Insuring individuals… and politicians: Financial services providers, stock market risk and the politics of private pension guarantees in Germany

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Abstract

Studies of the rise of private defined-contribution pensions traditionally focus on social policy concerns about the allocation of risks and costs for beneficiaries and employers. There is, however, another – low-salience, financial – dimension of pension privatisation. Regulations introducing minimum return guarantees in private pensions significantly impact financial markets because they incentivise fund managers to invest plan portfolios in fixed-income securities rather than in equities. While different segments of the financial industry have divergent preferences over such guarantees, policy-makers are caught in a dilemma: Should they prioritise predictable benefit levels or equity market development? Using the case of the introduction of Germany's "Riester-Rente", we argue that, as politicians linked the introduction of private defined-contribution plans with cuts in statutory pensions, the re-emergence of a high-salience, social policy image of pensions helped insurance firms' and some trade unionists' case for minimum guarantees to prevail, thereby hindering equity market development in Germany.

Introduction

In recent decades, European governments have promoted the rise of private defined-contribution plans that, instead of guaranteeing workers a set level of their wages at retirement, offer them what they have paid into the system, plus returns on investments (Orenstein 2013; Ebbinghaus 2015). Since such plans tie benefit levels more closely to workers' contribution records and to the performance – and volatility – of financial markets, social scientists associate their rise with a "great risk shift" (Hacker 2006; Mabbett 2012) and a financialisation of pensions (Engelen 2003; Langley 2008; van der Zwan 2014). Yet the distributional consequences of the expansion of private defined-contribution plans have varied across countries due to regulatory differences (EIOPA 2011). While "pure" defined-contribution plans that fully expose individuals to investment risk predominate in countries such as the United States and the United Kingdom, many other countries have introduced regulations that protect savers from stock market drops (Antolín et al. 2011). For example, Austria, Germany and Slovenia force most providers of occupational and personal pensions to guarantee a minimum rate of return on participants' pension assets. What drives the introduction of such guarantees in defined-contribution pensions?

To build a theory on the regulatory choices policy-makers face when privatising pensions, we have analysed distinct episodes of an almost decade-long political process that culminated in the introduction of "Riester" pension plans in Germany in 2001. Riester plans are voluntary, personal pension plans in which individuals select the level of their own contributions and the financial services provider that manages the plan's assets. A key characteristic of Riester plans is that plan managers are legally obliged to guarantee that, at retirement, plan members receive at least the nominal value of all their contributions. This provision makes Germany one of the countries whose personal pensions deviate the most from a "pure" defined-contribution design that fully exposes individuals to investment risk. Germany is also an important case because, although it has epitomised Bismarckian welfare states with generous, publicly-provided social insurance (Esping-Andersen 1990) and coordinated market economies with non-market coordination of firms' activities (Hall and Soskice 2001), it has seen market mechanisms greatly rise in importance in its social protection and economic systems (Streeck 2009).

Based on this case study and on the emerging literature on the "welfare-finance nexus" (Estévez-Abe 2001), we argue that the politics of investment return guarantees can only be understood by simultaneously looking at two – social policy and financial regulation – sides of pensions. Minimum return guarantees are not only a social policy instrument that reallocates risks in pension provision, they are also a financial regulation tool that impacts the allocation of savings in capital markets and, more broadly, the financing of the economy. Pure defined-contribution plans allow fund managers to allocate a very large part of pension assets in – typically quite volatile – equities. By contrast, minimum return guarantees force pension plan managers to invest a larger chunk of plan portfolios in fixed-income securities, such as bonds and derivatives, because these – traditionally less volatile –

instruments allow managers to meet minimum return targets with greater certainty (Antolín et al. 2011: 25).

The two dimensions of pensions directly structure the constellations of actors involved in the politics of investment return guarantees. Debates on pension guarantees involve traditional social policy actors, such as party politicians, bureaucrats, trade unions and employers. But they also give a central role to the main providers of private pension products, i.e. financial services providers. Insurance companies, banks and mutual funds have divergent preferences over whether the state should require pension providers to guarantee investment returns because, due to their different business models, these different types of firms do not have the same capacity to offer such guarantees (Wehlau 2009). As recipients of pension fund investments, stock exchanges also have strong interests in this regulatory area.

