Institutional Interference in the European Union:
The Stability Pact and the Reform of Public Pensions in Germany

Martin Hering
Department of Political Science
Johns Hopkins University
Baltimore, MD 21218-2686
hering@jhu.edu

Paper prepared for presentation at the European Union Studies Association 8th Biennial International Conference, Nashville, March 27-29, 2003

There is disagreement in the literature whether Economic and Monetary Union (EMU) is an independent explanatory factor for the reform of European welfare states. Some authors attribute a lot of importance to the fiscal constraints that were imposed in connection with monetary union (Dyson 2000; Scharpf 2000). Others deny that they have an independent effect, arguing that reforms of European welfare states would have occurred in any case and were, in fact, already long overdue (Pierson 2001; Rhodes 2002). They usually point to the changing socioeconomic circumstances, such as lower rates of economic growth and increasing population ageing, that would have made these reforms necessary even in the absence of monetary union. Thus, although the fiscal constraints at the European level may act as a catalyst for welfare state reforms, they do not cause them in the first place. This disagreement is also reflected in the very different assessments of the character of, and the prospects for, the new form of European governance in social policy, the so-called Open Method of Coordination (OMC). Those who argue that EMU is an independent causal force judge the OMC as ineffective (Scharpf 2002). By contrast, those who maintain that the impact of EMU on welfare states has been greatly exaggerated regard the emerging coordination in social and employment policies as promising (Jensen and Pochet 2002; Rhodes 2002).

This paper attempts to shed light on the controversy about the effect of EMU on welfare state reforms in Europe. So far, hypothesis testing through quantitative cross-national studies of welfare reform outcomes has been unable to separate out the effects of EMU, globalization, and socioeconomic changes. The arguments against the importance of one variable and for the primacy of another factor are mostly based on counterfactuals. This paper suggests that these problems exist mostly because our hypotheses are still insufficiently developed. It therefore focuses on hypothesis development instead of hypothesis testing. Through a case study, it explores the causal mechanism—termed "institutional interference"—by which European fiscal institutions impact on welfare states. It thus allows us to identify some of the factors that condition the effect of EMU, which is crucial for our ability to design more conclusive tests of hypotheses in cross-national comparisons. More specifically, the paper analyzes the impact of European fiscal institutions, primarily the Stability and Growth Pact (SGP), on the reform of public pensions in Germany. Pensions are by far the largest social program in industrialized countries. At the same time they are the part of the welfare state that is most resistant to reform. Germany is one of the most powerful EU members and also initiated, and insisted on, the fiscal provisions in the Maastricht Treaty as well as the SGP. The features of this case should make it unlikely that EMU had an independent effect. But if we can identify an impact of EMU in the unlikely case of public pensions in Germany, it encourages us to undertake further investigations of its effects in different settings. This paper shows that in Germany, European fiscal rules were the driving force behind an entire series of pension reforms since the mid-1990s. Compliance with the SGP led to significant benefit cutbacks that were previously considered unthinkable. These cutbacks even created a window of opportunity for major institutional change, which was used by the Schröder government to partially privatize the existing public pension system.

Analyzing Institutional Interference

This paper makes the argument that institutional interference is the causal mechanism that links monetary union with welfare state reforms. A number of authors have suggested that institutional complementarities reinforce stability (Ebbinghaus 2002; Hall and Soskice 2001; North 1990), and vice versa, that institutional frictions can produce change (Lieberman 2002; Orren and Skowronek 1994). I argue that European fiscal institutions are in contradiction with some, but not all, old-age security institutions, specifically with those designed to guarantee pensions that replace prior income from work and allow retirees to maintain the living standard that they have enjoyed during their work life. These pension systems are most commonly found in Continental welfare states (Esping-Andersen 1990). They need to raise substantially more revenue in the future in order to honor their commitment to income-replacing pensions, considering that demographic changes create an unfavorable balance between contributors and beneficiaries. The functional prerequisites for European fiscal institutions are the exact opposite. Their goal is to ensure the sustainability of public finances, which requires that future revenue growth will be used for paying down government debt and for increasing education and investment spending. To enhance economic growth, European fiscal institutions also require taxes and social contributions to be lowered, thus limiting the growth of revenue. The goals of maintaining living standards during retirement and making public finances sustainable are incompatible in a socioeconomic context in which social expenditure increases faster than revenue from taxes and social contributions. Because these goals are conflicting, European fiscal institutions increasingly interfere with old-age security institutions at the national level. They force benefit cutbacks to slow down the growth of pension expenditure and also set institutional boundaries to restrict the capacity of public pension systems to raise more revenue, for example by freezing contribution rates in the long-term. Institutional interference has major consequences for the development of old-age security institutions. By blocking adjustment options and by limiting effectiveness of public pension systems in guaranteeing income-replacing pensions, it undermines the population's trust in these institutions and creates demand for institutional change within governments and political parties. By doing so, institutional interference creates a window of opportunity for altering the direction of institutional development.

An examination of the causal linkages between EMU and welfare state reforms needs to pay attention to four issues in particular which make such an analysis more complicated than it may at first seem. First, the impact of EMU is not merely rooted in the fact that it is a monetary union. Its impact has to do with a specific "animating idea" (Goodin 1996; Offe 2001) that was implanted into the institutions when they were created: the idea of fiscal sustainability. This transformative idea is by no means a necessary ingredient of monetary unions, as many economists have pointed out. It was institutionalized in the Maastricht Treaty at the request of the Bundesbank. Second, the fiscal institutions at the European level have not remained static since member states agreed on the treaty. They have evolved over time, which is best evidenced by the agreement on the Stability Pact, and they continue to evolve, as the most recent discussions about the reform of the SGP show.

Thus, given that our independent variable changes over time, we need to investigate carefully in which way its impact on welfare states changes. Third, the causal effect of European fiscal institutions is conditioned by a number of factors that vary across countries and over time. The institutional design of welfare state programs differs in member states, and so does their budgetary position and their demographic make-up. Fourth, fiscal constraints do not completely determine the behavior of political actors at the national level, but leave considerable room for choices. The implementation of the deficit and debt criteria that the SGP specifies is not direct or automatic, but the result of interactions among political actors at the national level. Therefore, an analysis of these interactions is an important part of examining the causal linkages between EMU and welfare state reforms. All of these four issues caution us to simply argue that EMU changes European welfare states. Its impact obviously varies across member states and changes with the evolution of EU-level fiscal institutions. However, the finding that there are conditional, not uniform, effects also means that EMU cannot be easily dismissed as an independent causal force in welfare state reform. A counterfactual argument that we would observe similar welfare state reforms, even if EMU did not exist, is not convincing unless it pays close attention to the causal mechanisms. Most importantly, we need to analyze what the motivations of political actors were when they legislated reforms, and whether or not they were constrained by European fiscal rules.

In the four sections that follow, I will first discuss how the transformative idea of fiscal sustainability became embedded into European fiscal institutions. Second, I will show how this idea, through its carriers in the European Commission, the ECOFIN Council and the European Central Bank, shaped the evolution of these institutions over the past decade, leading to increasing institutional interference with public pension systems. In the third section, I will analyze the institutional and socioeconomic factors that strengthen or weaken the interference from the Stability Pact. I will also examine the distinctive institutional linkages between public pensions and public finances in Germany that intensify institutional interference. The fourth section will then turn to the process of implementing the fiscal requirements of the SGP at the national level and discuss the conflicts between German finance ministers and social policymakers. The "implementing agents" of the Stability Pact prevailed in these conflicts. They led to substantial benefit cutbacks and a contribution freeze which destabilized the existing old-age security institutions. By doing so, institutional interference opened a window of opportunity for major institutional change.

