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THE HARTZ COMMISSION VS. THE ALLIANCE FOR JOBS: A STUDY IN GERMAN
LABOR MARKET REFORM

By
Robert Russell Lynch II

A thesis presented in partial fulfillment of the requirements for completion of the
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Approved:

Advisor: Dr. Alice Cooper

Reader: Dr. Kees Gispen

Reader: Dr. Christopher Sapp

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ABSTRACT

ROBERT RUSSELL LYNCH II: The Hartz Commission vs. the Alliance for Jobs: A Study in German Labor Market Reform

The political system of Germany is oftentimes characterized by incremental developments which shy away from major, controversial reform. This is especially true for economic reforms centered around the German labor market. However, despite this incremental system a series of controversial and comprehensive reforms of the German labor market, collectively known as the Hartz reforms, were successfully implemented in 2004. This is especially peculiar when the failed Alliance for Jobs, an attempt at similar reforms in the late 1990's to early 2000's, is taken into consideration.

This thesis will explore how the Hartz reforms were passed in this incremental system by comparing its success with the rather typical failure of the Alliance for Jobs reforms. In order to accomplish this goal, this thesis will rely heavily on texts concerning the German policymaking process and its resistance toward major economic reform in order to establish a frame of reference. Once a basic understanding of the policymaking process is obtained, this work will then chiefly utilize political science journals and periodicals to specify the nature of the policies, the people and groups involved in their respective processes, and their respective outcomes.

As we will see, the Hartz reforms succeeded where the Alliance for Jobs reforms failed. The heavy influence of labor interests, cabinet ministries, and opposition within the German Chancellor's own party on the nature of the Alliance reforms made any semblance of consensus impossible. By avoiding these obstacles through efficient, commission-derived policies and well timed implementation, the

Hartz reforms were able to come to fruition in a system which would normally never allow for legislation of their nature to pass.

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Introduction

Despite the increasing sense of European unity resulting from multi-nationalism and economic cooperation, one manifestation of which is the European Union, competition among European states as to which country stands out as the “frontrunner” continues to play an important role in both foreign and domestic European politics. European nations, vying for competitive advantages and unique market shares, appear to be more interested in their respective national economies than in of any sort of multi-national union. While this competition spans the continent, one nation possesses a unique drive to become and maintain status as the chief economic power within Europe: Germany.

This “status quo” of sorts concerning Germany as the main economic power in Europe does, of course, have some historical significance and reasoning. German industrialism and ingenuity has been at the forefront of the European economy since the end of post-war German occupation. The *Wirtschaftswunder* (“economic miracle”) of the 1950’s characterizes the rapid reconstruction and development of the West German economy during this time period. The Marshall Plan and currency reform, which established a stable, legal tender in the Deutsche Mark, brought about in a lasting period of low inflation and rapid industrial growth. This period of

economic growth elevated West Germany from nearly complete post-war ruin to a leader among the developed nations in modern Europe. Furthermore, the foundation of multi-national economic communities such as the European Coal and Steel Community and the European Common Market allowed Germany's economic growth to exist in sharp contrast to the struggling conditions of other post-war European nations, namely Great Britain.¹ These favorable conditions lasted well into the 1960's when, just before the onset of recession, industrial production was increasing at a rate of 8%, wages and salaries were increasing by 8.5%, and inflation and unemployment rates were so low that they were essentially negligible.²

As of 2007, Germany stands as one of the world's premier industrial and service economies possessing a labor force of nearly 45 million people. Inflation levels are lower than 2% and the overall Gross Domestic Product (GDP) of \$2.5 trillion currently ranks 5th in the world when Purchasing Power Parity (PPP) is taken into account.³ Germany has been long characterized by its incredible trade surplus, the highest in Europe.⁴ The only truly alarming economic statistics center around Germany's unemployment rate and GDP per capita. While as of 2007 the unemployment rate is declining, it still stands out as one of the highest in Western Europe at nearly 7%, and 13 European nations rank higher than Germany in GDP

¹ Henderson, David R. "German Economic "Miracle"" The Concise Library of Economics. The Library of Economics and Liberty. <<http://www.econlib.org/library/enc/GermanEconomicMiracle.html>>.