As they have to decide on the regulations governing private plans, politicians are caught between contradictory pressures. In coordinated market economies – such as the German one – where, in an era of financial liberalisation, firms have relied ever less on banks and increasingly on equity markets to fund their activities, the expansion of equity-oriented – and, therefore, preferably guarantee-free – pension plans has been considered a very powerful vehicle for creating a stable source of funds in equity markets. Yet, such lightly regulated and equity-oriented plans create the risk that plan participants lose savings in case of a market downturn.

We argue that politicians' choice over whether they prioritise relatively predictable benefit levels or equity market development is crucially influenced by how they link the introduction of private defined-contribution pension plans with other pension reforms. When they decide to link it with cuts in existing public pensions, mobilisation against retrenchment maintains or reasserts an image of pensions as a high-salient, social policy issue and puts policy-makers under immense pressure to introduce guarantees. By contrast, when they do not do so, the creation of defined-contribution plans presents the image of a relatively low-salient, financial regulation, issue and politicians have a lot of latitude to introduce lighter regulations.

The rest of the article is organised as follows: The first section provides an overview of the existing literature on the politics of pension privatisation and further specifies the theoretical framework. The second section presents the German case study. The conclusion discusses how the 2001 Riester reform has linked with other reforms in the German political economy and suggests avenues for future research.

1. The two sides of pension privatisation

Research on the political dynamics behind public pension cuts and the expansion of defined-contribution plans has initially focused on a conservative backlash against the welfare state (Pierson 1994; Hacker 2004), but has growingly highlighted how centre-left governments have pushed through reforms in a context of "permanent austerity" and population ageing (Pierson 2001; see also Huber and

Stephens 2001; Häusermann 2010). Employers have been another protagonist of these changes because of their influence in the political arena (Häusermann 2010), and also because of the cuts made by many firms in occupational pension plans that were traditionally used for building peaceful labour relations and retaining skilled workers (Hacker 2004; Bridgen and Meyer 2005). Organised labour has also been a major player, due to its capacity to mobilise against reforms through demonstrations or elections (Anderson and Meyer 2003; Ebbinghaus 2011). However, many trade unions have consented to promote more collective occupational schemes through collective bargaining, so as to make cutbacks in public pensions more palatable to employees and to prevent an excessive marketisation of pension provision (Trampusch 2006a, 2006b; Wiß 2012; Naczyk and Seeleib-Kaiser 2015).

Most literature assumes that actors' stance in the politics of privatisation is driven by their concerns over the generosity and costs of pensions *qua* social policy. This is despite the fact that pension arrangements are a crucial element of many countries' financial systems. The financial significance of pension schemes has been most evident in Anglo-Saxon liberal market economies (LMEs), where large firms rely heavily on equity markets to secure finance (Hall and Soskice 2001). By 1990, pension funds held as much as one third[1] of equities quoted in American and British stock markets (Davis, 1995, p. 181). In the German, Japanese and Nordic coordinated market economies (CMEs), where firms have traditionally been more reliant on retained earnings to fund their activities, pension schemes based on "book reserves" – schemes that are financed through tax-deductible provisions set up on the liability side of companies' balance sheets – have been a key vehicle for helping managers to retain corporate earnings within their firms (Estévez-Abe 2001). Private pension arrangements have also impacted finance on an international scale: As Anglo-Saxon pension funds started investing their portfolios in the shares of firms based in CMEs, many of these firms have integrated the Anglo-Saxon principle of "shareholder value" in their management practices, thereby raising concerns over a financialisation of CMEs and their convergence on the liberal variant of capitalism (Lazonick and O'Sullivan, 2000; Clark 2003; Engelen 2003; van der Zwan 2014).

Given these links between pensions and finance, a growing body of literature has shown two main ways in which the "welfare-finance nexus" shapes pension politics (Estévez-Abe 2001). Firstly, the financial dimension of pensions strongly influences actors' preferences over pensions' institutional design. For example, as increasingly stringent international accounting standards have forced publicly-listed firms to report their occupational schemes' assets and liabilities on their balance sheets, using a "fair" valuation based on current market conditions, such companies have preferred to transform their – liability-heavy – defined-benefit plans into – liability-free – defined-contribution plans (Clark 2003; Dixon and Monk 2009). Employers and trade unions also try to shape pension plan regulations, so as

[1] This number does not take into account equities held by insurance companies or mutual funds that manage retirement products.

to be able to influence the type of assets in which pension funds invest and the time horizon of these investments (Wiß 2015; McCarthy et al. 2016; Naczyk 2016).

