

Articles





## Chancellor Schröder, the SPD, and Agenda 2010

Gerard Braunthal

University of Massachusetts/Amherst, Amherst, MA, USA

(e-mail: gbraunth@polsci.umass.edu)

**Abstract** In March 1993, Chancellor Schröder announced that cutbacks to the social welfare system were necessary to improve the financial and economic situation of the country. His program, proclaimed as Agenda 2010, covered finance, labor market, unemployment insurance, health, and pension reforms. It received the reluctant support of the SPD and the Greens. But the trade unions and the SPD's left wing denounced the neo-liberal program and urged, in vain, that left-Keynesian measures be taken to ameliorate the cutbacks. Adoption of Agenda 2010 has sparked protest demonstrations and weakened the SPD in numerous elections. It may produce the party's defeat in the 2006 national election. The article tests the theory that welfare cutbacks will have negative electoral consequences for any party in power and suggests that the Schröder government should seriously consider adopting left-Keynesian proposals for a revised Agenda 2010 in order to reduce the steep income differentials.

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### 1. Introduction

The German Social Democratic Party (SPD) since its birth in 1863 has often been in parliamentary opposition, but during its years of governance in the Weimar, Bonn, and Berlin eras it has shaped the country's domestic and foreign policies. However in the twenty-first century's initial years the SPD, despite its being in power, is facing serious problems of maintaining membership and electoral support. Its chance of forming a new government once again in the next federal election of 2006 is not assured.

The SPD faces increasing difficulties primarily because of its unpopular position on cuts to the welfare system as enunciated in Chancellor Gerhard Schröder's Agenda 2010. In this case study, which might serve as one political

economy model for assessing the declining welfare states in the developed world, I restrict the analysis to one set of problems. The article focuses on the SPD's current welfare state policies, with an emphasis on Agenda 2010. Such a domestic policy analysis highlights the difficulties the SPD leaders face in upholding the traditional welfare system that has been a cornerstone of the party's domestic agenda nearly from its inception. Such a focus also facilitates assessing the party's strengths and weaknesses, and the degree of dissent within and outside its ranks. An appraisal of the party at this time, linked to the welfare state issue, might provide clues as to its future.

Before turning to such an appraisal, a glance back at the Weimar era indicates that the SPD expanded Chancellor Bismarck's pioneering state welfare programs, which he had begun in 1881. Bismarck had designed the programs in order to steal the thunder from a rapidly growing SPD, despite his outlawing the party at the time. In the Weimar era, the SPD and most German parties supported the economic and social welfare policies in the realms of family, health, employment, and old age. In the post-World War II era of high postwar economic growth rates and full employment, the SPD and the newly established conservative and liberal parties basically concurred on continuing and expanding the social welfare system, which experts consider as one of the most generous in the world.

Social democratic parties in other countries provided similar support for their welfare systems. These parties set as their goal rising wages, full employment, and public sector expansion. But, as Geoff Eley (2002, p. 7) notes, 'the economic recession beginning in 1973 ended the postwar pattern of continuously expanding growth on which social democratic confidence relied.' The comprehensive welfare policies, Keynesian economics, growing public sectors, bureaucratic nationalization, state planning, corporatism, and strong trade unions declined, except in Scandinavia where public-sector employment continued to expand in the 1980s.

Now, decades later in the setting of 2004, the German democratic parties, regardless of ideology, are making the most drastic cuts in social welfare programs since World War II as budgetary shortfalls chip away at the foundation of these expensive programs. Christopher Pierson (1998, p. 59) noted, in the European context, that 'welfare states appeared to be subject to a process of what has come to be called "structural adjustment": a series of gradual but deep-seated reforms which were designed to make social policy more consonant with a quite new (international) political economy.' Herbert Kitschelt (1994, p. 297), in another comparative study, wrote, 'At stake between the parties are only slightly different methods to support and to correct private market allocation of scarce goods. In advanced industrial democracies, parties can no longer offer voters stark alternatives on the distributive dimension.' Whether the lack of stark alternatives applies to the current German scene should be assessed.

The SPD's search for changing the welfare system without losing too many of its voters is a major challenge to its leaders, who have no easy answers. The party, once the bastion of the class conscious working class, has abandoned its socialist goals, but still espouses a social democratic welfare state. This shift in goals paralleled a national shift in occupations. The SPD primarily lost blue-collar workers who were its greatest supporters numerically, but it also lost members in other occupations. From a total of more than 1 million members in 1976, membership plummeted to 650,000 in 2003, a decline faced by other German parties. The loss is also caused by an apolitical youth that does not join the SPD and other parties. The youth mistrust large bureaucratic organizations that provide few opportunities for their participation and have few answers to their economic problems. As a result the SPD's declining membership has become older.

To remain viable, this author (Braunthal, 1999) contends that the SPD must not only deal with the concerns of this shrinking traditional clientele, the blue-collar workers, espousing 'Old Politics' values of bread-and-butter social welfare issues. It must also attract the growing white-collar middle class, which is affluent and believes in 'New Politics' quality of life, environmental protection, technological innovation, and cultural heterogeneity. A pragmatic Schröder, during the 1998 and 2002 election campaigns, sought the support of both groups. Moving toward the political middle and shedding his earlier 1968 generation radicalism, he pursued the same strategy that U.S. President Bill Clinton and British Prime Minister Tony Blair had adopted earlier in their centrist 'Third Way' approach. Schröder called his strategy the 'New Middle,' although in the 2002 election he no longer used the term. This philosophy emphasizes technological innovation, privatization of some enterprises, education, and personal responsibility. It rejects the leftist redistribution of wealth and the rightist unregulated laissez faire economy. A pragmatic Schröder indicated that there was no leftist or rightist economic policy but only a right and wrong one.

Such a view had a negative effect on many voters. In a year 2000 poll, only 20 percent of respondents said that there was more social justice under a red-green government than under a Helmut Kohl CDU/CSU government, 11 percent said the opposite, and 61 percent saw no difference between the two governments.<sup>1</sup> In 2002, facing a national election, the Schröder government was on the defensive. Lethargic SPD supporters and voters had difficulty warming up to Schröder, who had been unsuccessful in reducing unemployment or generating an economic boom. Only his decisive crisis management during the floods that swept eastern Germany, his opposition to a U.S. war in Iraq, the surprisingly strong showing of

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<sup>1</sup> Poll cited in Michael Vester, 'Schieflagen sozialer Gerechtigkeit', *Gewerkschaftliche Monatshefte*, 8/2002, p. 459. For a 2002 federal election analysis, see special issue of *German Politics and Society* (Spring 2003), Vol. 21, No. 1.

the Greens, and the colorless campaign of the CDU/CSU saved the SPD from defeat in the September election. Since his reelection the Chancellor, who has never become a charismatic leader among SPD members, has veered even more in a neoliberal, pro-business direction on economic and social policies.

One major 2003 governmental policy package, Agenda 2010, reveals graphically how far the SPD leaders have moved away from their doctrinaire position. There is a danger in such a move. I argue that Agenda 2010, standing for a neoliberal approach that intends to weaken the social welfare system, will have a negative effect on the SPD's membership, cohesion, ideology and electoral fortune. To prevent such effects left-Keynesian measures designed to provide for less disparate incomes should be mixed into the social welfare reform package.

In assessing Agenda 2010 I pose several questions: Can the welfare state remain viable in the midst of shrinking economic and financial resources? Can the weak and divided left opposition groups within the SPD and the trade unions on the party's perimeter halt the Schröder government's austerity policies in an era of an aging population, persistent high unemployment, and globalization of financial markets? What happens to a political party, such as the SPD, when its leaders in government embark on a course of action that runs contrary to the party members' interests and to the party's ideology, as reflected in its Basic Program? Will the SPD eventually move away from the neoliberal capitalist policies back to social democratic policies or has the end of the social democratic century been reached, as Ralf Dahrendorf (1980) already had suggested in 1980?

In this article I deal first with the political and economic setting of the Schröder's recent governance years, then concentrate on Agenda 2010 and other parallel economic and social measures, and conclude with the Agenda's effect on the SPD.

