

aus: Alister Miskimmon, William E. Paterson, James Sloam (Hrsg.), *Germany's Gathering Crisis: The 2005 Federal Election and the Grand Coalition*, London: Palgrave 2009

Schröder's Agenda 2010: From 'Plan B' to Lasting Legacy?

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Introduction

There is a good chance that Chancellor Schröder's most lasting legacy from his seven years in office will be something he would have preferred not to happen in the first place, namely the labour market reforms associated with the names 'Agenda 2010' and 'Hartz IV'. Awkward as these monikers sound (although they may be proof positive of the absence of 'spin doctors' in the Schröder government), the German public never took to them, and the electoral backlash in regional elections, ranging from Bavaria in September 2003 (where a historically weak SPD lost another 9 percentage points to drop below 20 per cent) to North Rhine-Westphalia in May 2005 (where a 5.7 percentage point loss brought the SPD below 40 per cent for the first time since 1958 and ended almost 40 years of continuous dominance in Germany's most populous state), eventually proved the Red-Green government's undoing.

If the labour market was the chancellor's fate, it was so by his own choice. He had entered office professing that he wanted to be judged on his success in reducing unemployment, and he had promised to reverse the trend of ever-increasing rates of unemployment that had played such an important role in his predecessor's downfall in the 1998 election. Ever since the Bundesbank had slammed on the brakes of monetary policy to force a reversal of the Kohl government's loose post-unification fiscal policy in 1992, inducing a deep recession in Germany,¹ unemployment had relentlessly risen in both the western and eastern parts of united Germany. In 1992, the unemployment rate had stood at 7.7 per cent; by 1997, it had reached 11.4 per cent. No less than 4.3 million people were registered as unemployed in that year, significantly more than the 2.9 million five years earlier, while the number of job openings was down

at the same time. And what was more, this happened while unemployment in the rest of Europe came down, which increased the perception of the depth of the German crisis.

Schröder's SPD had been very specific in its election pledge, promising to bring the number of unemployed people down to 3.5 million, a goal to be achieved by introducing an 'Alliance for Jobs, Innovation, and Justice' (Schmid, 2007, p. 218). This idea of tripartite cooperation to combat what was, according to opinion polls, far and away the biggest problem facing German politics had echoes of the 'Konzertierte Aktion' of the 1960s and 1970s and of the Alliance for Jobs under Chancellor Kohl in 1995–6. The latter had collapsed when the trade unions pulled out to protest against the FDP's continuous calls for more deregulation, which had let the government's position seem duplicitous. But under Social Democratic leadership, it was hoped, the government would be more successful and able to engineer a solution that would essentially swap a trade union commitment to low pay rises with one by the employers not to cut the workforce.

Set up under a slightly different name as the 'Alliance for Jobs, Training, and Competitiveness', the new government launched what was widely perceived – and also in its own words – its core project in December 1998, flanked by the work of a 'benchmarking group' of social scientists that were to feed it information about international best practices in the area.² However, in spite of the tremendous publicity, the talks were not making progress. The government had brought to the table the early gift for the trade unions of repealing some of the Kohl government's cuts in the areas of employment protection and sick pay. But if Schröder had hoped for trade union concessions in exchange, his unilateral offer proved to have been made in vain. With the government lacking initiative and a clear strategy (as the SPD was split between Lafontaine's and Schröder's preferences on how to proceed, it could not threaten the trade unions with unilateral action), the whole operation was soon deadlocked.

In retrospect, it has been argued that 'the crumbling pillars of social partnership' (Streeck and Hassel, 2003) were simply no longer able to support a tripartite deal: both trade unions and employer organisations faced declining membership rates which induced them to sharpen their profile through confrontation rather than cooperation. In addition, both faced internal divisions and disputes. The government was in a similar situation, being subjected to the cooperative constraints of German federalism³ and torn between calls for an expansionary fiscal policy and being obliged to honour the fiscal straightjacket of the Economic and

Monetary Union (EMU)-induced Maastricht criteria (see Streeck in this volume).