Secondly, when the welfare-finance nexus is taken into account, it becomes evident that financial services providers are important actors in this area. Some have highlighted the role of life insurance companies in the development of supplementary pensions since the late 19th century (Leimgruber 2008; see also Meyer and Bridgen 2012; Naczyk 2013). However, mutual funds and asset management companies controlled by banks have also become active in pension provision in recent decades (Oelschläger 2009). These different segments of the financial services industry offer very different types of pension products and have therefore diverging – and intense – preferences over pension plan regulation (Wehlau 2009). Insurance companies' business model typically relies on offering relatively predictable benefits paid out in the form of an annuity and is underpinned by industry-specific prudential rules and supervisory practices (Quaglia 2011). By contrast, mutual funds and asset management companies do not usually offer annuities and typically market pure defined-contribution products by promising high long-term returns from portfolios heavily invested in equities. Since different types of financial firms will attempt to frame the political debate so that politicians adopt regulations that advantage their own products, examining their political activities is a precondition for understanding the politics of private pension guarantees. With their strong interests in directing investments towards equity markets, stock exchanges' political role in the area of pension fund regulation can also not be neglected.

How do politicians decide on the regulations governing private pension plans? While most literature would assume that politicians' choices are purely determined by social policy concerns about the allocation of risks and costs, an approach that takes into account the welfare-finance nexus implies that politicians also weigh up the impact of pension plan regulations on the financial system. This is not only because financial services providers who defend specific regulations may deploy arguments revolving around this financial dimension, but also because financial markets have often been high on politicians' agenda (Trampusch 2018). In the post-1970s context of deindustrialisation and globalisation, many governments have sought to stimulate the development of domestic capital – especially equity – markets in order to allow more firms to tap into them to expand their activities. In fact, financial reform has been pursued across much of the political spectrum, as the centre-left has attempted to surpass the right as a champion of economic modernisation (Cioffi and Höpner 2006). Given the importance of financial development, proponents of pure defined-contribution plans – such as mutual funds, asset management companies and stock exchange professionals – have tried to strike a responsive chord with reformist politicians by emphasising how the expansion of such plans would increase and stabilise the supply of funds in domestic equity markets.

This context ties in neatly with Culpepper's (2011) framework on the role of business in policy-making. Building on standard public policy theory (Baumgartner and Jones 1993), Culpepper points out that the power of business varies between policy areas. The business community is particularly powerful on policy issues that receive low media attention and are decided in informal settings. The higher the salience of an issue and the more formal the institutional arena governing it, the greater the likelihood will be that business will be defeated and that it will have to build alliances with other actors. While the business community might be tempted to shift the arena from high to low salience venues and from formal to informal venues, other – civil society or party – actors will do the opposite. For them, the framing of an issue as a high-salience issue governed by formal policy processes is preferable for winning the battle over policies. The political battleground is therefore dependent on the framing of an issue and the defining of the venue for battle.

Traditionally, pension policy has been dominated by those caring for old age interests and represented by a powerful and high-salience policy image of protecting pensioners against poverty. This traditional framing has been challenged by the rise of new financial services providers who have been able to frame defined-contribution pensions as a low-salience financial regulation issue intimately connected with equity market development. Yet the success of this challenge could be thwarted if some actors managed to shift the policy image of defined-contribution plans back to a high-salience social policy one.

We argue that, paradoxically, it is not the direct mobilisation of opponents of "pure" defined-contribution plans against their introduction, but rather politicians' decision to link the introduction of such plans with cuts in existing public pensions that allows these opponents – mainly the insurance industry and some segments of organised labour – to thwart their introduction. As long as policy-makers disconnect the introduction of pure defined-contribution plans from cuts in public pensions, it remains a technical issue and creates an environment of "quiet politics" that prevents opponents of such plans from gaining enough momentum. By contrast, if defined-contribution plans are introduced in combination with retrenchment, the whole pension reform package becomes much more politicised and allows arguments about the threats posed by the volatile pension plan portfolios of pure defined-contribution plans for the level of pensions to be heard in the public debate. This puts much greater pressure on politicians – who do not have to be ideologically opposed to pure defined-contribution plans – to demonstrate their commitment to safe and adequate pensions by mandating investment return guarantees.

