDU/CSU-led government prepared the Pension Reform Act (1989) jointly with the Social Democrats, and the Social Democrats voted unanimously for it. Thus, both the government and the opposition parties shared responsibility for unpopular changes such as a restriction of further pension benefit increases, an increase of social contributions and general tax transfers, and a raise of retirement ages. In addition, in 1991, a year after Germany's reunification, the CDU/CSU and SPD cooperated in extending the pension system's coverage to Eastern Germany, a policy which was popular among East German pensioners and employees, but required higher pension contributions from West German employees.

The absence of cooperation between government and opposition parties during the 1995-2004 period differs not only from previous empirical findings. Most importantly, it deviates from a key proposition on the role of party competition in the reform of welfare states. A number of scholars argue that government parties enact social cuts only if they are able to build a policy-specific coalition with the opposition parties: a so-called grand coalition. John Myles and Paul Pierson suggest that the formation of a reform coalition with the opposition is necessary for the success of governments in implementing social cutbacks and winning re-election. From an analysis of successful pension reforms in Canada and Sweden and failed ones in France and Italy, they concluded that governments confront "... the imperative of reaching a negotiated settlement ... rather than unilateral enactment of new legislation" (Myles and Pierson 2001, 320). Herbert Kitschelt makes a similar, but more conditional argument by suggesting that in countries such as Austria, France, Germany and Italy where the most significant parties defend social programs, governments are able to propose and adopt benefit cutbacks "... only if all the major competitors can be incorporated in a 'grand coalition' for social retrenchment ..." (Kitschelt 2001, 280). Germany's new pattern of majoritarian pension policy-making thus conflicts with an important implication of these arguments: that parties are not expected to cut back on social programs if they are unable to build a grand coalition.

The proposition that government parties seek grand coalitions follows from theories of party competition. Since most citizens are deeply attached to the social benefits they receive or expect to receive, and cast their votes for parties that defend their interests, governments are at risk of losing office if they propose and adopt policy changes that reduce social benefits, such as pension cutbacks and retirement age increases. As Paul Pierson put it, governments thus confront "... a clash between their policy preferences and electoral ambitions" (Pierson 1996, 146). The constraint of party competition is an important one because it exists in most advanced industrialized countries, even in many of the cases in which governments are relatively unconstrained by policy legacies such as mature pay-as-you-go pension programs, or by political institutions such as presidentialism and federalism.

Theories of party competition predict that government parties whose preferences are in conflict give more weight to their objective of winning office than to their policy preferences for cutting social benefits. Anthony Downs made the now classic statement that parties "... never seek office as a means of carrying out particular policies ..." (Downs 1957, 28). Building on Downs' proposition, Paul Pierson argues that the "... failure to consider electoral consequences can jeopardize policymakers' long-term prospects for implementing their preferred policies" (Pierson 1994, 17). Even though parties in government first of all seek to return to office, they do not always avoid unpopular changes of social programs. R. Kent Weaver argues that governments are able to reduce the trade-off between enacting reforms and winning elections by avoiding blame for unpopular policy changes. Parties employ a variety of strategies that reduce both voters' dissatisfaction and a mobilization of protest against social cutbacks, thus minimizing the risk of electoral losses. The most important blame-avoiding strategies are the formation of a grand coalition and the design of nontransparent policies, which reduce the saliency or visibility of benefit cuts.

As Myles and Pierson argue, blame-avoiding strategies are not equally effective in minimizing the risk of losing office (Myles and Pierson 2001, 320-324). Nontransparent policies, such as small, technical changes in pension indexation formulas that erode benefits, can conceal the true magnitude of cutbacks, but cannot minimize the importance of benefit cuts in voters' electoral decisions. By contrast, a grand coalition effectively reduces the saliency of social cutbacks because voters are unable to rely on the opposition parties for reversing welfare retrenchment if the former voted the government parties out of office. Thus, governments will not undertake retrenchment unless they are able to build a grand coalition with the opposition parties. From the perspective of these theories of party competition, the actions of German governments during the 1995-2004 period are puzzling: why do parties in government enact social cutbacks in the absence of a grand coalition, thereby running the risk of losing office? In the next section, I propose a solution for the puzzle of welfare retrenchment without cooperation across parties.

Party Collusion as a Blame-Avoiding Strategy

An explanation for the puzzle of welfare retrenchment without partisan cooperation most likely lies in the presence of risk-minimizing factors that scholars previously did not sufficiently take into account. I argue that the adoption of benefit cuts by governments in the face of opposition from other parties could be explained not only by a country's context of party competition, as suggested by Herbert Kitschelt, but also by parties' electoral strategies.

