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The 'Agenda 2010' Reform under the Schröder Government: German governance in transition?*

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I Introduction

On 19 December 2003, both chambers of the German legislative body, the *Bundestag* and *Bundesrat*, passed bills for the reform of the welfare system and of labour market regulations. These bills were based on the German Chancellor Gerhard Schröder's policy package named 'Agenda 2010'. This 'Agenda 2010' provoked a lot of controversies and had dominated the German political scene in 2003 after its presentation on 14 March of that year. An anonymous journalist of the DPA (*Deutsche Presse Agentur*) described it as 'one of the greatest reform packages in the post-war period' in Germany (DPA 2003).

But in fact, what these reform bills brought about was a kind of adjustment, rather than a drastic change. For example, pension payments in 2004 were to be frozen at 2003 levels; the nursing-care insurance contribution was to be raised; the maximum period to receive unemployment benefit was to be reduced from 32 months to 12 months; the unemployment insurance system and the social relief system were merged; and the dismissal restrictions were to be loosened for firms with fewer than 5 employees. It is true that this reform was painful for pensioners and the unemployed, but it did not change the fundamental character of German welfare system, which has been categorised as the 'conservative' type of welfare regime by Esping-Andersen (Esping-Andersen 1990). Also, the wage system in Germany, in which trade unions and employers' associations negotiate and determine the wages in each sector exclusively, still remained intact.

Why was such a package, apparently limited only to adjustments, evaluated as 'one of the greatest reform packages in the post-war period'? Is this nothing but an exaggerated statement from a journalist obsessed with sensationalism? The key to answer this question will be found in the

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governance structure in Germany.

2. 'Lost decade' and governance in Germany

As many scholars have already pointed out, the mode and structure of governance in Germany is well known for its capacity to resist change.

At the civil society level, strong interest groups are organised, and negotiations among them, which incline towards consensus-seeking, become the main feature of governance. Since these bodies have strong influence in the process of policy planning and implementation, it is not uncommon for governments to accept the output of their negotiations unchallenged. On the other hand, the political society in Germany is characterised by the competition among actors and by the stronger separation of power among constitutional institutions. Political parties tend to behave in an antagonistic way rather than to seek a consensus. Due to the federal system, over fifty percent of bills need the approval of the *Bundesrat*, which is constituted by the delegates of *Land* [state] governments. When opposition parties win the elections of *Land* parliaments and get a majority in the *Bundesrat*, they can exercise veto power against the federal government that is based on the support of the majority in the *Bundestag*, which is elected in the general elections.

This configuration of governance makes Germany difficult to bring about policy changes. Even if the federal government wants to introduce a new policy, if it fails to obtain cooperation from the interest groups concerned, it will be difficult to actualise an effective policy. And even after getting such cooperation, the federal government needs to secure approval from the *Land* governments. Thus, the German federal government does not have the power to manage and control society by itself, but needs to obtain approval and cooperation from associations and *Länder* [states].

Lehmbruch named this configuration of governance *Verhandlungsdemokratie* [democracy based on negotiations], and found its historical roots in the impressive example of the Holy Roman Empire, which had secured a peace settlement after the long and harsh religious wars between Catholics and Protestants in the early modern age (Lehmbruch 2000; Lehmbruch 2003). Katzenstein regarded Germany as a 'semi-sovereign state' that had no concrete power centre to control the country (Katzenstein 1987). Scharpf pointed out that the German federal system, in which federal and *Land* governments have competitive jurisdictions in many policy areas, could lead to a deadlock situation. He named it *Politikverflechtung* [tangle of politics] (Scharpf, Reissert and Schnabel 1976).

This configuration of governance had worked to block reform of the welfare system and the labour market in Germany for decades. Chancellor