2. Pension privatisation in Germany in the 1990s and 2000s

This section presents the case study of the different stages in a political process that culminated in the adoption of the 2001 Riester reform. As it combined a retrenchment of statutory pensions with a promotion of private defined-contribution pension plans, this reform – which carries the name of Walter Riester, the Social Democratic Labour and Social Affairs Minister who championed it – is considered as a case of "paradigmatic", institutional change (Hinrichs and Kangas 2003; Trampusch 2006a; Oelschläger 2009; Wehlau 2009; Häusermann 2010; Jacobs 2011; Wiß 2012). One crucial provision of the reform was the creation of new, individual, defined-contribution accounts that would supplement existing statutory and occupational pension schemes. To encourage the expansion of these so-called Riester plans, the Schröder government introduced tax deductions for high-income earners and state subsidies for low-income earners who voluntarily saved up to 4% of their gross wage in such accounts. To qualify for these incentives, the plans had to meet a number of regulatory criteria, including the provision of a nominal guarantee on all the contributions paid into the plans.

The reform also sought to promote the development of occupational provision. While occupational pensions were traditionally set up and financed by employers on a unilateral basis, the reform gave employees a legally enforceable *right* to obtain the creation of such plans by their employer, provided that workers themselves would contribute part of their salary (*Entgeltumwandlung* – of max. 4% of their gross salary) to it. The reform also created a new type of defined-contribution occupational schemes (called *Pensionsfonds*) that, like Riester plans, offered a mandatory nominal guarantee.

In studying the 2001 Riester reform, we provide a "moving picture" rather than a "snapshot" view of the reform process (Pierson 2004). In contrast to widespread practice in studies of institutional change, we do not focus solely on the debates immediately preceding the enactment of legislation that triggers change. We also study longer spells of time that can capture how an issue is put on the political agenda. Their analysis is particularly useful for understanding the preferences of different interest groups and politicians' motivations in supporting change (Hacker et al. 2015). Thus, contrary to most existing accounts of the reform, whose focus is on debates that occurred after 1998, i.e. after the Schröder government was formed (cf. Hinrichs and Kangas 2003; Trampusch 2006a; Wehlau 2009; Häusermann 2010; Jacobs 2011; Wiß 2012; for an exception, see Oelschläger 2009), our analysis already starts in 1995 when defined-contribution plans were put on Germany's political agenda. This allows us to highlight several episodes characterised by different policy dynamics and outcomes in the regulation of defined-contribution plans. In addition to using existing literature, we reconstructed actors' positions and the sequence of reforms through an analysis of quality German newspapers (including *FAZ – Frankfurter Allgemeine Zeitung, Handelsblatt* and *SZ – Süddeutsche Zeitung*) and newswires stored in the Factiva news database. We triangulated this empirical evidence with an analysis of policy papers published at the time, of minutes of parliamentary debates and of 13 interviews conducted with former ministers, civil servants and representatives of interest groups.[2]

This empirical section is structured in three parts. Firstly, we show how, in the mid-1990s, a coalition of – largely Frankfurt-based – banks, mutual funds and stock exchange professionals started advocating the introduction of "pure" equity-oriented defined-contribution schemes. Their case for reform revolved primarily around strengthening German equity markets. Secondly, although life insurance companies criticised these proposals and called for minimum return guarantees,

[2] The interviews were semi-structured and lasted between 30 minutes and 2 hours. Most were conducted in person but some also over the phone. The recollection of the reform process by the interviewees varied. We therefore overwhelmingly cite policy documents, speeches and newspaper articles as these provide more direct and detailed evidence of reform processes.

both centre-right and centre-left politicians were initially very responsive to arguments about equity market development. The rise of a low-salience, financial regulation image of pensions was symbolised by the creation of a "pure" defined-contribution – but not tax-incentivised – vehicle called *Altersvorsorge-Sondervermögen* by the centre-right Kohl government through the Third Capital Market Promotion Law in 1998. Thirdly, as the centre-left, Schröder government, elected in 1998, promoted the expansion of fully-funded defined-contribution plans together with a retrenchment of public pensions, mobilisation from trade unions against retrenchment helped to reinstate defined-contribution pensions as a high-salience social policy issue – rather than a low-salience capital market one – and pushed Walter Riester to introduce mandatory nominal return guarantees relatively late in the reform process.