In early 2002, politically on the defensive and facing defeat in the upcoming general election later that year, Schröder exploited a scandal about misrepresentation of placement statistics in the Federal Employment Office to launch an attack on the self-government of that tripartite institution and call for fundamental labour market reforms.⁴ The government on 15 February 2002 set up a commission to report on 'Modern Labour Market Services' under the chairmanship of Volkswagen board member Peter Hartz. Interestingly, of the 15 commission members, only two were trade union representatives, and only one a member of the established employers' organisations.⁵ The Hartz Commission reported in August 2002, proposing measures ranging from fundamental change to the way unemployment and social benefits were funded and an expansion of the low-wage sector to stronger incentives for the unemployed to return to the labour market and more efficient job centres (Hartz et al., 2002).⁶ The reforms, Hartz stated in the report's preface (ibid., p. 5), were designed to reduce unemployment by two million (i.e. halving it) in three years. Schröder fought the election on a pledge to implement the recommendations 'one to one'.

Agenda 2010: Schröder's 'Plan B'

The process surrounding the reform of the Federal Employment Office and the Hartz Commission could be seen as a threat of further unilateral action by the government, which at the time, however, seemed unlikely to be repeated, given trade union support for the SPD in the campaign. After its surprising re-election by a very narrow margin in September 2002, the Schröder government started to implement the commission proposals in a series of laws. But far from gaining public support for this, the SPD's popularity plummeted to new lows: in February 2003, the Politbarometer opinion poll found support for the SPD at a then record 22 per cent low (literally half of the 45 per cent polled only five months earlier), while the CDU had soared to 58 per cent. What is more, the SPD suffered a humiliating defeat in Schröder's home *Land* of Lower Saxony, where it lost a staggering 14.5 percentage points in the election of 2 February and with it the post of minister-president that Schröder himself had held for eight years.

Schröder called a final meeting of the Alliance for Jobs on 3 March and declared its failure. Eleven days later, on 14 March, six days before

the start of the Iraq War and in the midst of hectic diplomacy, he launched Agenda 2010 in a government declaration in the Bundestag.

Schröder's speech stressed that the impetus of the reforms was to protect the social system through changing it and to prevent it 'from being modernised by the "unfettered forces of the market" without any social considerations'. But far from being a visionary speech that would unfold the picture of the hallowed land to be reached through admittedly painful reforms, this was a speech that instead enumerated in great detail countless policy measures.

- For fiscal policy, Chancellor Schröder announced that a €15 billion investment program funded by the Kreditanstalt für Wiederaufbau was to stimulate the economy by helping municipalities in the area of construction; that tax loopholes (especially for investments abroad) would be closed and both the entry and top rates of income tax would be brought down substantially (as planned previously).
- For labour market policy, Schröder announced that reform of the Federal Employment Office would continue along the lines set out in the Hartz Commission report; that Unemployment Benefit I would be limited to 12 months for those under 55 years and to 18 months for those over 55 years⁷ that there would be a merger of Unemployment Benefit II and the welfare benefit system;⁸ and that there would be an increase in incentives for the acceptance of work by the long-term unemployed, a weakening of job protection regulations and an intensified fight against the shadow economy. To encourage more opportunities for the young, Schröder threatened to impose a levy on firms that did not train apprentices.
- Regarding policy towards the collective wage bargaining system, the chancellor called for more flexibility, but pledged that the principle of collective agreement (*Flächentarifvertrag*) would remain safe with him.
- For small businesses (*Mittelstand*), Schröder announced a Small Business Act that would ease tax and accounting burdens and thus provide a boost to this vital area of the German economy; an easing of the rules that would require the 'master craftsman' qualification as a precondition for running a craft trade business.
- For health policy, the chancellor announced 'major corrections' with the goal of cutting insurance contributions (a major driver of non-wage labour costs) to below 13 per cent of wages. He also announced that the doctors' associations (*Kassenärztliche Vereinigungen*) would lose the monopoly of contracts with health insurers (who would in the future be able to contract individual doctors); and that to bring

costs down a streamlining of the 350 independent health insurance companies would be unavoidable.