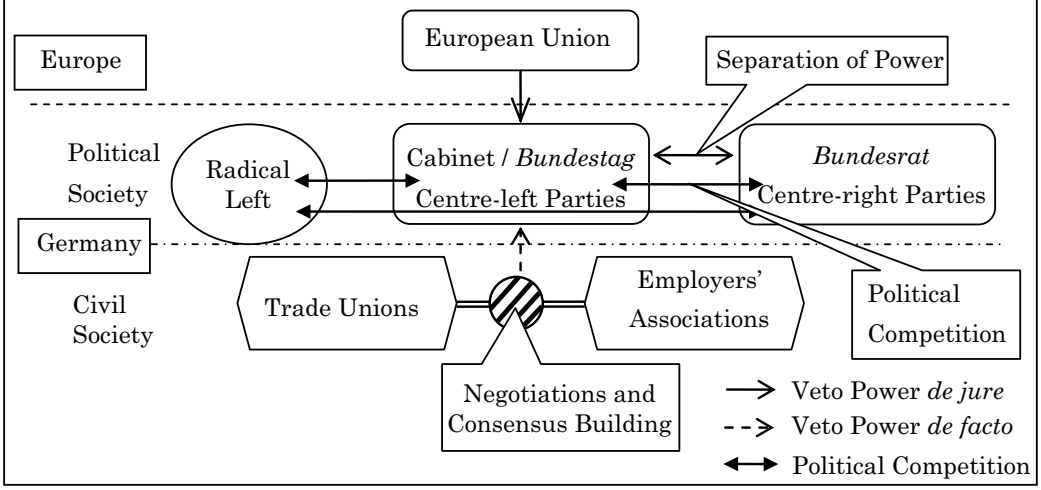
Helmut Kohl, who headed the centre-right coalition government of the CDU/CSU (*Christrich Demokratische Union Deutschlands/ Christrich Soziale Union in Bayern* [Christian Democratic Union/ Christian Social Union]) and FDP (*Freie Demokratische Partei* [Free Democratic Party]), had tried to introduce a neo-liberal reform in the face of the deep recession after the reunification of Germany. But the German trade unions and other associations in health and pension policies put up a strong opposition. Moreover, this disaffection brought the victories in the *Land* parliament's elections and the majority in the *Bundesrat* to the SPD (*Sozialdemokratische Partei Deutschlands* [German Social Democratic Party]), which obstructed the passage of Kohl's reform bills. Even though Kohl achieved some minor reforms for benefit reduction and so on, these couldn't bring about a dramatic economic recovery. Painful but unfruitful minor reforms just disaffected many voters. This stagnation of reform that was accompanied by voters' frustration was likened to a traffic jam, and journalists made up a new word '*Reformstau*' [reform jam]. This word won the award of the Word of Year in 1997. Ultimately, voter frustration contributed to Schröder's victory in the general election of 1998. He built a centre-left coalition government of the SPD and the Greens (*Bündnis 90/Die Grünen* [Alliance 90/The Greens]).

Schröder won the election by criticising Kohl's inability to reduce the size of the unemployed population, which was in excess of 4 million people. However, the seizure of power and the management of government are entirely different matters; after Schröder came to power, it was his turn to take responsibility to revive German economy and cut down the unemployment rate. Therefore, Schröder called for the DGB (*Deutscher Gewerkschaftsbund* [German Confederation of Trade Unions]) and the BDA (*Bundesvereinigung der Deutschen Arbeitsgeberverbände* [Federal Confederation of German Employers' Associations]) to join in a new tripartite consultation body named *Bündnis für Arbeit* [Alliance for Employment]. By obtaining a consensus from major societal actors, he attempted to promote a reform to increase the flexibility of labour market.

However, the policy distance between the trade unions and employers was great, and the *Bündnis für Arbeit* did not bring forth any significant results. Furthermore, inside the Schröder government, the reformers and the leftists started struggles over the economic and budgetary policy. Together, the stagnation of the *Bündnis für Arbeit* and internal political turbulence diminished the popularity of the SPD and the Greens. In February 1999, this red-green coalition suffered defeat at the *Land* parliament's election in Hessen, and lost its majority in the *Bundesrat*. Germany fell into the stalemate situation of *Reformstau* once again, and some media began to employ the phrase 'lost decade'. Although Schröder won a slim majority at the general election in September 2002 by raising

the issue of the military intervention in Iraq, it was a kind of common knowledge that his government was faced with obstacles and had reached deadlock (see Figure 1). In this context of the 'lost decade' of *Reformstau*, it is not incomprehensible that adjustment-only reform bills could have been evaluated collectively as 'one of the greatest reform packages in the post-war period'.

Figure 1. Obstacles and restraints around the Schröer Government



But if so, there emerges a further puzzle: how did the Schröder government evade the trap of *Reformstau*? In the next section, I would like to discuss three dimensions of Schröder's approach to overcoming these obstacles, namely: 1) the use of input from Europe and its effect in restraining societal actors; 2) responses to critics from the leftist party and groups; and 3) the relationship with the centre-right parties.

3. The way to the enactment of the Agenda 2010 reform bills

3-1. Pressure from the European Union and bypassing the consensus-building process

It was pressure from the European Union that forced the Schröder government to change course and achieve the reform. The Stability and Growth Pact, agreed in the European Council at Dublin in December 1996, obligated each member state to keep its general budget deficit to less than 3 per cent of GDP (gross domestic products). But Germany had already contravened it since 2001. On 8 January 2003, the European Commission expressed its concern at the German fiscal condition, and called on the German government to formulate and report a plan for overcoming its fiscal

and economic crisis by 21 May.

