Agenda 2010

- a case of old or new politics?

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Preface

Reading German sources while writing my thesis in English turned out to be more challenging and time consuming than what I had expected. Therefore, I am particularly proud of the fact that I am finishing on time. Several persons and institutions have been helpful in bringing this thesis into being. First, I would like to thank my tutor Oddbjørn Knutsen for always being well prepared, available and for giving useful suggestions. I am also grateful to my friend Kristina Hagen for reading the thesis, giving me helpful advice but first and foremost for encouraging me with positive feedback on a dark and foggy Sunday when I was going through an “emotional breakdown” in study hall 901. I also put price on Ida Grobakken spending so much time weeding out norwegian expressions, and for helping me getting rid of stress and frustrations through letting me beat and kick her every Friday. My green-hooded friend Erin Crabbage, who was “happy to transform my masters into a brilliant masterpiece of the English language” also deserves my gratitude, as does Brian Kennedy for professional proofreading of parts of the paper. Finally, I would like to thank the Research Council of Norway for granting me the Ruhrgas scholarship, which enabled me to do research in Konstanz, Germany.

My master thesis marks the end of seven years of university studies. During these years, I have sweated over books in studyhalls in California, read over a Murphys in the pubs of Cork and studied at the beaches of beautiful Bodensee. These experiences, as well as unforgettable years in Stavanger, Trondheim and Oslo, leave me with a tremendous gratitude for having been given the chance to study (nearly) what I want, where I want and as much as I want. It is therefore with a mixed feeling of wistfulness and excitement that I am about to enter the professional life and start contributing to financing the welfare state, instead of only reaping its benefits.

Oslo, November 14, 2005
Kristin Henriksen
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<th>German states</th>
<th>Other</th>
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<tbody>
<tr>
<td>BB – Brandenburg</td>
<td>AARD - American Association of Retired People</td>
</tr>
<tr>
<td>BE – Berlin</td>
<td>ALG - Arbeitslosengeld</td>
</tr>
<tr>
<td>BW – Baden-Württemberg</td>
<td>ALV – Arbeitslosenverband Deutschland</td>
</tr>
<tr>
<td>BY – Bayern</td>
<td>BA – Bundesanstalt für Arbeit</td>
</tr>
<tr>
<td>HB – Bremen</td>
<td>BR – Bundesrat</td>
</tr>
<tr>
<td>HE – Hessen</td>
<td>BT - Bundestag</td>
</tr>
<tr>
<td>HH – Hamburg</td>
<td>BRH - Bundes der Ruhestandsbeamten, Rentner und Hinterbliebenen</td>
</tr>
<tr>
<td>MV – Meckelnburg-Vorpommern</td>
<td>CDU - Christlich Demokratische Union</td>
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<td>NI – Niedersachsen</td>
<td>CSU - Christlich-Soziale Union</td>
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<tr>
<td>NW – Nordrhein-Westfalen</td>
<td>DBB - Deutschen Beamtenbundes</td>
</tr>
<tr>
<td>RP – Rheinland-Pfalz</td>
<td>DGB - Deutsche Gewerkschaftsbund</td>
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<tr>
<td>SH – Schleswig-Holstein</td>
<td>DIHK - Deutsche industrie- und Handelskammertag</td>
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<td>SL – Saarland</td>
<td>DVU – Deutsche Folksunion</td>
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<tr>
<td>SN - Sachsen</td>
<td>FDP - Freie Demokratische Partei</td>
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<tr>
<td>ST – Sachsen-Anhalt</td>
<td>GDP – Gross Domestic Product</td>
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<td>TH – Thüringen</td>
<td>MC – Mediation Committee</td>
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<td></td>
<td>NPD – Nationaldemokratische Partei Detuschlands</td>
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<td></td>
<td>PDS - Partei des Demokratischen Sozialismus</td>
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<tr>
<td></td>
<td>SoVD - Sozialverband Deutschland</td>
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<tr>
<td></td>
<td>SPD - Sozialdemokratische Partei Deutschland</td>
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<tr>
<td></td>
<td>SSW - Südschleswigsche Wählerverband</td>
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<tr>
<td></td>
<td>VdK - Verband der Kriegs- und Wehrdienstopfer, Behinderten und Sozialrentner Deutschland</td>
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<td></td>
<td>Ver.di - Vereinte Dienstleistungsgewerkschaft</td>
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<td>WASG - Arbeit und Soziale Gerechtigkeit – die Wahlalternative</td>
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1. Introduction and methodology

1.1 Introduction

In March 2003, the social democratic Chancellor Gerhard Schröder presented Agenda 2010, his ambitious plans to reform the German welfare state. Two and a half years later, the consequences of meddling with the welfare state are evident. Schröder has alienated leftists inside his own party, as well as the Social Democrats’ traditional partners – the trade unions. Hundreds of thousands of voters have taken to the streets to demonstrate against the “demolition of the welfare state”. The fuss has spurred the comeback of Schröder’s political rival Oscar Lafontaine, who joined a new left party created as a protest against the government’s “neoliberal” politics. In European, state and municipal elections following the adoption of Agenda 2010, the government has performed poorly. As a reaction to the bad results, Schröder called for early federal elections, which proved the end to the Red-Green government. Consequently, Schröder left German politics.\(^1\) While observers of this scenario ask themselves “what was Schröder thinking?”, social researchers struggle with the more general question “how do we explain the politics of welfare state retrenchment?”

“Not the way we explained welfare state expansion!” is renowned Harvard professor Paul Pierson’s answer to this question. This thesis will assess the arguments of Pierson, whose publications have shifted the welfare state debate from explaining the growth of modern welfare states towards questioning welfare state retrenchment (Green-Pedersen and Haverland 2002:27). He has done so by arguing that the theories that explain welfare state expansion (old politics) can not explain welfare state retrenchment; we need new theories (new politics). In this thesis, I will test his arguments on the recent case of German welfare state retrenchment – the reform package Agenda 2010. Thus, my overarching research question is:

“Do “old” or “new politics” best explain recent welfare state retrenchment in Germany?”

\(^1\) At the time of writing (November 13), the CDU/CSU and the SPD have agreed a formal coalition deal to form a left-right “grand coalition”. The deal awaits the adoption by the respective party conferences, before Angela Merkel replaces Gerhard Schröder as Chancellor on November 22 (the Guardian 11.13.2005).
Old politics comprises the three main theories that have been employed to explain the development of the modern welfare states: “Logic of industrialism” links the growth of the welfare state to economic development; “new institutionalism” argues that strong states are likely to produce strong welfare states and “left power resources” attributes welfare state expansion to the power of unions and left parties. According to Pierson (1996:143, 176), researchers have implicitly used the inverses of these models when they aim to explain the “opposite” of welfare state expansion, namely welfare state retrenchment. Esping-Andersen, for example, has argued that “a theory that seeks to explain welfare state growth should also be able to understand its retrenchment or decline” (Esping-Andersen 1990:32).

This is the argument Pierson aims to refute: “My central thesis is that retrenchment is a difficult political enterprise. It is in no sense a simple mirror image of welfare state expansion (…)” (Pierson 1994:1-2). Although he admits that the “old theories” do contain insights, he argues that variables that were crucial for understanding the expansion of the welfare state are of limited use for explaining retrenchment (Pierson 1996:144). According to Pierson, new theories are needed because politicians operate in a terrain that the welfare state itself has fundamentally altered. His arguments draw heavily on the institutionalist school of thoughts (Pierson 1994:32) and his focal point is that the existence of the welfare state has feedback effects, meaning that “public policies are not only the result of but important contributors to political process” (ibid:39, own emphasis in italics). In other words, the welfare state must be viewed as an independent variable.

One of the clearest examples of such feedback effects is the formation of new interest groups linked to particular social programs. These groups have replaced left parties and unions as defenders of the welfare state (Pierson 1994:29-30; 1996:150-151). Another feedback effect is that the existence and popularity of mature welfare schemes makes politics of retrenchment qualitatively different from politics of expansion. The latter is about taking credit for popular politics, the former about avoiding blame for unpopular reforms (Pierson 1992; 1996). Although Pierson’s theories contain several aspects, this thesis will focus on the concept of blame avoidance and the role of new interest groups. These are in other words the two main components of the concept new politics.

This thesis intends to test the explanatory power of inverted versions of the “old” theories in comparison with Pierson’s new politics in the German case. To do
so, the overarching research question needs to be specified in relation to each
theory. In this introduction, I will only sketch the research questions that will be
discussed. I will give a further description of each theory and formulate precise
hypotheses in the relevant chapters (chapter 3 and 4).

The *new politics* model of blame avoidance will be discussed through asking
whether the Red-Green government has been using blame avoidance strategies to
retrench the German welfare state.\(^2\) Blame avoidance strategies comprise certain
ways of *designing* retrenchment. Through *obfuscating* the visibility of reform,
*compensating* politically crucial groups for lost benefits, and *dividing* constituencies
by playing one group of beneficiaries against another, governments can minimize
political costs accompanying retrenchment (Pierson 1996:147).

The explanatory power of the theory of the *new politics* will be compared to
that of the three theories of *old politics*. In his article “The new politics of the welfare
state”, Pierson (1996) discusses what an inversion of the “old” theories would imply
for welfare state retrenchment, and develops more or less explicit research
questions, some of which I will discuss here:

A variant of the inverted “logic of industrialism” theory will focus on the
consequences of global economic change, which puts pressure on modern welfare
states (Pierson 1996:158). The question asked here is whether social dumping has
forced the Red-Green government to cut social wages.

An inversion of the “*new institutionalism*” argument implies that political
leaders of “weak states” with strong institutional veto points will have more difficulty
retrenching the welfare state than will leaders of strong states. Such veto points are
for example federalism, bicameralism or separations of powers (Pierson 1996:152).
In Germany, the upper house of Parliament, the Bundesrat, is an example of a
powerful veto point, which insures that power is not concentrated on the executive.
The question is whether this *diffusion of power* also implied a *diffusion of
accountability* in the sense that the blame for unpopular retrenchment was shared
between the government and the opposition.

\(^2\) For the sake of variation, I will vary between talking about “Schröder”, “the Red-Green government” or “the SPD”
(SPD=Sozialdemokratische Partei Deutschland) when I refer to the initiators behind Agenda 2010. In one way, Schröder
was the motor of reform (Dyson 2005:228). At the same time, the Red-Green government was (more or less) behind him.
The Green Party did not play as central a role as did the SPD, because all the involved ministries and the chancellor were
Social Democrats, which justifies a stronger focus on the SPD than on the Greens.
Finally, the focus of the inverted “left power resources” theory is the question where the opposition against reform comes from. Are left parties and unions main defenders of the welfare state or have new interest groups taken over the leading role as welfare state guardians?

Evidently, the different theories illuminate different aspects of the concept “retrenchment”, and are not necessarily rival explanations of the same dependent variable. I will elaborate on this in the next part, wherein I discuss the methodology of this thesis.

1.2 Methodology

A single case study is typically defined as an intensive study of many aspects of one case (Andersen 1997:8). Case studies are often contrasted to surveys, where a few variables are studied across a large sample of cases (Ragin 2000:23). The objective of case studies is answering explanatory questions like “how” and “why”, by tracing operational links over time, as opposed to questions like “who”, “where” or “what”, which are better answered through surveys (Yin 2003:6). Yin adds that a case study is “an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident” (ibid:13). In this thesis, I ask how to explain an empirical case of the theoretical concept “retrenchment”. I will study the contemporary phenomenon “Agenda 2010” relatively intensely without the ability to manipulate or keep other variables constant. That is, the case will be analyzed in its real-life context. This study can therefore be defined as a single case study.

The case study is motivated by Paul Pierson’s theories on welfare state retrenchment. The German case of welfare state retrenchment is a typical example of what Pierson’s “new” theories and the “old theories” on welfare state retrenchment aim at explaining. The case (Agenda 2010) is seen as an empirical case of a theoretical population - welfare state retrenchment – and in that sense; the case study is implicitly comparative. The question is if the case conforms to the models’ expectations. If the conclusion is that new politics can explain the empirical case of German welfare state retrenchment, these theories gain credibility. Credibility is lost if I on the contrary find that new politics cannot illuminate the German case. In the concluding chapter, I will also suggest modifications to
Pierson’s theories. Andersen (1997:73) calls such single case studies “theory advancing”. The purpose of theory advancing case studies is to use the empirical case to develop and advance existing theory, through creating new concepts, modifying existing concepts or through falsification or modification of existing theory.

I will emphasize that one can hardly view the two “theory blocks” of old and new politics as rival theories that attempt to explain the same dependent variable (retrenchment), in the sense that the strengthening of old politics weakens new politics. Generally, the theories complement each other, because they represent four “variables” that explain different aspects of retrenchment. As described in the introduction, “blame avoidance” has to do with the design of the retrenchment while “new industrialism” looks at where pressure for reform comes from. “New institutionalism” focuses on the role of institutions in the process leading up to the adoption of the reforms, and on the question whether the blame for reforms was shared in the aftermath. Lastly, “left power resources” concentrates on where the opposition to reform comes from. On some aspects, the theories are competing. One example is the claim that new interest groups have taken over the role of left powers as welfare state defenders. Generally, however, old and new politics are not alternatives to each other.

If I do find that the strength of left powers, the strength of state institutions and “the economy” can illuminate the case of German retrenchment, Pierson’s claim that these variables have limited explanatory powers is discredited. New politics is however not necessarily challenged. I will pursue this question further in chapter five by synthesizing the discussions of each theory and answering the overarching research question – whether old or new politics best can explain German retrenchment.

To strengthen the credibility of the discussions held or conclusions made, I need to discuss to which degree methodological problems affect my findings. If the study is not replicable by other investigators, if I have failed to develop operational sets of measures or I conclude wrongly where causal relationships are concerned, my conclusions might be the result of faulty methodological choices rather than empirical “facts”. The problems of reliability, construct validity and internal validity are the focus of the next part.
1.2.1 Reliability

The goal of reliability is to maximize precision, and thereby minimize errors and biases (Yin 2003:37). The question is if another researcher would arrive at the same findings if he or she replicated the study. The use of various sources of evidence when collecting data will enhance the reliability. Yin mentions six sources that a researcher can use: documentation, archival records, interviews, direct observation, participant-observation and physical artifacts (ibid:83).

In this case study, I have mainly used documentation. As the thesis deals with four different theories and consequently looks at Agenda 2010 from several different angles, I have not been able to zoom in on the case from any one angle. By looking at the case from a distance, the reliability of my findings is probably lower than it would be if I had investigated one aspect intensively, which would enable me to triangulate by using more types of sources. I could for example have used interviews to illuminate the role played by trade unions and “new interest groups” (chapter 4.3). When I decided not to conduct any interviews, this was a choice taken based on a rational “cost-benefit analysis”, where I concluded that any extra information interviews would give, would be too time consuming and limit time available for work on other aspects.

At the time of writing, there were few academic books written on the empirical case, Agenda 2010, some academic articles and countless newspaper articles. These have been my main sources of information. Newspaper articles do not adhere to the same scientific rules as do academic articles. Besides, they are secondary sources, and are often written under time pressure or for specific purposes. I have tried to compensate for these weaknesses concerning reliability by always reading several articles from different newspapers on the same topic to verify the factual information. I have stuck to renowned newspapers like Spiegel Online, Süddeutsche Zeitung and Frankfurt Allgemeine Zeitung, and for the sake of diversity of perspectives, I have also read “leftist” papers like taz, die tageszeitung.\(^3\) There are books written on some topics, and in parts 4.1 and 4.3 I use primary sources (a government statement, home pages and an official Agenda 2010 leaflet).

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\(^3\) The articles are mainly found in the database Lexis Nexis, which includes all major serious newspapers in Germany. For the sake of reader-friendliness, I have shortened the titles of the papers above to “Spiegel”, “Süddeutsche”, “Frankfurter Allgemeine” and “taz”.

There was scant documentation on some subjects, particularly on the role of “new interest groups”. Therefore, I maintained contact with several helpful German professors and other experts who are referred to in this thesis.

1.2.2 Construct validity and internal validity

Construct validity has to do with “establishing correct operational measures for the concepts being studied” (Yin 2003:34). By developing adequate measures for the concepts to be studied, the researcher avoids the use of subjective judgments on which data to collect and collects only relevant data.

Internal validity is a concern if the researcher tries to establish whether event x led to event y. To make causal inferences based on a single case study is difficult since other variables cannot be controlled for. The researcher needs to address rival explanations, and if he or she can make a convincing case that these explanations are inapplicable to the specific case, the internal validity is improved (Yin 2003:36).

The problems of construct validity and internal validity will turn up with varying degrees of intensity in this thesis. Instead of discussing these topics here, I will address problems of validity in relation to concrete cases where it is relevant.

1.3 The plan of the thesis

Having presented the research question and sketched out the main content of the concepts old and new politics, the organization of the thesis will proceed as follows: In chapter two, I will give a presentation and definition of the German welfare state, before I trace its historical development. The background to and content of Agenda 2010 is described, before I discuss what parts of the multifaceted reform program we can label welfare state retrenchment. In chapter three, I will present Pierson’s theories of blame avoidance and discuss whether the strategies of obfuscation, division and compensation were employed in the German case. Chapter four tests the theories of old politics and is divided into three parts: 4.1 is dedicated to the “logic of industrialism” argument, 4.2 to “new institutionalism” and 4.3 to the theory of “left power resources”. In the latter, I will also discuss the role of new interest groups. The two main parts of new politics are in other words treated separately – blame avoidance in chapter two and new interest groups in 4.3. In chapter five, I synthesize the discussions of the previous chapters when I return to the overarching
research question – can old or new politics best explain recent welfare state retrenchment in Germany? I also suggest modifications to the theories of new politics that I argue would improve the theory’s explanatory powers.
2. The history of the German welfare state and Agenda 2010

In this chapter, I will describe the main characteristics of the German welfare state, before tracing its historical origins. To understand why Agenda 2010 came about, one must know the events leading up to it. I will also give a rather thorough description of the content of Agenda 2010, before discussing which parts of the program can be labeled retrenchment.

2.1 Characteristics of the German welfare state

According to Esping-Andersen’s classification, the German welfare state is close to the ideal of the “conservative” welfare state. In this model, the welfare state is developed by conservative political forces and aims to uphold status differences by attaching social rights to class or status rather than to “citizenship”. A strong Catholic impact is reflected in the commitment to the male breadwinner model, where social rights are extended to family members through the working husband. The subsidiarity principle implies that the state will interfere only when the family is not capable of taking care of its members (Esping-Andersen 1990:27).

The conservative welfare state differs from the liberal and the social democratic model. Liberal welfare states are found in for example the United States and Australia, where liberal work ethic norms predominate. This results in primarily means-tested and modest social benefits, which are meant to encourage people to opt for work instead of welfare. The recipients of the benefits are mostly low-income, working class state dependents and the state encourages private welfare provisions (Esping-Andersen 1990:26). The social democratic regime-type is found in Scandinavia, where the Social Democrats promote universal welfare services and high quality benefits. Since benefits are graduated according to earnings, middle classes are kept content and private solutions through the market are crowded out (ibid:27-28).

If we move from the comparative typology of Esping-Andersen and look at the meaning of the concept of welfare policy within a strictly German context, it first and foremost refers to social- and labour market policies, and excludes education policy (Pilz 2004:16). This frame of reference will also apply to this thesis. In a
narrow definition, the most essential elements of German “social policy” are the four pillars of insurance; pension-, unemployment-, health- and long-term care insurance (Streek and Trampusch 2004:176). This narrow definition focuses on “old social risks” in contrast to the “new social risks” related to socio-economic transformations taking place in postindustrial societies (Bonoli forthcoming). Also excluded are insurance against occupational injuries, state housing as well as some aspects included in other definitions (i.e. Mosebach 2005a:134; Pilz 2004:17; Schmidt 1998:17).

Pilz does not specify what is included in “labour market policy”, but presumably, it includes politics regarding the eligibility rules and size of the unemployment benefits, in addition to services offered to unemployed individuals. In this sense, labour market policy and social policy are somewhat overlapping. Excluded are border-line cases such as laws protecting against unfair dismissal and trade guild rules.