## **2. The setting**

As noted by Frank Bönker and Hellmut Wollmann (2001), the Schröder government, from 1998 on, but especially since its reelection in 2002, has had increasing difficulty shoring up the economy. In 2002, the economy showed less than 1 percent growth and counted 4.4 million unemployed persons, representing 11 percent of the labor force. In eastern Germany, 19.1 percent of the labor force was unemployed; in western Germany, 8.6 percent. Many specialists believed that the ailing German economy, having the lowest growth record in Europe, contributed to the other European countries' moribund economies. Radical German economists contended that a chief reason for Germany's economic plight was the European Union's Stability and Growth Act, formally incorporated into the Amsterdam Treaty of 1997. The Act set a 3 percent deficit gap

limit on the gross domestic product of the EU's member states. Consequently, in Germany the newly-installed SPD-Greens government in 1998, facing tight budgets, had to throttle any expansionist Keynesian policies. The subsequent cutbacks to the costly welfare state contributed to the SPD loss of several Länder and municipal elections from 1998 to the present.<sup>2</sup>

On October 16, 2002, in the aftermath of the federal election, the governing partners, SPD and Greens, signed the usual postelection Coalition Agreement, in this instance for the coming parliamentary term 2002–2006. Among the agreement's many domestic and foreign policy provisions, the parties sought to implement the Hartz Commission labor market reforms.<sup>3</sup> Schröder had established this commission in 2002 to recommend ways to cut unemployment in half. It called for creating new jobs, speeding up job-brokerage services, combining unemployment and social benefits, making labor market services more efficient, and expanding the apprenticeship programs for young people. The coalition agreement also promised government support for small and medium-sized enterprises, including economic and export promotion and the introduction of new technologies. However, such support will do little to alleviate mass unemployment unless effective consumer demand for products is generated.

The agreement set the perimeters of the government program, but its execution remained uncertain. Schröder knew that he had to make specific legislative proposals if the agreement's major portions were to be carried out. He also knew that the SPD's approval ratings in public opinion polls had sunk below 30 percent and that he needed to push through the Bundestag a strong economic and social program that would especially cut unemployment, enhance the SPD's chance of winning the 2006 national election, and thereby ensure his reelection as chancellor to serve until 2010 – coincidentally or not, the year in which Agenda 2010 was expected to be fulfilled.

### 3. Agenda 2010

On March 14, 2003, in a televised address to the Bundestag, the chancellor set forth Agenda 2010, which some observers saw as a turning point in postwar Germany's welfare policies. It was designed to fulfill the need for structural reforms in the social welfare programs by making entitlement cuts and initiating

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<sup>2</sup> The SPD had held power in Hamburg, Hesse, the Saar, Saxony-Anhalt, and Lower Saxony, but lost out to the CDU in Länder elections held since 1998. However, in Berlin the SPD regained political control.

<sup>3</sup> The commission was named after its chairman, Peter Hartz, Personnel Director of Volkswagen Company.

labor market reforms, proposals that conservative business executives and economists had supported for a long time as a means to boost the economy. It also encompassed health and pension reforms. Schröder warned the deputies that ‘either we modernize as a social market or we are going to get modernized by unbridled market forces.’<sup>4</sup> He also said: ‘No one will be allowed to sit back at the country’s expense.’<sup>5</sup> Such centrist sentiments were bound to create resentment among the party’s leftists and unionists, whose philosophy and priorities differ sharply from his.

Among the Agenda’s many provisions is one allowing small companies to lay off workers, a radical step for Germany where inflexible rules prevent their dismissal under most circumstances. Another provision, dropped from the final version, was one allowing the collective bargaining parties to work out ways to make pay determination more flexible. Still another provision – a recommendation of the Hartz Commission – reduced the amount of time unemployed workers and employees could receive full unemployment benefits, which ranged from 60 to 67 percent of full salary. The maximum eligibility time would be reduced drastically from thirty-two months to twelve months for those under fifty-five years of age and eighteen months for those over that age. The level of benefits would be lowered as well, adjusted to means-tested social welfare benefits. In the health service, the burden of payments would fall on the workers and employees, freeing the employers of co-payments. In addition, health insurers would be allowed to make contracts with doctors directly. Pension reforms were also promised. To reduce the expected opposition to Agenda 2010, the Chancellor announced a 15 billion Euros economic stimulus package of low-interest loans to the ailing construction industry for housing and public projects.<sup>6</sup>

The Agenda 2010 program had its antecedents in controversial budget proposals made in summer 1999 by Minister of Economics Werner Müller. But at that time his proposals were not accepted when voters who were dissatisfied with high unemployment and other economic problems deserted the party in several state elections. After the SPD and Greens won barely enough votes in the September 2002 general election to form another national government, citizens became increasingly worried about the stagnant economy, and especially the continuing high unemployment. In December 2002 the chancellor proposed tax increases, which led to protests among SPD members. In February 2003, in a key Lower Saxony Land election, the Christian Democratic Union (CDU) ousted the SPD, until then the governing party. In the Hesse election, the CDU defeated the SPD once again, in a Land that was once an SPD bastion.

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<sup>4</sup> *Guardian*, March 15, 2003.

<sup>5</sup> *New York Times*, March 15, 2003.

<sup>6</sup> *Guardian*, March 17, 2003

Schröder decided that unless he issued Agenda 2010 to stimulate the economy the SPD would suffer further reverses, especially in the Bundesrat. There the CDU, the Christian Social Union (CSU), and the Free Democratic Party (FDP) had gained a majority that could easily block legislative proposals emanating from the Bundestag, in which the SPD and the Greens had a slim majority of nine seats. By opting for a neoliberal course and high budget deficits, Schröder tried to placate the business community and the unions at the same time. Such an attempt proved difficult given their clashing interests on how to reduce the high unemployment, reverse the supranational constraints on government debts prescribed by the European Union's Stability and Growth Pact, loosen the European Central Bank's pursuit of a tight monetary policy, and influence the policy pronouncements of EU commissioners. Schröder became painfully aware of how national domestic policies were increasingly limited by supranational European policies.

The chancellor, knowing that his party members had a broad range of views on the welfare state system, encountered strong opposition to Agenda 2010 within his own party, especially among the vocal but weak and divided left-wing minority. Such factionalism can be expected in as large an organization as the SPD, but if it is fragmented its effect on party policies is bound to be low. One dissident group, known as Forum Democratic Left 21, had been organized in June 2000 as a successor to the Frankfurter Kreis, founded by the 1968 generation. The FDL 21, led by former Jusos chairperson Andrea Nahles, consisted of diverse leftist factions, including 1968 generation veterans, unionists, and Young Socialists (Jusos), the party's junior (16 to 35 years old) branch.

In early May 2003, another dissident group, made up of twelve SPD leftist deputies and Länder functionaries, launched an unprecedented signature campaign to defeat Agenda 2010. They invoked the SPD constitutional provision, adopted by the party in 1994 but never used before, for a membership initiative and referendum. Using this direct democracy tool designed to provide members with a voice in decision-making, the dissidents sought a disapproval vote of Agenda 2010 from the rank and file. The dissidents would have to gather at least 67,000 signatures, representing 10 percent of the membership, during a three-month period ending on July 11. But by early June 2003, their efforts netted only 25,000 signatures.<sup>7</sup> Thus, Schröder did not need to worry. He realized that most members supported his policy, but with little enthusiasm, with many reservations, and without the will to fight back. However, more than 43,000 rank-and-

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<sup>7</sup> According to the by-laws, if they had gathered 67,000 signatures, which obviously was not to be the case, then a referendum could be held in the following three month period. If thereupon a simple voting majority of SPD members, consisting of at least one-third of the total membership, approves the referendum, it becomes party policy (*Der Spiegel*, May 13, 2003).

file members, many of whom presumably signed the petition, gave up their SPD membership in 2003.

The third group, the Jusos, sharply criticized the Agenda at their annual congress in Bremen in May 2003. Chairman Niels Annen, adhering to a left-Keynesian perspective, called for a raise in the inheritance tax, the reintroduction of the tax on wealth, the maintenance of health insurance financed on a parity basis by employers and employees, and the introduction of an anticyclical investment policy. SPD officials could not win over the Jusos to support the Agenda.<sup>8</sup>

At the May strategy meeting of leftists, another group of SPD deputies requested those in attendance to support their position paper. About 60 deputies had drafted the paper, which was critical of the Agenda's taxation and health insurance sections, but not of other sections.<sup>9</sup> These moderate leftist deputies were members of the Parliamentary Left (PL), a group of more than 100 out of 251 SPD deputies. The leftist deputies also initiated a petition calling on the SPD leaders to convene a special party convention in early June to deal with Agenda 2010.