My argument that party collusion is an important blame-avoiding strategy builds on Herbert Kitschelt's analysis of the impact of the context of party competition on parties' electoral constraints in legislating social cutbacks. Kitschelt recognizes that "... in some countries, rational vote- or office-seeking politicians and their parties have pursued ... unpopular policies" (Kitschelt 2001, 265) and proposes a solution to the puzzle of welfare retrenchment without a grand coalition. He argues that party competition is not similar across countries because it is conditioned by factors that either increase or decrease the saliency of social cutbacks, and thus raise or lower the risks of voter mobilization and electoral defeat. If at least one of the major parties is ideologically committed to the reversal of social programs, and if the competition for votes focuses on economic issues, governments are able to adopt benefit cuts with little fear of defeat. By contrast, if two or more major parties are bound by their ideology to defend the welfare state, and if parties compete predominantly about cultural issues, governments face a high risk of retribution from voters for benefit cuts. These combinations of conditions, which could be seen as the extremes of a continuum, shape the opposition parties' incentives to make welfare retrenchment a key issue in elections, and voters' ability to choose parties that defend their interests in preserving social benefits. If welfare state defenders are in office and adopt policies that cut social benefits, voters lack an alternative to retrenchment in countries in which party competition resembles the first configuration (welfare state defenders vs. market liberals). But in countries in which party competition is closer to the second kind of structure (welfare state defenders vs. welfare state defenders), voters are able to turn to the opposition parties if the government enacts policies that reduce social spending. Thus, at one end of the continuum, the dynamics of party competition make cooperation across government and opposition parties unnecessary for avoiding blame. But at the other extreme, the strategic interactions among parties make the formation of a grand coalition indispensable for winning re-election.

My suggestion is to extend Kitschelt's conditional theory of party competition from the level of *party alternatives* to that of *policy alternatives*. The long-standing *ideology* of the major opposition party is a key determinant of voters' ability to punish government parties for social cutbacks, but the opposition party's policy *program* also constrains or broadens voters' choices among alternatives in elections, and thus plays a significant role in party competition. The policy alternatives offered by political parties are especially important in countries such as Austria, France, Germany and Italy in which two or more competitors are ideologically committed to defending the welfare state. To analyze their effects, I suggest a distinction be made between two polar configurations of policy alternatives which represent the empirical range of voters' choices in the period from 1995 to 2004. In the first configuration, two or more major parties have policy programs that call for the restructuring of the welfare state. In the second, only one major party is programmatically committed to restructuring social programs, while the other parties seek to merely refinance them. The two configurations of social policy alternatives have different effects on the government parties' ability to avoid blame for social cutbacks in the absence of a grand coalition. If the major opposition parties stand for restructuring, which is rarely undertaken without significant retrenchment, the government encounters a minimal risk of losing office if it legislated benefit cuts. But if the opposition is committed to refinancing, which in most cases is combined with only selective and limited retrenchment, the parties in government would have to fear retribution from voters. Thus, a grand coalition for social cutbacks would be essential for blame avoidance in countries or time periods in which the competitors for office promote divergent reform options (restructuring vs. refinancing), but not in those in which the government and the opposition parties offer convergent policy alternatives (restructuring).

Since the programmatic convergence towards welfare restructuring reduces the likelihood of electoral losses due to benefit cuts, and since parties are able to change their policy programs in the short-term, it is possible that parties coordinate changes of their policies with the objective of reducing the electoral risks of unpopular cutbacks of social programs. Put differently, *parties could collude in order to avoid blame from voters*. In party configurations in which welfare state defenders compete with each other, two or more parties could change their policy program from refinancing to restructuring, and thus reduce the risk that not only parties in government, but also future contenders, run of losing office. In configurations in which a welfare state defender faces a market liberal party, the former could adjust its policy program from refinancing to restructuring, and thus create an additional safeguard against electoral losses. At least in theory, parties could thus employ collusion as a blame-avoiding strategy. In the final sections of this article, I show how the strategy of party collusion works in practice.

Four Strategies of Blame Avoidance

Since party collusion differs significantly from the strategies identified in studies of blame avoidance, it is important to discuss the relationship between the former strategy and the others. Existing studies have not yet considered the potential use of collusion as a blame-avoiding strategy. Most scholars have focused on the strategies of governments that reduce the risk of *blame attribution* by voters, such as the design of nontransparent policies (Pierson 1994; Hood 2002). By contrast, only few scholars have analyzed the strategies that reduce the risk of *blame generation* by opposition parties, and among them, most have studied the emergence and effects of grand coalitions, but not those of party collusion (Myles and Pierson 2001; Pal and Weaver 2003). In addition, applications of the concept of party collusion to the analysis of welfare state reform are rare (Blyth and Katz 2005). So far, scholars have applied party collusion or “cartelization”, to use Richard S. Katz and Peter Mair’s term, only in studies of electoral representation, party systems and party organization (Bartolini 1999, 2000; Katz and Mair 1995; Blyth and Katz 2005).