At first, Schröder tried to deal with this request through the framework of the *Bündnis für Arbeit*. He met with Dieter Hund, the president of the BDA, and Michael Sommer, the chairperson of the DGB, on 20 and 21 January, and asked for their cooperation in creating the reform package. But the difference of opinion on the deregulation of dismissal procedures between the BDA and the DGB was too great, and this attempted tripartite consultation in the framework of the *Bündnis für Arbeit* ruptured on 3 March. On the following morning, Schröder declared that he had decided to prepare the necessary reform by himself, without the consensus of societal actors. And he presented his reform plan, 'Agenda 2010', in his policy speech at the *Bundestag* on 14 March 2003.

This kind of unilateral action in social policy can be regarded as a deviation from the standard of German governance, with pressure from the European Commission providing justification for it. It is true that Schröder initially tried to achieve an agreement with trade unions and employers. But on considering the fruitless result of the *Bündnis für Arbeit* in his first government, it is hard to believe that he really expected that this tripartite framework would work well. Rather, his rapid presentation of the comprehensive reform package after a mere 10 days following the rupture of the tripartite talks implies that he had not placed his hopes in them. Schröder, then, had used the pressure from the European Commission in order to bypass the hurdle of obtaining consensus among societal actors, and succeeded in starting the process of reform.

3-2. Limits of critics from the left side

It can be said that the Agenda 2010 was a kind of equivalent of Tony Blair's 'Third Way' politics. On the one hand, it aimed for economic revival by tax reduction and by the increase of investment in education and research in areas of high technology. On the other hand, it planned to restore the fiscal balance through cutbacks in social security benefit payments and the tightening of qualifying conditions for recipients (for further detail, see Table 1).

In order to justify these welfare reductions, Schröder insisted that the German welfare system needed reorganisation and innovation in order to prevent its collapse. But his explanation did not satisfy the left wing in Germany adequately, causing protest against Agenda 2010. There were three major actors who led these protests, namely: 1) the left-wing groups in the centre-left coalition government; 2) the trade unions; and 3) the radical-left party and associations.

Table 1. Main contents of the Agenda 2010

Welfare to Work ・Reduction of the span of unemployment benefit payments from 32 months to 12 months (18 months for over 55 years-old). ・Payments cut to whom denies the offered job from the Employment Service Agency. ・Integration of the long-term unemployment benefits and the social relief payments.
Support to the Small Firms ・Deregulation of dismissal procedures in the firms with less than 5 employers. ・Tax reductions to the small firms.
Employability ・Vocational education and training for the young.
Pension Reform ・Postponement of the pension eligibility age from 62.5 years-old to 65 years-old.
Health Care Insurance Reform ・Abolishment of the employers' burden of the contributions. ・Increase the tax on tobacco. ・Increase the employees' burden of the contributions.
Tax Reduction ・Reduction of the income tax by the decrease of tax rates and by the increase of basic exemption.
Research ・More investment to the R&D of the new technologies. ・Promotion of the power generation by wind and sunlight.
Immigration ・Promotion of the immigrant's integration by the German language education. ・Management and limitation of immigrants inflow.
Source: http://www.bundesregierung.de/Politikthemen/-,9757/Agenda-2010.htm

3-2-1. The results and limits of the protest within the ruling coalition

The left wing of the SPD planned to crush Agenda 2010 at the party congress, which is the supreme decision-making body of the SPD and the stronghold of the left wing. The SPD's executive board under the leadership of Schröder first rejected this demand from the left wing, to gain time to strengthen their position among the party delegates. In order to prevent criticism that it was 'a reform for business interests', they arranged a bill to tighten the tax regulations for large companies. This bill passed the *Bundestag* on Friday, 11 April. And on the following Monday, 14 April, the executive board of the SPD decided to hold an extraordinary party congress on 1 and 2 June in Berlin.

This Berlin party congress saw fierce debate over the Agenda 2010. Schröder argued firmly that globalisation and the rapid aging of the population made it impossible to keep the German welfare state as it had been in the past. And he appealed to delegates to have 'the courage to look straight at the truth'. But what he received were only half-hearted

handclaps. In contrast, Otto Schreiner, who was a leader of a left-wing group in the SPD, asserted that the Agenda 2010 was contrary to not only the Social Democrats' ideal of social justice but also to the economic revival, since the cutback of social spending would reduce the people's purchasing power. His speech received great applause. The party congress was thus filled with a mood which was disadvantageous to Schröder and his reform policy.