Initially the top SPD leaders were opposed to holding such a convention, fearing that their proposal would suffer a defeat. But then they consented reluctantly when the Seeheimer Kreis and other party factions that supported the Agenda urged the leaders to hold a convention. The Seeheimer Kreis, which was founded by conservative SPD deputies in the 1970s as a counterpart to the leftist groups, opposed any compromises on the Agenda with the Left factions. The Kreis adherents warned that if the social system was not cut back then the citizens' dissatisfaction with the welfare state coddling foreigners would increase and be funneled into nationalist channels.

The former SPD chairperson, Oskar Lafontaine, who had resigned his cabinet and party positions in a major economic policy dispute with Schröder in March 1999, was not present at the May meeting of SPD leftists. Although he had lost credibility within the party, his support for left-Keynesian economic policies and opposition to the Agenda still drew public attention. He wrote in the *Bild Zeitung*: 'The so-called Agenda 2010 consists of old dead goods of the employer associations.'<sup>10</sup>

More important, leaders of the Deutscher Gewerkschaftsbund (DGB) sharply criticized Agenda 2010. They demanded significant changes, such as a major program of public investment in the economy. Bundestag deputy Otto Schreiner,

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<sup>8</sup> *Ibid.*, May 12, 2003.

<sup>9</sup> Summary in *Frankfurter Rundschau*, April 23, 2003.

<sup>10</sup> Cited in *Frankfurter Allgemeine Zeitung*, April 28, 2003. See also *Die Tageszeitung*, May 5, 2003 and Rudolf Walther, 'Totengräber der SPD,' *Freitag*, March 21, 2003.

head of the 250,000 member SPD Working Group for Labor Issues (AfA) and a leading opponent of Schröder's Agenda, intended to present alternative planks at the SPD's special June convention. As a matter of social justice, he favored imposing a tax on wealth and inheritance, on capital gains, and on severance pay given to top managers. Klaus Zwickel, then president of the powerful Metal Workers Union, requested in a letter to all SPD and Greens deputies that they make substantive changes to the Agenda. He accused Schröder of having broken his word in the Agenda, which violated the SPD electoral program's spirit and the governing coalition's 2002–2006 agreement. He recalled Schröder's pledge made at a Metal Workers Union conference that unemployment assistance would not be reduced to the level of the lower paying social assistance. Schröder also had pledged, in a conference with labor leaders after the 2002 national election, that the health insurance scheme would be safeguarded and not partially privatized.<sup>11</sup> Echoing Zwickel's views, DGB Chairman Michael Sommer sharply criticized the Agenda as 'a program for social dismantlement and lowering of net wages.' He said that much in the Agenda resembles the CDU's electoral program and was the equivalent of a 'half curtsying to the employer side.'<sup>12</sup> Sommer, on an earlier occasion, had said that the unions would not accept the provision for reduced unemployment benefits.

These sharply critical DGB views of the SPD's course of action were almost unprecedented in the Federal Republic's history when both organizations attempted, despite occasional disputes, to maintain fraternal relations. Equally remarkable is that DGB leaders and the SPD's left wing were taking the same position, unlike in earlier decades when some labor chiefs formed a close political alliance with right-wing SPD officials. The SPD in its program and organization needs continuing DGB support because of the labor federation's sizable but shrinking number of members, most of whom have been SPD voters. In 1991, the DGB unions had 12 million members; a decade later, 7.7 millions. By the latter date, only 1 out of 6 workers and employees (16 percent) belonged to a union. However, among the SPD Bundestag deputies, 75 percent are union members.<sup>13</sup>

Schröder, eager to see Agenda 2010 adopted, could not alienate many of the SPD and Greens Bundestag deputies given his narrow majority of nine. Indeed, the deputies' support for him was essential if he were to remain chancellor. To mollify the critics, the government proposed to tax profits made on stock sales, but then withdrew the proposal. In the meantime, the party's restless rank and file urged the national leaders to listen to the critics and not to the business

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<sup>11</sup> *Frankfurter Rundschau*, April 29, 2003.

<sup>12</sup> *Frankfurter Allgemeine Zeitung*, April 28, 2003; *Die Zeit*, May 8, 2003.

<sup>13</sup> *Die Tageszeitung*, May 8, 2003.

community. In Schleswig-Holstein the SPD members removed their Land chairman who supported Agenda 2010 and elected instead a spokesperson critical of the top leaders. A few regional chiefs in other Länder also criticized the Agenda.

The SPD leadership went on a counter-offensive. Olaf Scholz, then the general secretary, declared that ‘the 2010 reform agenda will only be a success if it is broadly supported in the party.’ To gain such support, the SPD leaders, as noted, accepted the Agenda’s opponents’ proposal to convene a special conference for June 1, 2003 in Berlin. Scholz predicted that most delegates would strongly back the Chancellor’s Agenda and defeat any left wing and union amendments.<sup>14</sup> In response, the Left spokespersons argued that the reform proposal would burden German society unevenly and demanded that Schröder make concessions to the Agenda’s opponents. Scholz countered that the vote would be based on the entire Agenda concept; there would be no ‘carpet deals.’ Franz Müntefering, SPD Fraktion chief, had a tense private meeting with the deputies who had launched the membership initiative. Angrily, he accused them of a ‘break in confidence.’ They in turn accused him of waging an intimidation strategy. The stand-off between them continued.

As the internal debates flared, the opposition CDU leaders, who basically espoused the principles of a more limited social welfare state, pledged to back the chancellor, although CDU chairwoman Angela Merkel remarked in the Bundestag that the Agenda was ‘a tired, watered-down package unlikely to have any real effect.’<sup>15</sup> Yet in a spirit of nonpartisanship the CDU/CSU and FDP leaders promised not to block Schröder’s proposal in the Bundesrat. Despite this promise Schröder said that the SPD and Greens should by no means depend on the opposition parties for gaining Agenda approval.

In 1998 the Greens’ leaders, prior to joining a coalition government with the SPD, would have been firmly opposed to any cuts in welfare entitlements. But in 2003 they pledged, with some exceptions among the leftist deputies, their support of the chancellor. Thus they did not intend to introduce any major changes in the Bundestag to Agenda 2010. They could offer such support because their members and sympathizers were socially more homogenous and better off economically than many SPD members. The Greens’ co-chairman Reinhard Bütikofer, in a newspaper interview, denied that the governing parties were pursuing a conservative CDU/CSU policy, but admitted that wage earners and the unemployed were bearing the brunt of the proposed policies.<sup>16</sup>

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<sup>14</sup> *Guardian*, April 15, 2003. For a defense of Schröder’s policy, see Peter Glotz, ‘Die soziale Selbstgerechtigkeit,’ *Die Zeit*, May 8, 2003, p. 6.

<sup>15</sup> *New York Times*, March 15, 2003.

<sup>16</sup> *Süddeutsche Zeitung*, April 29, 2003.

On April 28, Schröder received substantial support from the SPD's Executive (*Vorstand*) for his program.<sup>17</sup> It decided that Agenda 2010 would be introduced as a *Leitantrag* at the special June 1 convention. It also formed working groups that were to report to the convention on substantive policy recommendations in five fields – consolidating unemployment and social assistance, offering employment to older unemployed workers, enhancing training programs by private firms, furthering structurally weak regions in eastern Germany, and increasing the retirement age from 65 to 67.<sup>18</sup> The opponents hoped to make changes in the working groups' recommendations, but knew that any gains would be minimal.