- For pensions policy, Schröder said, that the system would have to be 'readjusted' to make up for past overestimations of employment and underestimations in longevity projections; the Rürup Commission on Sustainability in the Financing of Social Security Systems, which had been set up in November 2002, would report on this in greater detail.⁹

Although much of what Schröder said in his Agenda 2010 programme constituted a major change of course (and an acceptance of several of the Kohl government reforms the Red-Green government had overturned upon coming to office), he won no praise from the opposition. Angela Merkel, the CDU/CSU floor leader, accused Schröder of not going far enough and said that his proposed measures were insufficient to address the gravity of Germany's economic problems; the press commented that this was 'only a start', but that much remained unclear, not least the chances of implementation (*Financial Times*, 17 March 2003). Trade union leaders, welfare associations, and the left wing of the SPD also criticised the proposals: they thought them socially unbalanced, called them 'scandalous' (Peter Vetter, head of *Sozialverband Deutschland*), even 'immoral' (Michael Sommer, the head of the trade union umbrella organisation, the DGB), and 'felt betrayed' (Juso chairman, Niels Annen).

With the wind blowing against him from so many sides, Schröder's proposals faced a tough ride. Implementing Agenda 2010 would not be easy, as he would have to compromise with the opposition parties (who held a majority in the *Bundesrat*) while at the same time trying to keep his own coalition (which only held a slim majority of four) on board. Since the *Agenda* programme had not evolved through a broader discussion process within the coalition or the parties carrying it, but through centralisation of the agenda-setting process in the government and the Chancellery,¹⁰ Schröder's first task was to get the coalition parties to officially back his proposals.

In the SPD, resentment about what was widely perceived to be a major policy U-turn (or at least Bonapartism by the modernisers) was widespread. When left-wingers started a petition for a vote among all party members on the proposals on 11 April, the party leadership quickly called a special party convention for June 2003. Four regional conferences in April and May were to give the party rank and file an opportunity to debate the measures, but Schröder made it clear that he would resign if his party did not follow him. Although he was criticised

for thus denying his party an honest debate and choice, Schröder eventually won a broad majority of between 80 and 90 per cent of the delegates' votes after a passionate speech in which he reminded his party of the consequences of losing power in the early 1980s (*Süddeutsche Zeitung*, 2 June 2003). The coalition partner, Bündnis 90/Grüne, passed the *Agenda* two weeks later with 90 per cent approval at a special conference as well.

Proposals, debates, legislation: the policy process

In spite of the conference approvals, the government, given its slim majority in the Bundestag, could not be certain of all its MPs' support for the *Agenda* programme. And, in addition, it faced the task of negotiating with the opposition parties who held the majority of votes in the Bundesrat. One strategy to deal with the latter problem was to split up the proposals into those that did not require Bundesrat consent and those that did. The first package was labelled 'Hartz III', the latter Hartz IV.¹¹ Complicated negotiations, both within and between the coalition parties, and between the government and the opposition parties, were necessary. Their complexity was uncharacteristically high even by the standards of the Federal Republic's 'semisovereign state'.¹²

Negotiations within the SPD proved very difficult as the Agenda 2010 proposals entailed significant reductions in three areas dear to social democratic left-wingers and the trade unions: the level of benefits, protection against dismissal in the labour market and employer contributions to various social insurance funds (which was interpreted as disrupting the social balance, as employees' contributions were not reduced).¹³ While Schröder managed to pressure the party as a whole into supporting his proposals at the special conference, the government kept negotiating for support from left-wing MPs throughout the autumn of 2003, offering minor concessions. The main motive here was to pass the reforms with its 'own majority' in the Bundestag, because having to rely on opposition support here as well would have severely weakened the chancellor's position. In September, Schröder issued another threat to resign, and while it helped to eventually get the legislation through, it undermined his own standing in the party and failed to create a durable consensus.¹⁴

Negotiations with the Christian Democrats were complicated by the fact that Angela Merkel's leadership was not undisputed within her own party. Several minister-presidents used the occasion to sharpen their profile, even at the risk of the party's position appearing ambiguous.