However, Schröder threatened the delegates by stating that he would resign if he were defeated in a vote for his reform plan. And finally he won the approval for the Agenda 2010, though to do so he made a concession on the matter of wealth tax. Even the left-wing groups were not able to deny his concrete achievement of two successive general election victories following a 16 year period in opposition. Schröder was a useful and precious *Wahllokomotiv* [engine for gathering votes]. In the face of his resignation threat, the left-wing groups could do nothing but retreat. It is true that these left-wing groups were able to assert their influence to some degree and win concessions in areas like that of the wealth tax, since they were a part of the decision-making process of the centre-left coalition government. But at the same time, their dependence on Schröder restricted the power and momentum of their opposition to Agenda 2010[1].

After the Berlin party congress, the left-wing groups still tried to oppose the Agenda 2010. In September of the same year, some members of the *Bundestag* belonging to the left-wing groups threatened the Schröder government by announcing that they would vote against the reform bills in the hope of a political comeback by Oskar Lafontaine, who had been a long-time rival of Schröder. Lafontaine had experience of being the Minister President of Saarland from 1985 to 1998, the SPD's candidate for the Chancellor in 1990, the party leader of SPD from 1995 to 1998, and the Minister of Finance in the first Schröder government. However, he had come into collision with Schröder and resigned all political posts. The left-wing groups attempted to rely on him and there was indeed a chance of his comeback. The SPD's local branch in Saarland was about to decide its candidate for the Minister President in the *Land* parliament's election in September 2004. If Lafontaine could win the nomination in his old home base, it would become a fine springboard for his comeback. Needless to say, such a development was a danger to Schröder's leadership. Some newspapers wrote that an anonymous party cadre said that the Saarland branch was under pressure from the SPD's federal headquarters in Berlin. Whether this story was true or not, the SPD in Saarland nominated Heiko Maas as the candidate for the Minister President, and the left-wing groups went back on their threat and voted for the reform bills in the *Bundestag*.

1 The Greens also approved Agenda 2010 at their party congress held in Cottbus on 15 June 2003.

Since they had failed to put up an influential rival politician with a high popularity rating comparable to that of Schröder, they had to yield to him.

3-2-2. Turmoil in the trade unions

Along with the left-wing groups in the SPD, the trade unions also voiced objection to Agenda 2010. The labour movement was one of the strongest organised interest groups in Germany, and had the potential to mobilise an effective protest movement against Agenda 2010. However, IG Metal, which was a sector union for metal-related industries and played a leading role within the German labour movement, fell into turmoil over internal power struggles and was paralysed during the spring and summer of 2003.

For many years, reformers and hardliners had fought over the leadership of IG Metal, and a new struggle for the seat of its chairperson occurred in April 2003. Contrary to the established practice, chairperson Zwickel did not nominate the vice chairperson Peters, who was a hardliner, but Huber, who was a reformer, as his successor. At first, top leaders in the executive board of IG Metal supported Zwickel's choice. But Peters mobilised the hardliners at the sub-leader level, and finally won the nomination as the next chairperson.

With this momentum of victory, Peters succeeded in leading IG Metal to take a hard-line position in negotiations with employers. He demanded the introduction of the 35-hours-a-week system to eastern Germany. Gesamtmetal, the employers' association in metal-related industries, rejected this demand on the grounds of economic hardship in the east. Negotiations were broken off on 12 May. IG Metal began the legal procedures for a strike, securing the union members' vote for approval, and started to strike in the eastern factories from 2 June. But Gesamtmetal kept its firm stance and the support of the media and public opinion gradually inclined towards the employers' side. Schröder and his ministers also began to criticise IG Metal's attitude as stubborn. Even some union members voiced dissatisfaction against the hard-line strategy. In the end, IG Metal ceased the strike on 28 June without getting any positive results. This heavy defeat damaged IG Metal deeply: many union members withdrew from IG Metal, and Zwickel resigned. The power struggle then surfaced again over whether to admit Peters, who had led the hard-line strategy and the disastrous strike, as the next chairperson. IG Metal was beset with renewed struggles till its general meeting in late August.

As a result, IG Metal, and more widely, the labour movement as a whole, could not organise an effective protest against Agenda 2010. Of course, they did not sit by idly. The DGB presented its counter-plan named

2 In that programme, the DGB acknowledged that the social insurance contribution was a burden to job creation and should be reduced. But in order to maintain the level of social security benefit payments, the DGB demanded an increase in taxation of the higher income group. At the same time, the DGB proposed public investment on the scale of 21 billion Euros for an economic boost.