2.1 Frankfurt financiers' push for more equity culture in Germany

The debate on the introduction of defined-contribution pensions in Germany erupted in late 1995 when Deutsche Bank Research – the *de facto* think tank of Deutsche Bank AG – published a paper entitled: "From pension reserves to pension funds [Pensionsfonds]: An opportunity for the German financial market" (Nürk and Schrader 1995). At the time, stricter international accounting rules pushed large German companies to report the liabilities associated with their book reserve pension schemes, to back these liabilities with correspondent assets and to shift their management to external funds (Clark 2003). DB Research's paper called for regulatory and tax changes that would make the externalisation of book reserves more attractive. It recommended the establishment of Anglo-Saxon-style, equity-oriented "pension funds" ("Pensionsfonds") as a new vehicle for occupational pensions. The paper argued that the preservation of book reserves created major "liquidity and financing risks" for companies and that, even if such schemes had helped large German firms to fund themselves, the involvement of equity markets could improve the allocation of capital (Nürk and Schrader 1995: 28).

The paper was commissioned by Deutsche Bank's chief economist, Norbert Walter, and by Rolf-Ernst Breuer, a managing director of Deutsche Bank and chairman of the Frankfurt stock exchange group, Deutsche Börse AG (interview with a former DB Research employee, 19.05.2016). Together with other stock exchange professionals (Mattern et al. 1997; von Rosen 1997), Breuer regularly argued that the lack of equity-oriented, domestic pension funds was "one of the reasons why Germany has no equity culture" (*FAZ* 1994), and that it constituted "one of the most serious" problems affecting the competitiveness of German capital markets (*Reuters* 1994).

Simultaneously with the publication of DB Research's paper, the Frankfurt-based German Investment Funds Association (BVI - Bundesverband deutscher Investment-Gesellschaften) proposed creating an equity-oriented defined-contribution vehicle – dubbed "Pensions-Sondervermögen" – that could be used both for occupational and personal pension plans (Laux 1995). Such funds would be attractive because "hardly any other type of investment [could] yield similarly high returns" (Passow 1996).

The Deutsche Bank's and the BVI's proposals provoked a negative response by the Association of German Insurers (GDV - Gesamtverband der Deutschen Versicherungswirtschaft),[3] which argued that life insurance products were "more than a financial investment", since they offered a guaranteed interest rate and a lifetime annuity at retirement (*SZ* 1996). As the trade association of occupational pensions (aba – Arbeitsgemeinschaft für betriebliche Altersversorgung e. V.) has put it, the Deutsche Bank's and BVI's proposals also caused "anger" among employers and managers of traditional occupational pensions (aba 2013, p. 29). The aba and the Confederation of German Employers' Associations (BDA – Bundesvereinigung der Deutschen Arbeitgeberverbände) strove to explain that book reserves were both a solid vehicle for retirement provision and an important tool for companies' internal funding.

Yet, not all employers were hostile to these proposals. For example, Karl-Hermann Baumann, chief financial officer of Siemens AG, argued that his own group had considered externalising the management of its book reserves , but was forced to abandon that idea because they still offered the "most tax efficient option" (*SZ* 1997a). Baumann was in fact a member of the executive committee of the Aktionskreis Finanzplatz e.V.. This interest group – founded by Deutsche Börse AG – also lobbied for the introduction of "Pensionsfonds" (interview with a former official of Aktionsfreis Finanzplatz e.V., 15.01.2016). Its aim was to promote Frankfurt as an international financial centre. Board members included top executives of banks, investment funds, but also representatives of large non-financial companies (Bayer AG, Deutsche Telekom AG and Hoechst AG), the business press (Börsen-Zeitung and Handelsblatt) and politicians, such as Petra Roth, Christian Democratic (CDU) mayor of Frankfurt am Main, and Hans Eichel, the Social Democratic Prime Minister of the state of Hesse, where Frankfurt is located (Aktionskreis Finanzplatz e.V. 1997: 19-20).

2.2 Cross-party support for strengthening equity culture

While the Social Democratic Party (SPD) ferociously rejected the retrenchment of statutory pensions, enacted in 1997 by the Kohl government through the so-called Blüm II reform (e.g. Häusermann 2010: 137-8), parties' positions were, at the time, much less polarised on the issue of private retirement savings where a low-salience, financial regulation image became temporarily dominant. In early 1996, the SPD group in the Bundestag –the lower house of the German parliament – submitted a motion entitled: "Strengthening German capital markets, promoting equity savings and improving venture capital" (SPD Bundestagsfraktion 1996). It proposed creating "provident savings" products (Vorsorge Sparen), heavily invested in equities, and argued that this would help improve German companies' access to equity financing and introduce real competition between insurance companies and mutual funds in retirement savings. The motion explicitly referred to a concept of "personal equity savings plan"