Already in the autumn, immediately after the federal election, Hesse Minister-President Koch had stated that he would 'not support everything that Mr. Hartz invented' (FAZ, 30 September 2002). And Lower Saxony CDU chairman Christian Wulff in December 2002 proposed a programme that opposed the Schröder government's plans for reducing unemployment. Quite apart from the fact that Christian Democracy in general is supportive of the welfare state and committed to a 'Social Capitalism' (Kersbergen, 1995) rather than an unfettered market, there were thus good tactical and electoral reasons for distancing themselves from the Schröder reform policies. On the one hand, the government could be denied the success of implementing its plans; on the other, opposing a policy that was electorally unpopular might help the CDU win elections (as it did indeed for Christian Wulff in February 2003).

At the same time as the government negotiated with the CDU/CSU through various channels, the opposition party had to thrash out its own position through internal negotiations. Schröder took advantage of this disunity by deciding in June to roll into the package deal over the Hartz III and IV bills the offer of bringing the 2005 tax cut (worth about €15 billion) forward by one year. As such a move was very popular with both industry and consumers, the political costs for the opposition in refusing a compromise rose considerably. But since such a cut would have increased the deficit, the CDU and CSU party leaders refused to contemplate it until late October. On 7 November the Bundesrat voted against six government reform bills and appealed to the Bundestag/Bundesrat Mediation Committee. Thus negotiations were now formalised and two working parties were formed, one dealing with 'Employment and the Economy' and the other one with 'Finance and Taxation'.

While negotiations went on, the government passed further legislation that did not require Bundesrat consent. The reform of the Craft Trades Law reduced the number of areas in which the master craftsman qualification was required to open a business from 94 to 29. Already in September, a bill lowering health care contributions from 14.3 per cent to 13.6 per cent and a liberalisation of job protection regulations had been passed with the votes of the coalition majority, while the duration of unemployment benefit had been reduced as planned. None of these areas required Bundesrat consent, but Schröder managed to use several of them to support his position in negotiations with the opposition (who opposed some of these liberalisations). With time progressing towards the Christmas break (which the government had set as a deadline for reaching an agreement), more and more issues were put on the table as bargaining chips, creating an ever more complex situation.

In early December, the CDU/CSU changed course and accepted cuts in the homeowner allowance and the commuter compensation (both of which it had so far refused) on condition that the tax cuts were brought forward. A week later the government offered to reduce the liberalisation of the craft trades and require master craftsman qualifications for 38 areas (up from 29 in its own legislation). Finally, in an exhausting nine-hour meeting of the Mediation Committee on the night of 14 December, government and opposition parties agreed on an overall compromise. On 17 December, no less than 10 bills were passed in a marathon voting exercise with cross-party support and overwhelming majorities.¹⁵

The overall package included:¹⁶

- In the area of finance and taxation:
 - a lowering of the entry and top income tax rates as well as an increase in the personal tax allowance, with an overall reduction of the tax burden by €15 billion;
 - further privatisation commitments by the federal government amounting to €5.3 billion, with half of the proceeds going to the *Länder*;
 - an increased share from the business tax income for the municipalities, amounting to €2.5 billion in 2004 and €3 billion in 2005, in addition to €2.5 billion coming from Hartz IV legislation;
 - a cut of the homeowner allowance by 30 per cent and a reduction of the commuter compensation to 30 cents per kilometer, as well as a rise in tobacco tax of 1.2 cents per cigarette;
 - reforms in business taxation which reduce the ability to count losses against profits.
- In labour market policy:
 - an easing of job protection regulations which was to apply for new posts and only in firms with more than ten employees;
 - a merger of unemployment and social welfare benefits into 'Unemployment Benefit II' from 2005;
 - a liberalisation of master craftsman qualifications to set up a business (now only necessary in 41 areas).
- In pension policy:
 - no pension increase in 2004; from 2005, a new pension formula that would include a 'sustainability factor' designed to take into account the changing ratios of those paying into the system to

those drawing pensions; and from 1 April 2004, new pensioners would receive their payments at the end of the month.