Embedding Transformative Ideas into the Maastricht Treaty

It seems like a long stretch to explain welfare state reforms in the 2000s in part through the insertion of the idea of fiscal sustainability into a treaty document a decade earlier. However, academics and practitioners alike attribute a great deal to the institutionalization of ideas. Ideational theorists have shown that ideas are only truly influential when they become embedded in institutions and take on a life of their own (Berman 2001; Hall 1997). Practitioners have long recognized the importance of institutionalized ideas as "switchmen" (Weber) that shape future developments, and have often made special efforts to get their ideas embedded in institutions. As I will show later, the evolution of European fiscal institutions during the 1990s supports these findings about the role of ideas since they became influential through institutionalization and also guided further institution-building. In the development of the European Union, there is evidence for actors' motivation to institutionalize ideas. In the early 1990s, The Bundesbank demanded that the idea of fiscal sustainability should become a treaty provision in order to make it durable and effective. The central bankers were well aware that once this idea and the fiscal rules associated with it become a part and parcel of the treaty, they are extremely hard to change since the approval of all national parliaments is required for any change (Deutsche Bundesbank 1998b). More recently, European social policymakers have also suggested to incorporate fundamental principles of social policy into the treaty because they know that "[a]ll actions undertaken by the Union would then have to take these principles into account" (Vandenbroucke 2002). The goal is, as Fritz

Scharpf has put, to overcome the "constitutional asymmetry" between social and economic policies in the European Union (Scharpf 2002).

The idea of fiscal sustainability, laid down in Art. 121 of the treaty, requires governments to achieve and maintain a sustainable position of public finances. In its negative definition, sustainability means to avoid ever-increasing public debts that could ultimately lead to bankruptcy. It is operationalized through the two widely known Maastricht convergence criteria for fiscal policy that are specified in a protocol to the treaty: in EMU, the debt-to-GDP ratio has to remain permanently below 60 percent, and budget deficits are not to exceed 3 percent of GDP. As has been well documented in the literature, the inclusion of this "sound money and finance paradigm" into the treaty is predominantly a success of the Deutsche Bundesbank, the chief architect of fiscal rules in EMU. It defined the position of the German government and shaped the report of the Delors Committee to its favor (Cameron 1995; Dyson and Featherstone 1999; Moravcsik 1998). Consequently, the Bundesbank was very satisfied with the outcome of the Maastricht summit, and also claimed credit for it. It stated that "[t]he planned institutional design during the final state [of monetary union] is to a large extent in accord with the recommendations made by the Bundesbank" (Deutsche Bundesbank 1998c, 12).

Already in its first official recommendation on monetary union from 1990, the Bundesbank painted the stability of public finances in monetary union as a matter of "Gedeih und Verderb"—of life and death. In a monetary union, the German central bankers argued, the economies of member states will be inextricably linked with one another. In the absence of centralized fiscal policies, mounting government debt in one country undermines price stability in the entire Euro area, and thus counteracts the primary underlying principle of monetary union. Therefore, the Bundesbank concluded, permanent fiscal stability is a prerequisite for price stability in monetary union (Deutsche Bundesbank 1998b). Although institutional interference from European fiscal institutions is a recent phenomenon—only in the 2000s did they begin to openly prescribe the reform of public pension systems—, the character of the idea of fiscal sustainability in the

Maastricht Treaty was transformative from the outset. This is evidenced by statements from the Bundesbank. In its convergence report, the Bundesbank stated that social protection systems need to adjust to the requirements of monetary union and emphasized that in EMU, fiscal stability refers to general government expenditure, which also includes social insurance finances. It highlighted the future burden for public finances resulting from population ageing. The Bundesbank demanded that member states legislate fundamental reforms of their public pension systems, specifically by shifting old-age provision increasingly to private pensions. It cited the UK and Ireland, among others, as role models and recommended that Germany and other member states should follow the example set by these pioneers (Deutsche Bundesbank 1998d).

For the Bundesbank, it was therefore obvious that, in the face of demographic changes, major institutional changes in public pension systems are required to achieve sustainable public finances. If it was clear that the idea of fiscal sustainability has such enormous implications for the existing old-age security institutions, one has to wonder why social policymakers did not fight strongly against embedding this idea into the treaty and did not attempt earlier to at least achieve "constitutional symmetry" for social policies. One reason was that some ambiguity about the implications of fiscal sustainability existed because this issue played only a subordinate role during the prepartion for EMU. What became the focus was the issue of convergence. Moreover, the budget deficit, not government debt, became the dominant criterion for measuring fiscal convergence. In the time before the decisions about the first wave of Euro zone members was made, the Bundesbank argued forcefully against these developments by insisting that convergence was only the first step towards sustainability and by emphasizing that the time horizon for the Maastricht fiscal rules was long-term, not just short-term. It also criticized that the debt criterion, which it regarded as the most important indicator for fiscal sustainability, was largely neglected in assessing which countries fulfilled the criteria for EMU membership (Deutsche Bundesbank 1998a; 1998d). Some of these concerns were addressed only a few years later when the SGP went into effect. The Stability Pact made it explicit that fiscal discipline is a permanent feature of monetary union, not merely a criterion to qualify for it. Therefore, even though the idea of fiscal sustainability was transformative in its character from the beginning, the corresponding institutional capacities to implement it were created only later. Social policymakers thus reacted rather late, that is, when this idea had concrete, immediate effects instead of relatively abstract implications in the future. It is this process of institutional evolution that I will turn to in the next section.

The Evolution of European Fiscal Institutions, 1991-2002

After the idea of fiscal sustainability was embedded in the treaty, it became the "trojan horse" of monetary union. Before the start of EMU in 1999, it did not play much of a role in the conduct of European fiscal policy. The Bundesbank often referred to it, but there was no coalition of actors that supported it at the European level. Once monetary union was successfully launched, however, a number of actors began to commit to the idea of fiscal sustainability and used the treaty provision in Art. 121 to put it into practice. What this shows is that embedding a transformative idea into institutions is not sufficient to produce institutional interference. Only if actors are animated by these ideas, and use the relevant institutional provisions to further their agenda, do they become important factors in political decision-making. The most influential actors in the European coalition for sustainable public finances are the European Central Bank (ECB), the European Commission, and the ECOFIN Council. The ECB, of course, has the most direct interest in putting fiscal sustainability on the agenda since its main task is to guarantee price stability. The position of the ECB is similar to that of the Bundesbank: it considers the ageing of populations "... the greatest foreseeable challenge for fiscal policies in the euro area in the decades to come" and advocates fundamental reforms of pension systems (European Central Bank 2000). By contrast, the European Commission made a turnaround after 1997, the year in which the decisions about EMU membership were made. During the Maastricht negotiations, Jacques Delors was not in favor of the strict convergence criteria advocated by the Bundesbank. The Commission was also lenient in its assessment whether member states had fulfilled the 60 percent debt criterion by 1997. Moreover, the initiative for a Stability Pact came from Germany, not from the Commission. During the convergence period, the Commission's short-term interest was to launch EMU with most if not all member states, while the long-term viability of monetary union was largely put on the back burner. After 1997, however, the Commission, and especially its Directorate-General Economic and Financial Affairs, became the most fervent supporter of the idea of fiscal sustainability. In recent years, most of the initiatives to expand the Stability Pact came from the European Commission, not from individual member states such as Germany. The third member in the European coalition for fiscal sustainability is the ECOFIN Council. Although European finance ministers were at first reluctant when the Commission suggested to put fiscal sustainability and the reform of public pension systems on the agenda, since the start of EMU they have been generally supportive of Commission proposals that intend to give the issue of long-term budgetary developments more weight at the European level. Both the Commission and the ECOFIN Council were also successful in gaining the approval of the European Council which made the "quality and sustainability of public finances" an important part of its agenda, beginning with the Council meeting in Lisbon in 2000.