The German welfare state is further characterized by the fragmentation of programs. Ultimate control over social insurance schemes rests with the respective ministries, but the administration and supply of services are carried out by numerous independent carrier organizations (Kassen). The carrier organizations are divided by type of benefit, geography (in the case of education and social assistance) and occupation group (workers, self employed, etc.) (Alber 1986:4). Through the principle of self-administration (Selbstverwaltung), the management consists of representatives of employers and employees; the latter are traditionally trade unionists (Mosebach 2005a:134).

Social insurances are obligatory and contributions are mostly paid in equal parts by employees (deducted from the gross salary) and employers. Entitlements to benefits are earnings related and based on former contributions, rather than being linked to needs (Alder 1986:6). Tax-funding is of little, but increasing importance (Streeck and Trampusch 2005:176-179), and the state is not a significant service provider. Rather, income maintenance is achieved through cash benefits, which gives beneficiaries the choice of consumption and emphasizes the importance of private provision of services.

4 New social risks are connected to the tertiarization of employment and the massive entry of women into the labor force. Examples of such risks include “reconciling work and family life”, “possessing low or obsolete skills” or “single parenthood” (Bonoli forthcoming).
2.2 The background to Agenda 2010

Having sketched out some main features of the present day German welfare state, I will trace its origins in the next part, give a brief description of its development in the post-war period and elaborate on the prelude to Agenda 2010.

2.2.1 The birth and development of the German welfare state

Public social policy in Germany was born in the middle of the 19th Century, when the Prussian state headed by Otto von Bismarck tried to pacify the socialist workers movement by using a carrot-and-stick strategy. The stick was the Anti-socialist Law of 1878 that deprived Social Democrats and trade unionists the rights of assembly-, organization and publication, whereas the workers were to be won over by the state through public social insurance programs (Pilz 2004:25). As such, the birth of the social security system is not, as in other countries, attributable to democratic or revolutionary politicians.

The three brands of the early German social security were the health insurance (1883), the industrial accident insurance (1884) and the old age and invalidity insurance (1889). These programs embodied the main principles elaborated on in part 2.1, which are still characteristic for the German social system (Schmidt 1998:25).

After the World War I, the number of unemployed rose steadily, and during the Weimar Republic, unemployment insurance was introduced as a fourth pillar of social insurance. The basic system of social insurances survived the Nazi period despite extensive reform plans, and in the early 50s, the German economic miracle marked the end to the immediate post war period when recovery, reconstruction and alleviation of extreme poverty was the main focus of the social policy. The upswing allowed for an expansion of social policies, where extended service types incorporated ever larger proportions of the population (Pilz 2004:28-36). The share of the social expenses (Sozialbudget) of the national product increased correspondingly, from 26.2% in 1969 to 33.9% in 1975. The growth of expenses was largely financed through increases in the social contributions (Schmidt 1998:95).

In 1974/75, the period of economic prosperity ended, when the oil crisis and the worldwide recession hit Germany with force. The unemployment rate and the
number of people entitled to benefits increased, parallel with a decrease in the GDP and state revenues. The accelerating social expenses and aggravating economic situation led to a policy of cost-cutting (Sparpolitik). This marked the beginning of a development where, especially in the fields of unemployment benefits and pensions, benefits were cut and the needs and criteria for eligibility became increasingly stricter (Pilz 2004:38-39).

Still, when Helmut Kohl and his coalition of the CDU/CSU and the FDP came to power in 1982, unemployment had reached a record level of 5.6% and the share of social expenses of the national product was 33.3%. The crisis of the social security system was an established fact (Pilz 2004:40). The new government continued the strategy of restrictive social policy, and the unemployed were hit particularly hard, due to benefit cuts and increased difficulties qualifying for benefits (Schmidt 1998:103).

At the same time, the Standort-debate began, a debate which has been one of the major political themes in Germany ever since. The discourse and goal of the legislators revolved increasingly around improving Germany as a Standort by making the conditions for industry and business more flexible and favorable (Pilz 2004:41). I will return to this in part 4.1.

2.2.2 The unification

After the unification in 1989, the costs of incorporating the literally bankrupt East Germany into the West German system of social insurance system added gravity to an already gloomy financial situation. The unification led to higher unemployment and an enormous increase in social spending, which was mainly financed through public debt and through pushing contribution rates to social security schemes higher (Liebfried and Obinger 2004:210). A common analysis of the situation points at the vicious circle of high social security contributions leading to inflated non wage labor costs that again depress the level of employment (Streeck and Trampusch 2005:175). This is also elaborated on in part 4.1.

5 It is difficult to translate the concept of “Standort” into English. “Standort” refers to the location where a company chooses to establish itself. The choice is affected by the different “Standortfaktoren”, such as geography, infrastructure, taxes, political stability, etc. The German “Standort”-debate refers to the debate on Germany’s position in the competition between different states or regions in attracting businesses (Schumacher and Volz 1998:239).

6 The social expenditures’ share of the national product, rose from 30.7% in 1989 to 34.1% five years later (Liebfried and Obinger 2004:208). Total contribution rates increased from 35.9% to 39% during the same period (Streeck and Trampusch 2005: 177).
From the mid-1990s onwards, with unemployment reaching the four million threshold in the winter of 1995-1996, the government decided on extensive reforms. Some measures had already been introduced to reform the social security system. Worthy of mention is the 1993 reform of the health system, which introduced competition in the German health care system by allowing persons subject to statutory health insurance to choose freely between sickness funds (Mosebach 2005a:135). In 1994, this reform was succeeded by a compulsory, means tested, private long-term care insurance, which made up the fifth pillar of the social security system (Pilz 2004:44). With the “Program for Economic Growth and Employment” of 1996, more far-reaching changes were implemented. Included in this program were the increase of co-payments in health care, the reduction of sick pay and cash sickness benefits, cuts in unemployment benefits and the abolishment of protection against dismissals in small-scale enterprises (Liebfried and Obinger 2004:211).

Of concern was furthermore the aging population of Germany, which promised to expose the pensions system to profound fiscal stress. As a response, pensions were reformed twice, in 1992 and 1997. The first reform was passed in cooperation with the opposition, but in 1997, the opposition objected to the “demographic factor” which would take life expectancy into account when calculating the benefits. The reforms were passed against the votes of the opposition, which added to increasing tensions between the government and the opposition. The SPD protested against the attacks on the welfare state, and promised to annul some of the measures if elected. This tactic contributed to their victory in the 1998 election, after which a Red-Green coalition of the SPD and the Green party was formed (Liebfried and Obinger 2004:211).

2.2.3 The Red-Green government
The government’s congruent majority in the Bundesrat and the Bundestag ended in February 1999 (Merkel 2003:170), but first, Schröder managed to pass laws that fulfilled his election promises. The demographic factor was suspended, the threshold value at which companies have to offer legal protection against dismissal was restored from ten to five employees and sick pay was restored to 100% (Schmidt 2003b:242). In addition, an ecological tax reform was legislated, which
allowed pension contribution rates to decrease (Mez 2003:335). Concerning employment policy, the tripartite “Alliance for Jobs, Training and Competitiveness” was meant to be the government’s key instrument. This institution was charged with creating consensus between the social partners and the government concerning future reforms of the labour market (Zohlnhöfer 2004:111).

After two waves of laws to annul Kohl’s retrenchment measures, as well as other examples of expansive fiscal policies (Beck and Scherrer 2005:202-206; Mosebach 2005b:163-164), the policies of the Red-Green coalition changed. The change corresponded with the sudden resignation in March 1999 of the Keynesian-minded finance minister Oscar Lafontaine and other like minded allies in the finance ministry, who had championed demand-side, redistributive policies (Beck and Scherrer:206). After Lafontaine’s resignation, more supply-side oriented policy prevailed:

“(…) the year 1999 bore witness to a significant turnaround from progressive to regressive steps in economic, social and labor market policy. This implied not only a shift of relative risk and financial burden from capital to labor (…) but also a clear redirection of economic policies toward improving supply-side conditions and competitiveness” (Beck and Scherrer 2005:208).

The major pension reform of 2001 exemplifies the change of policies. During the election campaign, the SPD had protested against any cuts in the pensions (Pilz 2004:129). However, the goal of the pensions reform was to decrease the replacement rate of the public pension from the present level of 70% to 64% in 2030. The reductions were to be replaced by subsidized, voluntary private pensions, the Riester-Rente (Liebfried and Obinger 2004:212). This private pillar was something completely new in the German pensions system.

The change in fiscal policy was not reflected in the area of employment policy until 2002, when the “traditionalist”, demand-side oriented unionist Walter Riester was replaced as labor minister by the “modernizer” and supply-side oriented Wolfgang Clement. Until that point, no major reforms were put on the agenda even though Schröder, during the election campaign of 1998, had announced that he did not deserve re-election in 2002 if his government did not bring unemployment down to 3.5 million (Zohlnhöfer 2004:111). By 2002, unemployment had soared to over

7 Through the 19992 reform, pensions were tied to net instead of gross wages, retirement age was increased and pensions
four million (Süddeutsche 01.10.2003). Still, Schröder managed a marginal victory, much due to his popular stance against the war in Iraq and his handling of the catastrophic floods in Western Germany (Maier and Rattinger 2004:202).

Before the election, a scandal in the Bundesanstalt spurred Schröder to appoint the Hartz commission in early 2002. This commission, charged with reporting on “modern services on the labor market” by August 2002, replaced the unsuccessful tripartite Alliance for Jobs. During the electoral campaign of 2002, Schröder bound his hands tightly when he promised to implement the Hartz report 1:1. Although it was not eventually implemented on a complete 1:1 basis, the report formed the basis for the government’s reforms of the labour market (Dyson 2005:234-237). The first two Hartz laws, Hartz I and II, were ratified on December 20, 2002. Hartz I created Personnel Service Agencies, charged with placing unemployed people in temporary jobs, while Hartz II provided for the strengthening of the low-wage labour service sector through the creation of “mini- and midi-jobs”.

At the beginning of 2003, the economic situation in Germany was depressive, with heavy unemployment weighing on public budgets and the government’s standing. Still, the government was passive, and in February 2003, polls indicated that four out of five voters doubted that the government would undertake reforms to reduce unemployment (Frankfurter Allgemeine 02.16.2003). Voters were therefore taken by surprise when Schröder rather suddenly announced the Agenda 2010 through a government statement on March 14, without having discussed his plans with his party. According to Geyer et al. (2004:249), the idea that a “great speech” (eine grosse Rede) was to be held in March was born only one month earlier. On February 17, the different political departments were given the assignment to figure out how to link cost-cutting measures with structural changes by the end of February. The short time limit allowed no time for discussions, votes or compromises, and SPD’s party fraction was only informed of the reform plans three days before the speech (ibid:250, 258).

Traditionalist factions within the SPD and the Greens protested heavily against the reforms. Disgruntled parliamentarians even started the first inner party referendum in the history of the party, a so-called Mitgliederbegehren, in April 2003 credits for studies at universities were cut (Liebfried and Obinger 2004:209).

For a critical assessment of Hartz I and II, see Keller (2003).
The Mitgliederbegehren succeeded in forcing the SPD leadership to concede an emergency party conference where the reform proposals were discussed. However, they achieved no substantial results, as the government’s proposals were supported by 90% of the delegates through a party referendum.

Having described its background, I will now turn to a detailed description of the center of the ado – Agenda 2010.

2.3 Agenda 2010

Agenda 2010 was an attempt to build a conceptive roof over the individual reforms that had already been discussed or implemented, their adjustments and the reform proposals that were yet to come. To limit the discussion, I will set the temporal demarcation to the reform proposals that were introduced as bills after the Agenda 2010 speech on March 14, 2003. I exclude changes to the regulatory framework or adjustments to laws that were already passed. Included are reforms that were already under discussion, but that had not been voted on yet, like the health reform, labour market reforms and tax reforms. Thus, Agenda 2010 includes the acts below, which are also listed in table A1 in the appendix, where the numbers in the third column correspond to the numbers in brackets to below.

**Health.** The health reform (number 2) was a result of negotiations between the government and the opposition, and most measures came into force on January 1, 2004. The goal was to prevent an increase in the contribution rate to 15% in 2004. Through this reform, patients are charged a quarterly fee of ten euros if they visit a doctor or a dentist. For hospital stays, patients are charged ten euros a day for a maximum of 28 days per year, and between five to ten euros per package of medicine. Surcharges for most services, medicines and hospital stays were raised and some goods and services, including non-prescription drugs, were removed from the reimbursement catalogue of public health insurance. Further, the insurances for dentures, bridges and sick benefits (Krankengeld) were shifted over to the

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9 The price depends on the price of the package. The maximum limit for additional payments is set to two percent of the gross income, one percent for the chronically ill (The Federal government:14).

10 The complete list of goods and services removed from the reimbursement catalogue includes spectacles for adults, artificial fertilisation, payments from the public health insurance companies in case of the death of a spouse and the reimbursement of free prescription medicines (Grabow 2005:55). In addition, non-insurance benefits, such as funeral allowances and one-off childbirth benefits have been abolished (Beck and Scherrer 2005:210).
employees who were obliged to pay a separate premium for dentures and bridges from 2005 and for sick benefits from 2006 (Grabow 2005:55-57). An increase in the tobacco tax (number 12) financed federal subsidies of the health care. These measures led to a decrease in the contribution rate from an average of 14.3% in 2003 to 13.6% in 2004 (Streeck and Trampusch 2005:177, 189).

Pensions. The government had already reformed the pensions through the “Riester Rente” in 2001, which laid the ground for partly privatized pensions and provided for a reduction of the replacement rate (Pilz 2004:170-180). To keep the contribution rate at the desired 19.5% and reduce the deficit in the pensioners’ insurance fund, further “emergency” acts (Rentennotpakket) were introduced in late 2003 (number 13-16) (Pilz 2004:217). The measures provided for a pension freeze (Nullrunde) in 2004, and from April the same year, the disbursement of pensions was shifted from the beginning of the month to the end. In addition, pensioners had to cover the full costs of nursing care insurance instead of sharing them with the state pension funds (The Federal Government 2004:16-17). Finally, the fluctuation reserve of the statutory pension insurance system was reduced from 50% to 20%. These measures amounted to a net pension cut of 0.85% in 2004 (Streeck and Trampusch 2005:182).

Labor policy and unemployment insurance. To reform the labour market, some of the recommendations made by the Hartz Commission were passed into law. Employment protection for small firms was relaxed, as businesses were allowed to employ up to ten people instead of five without having to offer legal protection against unfair dismissal (number 3). Further, the Federal Employment Service (BA) was restructured and renamed the Federal Labour Agency (a reform referred to as Hartz III, number 6 in table A1) (The Federal Government 2004:12).

Hartz IV (number 7) is for many people synonymous with Agenda 2010 and it is the measure that has caused the greatest stir. This reform combined the unemployment assistance (Arbeitslosenhilfe) and the social assistance (Sozialhilfe) into the flat-rate unemployment benefit II, ALG-II (Arbeitslosengeld II), which is given to employable job seekers. Unemployable individuals still receive social assistance, which is now labeled Sozialgeld (Winkel and Nakielski 2004:24).

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11 In case of illness, the employees had to finance the expenses alone from the seventh week, and in case of dentures, this was no more covered by the obligatory general health insurance (Pilz 2004:198-199).
12 Because of the reform, pensioners have to pay 1.7% of their gross pensions instead of 0.85%.
Recipients of the ALG-II are paid a flat rate of 345 euros in the West or 331 euros in the East, an improvement from 296/283 euros for people formerly receiving social assistance (Bäcker and Koch 2004:90). Previous receivers of the unemployment assistance were to varying degrees worse off, as this benefit was based on former net income. The duration of the unemployment benefit was shortened to 12 months (18 months for unemployed people over 55), down from a maximum of 32 months, after which the unemployed receive the ALG-II (number 4) (Pilz 2004:146). The costs and administrative responsibility for the ALG II are principally covered at federal level by the Federal Labor Agency, which means that they took over the responsibility for around one million employable recipients of social assistance from the municipalities (Pilz 2004:204). However, the municipalities had the option to take over the administrative responsibility if so desired (Winkel and Nakielski 2004:19).

The Hartz reforms made labor market policy more “activating” by increasing incentives to work and putting greater pressure on the unemployed. The duty to accept any job offered, regardless of the wage paid or qualification requested, was strongly tightened (number 9). In other words, they must not be paid at rates customary in a place (ortsübliche Löhnen) (Bäcker and Koch 2004:95). As for the reforms of the health care and pensions, a desired result for the reforms of the unemployment benefits was to cut the contribution rate, but in contrast to health and pensions, no benchmark for the contribution rate was set.

Tax reform. The tax reform introduced in 2000 provided for a three-stage reduction of taxes in order to encourage investment and stimulate consumption (The Federal Government 2004:9). The third phase of the tax reforms scheduled for 2005 was partly advanced to 2004 (number 5), including reductions of the income tax rate, the top rate and an increase in the basic tax allowance. These reforms composed a tax cut of a total of 15 billion euros (ibid). In addition, subventions for homeowners and commuters were cut (number 5) (Pilz 2004:213), and a law to encourage the return of illegal earnings from abroad was passed (number 9) (Siems 2003).

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13 The rules are of course more complicated. Reasonable costs for rent are for example covered, and contributions are increased if the receiver is responsible for children or spouse (Bäcker and Koch 2004).
14 Exceptions are accommodation costs that were covered by the municipalities (Winkel and Nakielski 2004:19).
15 The principle that wage levels should not violate the “bonos mores” (Die Sittenwidrigkeit) makes out the lower wage limit. This means around 30% under the wages customary in the place (Bäcker and Koch 2004:95).
The reform of communal finances provided for changes to the trade tax regulations, so that local authority were allowed to keep a larger amount of the trade taxes and thereby improve their financial situation (number 10) (Pilz 204:214). Finally, the trade guild rules were reformed (numbers 1 and 15)

2.3.1 Welfare state retrenchment?
Evidently, not all the aspects of Agenda 2010 described above are welfare state policies. Even though the measures on tax, trade guild rules and communal finances might eventually lead to better welfare services through an improved economic situation, they are not welfare state policies as such. The acts on pensions and health care, however, can clearly be described as welfare policy, according to the definition given in the introduction of this chapter. When it comes to labour market policy, policies that impact the unemployment benefits or services for unemployed are also welfare policies. This excludes the law on relaxed protection against unfair dismissal.

The next question is if one can label these reforms retrenchment. Numerous articles discuss how one should and should not measure retrenchment, a discussion I do not intend to contribute to here. I will not use Pierson’s definition even though he is my theoretical departure, because I agree with critics that find it too vague (Alber 1996:6-7) and not very relevant to his blame avoidance perspective (Green-Pedersen 2004:9).\textsuperscript{16}

Instead, I define retrenchment as significant reductions in benefits, stricter eligibility rules or qualitative reforms that make recipients worse off. Increases in or introductions of user fees (this applies especially to health care) or other strategies of privatizing the costs for welfare services is also retrenchment. What qualifies as “significant” will be left for a qualitative discussion. There is no absolute quantitative benchmark.

Some of the reforms included in Agenda 2010 can clearly be labeled “retrenchment” according to this definition. This includes the reforms of the labor market, that make the unemployed worse off by reducing their benefits, by

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\textsuperscript{16} Pierson’s investigation focuses on quantitative data on expenditures and qualitative analysis of welfare state reforms that include structural shifts in the welfare state. These include: 1. Significant increases in reliance on means-tested benefits. 2. Major transfers of responsibility to the private sector and 3. Dramatic changes in benefit and eligibility rules that signal a qualitative reform of a particular program (Pierson 1996:157).
shortening the period during which benefits are paid and by making the eligibility criteria stricter. Furthermore, the health reform (except from the tobacco tax) is defined as retrenchment, while the pension cuts are harder to define, as these cuts are neither very significant nor permanent. Some changes are welfare state expansion rather than retrenchment. An example of which is the increase in social benefits due to the Hartz IV.