Almost nine months to the day after the chancellor's initial speech outlining his Agenda 2010 programme, a comprehensive package of measures had been put on the statute books, including (but not limited to) the compromise package passed with the support of the opposition. To all those who had for a long time bemoaned the 'blocked republic' and questioned its political (e.g. Baring, 1997) and economic (e.g. Sinn, 2003) viability, this should certainly have been a good sign. Was this the end of the 'German crisis of hyper-stability, or stagnation, due to engrained over-commitment and historical entitlements and to under-investment in new capabilities' (Kitschelt and Streeck, 2003, p. 28) that social scientists had perceptively diagnosed?

Undoubtedly, some of the measures constituted clear breaks with the past – most clearly the merger of unemployment assistance with social benefits to the new 'Unemployment Benefit II' (colloquially known as Hartz IV), which ended the link with previous earnings. Introducing a flat-rate means-tested benefit constituted a change in the logic of the support system that was a clear break with the 'historical entitlements'.¹⁷ And the organisational changes to the system of labour market institutions (the internal reform of the Federal Employment Office – renamed from 'Bundesanstalt für Arbeit' to the more dynamic sounding *Bundesagentur für Arbeit*; the introduction of 'Personnel Service Agencies' (PSAs) and placement vouchers, of incentives for 'mini jobs' and subsidies for self-employment through the 'Ich-AG' ('Me plc.') scheme) were all the more remarkable as they had been achieved without the close consultation and consent of the *Tarifpartner*, the employers' and trade unions' umbrella organisations, whose influence in this area was historically rooted but now considerably curtailed. Consensual approaches in this field, which had dominated much of the Federal Republic's existence, especially since the inauguration of *Konzertierte Aktion* in the late 1960s, had now been swapped for an adoption of international 'best practices' and policy ideas from the OECD and the European Union.¹⁸

Assessing programmatic success of Agenda 2010

Legislating for change is only the first step in any reform. It is often regarded as 'the easy part', although the above may speak against that

in this particular case. For it is only in implementation that it will become clear whether the reform ideas and concepts are viable and are indeed addressing the problems they were designed to deal with in practice. Given that the reforms emanating from the Hartz Commission were the part of the Agenda 2010 reforms that affected the most people, were most controversial when passed and were the most wide ranging aspects of the package, the Bundestag asked the government in November 2003 to perform a continuous evaluation of the labour market reforms. In 2005, a first interim evaluation was presented by the government to the Bundestag, and in 2006 a further evaluation was published by the Federal Ministry of Employment and Social Affairs (BMAS, 2006a, 2006b). Both reports, however, cover only the Hartz I to III laws (i.e. the organisational reforms of the Federal Employment Office, the activation and placement measures and the parts of the benefits changes that do not concern the new 'Unemployment Benefit II') since they were the first to enter into force. The following summary of evaluation results is therefore tentative and necessarily incomplete.

The picture that emerges from both reports is one of substantially qualified success of the measures suggested by the Hartz Commission – or, to be more precise, of the suggestions as implemented by the respective legislation.¹⁹

The restructuring of the old Federal Employment Office seemed to be well on track and heading in the right direction. Adjusting an entrenched bureaucracy into a service-oriented agency, however, is not without challenges, of which the renaming is probably the easiest: when the Bundesanstalt für Arbeit became the Bundesagentur für Arbeit, the 178 'Arbeitsämter' became 'Agenturen für Arbeit'. Bigger challenges were improved accountability, strict oversight of results and a customer focus, but these were increasingly met. Management is now guided by explicit objectives which are agreed between the various layers of the organisation, and cost efficiency is improving. As a result, the quality of the agency's work can now be discussed more objectively. However, improved cost consciousness and managerialist thinking also have adverse effects, namely in guiding resources (i.e. agency staff time) to those 'customers' (i.e. unemployed persons) where 'input' stands the best chance of producing 'success', i.e. a job offer. A consequence is that those who are in a way most in need of help (in particular, the long-term unemployed) receive least support. Early intervention in problem cases is thus discouraged, and while this is rational for the individual agency given its incentives, it produces a suboptimal outcome on the societal, macroeconomic and social policy level.