To gather further support within the SPD, Schröder convened four regional conferences to which 15,000 members were invited. Although he gave the impression of encouraging a dialogue among leaders and members, the staged events were establishment oriented. Chairpersons limited opponents to five minute speeches, but in practice allowed proponents more time. At the end of the first regional conference, Schröder told the members that the voters' traditional low esteem of the party's competence in economic policies had to be reversed. Adoption of Agenda 2010 would show the voters that the party had such competence. But some members, in the minority, were less supportive. One remarked that, for instance, in Mecklenburg-Western Pomerania 280,000 persons were unemployed and only 3,000 positions were vacant.<sup>19</sup>

Facing similar criticisms from leftist deputies, labor chiefs, and members of the antiglobal organization Attac, Schröder once again intimated that if the party by the time the conference met on June 1 failed to achieve consensus, then he would force the issue and ask for a vote of confidence in him as chancellor and party chairman.<sup>20</sup> Schröder's party critics were angry that the chancellor and his top associates reduced the discussion to a question of confidence in his government. The intraparty debate proved once again how difficult it was for the government to embark on a course of action that ran contrary to the party members' interests.

The division within the party was mirrored in a poll of SPD members. Asked about their approval of the party's national policies, 45 percent were completely satisfied, 29 percent dissatisfied, and 26 percent undecided. When queried about their satisfaction with Schröder as chancellor and party chairman, 61 percent in-

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<sup>17</sup> The vote was 28 in support, 4 against, and 4 abstaining (Ibid.).

<sup>18</sup> *Frankfurter Rundschau*, April 29, 2003.

<sup>19</sup> *Die Tageszeitung*, May 9, 2003.

<sup>20</sup> German Information Center (GIC), New York, *The Week in Germany*, April 25, 2003. For the Attac position, see Christian Christen, Tobias Michel, Werner Rätz (2003), *Sozialstaat: Wie die Sicherungssysteme funktionieren und wer von den 'Reformen' profitiert*, Attac Basis Text 6, Hamburg: VSA-Verlag.

dicated satisfaction, 21 percent dissatisfaction, and 18 percent were undecided.<sup>21</sup> These results showed that Schröder could expect to win the SPD members' approval of his Agenda 2010, but that a sizable minority remained critical.

On May 1, the DGB sponsored its traditional mass rallies and marches in numerous cities, which drew nearly a million persons. Speaking at one of the rallies, Schröder defended Agenda 2010 and assailed those, implicitly the DGB chiefs, who wanted higher government debts that would be costly to future generations.<sup>22</sup> In response, union members, who held signs that proclaimed 'Reforms yes – social cuts no thanks,' whistled and booed.

How much the SPD's internal dispute and the DGB's dispute with the SPD establishment – certainly not unprecedented – contributed to the negative effect on the party's public image is difficult to determine. More likely, the continuing economic difficulties in eastern Germany and the high unemployment throughout the country produced most of the dissatisfaction. In a May 3, 2003 poll of a representative cross section of Germans, only 32 percent of respondents said that they would vote for the SPD if an election were held the following Sunday, while 46 percent supported the CDU/CSU.<sup>23</sup> Schröder sought to boost the low percentage of potential SPD voters by resolutely espousing Agenda 2010. DGB head Sommer, in presenting a leftist-Keynesian counter-program, called on the government to adopt immediately some tax reforms planned for 2004 and to launch a costly state-supported investment program in companies and municipalities. He claimed that although such a program would increase the state debt by 7.5 billion Euros, it would produce an economic growth rate of 1 to 1.5 percent and substantially reduce unemployment. Sommer also called for increasing the value-added tax, permitting the self-employed to join the social insurance scheme, and boosting taxes on inheritance and stocks. SPD policymakers, beholden to the neo-liberal course, summarily rejected Sommer's proposals because these would not generate enough income to cover the financial shortfalls of the social insurance schemes.

The links between the top SPD and DGB policymakers threatened to unravel further when the leaders of the two most powerful unions declared that they would not join their DGB colleagues to meet as planned with Schröder.<sup>24</sup> The two 'rebels' were embittered about Schröder's conservative course and felt that it

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<sup>21</sup> Forsa conducted the national poll for *Stern* and RTL; summary in *Frankfurter Allgemeine Zeitung*, April 28, 2003.

<sup>22</sup> GIC, *The Week in Germany*, May 3, 2003.

<sup>23</sup> *Die Tageszeitung*, May 3, 2003.

<sup>24</sup> The leaders, whose unions comprised two-thirds of all DGB members, were Klaus Zwickel (Metal Workers Union) and Frank Bsirske (Ver.di public service union); *Die Tageszeitung*, May 8, 2003.

was useless to convince him to adopt the DGB position. Other labor leaders favored a less confrontational course. To avoid a sharpening of the conflict with Schröder, Sommer canceled the meeting. Despite this tactical difference among DGB leaders and despite a split among rank-and-file union members, with only a minority (37 percent) opting for a strict anti-Schröder course, the DGB officially called for a Day of Action on May 24 in Berlin.<sup>25</sup>

Although the trade unions and the SPD left groups were articulate in their opposition to the Agenda 2010 they failed to gain enough support for their recommended alternatives. The clashing proposals reflected an increased bifurcation between the thinning ranks of left-Keynesians and the increasing ranks of neo-liberals, not just in Germany but in other developed states where welfare state cuts were at stake.

On May 19, the SPD executive met to discuss its Agenda 2010 general motion, based on the recommendations of the five working groups. It intended to submit the motion to the June convention delegates. In the motion, Schröder and his top lieutenants had decided to make a few concessions to the SPD and DGB opponents in order to gain their support. The concessions included a provision that recipients of unemployment insurance would receive a supplement for two years that would offset the gap between the higher level of unemployment insurance and the lower level of social assistance. Another provision called for financial aid to municipalities once the unemployment and social welfare schemes were merged. Finally, companies were threatened with fines if they did not provide enough vocational training places. However, these concessions did not include the leftist demands for a tax on wealth, the maintenance of the unemployment scheme for workers over fifty-five years old, and the continuation of the health insurance plan without further privatization. As a result five leftists in the SPD Executive voted against the resolution, but over thirty members voted in support.

Schröder was confident that he would gain the backing of a majority of the June convention delegates, but he was less sure that in the Bundestag, in which the SPD and Greens had a slim majority, he would receive their full support. Thus, SPD officials maintained unofficial contacts with twelve dissidents to ensure their vote for the Agenda.

At the Executive meeting, the SPD officials introduced a compromise resolution drafted by Secretary General Scholz. It called on the SPD convention, to be held in November 2003, to authorize a program draft encompassing long-range goals of social democratic policies. Such goals would include higher taxes on inheritance and on capital assets. But the Left wanted such provisions to be included in Agenda 2010 and not in a long-range program that might never be put

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<sup>25</sup> *Ibid.*, May 8, 2003.

into practice.

On May 23, the SPD celebrated its 140<sup>th</sup> anniversary in Berlin. At the historic gathering, Schröder said that his reform proposals would best ensure a vibrant future for the party, which would never have become the oldest German party if it had merely sought to defend the status quo. He contended that if the SPD is to remain the party of freedom, shared wealth, and justice, painful compromises would have to be made on occasion as changed conditions and globalization set in. In a statement mirroring the Third Way views of British Prime Minister Blair, who was in attendance, Schröder averred that ‘justice meant creating conditions for more jobs so people could take control over their lives – and not become lasting wards of the state.’<sup>26</sup>

Schröder’s speech was an attempt to win over more SPD deputies and members to his point of view. The task was difficult given the results of still another poll of SPD members that showed 48 percent of them rejected his reform course and 58 percent predicted that Agenda 2010 will not decrease unemployment. Furthermore, 88 percent favored the reintroduction of a tax on wealth, which the Schröder government had strongly rejected for fear that it would have an adverse effect on the business climate and economic investments, and lead to an exodus of German companies to other countries.<sup>27</sup> To add to Schröder’s problems, in a sample survey of respondents of all parties, only 17 percent believed that the SPD could lead Germany out of the economic crisis.<sup>28</sup>

On May 24, one day after the SPD’s anniversary celebration, the DGB held the ‘Day of Action’ in fourteen cities under the motto ‘Reforms yes. Social dismantling, no thanks.’ Only about 90,000 union members attended the marches and rallies, which provided a venue for labor leaders to once again denounce the Agenda. Among them was Frank Bsirske, head of the powerful public service union (Ver.di), who contended that what was being sold as reform policy was social dismantling. Although the labor leaders remained critical, DGB chief Sommer, who had met Schröder privately on May 22, conceded that some of the worst Agenda features had been scrapped as a result of leftist and union pressures.<sup>29</sup> In fall 2003, when the Agenda 2010 legislation was introduced in the Bundestag, DGB officials exerted further pressure on the SPD and Greens deputies, but with little success.