Table 2. ***Existing Typologies of Blame-Avoiding Strategies***

	First Type	*Second Type*	*Third Type*
Pal and Weaver (2003)	Procedures	Perceptions	Payoffs
	Insulation *Passing the Buck* *Agenda Limitation*	*Obfuscation* *Finding a Scapegoat* *Circling the Wagons* *Redefining the Issue*	*Dispersion* *Compensation* *Exemption* *Concentration*
Pierson (1994)	Obfuscation	Division	Compensation
	Decrementalism *Indirect Incidence* *Burden Shifting* *Automaticity* *Lagged Cutbacks*	*Targeting Policies*	*Exempting Constituencies* *Offering other Benefits*
Hood (2002)	Presentation	Policy	Agency
	Excuses *Justifications*	*Selecting Policies*	*Delegation*

My argument about the distinctiveness of party collusion draws on three existing classifications of blame-avoiding strategies which were developed by Leslie A. Pal and R. Kent Weaver, Paul Pierson, and Christopher Hood (Pal and Weaver 2003; Pierson 1994; Hood 2002). They are shown in Table 2. First, Pal and Weaver identified eleven "loss-imposing strategies", and sorted these into three different classes which represent possible targets of manipulation by governments: the decision-making procedures, voters' perceptions, and voters' payoffs. Second, Pierson identified eight "strategies for minimizing political costs" and categorized these by the tools of manipulation: obfuscation, division and compensation. Finally, Hood distinguished three types of strategies: presentational, policy and agency. Like Pal and Weaver, Hood classifies blame-avoiding strategies by their objects. Even though these classifications use slightly different criteria to distinguish blame-avoiding strategies, they contain a similar distinction between strategies that target voters' preferences and those that focus on voters' perceptions: Pal and Weaver separate payoffs from perceptions and procedures, Pierson distinguishes division and compensation from obfuscation, and Hood policy strategies from presentational and agency ones. The distinction between *preference-oriented* and *perception-oriented* strategies is useful for an analysis of the differences between party collusion and cooperation across parties. Collusion involves changes in the content of party competition, and thus potentially produces a redefinition of voters' desires for social cutbacks. By contrast, cross-partisan cooperation entails changes of the political discourse, and thus leads mostly to a manipulation of voters' beliefs about the necessity of benefit cuts.

Even though the preference-perception dimension distinguishes party collusion from cross-partisan cooperation, it captures neither the similarities between collusion and cooperation nor the differences between these blame-avoiding strategies and the remaining ones, which include, among others, exemption, compensation, obfuscation and delegation. In order to identify further the distinctive features of party collusion, I suggest using a second dimension that cuts across the dimension of preference-perception (see Table 3). I use a distinction between *party-oriented* and *voter-oriented* strategies, which is informed by Fritz W. Scharpf's representation of blame avoidance as a "game between government and opposition" and a "connected … game with the swing voters" (Scharpf 1998, 183-188). Governments have two means of avoiding blame from voters. A direct way is to *avoid electoral competition*, and thus minimize the blame generation by opposition parties. If the opposition does not generate blame, most voters do not attribute any blame to the government. An indirect way is to *avoid electoral mobilization*, and thus reduce the blame attribution by voters. This strategy does not prevent blame generation, it only reduces the latter's effect. Both party collusion and the formation of grand coalitions are direct, party-oriented strategies of blame avoidance. By contrast, strategies such as compensation and obfuscation are indirect, voter-oriented ones.

Table 3. ***A Revised Typology of Blame-Avoiding Strategies***

	Party-Oriented *"Competition Avoidance"*	*Voter-Oriented* *"Mobilization Avoidance"*
Preference-Oriented	Collusion *Alternative Replacement* *Issue Removal*	Distribution *Compensation* *Exemption* *Dispersion* *Concentration*
Perception-Oriented	Cooperation *Circling the Wagons* *Agenda Limitation*	Discourse *Obfuscation* *Issue Redefinition* *Passing the Buck* *Scapegoating* *Delegation* *Insulation*

The two-dimensional classification that I suggest distinguishes four types of blame-avoiding strategies: collusion, cooperation, distribution and discourse. It overlaps significantly with the existing, three-fold classifications. For example, the eleven blame-avoiding strategies identified by Pal and Weaver fit well in the cooperation, distribution and discourse categories. In addition, the new classification includes collusion as a distinctive type of strategy. Important collusive strategies are alternative replacement and issue removal. An example of the former is the replacement of the refinancing alternative with the restructuring one, which happened in the German case, and an example of the latter the removal of the issue of welfare state defense from the political agenda.

The Re-emergence of Party Collusion in German Pension Politics, 1999-2002

The key challenge in the investigation of party collusion is not the study of the phenomenon itself, but the analysis of its emergence. It is relatively easy to determine whether or not parties have convergent policy programs. But, for two reasons, it is difficult to show that programmatic convergence was the result of parties' strategies to avoid blame. First, by its nature collusion is more difficult to detect than other blame-avoiding strategies. Unlike cross-partisan cooperation, party collusion does not involve the joint development of reform legislation by the government and the opposition parties, and *formal* votes from the opposition for social cutbacks. It requires a largely *informal* agreement between the government and the opposition that retrenchment will not be reversed, and refinancing not pursued. Second, parties' shift from the refinancing alternative to the restructuring one could be caused by other factors that are unrelated to blame avoidance. As Herbert Kitschelt points out, programmatic convergence could result from fiscal pressures which are external to party competition (Kitschelt 2000, 166-170). These pressures could either force the parties in government to refrain from refinancing social programs, or lead voters to change their social policy preferences. To address the challenges of empirical observation and competing explanations, I take into account both direct and indirect evidence of collusive strategies and consider the possible effects of fiscal pressures and changes in voter preferences.