'Courage to Reverse: For Growth, Jobs, and Social Justice' on 8 May[2]. But during and after such turmoil, opinion polls showed German voters' negative attitude toward this programme: about 70 per cent of voters opposed it. In this negative atmosphere, the DGB and the German labour movement could not formulate a massive protest movement against Agenda 2010 and influence the policy planning process effectively.

3-2-3. Limits of protests from below led by the radical-lefts

The radical-lefts, including the former communist party PDS (*Partei des Demokratischen Sozialismus* [Party of Democratic Socialism]) and citizens' movements like ATTAC (Association for the Taxation of Financial Transactions for the Aid of Citizens), had neither a power base like a government, nor an established solid organisation like a trade union. Because of that, they chose to mobilise the public directly. Their strategy had some basis: those people disaffected by the reduction of social security benefits by the Agenda 2010 were not few in number.

As a proof of this, on 26 October 2003 the SPD suffered a harsh defeat in local community government elections in Brandenburg, which was a traditional stronghold of the SPD: the SPD's share of the vote decreased drastically from 38.9 per cent to 23.5 per cent. In contrast, the PDS expanded its share to 21.3 per cent. On the following Saturday, 1 November, ATTAC and PDS called for a massive demonstration to protest against Agenda 2010 in Berlin. Since the former communists had called for it, major trade unions refrained from participating officially. But some of their local divisions joined in this demonstration, which recorded more than 100,000 participants.

However, the Schröder government did not shrink at these voices of opposition from below. After the defeat at Brandenburg, Schröder declared that he would not change his reform policy. And he did not show any salient reaction to the massive demonstration in Berlin. And Christa Sager, who was a leader of the Green's fraction in the *Bundestag* and an ardent defender of Agenda 2010, commented that this demonstration was just an irresponsible expression of dissatisfaction against necessary reform. It is true that there was some support for the radical-lefts from below. But these voices could not stop the endeavours of Agenda 2010 as long as they were expressed in an election for local community governments of a small *Land* or in one-time demonstration, since these had no institutional veto power.

3-3. Half-hearted resistance of the centre-right parties

3-3-1. The lack of monolithic attack from the CDU/CSU

The centre-right opposition parties had a majority in the *Bundesrat*, and therefore the potential strength to block the passage of the reform bills proposed by the centre-left coalition government. But their resistance to

Agenda 2010 was limited by both internal struggles and by their own policy platforms.

On the one hand, the Christian Democrats had been troubled with infighting over policy and didn't have a monolithic unity. The CSU in Bayern was affected by the traditional Catholic conservatism, and had an affinity to paternalistic protection of the weak. But the CDU, which was active in Germany except for Bayern, had been inclined to neo-liberalism and market-driven reforms. The CDU aggressively demanded less progressive taxation and the equalisation of social insurance contributions, while the CSU intended to have consideration for socially vulnerable groups. This difference in preferences caused policy disputes between the CDU and CSU, and blunted the edge of their attacks against the Schröder government.

Moreover, this policy dispute was intertwined in a power struggle between the leaders of the CDU and CSU. After the exposure of the illegal donation to Kohl and his retinues in 1999, the leadership of CDU/CSU became unstable. At the general election in 2002, the top politicians of CDU/CSU contended for the seat of the Christian Democrats' joint candidate for Chancellor. Finally, Edmund Stoiber, the leader of the CSU, won the nomination. But his popularity was inferior to Schröder's, and it became one of the causes of the Christian Democrats' failure to return to power. Though this failure damaged Stoiber's prestige, the CSU's power developed since its share of seats within the CDU/CSU alliance had increased. This intricate power relationship brought about the standoff between Stoiber and Angela Merkel, the leader of the CDU, and gave rise to policy disputes between the two parties.

Furthermore, some top leaders of the CDU from eastern Germany sought results through cooperation with the Schröder government. This desire for compromise made the stance of CDU/CSU more intricate.

On the other hand, the Christian Democrats had no serious intention to block the reform bills based on Agenda 2010, since its fundamental orientation had an affinity to their own. Also the BDA and BDI (*Bundesverband der Deutschen Industrie* [Federation of German Industries]), which had a close connection with the CDU/CSU, called for cooperation for the reform. This affinity helped to cancel out the momentum of political contest between the ruling and opposition parties, and let the CDU/CSU behave as a 'constructive opposition' rather than a 'fundamentalist opposition'.

3-3-2. 'Reform poker' between the ruling coalition and the opposition parties

Such an attitude from the CDU/CSU appeared typically in the negotiation at the Joint Conciliation Committee of the *Bundestag* and the

Bundesrat in November and December 2003.