The evolution of EU fiscal institutions between 1991 and 2002 was marked by an increase in the precision, enforceability and scope of the rules laid down in the Maastricht Treaty. It thus mirrors the more general trend in the development of European institutions that some authors have called the "institutionalization of European space" (Stone Sweet, Sandholtz, and Fligstein 2001). The Maastricht Treaty laid the groundwork for subsequent institutional developments: Article 121 defines fiscal sustainability as a prerequisite for monetary union, Art. 104 states that Euro zone members are obliged to avoid excessive budgetary positions and establishes monitoring and sanctioning procedures, and a protocol annexed to the treaty specifies the 3 percent reference value for budget deficits and the 60 percent criterion for government debt. The operationalization of these two criteria was contested until the qualifying year 1997. The 3 percent criterion was mostly seen as a target, something that the German government disliked. The German finance minister insisted that it is an upper ceiling and repeatedly stated that "three percent means three-point-zero percent". The application of the debt criterion was even more strongly contested. An exception mentioned in the treaty—that member states with a debt above 60 percent of GDP fulfill the convergence criteria if the debt has "declined sustantially and continuously and reached a level that comes close to the reference value"—was not interpreted literally, with the consequence that even Belgium and Italy qualified for membership, although their debts were well above 100 percent of GDP. Judged by the outcomes of the convergence period between 1993 and 1997, the application of the deficit criterion was relatively effective. There was an impressive convergence of member states' budgetary deficits toward 3 percent of GDP. By contrast, the debt criterion was mostly ineffective considering that debt levels rose substantially in EU member states between the early and mid-1990s (European Monetary Institute 1998).

The Stability Pact, proposed by the German government in response to the experience of the convergence period, made the deficit criterion of the Maastricht Treaty both more precise and easier to enforce. It turned the 3 percent deficit criterion from a mere target into a rigid upper ceiling and clarified that it applies at all times, irrespective of the economic cycle. To create a safety margin and give member states some flexibility to respond to economic shocks, the SGP defined a new medium-term target that required member states to achieve and maintain a budgetary position "close to balance or in surplus". It also established a better monitoring process and sanctioning system that strengthened the role of the Commission and created the possibility to impose fiscal sanctions on a non-compliant member state. The centerpiece of the new monitoring process are the stability programs that member states are required to submit every year. But the SGP, which was made in 1997 and went into effect in 1999, did not operationalize the debt criterion and thus lacked precision and enforceability in this regard. Although the Commission suggested to address the long-term stability of public finances within this framework, member states were not receptive at the time (Costello 2001). However, both the Commission and the Bundesbank saw the SGP as an important, yet implicit, step toward fiscal sustainbility: given that it requires the deficit criterion to be permanently respected and that it prescribes balanced budgets, it implies that government debts decline over time and do not increase when demographic changes increasingly affect public finances.

Fiscal sustainability was for the first time explicitly addressed in 2001, when the European Council decided at its meeting in Stockholm to expand the scope of the Stability Pact. The initiative for this expansion came from the Commission and the ECOFIN Council. The annual stability programs have since been used to "review the long-term sustainability of public finances, including the expected strains caused by the demographic changes ahead" (European Council 2001). Through this expansion, the time horizon for monitoring budgetary developments was extended from 5 years to 50 years. To implement the new policy, the ECOFIN Council adopted new guidelines on the content and format of the stability programs. In the new stability programs, member states are required to report projected pension expenditures due to population ageing and demonstrate that their medium-term budgetary targets "... take into account the need to cater for the costs associated with population ageing" (Council of the European Union 2001a). Despite this expansion of the Stability Pact, it continues to lack "hard" enforcement capacities for government debt that could match the existing monitoring and sanctioning procedures pertaining to budget deficits. However, this kind of "soft" enforcement through monitoring is not ineffective: it forces member states to acknowledge that they will face serious budgetary problems in the future, assess the long-term effect of the social protection reforms they have already implemented, and determine how much still needs to be done. It thus proves the point made by European finance ministers that further reforms of public pensions are urgently needed in many member states. Most importantly, it could become an intermediate step toward the operationalization, and thus the "hard" enforcement of the debt criterion within the SGP framework. In 2002, the European Commission undertook the initiative to fully operationalize the 60 percent debt criterion within the Stability Pact while making the deficit criterion less rigid and better tailored to the fiscal position of individual member states (European Commission 2002c). The implementation of the Commission's proposal would significantly enhance the precision and the enforceability of the fiscal provisions that are embodied in the Maastricht Treaty and give the idea of fiscal sustainability a prominent place in the SGP framework.

The lengthening of the time horizon of the stability programs and the recent initiatives to make the debt criterion enforceable can be traced back to the joint action of the Commission, the ECOFIN Council and central bankers. The Commission has emerged as the most committed carrier of the idea of fiscal sustainability. Most importantly, it has critically shaped the definition of the problem. The first EU-level initiative for sustainable public finances came from the Economic Policy Committee (EPC), and advisory body to the ECOFIN Council and the Commission in which officials from national finance or economics ministries as well as from central banks are represented. In 1997, it issued an opinion entitled "The Reform of European Pension Systems" which put the issue of sustainable public finances on the European Union's agenda (Economic Policy Committee 1997). It is important to note this document was based almost entirely on prior reports from the European Commission, although the EPC is an intergovernmental body in terms of its formal decision-making. In fact, this opinion contained several paragraphs that repeated word for word the diagnosis and conclusions from earlier studies conducted by the Commission's Directorate-General Economics and Financial Affairs (Buti, Franco, and Pench 1997; Franco and Munzi 1996). The EPC document cited projections carried out by the Commission which show that pension expenditure will increase between 3 and 5 percentage points of GDP in the coming decades due to ageing populations and concluded that "[t]he adjustment of public pension schemes to the new demographic conditions is fundamental for budgetary consolidation" (Economic Policy Committee 1997). It was also the Commission who made the proposal to form an Ageing Working Group (AWG) within the EPC. The AWG started working in 1999 on projections of the long-term budgetary developments and produced a very influential report in 2001. The results were not any different from the Commission findings: pension expenditure was estimated to increase between 3 and 5 percentage points of GDP in the long-term, showing that higher pension spending due to population ageing is a serious problem for public finances. Increasing health expenditure was found to reinforce this problem. The power of these numbers is rooted in the fact that they were acknowledged as accurate by member states since the projections done by the AWG were based on data supplied by national governments. The AWG also used assumptions that were approved by member states.

Once the problem was defined in this way, the ECOFIN Council and the Commission used these numbers to push for pension reforms and thus created what I term "institutional interference" with public pension systems. These two actors increased the precision of the concept of fiscal sustainability and also strengthened the appeal of this idea by linking it to EU-level strategies for more growth and employment. They thus broadened its significance beyond the guarantee of price stability. As defined by EU finance ministers and the Commission, the concept of fiscal sustainability has three dimensions (Council of the European Union 2001b; European Commission 2000). First, it obviously requires compliance with the deficit criterion of the Stability Pact and with the debt criterion of the Maastricht Treaty. Second, it also implies to keep the tax burden, especially the level of social contributions, low enough to further growth and employment. In practice, this means to at least keep them at their current level. And third, it demands that education and investment expenditures are not further crowded out by rising pension and health expenditures.