Party collusion on pension restructuring emerged in Germany between 1999 and 2002 in three phases. First, in 1999, the SPD moved away from the refinancing alternative and, by enacting pension benefit cutbacks, in practice committed itself to retrenchment. Second, between 1999 and 2001, the SPD and the CDU/CSU coordinated their moves from retrenchment to restructuring and colluded in the passage of the Old-Age Provision Act (2001), which cut pension benefits and introduced private pensions. Third, between 2001 and 2002, the Social Democrats and the Christian Democrats converged programmatically on the restructuring alternative, and offered voters only that alternative in the 2002 federal election. In 2002, the option to refinance the pension system was thus no longer on the voters' menu of choices, and the two major parties were in agreement that party competition would remain restricted to issues related to the management of the transition to the new pension system.

Party collusion was not a new phenomenon in German pension policy, its content was merely different. The Social Democrats and the Christian Democrats had a history of collusion in pension policy, but did not collude previously on restructuring. From the mid-1970s to the mid-1990s, they colluded on pension refinancing. Most importantly, in jointly developing the Pension Reform Act (1989), the CDU/CSU and SPD deliberately excluded from consideration the alternative of restructuring the pension system, which had been advocated by a number of politicians from the CDU/CSU and the Liberal Party

(Nullmeier and Rüb 1993). In 1995, party collusion on refinancing broke down, mostly because the CDU-led government had been increasingly shifting its policies from refinancing to retrenchment. Between 1995 and 1998, significant party competition thus emerged in German social policy, culminating in a strongly contested 1998 federal election in which the Social Democrats and the Christian Democrats offered divergent pension policy alternatives. The SPD renewed its programmatic commitment to refinance pensions, but the CDU/CSU became increasingly unwilling to raise taxes or social contributions and remained committed to cutting pension benefits. The period from 1999 to 2002 thus did not see the *emergence* of party collusion. It saw its *re-emergence* after a comparatively short period of intense party competition about pension policy.

The re-emergence of collusion started in the summer of 1999 with the Social Democrats' surprising turn from refinancing to retrenchment. After the SPD came into office in 1998, it immediately halted the implementation of the benefit cuts, that in the previous year the CDU/CSU had enacted, by introducing the so-called "demographic factor" in the pension indexation formula. Committed to maintaining pension benefits at their long-established level of 70 percent of wages, the Social Democrats raised more revenue primarily from an increase of taxes on energy, referred to as the "eco tax", which was phased-in over a four-year period. But in 1999, the SPD-led government for the first time proposed and adopted cutbacks in pensions, which were part of the Budget Consolidation Act (1999). The Social Democrats claimed that their cuts of pension benefits, from 70 percent to 67 percent of wages, were not as severe as those implemented by the Christian Democrats' who had scheduled a gradual lowering of that level to 64 percent.[1] But since the SPD's cuts took effect immediately, the volume of its spending cuts was about the same as that of the CDU/CSU's reductions.

For the initial phase, it is hard to find direct evidence of the SPD's motivation to avoid blame from voters by colluding with the CDU/CSU. But there is some indirect evidence. First and most importantly, the SPD set its benefit cuts at a level and volume that closely matched those of the CDU/CSU's retrenchment policies. Thus, by deliberately following the Christian Democrats' leadership on benefit cuts, the Social Democrats engaged in an informal coordination of retrenchment with its main competitor for office. This strategy is similar to many firms' strategies of collusive price leadership (Markham 1951; Rotemberg and Saloner 1990). Second, the Social Democrats had an opportunity to pursue welfare retrenchment with a relatively low risk of losing office. Since the Christian Democrats had passed pension benefit cuts only two years earlier, voters had no reliable alternative to turn to in the following federal election. Even though it was possible that the Christian Democrats would campaign against retrenchment (and for refinancing), this was an unlikely scenario because the CDU/CSU continued to advocate the implementation of its "demographic factor" and strongly objected to the SPD's "eco tax". Using the pension issue for mobilizing voters, the Christian Democrats rejected not the goal of pension benefit cuts, but rather the SPD's instrument of temporary inflation-indexation, which the CDU/CSU denounced as an arbitrary measure. Thus, the Social Democrats did not fear that in the next federal election the Christian Democrats would generate blame against them for cutting pensions. Chancellor Gerhard

[1] "Schröder verteidigt Rentenpläne der Regierung", Süddeutsche Zeitung, August 5, 1999

Schröder's public apology to pensioners for his government's benefit cuts, in which the SPD leader admitted openly that he broke the election promises made in the 1998 federal campaign, shows that the Social Democrats had little fear of competition.[2]

The next phase of party collusion in pension restructuring began in the winter of 1999, when the chairman of the CDU, Wolfgang Schäuble, proposed in a letter to the SPD-led government the convening of a leadership summit to explore the commonalities of their parties' pension policy goals, and establish a joint working group on pension reform. Chancellor Gerhard Schröder accepted this proposal and prepared the summit meeting. By taking this initiative, the Social Democrats and the Christian Democrats raised the public's expectations that they would re-build the grand pension policy coalition, which had been successful in formulating and adopting the Pension Reform Act of 1989. Even though the leaders of the SPD and CDU/CSU met twice, and the inter-party working group met numerous times over a six-month period, these expectations were not fulfilled. In 2001, the CDU/CSU voted against the government's Old-Age Provision Act in the Bundestag. Despite of the failure to renew a *formal* cooperation on pensions, which in the German political discourse is known as the "pension consensus", both the closed-door meetings between the Social Democrats and the Christian Democrats and these parties' "coordinative discourse" (Schmidt 2002) led to an *informal* agreement on the following three issues: the goal of restructuring the pension system, the size of the reduction in the level of pension benefits, and the cutback of survivors' pensions.