In the meantime, Schröder received backing in the public sphere from 100 leading economists and Protestant and Catholic Church leaders who urged him to stick to his plans. The chancellor also received a badly-needed boost when the

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<sup>26</sup> GIC, *The Week in Germany*, May 23, 2003

<sup>27</sup> Forsa poll, cited in *Die Tageszeitung*, May 23, 2003.

<sup>28</sup> *Ibid.*, May 28, 2003.

<sup>29</sup> *Die Tageszeitung*, May 27, 2003.

party won a Land election in Bremen, giving the personally popular SPD mayor, Henning Scherf, another term in office.

At the June 1 special party conference in Berlin, Schröder said that people ‘who think everything can stay as it is are deluding themselves. We need change just to keep the wealth we have...We must have the courage to declare the truth.’<sup>30</sup> He conceded that the high unemployment rate was not just the result of cyclical developments in the national and global economies, but also the result of German structural problems. He said that because 62 percent of the federal budget was going for welfare programs and debt servicing, changes needed to be made. He emphasized that the Agenda did not abandon SPD values but would speed up the country’s economic modernization in the interest of future generations.

Several SPD cabinet ministers, Länder chairpersons, the erstwhile party theoretician Erhard Eppler, and the former SPD chairman Hans-Jochen Vogel supported Schröder’s position. Eppler said that the critics’ arguments were already outdated in the 1970s. He counseled them to end their surrealist and self-destructive arguments and support a chancellor who served as a bulwark against the rightist counter-revolution of U.S. President George W. Bush. Vogel, in his elder statesman role, said that 85 percent of people on this planet would be happy if they could discuss the problems facing Germany.<sup>31</sup> The delegates voted overwhelmingly against the leftists and unionists’ alternative proposals. These delegates knew that if they had defeated Agenda 2010 the Schröder government would have resigned and, given the SPD’s low popular approval rating at the time of only 27 percent, a CDU/CSU and FDP government would have replaced it.<sup>32</sup>

Trade union officials ended the street protests against the Agenda in the wake of the SPD June conference. An opinion poll, commissioned by them, showed that about 80 percent of organized workers rejected a union confrontation with the government. The workers accepted the chancellor’s argument that cutbacks in social insurance were necessary to safeguard the welfare state. Thus 87 percent of those polled were ready to increase their share of pension payments and 80 percent backed the government proposal to cut unemployment insurance to workers who rejected a job. However, 56 percent opposed a privatization of health plans and favored a higher tax on property inheritance. Most respondents (89 percent) opposed an increase in the retirement age from 65 to 67 in the coming decades.<sup>33</sup>

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<sup>30</sup> *Ibid.*, June 2, 2003.

<sup>31</sup> *Die Tageszeitung*, June 2, 2003; *Sueddeutsche Zeitung*, June 2, 2003.

<sup>32</sup> *Guardian* (London), June 2, 2003.

<sup>33</sup> Polis conducted the DGB-sponsored poll, summary in *Die Tageszeitung*, June 19, 2003.

In the SPD-Greens coalition cabinet, the two parties had to work in tandem if legislation was to be agreed upon. Thus, on June 14, the Greens backed Agenda 2010 at a special conference in Cottbus. Once Foreign Minister Joschka Fischer gave it his blessing, more than 90 percent of the 700 delegates voted for the Agenda. He claimed that a series of welfare state adjustments in the coming years would help to ensure its long-term survival. To cut unemployment means to give social justice a chance, but a failure to cut it means further reductions in social welfare programs. The outvoted critics within the Greens insisted that the Agenda did not provide the stimulus for growth and advocated instead a wealth tax that would increase the burden of payments on the rich.<sup>34</sup>

Although the government parties won the Agenda's first round, there were still legislative obstacles ahead. In late August 2003, the Chancellor, seeking public support for the Agenda among the 42 percent of the public that was not even aware of it, authorized a costly advertising campaign on billboards and posters on buses that was expected to reach 48 million citizens. The campaign's motto read 'Germany is taking action.' The posters used red lettering, which, as the government put it, 'stands for active change in Germany through Agenda 2010.'<sup>35</sup> It is no wonder that the German Federation of Municipal Statisticians honored the number '2010' with the 'Number of the Year' award. The statisticians said 2010 had come to represent 'a number of courageous steps, along with a readiness to suffer setbacks.'<sup>36</sup>

#### 4. Other government initiatives

As an interim measure to provide for economic growth in an economy that slid into recession in the first half of 2003, Schröder announced on June 29 that the cabinet had opted to speed up a sweeping tax cut. Originally set for 2005, the cut worth more than 18 billion Euros would go into effect in 2004. The plan envisaged a reduction of the top income tax rate from 48.5 to 42 percent in an effort to increase consumption and provide relief for small and medium-size companies. The tax cut would be financed by reductions in state subsidies, the sale of shares in state-owned companies, and continued government borrowing. However, the European Commission warned Finance Minister Eichel about the government's mounting deficit. It reluctantly granted Germany an extra year to bring its deficit

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<sup>34</sup> GIC, *The Week in Germany*, June 20, 2003.

<sup>35</sup> [eng.bundesregierung.de/Dokumente/Artikel/ix\\_517215\\_4317.htm](http://eng.bundesregierung.de/Dokumente/Artikel/ix_517215_4317.htm). The government's Press and Information Office published also an English version, 'Agenda 2010: Questions and Answers' (February 2004).

<sup>36</sup> GIC, *The Week in Germany*, December 11, 2003.

below the 3 percent threshold.<sup>37</sup> The warning showed once again that national decision makers' freedom of action is circumscribed when it clashes with a supranational EU directive.

Numerous economists and business executives, not worried about mounting deficits, hailed the chancellor's plan. They expected it to revive the moribund economy and provide an incentive to consumers and businesses to spend more. Such a revival might in turn produce economic growth in other European states. The CDU/CSU, whose neoliberal stance on the welfare state and the economy nearly mirrored that of the SPD, supported the plan with reservations. But it feared that new tax hikes and increasing government debts might result from the massive tax cuts. However, the DGB unions, weakened by a Metal Workers Union lost strike in eastern Germany, were more concerned about the scaling back of pension benefits and the ability of companies to fire workers, which would result from enactment of the chancellor's tax cut and Agenda 2010 proposals.<sup>38</sup> Already state employment offices were increasing pressure on jobless workers to accept any position regardless of pay or qualification. If the applicants refused job offers, their unemployment benefits could be canceled.

In July, the government, in its rush to obtain approval for all welfare reform bills, introduced another set of health insurance reform proposals. Critics contended that the reforms were socially unjust because more of the costs were to be shifted to the insured patients and the workers. On August 13, the cabinet gave its blessing to Schröder's fiscal and labor market proposals that would make significant changes in Germany's welfare state. Among the many measures were the sweeping tax cuts; a relief package for financially strapped cities; a change in the administration of welfare benefits by combining payment of unemployment benefits and social assistance; and a plan to cut 5.5 billion Euros in subsidies to home-builders, farmers, and commuters by 2004. On September 26, 2003, the Bundestag approved the first batch of Agenda 2010 proposals, but only after Schröder once again threatened to resign. Nevertheless six SPD deputies voted against some of the reforms.<sup>39</sup>

In the meantime, on August 28, the government-appointed Rürup Commission published its report on ways to reform the country's strained pension system.<sup>40</sup> Among its controversial proposals was one to raise the mandatory average retirement age from 65 to 67 by 2035, which would penalize financially those workers and employees who retired prematurely. As in other countries, the

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<sup>37</sup> *New York Times*, November 19, 2003.

<sup>38</sup> *Ibid.*, June 30 and July 1, 2003.

<sup>39</sup> GIC, *The Week in Germany*, August 15, 2003; October 3, 2003.

<sup>40</sup> The commission was named after its chairman, Bert Rürup, a professor of economics at the Technische Universität, Darmstadt.