The greater precision and higher relevance of fiscal sustainability create major implications for old-age security institutions. European fiscal institutions interfere with public pensions in two basic ways. First, the requirement to run balanced budgets and to keep government debt below 60 percent sets general limits on public spending. Second, achieving fiscal sustainability blocks the two most important adjustment options that public pension systems have to cope with future imbalances due to demographic changes: higher contribution rates and larger tax transfers. If these two doors are closed, public pension systems are increasingly forced to rely on deep benefit cutbacks in order to avoid undermining the SGP through running sizable deficits. Cutbacks of this magnitude, however, would require to give up the idea that animated the growth of most public pension systems in Europe during the post-war period: the public guarantee of a retirement income that allows pensioners to maintain the living standard that they have achieved during their work life. The only other, yet far less effective and also less feasible option would be to raise the retirement age significantly. It is less effective because it usually requires long transition periods (Weaver 1998), and it is less feasible because there is a strong social coalition between firms and workers that supports early retirement regimes (Ebbinghaus 2002). The joint report of the Commission and the ECOFIN Council, which was endorsed by the European Council in Stockholm in 2001, states the implications of fiscal sustainability for public pensions very clearly and evidences that there is growing institutional interference. It concludes that "progress on pension reform has been disappointing" and demands that "ambitious reforms of pension systems are urgently required in many member states ... to contain pressures on public finances". It also proposes "a greater recourse to the funding of public pensions", although it does not openly advocate the privatization of public pensions which is the implication of this proposal (Council of the European Union 2001b). Officialy, the ECOFIN Council has adopted a three-pronged strategy to deal with impact of demographic change on public finances. In addition to implementing fundamental reforms of public pension systems, it calls for an accelerated reduction of public debt to reduce interest payments and comprehensive labor market reforms to increase employment rates. However, the reform of pension system is undoubtedly the only component of this strategy capable of ensuring the sustainability of public finances. Only in the three highly indebted member states Belgium, Italy and Greece is the decline in the interest burden through debt reduction potentially large enough to offset expenditure increases resulting from demographic change. And higher employment rates, which EU social policymakers hope will weaken institutional interference, has only a small effect on the stability of pension finances (Economic Policy Committee 2001).

Conditions for Institutional Interference

Institutional interference depends on a variety of conditions, the most important one being the evolution of fiscal institutions at the European level. During the convergence period between 1991 and 1997, the interference from European fiscal rules existed, but was limited in its effects. This is because member states had more freedom of choice in consolidating their finances. The Commission was only able to assess whether member states met the criteria, but did not define the means to reach them (Hallerberg 1999). Thus, all member states managed to reduce their budget deficits substantially until 1997, on average by 4.3 percentage points of GDP. But they did so in different ways: one group relied mainly on tax increases, another group on spending reductions, and a third group employed a mixed strategy (Buti and Sapir 1998). Moreover, member states substantially cut investment spending which declined on average by 0.8 percentage points of GDP between 1993 and 1997 (European Commission 2002b). By contrast, after the start of EMU the requirements for reducing budget deficits became more demanding since the SGP prescribes balanced budgets, not merely budget deficits below 3 percent. The enforcement capacities of the SGP are also stronger than in the original "excessive deficit procedure" of the Maastricht Treaty. Even more significant is that the strategies used during the convergence period—tax increases and reductions in investment spending—should no longer be used in monetary union. To the contrary, the EU's fiscal and economic policy strategy calls for the lowering of taxes, especially on labor, and for redirecting expenditure towards education and investment (European Council 2000). These goals have become an important part of economic policy coordination at the EU-level and have been institutionalized in the annual Broad Economic Policy Guidelines (BEPG) in recent years.

The second most important condition for interference is the institutional design of welfare states. It creates greater or lesser vulnerability to European fiscal institutions. The finding that different types of welfare states differ in their vulnerability to socioeconomic changes (Scharpf 2000; Scharpf and Schmidt 2000) also applies to the degree to which they are affected by European fiscal rules. The Continental welfare states—a group that also includes three Southern European countries that are still catching up with the mature Continental welfare states—are the "black sheep" in the eyes of EU fiscal policymakers. The Liberal and Social Democratic welfare states have already ensured the sustainability of their public finances, as assessments of the Bundesbank and the European Commission have shown (Deutsche Bundesbank 1998d; European Commission 2002b). Continental welfare states, however, are beset by problems, as can be seen in Table 1: they are "pensioner states" with very generous public pension systems. France, Germany and Italy, the three biggest countries of the Continental type, spend between 12 and 14 percent of GDP on pensions, while the social democratic welfare states of Scandinavia spend between 9 and 11 percent, and the liberal welfare states of Great Britain and Ireland only around 5 percent.

Table 1: Continental Welfare States in Comparison

	Pension Expenditure in Percent of GDP (2000)	Pensioners in Percent of Working-Age Population (Projection 2050)	Social Contributions in Percent of GDP (2000)	Budget Surplus or Deficit in Percent of GDP (2000)	Reserves of Public Pension Systems in Percent of GDP (2002)	Sustainability of Public Finances (Deutsche Bundesbank, 1998)	Sustainability of Public Finances (European Commission, 2002)
Mature Continental Welfare States							
Austria	14.5	54	14.9	-1.9	None	No	No
Belgium	10.0	45	14.2	-0.1	0.5	No	No
France	12.1	46	16.4	-1.3	0.8	No	No
Germany	11.8	49	17.6	-1.3	None	No	No
Italy	13.8	61	12.4	-1.7	None	No	No
Continental Welfare States (Southern Europe)							
Greece	12.6	54	11.4	-0.8	None	No	No
Portugal	9.8	46	10.9	-1.8	5	No	No
Spain	9.4	60	12.4	-0.4	1	No	No
Liberal and Social Democratic Welfare States							
Denmark	10.5	36	2.3	+2.5	25	Yes	Yes
Finland	11.3	44	12.2	+7.0	60	Yes	Yes
Great Britain	5.5	42	6.9	+1.7	None	Yes	Yes
Ireland	4.6	40	4.4	+4.5	8	Yes	Yes
Luxemburg	7.4	38	10.6	+5.8	22	Yes	Yes
Netherlands	7.9	41	16.0	+1.5	3	Yes	Yes
Sweden	9.0	42	15.1	+3.7	29	Yes	Yes
EU Average	*10.4*	*49*	*13.3*	*-0.2*	–	–	–

Sources: Economic Policy Committee 2000; European Commission 2002a; 2002b; 2002c; Deutsche Bundesbank 1998d

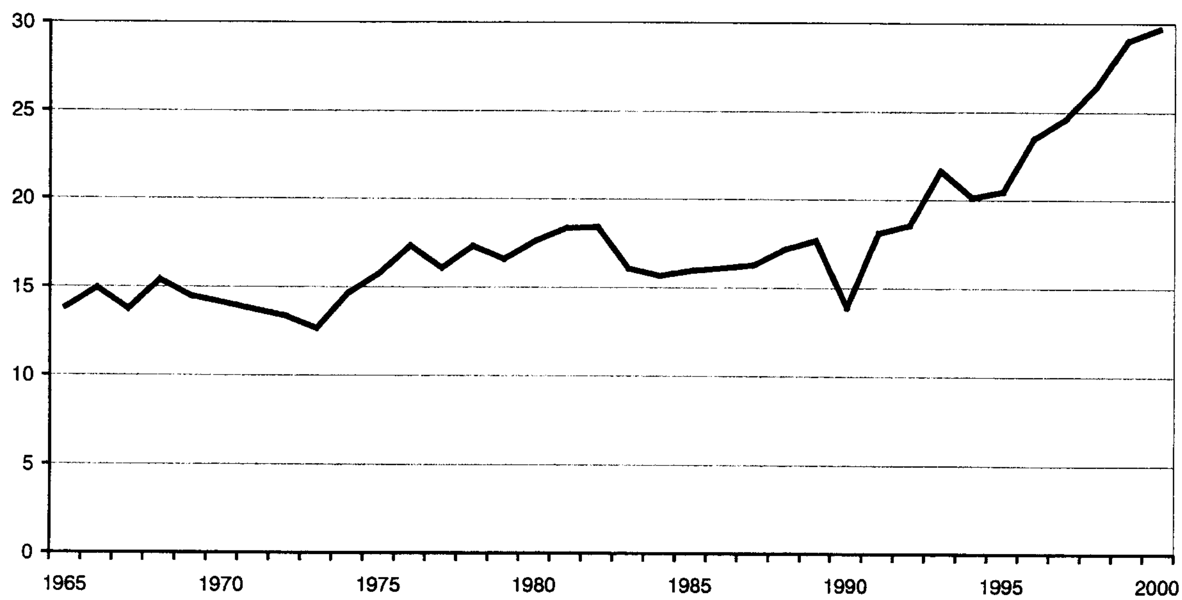
Because of their predominant reliance on social insurance, financed jointly by employers and employees, Continental welfare states are also more strongly affected by demographic imbalances. If the ratio between contributors and beneficiaries worsens, expenditure grows and revenue declines at the same time. The expected results are rising deficits, increasing pension contributions and growth of pension expenditure at the expense of education and investment spending, which directly contradicts European fiscal rules. Among the Continental welfare states, we can further distinguish Germany from other cases, since its public pension system has distinctive institutional linkages with the federal budget that make it more vulnerable to the Stability Pact. Before I outline these interconnections in more detail, however, I will discuss the role of socioeconomic conditions, the third set of factors that weakens or strengthens the intensity of institutional interference.