How significant these reforms are, is a matter of discussion. The reforms of the unemployment benefit and the health reform come across as considerable. They are introduced as permanent changes (pending the political will to uphold them), and they signal qualitative reforms in contrast to the measures on pensions. Hartz IV provides for the ALG II, a completely new benefit, which implies substantially lower benefit levels for many of the unemployed. The increased costs for goods and services within the health sector signals a shift away from sharing the costs among all those insured to increasing the burdens on the users. This also indicates a qualitative change. The measures on pensions, especially the pensions freeze and the postponement of the disbursement of pensions, are rather single impact emergency measures than permanent cuts. The discussion will therefore focus primarily on the reforms of the unemployment benefit, to a lesser degree health care, and pensions are only included where relevant. This is also in line with the fact that the Hartz IV, as we shall see in part 4.3, caused the greatest public stir.

Having presented the “dependent variable”, which is narrowed down to the parts of Agenda 2010 that can be labeled retrenchment, the subsequent chapters focus on the different theories that aim to explain the German retrenchment. First, I will discuss whether Schröder used blame avoidance strategies when retrenching the German welfare state.
3. New politics – the politics of blame avoidance

3.1 Introduction

After the golden age of the postwar economic boom ended in the early 1970s, the modern welfare states have entered a period of prolonged austerity (Pierson 1996:143). This is reflected in a shift in political goals from expansion of the welfare state to retrenchment. The shift in goals and a radically changed context, consisting of the welfare state itself and general popular attachment connected to it, creates new political dynamics (Pierson 1996).

Retrenchment imposes immediate and tangible losses for voters, in return for uncertain and diffuse benefits. In addition, a negativity bias, meaning that voters will react stronger to losses than to gains, increases the political risks connected to cutting down on welfare. Therefore, the policies of policy makers have shifted from “credit claiming” for popular programs, to “blame avoidance” for unpopular policies, which must withstand the scrutiny of voters and well-entrenched networks of interest groups (ibid:143-147). Blame avoidance consists of the political strategies of obfuscation, division, compensation and consensus-seeking (ibid:147). The latter is barely mentioned, in contrast to the other three strategies, on which Pierson elaborates. Therefore, in this chapter I will focus on the first three strategies of obfuscation, division and compensation when I ask whether the Red-Green government used blame avoidance strategies when pursuing retrenchment. The consensus-seeking aspect is included in part 4.2, where I discuss how the opposition shared responsibility for the reforms with the government and whether they also shared the blame.

The hypothesis, which will be discussed in this part, is:

3.N\textsuperscript{17}: To avoid blame, the Red-Green government pursued the strategies of obfuscation, division and/or compensation when retrenching the German welfare state.

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\textsuperscript{17} To separate between hypotheses that are derived from old and new politics, I label new politics hypotheses ”N” and old politics-hypotheses ”O”.
In the following, I will elaborate on the strategies of obfuscation, division and compensation. Because Pierson gives several concrete and detailed examples of these strategies, which serve to operationalize the theoretical concept “blame avoidance”, I assess the concept validity as good.

3.2 Theoretical concepts: obfuscation, division and compensation

Obfuscation. The strategy of obfuscation originates in the unequal access to information, as responsible politicians have superior access to information in comparison to their opponents. This enables the government to lower the visibility of the reforms. Pierson’s argument of obfuscation builds on Douglas Arnold’s model of the voters’ “causal chain”. Arnold describes how voters, wanting to reward or punish politicians for positive or negative events, seek to reconstruct the causal chain from the events to the responsible politicians. First, they attempt to link these events to political choices; next, they want to reveal the connection between the choices and specific politicians or responsible parties. Politicians must therefore endeavor to complicate the reconstruction of the causal chain through obfuscation, which can take part at the three sites of the causal chain (Pierson 1994:20).

![Figure 3.1 Douglas Arnold’s causal chain](image)

Obfuscation of the first part of the causal chain, the events, aims at lowering the salience of negative consequences. One tactic is to spread negative consequences widely or diffuse them over time. A second is decrementalism, an often pursued variant of which is failing to adjust benefits to inflation (ibid:20). Yet another tactic is “implicit privatization”, where benefits retain their real value, but play a diminishing role in the expanding economy because social provision is shifted increasingly

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18 Arnold and Pierson focus on politicians, which is justified in the political setting of the USA, where there is a stronger focus on individual politicians than in other industrialized countries (Fiorina et al. 2004:253). In Germany, this latter link in Arnold’s causal chain also should refer to political parties.
towards the private sector. Public attention and opposition is avoided because changes are highly incremental (ibid:20-21).

The second causal link is between negative events and public policies. This link can be blurred by making the effects of reforms indirect, for example by imposing indirect taxes on hospitals that in turn increase prices. An alternative is to make the reforms so complicated that they avoid the media headlines (ibid:21).

To decrease the traceability of policy makers’ responsibility for policy changes, the last part of the chain, politicians can impose changes in indexation-rules. This leads to automatic, annual reductions and does not require a visible action from responsible politicians. Alternatively, politicians can diminish the traceability by delaying the implementation of cutbacks. A third option is to pass the blame and responsibility for imposing the cutbacks to local officials (ibid).

**Division.** The second blame avoidance strategy is division. It denotes that retrenchment advocates will pursue divisive strategies by playing “one group of beneficiaries against another and develop reforms that compensate politically crucial groups for lost benefits” (Pierson 1996:147). By identifying different subgroups within a constituency of a public program, based on i.e. age, gender or income level, it is possible to isolate one subgroup within a potential opposition, and through the political ploy of “divide and conquer”, minimize the size of the opposition (Pierson 1994:22-23). Although Pierson does not say so explicitly, commentators often add that the strategy is extra efficient if reforms “hit those groups hardest that are poorly organized and electorally harmless” (van Kersbergen 2000:99; similar arguments in Liebfried and Obinger 2004:215). An easy way of dividing the constituencies is by tightening the eligibility rules (Pierson 1994:23).

**Compensation.** The third strategy for avoiding blame is compensation, directed at victims of reforms. This will diminish prospects for heated opposition from groups that might mobilize against reforms, or from those who might get public sympathy. One example is “Grandfather clauses” that spare those who are already receiving benefits so that cutbacks will hit future, unorganized recipients (ibid).

### 3.2.1 Did Schröder obfuscate, divide or compensate?

The popularity of the welfare state is a well-established “truth”, and its support is pronounced among the German voters. Padgett (2004:379-380) attributes the economic reform gridlock (prior to 2003) to the welfare state bias among German
voters (and parties). Survey data suggest that only a small minority of German voters would support welfare cuts, and most consider social differentiation as “unfair” (Padget 2004:374; 2005:254). The welfare bias cuts across party electorates, but the SPD, the PDS and the Green partisans are more supportive of the welfare state than those of the CDU/CSU. Only FDP partisans inhibit market preferences (Padget 2004:374). Against this backdrop, it is plausible that blame avoidance strategies are needed if the politicians wish to retrench the welfare state and concurrently avoid political defeat.

Did the government pursue the blame avoidance strategies of “obfuscation”, “division” or “compensation” when they carried out the retrenchment included in Agenda 2010? Before discussing this question, I will shortly mention that the reforms presented above are results of compromises that were necessary for Agenda 2010 to pass the Bundesrat, where the opposition had the majority. This enabled the opposition put its imprints on parts of the reform package. A picture of reforms resulting from rational decision making, where avoiding blame was part of the government’s objective, could therefore be misleading. However, if we look at the details of the different reforms and at what the opposition managed to change, the measures we have labeled retrenchment were passed pretty much in their original form (Siems 2003). Hartz IV was largely unchanged, and the pension emergency measures passed despite resistance from the opposition because they did not need Bundesrat approval (Spiegel 12.19.2003). The health reform was in its entirety a result of negotiations and compromise between the opposition and the government. Therefore, it is difficult to know which suggestions came from the government and which came from the opposition.

### 3.2.2 Obfuscation
With some good will, we can identify some examples of obfuscation. First, negative consequences were spread widely, as both pensioners, patients and unemployed were hit to varying degrees. These groups make up large parts of the electorate. On the one hand, this could diminish negative reactions if a feeling of fairness is created because “everyone has to take their share”. If small cuts affect many, this could hinder mobilization and cause less reaction than if one group had to face severe
cuts. On the other hand, directing the retrenchment towards larger groups could backfire because responsible politicians have to face larger groups of angry voters, if the cuts are serious enough to cause reactions. The severity of the cutbacks is in many ways a question of how they were received by those affected, an issue to which I will return in part 4.3.

Was the tactic of decrementalism pursued in order to lower the salience of negative consequences? Failing to adjust for higher prices is an example of this strategy. Through freezing the pensions in 2004, they were not adjusted to inflation and consequently their real value decreased. This measure was bound to cause less of a stir than a nominal cut in benefits. However, the pension freeze was a one-time measure and the link to the political decisions was clear. In comparison, linking benefits to inflation instead of wages will lead to decremental reductions over time, which will blur the link to political decisions and responsible politicians. Although pensions could have been cut in more dramatic and obvious ways, the pension freeze could hardly be considered an example of obfuscation.

Were effects made indirect by imposing costs on service providers who in turn increased prices? As table 3.1 demonstrates, this certainly was not the case. Only a minor part of the costs for the health care reform was carried by the administration and the pharmaceutical industry, while the consumers had to pay between 87-92% of the total costs.

Except from the increased pressure on the unemployed to accept jobs at almost any wage, which was included because of pressure from the CDU/CSU during the negotiations in the Mediation Committee (Siems 2003).
Table 3.1 Scale and distribution of costs of the health care reform (in billion euros).

<table>
<thead>
<tr>
<th>Measure</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reform costs transferred to people who are insured under the public health insurance scheme (due payers)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Limitation of hitherto granted benefits: e.g. artificial fertilization, reimbursements in case of death of a spouse, refunds of prescription free medicine, restrictions in travel refunds</td>
<td>2.5</td>
<td>2.5</td>
<td>2.5</td>
<td>2.5</td>
</tr>
<tr>
<td>Individual payments for visiting doctors, hospital stays and medicine</td>
<td>3.3</td>
<td>3.3</td>
<td>3.3</td>
<td>3.3</td>
</tr>
<tr>
<td>Private insurance of dental treatments (dentures and bridges)</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Privatisation of wage compensation in the case of longer sickness (a)</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>5</td>
</tr>
<tr>
<td>Obligatory payments of pensioners who receive company pensions</td>
<td>1.6</td>
<td>1.6</td>
<td>1.6</td>
<td>1.6</td>
</tr>
<tr>
<td>Increase of tobacco tax</td>
<td>1</td>
<td>2.5</td>
<td>4.2</td>
<td>4.2</td>
</tr>
<tr>
<td>Subtotal 1</td>
<td>8.4</td>
<td>13.4</td>
<td>15.1</td>
<td>20.1</td>
</tr>
<tr>
<td>Reform costs carried by due payers in percentage of the total (my calculations)</td>
<td>87</td>
<td>88</td>
<td>89</td>
<td>92</td>
</tr>
<tr>
<td>Reform costs carried by administration and the pharmaceutical industry</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public health care insurance companies (limitation of administrative and personnel costs)</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Industry (e.g. statutory prize control, less discount for traders, more tests for medicine prior to reimbursement)</td>
<td>1</td>
<td>1.5</td>
<td>1.5</td>
<td>1.5</td>
</tr>
<tr>
<td>Subtotal 2</td>
<td>1.3</td>
<td>1.8</td>
<td>1.8</td>
<td>1.8</td>
</tr>
<tr>
<td>Reform costs carried by administration and the pharmaceutical industry in percentage of the total (my calculations)</td>
<td>13</td>
<td>12</td>
<td>11</td>
<td>8</td>
</tr>
<tr>
<td>Total</td>
<td>9.7</td>
<td>15.2</td>
<td>16.9</td>
<td>21.9</td>
</tr>
</tbody>
</table>

(a): This insurance was originally set to 2007, but later advanced to 2006.

Furthermore, the measures were not complicated enough to avoid the headlines. True, not all aspects of the retrenchment were covered in depth and the media coverage on the emergency package for pensions was not as intense as that on the Hartz IV or the health reform.\(^{20}\) However, this was rather due to the severity and comprehensiveness of the measures than to their complexity. Pensions freeze and shifting of payments are easily communicable.

Another obfuscation strategy is delaying cuts. Even if not all cutbacks were imposed immediately after the bills were passed, there are no examples of serious delays in the German case. The health reform and Hartz III were made effective from January 2004, and Hartz IV from January 1, 2005. A transition period applies to “older” employees for the shortened duration of the unemployment benefit. This means that it will fully apply to all those claiming unemployment benefits from February 2006 onwards (Bundesregierung.de). This delay is however not likely to hide political responsibility as all changes were scheduled within the government’s (original) end of term, set in the fall of 2006.

According to Pierson, blame can be avoided by transferring responsibility for the implementation of cutbacks to local officials. The structure of self-administration of
the different insurance carriers (Kassen) implies that the responsibility for the implementation of political decisions is moved from the political arena to the arena of the self-administered carriers. This might also mean that the blame for unpopular policies is shifted. According to Bandelow and Hassenteufel (forthcoming), doctors make the government, the associations of National Health doctors (Kassenärztliche Vereinigungen) and the sickness funds (Krankenkassen) responsible for policy outcomes. The same might apply to the patients or other welfare consumers – the government could more easily avoid blame in such a decentralized system of self-administered carriers, than if services were public and financed entirely through taxes. However, I would assume that the voters rather blamed the politicians than the insurance carriers for the reforms included in Agenda 2010, but a reliable investigation of this assumption requires survey data.

As mentioned in chapter two, the system of self-administered carriers and decentralization goes back to the birth of the German welfare state. Was more responsibility decentralized through Agenda 2010? The Hartz reforms did change the administration and financial responsibility of unemployment benefits. However, instead of decentralizing, more responsibility was given to the Federal Employment Agency, because employable former recipients of social assistance were moved from municipal to federal jurisdiction.

### 3.2.3 Division

Liebfreid and Obinger (2003:215) found some evidence that the strategy of division was pursued in the 1990s because asylum seekers and immigrants from the former Soviet Unions were the ones who faced the hardest cuts. Concerning Agenda 2010, retrenchment will hit most voters in one way or the other. However, the main target of the reforms was the high unemployment, and consequently the unemployed were those who suffered the greatest through reduced benefits and a shortened subscription period to the unemployment benefit. They are at any rate the ones who have voiced the most visible protests (see 4.3).

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20 A search in the newspaper database Lexis Nexis proves that a search on “Rentennotpaket” results in 51 hits, while a search on “Gesundheitsreform” and “Hartz IV” during the same time period exceeds the limit of 3000 articles.

21 Specific doctors (Kassenärzte) and hospitals have agreements with the different health insurance carriers through which they are obliged to produce certain health care services. The doctors must be organized in associations (Kassenärztliche Vereinigungen) which negotiate with the carriers. The carriers can not negotiate with individual doctors (Pilz 2004:104).
On the one hand, the unemployed are not the most resourceful group of welfare state recipients, and organizations for the unemployed have scant powers (Baumgarten 2003). However, the sheer size and potential votes of the unemployed should be powerful enough to intimidate retrenchment advocates. In 2003, German unemployment amounted to 11.6% (Arbeitsagentur.de1), but the share of Germans affected by the unemployment, and therefore the retrenchment, is of course larger. The German unemployed are in other words not electorally harmless. In addition, their interests are to a certain extent represented by the relatively powerful labor unions (Baumgarten 2003). It is interesting that recipients of social welfare benefits are better off because of the Hartz IV. This group is organizationally and electoral weak and could therefore have been an efficient target for cutbacks, if cutbacks per se were the goal.

Did Schröder “divide and conquer” through tightening eligibility rules? The stricter rules on work availability requirements mean in effect that eligibility rules are tightened. If the unemployed refuse to accept available jobs, they are sanctioned through cuts or cessation of the unemployment benefits (Bäcker and Koch 2004:94). I doubt that this tightening of eligibility rules will have divisive effects in the sense that those who lose their claim on benefits because they refuse to take up available jobs are pitted against “rule abiding” recipients. Tightening eligibility criteria based on age or gender would have stronger divisive effects.

The cuts in the unemployment benefits do not affect the constituency of the unemployed equally, as those above the age of 54 will receive unemployment benefits for 18 instead of 12 months before they receive the ALG-II. This could also not be considered a divisive strategy, as elder unemployed probably do not consider themselves spared from cuts.

Regarding the pensions reform, only the new pensioners are hit by the shift of disbursement from the beginning to the end of the month. This could be viewed as a divisive strategy if one did not take into consideration that the “new pensioners” are future, unorganized groups that are unlikely to protest the favorable treatment of “old pensioners”.

3.2.4 Compensation
Pierson (1996:147) predicts that politically crucial groups will be compensated. The tax cuts are what most clearly taste of compensation. However, cuts are given to all
taxpayers, and are therefore not a concrete compensation to the potentially important groups of unemployed and retired voters whose tax payments per definition are limited. Only the taxpaying “patients” are compensated, who make up a large group of the electorate. For the unemployed, little compensation is offered. True, some changes could be perceived as improvements. For example, increased supplementary income will be permitted; the restructuring of the Federal Employment Service is expected to provide better and more personalized services for the unemployed and their family situation is supposedly better attended to (The Federal Government 2004:12). However, the compensating character of these changes, whose overall goal is to push the unemployed into the labor market, appears rather limited in comparison with the cuts the unemployed face.

Shifting the payment of pensions from the beginning of the month until the end only for new pensioners could be seen as a modest example of a grandfather clause. This spared present recipients, who might mobilize against the real cutbacks through pensioners’ organizations like the small party die Grauen (see pg. 71). The ones who were hurt were unorganized, future pensioners. The cutbacks were however relatively modest singular impact measures and not likely to create much opposition. Besides, they were a part of a pensions’ emergency package that affected all pensioners.

3.3 Conclusion – did Schröder use blame avoidance strategies?

Based on the former analysis, I would argue that the Red-Green government did not use the blame avoidance strategies discussed by Pierson. Quite the contrary, most policies had immediate and concrete effects on voters. Instead of providing for a phasing in of the cuts in the unemployment benefits through an extended time period, the cuts were made effective from January 1, 2005. Rather than going through “the back door” by imposing cutbacks or indirect taxes on hospitals and doctors, politicians imposed most of the burden of the health reform on the patients through fees and surcharges. Even though the lack of blame avoidance strategies would logically make it harder for the government to avoid blame, applying such strategies involves drawbacks that make it rational not to pursue them (Pierson 1994:24-26). The “emergency measures” on the pensions were per definition designed to cut costs immediately; therefore obfuscating the cutbacks through
decrementalist strategies would be meaningless. The same applies to the cuts in unemployment benefits - if the government wanted immediate payoffs from the labor market policies, it was rational not to delay cuts. Further, if Schröder wanted to demonstrate to skeptical voters who doubted his ability to pursue reforms that he was capable of acting on the unemployment, obfuscating his actions would be irrational.

Compensation also has drawbacks, because it involves costs that might cannibalize budgetary savings. Blame avoidance strategies can also create bureaucratic complications if for example division implies that different groups have to be treated differently (Pierson 1994:25).

All in all, the general lack of blame avoidance strategies allows me to reject Pierson’s claim that retrenchment is blame avoidance (Pierson 1996:179). However, if we extend Pierson’s arguments, his theory implies logically that a government that retrenches the welfare state without using blame avoidance strategies will simply have difficulties with avoiding blame among voters. According to Pierson (1996:145-147), concrete losses in return for diffuse and uncertain benefits in the future will provoke protests from concentrated voter groups attached to social programs. We can expect that most voters who were hurt by the cutbacks were well aware of the retrenchment process. It is anticipated that they managed to link cutbacks to concrete policies; they were not impeded by division and were not soothed by compensations. However, as I mentioned above, there is one variant of blame avoidance that has not been discussed here – namely consensus-seeking. In part 4.2, I will discuss whether the fact that the government sought consensus on the reforms could result in an obfuscation of the link between Agenda 2010 and responsible politicians, meaning that the government could share the blame with the opposition. In the concluding chapter five, the theme is pursued further and synthesized. There, I pursue further the question of why Schröder did not pursue strategies of blame avoidance.
4. Old politics – limits of existing theory?