[3] Interview with a former official of the Gesamtverband der Deutschen Versicherungswirtschaft – GDV, 12.02.2016

(Persönlicher Aktien-Sparplan) advanced by the Deutsches Aktieninstitut, a think tank closely associated with the Frankfurt financial centre. In 1997, Hans Eichel, the Social Democratic Prime Minister of the German state of Hesse, announced that his administration would sponsor a bill in the Bundesrat – the upper house of the German parliament – to make the introduction of tax incentives for "Pensionsfonds" possible (SZ 1997b).

Germany's liberal party, the FDP, also showed enthusiasm for proposals to develop equity-oriented defined-contribution pensions. In late 1995, it announced that it would seek the federal state's fiscal support for the BVI's "Pensions-Sondervermögen" (FAZ 1995) and justified this by the need to promote "equity culture" in Germany (e.g. von Rosen 1997: 13-14). The Pensions-Sondervermögen was eventually introduced as "Altersvorsorge-Sondervermögen" by an FDP-CDU-CSU coalition through the Third Capital Market Promotion Law, passed in February 1998. Christian Democratic Chancellor, Helmut Kohl, argued that the law would "further strengthen the German financial centre" and "strengthen the position of equities … [in] pension savings" (Kohl 1997; see also Bundesregierung 1997, p. 2). The product's name was changed during the legislative process at the behest of the Bundesrat. Life insurance companies had contended from the beginning that "Pensions-Sondervermögen" would lead to "conceptual confusion" because it did not offer the safety guarantees – e.g. minimum return guarantees and payment of benefits in the form of an annuity – that a "real" pension product should include (*FAZ* 1997a).

The "Pensionsfonds" concept had not yet been considered ripe enough to be included in the Third Capital Market Promotion Law. As pointed out by CDU and FDP politicians (*FAZ* 1997b), the Association of German Banks (BdB – Bundesverband deutscher Banken) had not yet managed to work out an official position on the issue. It would only publish such a document in 1999 (BdB 1999). The Federal Ministry of Finance emphasised that the debate about Pensionsfonds was a "multidimensional subject area" with major fiscal implications (*FAZ* 1998). In order to work out a compromise on the issue, the Ministry set up a working group, gathering representatives of all segments of the financial services industry (insurance companies, banks, mutual funds, Deutsche Börse) and employers as part of a "Forum Finanzplatz". The working group published its report mid-1998 and recommended that Pensionsfonds should offer a 0% nominal guarantee on contributions (BMF 1998).

2.3 High-salience social policy image overrides low-salience financial regulation image

Despite the working group's recommendations, banks, mutual funds and stock exchange professionals never stopped trying to persuade politicians to create pure, equity-oriented, defined-contribution schemes (BdB 1999; Bräuninger and Wolgast 2000; BVI 2000; Wehlau 2009, pp. 283-90). Yet, despite a cross-party consensus on the need to strengthen German's equity culture, the Riester reform – which was enacted in May 2001 – required providers of personal Riester products *and* occupational Pensionsfonds to guarantee capital preservation of contributions at retirement. This provision was, in fact, suggested relatively late in debates over the reform – in May 2000. It meant that insurance companies – which invested a small part of their assets in equity markets – would dominate the new market for Riester plans.

Insurers' calls for the introduction of guarantees in defined-contribution plans gained momentum after the centre-left Schröder government's decision to link the introduction of such plans with cuts in statutory pensions led organized labour to scrutinize all reform proposals and, in the process, to develop a stance on the regulation of pension funds. Largely because of a lack of technical expertise on pension fund regulation, trade unions had not been actively involved in the low-salient discussions over the "pure" defined-contribution "Pensionsfonds" and "Pensions-Sondervermögen" concepts (Interview with former official of IG Metall, 16.02.2016). Yet, in the mid-1990s, Walter Riester – the vice-chairman and head of the industrial relations department of Germany's largest trade union, the IG Metall – started believing that pension privatisation could help contain non-wage labour costs in German manufacturing companies (cf. Riester 2004, pp. 63-70). As his views fit with the SPD's 1998 election manifesto pledge to base the German pension system on four different "pillars" (SPD 1998: 38-40), he was nominated Minister of Labour and Social Affairs in the Schröder government.