German population is aging rapidly, with the median age expected to increase from the current 40 to 50 by the mid-century, dependent, however, on the level of immigration allowed. Such aging means that fewer workers will be available to pay for more retirees in the coming decades – a generational conflict in the making. An older population will also be a strain on health budgets. In one projection, the ratio of retirees to workers is expected to rise from the current 38 retirees for every 100 workers to 77 retirees for every 100 workers by 2050.<sup>41</sup>

The increasing imbalance is caused primarily by the low birth rate, in which two persons are replaced by only 1.3 children. One solution is for families to have more children; another is to allow more immigrants to enter Germany. But current cultural factors speak against these solutions. Conservative parties especially are pushing instead for more privatization of social services, in which individuals would contribute some of their own funds. In response, SPD leftists urged that services be financed by general revenues, such as an increase in the value added tax, which in Germany is lower than in most European countries, and by increased immigration.<sup>42</sup>

##### 5. Passage and subsequent critique of Agenda 2010

On October 17, 2003, SPD and Greens Bundestag deputies approved the remaining Agenda 2010 provisions for changing the welfare state. This marked the largest state overhaul of the system in decades. The government, worried about the continuing opposition to some provisions in the bills by its own dissident deputies, had made last-minute concessions to them. On the same day, the Bundesrat voted in favor of the health care reform bill that the Bundestag passed earlier.<sup>43</sup>

The government's token concessions to the dissident deputies did not lead to an end of continuing criticisms of Agenda 2010. In Berlin, two weeks after Bundestag passage, 100,000 members of unions, the Party of Democratic Socialism (PDS), and Attac staged a mammoth demonstration. But the symbolic protest had no bearing on the bills making their way through the Bundesrat. As differences between Bundesrat and Bundestag versions of Agenda 2010 surfaced, the bills were shuttled to the mediation committee (*Vermittlungsausschuss*) of the two chambers. There tough negotiations took place in November and December 2003. Compromises were reached on most bills, including the CDU/CSU demand that the proposed tax cut in 2004 be scaled back by 50 per-

<sup>41</sup> GIC, *The Week in Germany*, August 29, 2003.

<sup>42</sup> Hans-Peter Bartels, 'Steuern statt Beiträge,' *Frankfurter Rundschau*, April 28, 2003.

<sup>43</sup> GIC, *The Week in Germany*, October 17, 2003; *BBC News*, October 17, 2003.

cent, lest it would increase Germany's budget deficit too greatly.<sup>44</sup> On December 19, in the legislative journey's final phase, the Bundestag governing parties passed once again the twelve bills that made up the bulk of the Agenda. The CDU/CSU and FDP reluctantly supported most of the bills, as a prelude to their becoming laws on January 1, 2004. Schröder, without enthusiasm, could take credit for making sweeping cuts in the social welfare system, even while paradoxically still espousing the tenets of democratic socialism at the November 2003 party convention in Bochum.

In March 2004, Schröder, one year after he had launched Agenda 2010, told the Bundestag in a government declaration that the Agenda had been successfully launched. He also asked for legislative support in future years for more investments in children's care, educational reforms, and research and development in order to make Germany more competitive with other countries.<sup>45</sup>

During the post-legislative and policymaking stage, the public controversies did not abate, but rather intensified. Such controversies could be expected but the Schröder government was surprised by their intensity. The unions did not respond positively to Schröder's speech. On April 3, 2004, the European Action Day, about 500,000 citizens attended mammoth rallies in Berlin, Cologne, and Stuttgart to protest Agenda 2010. Three-quarters of the protesters were union members and the others were Attac sympathizers, left radicals, SPD leftists, PDS supporters, and left Greens. In Berlin, DGB chairman Sommer bluntly called for an end to a policy that hurt especially the economically weak and made the rich wealthier. In the aftermath of the rallies, SPD chairman Müntefering criticized the demonstrators for being negative toward necessary reforms.<sup>46</sup>

The demonstrators' demands did not lead to a change in government policies, partly because the demonstrators offered few alternative policies and partly because the government was bent on moving ahead to implement the legislative package. The SPD leaders knew that they had to pay a price for their unwillingness to make further policy changes or to slow the pace of the controversial reforms. More than 20,000 SPD dissatisfied members left the party in the first three months of 2004, relations between the SPD and the DGB remained tense, and the Forsa poll released in early April indicated that the SPD would receive only 27 percent support from voters, while the CDU/CSU would receive 47 percent if a national election were to be held the next Sunday.<sup>47</sup>

In addition, to the dismay of SPD leaders, in spring 2004 numerous dissident

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<sup>44</sup> *New York Times*, December 16, 2003.

<sup>45</sup> *Frankfurter Rundschau*, March 26, 2004.

<sup>46</sup> *Die Tageszeitung*, April 5, 2004.

<sup>47</sup> Forsa poll, cited in *Die Tageszeitung*, April 7, 2004. In an *Infratest* July 2004 poll, the SPD reached a low of 23 percent (*Der Tagesspiegel*, July 3, 2004).

SPD members who were dissatisfied with Agenda 2010 organized a grassroots political initiative. At the same time, Bavarian trade unionists and others organized another initiative. In July 2004 the two groups united to found the Electoral Alternative Work and Social Justice (*Wahlalternative Arbeit und soziale Gerechtigkeit*). The new organization discussed an alternative program to Agenda 2010 that it planned to adopt in fall 2004. At that time it will also decide whether to transform itself into a new left party and run candidates in coming elections. According to an *Infratest* poll of June 2004, the new organization had potential support if it were to become a political party. Although the left of the political spectrum was already occupied by the SPD left wing, the PDS, the left-leaning Greens, and a few left splinter groups, 6 percent of the poll respondents definitely would vote for the new party.<sup>48</sup> A second poll conducted soon thereafter by the Emnid-Institute showed that 11 percent of respondents would cast their vote for the new party.<sup>49</sup> Oskar Lafontaine, who in August 2004 called for the chancellor's resignation, might possibly head such a party.

As the jockeying on the Left continued, a few organizations presented new alternative proposals to Agenda 2010. Among them was an ad-hoc group that met in mid-May 2004 at a 'perspectives' meeting at the Technical University in Berlin. There 2,000 Agenda critics accepted a proposal for a simplified taxation system drafted by the Ver.di trade union, Attac, and academic economists. To reduce the budgetary deficit, the proposal called for the elimination of tax loopholes for the self-employed, an end to subsidies to the coal industry, a reduction of tax exemptions, and an end to bank secrecy. Instead it urged that the 45 percent tax on the wealthy and on enterprises be maintained and not be cut, as the government had proposed. To achieve more economic justice, lower income individuals would receive modest tax cuts. The result would be a virtual elimination of the looming giant budget deficit of 61 billion Euros by 2007.<sup>50</sup>

The DGB, itself split among supporters and critics of Agenda 2010, insisted that the projected cuts in benefits would push many recipients of assistance to the edge of poverty. In June 2004, the Metal Workers Union began a signature campaign in shops and among the public, with a fall deadline, protesting Agenda 2010. It called for a more just taxation system, the reintroduction of a capital gains tax, and an all-encompassing people's health insurance system. It denounced plans to extend the workweek and to push the unemployed into low paying jobs. In a newspaper interview, Jürgen Peters, the Metal Workers Union chairman, denounced the Agenda. He blamed the SPD for kowtowing to the

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<sup>48</sup> Cited in *Jungle World*, no. 28, June 30, 2004.

<sup>49</sup> The Greens would receive 12 percent, the SPD 21 percent, and the CDU/CSU 42 percent (*Die Tageszeitung*, July 30, 2004).

<sup>50</sup> *Die Tageszeitung*, April 14, 2004.

employers and the CDU/CSU. In response SPD chairman Müntefering warned of an escalating dispute between the SPD and the DGB, which could only harm both organizations. Other SPD leaders acknowledged that some cuts in the social welfare system had to be made, but that overall the welfare system was not endangered.<sup>51</sup> It must be noted that not all union leaders were as outspokenly critical about Agenda 2010 as Peters and Ver.di chairman Bsirske.

As the SPD continued to battle its opponents within and outside the party, it had to face in 1993 and 1994 a series of elections on the local, Land, and national levels prior to and after parliamentary approval of Agenda 2010. One symptomatic sign of the SPD's difficulties was the Bavarian Land election of September 2003. The SPD, never strong in the Bavarian CSU bastion, lost the votes of many of its loyal supporters who were protesting the Schröder government's failed economic policies. Similarly, in the Hamburg Land election of February 2004, thousands of SPD voters, opposed to Agenda 2010, shifted to the CDU or did not vote. The CDU, picking up even more support from former right-populist voters, gained an unprecedented absolute majority of seats in the local parliament in this former SPD stronghold.