Pierson briefly discusses three existing theories of welfare state expansion that we have labeled *old politics*; “the logic of industrialism”, “the power resources perspective” and “new institutionalism”. Pierson’s overarching argument is that you cannot use the converse of these arguments to explain retrenchment, because the expansion of the welfare state has changed the context around social policy to the extent that new theoretical approaches are needed (Pierson 1996). In this chapter, I will test Pierson’s argument when I discuss whether inverted versions of the *old politics* theories can explain the case of German retrenchment. The question of whether or not these three theories can explain the *expansion* of the German welfare state will be excluded from the discussion.22

Pierson formulates several alternatives of what the converse of the old theories would imply for the research on welfare state retrenchment. Many of his formulations and discussions of empirical implications are vague and not very detailed, which makes it difficult to apply them to an analysis of an empirical case. In this thesis, I will concentrate on the arguments that he has formulated the most concisely and develop concrete hypotheses, which I will test on the German case of retrenchment.

### 4.1 The logic of industrialism and retrenchment

#### 4.1.1 Introduction

The earliest theory of welfare state growth is the “logic of industrialism”-theory. This theory stresses the relationship between industrialism and welfare state expansion. It is deterministic in the sense that it implies that strong economies produce strong welfare states. Therefore, this theory is better at explaining why we find welfare states in rich nations and not in poor ones than at accounting for differences among western welfare states (Pierson 1996:148).

Versions of this argument have been used to explain contemporary welfare politics, where the effects of global economic change are in focus. The argument on
which Pierson concentrates is a version of economic determinism focusing on *social dumping*. The line of reasoning is that globalization has increased the exit options for mobile capital, enabling firms to undertake social dumping, which means operating where “social wages” are low. The concept of “social wages” is not defined by Pierson, but according to the Institute for German industry, the term refers to costs not connected to direct hourly wage and includes employers’ contributions to social insurances, continued payment of wages in case of illness, holiday pay and other social benefits at company level (Institut der Deutschen Wirtschaft Köln 2002:5).

Firms that relocate can undercut the prices of their competitors and might force them to move or to close down. Alternatively, governments are pressured to cut social wages in order to prevent companies from moving abroad and generally improve their competitiveness. This might lead to a “race to the bottom” between national welfare states, over time leading to lowest-common-denominator welfare states (Pierson 1996:148).

Pierson dismisses this argument, due to limited evidence. The social wage is one among many factors (i.e. infrastructure and worker productivity) that investors take into consideration when deciding where to establish their businesses (Pierson 1996:149). The economic deterministic scenario leaves no room for politics or ideology, which is assumed to be subordinated to the market forces (Kittel and Obinger 2003:21). Pierson, however, will not leave out political forces as a mediating variable: “Even if social dumping arguments proved valid (...) much would still depend on the balance of political forces favoring and resisting a substantial restructuring of the welfare state” (ibid:149). He concludes that “claims of economic determinism pay insufficient attention to the politics of policy change”, and “policy outcomes cannot be derived directly from economic trends” (ibid:150).

To assess the explanatory power of the inverted version of the logic of industrialism, I will discuss the following hypothesis:

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22 For a discussion on the expansion of the German welfare state from an institutionalist angle, see Manow (2004), who discusses the impact of federalism on the expansion of the welfare state. For a sociological account, see van Kersbergen (1995), who discusses the role of Christian Democracy in the development of the welfare state.

23 Pierson also mentions another version of economic determinism which claims that “globalization of capital markets removes crucial economic policy tools from national governments and constrains social policy options” (Pierson 1996:148). This argument is however not developed into details, therefore I concentrate on the “social dumping” version of economic determinism.
4.1.0: High social wages lead German firms to operate where social wages are low. Relocation has negative employment effects which pressures the government to cut social wages.

Evidently, I will limit the discussion to the aspect concerning the pressure on governments to reduce social wage costs. The issue of whether or not prices of competitors are undercut or higher-cost firms go out of business will be excluded from the discussion. The figure below illustrates the hypothesis:

![Figure 4.1 Economic determinism](image)

4.1.2 Theoretical concepts, operationalizations and validity

Before I start discussing the hypothesis, I must ensure that I operate with concrete and measurable concepts. That is, I must discuss construct validity. Also, since I try to establish causal links between event X and event Y, the internal validity of such links must be assessed.

According to Pierson, the term social dumping refers to:

“(...) the possibility that firms operating where “social wages” are low may be able to undercut the prices of competitors, forcing higher-cost firms either to go out of business, or to relocate to low social wage areas, or to pressure their governments to reduce social wage costs” (Pierson 1996:148).

I would argue that the theoretical concept of “social dumping” is limited to relocations driven by high social wages, the first chain in figure 4.1, whereas the consequences of social dumping (the second and third chain in figure 4.1) are excluded from the concept. The next question is: How do we measure social dumping?

Relocations due to high social wages is only one variant of foreign investments. This is a wider concept including operations abroad to develop or open up new markets or to build up sales capacities and customer services abroad (DIHK 2003:1). Given this, conducting surveys of motivations for investing abroad is the only way to measure social dumping (Beyfuss and Eggert 2000:20). Although the
face validity of this operationalization is good, surveys of motivations are not without problems, because it is difficult to *isolate* the various motivations behind investing abroad. Usually, firms are motivated by a bundle of reasons (Beyfuss and Eggert 2000:21). In surveys of motivation, the respondents are therefore allowed to mention several reasons for investing abroad (ibid:33). The plurality of motivations weakens the *internal validity* of the first causal link of figure 4.1 between high social wages and relocation of industry.

The conceptual difference between general foreign investments and relocation is also important because the differences in motivations mirror partly contrasting consequences for domestic employment. When German companies invest abroad to find new markets or to strengthen their sales department, it does not necessarily have negative consequences for German employment. On the contrary, such activities might have positive effects for German exports. However, investments motivated by high costs are likely to replace German jobs (Henneberger and Graf 1996:11). Therefore, relocation of industry might pressure a government to improve the disadvantages of location (*Standortnachteile*), for example by cutting social wages.

The interconnection of motivations makes, in turn, a valid and unambiguous measurement of the effect of relocation of industry on *employment* difficult; the second causal link of figure 4.1. If a company invests abroad both to avoid high social wages, which probably has negative effects on employments, but also to find new markets, which might have positive effects, the net effects on domestic jobs are ambiguous (ibid:21). In addition to various methodological problems (ibid:14), it is fair to assume that the answers given by the managers on investment motives are influenced by public opinion (ibid). The *internal validity* of the causal relationship between relocation and employment effects is in other word rather weak. Taking these considerations on methodological difficulties into account, surveys of motivation conducted by the Institute for German Industry can *indicate* to which

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24 The negative effects of *genuine* relocations are also open to debate. Relocation carried out by the Volkswagen-group serves as an example of how removal of industry does not necessarily have unambiguous negative consequences for domestic employment. According to Spiegel (04.26.2004), cheap production of cars in Slovakien, Hungary, Poland and the Tschech Republic, enables Volkswagen to sustain the higher costs in Wolfsburg, Emden and Ingolstadt (in Germany). Thus, relocation might have an indirect, positive effect on employment. Another argument is that exported jobs are often unsustainable, and would at any rate disappear from the domestic labor market if they were not relocated (Henneberger and Graf 1996:12).
extent high labor costs are considered a problem serious enough to relocate abroad.

When assessing the third causal link of figure 4.1, between the employment effects of relocation and reforms included in Agenda 2010 aimed at cutting social wages, I am confined to discuss whether arguments for reforms presented by the government have been connected to “reduced competitiveness” and “removal of industry” due to labor costs. I would argue that the internal validity of the third causal link is relatively strong. Arguments for cutting social wages are usually connected to negative employment effects for German enterprises. On the one hand, high wages inflate prices and decrease the competitiveness of German exports, while on the other hand, high wages lead to relocation of German industry. Taking into consideration that cuts in social wages through cutting social contributions lead to fiscal problems for the affected welfare schemes, there are arguably few other reasons to cut social contributions than the negative employment effects they have.

I would argue that the operationalization of the theoretical concepts “social wages” and “social dumping” are valid, but difficulties with isolating the causal effect of social wages on foreign investments and of social dumping on employment decrease the internal validity of these causal links. Having discussed central concepts, I will proceed with discussing the empirical case. Since the cause, “social dumping”, appears before the consequence, “reducing social wage costs”, I will limit my discussion to economic activities taking place after the government was elected in 1998 and before the presentation of Agenda 2010 in March 2003.

4.1.3 German social wages
The strength of German international competitiveness is a disputed matter. Depending on which factors are emphasized and whether the competitive situation is assessed from a dynamic or static perspective, commentators draw different conclusions. Some view German competitiveness as relatively weak (i.e. Kitschelt and Streeck 2004; Löbbe 2002), others claim that this weakness is exaggerated (i.e. Beck 2005; Schumacher and Volz 1998; Streeck and Trampusch 2005).\textsuperscript{25}

The high social wages (or non-wage labor costs) are however undisputed, and belong to Germany’s, especially West Germany’s, most serious Standort-
handicaps. Comparative studies on industrial competitiveness indicate that Germany occupies the last position on non-wage and total labor costs (as well as effective working time), while they perform relatively well on other Standort-factors (i.e. industrial peace, productivity) (Institut der deutschen Wirtschaft Köln 2002; 2005). The statutory social security contributions inflate the labor costs. In 2002, they unemployment contribution rate equaled 6.5%, pension 19.1% and the health care contribution rate 14.0%, adding up to over 40% of gross wages (Streeck and Trampusch 2005:29).

Having established that non-wage labor costs in Germany are high, the discussion will now focus on the consequences of the high social wages. Is there any link between social wages and “social dumping”?

4.1.4 Do high social wages lead to relocation of industry and negative employment effects?

The production by German enterprises abroad (as well as import) is an evidence of foreign location site superiority (Standortvorteile) (Borrmann et al. 2001:71). Macro statistics indicate that there has been an obvious development from foreign trade towards production in foreign countries, which implies that Germany is losing attractiveness as a production site. In 1980, Germany exported twice as much as they produced abroad, while in 1998, the export equaled the production (ibid). To what extent does this trend towards production in foreign countries reflect high non-wage labor costs?

The only recent sources I have at my disposal to illuminate this question are surveys conducted by The Association of German Chambers of Industry and Commerce (DIHK) on removal of industry, conducted in December 1999 and January 2003. According to these surveys, 21% of western German

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25 See i.e. Borrmann et.al (2001), Fitzenberger et al. (2004) and particularly Löbbe et.al (2002) for detailed discussions of German competitiveness and Standort Deutschland.

26 In 2000, a comparative study of industrial sectors shows that West German employers paid on average an additional 81% of the direct salary for social contributions, giving Western Germany the first rank among 22 OECD countries when it comes to non-wage labor costs and total labour costs (Institut der deutschen wirtschaft Köln 2002:3). A later comparative study ranked the hourly German labor costs (of 27.09 Euro per hour) as the third highest, behind Norway and Denmark (Institut der deutschen Wirtschaft Köln 2005:5).

27 The exact contribution rate was 41.3 %. The long-term care contribution rate was 1.7% from 1996 (Streeck and Trampusch 2005:29).

28 Measured in billion German “Mark”.

29 Although the surveys contain data from 1993, 1996 and 1999, I will only refer to the surveys from 1999 and 2003, under the assumption that developments closest in time to Agenda 2010 had the greatest impact on the Red-Green government’s policies. The latest survey was published on May 26, that is after the announcement of Agenda 2010, and the survey and
manufacturers *planned* to relocate their production in the fall of 1999, and in the beginning of 2003, 24% had the same intentions.\(^{30}\)

Even though intentions and threats to relocate might influence politicians and policies, more interesting is perhaps to which extent industry actually *did* relocate. In 1999, 19% of industrial companies had relocated production, and 18% in 2003 (DIHK 2003:5), proving a readiness to realize their intentions. In 2003, 45% answered that the main motive for wanting to relocate was the high German labor costs, sinking from 57% in 1999.\(^{31}\) High taxes were the second most common motive (ibid:6).

The survey indicates a link between high social wages and relocation of industry. According to the results of the 2003-survey, the DIHK estimates that cost-related relocation has yearly caused 45,000 jobs to move abroad (ibid:10). As discussed above, however, the reliability of such calculations is dubious.

One might argue that the important aspect is not whether production sites and jobs actually *are* relocated, but rather that the globalization and integration of the world economy makes this possibility easier and more likely. The bare *threat* of moving abroad is a powerful tool for employers seeking to lower labor costs, and the worse the economic situation in the affected area, the more effective the threats. If the threat is perceived as credible, employers have the upper hand in wage negotiations, in comparison with unions, who are forced to commit to “concession bargaining”, or so-called “Bündnisse für Arbeit”. This means that unions admit to reducing or not raising salaries, or working more for the same wages, whereas the company management guarantees not to cut down on staff or to relocate (Henneberger and Kaiser 2000:43).\(^{32}\) The examples of such “pacts” for safeguarding production sites under the threat of removal of industry are manifold. One-fourth of German firms had negotiated a *Bündnis* in 2003 (Massa-Wirth and Seifert 2004:249). One example is the deal between management and employees of Siemens, in which Siemens-employees had to work five hours more every week...
without increased salary. The management threatened with relocating the jobs abroad if the employees did not comply with the deal (Bloed et al. 2004). According to the logic of industrialism, social dumping enables firms to “pressure their governments to reduce social wage costs” (Pierson 1996:148). Instead, through the practice of Bündnisse für Arbeit, German employers are pressuring workers to cut real wages in order to prevent relocation.

4.1.5 Did relocation pressure the government to cut social wages?

Previously, I established that German industry is moving abroad (or threatening to move abroad) due to high social wages, and that this probably has negative employment effects. The discussion will now center on the third link in figure 4.1; between the removal of industry and negative employment effects and Agenda 2010.

The discussion will focus on whether the formal, official arguments for the reform presented by the government have been connected to “reduced competitiveness” and “removal of industry” due to labor costs, and which actions the government has taken to reduce labor costs. My sources are the government statement of March 14, 2003, through which Schröder presented Agenda 2010 (Regierungserklärung.de), the official Agenda 2010-homepage (Grundideen-der-Agenda-2010.de) and the Agenda 2010 leaflet, which was distributed to all German homes (The Federal Government 2004). It is fair to assume that the main reasons behind Agenda 2010 were articulated in these sources. However, the analysis of high labor costs leading to reduced competitiveness might be so internalized in the political discourse that it is not expressed explicitly anymore. This would reduce the value of analyzing official argumentation.

According to the government statement and the Agenda 2010 leaflet, the goal of Agenda 2010 was to put Germany back in the lead of European economic and social progress. The present economical situation in Germany is analyzed, and the main economic problems and their causes are presented. Weak growth is identified as the main problem. This is also said to have structural causes, most importantly

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33 Studying lobbying or other pressure activities would arguably have been a more valid way of assessing whether “the industry” has put pressure on the government to reduce non-wage labor costs. The scope of this paper restricts me from pursuing such an investigation.
high non-wage labor costs. For employers, these costs work as a hindrance against employment, and for employees, they have become an almost unbearable load:

“Deutschland hat (...) mit einer Wachstumsschwäche zu kämpfen, die auch strukturelle Ursachen hat. Die Lohnnebenkosten haben eine Höhe erreicht, die für die Arbeitnehmer zu einer kaum mehr tragbare Belastung geworden ist und die auf der Arbeitgeberseite als Hindernis wirkt, mehr Beschäftigung zu schaffen” (Regierungserklärung.de).

Although “social wages” are identified as a main problem, arguments for reforms are not explicitly connected to “removal of industry” in the statement. On the official Agenda 2010 web pages, however, removal of industry is mentioned explicitly as a motivational factor. High non-wage labor costs are again identified as one of German economy’s main structural problems, as a hindrance for employment and thus a hindrance for growth, and as a cause for removal of industry:


In the Agenda 2010 leaflet, lower social wages is mentioned as one of the measures that needs to be taken in order to “secure Germany’s future” (The Federal Government 2004:4): “Non-wage labour costs must remain at acceptable levels for both businesses and employees” (ibid). There is no explanation as to why this is necessary. This could indicate that the analysis of the link between high social wages and employment is taken for granted.

Social wages is in other words one of the expressed “official motives” behind Agenda 2010. Either it is argued on a general level that high social wages are considered a structural problem, which causes slow growth, or it is declared that social wages lead specifically to “removal of industry” due to high social costs. Did these concerns materialize in concrete measures aimed at cutting social contributions?

The reduction of non-wage labour costs was an important issue on the government’s agenda even before the announcement of Agenda 2010. The main instruments to reach the goal of reducing social security contribution to less than 40% of gross wages were the ecological tax reform and the Riester-Rente (see page 14)). However, the nullification of reforms introduced by Kohl (page 13) resulted instead in increasing non-wage labour costs (Zohlnhöfer 2004:113).
With Agenda 2010, further measures were introduced in order to curb non-wage labor costs regarding contribution rates to pensions, health care and unemployment insurance. These changes were described in part 2.3, to which I will refer the reader for details.

Some of the measures introduced are cuts had direct effects on contribution rates, like the pensions freeze of 2004. Others will only have long-term effects, such as those found in parts of the Hartz-reforms. At the time of writing, it is premature to draw conclusions on the reforms’ end effects on contribution rates. However, the important point in this regard is that the government did endeavor to reduce social wages.

4.1.6 Conclusion - Did social dumping lead to cuts in social wages?
This discussion has shown that German social wages are high and have led German firms to move abroad. Removal of industry due to high social wages probably has negative employment effects, but it is unclear exactly how many jobs are lost. It is also ambiguous how much pressure social dumping has put on the German government to cut non-wage labor costs. In the official statements in connection with Agenda 2010, arguments on “social dumping” were to a certain degree expressed. At any rate, it was only a part of the problem of the high non-wage labor costs, which were perceived as a structural problem causing slow growth.

The concerns about high social wages led to several policy measures aimed at lowering social contributions, such as the Hartz IV, the real cuts in pensions and the “privatization” of costs for goods and services in the health sector (see 2.3). Do these measures justify a claim that Germany is participating in a “race to the bottom”, the extreme scenario painted by the social dumping argument?

The German welfare state has clearly a long ways to go before it reaches the “bottom”, but it is also evident that the economic analysis - where high social wages have negative consequences for German employment and therefore need to be cut -has a pronounced impact on German policies. It is further obvious that the efforts to cut social wages lead to cuts in social services (Sozialabbau). In chapter two, I noted how the social democratic agenda had changed towards “liberal”, supply side oriented policies. In other words, the SPD has moved towards the right in the spheres of economic and welfare policies. This indicates that “party color” is losing
its importance as an explanatory variable when it comes to explaining such policies. Although politicians still have the power to impact policies, a “deterministic” analysis, where politics loses its importance as a mediating variable between “globalization” and welfare state development, has gained explanatory power in the case of Germany.

4.2 New institutionalism and retrenchment

4.2.1 Introduction
The new institutionalist approach to welfare state development has been concentrated around two broad claims. The first claim focuses on policy feedback effects - the consequences of previously introduced welfare state programs. Due to limited space and the fact that Pierson develops few explicit hypotheses on how to study policy feedback effects in single cases, I will not discuss this variant of the institutionalist approach. Instead, I focus on the second claim, which is illustrated in figure 4.2 - that strong states produce strong welfare states (Pierson 1996:152-153).

State strength is defined in terms of “governmental administrative capacities and institutional cohesion. (…) Federalism, separation of powers, strong bicameralism or reliance on referenda all may restrict welfare state development” (Pierson 1996:152). A straightforward application of this argument on retrenchment implies that the fewer the veto points, the stronger the concentration of power, the freer the government’s hands in reforming the welfare state. Diffusion of power will equivalently impede retrenchment. This argument equals old politics with regard to “new institutionalism”.