Socioeconomic conditions interact with European fiscal institutions in producing institutional interference. In an ideal world in which we did not have population ageing, there would be no need to make fundamental changes to public pension systems and no reason for European fiscal institutions to interfere with them. Vice versa, if EMU and European fiscal rules did not exist, public pension systems would not have been forced to freeze their contribution rates and to cope with demographic change without increasing transfers from general taxation. The demographic developments are worst in Continental welfare states, which further reinforces their vulnerability to changes in the ratio between contributors and beneficiaries. In France, Germany, and Italy, the old-age dependency ratio—the percentage of pensioners in terms of the working-age population—is projected to increase to a level between 46 and 61 percent within the next 50 years. In the liberal and social democratic welfare states, by contrast, the projected increase is much lower and ranges between 36 and 44 percent (see Table 1). Moreover, as Table 1 also shows, Continental welfare states are not nearly as well prepared for dealing with demographic changes as the two other types of welfare states are, especially the Scandinavian countries. Their public pension systems have no or only insignificant reserves, while Denmark, Finland and Sweden in particular have sizable reserve funds that can ease the burden from population ageing. Finally, the starting conditions for achieving sustainable public finances are significantly worse in Continental welfare states compared to the Anglo-Saxon or Scandinavian countries. The latter had consolidated their budgets already by the start of EMU. Liberal and social democratic welfare states ran large surpluses at the beginning of the decade, whereas the Continental welfare states, especially France, Germany and Italy, still had relatively large structural budget deficits (see Table 1).

The first condition shows that institutional interference varies over time. It grew stronger as European fiscal institutions evolved, especially after the SGP went into effect and the idea of fiscal sustainability increasingly animated the actions of European fiscal policymakers. The second and the third sets of conditions show that the strength of institutional interference varies across the three welfare state regimes. Interference is magnified in Continental welfare states because of the structure of their welfare state programs, their unfavorable demographic make-up and their unfavorable starting position to deal with the future fiscal burden. Liberal and social democratic welfare states, by contrast, have a much more favorable combination of these conditions and do not face the same kind of challenges with regard to fiscal sustainability. These differences between welfare state regimes are clearly reflected in the assessments of the Bundesbank and the European Commission, which classify all 8 Continental welfare states as unsustainable and all 7 liberal and social democratic welfare states as sustainable (see Table 1). But not only the intensity, also the timing of institutional interference varies across member states. Among the Continental welfare states, it first reached a high level of intensity in Germany, even though demographic changes did not cause major strains for pension finances at the time. This is due to distinctive institutional linkages between pension finances and the federal budget. In 2001, Germany became the first country among this group where institutional interference created a window of opportunity for fundamental reform. Even though France and Italy also legislated pension benefit cutbacks during the 1990s that were driven by the requirements to comply with European fiscal rules, unlike Germany they have so far not undertaken explicit measures to partially privatize their public pension systems. Based on the characteristics they share with the German case, however, it is likely that they will as soon as demographic changes strain public finances.

There are two specific features that create a very tight connection between pension finances and the federal government budget and critically shape Germany's ability to comply with SGP. First, although Germany's public pensions are predominantly financed by social contributions, the government covers about one fifth of total pension expenditure through a transfer from the federal budget. In the early 2000s, this transfer consumed about 30 percent of annual federal expenditure (see Graph 1). Second, even small and temporary imbalances in pension finances automatically and immediately lead to an increase in the federal government's transfer. Therefore, given the magnitude of pension expenditure in the federal budget, fiscal consolidation is almost impossible without cutting pension benefits. Moreover, since the federal budget is strongly affected in the short-term by the development of pension finances, the German finance minister has a strong interest in stabilizing pension spending in order to avoid any further increase of the federal transfer to the pension system.

Graph 1: Federal Transfers to Social Insurance Schemes (Mostly Pensions) in Percent of Federal Expenditure, Germany, 1965-2000



Source: Bundesministerium der Finanzen 2002b

These institutional linkages are a relatively recent phenomenon. Although the federal government has always made transfers to the public pension system ever since it was established by

Bismarck in the late 19th century, it was never a huge burden for the federal budget. The transfer amounted to a constant 10 percent of federal expenditure between the late 1950s and the late 1980s. Only during the 1990s did it increase to 30 percent. The Pension Reform Act of 1989—jointly legislated by the coalition of Christian Democrats and Liberals and the Social Democratic opposition two years before the agreement on the Maastricht Treaty—was designed to prepare the German pension system for the demographic changes ahead. The goal was to distribute the future fiscal burden on three shoulders: pensioners, contribution payers and the federal government. The further growth of the pension benefit level was stopped, the projected growth of the contribution rate significantly lowered, and the federal government was made into the so-called "third contribution payer" that automatically covers one fifth of any future pension expenditure increase. More specifically, an institutional rule was established so that every time the contribution rate rises to cover additional costs, the transfer from the federal budget would be increased automatically. During the convergence period leading up to monetary union, this linkage turned out to be a major problem for the German finance minister. Between 1993 and 1997, when Germany faced the challenge to reduce its budget deficit to under 3 percent and to restrain the growth of public debt, the pension contribution rate climbed from 17.5 to over 20 percent, which automatically increased the annual federal transfer by 10 billion Euros (from 32 billion Euros in 1993 to 42 billion Euros in 1997). Therefore, Germany faced a situation already in the mid-1990s that is likely to occur in other Continental welfare states when the demographic changes will begin to have a strong impact, and rising social insurance deficits have to be covered by the central government: the finance minister was unable to achieve fiscal stability—even in the short-term—without making major changes to its public pension system. In the next section, I will discuss how institutional interference led to conflicts between finance ministers and social policymakers in Germany, forced benefit cutbacks and made major institutional change a possibility.

The Implementation of European Fiscal Rules in Germany, 1996-2001

Along with the Commission, the EU finance ministers are the actors driving the evolution of European fiscal institutions. At the same time, together with the heads of state or government, they are the most important "implementing agents" of EU fiscal rules at the national level. They put pressure on spending ministers, especially on ministers of labor and social affairs, to implement reforms that are necessary to fulfill the fiscal obligations set forth in the treaty and in the Stability Pact. In this section, I will examine the initiatives for and the conflicts over reforming public pensions since the mid-1990s, a period that includes two governments: the coalition between Christian Democrats (CDU) and Liberal Democrats (FDP) led by Chancellor Helmut Kohl, and the coalition between Social Democrats (SPD) and the Greens led by Chancellor Gerhard Schröder. There have been five pension reforms since 1996, almost one in every single year (see Table 2). The pattern under the Kohl and Schröder governments is similar: they first rushed through a smaller pension reform and a year later followed up with a more comprehensive reform. The 2001 pension reform of the SPD/Green coalition stands out because it produced a major change in Germany's old-age security institutions through a partial privatization of public pensions. The only aberration from this pattern is the pension reform that the Schröder government legislated immediately after winning office in 1998. It rescinded the benefit cutbacks of the Kohl government and used the revenue from a new energy tax to lower the pension contribution rate. The restoration of full benefit levels was short-lived, however, because Oskar Lafontaine, the leftist SPD chairman and strong Keynesian-minded finance minister under Schröder, left office a few months later. His successor as finance minister, Hans Eichel, overturned Lafontaine's accommodating fiscal policies and replaced them with a program for fiscal discipline that included pension expenditure cutbacks—a course that Chancellor Schröder had favored all along, but could not implement against Lafontaine's will.