[2] "Schröder entschuldigt sich bei den Rentnern", Süddeutsche Zeitung, October 5, 1999

First, the SPD and the CDU/CSU agreed from the beginning of the pension talks that restructuring was the most desirable alternative and that refinancing and pure retrenchment were no longer good options for them. The Social Democrats had taken the lead on pension restructuring before the first summit meeting with the Christian Democrats. In the summer of 1999, the SPD government had proposed not only benefit cuts, but also the partial compensation of these by a new private pension pillar. The CDU/CSU had quickly followed the SPD's leadership on restructuring. Wolfgang Schäuble, the leader of the CDU, had called also for a shift towards private pension provision in the summer of 1999. At the pension summit in December 1999, the party leaders of the SPD and CDU/CSU reassured one another that their commitment to pension restructuring was firm,[3] and in the meetings of their joint working group, the Social Democrats and the Christian Democrats made the creation of a private pension pillar a priority.[4] An exchange of letters in June 2000 between the leaders of the SPD and CDU/CSU provides direct evidence of their informal agreement on restructuring. Gerhard Schröder stated in his letter to the leaders of the CDU and CSU (Schröder 2000): "your letter confirms my impression … that we agree on the broad outlines for a sustainable reform of the pension system …".[5] The SPD leader referred specifically to the goals of cutting pension benefits and creating a private pension pillar.

[3] Marc Hujer, "Gemeinsame Rentenreform für Anfang 2001 geplant", Süddeutsche Zeitung, December 18, 1999; Hans-Jörg Heims, "Wulff lehnt weitere Senkung der Renten ab", Süddeutsche Zeitung, December 20, 1999

[4] "Langfristiges Rentenkonzept angestrebt", Frankfurter Allgemeine Zeitung, January 21, 2000

[5] Translation by the author.

Second, the SPD and the CDU/CSU negotiated the magnitude of benefit cuts that was sufficient and acceptable, and both adjusted their positions in order to find a common ground. In January 2000, the Social Democrats stated in a policy paper that they would not reduce pension benefits more than they had already in 1999, and thus defined the benefit level of 67 percent of wages as their limit.[6] The CDU/CSU's pension experts signaled that this level was still far too high and proposed the re-introduction of the "demographic factor", which had been reversed by the SPD.[7] Adapting its own position to the CDU/CSU's, in May 2000 the SPD proposed a revised plan for pension cutbacks with a highly effective alternative to the "demographic factor" that would have reduced the level of benefits not just to 64 percent, but to 54 percent (SPD and Bündnis 90/Die Grünen 2000). But in a letter to Chancellor Gerhard Schröder, the leaders of the CDU and CSU expressed concerns that this benefit level was far too low and proposed a guaranteed minimum level of about 64 percent.[8] A few weeks later, the SPD once again revised its plan for pension cutbacks by adding, as the CDU/CSU had suggested, a guaranteed minimum benefit level of 64 percent (SPD and Bündnis 90/Die Grünen 2000).

Third, the SPD and CDU/CSU reached an understanding that they accepted cutbacks of survivors' pensions, and negotiated compensation payments for widows who had raised children. At a joint working group meeting in April 2000, the Christian

[6] "Riester will Rentengespräche ohne Tabus", Frankfurter Allgemeine Zeitung, January 18, 2000

[7] "Union will Rentenniveau noch weiter senken", Frankfurter Rundschau, January 19, 2000; "Union: Rentenkonsens nur mit Demographieformel", Frankfurter Allgemeine Zeitung, January 20, 2000

[8] Alexander Hagelüken, "Union verlangt für Rente ein Mindestniveau", Süddeutsche Zeitung, June 30, 2000

Democrats told the SPD that they would agree to cutbacks on survivor benefits for widows who did not have children.[9] Reassured by the CDU/CSU's statement, the Social Democrats proposed to reduce the level of survivors' benefits from 60 percent to 55 percent of wages, and to pay widows a small allowance for each child that they had raised (SPD and Bündnis 90/Die Grünen 2000). However, since the joint working group meetings and a second leadership summit in June 2000 had failed to build a grand coalition on pension reform, the Christian Democrats threatened to generate blame against the government in the next federal election. They portrayed women as the losers of the government's pension reform because widows would be affected by a "double cutback" of their husband's pension and their own survivor's pension.[10] Since the CDU showed in two Land elections that this threat was credible, the Social Democrats made a sudden turnaround: in May 2001, they rescinded some of the survivors' pension cutbacks that they had passed only a few months earlier, and increased the compensation payments for widows who had raised children. These changes met the Christian Democrats' key demands measure for measure (Deutscher Bundestag 2001). Statements by the SPD labor minister, Walter Riester, clearly show that the Social Democrats used collusion as a blame-avoiding strategy. Riester stated explicitly that, by limiting the cuts of widows' pensions, the SPD's goal was to "… keep this issue out of future election campaigns …" and thus to "… take away the Christian Democrats' electoral weapon".[11]