Again, Pierson claims that you cannot use the converse of this argument to explain retrenchment, because the policy content is different. Cutbacks of welfare programs are unpopular, in contrast to their expansion. While concentration of power facilitates retrenchment, it is impeded by the concentration of accountability it logically implies. Diffusion of power (through strong veto points) will equivalently open up for diffusion of accountability, which will facilitate retrenchment, as illustrated in figure 4.2:
Figure 4.2. The effect of “state strength” on retrenchment

In chapter three, I concluded that obfuscation strategies were largely absent, but promised to pursue the consensus-seeking strategy in this part. If the government sought (or had to seek) consensus on reforms, this could result in an obfuscation of the link between policy decisions and responsible politicians (the last chain of figure 3.1), meaning that the government could share the blame with the opposition. The diffusion of power and accountability through consensus-seeking is in effect an obfuscation strategy. Therefore, I discuss whether the responsibility for reforms was obfuscated when discussing whether accountability was diffused. This link between consensus-seeking and diffusion of accountability is not made explicit by Pierson.

The argument on concentration or diffusion of accountability is the new politics version of “new institutionalism”. Whether “concentration/diffusion of power effects” (old politics) outweigh “concentration/diffusion of accountability effects” (new politics) is an empirical question. Pierson opens up for both alternatives: “We are therefore left with the empirical question of whether concentration of power effects outweighs concentration of accountability effects” (Pierson 1996:154).

The old politics hypothesis on the role of institutions is thus as follows:
4.2.O: If power is diffused, diffusion of power effects outweigh diffusion of accountability effects, which impedes retrenchment. If power is concentrated, concentration of power effects outweigh concentration of accountability effects, which facilitates retrenchment.

The rival new politics hypothesis is:
4.2.N: If power is diffused, diffusion of accountability effects outweigh diffusion of power effects, which facilitates retrenchment. If power is concentrated, concentration of accountability effects outweigh concentration of powers effects, which hinders retrenchment.
The concepts included in the hypotheses – diffusion/concentration of power and diffusion/concentration of accountability – will be defined next.

4.2.2 Theoretical concepts, operationalizations and validity

Since Pierson gives a relatively concrete definition of the theoretical concept “state strength” (above), I assess the validity of this concept as good.

In the federal state of Germany, the system of bicameralism can have a strong impact on decision-making. When the Bundestag (the lower chamber) and the Bundesrat (the upper chamber) are dominated by different majorities, as was the case during the Red-Green government’s second term, this can function as a powerful veto point. Strong bicameralism is the most important veto point among the constitutional veto powers referred to by Pierson, since the German president is weak (Schmidt 2003a:37), and nationwide plebiscites play no role (ibid:174-175).  

Focusing on the Bundesrat as the principal veto power is also supported by other studies. In the German case, power is, in other words, diffused, not concentrated. The discussion of the “diffusion of power effect” will mainly be an assessment of whether the fact that parts of the reforms had to pass through the Bundesrat had any consequences for the content and pace of the reform. Diffusion of power effects existed if the opposition actively used their veto powers by blocking the reforms they were able to block, and/or if they were able to influence the content of reforms in order to give them their approval when the government needed the opposition’s consent.

Even though Pierson does not have a clear and measurable notion of what is meant by the “diffusion of powers effect”, I would argue that this is a valid way of operationalizing the concept.

According to Pierson, the hampering effect of diffusion of power also enables “diffusion of accountability”. On how to operationalize this accountability effect, he does not offer much help, but merely writes:

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34 The approval of constitutional veto players is required by law, in contrast to effective veto players, like trade unions, who might influence the decisions of the constitutional veto players (Merkel 2003:180-181). In order to focus the discussion, I will only consider the constitutional veto points listed by Pierson (1996:152-153), among which the German second chamber, the Bundesrat, is the only veto power of importance. The potential veto power of the trade unions is touched upon in part 4.3. One might argue that the Federal Constitutional Court also is an important constitutional veto player, but I will exclude this from the discussion. For an account on the political impact of the Constitutional Court, see Schmidt (2003a:117-118). For discussions on other veto players, see Schmidt (2003a:44-46) or Merkel (2003).

35 For examples, see Bonoli (2001:242); Merkel (2003:167) (where there is a list of references to articles focusing on the veto power of the Bundesrat); Pierson (1996:167) and Schmidt (2003a:58).
“Where authority is centralized, the public knows that the government of the day can prevent groups from suffering cutbacks. Strong governments, anticipating the high political cost of retrenchment, may forgo the opportunities provided by concentrated power” (Pierson 1996:154).

In other words, the assumption that the government will be blamed might hinder the government from pursuing retrenchment. The causal link thus seems to be as follows (note that in the case of Germany, I concluded that power is not concentrated but diffused, which opens up for diffusion of accountability):

![Diagram](Concentration of power) → Assumption of concentration of accountability → Restricted retrenchment

**Figure 4.3: Pierson’s notion of concentration of accountability**

Even though the hypothetical link above is probable, to discuss such a link empirically, which takes effect before any reforms are proposed, is difficult. I will therefore discuss “diffusion of accountability” by assessing whether the blame for the unpopular parts of Agenda 2010 (in particular Hartz IV) fell solely on the government, or if the opposition also took blows. Other analyses have chosen the same solution. Bonoli (2001) discusses five instances of welfare state reform, where the accountability effect apparently is operationalized by discussing which electoral consequences and informal protest the government encountered after having introduced the reforms. Such consequences come after the reforms are implemented and influence the success of the reforms rather than “encourage” or impede a government that is set on carrying through reforms. Evidently, the notions of “diffusion of accountability” on the theoretical level and the empirical level are not identical, which implies that the concept validity is low.

Arguably, the most valid way to measure how individuals apportioned blame is to collect individual data. Lacking such data, I will operationalize the accountability effect by assessing to which extent the opposition and the government shared the blame for reforms in the following arenas: the press, elections, polls and demonstrations. The blame is shared if the popularity of both the government and the opposition decreases in polls and elections, and if the press and demonstrators accredit the blame for the reforms to both the government and the opposition.
On the one hand, results in polls and elections give *reliable* and *quantitative* measures. On the other hand, both the *concept validity* and *internal validity* of using voting data as a measure for “blame sharing” is low. This is because results in elections are indicators of the aggregate, general positions on the politics of each party, and other variables than the attitude towards retrenchment motivate the voters’ behavior in polls and elections.

On the federal level, Agenda 2010 was the prime topic. If the voters’ position on Agenda 2010 was the main factor determining voter behavior, one could expect that well-informed, discontented and rational voters would turn away from the SPD, the Greens, the CDU and the FDP and vote for the PDS, which was the only party opposed to Agenda 2010 (next to the right wing parties). There is no individual data on such voters, but for some state elections, there is aggregate data on a sample of unemployed voters, which could approximate this voter type. One must however bear in mind that in state elections, state politics might be more salient than federal politics.

In addition, the voting behavior of East German voters is of interest. Unemployment is much higher in the East than in the West, which means that East Germans are more affected by the Hartz IV than the West Germans. The demonstrations were direct reactions to the retrenchment. Measuring how participants in demonstrations apportioned the blame is therefore a valid way of operationalizing “diffusion of accountability”. Since I lack individual data, I will study newspaper articles and demonstrators’ slogans. Because I conduct no systematic and scientific analysis of slogans and press coverage, the reliability is low. The same is true of the analysis of newspaper articles – the articles I study do not make up a representative sample of all articles covering Agenda 2010.

Bearing these difficulties with validity and reliability in mind, I will move on to discussing the diffusion of power and diffusion of accountability effects. To understand why incongruent majorities in the houses of parliament can have diffusion of power effects, a short introduction to the German parliamentary system is required.

### 4.2.3 German institutions and the role of the Bundesrat

In Germany, the legislature is divided into an upper house, the Bundesrat, and a lower house, the Bundestag. The states are represented in the Bundesrat, the
Federal Republic in the Bundestag. All bills that directly affect the interests of the states have to pass through the Bundesrat. This concerns around 50% to 60% of all bills (Schmidt 2003a:58).

On appeal from the federal government or either house of parliament, disputed legislation is passed on to the Mediation Committee (Vermittlungsausschuss), which acts as a mediator. Sixteen delegates from each house of parliament compose the Committee, in proportion to each party’s share of seats in parliament. The Mediation Committee has historically been successful at formulating compromise proposals that all parties can agree to. Even by rival majorities, the Bundestag and the Bundesrat adopted more than 90% of the Committee’s proposals (ibid:84-85).

The upper house also possesses a qualified veto (Einspruch) on legislation that does not need its approval. Einspruch implicates that after the reconciliation procedure in the Mediation Committee has been exhausted, the Bundesrat may still object to the bill, but the Bundestag can override the veto with a majority equivalent to the Bundesrat majority instigating the veto (Schmidt 2003a:58).

The Mediation Committee gains particular importance when there are rival majorities in the Bundestag and the Bundesrat (ibid:84), as was the case when the different bills comprising Agenda 2010 were to be voted on during the fall of 2003. After the state election in Sachsen-Anhalt in 2002, the opposition had a secure majority in the Bundesrat, meaning that states with pure CDU, CSU (in Bavaria) or CDU/FDP governments held more seats than the other government alternatives combined (Merkel 2003:170). Consequently, the opposition had the opportunity to block any bill that needed Bundesrat approval.

The political situation in Germany, however, is such that the CDU/CSU and the FDP are positioned to the right of the government, traditionally demanding more far-reaching reforms of the welfare state and more supply-side oriented and liberal economic policies than the Social Democrats and the Greens. In other words, the opposition did have the opportunity to hamper or influence reforms, in accordance with the institutional argument discussed above, but the reasoning could be that the reforms did not go “far enough”. Hence, the diverging majorities could become a resource for the SPD’s “modernizing sector” in negotiations over reform: “Since the policy positions of the SPD’s “modernizers” are fairly close to those of the CDU, the “modernizers” could ally with the Bundesrat majority to push through more far-
reaching reforms, even against the resistance of the “traditionalist” wing of their own party” (Zohlnhöfer 2004:127).

The cooperation on such issues, however, is not guaranteed. According to Wolfgang Merkel (2003:174), two main motives guide the acts of political parties. On the one hand, they want to see their policies through (the policy-seeking motive), on the other hand, they want to gain votes in the next election (the office- or vote-seeking motive). Several aspects of Agenda 2010 came close to traditional liberal policies, especially parts of the Hartz-laws. From a policy-seeking motive, we can therefore expect the opposition to support parts of the reform. However, the vote-seeking motive might cause the opposition to use their veto powers where they could, thereby demonstrating their power and exposing the government’s impotence. It is a difficult empirical task to determine which motive was the true motive behind the opposition’s acts, because the vote-seeking motive appears less legitimate than the policy-seeking motive. The point here is that the result is not given. Taking this into account, the next part will discuss to which degree the opposition played the veto-power card to hinder reform.

4.2.4 Agenda 2010 and the diffusion of power effect

The first reform of Agenda 2010 to be voted on was the health reform, which required Bundesrat approval. Thus, the reform was a result of long and hard negotiations between the opposition and the government, where several of the opposition’s proposals triumphed. According to Zohlnhöfer (2004:127), this reform is a case in point that the CDU/CSU teamed up with the modernizers within the SPD and pushed through far-reaching reforms. The final compromise on the health reform was passed in both houses with large majorities (Spiegel 09.26.2003).

The rest of the reform package had more trouble passing both houses. Around half of the remaining bills that made up the reform package Agenda 2010 required an affirmative vote in the Bundesrat. As table A1 in the appendix demonstrates, the opposition rejected every bill that was proposed prior to December 19. The official reasons for voting against these bills varied. The Hartz III and IV were rejected by the CDU/CSU because they wanted more dramatic cuts

36 The “modernizers” include individuals within the SPD that supported supply side politics, as touched upon on page 8514.
and stricter sanctions for unemployed who refused to accept job offers (Geyer et al. 2005:279), while the advancement of the tax reform was opposed because the opposition doubted that it would bring growth. Furthermore, they were opposed to the future Federal Labor Office taking over responsibility for the employable recipients of social assistance from the municipalities in fear of the “chaos it would bring” (Frankfurter Allgemeine 10.18.2003).

Despite the fact that only some of the bills had to pass the Bundesrat, the reforms were combined to one “package” and sent to the Mediation Committee, where the parties met for negotiations in December 2003. The matters of dispute were, above all, the one-year advancement of the third phase of the tax reform to January 1, 2004, the reduction of the subsidies for commuters and homeowners, and parts of the Hartz IV (Geyer et al. 2005:281-285).

During the giving and taking in the negotiation process, the opposition succeeded in passing some liberal policies while they were forced to give up others. For example, the CDU/CSU had to abandon their demand for law-regulated opening clauses, which would impinge on the sacred cow of the unions – the right to free collective bargaining. On the other hand, it was thanks to the opposition that the threshold value for the legal protection against dismissal was raised to ten instead of five employees. The Hartz IV was left mostly untouched in the Mediation Committee (Bannas and Leithäuser 2003; Siems 2003). However, the opposition fought for the principle that municipalities could choose whether the responsibility for employable (former) recipients of social assistance should remain at municipal level (Geyer et al. 2005:284). That the unemployed did not have to be paid at the going local wage (ortsübliche Löhnen) was also Union policy. Thereby, a de facto minimum wage was avoided, an important point for the liberals within the opposition (Bannas and Leithäuser 2003). In other words, several of the liberal elements of Agenda 2010 were included thanks to the opposition. Only through these and other compromises could the opposition and the government agree on the whole reform package (Geyer et al. 2005:283-285).

37 Examples include SPD’s favored structural reform of the health insurance system, which would loosen up the monopolized right of the doctor’s organizations to negotiate with doctors. The reform failed due to massive opposition from the CDU/CSU. For more details on the negotiations and compromises on the health reform, see Pilz (2004:197-203).

38 Incorporating opening clauses into the law enables firms to deviate legally from collectively agreed rules under certain circumstances (Rosdütcher 1994:462).
On December 19, 2003, the negotiation results of the Mediation Committee were voted on. As table A1 demonstrates, the opposition voted against some bills that did not need Bundesrat approval, including the Hartz III bill and some of the bills on pensions. This “veto” (Einspruch) was overruled by the Bundestag the same day. The rest of the bills composing Agenda 2010 were passed with the majority of both the government and the opposition.

The question whether or not the opposition initially voted against the Agenda 2010 reforms out of policy-seeking or vote-seeking intentions, I will leave open for debate. The fact remains that due to the incongruent majorities, compromises between opposition and government were required to make welfare state retrenchment possible. The opposition managed to hamper and then change the content of some of the reforms. It is therefore clear that there were diffusion of power effects, as operationalized above. This theoretically opens up for diffusion of accountability, according to new politics, which might shift some blame onto the opposition. The question whether the opposition was also held accountable for the reforms will be discussed in the next section, through studying press articles, demonstrations, polls and elections.

4.2.5 Agenda 2010 and the diffusion of accountability effect

The press. Press articles covering the negotiations in the Mediation Committee and the final vote on the Agenda 2010 focus both on the government coalition and the opposition, and the reforms are portrayed as a result of compromises (see i.e. Siems 2003 and Bannas and Leithäuser 2003).

Apart from these early articles, the press “never” refers to the fact that the opposition was partly responsible for the reforms. When a possessive pronoun is linked to the reform (as opposed to referring only to Agenda 2010 or Hartz IV), it is always referred to as either the Red-Green government or the SPD, giving the reader the impression that Agenda 2010 was solely the Red-Green government’s responsibility. Though a reliable conclusion requires a systematic and scientific analysis of press coverage, I would argue that the blame-apportioning was generally

one-sided, giving the readers the impression that the Red-Green government alone was to blame for Hartz IV and other unpopular reforms. Was the media’s one-sided blame-apportioning reflected in demonstrations, polls and elections, or was the opposition also held accountable?

**Demonstrations.** The reforms, particularly the Hartz IV, caused uproar among ordinary voters, particularly in the East. They expressed their discontent through demonstrations every Monday (*Montagdemos*), which reached their momentum in the spring and summer of 2004 (Frankfurter Allgemeine 09.01.2005). A couple of mass demonstrations were also arranged by the trade unions (Agence France Presse 05.24.2003; 04.04.2004). Judging by the discourse in a selection of newspaper articles, the general impression is that the critique and slogans were directed both at Agenda 2010 and the Hartz IV in particular, the cuts in social services (*Sozialabbau*) in general, as well as the Red-Green government directly.

Photos from the Montagsdemos support this impression. The slogans on posters were directed first and foremost against the Hartz IV, but also against Agenda 2010, the government and Schröder (photo_montagsdemo.de).

Surveys on individual participators in the Montagsdemos indicate that the popularity of the PDS increased significantly from the federal elections in 2002 to September 2004, while the SPD and The Greens lost almost all their support among the demonstrators. The popularity of the CDU/CSU also fell, but from an already low level (Rucht and Yang 2004:24). The causal link from the demonstrators’ opinions on Agenda 2010 to the polling of each party is equivocal, but assuming that the demonstrators felt strongly about the cutbacks, it is safe to conclude that the popularity losses were mainly caused by the unpopular reforms. It also seems like

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40 *Bundesregierung* „(Associated Press Worldstream 03.07.2004 and 10.02.2004; Stuttgarter Zeitung 11.06.2004) „der Reformpolitik der SPD” (Schiltz (2005); Süddeutsche 05.23.2005; Die Welt 07.05.2004).
41 *Articles I have studied are: Agence France Presse 11.02.2003, 04.04.2004, 08.12.2004a; 08.12.2004b; Frankfurter Allgemeine 09.01.2004; Frankfurter Rundschau 10.20.2004; Spiegel 08.12.2004a; 08.16.2004; Stuttgarter Zeitung 11.06.2004 and taz 12.03.2004. In the articles, I have studied the utterances from participants in the demonstrations referred to by newspapers, as well as what newspapers refer to as the focal point of the demonstration.
42 The Party of Democratic Socialism, the PDS, was passionately opposed to Agenda 2010 (sozialisten.de1). The party is the legal successor to the Socialist Unity Party (SED), which ruled the German Democratic Republic until 1990.
43 Most of the demonstrators were affected by the Hartz IV. 43% were unemployed and 87% had relatives or acquaintances that were affected (Rucht and Yang 2004:22).
the demonstrators blamed both the government and the CDU/CSU, which is in accordance with the fact that 84% of the surveyed knew that the CDU/CSU had voted for the Hartz IV (ibid:23). Summing up, I would argue that the demonstrators blamed the government more than the opposition for the retrenchment.

Polls. How were voters’ sentiments reflected in the polls? Figure 4.4 illustrates the expressed (dis)satisfaction with the Red-Green government and figure 4.5 describes the results of the answers to the question: “Which party would you vote for if there was an election held tomorrow?”

Figure 4.4: Satisfaction with the government 1998-2005. Percentages.
Source: Infratest.de1

Figure 4.5: Sunday question, development since 1997. Percentages.
Source: Infratest.de2

44 39% thought that the FDP-fraction voted against the Hartz IV, which is incorrect (Rucht and Yang 2004:33).
Figure 4.4 indicates that the Red-Green government experienced a sharp popularity drop immediately after the elections in 2002, when the satisfaction with the government fell from around 80% to around 60%. Thereafter, the satisfaction showed a varying, but increasing tendency until the start of 2005, when it again fell. These results are somewhat supported by figure 4.5. It is interesting to note that the development of the SPD’s and the CDU/CSU’s popularity is symmetric in both polls. The SPD’s loss is mirrored by the CDU/CSU’s gain. It therefore does not seem like the voters’ negative assessments of the government is reflected in the assessment of the opposition, which a diffusion of accountability effect would imply. To all appearances, the unpopularity of the reforms was not reflected in the assessment of the government until possibly in 2005. However, since these polls are not linked to the voters’ assessment of Agenda 2010, but reflect their general opinion of the parties, it is not possible to isolate the causal effect of the reforms.

Elections. Table 4.1 shows the results at state and federal elections after Agenda 2010 was voted on in the parliament, while table 4.2 and 4.3 shows the results at the federal elections of 2002 and 2005, separated by state.
Table 4.1: Results at state and EP elections 2004
1: Percentage votes/seats won. 2: pp change/Percentage change (my calculations).
3: Percentage vote among unemployed voters/pp change (statistics on the unemployed does not cover all parties or states). Shaded columns = Eastern states.