The reform bills were passed in the *Bundestag* by the majority of the SPD and Greens, but were rejected in the *Bundesrat* by the majority of the *Land* governments led by the CDU/CSU and FDP. Then, according to the constitutional procedure, the Joint Conciliation Committee was held. This committee was constituted by the same number of delegates from the approving members of the *Bundestag* and from the rejecting members of the *Bundesrat*. Therefore, it needed a compromise between the centre-left ruling coalition and the centre-right opposition parties to enact the reform bills. And both sides wanted to enact them. Schröder had already declared that he would resign if the bills failed to be enacted in 2003. The CDU/CSU emphasised repeatedly that they were the 'responsible constructive opposition' and would make an effort to cooperate to achieve the necessary reform. At the same time, they were political parties that competed with each other. Both of them tried to avoid easy concessions. As a result, while denying the possibility of ruptures and also feeling out each other's positions, they continued the negotiation without clear and rapid results. Journalists described this mode of negotiation as '*Reformpoker* [reform poker]'.

The major stakes in this 'reform poker' were the fiscal sources of tax reduction and the liberalisation of wage negotiation system. The centre-right opposition demanded the reduction of the deficit-covering government bonds, and new legislation to secure independent wage negotiation at each firm, apart from the sector-wide agreement. It can be said that the negotiation on the tax reduction was a kind of dispute in terms of quantity and had more prospect of reaching compromise. But the demand for liberalisation of the wage negotiation system imposed a yes-no decision and was thus concerned with the fundamental principle of the labour movements in Germany. Obviously, it did not allow easy compromise. For fear of breakdown in negotiations, Schröder proposed a summit meeting by the heads of parties in order to find a compromise. However, Merkel and Stoiber rejected this proposal and sent him an ultimatum on 12 December. This ultimatum said that they would not agree to the summit unless the ruling coalition presented 'a meaningful new proposal' within two days. The Agenda 2010 reform was very close to failure.

It was the decision of employers' associations and labour unions that saved the negotiations from breakdown. On 12 December, the same day of the CDU/CSU's ultimatum, Gesamtmetal and IG Metal agreed that they would continue the collective wage negotiation on a sector level. The metal-related sector had played the role of pace setter in the wage negotiations and had extensive authority. Gesamtmetal's acceptance of the status quo therefore broke the basis of the demands made by the centre-right opposition parties. After this agreement, Schröder presented a new proposal

to the CDU/CSU on 13 December. Though he conceded on the matter of tax reduction, he denied them the liberalisation of sector-wide wage negotiations. In the face of the consensus among the societal actors, the CDU/CSU had little choice: Merkel and Stoiber accepted this proposal as 'a meaningful new proposal,' and agreed to hold a summit meeting. Heads of parties participated in the Joint Conciliation Committee and began to negotiate on the night of 14 December. This negotiation lasted more than 10 hours, and finally reached a compromise[3]. The amended bills based on this compromise were brought to the vote in the *Bundestag* on 19 December, and all bills were passed the *Bundestag*, though 12 nays from the governing bench were cast in respect of an amendment to restrict the refusal of jobs offered by the Employment Service Agency. The *Bundesrat* approved these amended bills on the same day. Schröder had thus succeeded in fulfilling his promise to enact the Agenda 2010 reform bills within 2003.

4. Concluding remarks

4-1. Change of governance structure?

How much did Agenda 2010 change the structure of governance that had led Germany into the *Reformstau* for years? It is true that there were some signs of change. The federal government carried out a significant reform in social policy, bypassing consensus-building among the major societal actors: it deviated from the ordinary ways of policy making in Germany. And it might be epoch-making that a request from Europe caused significant reform of a welfare system.

However, the principal mode and structure of governance in Germany has not changed completely. Bypassing the consensus-building has not

3 All-night negotiation triggered a mistake: they signed a plan in which the amount of tax reduction was miscalculated. The signed plan was around 1.2 billion Euros less than the plan which both sides had accepted. This was not a tiny mistake. However, the centre-right opposition parties did not demand its cancellation and renegotiation, though they bemoaned the mistake loudly. This episode shows that the focus of the final phase of negotiations was not a substantive element of the compromise but a bargaining process in itself. So this negotiation was indeed 'poker'.