Table 2: Pension Reforms in Germany, 1996-2001

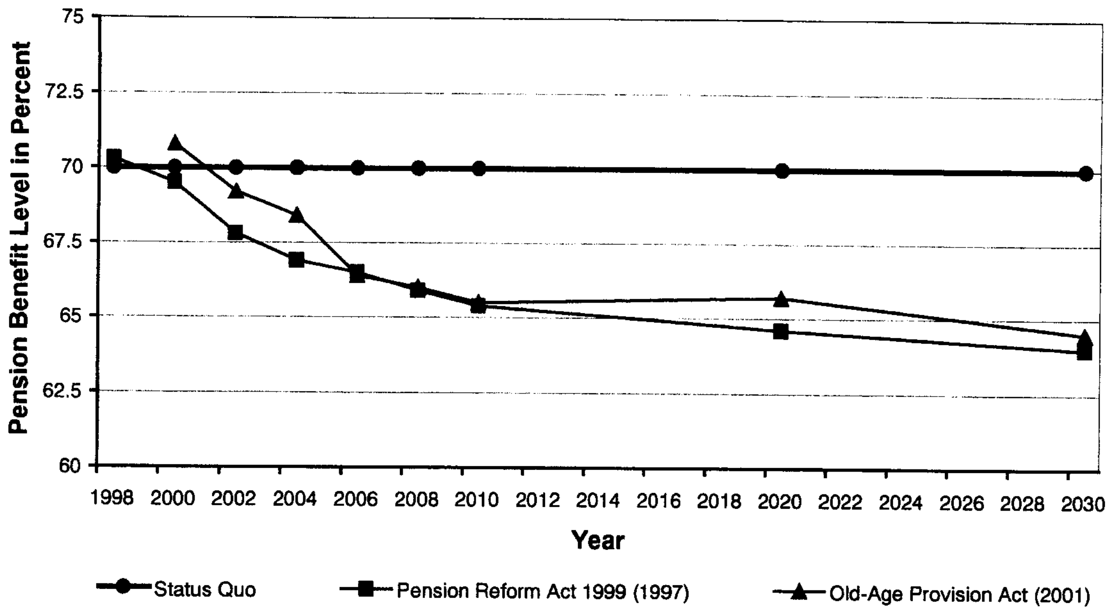
	Growth and Employment Promotion Act (1996)	Pension Reform Act 1999 (1997)	Social Insurance Correction Act (1998)	Budget Consolidation Act (1999)	Old-Age Provision Act (2001)
Initiative	Christian Democratic-Liberal Coalition	Christian Democratic-Liberal Coalition	Social Democratic-Green Coalition	Social Democratic-Green Coalition	Social Democratic-Green Coalition
Grand Coalition	No	No	No	No	No
Union Consent	No	No	Yes	No	Yes
Process	Conflictual	Conflictual	Conflictual	Conflictual	Conflictual
Implementation of Cutbacks	Mostly Medium- and Long-Term	Mostly Short- and Medium-Term	[Expansion]	Short-Term	Mostly Short- and Medium Term
Visibility of Cutbacks	High	Very High	[Expansion]	Very High	High
Electoral Consequences	Loss of Office (1998)	Loss of Office (1998)	Winning of Office (1998)	Loss of Bundesrat Majority (1999)	Narrow Return to Office (2002)

These cases show that there was a clear causal linkage between the requirements of the Stability Pact, the initiative for fiscal consolidation programs and the cutbacks of pension benefits. Both Theo Waigel, the Christian Democratic finance minister, and Hans Eichel were motivated by the goal of fiscal discipline and made compliance with the SGP into a priority. Moreover, public pensions were at the heart of their fiscal consolidation programs. Consequently, Waigel and Eichel put a lot of pressure on the ministers of labor, forcing them to make proposals for substantial benefit cutbacks. These strategies were successful in both cases, but the SPD finance minister had an easier time than the Christian Democratic finance minister. The reason is that Eichel had strong support from Chancellor Schröder and faced only a weak labor minister who also did not have a distinct ideational attachment to the existing public pension system. Waigel, by contrast, received reluctant backing from Kohl and struggled with a strong and highly committed labor minister.

Unlike most EU member states, Germany did not have a problem complying with the Maastricht deficit and debt criteria during the first half of the 1990s. In 1994, Germany and Luxemburg were the only two member states that already met both convergence criteria. However, the situation changed completely in 1995—two years before the qualification for EMU— when economic growth slowed down and public debt grew rapidly in the wake of German unification. Within a five-year period, German public debt increased from 40 percent of GDP to over 60 percent in the mid-1990s, thus reaching the Maastricht limit. In 1995 and 1996, the budgetary deficit surpassed the 3 percent ceiling. To fulfill the convergence criteria and comply with the Stability Pact, which was first proposed by finance minister Waigel himself, Germany had to consolidate its public finances. Since the mid-1990s, compliance with the SGP has remained a constant problem for German governments. After the budget deficit went above 3 percent, the Kohl government agreed on a fiscal consolidation program that included 13 billion Euros in expenditure cutbacks. The development of pension finances directly counteracted the government's efforts to comply with the Maastricht fiscal rules. Since the pension contribution rate was repeatedly increased, the transfer from the federal budget automatically increased as well: in 1996 by 2 billion Euros, in 1997 by almost 3 billion Euros, and in 1998 by another 2 billion Euros. The federal transfer was expected to grow further during the next few years. Therefore, in the medium-term the growth of pension expenditure posed a great risk for the consolidation of public finances. The reform of the public pension system thus became vital for the German government to comply with the SGP.

However, there was strong resistance within the Christian Democratic Party against cutbacks of pension benefits, including from Chancellor Kohl who always stressed the importance of pensioners' support for winning elections. Since Adenauer's landmark pension reform in 1957, the CDU had regularly received around 50 percent of the vote among pensioners. A number of members of the CDU parliamentary party were also annoyed about the government's new course to "cut back for Maastricht". For the longest time, the CDU labor minister, Norbert Blüm, categorically refused to cut pension benefit levels. As a result, the first round of conflict between the finance minister and social policymakers ended in a classic, path-dependent response that did not generate any significant savings in the short- and medium-term and thus did not contribute much to the government's consolidation efforts. Although Waigel was successful in forcing Blüm to propose a pension reform, he was unable to impose the terms of the reform. The "Growth and Employment Promotion Act" did not propose anything new, but merely accelerated the increase of the retirement age for the unemployed that had already been legislated several years before. The finance minister demanded, unsuccessfully, to delay the annual adjustment of pension benefits in 1996 which would have achieved substantial savings immediately. The magnitude of budgetary relief from this reform was thus meager. In the short- and medium-term, it only amounted to an 500 million Euros annually. Because of this, Waigel increased the pressure on Blüm after the first round in order to force the labor minister to propose large benefit cutbacks. He threatened to start taxing public pension benefits if no suggestions are made for immediate benefit cutbacks. Vice versa, the labor minister gave the impression that he would resign if the finance minister did not raise taxes to increase federal transfers to the public pension system. This deadlock was broken by the Chancellor. Kohl started to side with the finance minister after he recognized that without cutting pension benefits, Germany would be unable to meet the convergence criteria, which might threaten the move towards EMU. Therefore, Kohl reluctantly supported cutbacks of public pensions and overruled the resistance from social policymakers within his own party. The outcome was the "Pension Reform Act 1999" that was legislated in 1997. It lowered the pension benefit level from 70 percent to 64 percent, mostly within the short- and medium-term, which reduced the federal transfer by several billion Euros per year and thus made a strong contribution to the government's fiscal consolidation program. However, Blüm also secured a concession from the finance minister to raise the VAT by one percentage point and transfer the proceeds directly to the public pension system. The fact that the labor minister could get the finance minister to accept such a compromise reflects Blüm's strength in the Christian Democratic Party and the Kohl cabinet. Blüm was chairman of the largest party organization at the state level and the most prominent representative of the CDU's labor wing. He was also highly popular among voters, especially among pensioners.