<table>
<thead>
<tr>
<th>Party</th>
<th>SH</th>
<th>HH</th>
<th>NI</th>
<th>HB</th>
<th>NW</th>
<th>HE</th>
<th>RP</th>
<th>BY</th>
<th>BW</th>
<th>SL</th>
<th>Total, West Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDU/CSU 2005</td>
<td>36.4</td>
<td>28.9</td>
<td>33.6</td>
<td>22.8</td>
<td>34.4</td>
<td>33.7</td>
<td>36.9</td>
<td>49.2</td>
<td>39.2</td>
<td>30.2</td>
<td>37.4</td>
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<tr>
<td>pp change</td>
<td>-0.4</td>
<td>-0.8</td>
<td>0.9</td>
<td>1.8</td>
<td>0.7</td>
<td>3.4</td>
<td>3.3</td>
<td>9.4</td>
<td>3.6</td>
<td>4.8</td>
<td>3.4</td>
</tr>
<tr>
<td>SPD 2005</td>
<td>38.2</td>
<td>38.7</td>
<td>43.2</td>
<td>42.9</td>
<td>40.0</td>
<td>35.6</td>
<td>34.6</td>
<td>25.5</td>
<td>30.1</td>
<td>33.3</td>
<td>35.1</td>
</tr>
<tr>
<td>SPD 2002</td>
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<td>42.0</td>
<td>47.8</td>
<td>48.6</td>
<td>43.0</td>
<td>39.7</td>
<td>38.2</td>
<td>26.1</td>
<td>33.5</td>
<td>46.0</td>
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<td>pp change</td>
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<td>-3.3</td>
<td>-4.6</td>
<td>-5.7</td>
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<td>-12.7</td>
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<td>4.3</td>
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<td>5.3</td>
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<td>18.5</td>
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</tr>
<tr>
<td>PDS 2002</td>
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<td>1.0</td>
<td>2.2</td>
<td>1.2</td>
<td>1.3</td>
<td>1.7</td>
<td>0.9</td>
<td>1.4</td>
<td>1.1</td>
<td>0.9</td>
</tr>
<tr>
<td>pp change</td>
<td>3.3</td>
<td>4.2</td>
<td>3.3</td>
<td>6.2</td>
<td>4.0</td>
<td>4.6</td>
<td>4.6</td>
<td>2.7</td>
<td>2.9</td>
<td>17.1</td>
<td>3.8</td>
</tr>
</tbody>
</table>

Table 4.2 Results at federal elections 2002 and 2005 in separate states, West Germany.
Percentages. State names are abbreviated and listed in the list of abbreviations.

<table>
<thead>
<tr>
<th>Party</th>
<th>SH</th>
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<td>+7.9</td>
<td>+21.4</td>
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<td>+9.8</td>
<td>+35.9</td>
<td>35.2</td>
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<td>6.3</td>
<td>4.3</td>
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<td>5.3</td>
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<td>18.5</td>
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<td>PDS</td>
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<td>1.3</td>
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<td>0.9</td>
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<td>0.9</td>
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<tr>
<td>pp change</td>
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<td>4.2</td>
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<td>4.6</td>
<td>4.6</td>
<td>2.7</td>
<td>2.9</td>
<td>17.1</td>
<td>3.8</td>
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</tbody>
</table>

Source: Forschungsgruppe_Wahlen.de, except from the distribution of seats, which is taken from Election.de1
Table 4.3 Results at federal elections 2002 and 2005 in separate states, East Germany. Percentages. State names are abbreviated and listed in the list of abbreviations.

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<tr>
<th>Party</th>
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<th>BE</th>
<th>SN</th>
<th>TH</th>
<th>MV</th>
<th>Total, East Germany</th>
<th>Total East and West</th>
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<tr>
<td>CDU/CSU 2005</td>
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<td>22</td>
<td>30</td>
<td>25.7</td>
<td>29.6</td>
<td>25.3</td>
<td>35.1</td>
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<tr>
<td>CDU/CSU 2002</td>
<td>22.3</td>
<td>29</td>
<td>25.9</td>
<td>33.6</td>
<td>29.4</td>
<td>30.3</td>
<td>28.3</td>
<td>38.5</td>
</tr>
<tr>
<td>Pp change</td>
<td>1.7</td>
<td>4.3</td>
<td>3.9</td>
<td>3.6</td>
<td>3.7</td>
<td>0.7</td>
<td>3.0</td>
<td>-3.4</td>
</tr>
<tr>
<td>SPD 2005</td>
<td>35.8</td>
<td>32.7</td>
<td>34.3</td>
<td>24.5</td>
<td>29.8</td>
<td>31.7</td>
<td>30.4</td>
<td>34.2</td>
</tr>
<tr>
<td>SPD 2002</td>
<td>46.4</td>
<td>43.2</td>
<td>36.6</td>
<td>33.3</td>
<td>39.9</td>
<td>41.7</td>
<td>39.7</td>
<td>38.5</td>
</tr>
<tr>
<td>Pp change</td>
<td>-10.6</td>
<td>-10.5</td>
<td>-2.3</td>
<td>-8.8</td>
<td>-10.1</td>
<td>-10</td>
<td>-9.3</td>
<td>-4.3</td>
</tr>
<tr>
<td>Die Linke 2005</td>
<td>26.6</td>
<td>26.6</td>
<td>16.4</td>
<td>22.8</td>
<td>26.1</td>
<td>23.7</td>
<td>25.3</td>
<td>8.7</td>
</tr>
<tr>
<td>PDS 2002</td>
<td>17.2</td>
<td>14.4</td>
<td>11.4</td>
<td>16.2</td>
<td>17</td>
<td>16.3</td>
<td>16.9</td>
<td>4.0</td>
</tr>
<tr>
<td>Pp change</td>
<td>9.4</td>
<td>12.2</td>
<td>5</td>
<td>6.6</td>
<td>9.1</td>
<td>7.4</td>
<td>8.4</td>
<td>4.7</td>
</tr>
</tbody>
</table>

Source: Election.de2

Table 4.1 reveals that in the western states of Nordrhein-Westfalen, Hamburg and Schleswig-Holstein, the SPD lost votes among the unemployed while the CDU gained accordingly. In the eastern states of Brandenburg and Sachsen, both parties lost while the PDS won many jobless votes. This indicates that only in the East, where the PDS was considered a real alternative, did unemployed voters turn away from both the CDU and the SPD. In states where there was no real alternative to the left of the SPD, the unemployed only turned away from the SPD, while the CDU generally increased.

The renowned research group Forschungsgruppe Wahlen attributes the weak performance by the SPD in the elections for the European Parliament and the parliaments in Saarland and Nordrhein Westfalen amongst others to their unpopular federal policies (Forschungsgruppe_Wahlen.de). Also, the extreme right parties NPD in Sachsen and DVU in Brandenburg, as well as the socialist PDS in Brandenburg and Thüringen, profited from campaigning against the government’s reforms. In the elections in Hamburg and Schleswig Holstein, however, state politics were clearly more important than federal politics for the voters’ decisions (ibid). The big loss by the CDU in Sachsen is also mainly attributed to other issues than the federal reforms (ibid).

45 As we can tell from table 4.1, the PDS was a formal alternative also in most western elections, but obviously the former communist state party of the DDR was no real alternative for western voters.
The important elections in Nordrhein-Westfalen proved particularly disastrous for the government, where 39 years of consecutive social democratic rule was broken. The defeat caused Schröder to call re-elections (Spiegel 05.22.2005a; 05.22.2005b). In his speech on the day of the vote of confidence, Schröder attributed the decision of asking for the vote to the SPD’s poor performance in the state elections and the Agenda 2010 is blamed for the bad election results (Frankfurter Allgemeine 07.02.2005). This demonstrates that Schröder interpreted the election result as an indication of the unpopularity of the reforms even if the link from the voters’ opinion on Agenda 2010 and individual voting behavior is unknown.

Table 4.2 and 4.3, of the federal elections, shows that the SPD faced the strongest losses in 2005 in the East, while the CDU/CSU gained. As expected, the popularity of the Left Party also increased. Of special interest are the gains made by the Left Party in the West, where the polls of the PDS previously have been of no importance. In 2005, the Left Party managed to win 30 seats in the East and 24 in the West, in contrast to only 3 seats won in 2002 (Election.de2). The data indicates that many voters turned to the alternative left of the SPD when they were given a “real” alternative.

Taking lack of individual data and problems with internal validity into consideration, results from elections indicate that the SPD “took blame”, measured by lost votes, in all elections. The PDS profited from the loss, while the polls of the other parties, the CDU, the FDP and the Greens, paint a mixed picture.

4.2.6 Conclusion - did diffusion of power outweigh diffusion of accountability?
Regarding the diffusion of power effect, we concluded that power was definitely diffused, considering that the opposition used their majority in the Bundesrat to hamper and influence reforms. This diffusion of power opens up for diffusion of accountability, which I discussed through analyzing how the blame for reforms was apportioned in newspaper articles, elections, polls and demonstrations.

The discussion showed that the blame for reforms was apportioned differently in the various arenas. Newspapers mainly refer to the government as responsible

46 74% (versus 14%) said that politics in Hamburg was more important than federal politics.
47 More precisely, in the West, WASG candidates competed on the Left Party’s lists. For more information on the Left Party, see page 59.
for the reforms, and the general impression from the demonstrations is that the SPD was blamed more than the opposition. The polls show varying tendencies but mainly indicate that the CDU/CSU gained popularity when the SPD lost. In elections, SPD faced the biggest losses, also among the unemployed and in the East. Although the election results are not only caused by the unpopularity of the retrenchments, it is clear that Schröder attributes the SPD’s poor performance to the unpopularity of Agenda 2010. His decision to call new elections is a clear example of taking the blame, even if the link from the retrenchment to blame-apportioning is blurred.

The causal effects are unclear and the findings disputable. More reliable conclusions require a more systematic investigation of newspapers, demonstrator’s slogans and individual voting behavior, which would be a separate master project. Still, the overall impression is one of a Red-Green government who has taken most of the blame for the unpopular reforms, while a free-riding opposition was able first to block, next to influence the reforms through their veto power in the Bundesrat, and subsequently profit from the popularity loss of the government. In other words, diffusion of power effects were stronger than diffusion of accountability effects. The old politics hypothesis 4.2.O receives support, while the new politics hypothesis 4.2.N is weakened.

Put differently, the fact that consensus was sought on reforms did not spare the government from being blamed. Would it look differently if consensus was not sought? On the one hand, it is probable that the SPD would have faced even greater losses if the opposition was not involved, in which case they might have been able to intensify the attacks on the reforms. On the other hand, it is quite unlikely that the opposition would have criticized the principle of retrenchment, considering that the CDU/CSU and the FDP are politically speaking positioned to the right of the Red-Green government.

4.3 Left power resources and retrenchment

4.3.1 Introduction

According to the power resource perspective, strong left parties and unions have contributed to the growth of welfare state programs (Pierson 1996:150). Welfare states were “outcomes of, and arenas for, conflicts between class-related, socioeconomic interest groups” (Korpi and Palme 2003:425). An inversion of the
power resources perspective implies that weaker left powers and unions would open up for a retrenchment of the welfare state. According to Pierson, the power of the traditional guardians of the welfare state, trade unions and left parties, has actually decreased considerably. Since this is not reflected in radical cutbacks in social programs, he concludes that left parties and unions are not central as defenders of the welfare state anymore. Instead, what we can call “new interest groups” have taken over the leading role as welfare state guardians. As an example of policy feedback from previous political choices, the welfare state has led to the formation of interest groups linked to particular social programs, such as groups for pensioners, health care consumers or disabled (Pierson 1994:30; 1996:150-151). A favored example for Pierson is the American Association of Retired People (AARP) (Pierson 1996:40).

The above claims have been criticized by several scholars. By studying German and French welfare retrenchment, Elinor Scarborough (2000) claims that there are hardly any instances of organized groups of welfare clients emerging as main defenders. Instead, unions and left parties are still powerful obstacles to retrenching western welfare states. She is supported by Bonoli (2001:241), who claims that pro-welfare coalitions in continental Europe coincide with the labor movement, while issue-based pressure groups is a phenomenon of English-speaking countries. Based on a comparative study, Korpi and Palme also find empirical support for the claim that left parties are central defenders of the welfare state, because “the risk for major cuts has been significantly lower with left party representation in cabinets” (Korpi and Palme 2003:441).

Obviously, Scarborough and Pierson disagree on the strength of left powers. Pierson does open up for exceptions, as he claims that “the power of organized labor and left parties has shrunk considerably in many advanced industrial societies” (Pierson 1996:150, own emphasis in italics). It is unclear whether Pierson expects an emergence of new interest groups in the particular cases where unions or left parties are still strong. I will assume that Pierson considers the feedback effects from welfare state programs so powerful that interest groups have risen as prominent actors independent of the strength of other political actors, and that the “critical constraints on reform” (Pierson 1996:144) stems from these groups (and ultimately voters (ibid)) and not from left powers. I also assume that the “left power
resources” perspective implies that left powers will mobilize stronger against retrenchment than will new interest groups, also if left powers have lost strength.

The implication of the inverted left power resources theory is that if retrenchment comes about, it is due to a loss of left power strength. This causal link is difficult to test since one must employ counterfactual arguments claiming that retrenchment would not have come about if left powers were stronger. I will therefore tone this discussion down and rather focus on mobilization. This enables me to test the new and the old politics hypotheses as rival explanations of the same case – the defense of the welfare state:

The hypothesis on the importance of “new interest groups” as welfare state defenders is a part of the theory of new politics:

4.3.N: New interest groups have emerged as the main defenders of the welfare state.

The rival hypothesis on the role of left powers as welfare state defenders is old politics:

4.3.O1: Left parties and unions remain the main defenders of the welfare state.

The third hypothesis is also old politics, since the inverted left power resources implies that the strength of the left powers is an independent variable that can explain retrenchment. Simultaneously, I will test Pierson’s claim that left powers have lost considerable strength:

4.3.O2: The power of labor unions and left parties has shrunk considerably. This has opened up for retrenchment.

4.3.2 Theoretical concepts, operationalizations and validity

The clarification of the actors referred to in the hypotheses is straight forward. Trade unions are organizations that defend the interests of employees opposite the employers (Østerud et al. 1999:54). In Germany, the eight most important labour unions are organized under the peak association DGB (Deutscher Gewerkschaftsbund), the two dominant unions being ver.di (Vereinte Dienstleistungsgewerkschaft), the world’s largest trade union, and IG Metall.
Concerning *left parties*, it is common to position the SPD, the Green party and the PDS (and the WASG) to the left of the center on the political-ideological spectrum and the CDU/CSU and the FDP to the right (Schmidt 2003a:130). The PDS is the remnants of the former communist party of the German Democratic Republic, and the party is still almost exclusively an East German Party (ibid:146). The WASG (Die Partei Arbeit & soziale Gerechtigkeit – Die Wahlalternative) was born simply as a protest against Agenda 2010, and was created amongst others by dissenters from the SPD and leftist trade unionists (taz 12.03.2004). In July 2005, it was decided that the WASG and the PDS would join forces before the federal elections of October 2005, and that the PDS would change its name to the Left Party (die Linke) (Speigel Online 07.17.2005). In June 2004, Oscar Lafontaine, Schröder's political and personal foe, joined the party. He is presently a part of the leadership of the Left Party.

“New interest groups” are groups linked to particular social policies such as interest groups for pensioners, patients or unemployed. The latter refers to interest groups different from *trade unions*. Since the theoretical and operationalized concepts of “unions”, “left parties” and “new interest groups” are overlapping, the validity of these concepts is good.

Pierson does not define the theoretical concepts “power” or “strength”, but merely claims that the power of left parties and organized labor has “shrunk”. In his brief assessments of particular cases of welfare state retrenchment, Pierson refers to party strength as domination of government and/or parliament (in the cases of division of powers) (Pierson 1996:161, 167, 170). With regard to union power, he mentions union density, the formal competences of the unions regulated by law and the centralization of collective bargaining (ibid:161, 170). The strength and role of new interest groups is not discussed (which indicates that such groups are not central actors in these countries, quite the contrary to Pierson’s central claim).

Common theoretical definitions relate power to the actor’s ability to produce desired outcomes, and an actor’s power base to its possession of resources (Østerud et.al 1997:149). Evidently, Pierson focuses exclusively on *passive* power resources such as membership rates and formal competences when he assesses

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48 German electoral law did not allow the two parties to combine their lists, therefore, the WASG candidates ran on the PDS’s lists (Sozialisten.de2).
49 The cases studied are Great Britain, Sweden, the USA and Germany.
the strength of left parties and unions. However, with regard to producing desired results – in this case obstructing reforms – it is sound to discuss both an actor’s passive power as well as active power. Active power refers to the actor’s ability to mobilize its resources or members through actions like participating in the public debate and arranging or participating in demonstrations or petitions.\footnote{Lobbying will be excluded altogether, because getting an overview over lobbying is a difficult empirical task which the limit of this thesis does not allow. For a general discussion of the participation of German interest groups in decision-making in the area of social policy, see von Winter (1997:339-438).} We can picture active power in relation to defending the welfare state as a continuum, stretching from “not being able to mobilize”, via varying degrees of mobilization, to actually succeeding in obstructing reform. The weakest form for obstruction is forcing responsible politicians to changing parts of the content of the reforms, while the most powerful actors are able to halt retrenchment entirely.

![Figure 4.6 The continuum of “active power”](image)

Having presented the theory and discussed and developed valid operationalizations of the concepts of actors and power, I will next turn to the empirical case. The discussion of the hypotheses will be broken into separate treatments of the strength and role of left parties, unions and new interest groups. I will discuss the passive and active strength of each actor, how they mobilized to obstruct retrenchment and what success this mobilization had. If left powers stood out as main defenders of the welfare state, old politics is supported, and if new interest groups were leading protesters, new politics gains credibility. Possible pressure activity prior to the presentation of Agenda 2010 on March 13, 2003, will be kept out of the discussion. This is justified by fact that the period from the idea of Agenda 2010 was born until it was presented by Schröder was only one month, which gave affected groups little possibility to exercise pressure (Geyer et al 2005:250).

Since several of the actors mentioned above met in the arena of the Montagsdemos (Monday demonstrations), I will give a presentation of these
demonstrations before I proceed with a discussion of the left powers and the new interest groups.

4.3.3 Montagsdemos

The Montagsdemos had great symbolic power, as they were first arranged in 1989, when opponents of the DDR regime took to the streets every Monday to fight for democratic reforms under the slogan “Wir sind das Volk” (We are the people). In 2003 and 2004, Germans were using the same slogan to protest against Agenda 2010, and their anger was primarily directed towards the Hartz IV.

The Montagsdemos against Sozialabbau were first arranged in Leipzig in September 2003 and spread quickly (Frankfurter Allgemeine 09.01.2004). The movement reached its zenith in the spring and summer of 2004, but lost momentum in the fall of 2004. In late August, 130 000 demonstrators in around 145 cities, mainly in the East, took to the streets in the Montagsdemos (Agence France Presse 08.24.2004).

Different groupings organized and took part in the Montagsdemos in the different cities of Germany, and there was no overarching national organization (Yang 2005 [personal correspondence]). The overall impression is that the organizers were a crude mix of trade unionists, PDS members, members of link movements (i.e. Attac) and interest groups for unemployed, who were organizing and taking part either as members of their organizations or as private persons (Keller 2004 [personal correspondence]; Schmid 2005 [personal correspondence]; Wörthwein-Mack 2005 [personal correspondence]). A survey of the individual demonstrators show that the typical participant in the Monday demonstrations was male, between 50 and 55 years old and either unemployed or whose job security was not guaranteed (Rucht and Yang 2004:27).

In addition to the Montagsdemos, other mass demonstrations were also organized. In May 2003, German trade unions arranged a mass protest against Agenda 2010, which attracted 90,000 participants (Associated Press Worldstream 05.24.2003). Moreover, in April 2004, a European-wide protest against cuts in

51 In Leipzig, the first action was organized by the Sozialforum and supported by amongst others Attac and local branches of the DGB, IG Metall and ver.di. Also, Netzwerk gegen Arbeitslosigkeit (Network against Unemployment) and ALV Landesverband (ALV = Arbeitslosenverband), which are interest organisations for unemployed, took part (Frankfurter Allgemeine 09.01.2004). In Thüringen, in comparison, the initiatives were local and spontaneous, although amongst others PDS and DGB seem to have played a role as organizers “behind the scenes” (ibid).
social services was arranged by the European trade union organization. In Germany, half a million people in several German cities participated in the demonstrations against Sozialabbau and Agenda 2010, organized by German trade unions (Agence France Presse 04.04.2004).