4 As Professor Czada pointed out, we can see a new pattern of policy-making in the twenty-first century led by a commission of specialists who have been appointed politically (Czada 2005). Although it had been common for some technical matters to be referred to an advisory committee of specialists, Schröder also commissioned some pro-government 'specialists' and consulted them about the keynotes of his reforms. It is true that they had sufficient expertise, but they tended to formulate and recommend a policy package favourable to the government. Schröder utilised such 'recommendations from the experts' as a means to persuade the public, interest groups, and party colleagues. The Hartz Commission for the labour market reform and the Rürup Commission for the social security system reform were the good examples. The CDU also set up the Herzog Commission for the reform of the social security system, in order to plead the superiority of their policy. Czada regarded this trend as 'the shift to Government by commission' (Czada 2005: 189). Nevertheless, the consensus among societal actors still remains important. As we have already seen, it was the agreement between IG Metal and Gesamtmetal that saved negotiation on the Agenda 2010 reform bills from rupture.

become a normal and ordinary way of policy making[4] and the veto power of the *Bundesrat* still remains as before[5]. Therefore, even though there emerged some new routes for input into the policy-making process, there was still the risk of falling into the trap of *Reformstau* in the decision-making process. From this point of view, the passage of the Agenda 2010 reform bills should be regarded as the result of the red-green coalition's endeavours rather than the spontaneous result of a changed governance structure in Germany.

But, at the same time, it is true that the Schröder government was helped by the contingent configuration of actors' political preferences and power relationships.

On the one hand, the turmoil in the trade unions helped to restrict resistance from the left. Since the left-wing groups in the red-green coalition could not get significant support from the organised labour movement, they couldn't counter Schröder's threat of resignation effectively. Meanwhile, although radical-left forces succeeded in mobilising the public, they couldn't escalate citizens' voices into continuous and effective pressure on the government since they lacked support from a solid organisational base. Therefore their mobilisation ended as sporadic protest. It can be said that the resistance from the left was divided and contained.

On the other hand, resistance from the right side was tamed since the policy contents of the Agenda 2010 had an affinity to the policy orientation of the Christian Democrats and the Liberals. In sum, while the resistance from the left could not develop well due to the contingent lack of ability, the centre-right parties did not have the serious intent to resist Agenda 2010 though they had adequate ability to block its enactment.

4-2. Epilogue: counterattack from the left

If this analysis is accurate, the Agenda 2010 reforms would meet difficulty when the power relationships among the various actors changed. It seems that the developments in 2004 support this prognosis.

After the success of his reform bills on the welfare system and labour market regulations, Schröder set new targets for education, training and research policy. In his New Year message of 2004, Schröder presented his

5 There has been a sign of change on this matter as well. Since the reform bills of Agenda 2010 became suspended between the *Bundestag* and *Bundesrat*, some people advocated reform of the German bicameral and federal system that often led to a stalemate situation. And the *Bundestag* and the *Bundesrat* jointly set up the Commission for Modernisation of Federal System and started discussions on 7 November 2003. The keynote of the reform plan was to change the joint jurisdictions into independent jurisdictions of the federal government or the *Land* governments. This attempt to reallocate the jurisdictions caused struggles among parties and *Länder*, and the discussion fell into turmoil. Nevertheless, Stoiber and Franz Müntefering, the leader of SPD's fraction in the *Bundestag*, eagerly tried to accommodate the conflicting interests and almost reached a compromise. However, their endeavours ended in failure in 2004 because of the confrontation over the right to manage the universities. After that, further efforts for the fedeml system reform were attempted in 2006 under the grand coalition government of the CDU/CSU and SPD. Though this endeavour brought forth fruits, 40 per cent of the bills still need the approval of the *Bundesrat*.

plan to improve selected universities and make them into elite schools like Harvard University in the United States. But this new plan failed to arouse the interest of the media and the public though it was welcome by business leaders and some professors. Rather, his popularity dropped sharply because patients' contributions were raised in the health care insurance reform from 1 January 2004. Many SPD leaders began to demand a change of policy or a cabinet reshuffle, and few leaders defended him. Schröder was isolated in the SPD, and he announced his willingness to resign the party leadership on 6 February. In the extra party congress, held at Berlin on 21 March, Franz Müntefering was elected as a new party leader of the SPD while Schröder kept his Chancellorship[6].

Behind these scenes, the German trade unions regained their strength and tried to recover from the previous setbacks. Within IG Metal, Peters won the election for the chairpersonship and conducted the wage negotiation from December 2003 with a hard-line stance gaining a 2.2 per cent pay increase on 12 February 2004. This was a good result for the time, and IG Metal regained its strength and prestige under the aggressive leadership of Peters. Also the DGB joined in the Europe-wide mass demonstration against the neo-liberal globalisation on 3 April 2004. In this 'European Action Day', more than half a million people participated in the demonstrations in Germany. In this rising atmosphere of support for the left, some sub-leaders in IG Metal started to organise a new party named '*Wahlalternative Arbeit und Soziale Gerechtigkeit* (WASG) [the Alternative for the Election for the Labour and the Social Justice]'. This new party tried to take root on the left of the SPD.