Graph 2: Implementation of Pension Benefit Cutbacks, Germany, 1997 and 2001



Source: Bundesversicherungsanstalt für Angestellte; Verband Deutscher Rentenversicherungsträger

Under the Schröder government, the European agenda to stabilize public finances in the short-term and make them sustainable in the long-term was fully adopted in national fiscal policymaking for the first time. The fiscal policy agenda of finance minister Eichel was indistinguishable from the agenda of the ECOFIN Council and the European Commission. Sustainability became the new yardstick of German fiscal policy. Germany made the committment to run budgetary surpluses in the medium-term in order to reduce government debt, and made plans to reduce taxes and social contributions and redirect public expenditure toward education and investment. An important part of this strategy was the reform of the public pension system. More specifically, the finance ministry demanded to freeze pension contribution rates in the long-term and to increase the role of private pension provision (Bundesministerium der Finanzen 2000). Eichel put this agenda into practice through the government's "Future Program 2000", an ambitious consolidation program that aimed at expenditure cutbacks of 15 to 25 billion Euros annually. To achieve savings of such magnitude, the bulk had to come from the largest ministry, the Ministry of Labor—more specifically from the ministry's transfer to the public pension system. These transfers, totalling well over 50 billion Euros in 1999, accounted for most of the expenditure in the labor minister's budget. Eichel tried to ensure that the labor minister could not evade pension cutbacks by imposing an across-the-board expenditure cutback in the magnitude of 7 percent, which for the labor ministry amounted to between 6 and 10 billion Euros annually over the next few years. The SPD finance minister did not face nearly as much resistance as his predecessor from the labor minister. Walter Riester was a much weaker cabinet minister than Blüm since he did not have a strong position within his party. Riester was hand-picked by Schröder, and his political survival depended entirely on him. Unlike Kohl, the Social Democratic Chancellor was also unambiguously supportive of strict fiscal consolidation and not worried about losing votes from pensioners. Schröder had a more proactive approach to dealing with the EU fiscal constraints: his goal was to turn fiscal discipline into the trademark of modern social democracy. The strongest resistance against cutbacks came from outside the cabinet—from the Social Democratic Party, the SPD parliamentary party and the trade unions. The first measure to implement the new fiscal policy agenda, the "Budget Consolidation Act", was legislated against strong intra-party opposition in 1999. It was much more effective than Waigel's first-round initiative since it led to immediate cuts in public pension expenditure. It lowered the annual adjustment of public pension benefits for a two-year period and cut federal transfers to the pension system by over 2 billion Euros annually. The second round of conflict between the finance minister and social policymakers was even more successful. The comprehensive "Old-Age Provision Act", legislated in 2001, lowered pension benefits from 70 to 64 percent, mostly in the short- and medium-term—in an almost identical fashion as the reform legislation of the Kohl government that the SPD had initially rescinded (see Graph 2). Most importantly, it froze the pension contribution rate in the long-term by imposing a ceiling of 20 percent. This measure blocks further increases of the federal transfer and thus effectively contains the budgetary risk of rising pension expenditure. By freezing the contribution rate, the finance ministry used the institutional linkages described above to its own advantage: if the pension contribution rate remains stable, the federal transfer automatically stays at its current level.

The Schröder government's pension reform also introduced an important institutional innovation that will shape the development of the old-age security institutions in the coming decades. It established a private pension pillar, a novelty for Germany's Continental welfare state. This became possible because repeated cutbacks increasingly disillusioned voters about the ability of the public pension system to guarantee their living standard during retirement, thus creating a "permissive consensus" for major changes. For the finance minister, private pensions function as a "valve" when pension expenditures grow. If the development of pension finances puts pressure on contribution rates and the federal transfer, responsibility for old-age provision can be shifted gradually from the public to the private tier. It is also likely that middle-class voters, who over the past few years have increasingly lost trust in the public pension system in response to repeated rounds of benefit cutbacks (Weick 2002), will push for the expansion of the private system and for further reductions of contributions to the public system.

Conclusion

By examining the case of pension reform in Germany, this paper has shown that EMU does have an impact on welfare states. I have described the causal mechanism by which European fiscal institutions produce reforms of public pension systems as "institutional interference": the Stability Pact forces benefit cutbacks in member states with generous public pension systems and blocks their ability to adjust to demographic changes in the future. In Germany, the efforts to comply with European fiscal rules led to an entire series of pension reforms since the mid-1990s which created a window of opportunity for major institutional change, that is, for the partial privatization of public pensions. The intensity of institutional interference was strong in the German case even long before demographic changes will strain public finances, which is the result of distinctive institutional linkages between the pension system and the federal budget. Apart from this particularity, other Continental welfare states share many features with Germany. Therefore, it is likely that similar processes will take place, or may be at work, in countries such as France and Italy. In these and other Continental welfare states, strong institutional interference may also destabilize the public pension system and create a window for partial privatization.

What has to be kept in mind, however, is that although the relationship between institutional interference and reforms of public pension systems seems strong, it is not deterministic. National-level actors continue to play an important role, both as "implementing agents" of European fiscal rules and as defenders of the existing institutions of the welfare state. Depending on how committed they are to the European idea of fiscal sustainability, national finance ministers are able to counteract or reinforce the fiscal constraints imposed by the Stability Pact. How effective they are in complying with European fiscal rules also depends on whether they are able to overcome the resistance from social policymakers who are committed to the institutional status quo. If policymakers are strongly guided by the transformative idea of fiscal sustainability, as Chancellor Schröder and finance minister Eichel clearly were, they reinforce the institutional constraints imposed by the Stability Pact and are also less likely to abandon their reform initiatives when they encounter resistance. By contrast, if the economic conditions are favorable, non-committed finance ministers or government leaders can temporarily evade adjustment measures, which usually also means that the defenders of the institutional status quo remain in powerful positions. Two examples are worth mentioning. At a time where economic growth was relatively high, finance minister Lafontaine made it possible to rescind the pension benefit cutbacks of the Kohl government. In France, Lionel Jospin was similarly able to avoid dealing with pension reform during a period of comparatively strong economic growth. In both cases, however, it is very much in doubt whether they could have continued with this course any longer if they had remained in office during the recent slowdown of the economy.

Finally, the analysis of institutional interference in Europe has implications for our assessment of the new Open Method of Coordination in social policy, especially in pension policy (European Commission 2002a). In its present form, I agree with Fritz Scharpf that it is not effective in counteracting the strong interference from European fiscal institutions (Scharpf 2002). As the development of these institutions has shown, effectiveness depends especially on three sets of factors: a transformative idea embedded in institutions, a strong coalition at the EU-level that operationalizes this idea, and committed actors at the national level who implement it in member states. Neither of these conditions is given in the case of the OMC. There is no treaty provision, the social policymakers at the EU-level are still too divided to make a concerted effort, and committed actors at the national level are slowly disappearing as the pressure from the Stability Pact gets stronger. Moreover, European fiscal policymakers have secured their influence over the OMC by inserting the idea of fiscal sustainability even into the coordination process that was originally created to counteract interference from fiscal institutions.

References

Berman, Sheri. 2001. Ideas, Norms, and Culture in Political Analysis. *Comparative Politics* 33 (2):231-250.

Bundesministerium der Finanzen. 2000. Guiding Principles of Fiscal Policy: Seven Pointers for Future-oriented, Equitable Fiscal Policy in a European Context.