An overall success was the new policy instrument of 'integration subsidy' (*Eingliederungszuschuss*) which allows the agency to subsidize the wage temporarily if an employer hires an unemployed person with special needs. However, the positive effect of this instrument had already set in before the reform and was largely unaffected by small changes in regulations introduced in 2002. In a similar way, as a new instrument to support self-employment and provide a start-up premium, 'Me, Inc.' (*Ich AG*) yielded positive results. Persons supported through this measure were significantly less likely to return into unemployment for a considerable period of time than people without this help. While there are indications of a certain proportion of windfall/free-riding effects, the overall assessment is therefore supportive of a continuation of this kind of measure, even though employment agencies are generally not well equipped to counsel start-up entrepreneurs effectively.

Another positive effect was evident in the creation of the category of 'mini' jobs in low-wage or short-time employment. Here, the wage threshold was raised from €325 to €400 (hence '€400 jobs'), and the weekly time restriction of 15 hours was abolished to create more flexibility in the labour market. In addition, contributions to social insurance are covered through a lump-sum payment from the employer, while the employee does not have to pay any taxes or contributions. While the number of persons employed in this category rose significantly from 4.2 million before the reform to 6.8 million in June 2006, data indicate that employment in this category does not help progress into regular employment.

While the assessment so far is quite positive overall, the evaluation indicates that there are also a number of new instruments that did not quite or did not at all fulfil expectations. One of them is the 'placement voucher', an instrument designed to promote competition in placement services. Every person unemployed for more than six weeks is entitled to such a voucher, which is worth €2000 and can be cashed in by any private placement firm that places the owner of the voucher. The payment by the employment agency comes in two instalments, one after six weeks and the other after six months. However, due to a lack of clear standards in the placement industry, the quality and competence of their services is often unsatisfactory. Of the 714,000 vouchers issued in 2004, only 54,000 – i.e. less than 8 per cent – were actually cashed in. However, data from 2005 indicate that persons with a voucher left unemployment on average four months earlier than those without.

The PSAs also did not achieve the results expected of them. Each of the 178 employment agencies had to set up one PSA, which would hire

unemployed persons and rent them out for temporary work to firms. The hope was that employers would thus be able to 'test' future employees without running into dismissal protection problems. But, in fact, employment through a PSA seems to worsen unemployed persons' prospects for regular employment, through what is diagnosed as 'lock-in' effects stemming from a reduction in placement and search activities when in this temporary employment. Similar effects were found with persons employed in job-creation schemes (*Arbeitsbeschaffungsmaßnahmen* or ABM). While employability increased for the duration of the scheme, there is little indication that this improvement outlasted the measure, and a quantitative analysis suggests that persons enrolled in such schemes left unemployment later than those who were not. But ABM have a significant structural effect, for example through improving regional infrastructure, and thus have a value beyond the individual placement. This, however, has to be balanced against the threat of ABM replacing regular employment.

The overall conclusion of the 2006 report is that the reforms helped to increase overall labour market flexibility and opened up new employment potential in certain segments of the labour market, but that on the whole they contributed only marginally to overcoming unemployment (BMAS, 2006b, p. xxv). Compared with the original expectations raised by Commission chair Hartz (cited above) that unemployment would be cut by two million in three years, this is disappointing. While those three years are not yet over at the time of this writing (spring 2007), so far there is little in the evaluation to indicate that the reforms have made a material difference to the level of unemployment.

Assessing political success and failure

If the programmatic assessment of Agenda 2010's implementation is at best mixed, how about the political assessment? At first sight, things look clear here: since there was no improvement on the unemployment front, the fiscal relief that the Schröder government had hoped for (and that would have helped it with the EMU's Stability and Growth Pact deficit criterion of 3 per cent) was not forthcoming. Quite to the contrary, with respect to the 'Unemployment Benefit II' legislation, it turned out soon after implementation that the government had severely underestimated the number of claimants (by about a million) and that it was landed with increased costs in the range of €6–€10 billion (*Financial Times Deutschland*, 19 May 2005). What is more, the complex rules about entitlement tempted claimants to rig statements about the circumstances

of their lives, and social workers had to inspect living quarters to try to assess whether people were just cohabiting (two entitlements) or a couple (one entitlement). Overall, this reform seemed to become 'a case study in unintended consequences' (*Financial Times*, 26 June 2006).