² Orlow, Dietrich. A History of Modern Germany. 5th ed. Upper Saddle River, NJ: Prentice Hall, 2002. p 277.

³ "Germany: the Human Development Index, Going Beyond Income." Human Development Reports. United Nations Development Programme. <http://hdrstats.undp.org/countries/country_fact_sheets/cty_fs_DEU.html>.

⁴ "German Trade Surplus Hits Record." BBC News. 8 Dec. 2006. British Broadcasting Company. 1 Dec. 2007 <<http://news.bbc.co.uk/2/hi/business/6161715.stm>>.

per capita.⁵

The role of Germany as the prime location for economic investment and activity, known in German political discourse as *Standort Deutschland* (literally translates as “location Germany”), has presented much discussion and debate ever since the rise of globalization and the fall of the Berlin Wall. While once standing out as a leader in research, development, and manufacturing primarily due to its specialization in high-quality, high-tech goods, Germany has recently seen its role as Europe’s economic leader dwindle. This is mainly a result of other international players, most notably Japan and other industrialized Asian nations, increasing their level manufactured goods dependent on highly-skilled and heavily-trained labor, thus infiltrating a global niche that Germany once dominated. This is not to suggest that Germany is no longer economically potent, but there is significant cause for concern, which has prompted a need for reform.⁶ The forces that have affected Germany’s economy, both internally and externally, have led to decreasing foreign investment, lagging high-technology inventiveness, and increasing structural unemployment. The demand for change, the high cost of labor, and the monetary burden of the German welfare state have led to numerous economic initiatives in both the public and private sectors.⁷

One area of economic concern that has become the most pressing issue in

⁵ "Rank Order - GDP (Purchasing Power Parity)." CIA World Factbook. Dec. 2007. Central Intelligence Agency. 1 Dec. 2007 <<https://www.cia.gov/library/publications/the-world-factbook/rankorder/2001rank.html>>.

⁶ Pfanner, Eric. "As Economies Slow, Europe Finds Reforms Easier to Take." The International Herald Tribune 23 June 2007, sec. NEWS: 1..

⁷ Dyson, Kenneth. "The Economic Order" in Developments in German Politics 2. Gordon Smith, William E. Patterson, and Stephen Padgett, eds. Durham, NC: Duke UP, 1996. 206-208.

contemporary German economics-related politics is that of the German labor market. Labor politics have always played a significant role in the political atmosphere of any industrialized nation due to the influence that the condition of the labor market can have on potential voters and Germany has been no exception. With unemployment rates growing steadily since reunification and peaking in 1997 and 2003 at levels which were, at the time, unmatched by any other Western European nation,⁸ the market for labor has recently played a more significant role in German policymaking.

The historic precedents of modern German labor reforms are numerous. Notably, the early 1990's marked significant unrest among legislators and labor interests as labor from the former German Democratic Republic (colloquially "East Germany") and glaringly lower standards of labor and living became evident between the two Germanys. Efforts were made towards wage increases with the goal of a higher living standard in the East that many Eastern Germans felt were promised to them by Helmut Kohl's administration. This unrest has been noted as a contributing factor towards placing Germany into one of its worst post-war recessions in the mid 1990's.⁹ The shaky balance between the economic performance of Germany and the condition of its labor market is evidenced by these economic downturns.

These elements of recent German history—economic ingenuity, incredible

⁸ "German Unemployment Hits New High." CNN.Com. 5 Feb. 2003. CNN, Reuters. <<http://www.cnn.com/2003/BUSINESS/02/05/german.jobs/>>.