Not unexpectedly, in June 2004 the SPD suffered further electoral losses in the European Union parliament and Thuringia Land elections, gaining only 21.5 and 14.5 percent of the vote respectively. For the SPD it was one of the worst defeats in a Land election since 1949 and in a European Union election in a quarter-century. In September 2004, the SPD received 31.9 percent in the east German Brandenburg Land election, which sufficed to make it once again the major governing party, but received only 9.8 percent in the Saxony elections. The high vote for the PDS and for right-wing parties in the two east German Länder, as well as the high percentage of citizens who in protest did not vote, was further evidence of the unpopularity of the highly contentious Agenda 2010.

In many eastern German Länder, the SPD was becoming increasingly marginalized.

The SPD chief of North Rhine-Westphalia, Harald Schartau, whose party fared relatively well in local elections in September 2004, but who faces a crucial Land election in May 2005, warned his party to reduce the tempo of the social reforms in order to reduce the fear among party members and the public. The members, especially the older ones, would hold the SPD responsible if the reform package worsened their standard of living. Oskar Lafontaine, in an interview with *Bild*, characterized Agenda 2010 as a 'giant mistake.'

However, the Chancellor, despite the wide pressures on him, said that the policy, from an objective point of view, must be continued.<sup>52</sup> Brandenburg

<sup>51</sup> *Hamburger Abendblatt*, July 1, 2004.

<sup>52</sup> *Der Spiegel*, June 15, 2004.

Minister-President Matthias Platzeck (SPD) concurred, insisting that there can be no stop to reform, even in the face of poor election results. Müntefering denied the need for a policy change because the Agenda would in the long run produce wealth for all, including those at the bottom of the economic ladder. There was an unsuccessful pressure on Schröder to fire unpopular cabinet ministers. However, the government launched another expensive public relations campaign to gain greater support for Agenda 2010 among the public. On some posters it implied that the Agenda was responsible for higher exports, which produced an economic turnaround. Critical economists warned that the Agenda's effects would not be felt until 2005 or 2006, but that in any case there was no linkage between the Agenda's domestic reforms and an upturn in the economy.<sup>53</sup>

Government officials had not expected the continuing sharp protests against the Agenda 2010 government policies once the reforms had received parliamentary approval. The protests centered on the above-cited Hartz Commission labor market reforms, and more specifically against the Hartz IV provision calling for an end to separate higher-paying unemployment and lower-paying social benefit programs. The reforms are scheduled to enter into force on January 1, 2005 and will affect nearly 3 million persons who receive social welfare assistance. About 1.7 million of them have been out of work for more than twelve months and are considered the long-term unemployed. They have received 60 percent of their original salary, but under the reform scheme they would only receive the lower social benefit payments. This slide into poverty would also affect many middle class citizens. In July and August 2004, some 600,000 welfare recipients received a lengthy sixteen-page application form that they had to complete to determine whether they would continue receiving benefits after January 2005.

Some criticisms of Agenda 2010 reflected the continuing schism between eastern and western Germany. Eastern Germans resented the fact that after fourteen years of unification two-thirds of unemployment pay recipients lived in eastern Germany. This was the result of the continuing steep 18.5 percent unemployment rate registered in July 2004 in their territory, which was nearly twice the national average. Moreover, the basic welfare payments in western Germany were still slightly higher than in eastern Germany. The critique against Hartz IV mounted when the press reported that unemployed parents would have to raid their children's savings accounts before becoming eligible for new state benefits. One four-year-old boy wrote to a ministry: 'Please, dear government, leave my piggyback alone. I need a new football and want to buy myself a red-and-white Erfurt jersey.'<sup>54</sup> Many welfare recipients were worried that they might be asked to cash in their life insurance policies or move into less expensive homes if their

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<sup>53</sup> *Der Spiegel*, August 12, 2004

<sup>54</sup> GIC, *The Week in Germany*, August 6, 2004.

benefits were to continue. Hartz IV included a provision that if the income of one partner exceeded a certain sum, then the other partner would not receive any unemployment insurance money. Women were especially concerned that, as the other partner, they would fall into this category. Hartz IV has a number of provisions that will benefit the recipients, but opponents did not emphasize them. According to one estimate, 80 percent of eastern Germans who receive unemployment assistance will be better off than before.<sup>55</sup>

Beginning in July, angry citizens, most of them unemployed, took to the streets every Monday evening. The peaceful protest marches, perhaps not surprisingly, were held mostly in eastern German cities where the resentment against the west German dominated government elite remains high. Tens of thousands of reform opponents have participated in the marches, including communists and rightists, the latter chanting the nationalist slogan 'Work for Germans.'<sup>56</sup> The DGB top leaders distanced themselves from the grassroots marches because they did not want to weaken the SPD even further. But some regional DGB leaders, and PDS and Attac officials gave their blessing. The marches resembled those staged in the German Democratic Republic's waning months in 1989, which precipitated the regime's end. In both instances the demonstrators shouted the populist slogan 'We are the people.'

The marches in 2004, which eventually tapered off, resulted in Schröder calling an emergency cabinet meeting in mid-August. Finance Minister Hans Eichel and Economy Minister Wolfgang Clement agreed to make minor concessions to the Hartz reform opponents. They moved up by one month the date when the revised benefits would initially be paid and allowed more families to take tax deductions for dependent children. But the critics viewed these concessions as insufficient and demanded a delay in its implementation. In late August the chancellor rejected their demands. He insisted that in the course of time, beneficial effects will emerge. One month later, he must have been pleased that in a national public opinion poll the percentage of respondents who supported the labor and social reforms of the government was slightly higher than the percentage of opponents.<sup>57</sup>

## 6. Conclusion

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<sup>55</sup> *Sueddeutsche Zeitung*, August 12, 2004; *Die Tageszeitung*, August 18, 2004.

<sup>56</sup> *The New York Times* headlined its story 'It's Monday in Germany. Time for Social Protest', August 25, 2004.

<sup>57</sup> In a ZDF 'Politbarometer' poll, 48 percent approved the reforms and 45 percent disapproved (*Die Tageszeitung*, September 25, 2004).

In an age of economic crises, recessions, and budgetary restraints, the SPD-led government took the initiative to substantially lower the unacceptable high level of unemployment. It has not been successful. To minimize the national debt it chose the controversial path of proposing cutbacks to several costly social welfare programs rather than launching an anticyclical investment program and imposing higher taxes on the wealthy and on large firms. Thus critics asked what differentiated Schröder's Agenda 2010 and other legislative initiatives from those taken by the CDU/CSU when it was in power in earlier decades. In effect, given the parties' agreement on fundamental policies, few differences marked their approach to social welfare programs, although currently CDU leaders favor more privatization of welfare services. This on-and-off rapprochement between major parties on domestic economic issues also has taken place in other European countries, as a number of studies, such as that of Geoffrey Garrett (1998) and Stein Kuhnle (2000) have shown.

Agenda 2010 typifies the Chancellor's cost-cutting approach favored by the business community and foreign investors. But its adoption is bound to alienate SPD voters and members, many of whom are blue-collar workers who will resent having to pay more for social welfare services. It could cause the SPD's defeat in crucial upcoming local and Länder elections and the next national election in 2006. Paul Pierson (2001, p. 413), in a study of European welfare state politics, aptly points out: 'Support for the welfare state is intense as well as broad. Intensity of preference matters because it is associated with higher rates of political mobilization and with voters' actual choices at election time.'

Thus no matter whether the SPD or the CDU/CSU is in power the voters tend to punish the governing party should it make significant cuts in, or raise the cost of, the social welfare programs. No doubt, as the German population ages in the decades to come, existing pension and health programs will have to be cut back to meet shortfalls in their budgets. The crucial question is how the government will raise enough revenues to finance these programs without increasing the burden on the sizable and increasing number of society's underprivileged members. Germany's fiscal dilemma is mirrored in other European countries, such as France, with its planned welfare cuts enunciated in Agenda 2006 (even the title resembles the German counterpart); Austria and Greece, which have reduced pensions; Portugal, which has let go thousands of public sector workers; and the Netherlands, which has implemented a wage freeze for public employees. In a study of the welfare state, Peter Taylor-Gooby (2001, p. 3) notes that as governments and parties face more complex and less transparent problems, they will need to restructure welfare provisions to meet changing circumstances. When this happens, they will seek to escape blame for retrenchment by targeting their stagnant economy, the EU, or the effects of globalization.