Between the end of 1998 and spring 2000, Riester developed several reform proposals, ranging from the creation of collectively-negotiated sector-wide occupational plans (called "Tariffonds") to compulsory personal pension accounts, but all proposals were shelved because of – among other things – the opposition of the more traditionalist wing of the trade union movement and of the social policy wing of the SPD parliamentary group to the cuts in statutory pensions that would accompany the promotion of private plans (Jacobs 2011: 230-236; Wiß 2012, pp. 153-6).

In this context, the regulation of defined-contribution plans became increasingly politicised. A blueprint for reform presented by Walter Riester in June 1999 briefly stated that there would be "freedom of choice for investments made as part of occupational pension plans" (SZ 1999), which suggested that pure defined-contribution plans would be allowed. Unions did not yet express a firm stance at that stage. But, as it was clear that Walter Riester was planning to propose a new reform proposal in spring 2000, infighting within the IG Metall over the issue became evident. While the union's leader – Klaus Zwickel – argued that workers should be more inclined to hold equities since investing on the stock exchange had become a "popular movement" (*Handelsblatt* 2000), the leader of the union's social policy wing, Horst Schmitthenner, retorted that "social security" could not be "built on a casino" and that they were "trade unionists, not soldiers of fortune" (*Spiegel Online* 2000).

It is following this public confrontation that, in May 2000, – as part a new reform proposal that combined cuts in public pensions with the creation of tax subsidies for *voluntary* savings in personal pension plans – Riester proposed for the first time to force pension providers to guarantee the nominal value of all contributions paid into pension plans. Riester argued that "highly speculative equity funds" were not suitable because private retirement savings had to "partly replace" statutory pensions (*Der Spiegel* 2000).

This was a significant U-turn since, at Deutsche Börse's annual reception, held in January 2000, Chancellor Gerhard Schröder still insisted that the development of defined-contribution pensions offered "an opportunity to … decrease the costs of equity capital" (Schröder 2000). The banking (BdB) and investment fund (BVI) lobbies repeatedly emphasized that the nominal guarantee would harm pension plans' returns and the German financial centre (see e.g. *Der Spiegel* 2001). Green and CDU parliamentarians called for pension funds to invest more in equities and were happy to lift the guarantee requirement (*Berliner Zeitung* 2000; *Die Tageszeitung* 2001). But banks' and mutual funds' arguments became inoperative with the government, as a high-salience social policy image of the reform process had now overtaken a low-salience, financial regulation one.

The Schröder government made nevertheless two concessions in response to lobbying by mutual funds and banks. Firstly, it agreed to change the formula for calculating the guarantee. The nominal amount of contributions to be guaranteed would not be updated every year during the accumulation phase, but would instead only be calculated at retirement, thereby avoiding the creation of a compound interest effect (interview with a former representative of BVI, 14.01.2016). Secondly, in late 2000, Finance Minister Hans Eichel agreed to add the "Pensionsfonds" as a fifth vehicle for occupational provision (*SZ* 2000). On the day the Riester reform was finally enacted by the Bundesrat, a press release, issued by the Labour Ministry, stated that Pensionsfonds would "strengthen Germany as a financial centre" and that "freedom in the allocation of assets" would give them "the opportunity to … generate higher returns" (BMA-Pressestelle 2001; see also speech by Schröder 2001 at BdB's annual conference). Yet, here too, the government imposed a nominal return guarantee.

Conclusion

The study of – seemingly technical – regulations such as minimum return guarantees sheds light on important political dynamics and macro implications of the twin processes of financialisation and pension privatisation. These are contested processes: Business and financial market actors do not systematically win the day. Rather, as illustrated by the case study of the 2001 Riester reform in Germany, politicians' choices as to pension plan regulation are influenced by the political dynamics of reform that they themselves create. When banks, mutual funds, stock exchange professionals and large non-financial firms started to challenge the existing monopoly of the high-salient social policy image of pensions by calling for the introduction of "pure", equity-oriented, defined-contribution schemes in the mid-1990s, their arguments about how such plans would boost equity market development won over large swathes of the centre-left and the centre-right. In 1998, the centre-right Kohl government opened the possibility for financial firms to offer such plans – albeit without tax incentives. At the time, the legislative change was politically viable, as it was introduced as part of a reform package focusing on the development of domestic capital markets. The Schröder government subsequently tried to create a Nixon-goes-to-China moment in German social policy reform by appointing a high-ranking union leader, Walter Riester, as Social Affairs Minister and by combining the development of defined-contribution plans with retrenchment. Yet this made political dynamics move from an informal, quiet policy venue to a higher-salient arena and made the attempt to use defined-contribution plans as an instrument for the expansion of equity investments falter.