[9] "Witwenrente bei Wiederheirat erhalten", Frankfurter Allgemeine Zeitung, April 13, 2000

[10] "Union will soziale Gerechtigkeit zum Wahlthema machen", Frankfurter Allgemeine Zeitung, April 2, 2001

[11] Alexander Hagelüken, "Interview mit Bundesarbeitsminister Walter Riester", Süddeutsche Zeitung, May 9, 2001. Translation by the author.

The third phase of party collusion in pension restructuring began in May 2001 with the successful passage of the Old-Age Provision Act. The CDU/CSU voted against this bill, and even against an additional bill that reversed the cuts of widows' pensions. Before the 2002 federal election, there was thus no formal pact between the Social Democrats and the Christian Democrats that excluded the issue of pension reform from electoral competition. Nonetheless, pensions did not become a divisive issue in the 2002 election campaign because both the SPD and the CDU/CSU had converged on similar policy positions, ending their commitment to refinancing and endorsing a restructuring of the pension system.

As in the first phase, in the final one there is mostly indirect evidence for parties' strategies to avoid blame by collusion. First, many months before the federal election in September 2002, the SPD and CDU/CSU signaled to each other clearly that they would no longer promise the refinancing of public pensions and promote only the restructuring alternative in the election campaign. The Social Democrats' federal congress in November 2001 passed a policy resolution that committed the party to the continuation of restructuring and to the end of refinancing. Specifically, the resolution on "Security in Times of Change" called for the expansion of private pensions and a cap on the pension contribution rate at 20 percent of wages, which implied major benefit cutbacks (SPD 2001). Less than a month later, the CDU's federal congress adopted a policy resolution that was similar to the SPD's. Most importantly, the resolution on a "Contract for a Secure Future" showed that the Christian Democrats were committed to a restructuring of the pension system built on the SPD's Old-Age Provision Act (CDU 2001). Second, in the 2002 federal election campaign, both parties restricted competition on the pensions issue to the management of restructuring. The Social Democrats claimed credit for the introduction of a new instrument of pension restructuring: the private retirement savings plans created by Walter Riester, the SPD's labor minister. The Christian Democrats criticized the SPD for the many requirements and restrictions for the so-called "Riester pension", and promised to make this new instrument a more attractive option for employees and their families. In addition, both the SPD and CDU/CSU claimed to be most the competent in keeping the pension contribution rate below 20 percent of wages, the limit on which they had mutually agreed (SPD 2002; CDU/CSU 2002). There is some direct evidence that the SPD and CDU/CSU's restriction of competition to issues of management were based on strategic considerations. Already a year before the 2002 federal election, the SPD did not fear intense competition regarding different alternatives in pension policy. In a newspaper interview, labor minister Walter Riester gave the following answer to the question on whether the Social Democrats feared that the CDU/CSU would turn pension cutbacks into a divisive electoral issue like the SPD had done in the 1998 federal election: "I do not think that this will happen. The debate about pensions will change … It will focus on whether or not the creation of private pensions works and on the issue of tax subsidies".[12]

Party collusion in pension restructuring could have emerged not only because of parties' motivation to avoid blame, but also because of fiscal pressures and changes in voters' preferences. Since Germany had joined the European monetary union, which

[12] Alexander Hagelüken, "Interview mit Bundesarbeitsminister Walter Riester", Süddeutsche Zeitung, January 25, 2001. Translation by the author.

imposed a tight budget deficit ceiling on EU member states, the SPD-led government faced fiscal pressures between 1999 to 2002 (European Commission 2005). But the strength of these pressures varied substantially in that period. In the years 1999 and 2000 the Social Democrats experienced weak fiscal constraints. Even though the SPD had expanded the federal government's spending in the 1998 budget, in these two years Germany's budget deficit declined to less than 2 percent of GDP, and thus stayed well below the EU's deficit ceiling of 3 percent of GDP. The SPD-led government even resisted the temptation of spending the large one-time proceeds from the sale of mobile phone licenses which had amounted to 2.5 percent of GDP. By contrast, in 2001, Germany's deficit increased rapidly, and by 2002, had exceeded the EU's budget ceiling for the first time. Thus, at the end of the period in which party collusion emerged, fiscal pressures likely influenced the SPD and CDU/CSU's decisions to exclude the pension refinancing option from competition and advocate for more benefit cutbacks. But in the first and second phases of party collusion, short-term pressures on public finances probably mattered little. In fact, like in the late 1980s, the weakness of fiscal pressures to enact immediate pension cutbacks facilitated the leadership summits and working group meetings between the SPD and the CDU/CSU. In addition, relatively weak budgetary constraints enabled the SPD-led government to meet and even surpass the generous tax subsidies for private pensions that the Christian Democrats had demanded.