On August 11, 2004, just as the protests were reaching their momentum, the government announced changes to Hartz IV. The new unemployment benefit II was now made available to all recipients from January 1, 2005, and the children’s tax allowance of 4100 euro was to be paid from the child’s birth instead of from the child turns fifteen (Agence France Presse 08.12.2004a). The press accredited these changes to the pressure from the streets although the leadership of the SPD denied that there was a link between the Montagsdemos and the modifications (Agence France Presse 08.12.2004a; Spiegel 08.12.2004a; 08.12.2004b; Thewalt (2004)). Apart from these modifications, the pressure from the streets had no direct effect on the content of the reforms.

The Montagsdemos were arenas where different leftist groupings and disappointed voters protested the politics of the Red-Green government. The left power resources model implies that the SPD should have fronted the resistance against Sozialabbau. Instead, as the instigators of Agenda 2010, they were the targets of the critique. The interesting role of the left parties will be discussed next.

4.3.4 Left-of-centre parties
Pierson claims that the power of left parties has declined, and that they therefore no longer are central as welfare state defenders. Scarbrough, on the other hand, argues that left parties are not generally in decline across Western Europe and that they will oppose welfare cuts, in line with the old politics hypothesis. What is true of German left parties? To answer this question, a separate discussion of the left parties in government and the left parties in opposition is necessary. First, I will assess the strength of the SPD and the Greens.

The main left party, the SPD, has been the largest party in the Bundestag and has led the coalition government since it won the federal election in 1998 until it lost the elections of 2005. However, after the Red-Green government was elected

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52 According to the original rules, the first payments of the unemployment benefit II were to be paid out in February for those formerly receiving unemployment assistance, and the children’s allowance was 750 Euros until the child turned 15 (Agenda France Presse 08.12.2004a).
for a second term in 2002, and especially after the introduction of Agenda 2010, the SPD has been losing support, proved by a loss of membership, poor results in polls (see figure 4.4 and 4.5) and elections at state, EU and federal level (see table 4.1, 4.2 and 4.3). After the defeat in the state election in Hessen in February 1999, the government lost its majority in Bundesrat, which it had held since 1991 (under Kohl), and through SPD’s loss in Sachsen-Anhalt in April 2002, the opposition gained a secure majority (Merkel 2003:170).

Although the SPD has performed poorly since 2002, and the government’s powers were checked by the incongruent majority in the Bundesrat and the Bundestag (as discussed in part 4.2), it is premature to conclude that the power of the social democratic party has shrunk considerably. The Green party is also not facing serious decline. Quite the contrary, the Greens gained governmental influence for the first time in 1998, when it polled 6.7% of the votes. The party’s polls have been relatively strong since (see table 4.1) although it lost its ministerial offices after the election of 2005.

Regarding the role of the SPD and the Greens as welfare state defenders, the fact that the SPD and the Greens carried out the welfare state retrenchment is arguably itself a proof that these left parties have lost their importance as guardians of the welfare state. However, this is the result of a change in politics (as discussed on pg. 14), not of a decline in power. “Traditionalist” factions within the SPD and the Greens opposed this change of politics through arranging an inner party referendum and voting against some reforms in their respective parliamentary parties and in parliament (Zohlnhöfer 2004:122). Apart from these factions, the politics of the SPD (and the Greens) does not fit into either the new politics or the old politics model, because they both imply that left parties will oppose reforms. Pierson and Scarbrough disagree on the strength of the left parties, which leads to different conclusions on their centrality as welfare state defenders. An explanation of the fact that the SPD (and the Greens) used their governmental and parliamentary powers to retrench the welfare state obviously needs other models. I will return to this in chapter five.

The remaining left parties, the PDS and the WASG, positioned themselves as expected from a left power resources theory perspective. Both parties were strongly

53 In 2004, the total SPD membership was reduced to 605,000. With a recorded loss of 45,000 members, SPD lost more
opposed to Agenda 2010 and in particular the Hartz IV. The WASG and the PDS demonstrated their opposition against the retrenchment through taking official stances strongly critical of Agenda 2010 (Sozialisten.de)\(^ {54} \) and through participating in and organizing *Montagsdemos* (Agence France Presse 11.02.2003; Frankfurter Allgemeine 09.01.2004). Since the demonstrations exerted little concrete influence on the policies of the government, the main obstruction of the Red-Green government’s policies was arguably the *political alternative* that the WASG and the PDS represented. In the elections of 2004 and 2005, the opposition towards Agenda 2010 probably explains most of the PDS’s good performance (see table 4.1 and 4.2). However, the consequence of the PDS stealing votes from the SPD is that the SPD will have to share the governmental power with the CDU/CSU. This will move German politics further to the right, increasing the probability of welfare state reforms gaining momentum. In other words – the political alternative represented by the PDS turned out to be an obstacle to the SPD, but *not* to the reforms.

### 4.3.5 Trade unions

Due to the German unions’ strong membership and the German system of “social partnership” through which unions have several channels of influence on social and labor policy, German unions have traditionally played an important role in social policy. This has tended to intimidate politicians from pursuing policies that “might provoke sustained protest from the unions or, alternatively, seek to buy off protests through compensation of the unions in other policy areas” (Schmidt 2003a:172).

The next part will evaluate the passive and active strength of German unions and discuss whether they played a central role as obstacles to Agenda 2010.

### 4.3.6 Trends in the development of unions’ power

*Union density.* The membership density of western German trade unions was high and stable in the period from 1960 to 1990, and was boosted by the German unification, when the DGB gained four million new members (Jacobi et.al 1998:201). However, union membership declined from 11.8 million in 1991 to 7.7 million in

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\(^ {54} \) This a reference to the Left Party’s official “resource site” on Hartz IV, but a search on “Agenda 2010” through the official web site results in numerous critical press releases.
Total density was reduced from 28.1% in 1991 to 17.3% in 2000 (Streeck and Hassel 2004:109-110). The loss of membership has contributed to a decline in bargaining power and to a trend towards “deunionisation”. In other words, the German unions’ passive power measured by membership density is sinking. However, in comparative perspective, the present German union density corresponds to the European average (Keller 2004:219).

Collective bargaining. An important power base for German trade unions has been their monopolized right to represent employees in sectoral-level bargaining with employers (*Flächentarifvertrag*). In addition, they have the right to conduct wage-negotiations without state intervention (*Tarifautonomie*). Though the *Tarifautonomie* still is legally guaranteed by the German constitution, several tendencies in German industrial relations are infringing on the principle of sectoral bargaining, in effect reducing the passive powers of unions.

Unions have witnessed an extended use of opening clauses (Kohaut and Schnabel 2003:215), a wave of so called *Bündnisse für Arbeit* or production site agreements (see pg. 37) and increased violations of tariff regulations (Bispinck and Schulten 1999). Last, but not least, there is the emergence of a growing segment of the economy, concentrated among small and medium-sized firms, which is marked by union-free, employer-association free, works council-free and collective agreement-free zones (Jacobi 2003:28). These are all developments that lead to a decentralization of collective bargaining from the sectoral to the plant level. At the plant level, the interests of the workers are *at best* represented by the works councils, who have no formal links to the unions and who do not have the right to arrange strikes. Dezentralisation thus involves a shift of competences from the unions to the work councils (Rosdlicher 1997:460).

Tripartism and Selbstverwaltung. Other channels of influence on social policy for the unions have traditionally been the principle of tripartism and the organizational principle of incorporating unions into the administration of social security systems (*Selbstverwaltung*).

Tripartism was visibly established under Chancellor Brandt (1969-74). In the framework of concerted actions (*Konzertierte Aktion*), government ministers, unions

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55 In enterprises with more than five employees, they have the right to establish work councils. However, data indicate that only a minority (25%) of all eligible enterprises have elected work councils, and that these cover around 60% of the private-sector work force (Keller 2004:226).
and business representatives met regularly to negotiate on economic policy. In 1996, the leader of IG Metall called for a renewal of the tripartism. Through an “Alliance for Jobs” (Bündnis für Arbeit), unions were to make wage concessions provided that the government promised to forgo welfare cuts and employers promised more employment. The Alliance for Jobs failed, but was reintroduced when Schröder instituted the Alliance for Jobs, Training and Competitiveness in 1998 (Streeck and Hassel 2004:105-115). Scarbrough (2000:244) uses this alliance as a proof of trade union strength: “Currently, the Alliance for Jobs, bringing together industrialists, unions and the government to arrive at a new settlement, is the centre piece of the Schröder government’s agenda”. It is therefore ironic that also the Alliance for Jobs proved a fiasco (Streeck and Hassel 2004:117; Zohlnhöfer 2004:111-112).

Instead, Schröder switched to unilateral action, proven by the one sided appointment of the Hartz Commission, in which there were only two union representatives and one business association representative among 21 members. Further, a scandal in the Federal Employment Service (BA) caused Schröder to dismiss the leadership, appoint a confidant as its president, and through Bundestag legislation curtail the influence of the social partners on the BA (Streeck and Hassel 2004:118-119). In addition, Schröder created a new “Superministerium” by merging the “red” Ministry of Labour (in which the unions had a stronghold) with the staunchly economically liberal Ministry of Economics, and replaced ex-union official Walter Riester with a right-winger, Wolfgang Clement as its director (Menz 2005:204).

Whereas state unilateralism largely replaced the principle of tripartism, the principle of self-administration, established already at the time of Bismarck, has hardly changed since, except from the changes in the system of self-administration in the BA described in footnote 56.

Active Power. Union power is not only about densities and formal capabilities but also about their ability to deliver the membership. Since German industrial

56 The hierarchy of the BA consists of three levels – one Zentrale, ten Regionaldirektionen and 178 Agenturen für Arbeit (Arbeitsagentur.de2). The Selbstverwaltung of the BA implies that the unions, the employers and the state provide one third each of the representatives of the administrative board (Verwaltungsrat) (Arbeitsagentur.de3). Through the reforms of the BA, the administrative board was reduced to a supervisory board without operative responsibility, and the Verwaltungsrat was abolished entirely on the regional level (Regionaldirektionen). This is what Hassel and Streeck (2004:119) refers to as “curtailing the influence of social partners on the BA” (Streeck 2005 [personal correspondence]).
relations are comparably peaceful (Jacobi et al. 1998:222-228), German unions’ active powers, measured by their ability to arrange successful large-scale strikes, have only once been put to the test since the mid-nineties. Historically, when strikes, or threats of strikes, have occurred, the demands of the unions have been met (ibid:222). Therefore, the huge failure of the largely unpopular strike IG Metall (Germany’s biggest blue-colour union) arranged in the new federal states in June 2003 was an unprecedented defeat (Hartwich 2003: 289). Although the strike was not directed towards Agenda 2010, it caused a serious blow to the union’s prestige, displayed its weakening active powers and demonstrated that the IG Metall’s strength in the new federal states is limited (Fichter 2005:104; Hartwich 2003:104).

It seems that German unions have lost some power in German politics. On the one hand, they have witnessed declining membership, the decentralization of collective bargaining, loss of prestige due to the failed strike, and increased unilateralism on the government’s behalf. On the other hand, the unions have kept their right to free collective bargaining (Tarifautonomie), their membership density is comparable to the European average and the principle of Selbstverwaltung has survived. The loss of strength is not considerable, but it does seem reasonable to expect that the relative decrease of passive and active power resources could make it harder for unions to produce desired outcomes. This assumption will be tested in the next part, as the discussion turns to the unions’ particular role in connection with Agenda 2010. What aspects of Agenda 2010 were the unions opposed to, in which arenas did the opposition materialize and what influence, if any, did unions have on the reforms?

4.3.7 Trade Unions and Agenda 2010
The unions were generally fiercely opposed to Agenda 2010, although the reforms reinforced a traditional internal division between “modernizers” and “traditionalists”. Whereas the leaders of the DGB, the IG Metall and ver.di were uncompromisingly critical of Agenda 2010, the head of the chemical workers union took on a softer line and urged the unions to find a compromise (Streeck and Trampusch 2005:15).

57 The strike called for the introduction of the 35 hour week in the East.
The unions critical of the reforms concentrated their attacks on four aspects of Agenda 2010: First and foremost, they opposed Hartz IV, especially the reduced duration and level of unemployment benefits and the increased pressure on the unemployed to accept almost any available job. Second, the weakening of the protection against unfair dismissal was criticized. Third, the unions objected to the shortened subscription period on unemployment benefits for elderly, and finally, they were against the abandoning of the principle of equal financing of sick pay (Financial Times 05.07.2003; Pilz 2004: 206, 220).

The reforms led to a deterioration of the relationship between the SPD and the labour unions. The unions felt that they were set aside and not taken seriously by the SPD leadership. This was confirmed by Schröder, who made it obvious that he did not consider the leader of the DGB a serious negotiation partner. In response, the unions boycotted the regular meetings between the SPD and the unions (die SPD-Gewerkschaftsrat) in May 2003 (Financial Times 05.07.2003), and thereafter presented a counterproposal to Agenda 2010 (Frankfurter Allgemeine 05.09.2003). In addition, parts of the trade union movement supported the revolt within the SPD fraction in the Bundestag (the Mitgliederbegehren). Also, as mentioned, Unions arranged two mass demonstrations against Agenda 2010 which attracted 90,000 and 500,000 demonstrators.

Unions and union members played a part in the Montagdemos either as official organizers or as individuals, and the centrality of their role varied in different cities (Frankfurter Allgemeine 09.01.2004). In addition, the DGB arranged a petition against the reform policy of the government from June 2004. Instead of collecting millions of signatures as the DGB expected, only 750,000 union members, equaling 11%, signed. Thus, the petition was considered a fiasco by parts of the press (i.e. Stuttgarter Zeitung 04.23.2005; taz 04.08.2005).

I do not have any research on the degree to which the unions monopolized the role as reform-critics in the press, but recent research indicates that next after state actors, unions are the most powerful actors in the public debate on unemployment (Baum et al. 2005:10-11). My general impression is that this was also true of the public debate on Agenda 2010.

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58 The contact was picked up again in the end of June (Agence France Presse 06.19.2003).
59 The leader of IG Bau Wiesehügel was one of the initiators and the leader of the IG Metall, Jürgen Peters encouraged members to support the petition (Geyer et al. 2005:267; Stuttgarter Zeitung 04.23.2003)).
Although the power basis of the German unions has eroded, they were active in the resistance against Agenda 2010, in line with the classic power resource perspective. However, despite heavy protests, the trade unions had little or no success in changing the content of the government’s policies. Only the minor concessions that the government made in August 2004 can, as discussed above, be credited to the pressure from the streets, in which labor unions played a part next to other actors.

It is quite possible that the decrease in the unions’ passive powers made it easier for the government to carry on the retrenchment despite the opposition from unions. The validity of counterfactual argumentation is however difficult to assess. More interesting is whether the importance of the role of the trade unions as welfare state defenders has decreased relative to that of new interest groups. This question will be discussed after I have assessed the role of the new interest groups in the next part.

### 4.3.8 New interest groups

In Germany, citizen’s interests were traditionally articulated by the “Big Four” – labour organizations, business organizations, churches and farmer’s interest groups (Schmidt 2003a:161). Today, Germany’s interest group system is more pluralistic. “New social movements”, such as Attac, and environmental organizations have gained importance (Roth 2001; Rucht and Roose 2001). Are there also examples of “new interest groups” and have they emerged as the main welfare state defenders? What we have identified as retrenchment was concentrated on the health sector, pensions and unemployment benefits. Therefore, groups connected to these sectors are of interest, in addition to what Pierson calls “public interest organizations”, which seek to defend the interests of those too weak to mobilize on their own.

*Public interest organizations.* The two German *Sozialverbände* – the Vdk (Verband der Kriegs- und Wehrdienststopfer, Behinderten und Sozialrentner Deutschland) and the SoVD (Sozialverband Deutschland) - are examples of “public interest organizations”. In the post-war period, both organizations represented the interests of war victims, but as this client group decreased, they extended their area of interest to incorporate amongst others pensioners, handicapped people, patients, and people receiving social insurance (Sozialverband.de; Vdk.de; von Winter 1997:192). The two organizations are working towards a fusion, and if they succeed,
they will represent two million members – more than all German political parties together. Both are experiencing strong growth in membership (7 pp annually), adding to their already considerable passive powers (Siems 2004).

The Sozialverbände have mainly concentrated on defending their members’ social rights in court, as well as running class-action lawsuits in connection with social reforms. The SoVD, for example, challenged the legal status of the 2004 pensions freeze in court (ibid). Concerning Agenda 2010, both the Vdk and the SoVD demonstrated that they also managed to mobilize their clientele. In addition to participating in organizing Montagsdemos (Frankfurter Allgemeine 09.01.2004), the Vdk organized its first demonstration in 20 years. It took place in Munich and attracted 30,000 pensioners protesting against “Sozialabbau und Rentenklau”. The SoVD arranged a demonstration in Berlin, which attracted 20,000 demonstrators (Siems 2004).

Organizations for health care consumers. According to Karsten Grabow, there are some 100 patients’ interest groups in Germany, but these organizations are heterogeneous and organizationally weak. An association called Partitätsche Wohlfahrtsverband “mobilized” most strongly against the health reform, as they were they only ones issuing critical press releases. However, they abstained from mass mobilization. In Grabow’s words: “The latest health care reform passed indeed without much organized resistance” (Grabow 2005 [personal correspondence]), an observation supported by dr Nils Bandelow (Bandelow 2005 [personal correspondence]).

Organizations for pensioners. Regarding the representation of pensioners’ interests, labour unions and employers’ associations by far dominate “old age politics” (Alterssicherungspolitik) (von Winter 1999:167). With the average member being over 60 years old (Süddeutsche 12.31.2004), the concerns of the elderly are also the main occupation of the Sozialverbände discussed above. Other interest groups for pensioners and elderly have minor political importance, if you consider their negligible membership numbers and the low intensity of their activities (von Winter 1997:167). 240.000 people were organized in the eleven largest pensioners’ organizations in the eighties, and in comparison with Pierson’s favoured example of “new interest groups” – the American AARP – they are relatively insignificant (ibid:190-191). The passive powers of pure pensioner organization are in other words weak. von Winter (1997:191) argues that the lack of readiness to join
pensioners' organizations stems from the fact that German pensioners are content with how their interests are catered to in the political arena. In addition, employees organized in trade unions have the option to prolong their membership when they retire, which leaves little need for pensioners' organizations (ibid:191). Lastly, the decentralized organization of the German retirement insurances, which are divided by occupation groups inhibits a national organization along the lines of the American AARP, which represents beneficiaries of the tax based and national pension scheme (Béland 2001:159)

Two organisations stand out as exceptions; die Grauen Panther (the grey panthers) and the BRH (Bundes der Ruhestandsbeamten, Rentner und Hinterbliebenen) (von Winter 1997:167). The former is both an organization and a political party, and its membership amounted to around 10.000 in 1997, indicating little passive powers. To my knowledge, only die Grauen Panthers mobilized against reform.\(^6\)\(^0\) They concentrated on protesting the Hartz IV, on which they issued a critical press release (Die-Grauen.de). The panthers also urged everyone to participate in the Montagsdemos (Die-Grauen.de), and organized their own demonstration in Berlin against the cuts in social services, which attracted 1000 demonstrators (Die Welt 03.30.2004).

*Organizations for unemployed.* The unemployed are very difficult to organize on a permanent basis for several reasons.\(^6\)\(^1\) This is reflected in the weak passive power of the unemployed organizations. There were around 1500 such groups in 1992, organizing only 0.5 – 3% of all registered unemployed (Baum et al. 2005:25). Unemployed organizations find it extremely difficult to voice their opinions within the public debate, which is monopolized by the state and the social partners (ibid:9-10).\(^6\)\(^2\) Trade unions have better access to the political decision making, can organize strikes, are more successful in mobilizing and their financial situation is superior to that of the organizations for unemployed (ibid:8, 10). Because of their weak position opposite unions, unemployed organizations need to cooperate with

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\(^6\)\(^0\) A search in the newspaper database Lexis Nexis gives only a handful hits, and none on the BRH. The search was done by combining the following keywords: ((Die Grauen OR DBB) AND (Hartz IV AND Agenda 2010)). A search on the same actors in connection with keywords on pensions gave no results.