⁹ Orlow. A History of Modern Germany. 344-345.

economic turnaround, and the role of labor politics—have led to recent legislation that seeks to change the overall economic climate of Germany. This legislation, known as “Agenda 2010,” is a group of reforms which were initially drawn up in 2003 by the administration of Gerhard Schröder with the goal of modernizing the German labor market as well as the social systems which deal with the labor market. Essentially, Agenda 2010 is a system designed to reduce Germany’s unemployment by promoting economic growth. The Agenda’s largest reforms, known as the “Hartz” reforms, were seen as incredibly controversial and therefore nearly impossible to design and implement in the modern German policymaking system. The reforms were drawn up by a committee representing a wide array of interests known as the “Hartz Commission” and represented a major shift in the labor market policy of the German welfare state.

The reforms were divided into four major parts, aptly titled Hartz I-IV. Hartz I and II were geared towards restructuring the German Job Agencies and other labor related bureaucracies to promote more active job searches and conduct business more efficiently. Hartz III was geared towards rebuilding the Federal Labor Institution which, in 2002, was discovered to have falsified a significant number of German labor statistics in order to cover up its inadequacies as a job placement agency. The greatest controversy with the Hartz Reforms came with the fourth and final element of reform. Hartz IV was centered on changing the structure of federal unemployment benefits. To promote more active job searches, argued its supporters, Hartz IV would both reduce the amount of money one could receive as

unemployment benefits and reduce the amount of time in which the benefits could be collected.¹⁰ In a nation that prides itself on being a welfare state, this reduction in government benefits was very controversial.

When the Hartz Commission first met in early 2003, the state of Germany's economy looked grim. German unemployment levels reached new highs, putting Chancellor Schröder's Social Democratic Party at risk against the opposing Christian Democratic Union in the upcoming federal elections. Furthermore, the Federal Labor Office blamed the rising unemployment on already difficult labor market conditions coupled with regulations under German employment protection laws. Along with those employment conditions, European economists estimated a continually weak labor market in Germany until the 2004 fiscal year.¹¹ The rising unemployment rate, reaching a staggering 10%, accompanied the latest round of German labor reforms.

The measures proposed by Schröder and his Agenda 2010, especially when the tax cuts are considered, bear likeness to American Reaganomics and British Thatcherism, conservative economic reforms that provided a strong economic boost in their respective countries in the 1980's.¹² The nature of these reforms, coupled with the timeliness of their conception, led to a great deal of controversy, both in the

¹⁰ Green, Simon, Dan Hough, Alister Miskimmon, and Graham Timmins, eds. "The Reform of the Welfare State." The Politics of New Germany. London: Routledge, 2007. 126-140, here 137 ; Dyson, Kenneth. "Binding Hands as a Strategy for Economic Reform: Government by Commission." German Politics (2005) Volume 14: Nr 2. 225-247, here p. 236

¹¹ "German Unemployment Hits New High." CNN.Com. 5 Feb. 2003. CNN. <<http://62.233.169.104/2003/BUSINESS/Germany/unemployment0feb03.htm>>.

¹² Findley, Carter V., and John Alexander M. Rothney. Twentieth Century World. 5th ed. Boston: Houghton Mifflin Company, 2002. 297-302.

the German political landscape and in Europe as a whole.

This controversy was immediately apparent. On the very same day that Schröder announced his plans before the Bundestag, a number of politicians immediately criticized Agenda 2010 from a variety of angles. Then-opposition leader and future Chancellor Angela Merkel became a leading voice against the reforms, arguing that they did not go far enough to really help the German economy. The Free Democratic Party leaders expressed concerns that the reforms were likely to set Germany back as opposed to actually resulting in progress. Criticism from trade union leaders accused Schröder of attempting to bring down the German welfare state under the pressure from opposition parties, and socialist leaders labeled Chancellor Schröder as “socially unbalanced.”¹³

Despite this initial controversy, the reforms of Agenda 2010 slowly gained acceptance among opposing politicians, both within the opposition parties and Schröder’s own SPD, and the general German public. The increasing popularity of the reforms can be chiefly attributed to a realization by German workers and politicians alike that reform was necessary for Germany to remain internationally competitive. This increasing acceptance of the policy came in the wake of further increasing unemployment, especially in the formerly communist eastern Germany.¹⁴

¹³ “German opposition, trade unions criticize Schroeder's economic proposals.” BBC Monitoring Europe – Political. Transcription of Deutschlandfunk radio, Cologne. 15 Mar. 2003.