Changes in voters' social policy preferences could have provided incentives for parties to change their policy programs, but in the period from 1999 to 2002 significant electoral incentives for pension restructuring did not exist.[13] Even though the breakdown of party collusion on refinancing in the mid-1990s caused a loss of trust in public pensions among the public, German voters did not prefer benefit cuts to contribution rate increases, and did not demand the introduction of private pensions. In addition, before the SPD reached an informal agreement with the CDU/CSU on the goal of pension restructuring and the amount of retrenchment, the issue of benefit cuts continued to have a large blame-generating potential. In the fall of 1999, the first pension summit of the SPD and CDU/CSU leaders was delayed because of four Land elections, and in May 2000, the joint working group meetings stalled in part because of an important election in the state of North Rhine-Westphalia. Voters' pension policy preferences began to change in the summer of 2000. German voters increasingly preferred benefit cutbacks to contribution rate raises. However, these changes were more likely the effect of party collusion on pension restructuring than the cause of its emergence.

Blame-Avoiding Strategies in German Pension Politics, 1995-2004

Since 1999, party collusion has become an important strategy in German pension reform. After the SPD and CDU/CSU had programmatically converged, party competition about pensions remained restricted to the restructuring alternative. At the time of writing, neither the Social Democrats nor the Christian Democrats have returned to the alternative of pension refinancing, which dominated party competition in the late

[13] Zentralarchiv für empirische Sozialforschung, Cologne/ Forschungsgruppe Wahlen e.V., Mannheim (Politbarometer No. 2894, 2895, 3045, 3261, 3425, 3554, 3849)

1980s and early 1990s. Even though shortly after the 2002 federal election the SPD-led government adopted contribution increases, these did not lead to a shift back from restructuring to refinancing. In 2003, the Social Democrats enacted yet another immediate cutback of pension benefits, and in 2004, they legislated a phased-in reduction of the benefit level from 67 percent to 52 percent of wages. As a partial compensation for these cuts, the SPD increased the tax subsidies for private retirement savings, reinforcing the restructuring of the pension system. During the 1995-2004 period, there was thus a relatively clear shift from refinancing to restructuring in pension policy (see Table 4).[14] Even though it is possible that the SPD or CDU/CSU will in the next few years increase contribution rates or transfers from general taxes in order to cover unexpected funding shortfalls in the pension system, it is very unlikely that they will advocate contribution increases as an alternative to benefit cutbacks and private pensions. In short, party collusion on pension restructuring will likely remain a key feature of contemporary German pension politics.

Table 4. ***Types of Reforms in German Pension Politics, 1995-2004***

Reform	*Reform Law*	*Refinancing*	*Retrenchment*	*Restructuring*
1996	Growth & Empl. Promotion Act	X	X	
1997	Pension Reform Act 1999	X	X	
1998	Social Insurance Correction Act	X		
1999	Budget Consolidation Act		X	
2001 I	Old-Age Provision Act	X	X	X
2001 II	Reserve Fund Act	X		
2002	Contribution Stabilization Act	X		
2003	Social Insurance Reform Act	X	X	
2004 I	Sustainability Act		X	X
2004 II	Retirement Income Act		X	X

[14] A table with detailed information on Germany's pension refinancing, retrenchment and restructuring policies, and the blame-avoiding strategies of governments in the 1994-2005 period, is available upon request from the author.

In order to avoid blame for pension cutbacks, German governments not only used party collusion, they also employed other strategies in the 1995-2004 period. As shown in Table 5, they frequently combined different types of strategies, supporting R. Kent Weaver's argument that parties have a strong motivation to avoid blame (Weaver 1986). In all 10 pension reform cases between 1995 and 2004, German governments employed two or more types of blame-avoiding strategies. In most cases, they combined voter-oriented strategies and party-oriented ones. For example, in the first pension reform of 2004, the SPD-led government disguised pension benefit cutbacks by adding an nontransparent "sustainability factor" to the indexation formula, and also colluded with the CDU/CSU on pension restructuring. In addition, German governments, which always pursued at least one kind of voter-oriented strategy, frequently used a combination of the distributive and discursive types. During a brief period from 1996 to 1998, the CDU/CSU and SPD competed for the control of the direction of pension reform, and enacted pension retrenchment and refinancing in the absence of collusion and cooperation. Even though the Social Democrats and the Christian Democrats relied neither exclusively nor necessarily on party collusion, this does not imply that they attempted to use only one or two types of strategies of blame avoidance. For example, in 1997, the CDU/CSU-led government sought to collude or cooperate with the SPD, but largely failed. The Social Democrats did not vote for the government's pension retrenchment bill, but supported an earmarked VAT increase, which led to the refinancing of public pensions. It is thus likely that German governments sought to combine voter-oriented strategies with party-oriented ones, but did not succeed in all cases. The ideal-typical case was perhaps the pension reform of 1989. In that reform, the CDU/CSU and SPD used all four types of blame-avoiding strategies: they colluded on pension refinancing by offering convergent policy programs, cooperated on the proposal and adoption of pension reform legislation, and employed a variety of distributive and discursive strategies. For example, retirement age increases were targeted at the unemployed, benefit cutbacks were delayed after the next federal election, and retirement age increases were phased-in over many years.