The unpopularity of the reforms transferred onto the chancellor's party, which continued to bleed in regional elections, losing 6.0 per cent in Hamburg in February 2004, 4.0 per cent in Thuringia in June 2004, 13.6 per cent in the Saar and 7.4 per cent in Brandenburg in September 2004. The year 2005 thus proved no respite, and after losses in Schleswig-Holstein and crucially in North Rhine-Westphalia, the chancellor decided to seek a dissolution of the Bundestag and a new general election, claiming that the government could no longer govern effectively. In addition, his reforms had led to the secession of a group of traditionalist party members and trade union functionaries who set up a party with the unwieldy name 'Electoral Alternative Labour and Social Justice' (*Wahlalternative Arbeit und Soziale Gerechtigkeit* or WASG).

Schröder's policies had thus split the political left and severely weakened his own party. His relationship with the SPD had always been difficult. From a very humble background, Schröder had fought his way up the political and social ladder and had no time for the post-materialist musings of many of the generation of 1968. While he was their contemporary, he did not share many of the views that came to dominate his party in the 1980s and early 1990s. The mistrust was mutual, for Schröder had always sharpened his profile against that of the SPD. Thus, he was in no position to appeal to the heart of the party and lure it into accepting his inconvenient truths. Rather, he preferred to convince the party with the power of his arguments. But he failed to build coalitions in a party that had entered government essentially unreformed in its years of opposition, that had never been forced to conduct a serious policy review of the type the UK Labour Party underwent in the late 1980s and early 1990s and that had won the 1998 election with a split message of traditionalism and modernisation symbolized by the twin leadership of Lafontaine and Schröder (Busch and Manow, 2001).

With respect to the German political system, Schröder's strategy had sought to bypass the federal ministries and the 'cosy iron triangles' of interest groups, administrative bureaucrats, and political leadership through the increased use of commissions and outside expertise (Murswieck, 2003; Korte, 2007). Accelerating the reform process in this way may have seemed like a smart move in the German 'semisovereign state', with its many influential interlocutors eager for participation, but

it did not work. It may even have turned out to be counterproductive, as the reforms required constant readjustment of policy instruments, so that the whole process took perhaps longer than reform through the 'slow' usual channels might have taken. In addition, Schröder's strategy was far from consistent. Phases of hectic activity alternated with phases of inaction, justified as the 'steady hand' (*ruhige Hand*). And his government, especially in fiscal and economic policy, lacked a consistent approach and was given to substantive changes in direction (Zohlnhöfer, 2004).

After the summer of 2006, Germany's economic situation improved steadily. Growth, at 2.8 per cent in 2006, was the highest for years and surpassed expert predictions substantially. Unemployment, at 9.6 per cent, had come down by over 500,000 in a year, falling below the 4 million mark for the first time since 2002. Meanwhile, the budget deficit had collapsed to an estimated 1.2 per cent in 2007, safely below the critical 3 per cent mark of the Stability and Growth Pact. The Germans, always keen to bemoan the situation in recent years, have been as surprised as their neighbours about this. So far, nobody has started to question the economic experts on why they did not see the upswing coming. But it seems likely that in retrospect they will look more kindly on Chancellor Schröder's reforms than they did at the time. Whether there is a causal connection between the reforms and the upswing remains to be explored, and it will be interesting to see if this progress will withstand a less favourable international economic climate. But with hindsight, the chancellor who almost drove his party to patriotic electoral suicide may see his legacy enhanced. His successor, Angela Merkel, may already have expressed that new consensus when in her inaugural speech she said that she wanted 'to thank Chancellor Schröder very personally for courageously and decisively opening a door with his Agenda 2010, a door to reforms, and for pushing through Agenda 2010 against all odds.'²⁰