¹⁴ “Schröder's Reforms and Staying Power.” Business & Finance Magazine. 7 Oct. 2004.

In the summer of 2007 it appeared that the desired effects of the Agenda 2010 legislation were being realized as unemployment rates decreased to a rate not seen since 2001. The improvement of the labor market is estimated to have positive economic effects that could last until 2010.¹⁵ Although the Agenda 2010 reforms have been successful despite the controversy they generated (especially over the Hartz commission reforms), debate continues over the effect this legislation will have on the German economy in the long run and, perhaps more significantly, on the system of German policymaking.

The controversy and questions arising as a result of the passage of the legislation drafted by the Hartz commission only serve to demonstrate just how unusual these reforms were. Not only were they wide in the scope of their effect, but they were radical in their nature. Radical reforms such as Agenda 2010 require a great deal of political deliberation, compromise and coalition building, which many would have thought nearly impossible to achieve in the German political system. In many ways, the success of the Hartz reforms was a surprise. As recently as 1998 another initiative to reform Germany's ailing labor market, the Alliance for Jobs, had failed miserably. The Alliance for Jobs, Training, and Competitiveness was an attempt to address German economic woes through legislation based on cooperation of labor, government, and business interests. In early 1998, shortly after Schröder won the Chancellery, concerns over Germany's competitiveness led to the creation of a commission that would draft plans to repair the ailing labor

¹⁵ "Plummeting Unemployment in Germany." Business Week. 29 June 2007.

market. The Alliance brought together top union leaders, SPD party leaders and major trade organizations under the direction of Chancellor Schröder in the hope of reaching a consensus on reform. The Alliance lasted until 2003, but as early as 2000, it became clear that the Alliance had failed. In short, The Alliance for Jobs could not overcome the obstacles represented by the German policymaking process in the area of major socioeconomic reforms. How could Agenda 2010, most notably Hartz IV, become legislation in Germany? Could the pressing needs for change have driven the passage of the reforms or were certain elements of the German policymaking system circumvented?

By exploring the political process in Germany, my thesis will attempt to provide an explanation of the unlikely success of the Agenda 2010 labor market. My objective is to determine what could have allowed for their passage. This will be accomplished through a comparative analysis of the Hartz Commission and the Alliance for Jobs. Using an analysis of the German policymaking system, we will see that the failure of the Alliance for jobs is very typical of a German policymaking system characterized by centrist policies and incremental change. The Hartz Commission, on the other hand, used similar methods to pursue nearly identical ends but was a success. How could Chancellor Schröder, Peter Hartz, and the modernizing wing of the SPD attempt to enact economic reforms through corporatist and commission-derived legislation twice in the span of only a few years and see great success with one attempt and miserable failure with another? By comparing the two cases and analyzing the elements of the German system, we

will hopefully be able to ascertain why the Alliance failed and the Hartz Reforms succeeded.

The Difficulties of Economic Reform within German Policymaking

In the face of the many issues surrounding globalization, questions surrounding the adequacy of the German system of economic reform began to surface. Many theorized that Germany was, through its policymaking process, unable to fully enact the fast-acting and expansive plans to combat concerns with rising unemployment and inflation unless “old-school populism” transformed itself into “broad acceptance of the necessity for far-reaching economic reforms.”¹⁶ This means that reforms such as those attempted by the Alliance for Jobs and enacted by the Hartz Commission are generally unpopular and difficult to implement.