And what made things worse for the SPD leadership was that a series of elections had been scheduled in early summer and autumn[7]. These elections were far more important than the local elections in Brandenburg held on 26 October 2003. But the approval ratings of the SPD remained low even after the change of leadership. To overcome this painful situation, and under heavy pressures from the left side, the leaders in the red-green coalition began thinking of policy changes.

At first, they made a bill to oblige firms to introduce a system of quotas for hiring vocational students. This bill intended to allocate jobs to younger job seekers and placed the burden on employers. It faced resistance from

6 Müntefering conducted the election campaign of 1998 and 2002 as the Secretary General, and contributed to the victories of SPD. He was transferred to the leader of the SPD's fraction in the *Bundestag* after the general election victory of 2002, and helped the enactment of the Agenda 2010 bills. In this respect, he was a supporter of Agenda 2010. However, in contrast to Schröder, who had been an attorney and had the custom of enjoying his vacation at a villa in Tuscany, Müntefering had worked in a small metal processing factory after the end of his compulsory education and started his political career as an activist in a local party organisation. His career was regarded as the symbol of 'the soul of SPD', and he was a favourite of the rank and file.

7 The schedule was as follows: in June, the elections for the European Parliament and the Land parliament of Thüringen; in September, the elections for the Land parliaments of Saarland, Brandenburg and Sachsen, and for the local communities in Nordrhein-Westfalen.

not only the business leaders and the centre-right parties, but also from Wolfgang Clement, who was the Minister for Economic and Labour in the Schröder government. Even the Minister Presidents of SPD-led *Land* governments voiced their objections to it. In spite of these objections, the Bill for Securing the Vocational Education and Training was approved in the *Bundestag* by the majority of the red-green coalition on 7 May. But this bill was rejected by the *Bundesrat* and became suspended. Thus as the red-green coalition headed towards the left, the centre-right opposition parties exercised their veto power: the trap of the *Reformstau* was revived. In the end, the DIHK (*Deutsche Industrie- und Handelskammertag* [German Chamber of Commerce and Industry]) promised to create the 90,000 posts for vocational students in the next three years, and settled the stalemate. So, to overcome the *Reformstau*, compromises among the key societal actors were required after all.

But such a cosmetic action could not temper the voters' discontent. Even after this settlement, the SPD and the Greens continued to suffer defeats in every election. In the process of this series of defeats, Schröder and Müntefering changed their policies one after another with the intention of boosting the approval rating: they revised the Agenda 2010 reform and increased the social security payments contrary to their hard endeavours in the previous year; they showed their approval for the introduction of the statutory minimum wage; and they even suggested the referendum about the EU Constitution though they did not put this idea into practice. In spite of these efforts, the red-green coalition failed to regain the trust of voters. Finally, after the defeat in the *Land* parliament election in Nordrhein-Westfalen, in which there was the last red-green coalition government at *Land* level, Schröder decided to dissolve the *Bundestag* and call a general election.

After the announcement of Schröder's decision, the WASG and the PDS agreed to participate in the general election jointly. The PDS changed its name as '*Die Linkspartei.PDS (Linke)* [The Left Party - PDS]', and the WASG's member became candidates of this renewed radical left (and post-communist) party. At the general election on 18 September 2005, this new party, gathering the protest votes against the Agenda 2010 reform, won 8.7 per cent of the valid votes and succeeded in preventing both the red-green coalition and the centre-right coalition of the CDU/CSU and the FDP (so-called 'black-yellow' coalition) from gaining the majority in the *Bundestag* and changing the political landscape at the federal level. Some scholars had pointed out the possibility of the emergence of a polarised two-bloc system in Germany, namely: the CDU/CSU and FDP on the right, the SPD, Greens and PDS on the left (Lees 2002; Roberts 2003; Smith 2003). And most politicians in the established parties preferred this configuration: during the election campaign of 2005, they had behaved on the assumption that the

main dynamics of party competition was the confrontation between the red-green ruling coalition and the black-yellow opposition parties. They dared to ignore the *Linke*. But the success of this radical-left party showed such an assumption to have been a serious miscalculation, and compelled them to seek a new pattern of government formation, namely: the red-yellow-green 'signal' coalition of the SPD, FDP and Greens; the black-yellow-green 'Jamaica' coalition of the CDU/CSU, FDP and Greens; and the grand coalition of the CDU/CSU and SPD. Agenda 2010 could not change the mode and structure of governance in Germany effectively, but instead changed the configuration and dynamics of party politics in Germany.

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