In the introduction to this study, I posed four questions that have been

touched upon in the trajectory of Agenda 2010 but need to be answered now. One, can the welfare state remain viable in the midst of shrinking economic and financial resources? In the long run the answer may be in the affirmative because it will be most difficult for any governing party or parties to cut drastically costly but popular social welfare policies that are deeply rooted in the nation's history. Nevertheless, the post-World War II period of expanding welfare systems, which included full employment, will not reappear.

Two, can the divided left opposition groups within the SPD and the trade unions on the party's perimeter halt the trend toward Schröder's austerity policies in an era of persistent high unemployment, an aging population, and globalization of financial markets? In the instance of Agenda 2010, the opposition forces did not have enough political clout or popular support to force significant Agenda changes. Both sides refused to make significant compromises that could have prevented the confrontation between them.

Three, what happens to the SPD when its leaders in government embark on a course of action that runs contrary to the party members' interests and the party's ideology, as reflected in its Basic Program? In the coming years other intraparty policy differences on pocketbook issues will continue to plague the SPD. Such clashes will be damaging to the SPD, especially if severe cuts in economic and financial resources continue to weaken the welfare state. Obviously, the gulf between the leaders and the rank and file will widen, which may cost the party the next general election.

Four, will the SPD eventually move away from the neoliberal capitalist policies back to left-Keynesian policies or has the end of the social democratic century been reached, as Ralf Dahrendorf had suggested already in 1980? Whether the SPD will launch social democratic policies in the foreseeable future is highly improbable given the momentum of the Schröder's neoliberal policies, the constraints imposed by supranational institutions, and the impact, albeit limited, of globalization. Thus Dahrendorf's prediction of an end of the social democratic century has a kernel of truth in it, except that the social welfare system, based on the party's ideology, continues to function, although on a more restrictive basis. In short, I argue that Agenda 2010 will have a negative effect on the SPD's cohesion, ideology and electoral support unless left-Keynesian measures, cited earlier, are introduced into the package of reforms.

The SPD, regardless of its position on the welfare state, needs to make significant internal reforms if it expects to gain more popular support. Among the reforms is to give more opportunities for the younger cadres to advance as leaders within the organization. This step may help to staunch the serious continuing membership drop. Yet such a step alone will not contribute to the party's revitalization, as shown in the instance of the forty young SPD Bundestag deputies, who in mid-2001 organized the *Netzwerk Berlin*. As party careerists they expect

to move into leadership positions in coming years. They have taken a centrist position on national issues, which have not attracted potential members.<sup>58</sup> Peter Lösche (2003), Franz Walter (2004), and other observers note that there are other problems facing the SPD: a lack of strategic thinking, lethargy among its graying members, the dearth of enough women in its ranks, the poor qualifications of some leaders, the absence of genuine debates at party conventions, the corruption of a few SPD city machines, and the fraying ties to the trade unions. Intraparty ideological debates about a new society hardly take place any more. Differences between the SPD and the conservative parties, in their programs and legislation, such as social welfare, have shrunk considerably.

If the party in its programmatic and policy statements can juggle the often conflicting concerns of the workers, salaried employees, and technical intelligentsia, then its electoral prospects become brighter. However, in this juggling process those individuals who are mired in poverty, have social problems, depend on welfare, and lack access to higher education, must not be disadvantaged and must not feel that they have little to contribute to society. Their votes are as crucial for the SPD as are those of the New Politics 'modernizers,' who constitute the policymakers within the party, and from whom the disadvantaged citizens feel alienated.<sup>59</sup> On the social periphery, these poorer citizens are the ones who will be the principal losers in various Agenda 2010 programs. In a comparative study, Christopher Pierson (1998, pp. 59–62) indicates that class schisms develop in other countries too. The poorer citizens, potential left or right populists, are envious of the high income workers and employees who are the privileged class.

The SPD's programmatic direction will have a bearing on its electoral fortunes, especially if the program provides benchmarks to gauge the party's political direction. The 1989 Berlin basic program currently in effect, but to be revised in 2005, emphasizes the key ideological concepts of freedom, equality, solidarity, and social justice, as well as the newer themes of ecology, gender equality, and technological progress (Braunthal 1993; Stöss 2003).<sup>60</sup> Some of these concepts are in danger of losing their meaning should Schröder continue to deemphasize the traditional social democratic objectives.

Many party officials and members are worried about a consequent erosion of the SPD's identity, which during recent election campaigns featured the bland concepts of 'innovation' or 'modernization.' Such concepts pale in comparison to those underlying democratic socialism that in earlier decades were at the heart of the SPD program and that distinguished the SPD from its conservative rivals.

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<sup>58</sup> *Die Zeit*, No. 46, November 6, 2003.

<sup>59</sup> Franz Walter, 'Die Sozialdemokratie vor dem Verlust der Neuen Mitte,' *Die Welt*, March 1, 2003.

<sup>60</sup> See also *Berliner Republik*, 2/2003, pp. 17–21.

But since German unification in 1990, many SPD leaders, who feel more at ease with the moderate concept of 'social democracy' than with the more radical 'democratic socialism,' are letting the PDS lay claim to the democratic socialism label.

Leftist critics within the SPD, lacking a charismatic leader, also favor the SPD becoming more independent of Chancellor Schröder, who as party chairperson had a strong influence on its policies and development. But when the chancellor, knowing that he was not popular with SPD members, suddenly gave up his party post in February 2004 and designated the loyal Fraktion chief Müntefering also as party chairman, the critics were not mollified. They doubt that the new team will provide satisfactory answers to the citizens' worries about the future and to the continuing problems facing the SPD. They insist that national economic and social policies be adopted that would reverse the current combustible mixture of heavy doses of neoliberal and weak doses of social democratic programs.

The European political landscape in the early and mid-1990s, as in the 1960s and 1970s, was marked by a plethora of moderately reformist social democratic and socialist parties in power, despite their move to the political center. Optimism prevailed that a new age had dawned, yet these parties had no economic blueprint that could mobilize the masses. In effect, as Dieter Dettke (1998) and Fritz W. Scharpf (1987) point out, many of the parties accepted the conservatives' neoliberal free market programs modeled on that of former British prime minister Margaret Thatcher, which led in the late 1990s to their loss of political power. As a result, conservative and, in some countries, right populist parties swept into power in Austria, Portugal, Spain, Italy, France, Denmark, Norway, and the Netherlands. Many blue-collar workers, disillusioned by the social democratic failure to speak to their concerns, voted for the conservatives or the right populists, who favored tougher immigration, asylum, and law and order policies than the social democrats.

In western Europe, during the current conservative era, the social democrats have governed in Germany, Great Britain, Greece, Finland, and Sweden, and in March 2004 regained power in Spain. But election cycles do not guarantee their continued success in maintaining themselves in power, as was shown in the Greek election of March 2004 in which the conservatives triumphed over the socialists. The real challenge faced by the social democratic and socialist parties is to provide a democratic economic alternative to the free market economies. This requires that these parties in the EU push for abandoning or modifying accords like the European Stability and Growth Pact that prevent governments from restoring the economic growth needed to sustain welfare state policies. Without growth or redistributive fiscal policies, there is hardly a viable alternative to austerity programs such as Agenda 2010. But, as Pauline M. Prior and Robert Sykes (2001, pp. 198–206) point out, one should not assume that growth is impossible,

even in an era of increased EU powers and globalization that reduces the national government's policy options.

In the case of the SPD, the slim hope is that its leaders will listen more to its core members and to many ordinary citizens who are angry about the economic downsizing path the party is taking. Then the leaders might consider introducing more left-Keynesian economic and financial planks, including redistributive taxation, into key welfare programs. The outcome might be a modest economic growth, a drop in unemployment, and fewer cuts in social welfare, which would produce a more palatable, slimmed down German welfare model. If that were to happen the SPD might even have a chance to win the national election once again in 2006.

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