Table 5. ***Blame-Avoiding Strategies in German Pension Politics, 1995-2004***

	Blame-Avoiding Strategies			
Reform	*Collusion*	*Cooperation*	*Distribution*	*Discourse*
1996			X	X
1997			X	X
1998			X	X
1999	X		X	
2001 I	X		X	X
2001 II	X		X	X
2002	X			X
2003	X		X	
2004 I	X		X	X
2004 II	X		X	X

The patterns of blame avoidance in German pension policy in the 1995-2004 period suggest that voter-oriented strategies and party-oriented strategies differ in terms of their availability and effectiveness. First, voter-oriented strategies are likely more readily available than party-oriented ones. Governments are almost always able to disguise cutbacks by a manipulation of the pension indexation formula, or compensate voters for pension benefit cuts with subsidies for private retirement savings. But they are rarely able to form a grand coalition on pension restructuring, and not always able to collude with the major opposition parties. Second, party-oriented strategies are likely more effective in avoiding blame than voter-oriented ones. Governments regard distributive and discursive strategies as necessary, but not as sufficient, for escaping punishment from voters. In order to avoid blame effectively, they seek to reduce not only the attribution of blame by voters, but also the generation of blame by opposition parties, and thus always attempt to employ either cooperative or collusive strategies.

Conclusion

I showed in this article that public pensions, the German welfare state's largest program, were restructured without cooperation between the government and the opposition parties. Between 1995 and 2004, German governments passed as many as 7 pension reforms that led to either retrenchment or restructuring, yet none were approved by the major opposition party. The Social Democrats voted against the Christian Democrats' pension reforms, and after the change in government in 1998, the Christian Democrats rejected the Social Democrats' restructuring bills. Germany was not the only country in which pension programs were restructured without a formal cross-partisan agreement. In the 1995-2004 period, three other European countries—France, Italy and Austria—retrenched and restructured their highly popular pension programs even though governments were unable to form a grand coalition with the opposition parties. In 2003, the French center-right government passed a reform that included cutbacks of pension benefits, a lengthening of work lives and incentives for private retirement savings.[15] The leftist opposition parties rejected these changes, but the parties in government passed them without their support. In 2004, the center-right Italian government increased

[15] Annie Jolivet, "Pension Reform Adopted", European Industrial Relations Observatory On-line, Record No. FR0309103F

retirement ages, cut pension benefits and created an occupational pension pillar.[16] Like in France, the leftist opposition parties voted against this reform, and thus refused a formal cooperation with the government. Finally, in 2003 and 2004, the center-right government in Austria enacted pension cutbacks and restructuring measures against the opposition from the Social Democratic Party.[17]

Like Germany, France, Italy and Austria have party systems in which two or more welfare state defenders compete for office. Herbert Kitschelt's conditional theory of blame avoidance, which takes this configuration of party competition into account, predicts only very limited restructuring efforts in these cases. Given that voters have a party alternative to turn to in the subsequent election, the risks of blame generation and electoral defeat are extremely high. Thus, *welfare restructuring without partisan cooperation* should be almost impossible. Why, then, did the German, French, Italian and Austrian governments still restructure their pension systems? I argued in this article that party collusion could explain this puzzle, and that parties restrict competition about policy alternatives in order to avoid blame. I showed that in the case of German pension politics, the CDU/CSU and SPD shifted the focus of competition from refinancing to restructuring. In 1995, they still competed regarding the right balance between contribution increases and pension cutbacks. But 10 years later, they no longer offered the refinancing alternative to voters and competed instead about the best instruments for restructuring the pension system. I further showed that party collusion on pension

[16] Domenico Paparella, "Parliament Approves Pension Reform Law", European Industrial Relations Observatory On-line, Record No. IT0409101F

[17] "Reform der Altersvorsorge in Österreich", Frankfurter Allgemeine Zeitung, November 19, 2004

restructuring emerged in the period from 1999 to 2002, which began with the SPD's sudden turn to retrenchment, continued with the Social Democrats and Christian Democrats' coordinated shift from retrenchment to restructuring, and concluded with their programmatic convergence on the restructuring alternative.

A similar analysis of the process of collusion in France, Italy and Austria is beyond the scope of this article, but a significant change in the outcomes of reform suggests that party collusion likely explains the new pattern of majoritarian pension restructuring in these cases. In the 1990s, the French and Italian governments failed to enact pension benefit cutbacks without the opposition parties' cooperation. They withdrew their reform plans and suffered significant losses in national elections. In Austria, the coalition between the Conservatives and the Social Democrats in the late 1990s could not agree on a joint plan for pension reform, which contributed to its end after the 2000 federal election (Bonoli 1997; Ferrara and Gualmini 2000; Schludi 2005). By contrast, in 2003 and 2004, the French, Italian and Austrian governments were successful in adopting restructuring reforms with only a narrow majority in parliament. If party competition had been as divisive as in the 1990s, the reform outcome would have been a failure. Party collusion thus played a role in blame avoidance not only in Germany, but most likely also in France, Italy and Austria.

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