In order to better understand why Schröder, the reformist wing of the SPD, and Peter Hartz would form seemingly unpopular and improbable policies through the unconventional medium of “government by commission,” one must first analyze the German policymaking process. Furthermore, an understanding of the politics surrounding the various vetoing powers inherent to the German system can sufficiently explain the recent moves towards commission derived policies as well as the makeup of the commissions themselves. In order to achieve such an end, this chapter will first provide a brief overview of the political basics of the policymaking

¹⁶ Benoit, Bertrand. "An Altered Zeitgeist Germany is in Retreat From Economic Reform." Financial Times 11 Oct. 2007.

processes within the Federal Republic. This chapter will explore the elements of German policymaking—namely corporatism, the major political parties, and the makeup of German federalism—which serve the greatest role in hindering large scale economic reform, in order to provide reasonable grounds to delve into the concepts of “semisovereignty” and “government by commission.”

In order to answer the question as to why this type of reform is so difficult, analysis of the “semisovereign” nature of the German system along with the numerous “veto players” is necessary. A veto player, in this sense, can be described as “an individual or collective actor whose agreement...is required for a change in policy.”¹⁷ Perhaps no scholar has done more to analyze and explain this element of German politics than Peter J. Katzenstein. His principal work on the topic, Policy and Politics in West Germany: the Growth of a Semisovereign State, has sparked much debate on the topic. Given how influential Katzenstein and his work have been to this field, this chapter will rely heavily on his works and works by numerous other scholars which serve as an “addendum” or “follow-up” to Katzenstein’s writing. Using Katzenstein as a guideline, this chapter will focus chiefly on the German institutions that, as he describes it, link “state and society as well as different levels of government” therefore encompassing “political opponents in a tight policy network.”¹⁸

¹⁷ Tsebelis, George. Veto Players: How Political Institutions Work. Princeton, NJ: Princeton UP, 1995. 302. As cited in: Katzenstein, Peter J. Policy and Politics in West Germany: the Growth of a Semisovereign State. Philadelphia, PA: Temple UP, 1987. 35.

¹⁸ Katzenstein. Policy and Politics in West Germany. 35.

A Decentralized State

The modern German federal state is characterized by a high level of state decentralization. Furthermore, this decentralized state is coupled with a highly centralized society with a concentration of power in large social groups. While allowing for a stable and liberal democracy, the weakened federal institutions can be politically hindered not only by each other, but also by the numerous private interest holders who hold a great deal of influence in German politics. This element of German politics, its so-called “semisovereignty,” can make change on a great scale very difficult and therefore favors rather incremental developments.¹⁹

In this case we have particular interest in the Federal Chancellor (*Bundeskanzler/in*) and the restrictions placed on him or her to pass legislation that he or she may be championing. On the one hand, The German Chancellor plays a very influential role comparable to that of the Prime Minister of Great Britain.²⁰ This is because the brunt of political power in the German executive branch comes from the Chancellor and his or her ability to direct policy guidelines and choose his or her cabinet ministers. Additionally, the Federal Chancellor plays an important role within his or her respective political party and shaping policies thereof. This can be seen in the fact that only one Federal German Chancellor, Helmut Schmidt, was not the chairman of his own party. Furthermore, the German Chancellor is difficult to

¹⁹ Katzenstein. Policy and Politics in West Germany. 11-15.

²⁰ James, Peter. "Government and the Political Parties." Modern Germany: Politics, Society and Culture. Ed. Peter James. London: Routledge, 1998. 45-67, here 47.

remove from office once he or she has been elected.²¹ A lost vote in confidence could usher in new elections, but the only truly viable option for removing a Chancellor within the German federal system is the “constructive vote of no confidence” (*konstruktives Misstrauensvotum*), which requires the vote of no confidence to be supplemented with alternative candidate agreed upon by the federal parliament. This vote has only occurred twice in the history of federal Germany and has only succeeded once with Helmut Kohl’s replacement of Helmut Schmidt as federal Chancellor in 1982.²²