\(^6\)\(^1\) For discussions on the difficulties with organizing unemployed, see von Winter (1999:232-234) and Baumgarten (2003:3-4).

\(^6\)\(^2\) Baum et.al have done research on “political claims” made in the Süddeutsche from 1995 to 2002. Political claims are “strategic interventions, either non-verbal, in the public space made by a given actor on behalf of a group or collectivity”. Unemployment initiatives had only 1% of such claims (Baum et al. 2005:9-10).
the unions in order to influence policies at the national level through the unions (Baumgarten 2003:2).

As a result, the links between the organizations for unemployed and trade unions are close. 870 of the 1500 organizations for unemployed are actually affiliated with and run by trade unions (ibid:2). It is therefore difficult to isolate the activities done by the organizations for the unemployed as “new interest groups”-activities in contrast to activities done by “classic” interest organizations like the unions.

One of the largest organizations for unemployed is the independent Arbeitslosenverband Deutschland (ALV), which had 7000 members in 1999 (Die Welt 08.11.2004). To my knowledge, it was also the only organization demonstrating active opposition to Agenda 2010. The ALV participated in organizing several demonstrations, amongst others in Leipzig and Berlin (Agence France Presse 09.12.2004; Associated Press Worldstream 08.20.2004; Frankfurter Allgemeine 09.01.2004; Die Welt 08.11.2004). As mentioned earlier, the pressure from the streets resulted in minor alterations to the reform. However, the ALV must share the credit for this with all those participating in the demonstrations.

4.3.9 Conclusion – were left powers or new interest groups the main welfare state defenders?

The discussions of the passive and active powers of the left parties, unions and new interest groups, and their role as welfare state defenders, reveal several interesting findings. First, it is clear that the strength of German left powers has shrunk somewhat, but not considerably, as Pierson claims. If we compare German unions to new interest groups, German trade unions definitely have the strongest passive power with regard to membership numbers. In addition, the unions have several channels of societal influence, ranking from the Tarifautonomie to the right to strike.

Second, the left power resources theory can explain the policy positions of the PDS, the WASG and the trade unions, but neither Pierson nor the inverted version of the left power theory are able to explain the fact that the SPD and the Greens actually used their powers in government to retrench the German welfare state.

The retrenchment caused uproar among several groups, who to the streets to demonstrate against the Sozialabbau. Among these were both trade unions and
new interest groups who met in the arena of the *Montagdemos*. Which actors were the main obstacles against retrenchment – the trade unions or the new interest groups?

First, it is clear that neither were successful in *stopping* the retrenchment. Whether the unions would have been more successful in halting the retrenchment if they were more powerful, in line with hypothesis 4.3.O2, is difficult to say. Only minor parts of the reforms were changed after strong pressure from the streets. Neither trade unions nor new interest groups can take the credit for these changes, as many groups organized and participated in the *Montagsdemos*, along with large numbers of voters demonstrating as private people. One must therefore assess which actor was able to *mobilize* the strongest.

Since it is difficult to say whether unions or new interest groups were the most active in mobilizing through the Montagsdemos, it is more relevant to look at the demonstrations arranged by unions or new interest groups only. Unions attracted much larger numbers of demonstrators compared to demonstrations arranged by other actors. In addition, unions were much more active in the press. This confirms that unions are still the main defenders of the welfare state. In other words, the *old politics* hypothesis 4.3.O1 is strengthened with regard to unions and the *new politics* hypothesis 4.3.N receives little support.

Regarding the new politics theory, it is interesting to note that the German welfare state *has* had feedback effects. The organizations for pensioners, health consumers and unemployed are examples of beneficiaries of welfare schemes organizing to defend what they have in common – namely welfare benefits. Presently, these groups are weak relative to the trade unions, but the growing powers and membership numbers of the *Sozialverbände* is a case that fits perfectly into Pierson’s model. Anyone studying social political actors needs to pay careful attention to these organizations.
5. Summary and discussion

5.1 Summing up the findings

I will now recapitulate the main findings of chapter three and four in relation to the overarching research question “do old or “new” politics best explain the case of German welfare state retrenchment?”

The two central aspects of new politics were the role of the “new interest groups” and “blame avoidance”. As mentioned earlier, it is unclear whether the contention is that blame avoidance is merely a description of how retrenchment is done or whether the use of blame avoidance strategies is an independent variable that can explain whether governments are able to avoid blame among the voters. The first variant is easy to reject in the German case. In chapter 3, it was established that the blame avoidance strategies of obfuscation, division and compensation were barely present in the German case. The second variant was discussed in part 4.2, where the conclusion was that the Red-Green government did not manage to avoid blame, even if the blame avoidance strategy of “consensus-seeking” was used. In other words if we identify “the use of blame avoidance strategies” as an independent variable which can explain the degree to which politicians are able to avoid blame, the blame avoidance argument of the new politics might have explanatory powers. Even so, the newsworthiness and explanatory refinement of this independent variable appears rather meager.

Part 4.1 employed an inverted version of the “new industrialism” argument on the German case. The discussion gave support to the old politics claim, that social dumping has created pressure to cut social wages. “Globalization” as an independent variable has in other words some explanatory powers in the case of Germany.

In 4.2, the focus shifted from the economic deterministic variable to the role of institutions. It was established that the institutional checks caused by the incongruent majorities in the Bundesrat and the Bundestag produces a diffusion of power effect, which, according to the inverted version of the “new institutionalism” theory, would hamper retrenchment. The Red-Green government did have to cooperate with the opposition to secure the ratification of Agenda 2010, because the
CDU/CSU and the FDP voted against every bill comprising Agenda 2010. According to new politics, this diffusion of power would allow for diffusion of accountability in the sense that the government could share the blame for the unpopular reform with the opposition. The discussion of how the voters apportioned blame indicated that the government was blamed more than the opposition. Eventually, Agenda 2010’s prime mover, Gerhard Schröder even left German politics after the federal elections of 2005. Again, the story of German retrenchment is better told by an old politics storyteller emphasizing the diffusion of power than one stressing diffusion of accountability.

In part 4.3, the discussion centered on actors instead of institutions as the independent variable. According to the inverted version of “left power resources”, or old politics, left powers are still the principal guardians of the welfare state while new politics upholds that new interest groups have taken over the role as welfare state defenders. While there are examples of policy feedback effects in the sense that welfare state programs have “produced” interest groups fighting to defend their welfare benefits, these groups have definitely not surpassed trade unions, neither in terms of passive power, nor in terms of being capable of mobilizing against reform. As such, the second central claim of new politics, on the role of new interest groups, is not supported. Old politics only partly receives support, as it can explain the role of trade unions, but not the role of the main left parties, the SPD and the Greens.

Summing up, it does seem like old politics, meaning the inverted versions of the theories of “new industrialism”, “new institutionalism” and “left power resources”, has a larger explanatory power than new politics, which incorporates “blame avoidance” and “new interest groups”. Pierson’s claim that old politics has limited explanatory powers is discredited. Obviously, the German retrenchment does not fit into the theoretical pattern of the new politics. One can easily reject a description of new interest groups as the foremost defenders of the welfare state. A description of the retrenchment strategies of the Red-Green government as an attempt to avoid blame is also false. Having found a divergent case, one could conclude that the credibility of the new politics theory is somewhat weakened.
5.2 Discussion and identification of questions for further research

Having reached a conclusion on the overarching research question, this part will elaborate on three interesting questions that arose from the case analysis: Why has the German welfare state not had feedback effects in the shape of strong new interest groups? Why did Schröder pursue retrenchment in the first place and why was blame avoidance not used?

In part 4.3 it was established that the welfare state has had policy feedback effects in the form of new interest groups. However, these groups are weak and played merely a supporting role in the defense of the welfare state, while trade unions took the lead role. Why is this so? First, the decentralized organization of German welfare services could inhibit against the formation of strong and unified interest groups. Next, the presence of trade unions might crowd out the need for other guardians of the welfare state. Up until now, program beneficiaries could also count on the SPD (and the Greens) to voice their opinions. If the SPD keeps emphasizing the need for retrenchment, and if cutbacks are concentrated more on other areas than labor policies - which is the prime concern of trade unions - we might witness new interest groups gaining strength and influence.

The next question is why Red-Green government retrenched the German welfare state without using blame avoidance strategies? The role of the left parties in government could keep a "left power" theoretician awake at night. The SPD and the Greens used their powers as governmental parties to retrench the welfare state, contradicting both the left power resources theory and new politics. As we have seen, the story of the Social Democrats leading the Sozialabbau had a sad ending in terms of the SPD’s results after the federal election of 2005. They had to share the ministerial offices with the CDU/CSU, and Schröder had to leave the steering wheel to CDU’s leader Angela Merkel. In the meantime, the SPD had alienated voters, fractions within their own party as well as trade unions. The political move to the right gave rise to parties left of the SPD, and disenchanted voters flocked to the new left party, the WASG and to the PDS, who both played the more comfortable role of defending the welfare state as the voters knew and liked it, perfectly in line with the left power resources theory.

This scenario leaves observers with the question raised in the introduction: What was the thought behind the strategies of Chancellor Schröder and the
leadership in the SPD? Obviously, political leadership includes making unpopular choices, but why did they practice the political self-sacrifice it is to cut down on social benefits without hiding the cutbacks behind blame avoidance strategies? Was Schröder politically unwise?

This must be seen in connection with why Schröder decided to retrench the welfare state in the first place. Obviously, cutting social welfare benefits are unpopular politics. German politicians would continue extending and improving benefits if they had the choice. I would argue that the very conviction of lacking political alternatives to retrenchment is the key to understanding why the SPD changed their political approach to the welfare state and decided to introduce Agenda 2010. As discussed in 4.1, the SPD has internalized the economic analysis where high social wages has a strangling effect on the German economy and contributes to high unemployment. High social wages add to other economic and structural problems like “the inflexible German labor market”, and a notion has been created of a German welfare state desperately needing an overhaul to improve the competitiveness of the German economy and thereby reduce unemployment.

Despite the methodological difficulties with discussing the “social dumping” analysis and the correspondingly cautious conclusions made in part 4.1, I would argue that a deterministic analysis reducing politicians to tools in the hands of “the economy” or “the globalization” has explanatory power in the case of Agenda 2010. The role of politicians is reduced, which is descriptive of the German case, where the SPD (and the Greens) moved to the right in the political spectrum. One could argue that it is a political choice whether one wants to adopt the form of analysis where leaving the welfare state “untouched” would lead to increasing unemployment and prolonged economic stagnation. However, without saying whether the economic analysis presents the truth, it is clear that the Red-Green government experienced a lack of alternatives, taking into consideration that avoiding cuts is a more comfortable option than piloting Sozialabbau.

The next interesting observation is that politics does matter. Even though globalization might reduce the number of political options when it comes to economic and welfare policies, how the political parties position themselves in the political spectrum matters vis-à-vis voters. The political move to the right by the SPD opened up political room to its left. This room was occupied by the PDS in the new federal states, while in the West, the space was open for new initiatives
championing issues left behind by the SPD, like a keynesianist economic analysis and a staunchly pro-welfare approach. The WASG moved into this space, and soon entered into cooperation with the PDS, now known as the Left Party. Knowing that a majority of Germans is pro-welfare and five million are unemployed, it is no surprise that the PDS/Left Party reaped disappointed voters, while the SPD lost in the elections following the announcement of Agenda 2010.

This indicates that it is not necessarily of significance whether there already are political alternatives to the left (the PDS was a tiny party on the federal level prior to Agenda 2010), because political alternatives will come to existence in the political space left by parties that move to the right (given that it’s possible to clear legal hurdles for creating a political party). The implication of this analysis is that parties that move to the right will lose voters to the left. The condition for this analysis to be correct is that voters are “unfaithful” in the sense that they have little party identification. For example, the voters’ political standpoints, like opposing cuts in benefits, is more important to former SPD-voters than being faithful to the party. When facing such voters, office-holders must react to the opinion of the voters and pursue popular policy agendas (Alber 1996:4-5) or obscure unpopular agendas. If not, they risk losing their votes.

This one-dimensional picture of political processes is implied in Pierson’s blame avoidance model. Left out is the notion that governments are able to influence the perceptions of voter groups (ibid). I would argue the blame avoidance model would improve if it better accounted for alternative blame avoidance strategies focusing on how the retrenchment is presented and framed, and not just on how the cutbacks are designed. If politicians use justification strategies and emphasize the financial need for cutbacks, they might get away with the retrenchment. They need to persuade voters that the changes are necessary to save the welfare state, in contrast to welfare state retrenchment as a matter of being against the welfare state per se (Green-Pedersen 2002:33-35). Following a “Nixon goes to China” logic, left wing parties should have better chances at getting away with retrenchment because they “own” the welfare state issue in the sense that the voters expect them to defend the welfare state. They could therefore appear more reliable when they present the retrenchment as necessary to save the welfare state in the long run or to correct policy failures (Ross 2000).
The argument is based on an assumption that parties do not only articulate and accommodate voters’ preferences but are also able to shape public opinion. The intensity of the message delivered will influence the possibilities of shaping preferences (Padgett 2005:248). Pierson does bring up this aspect in his final conclusions, when he mentions how the EU provides opportunities to shift the blame towards this institution if the national government can present reforms as legally required or economically necessary (ibid:178). He also remarks that moments of budgetary crisis might open up for framing the reforms “as an effort to save the welfare state rather than destroy it” (Pierson 1996:177). I would argue that not only budget crisis, but also other types of economic “crises”, like strangling unemployment, open up for justifying reforms. There is a sizeable literature on the link between economic conditions and voting behavior, where unemployment and inflation are factors that have proven especially relevant explanatory variables (Lewis-Beck and Paldam 2000:113-114). Research also indicates that supporters of left parties are particularly averse to unemployment (Carlsen 2000:142). Indeed, if voters’ perception on the government’s effort to reduce unemployment can explain voting behavior, high unemployment can also be turned into a source of strength. In times of high unemployment, voters might stomach reforms if they believe it will increase employment.

In this context, it is imperative that that the reforms resulted in decreasing unemployment within the government’s term of office. As maintained by Pierson; (1994:8) retrenchment involves exposing concentrated voter groups to concrete and immediate losses in return for diffuse and uncertain gains. If the gains, reduced unemployment, were to materialize, the voters could have forgiven the Red-Green government the unpopular reforms and renewed their mandate in the next election. When unemployment on the contrary kept increasing, it was very unlikely that the government would survive the next election. This could also explain why Schröder did not obfuscate results through decrementalism or delays. Delaying cuts could also delay results. The voters had signaled a lack of belief in his capability of pursuing reform. By presenting Agenda 2010 with much fanfare, Schröder appeared *handlungsfähig* and *reformwillig*63, and he could even become historic as the man who stopped the trend of increasing unemployment. Perhaps he also hoped for a

63 “Capable of acting” and “willing to countenance reform”.
stronger “Nixon goes to China”-effect than what he encountered. Instead, Schröder faced an angry backlash from voters who were disappointed with the welfare state guardians.

A more explicit incorporation of such aspects into the model of blame avoidance would enhance the model’s explanatory powers, though simultaneously complicating it. A focus on the framing of reforms, or in other words the way which political leaders try to sell the reform to the voters, could explain cases where there is an obvious lack of other blame avoidance strategies. It could explain why a political leader of the left, who traditionally has been a staunch defender of the welfare state, chooses not to hide the retrenchment through obfuscation techniques. The social democrat wants to appear capable of action, at the same time as he or she endeavors to frame the retrenchment as an attempt to save the treasured welfare state or to give the voters jobs.

With the benefit of hindsight, an assumption based on the justification model implies that Schröder probably did not sell the reforms in a convincing way, since he did not manage to avoid blame. A discourse analysis of the way in which the reforms were presented would be of interest to test this assumption.

In addition, as an explanation for why he did not obfuscate retrenchment, Schröder might have calculated with the fact that he did not risk attacks from the right, because the CDU/CSU and FDP traditionally have been agents for retrenchment. He might also have hoped that the opposition would take a greater part of the blame considering that their cooperation was necessary and probable. Finally, Schröder could have been politically unwise, and miscalculated the wrath of the voters and the degree to which parties to his left could profit on his political move to the right.

We can only speculate in the reasons for not pursuing blame avoidance strategies. For reliable conclusions, the political process leading up to Agenda 2010 should be thoroughly studied, also including qualitative interviews with central policy makers to gain information.
Appendix

Table A1 The progress of Agenda 2010. BR=Bundesrat, BT=Bundestag, MR= Mediation Committee.
Shaded areas = Bill before Bundestag.

<table>
<thead>
<tr>
<th>Date, all in 2003</th>
<th>Source</th>
<th>Bill (my translation)</th>
<th>Bill before which house?</th>
<th>Vote, CDU/CSU and FDP</th>
<th>Vote, SPD/Greens</th>
<th>Required approval by BR?</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>06.27 1)</td>
<td>1)</td>
<td>No translation</td>
<td>BT</td>
<td>Against</td>
<td>For</td>
<td>No</td>
<td>To the BR</td>
</tr>
<tr>
<td>07.12 2)</td>
<td>2)</td>
<td>1.</td>
<td>BR</td>
<td>Against</td>
<td>For</td>
<td>No</td>
<td>To the MC</td>
</tr>
<tr>
<td>09.26 3)</td>
<td>3)</td>
<td>2.</td>
<td>BT</td>
<td>For</td>
<td>For</td>
<td>Yes</td>
<td>To the BR</td>
</tr>
<tr>
<td>09.26 4)</td>
<td>3.</td>
<td>Relaxed protection</td>
<td>BT</td>
<td>Against</td>
<td>For</td>
<td>No</td>
<td>To the BR</td>
</tr>
<tr>
<td>11.07 4)</td>
<td>3.</td>
<td>Reduced duration of</td>
<td>BT</td>
<td>Against</td>
<td>For</td>
<td>No</td>
<td>To the BR</td>
</tr>
<tr>
<td>11.07 5)</td>
<td>2.</td>
<td></td>
<td>BR</td>
<td>For</td>
<td>For</td>
<td>Yes</td>
<td>Passed</td>
</tr>
<tr>
<td>11.07 6)</td>
<td>2.</td>
<td></td>
<td>BR</td>
<td>Against</td>
<td>For</td>
<td>No</td>
<td>To the BR</td>
</tr>
<tr>
<td>11.07 5)</td>
<td>3.</td>
<td>Hartz III</td>
<td>BT</td>
<td>Against</td>
<td>For</td>
<td>No</td>
<td>To the BR</td>
</tr>
<tr>
<td>11.07 7)</td>
<td>8.</td>
<td>Reform of social</td>
<td>BT</td>
<td>Against</td>
<td>For</td>
<td>Yes</td>
<td>To the BR</td>
</tr>
<tr>
<td>11.07 5)</td>
<td>9.</td>
<td>Tightening of work</td>
<td>BT</td>
<td>Against</td>
<td>For</td>
<td>Yes</td>
<td>To the BR</td>
</tr>
<tr>
<td>11.07 5)</td>
<td>10.</td>
<td>Reform of communal</td>
<td>BT</td>
<td>Against</td>
<td>For</td>
<td>Yes</td>
<td>To the BR</td>
</tr>
<tr>
<td>11.07 5)</td>
<td>11.</td>
<td>Law on promoting tax</td>
<td>BT</td>
<td>Against</td>
<td>For</td>
<td>Yes</td>
<td>To the BR</td>
</tr>
<tr>
<td>11.07 5)</td>
<td>12.</td>
<td>Tax on tobacco</td>
<td>BT</td>
<td>Against</td>
<td>For</td>
<td>No</td>
<td>To the BR</td>
</tr>
<tr>
<td>11.07 6)</td>
<td>13.</td>
<td>Pensions freeze</td>
<td>BT</td>
<td>Against</td>
<td>For</td>
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2) taz 07.12.2003
3) Spiegel 09.26.2003
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