Pension funds are typically seen as a driver of financialisation processes, whereby the financial industry has increasingly become the lead sector in Western economies and led other industries to adopt shareholder value (Engelen 2003; van der Zwan 2014). In the 1990s and early 2000s, new capital market regulations led large German companies to partly dissolve the networks of interlocking directorates and ownership ties that bound them together and to embrace shareholder value (Beyer and Höpner 2003; Streeck and Höpner 2003). In Germany, it is largely the same coalition of actors – large banks, stock exchange professionals and liberal-minded, centre-left or centre-right, politicians – that pushed for this restructuring of corporate governance practices (e.g. Lütz 1999; Cioffi and Höpner 2006) and, as demonstrated in this article, for an expansion of equity-oriented defined-contribution pension plans.

Yet the clash between the quiet politics of equity market development and the high-salience politics of social policy led to unintended consequences. As public pensions were cut, private pension products were regulated in a way that disappointed many financial market actors. In 2002, life insurance contracts attracted 90% of all savers (BMAS 2017). At the time, life insurance companies invested as much as 66.4% of their assets in fixed-income securities, only 3.2% in listed stocks and 22.9% in special funds that held both equities and fixed-income securities (Maurer 2004: 112). Such a bias in favour of fixed-income instruments continued characterising the German pension fund industry well into the 2010s, even despite the European Central Bank's low interest rate policy and, consequently, the low returns offered by many countries' sovereign bonds (e.g. BaFin 2015: 213-4). German pension funds' very low equity holdings have also meant that these funds have not been able to play an active role in the further promotion of shareholder value. On the whole, reforms introduced in the 1990s and early 2000s resulted in a half-hearted liberalisation of Germany' financial and corporate governance systems and the preservation of important elements of the stakeholder orientation of the German political economy (Lütz 2005; Jackson and Thelen 2015).

Our theoretical framework helps us shed light on developments in other temporal and national contexts. In Germany, a new Act on the Strengthening of Occupational Pensions, passed in 2017, introduced a "pure" defined-contribution vehicle (Wiß's article in this special issue). It is noteworthy that this act only regulated occupational pensions and was passed in a context where political debates have focused on the need to increase, rather than to cut, the generosity of – statutory and occupational – pensions. In other countries, the first tax incentives for "pure" defined-contribution pension plans were also typically created through acts that regulated the private pension industry[4] or the taxation[5] of savings, before

[4] e.g. creation of "individual retirement accounts" through the 1974 Employee Retirement Income Security Act in the United States; Law 8/1987 on the Regulation

retrenchment was on the political agenda. By contrast, East European countries that created mandatory personal pension plans – while radically cutting public provision – typically introduced return guarantees either in the form of an absolute minimum return (e.g. Hungary, Romania and Slovakia) or in relation to an industry average (e.g. Bulgaria, Croatia and Poland).

Seemingly technical regulations such as minimum return guarantees are pervasive not just in pension reforms (See also papers by Wiß and Anderson in this special issue), but, in reality, in most areas of financial regulation. Analysing the politics behind cross-national variation in such regulations should be an important task for students of comparative public policy and political economy for two reasons. Firstly, such regulations create winners and losers among providers of different types of savings products. Secondly and relatedly, by channelling people's savings towards specific types of products, such regulations also help channel those savings towards different types of investments: When savings are invested in equities as opposed to, say, sovereign bonds or bank accounts, it is very different types of actors – e.g. large vs. small companies or states – that benefit from those investments. Eventually, the presence or absence of such regulations shapes varieties of financialisation across countries. While many such regulations are hammered out in quiet meetings between politicians and business leaders, there are a number of policy fields – e.g. housing and education – where quiet politics of financial regulation can clash with the more noisy politics of social policy. Given the major socio-economic implications of such policy areas, there is undoubtedly a need for more research on the regulatory politics underpinning different national welfare-finance nexuses.

of Pension Plans and Funds in Spain; 1989 Decree-Law establishing retirement savings plans in Portugal.

[5] e.g. 1986 fiscal law creating "pension savings products" in Belgium; 1987 Law on Savings in France.

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