Buti, Marco, Daniele Franco, and Lucio R. Pench. 1997. Reconciling the Welfare State with Sound Public Finances and High Employment. *European Economy* (4):7-42.

Buti, Marco, and André Sapir, eds. 1998. *Economic Policy in EMU: A Study by the European Commission Services*. Oxford: Clarendon Press.

Cameron, David R. 1995. Transnational Relations and the Development of European Economic and Monetary Union. In *Bringing Transnational Relations Back In*, edited by T. Risse-Kappen. Cambridge: Cambridge University Press:37-78.

Costello, Declan. 2001. The SGP: How Did We Get There? In *The Stability and Growth Pact: The Architecture of Fiscal Policy in EMU*, edited by A. Brunila, M. Buti and D. Franco. New York: Palgrave:106-136.

Council of the European Union. 2001a. 2365. Council - ECOFIN: Content and Format of Stability and Convergence Programs.

———. 2001b. Report from the Commission and the ECOFIN Council: The Contribution of Public Finances to Growth and Employment (6997/01).

Deutsche Bundesbank. 1998a. Eingangsstatement des Präsidenten der Deutschen Bundesbank, Professor Dr. Hans Tietmeyer, vor dem Finanzausschuss und dem Ausschuss für die Angelegenheiten der Europäischen Union des Deutschen Bundestages am 3. April 1998. *Informationsbrief zur Europäischen Währungsunion* (11):37-46.

———. 1998b. Stellungnahme der Deutschen Bundesbank zur Errichtung einer Wirtschafts- und Währungsunion in Europa (vom 6. September 1990). *Informationsbrief zur Europäischen Währungsunion* (11):5-10.

———. 1998c. Stellungnahme des Zentralbankrats (vom 23. Januar 1992). *Informationsbrief zur Europäischen Währungsunion* (11):11-14.

———. 1998d. Stellungnahme des Zentralbankrats zur Konvergenzlage in der Europäischen Union im Hinblick auf die dritte Stufe der Wirtschafts- und Währungsunion (vom 26. März 1998). *Informationsbrief zur Europäischen Währungsunion* (11):15-36.

Dyson, Kenneth. 2000. *The Politics of the Euro-Zone*. Oxford: Oxford University Press.

Dyson, Kenneth, and Kevin Featherstone. 1999. *The Road to Maastricht: Negotiating Economic and Monetary Union*. Oxford: Oxford University Press.

Ebbinghaus, Bernhard. 2002. *Exit from Labor: Reforming Early Retirement and Social Partnership in Europe, Japan, and the USA*. Cologne: Habilitationsschrift, University of Cologne.

Economic Policy Committee. 1997. The Reform of European Pension Systems: Opinion Addressed to the Council and Commission (II/220/97-EN final, October 6, 1997).

———. 2001. Budgetary Challenges Posed By Ageing Populations: The Impact on Public Spending of Pensions, Health and Long-Term Care for the Elderly and Possible Indicators of the Long-Term Sustainability of Public Finances (EPC/ECFIN/633/01-EN). Brussels.

Esping-Andersen, Gøsta. 1990. *The Three Worlds of Welfare Capitalism*. Princeton: Princeton University Press.

European Central Bank. 2000. Population Ageing and Fiscal Policy in the Euro Area. *ECB Monthly Bulletin* (July):59-72.

European Commission. 2000. The Contribution of Public Finances to Growth and Employment: Improving Quality and Sustainability (COM(2000) 846 final).

———. 2002a. Adequate and Sustainable Pensions. Brussels.

———. 2002b. *Public Finances in EMU 2002, European Economy*. Brussels.

———. 2002c. Strengthening the Coordination of Budgetary Policies (ECFIN/581/02-EN).

European Council. 2000. Presidency Conclusions: Lisbon European Council, March 23-24, 2000 (SN 100/00).

———. 2001. Presidency Conclusions: Stockholm European Council, March 23-24, 2001 (SN 100/01).

European Monetary Institute. 1998. *Convergence Report 1998*. Brussels: European Monetary Institute.

Franco, Daniele, and Teresa Munzi. 1996. Public Pension Expenditure Prospects in the European Union: A Survey of National Projections. *European Economy* (3):1-125.

Goodin, Robert E. 1996. Institutions and their Design. In *The Theory of Institutional Design*, edited by R. E. Goodin. Cambridge: Cambridge University Press:1-53.

Hall, Peter A. 1997. The Role of Interests, Institutions, and Ideas in the Comparative Political Economy of Industrialized Nations. In *Comparative Politics: Rationality, Culture and Structure*, edited by M. Lichbach and A. Zuckerman. New York: Cambridge University Press:174-207.

Hall, Peter A., and David Soskice, eds. 2001. *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*. Oxford: Oxford University Press.

Hallerberg, Mark. 1999. The Importance of Domestic Political Institutions: Why and How Belgium and Italy Qualified for EMU. Typescript, University of Pittsburgh.

Jensen, Jane, and Philippe Pochet. 2002. Employment and Social Policy Since Maastricht: Standing up to the European Monetary Union. Paper prepared for The Year of the Euro, Nanovic Institute for European Studies, University of Notre Dame, December 5-8, 2002.

Lieberman, Robert C. 2002. Ideas, Institutions, and Political Order: Explaining Political Change. *American Political Science Review* 96 (4):697-712.

Moravcsik, Andrew. 1998. *The Choice for Europe: Social Purpose and State Power from Messina to Maastricht*. Ithaca: Cornell University Press.

North, Douglass C. 1990. *Institutions, Institutional Change, and Economic Performance*. Cambridge: Cambridge University Press.

Offe, Claus. 2001. Institutional Design. In *Encyclopedia of Democratic Thought*, edited by P. B. Clarke and J. Foweraker. London: Routledge:363-369.

Orren, Karen, and Stephen Skowronek. 1994. Beyond the Iconography of Order: Notes for a "New" Institutionalism. In *The Dynamics of American Politics*, edited by L. C. Dodd and C. Jillson. Boulder: Westview Press:311-332.

Pierson, Paul. 2001. Post-Industrial Pressures on the Mature Welfare States. In *The New Politics of the Welfare State*, edited by P. Pierson. Oxford: Oxford University Press:80-104.

Rhodes, Martin. 2002. Why EMU Is, Or May Be, Good for European Welfare States. In *European States and the Euro*, edited by K. Dyson. Oxford: Oxford University Press:305-333.

Scharpf, Fritz W. 2000. Economic Changes, Vulnerabilities, and Institutional Capabilities. In *Welfare and Work in the Open Economy: From Vulnerability to Competitiveness*, edited by F. W. Scharpf and V. Schmidt. Oxford: Oxford University Press:21-124.

———. 2002. The European Social Model: Coping with the Challenges of Diversity. *Journal of Common Market Studies* 40 (4):645-670.

Scharpf, Fritz W., and Vivien Schmidt, eds. 2000. *Welfare and Work in the Open Economy: From Vulnerability to Competitiveness*. Vol. 1. Oxford: Oxford University Press.

Stone Sweet, Alec, Wayne Sandholtz, and Neil Fligstein. 2001. *The Institutionalization of Europe*. Oxford: Oxford University Press.

Vandenbroucke, Frank. 2002. The EU and Social Protection: What Should the European Convention Propose? *Max Planck Institute for the Study of Societies Working Paper* (6).

Weaver, R. Kent. 1998. The Politics of Pensions: Lessons from Abroad. In *Framing the Social Security Debate: Values, Politics and Economics*, edited by R. D. Arnold, M. J. Graetz and A. H. Munnell. Washington, DC: National Academy of Social Insurance:183-229.

Weick, Stefan. 2002. Subjektive Bewertung der Sozialen Sicherung im Zeitverlauf mit besonderer Berücksichtigung der Alterssicherung. *Deutsche Rentenversicherung* 57 (9-10):494-522.