On the other hand, despite the great level of power placed within the Chancellery, the position has many restraints which act to limit the degree to which he or she can enact real reform. For example, the federal ministries, while appointed and guided by the Chancellor, are more independent than in most cabinet systems. This is chiefly due to the constitutional right to the autonomy of the ministers to operate their own departments (*Ressortprinzip*).²³ As long as the actions of a given minister and his/her staff fit within the political guidelines set forth by the Chancellor, their work is free from interference. Furthermore, the political party structure and system of coalition governance—which will both be explored later in this section—provide the coalition partner or partners with ample opportunity for representation on the federal cabinet. In this sense, federal ministries can act as either extensions of or opposition to the Chancellor and his or

²¹ Katzenstein. *Policy and Politics in West Germany*. 22.

²² Green, Simon, Dan Hough, Alister Miskimmon, and Graham Timmins, eds. "A Blockaded System of Government?" *The Politics of New Germany*. London: Routledge, 2007. 57-76, here 58-9.

²³ Green, et al. "A Blockaded System of Government." 59.

her policies.²⁴ With the reforms and attempted reforms discussed in this work, we will see that the role of various federal ministries as a veto point is quite a powerful one, especially when dealing with labor market reform. In these situations, the Ministry of Finance and the Ministry of Labor and Social Affairs have a great deal of influence over the Chancellor and his or her policies.

Another decentralized element of German politics lies in the practice of the formation of coalition governments. That is, there has never been a period of time in Germany where a single political party was dominant over all other parties. Instead of single party dominance through “majority rule,” the German system of plurality usually requires one of the two large “catch-all” parties to form a governing coalition with a smaller, less-centrist party in order to assure that a representative majority in Parliament can be obtained. This is due to an electoral system characterized by proportional representation. In parliaments which use electoral systems of proportional representation, parties earn a percentage of seats within governing bodies determined by the percentage of votes received in a given election. This naturally leads to a higher number of different parties, none of which represent an absolute majority of politicians or voters, due to the fact that there is no system of “absolute majority, winner-takes-all” in place. Therefore, great importance is placed on political coalition building among parties in the German federal system. This means that, although parties may be organized independently, the influence of their coalition partner(s) has a great impact upon their formation of

²⁴ Katzenstein. Policy and Politics in West Germany. 23.

policies.²⁵

While there are dozens of parties representing a myriad of interests, ideologies, and classes, there have been two principal parties throughout the life of the Federal Republic. These parties, the CDU-CSU (*Christlich Demokratische Union Deutschlands-Christlich-Soziale Union in Bayern* or Christian Democratic Union-Christian Social Union) and the SPD (*Sozialdemokratische Partei Deutschlands* or Social-democratic Party of Germany), are characterized by moderation, pragmatism, and minimal differences. This broad appeal utilized by both parties has made it difficult for the longstanding success of more ideologically driven political parties to prosper to a similar extent.²⁶ This is evidenced in the description of the major German parties as *Volksparteien* (“parties of the people”), or catch-all parties which remain centrist while ebbing and flowing only with the general mood of the German populace.

While the CDU-CSU and the SPD are the traditional “giants” of the German system of political parties, many smaller parties currently exist or have existed as coalition builders and champions of specific issue. The only significantly longstanding third party, meaning that it saw its beginnings with the end of Allied occupational control, is the FDP (*Freie Demokratische Partei* or Free Democratic Party), which was consistently used by both the CDU-CSU and SPD in order to form the necessary political coalitions of German policymaking until 1998. Furthermore,

²⁵ Green, et al. "A Blockaded System of Government?" 62.

²⁶ Smith, Gordon. "The Party System At the Crossroads." *Developments in German Politics 2*. Ed. Gordon Smith, William E. Paterson, and Stephen Padgett. Durham, NC: Duke UP, 1996. 55-56.

during the Agenda 2010 reforms with which this work is generally concerned, the Left/PDS (*Linke/Partei des Demokratischen Sozialismus* or Left/Democratic Socialist Party) and Alliance '90/The Greens (*Bündnis '90/Die Grünen*) held seats within the *Bundestag*.