Notes

1. This policy also had the side effect of inducing problems for many other European economies through the special role the Deutschmark played in the Exchange Rate Mechanism of the European Monetary System. See Busch (1994) for more details.
2. See Heinze (2003).
3. Already in early 1999, the Red-Green government had lost its own majority in the Bundesrat after defeat in the Hesse regional election. Its only upside proved to be the ensuing move of former Hesse Minister-President Hans Eichel to the office of Federal Finance Minister, replacing Oskar Lafontaine (who had surprisingly resigned) and signalling a policy change towards a more restrictive

- fiscal policy. That, however, further decreased the room for manoeuvre for bribing the trade unions through Keynesian demand stimulation.
4. See Busch (2005, pp. 107–110) for more details on the process and the changes induced. Trampusch (2002) provides a good overview of the sectoral policy regime between 1952 and 2001.
 5. The new chairman of the restructured Employment Office, Florian Gerster, also was not a member of the Commission, which weakened his position substantially only briefly after his appointment.
 6. See also for different perspectives on the proposals the articles by Schmid (2003) (who was a member of the Hartz Commission) and Hickel (2003). For a detailed analysis of the interactions between the reform proposals and the general election campaign, see Hartwich (2003).
 7. Up until then, the maximum here was 32 months.
 8. Previously, the former was administered by the Federal Employment Office, while the latter was administered by the municipalities.
 9. The commission's report was published in August 2003 (Rürup, 2003).
 10. Schröder did, however, meet with representatives of the various SPD wings and his party's minister-presidents in the weeks leading up to the speech and also consulted with Vice-Chancellor and Foreign Minister Fischer of the Green Party. See, for more details about the evolution of the Agenda 2010 ideas after autumn 2002, the analysis of Korte (2007, pp. 175–181), who concludes that the SPD was 'ambushed' by the proposals.
 11. 'Hartz I' and 'Hartz II' packages (split along the same lines) had already been passed in late 2002 and thus predated the Agenda 2010 plans. The technocratic name given to the reforms was another indication of the complete absence of spin doctoring (or simple PR considerations) in the process (quite apart from the fact that Peter Hartz distanced himself from the implementation of the Commission's recommendations in November 2002). When several years later, in January 2007, Hartz admitted to and was convicted for corporate corruption charges, the naming of the reforms furthermore became a positive embarrassment for the government.
 12. For a detailed analysis of the negotiation process see Hartwich (2003) and Saalfeld (2006), who also provide a theoretical analysis; for the concept of the 'semi-sovereign state', see Katzenstein (1987) and Green and Paterson (2005).
 13. The German system was built on the fiction that employers and employees shared evenly in the contributions. In actual fact, all contributions add to the total costs for the employer and thus drive up non-wage labour costs, negatively affecting competitiveness.
 14. The dismal election results for supporters of the Agenda 2010 policy, such as Clement (56.7 per cent) and Scholz (52.6 per cent), at the Bochum party convention in November 2003 were an indication of this. Schröder's own 80.8 per cent result was also significantly weaker than before. In February 2004, Schröder indicated that he would hand over the chairmanship of the party at the next convention.
 15. Except for the votes of the two PDS MPs, who opposed all the bills, the legislation was carried unanimously. The exceptions were the Hartz IV bill (which six SPD, six Green, and two CDU/CSU MPs opposed) and the two taxation bills which the FDP opposed. See 15. Deutscher Bundestag, Stenografischer Bericht, 84. Sitzung (19 December 2003), pp. 7375–400.
 16. For a more detailed description of the measures, see Presse- und Informationsamt der Bundesregierung (2004).
 17. 'Unemployment Benefit II' for a single adult amounted to €345 per month in Western Germany and €331 in Eastern Germany, plus housing costs, social insurance payments and additional payments in case of pregnancy, single parenthood or disability. For a detailed description and analysis of the changes, see Kemmerling and Bruttel (2005).
 18. In particular, the recommendations of the OECD Jobs Study (OECD, 1994) and the principles of the EU's 'Lisbon Agenda'.
 19. For the view of two commission members about the correlation between the former and the latter (which is overall quite positive), see Jann and Schmid (2004).
 20. 16. Deutscher Bundestag, Stenografischer Bericht, 4. Sitzung (30 November 2005), p. 78.