In the time period of concern with this work, Germany was governed by a coalition of the SPD and the Greens with Gerhard Schröder of the SPD as Chancellor. With respect to labor market reform, the Green party would do little to hinder Schröder's goals but, along those same lines, would help much either. This is due mainly to the fact that the Green party rarely, if ever plays a role in economic issues, especially those concerning labor.²⁷

Corporatism

Generally, corporatism is a term that classifies a political and/or economic system characterized by a distribution of various powers amongst numerous civic assemblies. These assemblies, known as "corporations" (a term which does not necessarily mean the corporate business model), represent economic, industrial, agrarian, social, cultural, and professional groups. These bodies, both unelected and hierarchical, exert control over the social and economic elements of their respective specialties. Germany is said to have a corporatist system in that a great deal of the political and economic power it wields lies within the hands of these various

²⁷ Dyson, Kenneth. "Binding Hands as a Strategy for Economic Reform." 233.

corporations.²⁸ Seeing its roots in the relatively late arrival of German industrialization and nationalization, German corporatism is centered on collective bargaining and political lobbying among the various peak associations of employer and labor interests.²⁹ The basis of corporatism is a system of “interest intermediation” linking the interests of producers (this can mean both labor and employer interests) and the state through incorporating the various interest organizations into the policy-making process. This has led to a great deal of power being invested in banks, labor unions, and trade federations. These different organizations hold positions on corporate boards, have large and well organized hierarchical structures, and even play a significant role in the formation of political policies.

This corporatist system is so ingrained into the German system that these organizations, without question, always play important roles in economic reform. This is especially true in regard to the labor market. In these areas, it is general practice to bring together members of these various groups with politicians in order to hammer out legislation that satisfies and serves to generally benefit all of the parties involved. In this respect, the various corporatist players act in veto players as that they are capable of stalling, changing, or even ending potential reforms.

With concerns to the Agenda 2010 reforms, namely the reforms of the Hartz Commission, the corporatist role of IG Metall cannot be overlooked. As a labor

²⁸ Katzenstein. Policy and Politics in West Germany. 3.

²⁹ Dyson, Kenneth. “The Economic Order.” 199. ; Katzenstein. Policy and Politics in West Germany.

union representing the workers who produce machine tools, automobiles, and steel, it possesses influence over the most crucial sectors of the German economy. The numerous sectors and occupations represented by IG Metall have put it into a position where it, to a very high degree, forms the collective mindset of the German working class. Furthermore, it is a leader in the process of collective bargaining and is able to set the benchmarks for other unions to follow suit, presenting a united front of labor interests within the corporatist system. Simply put, IG Metall is the role model for labor unions in the German corporatist system and thus wields an extreme level of influence.³⁰

As with many elements of the various policymaking methods throughout Europe, globalization provides a new set of challenges and changes for the corporatist system. The recent increasing concerns over competitiveness have led to newer domestic policies of deregulation geared towards opening up market and employment opportunities. This agenda, while seemingly modern in its concern over *Standort Deutschland*, is caught in the incrementalism brought forth via corporatist interests to block such reform.³¹ As we will see with both the Hartz reforms and the attempted Alliance reforms, IG Metall and other corporatist entities have considerable power within the German political system.

German Federalism

³⁰ Schmidt, Ingo. "Monthly Review September 2005 Ingo Smidt | Germany's Corporatist Labor Movement." *The Monthly Review*. Sept. 2005<<http://www.monthlyreview.org/0905schmidt.htm>>.

³¹ Dyson. "The Economic Order." 203.

In order for policy guidelines, whether drawn up by the Chancellor, federal ministries, or a group of legislators, to become fully enacted into law a long and detailed policymaking process must be followed. This process, like many other in the world of developed, liberal democracies, lends its arduousness to the involvement of multiple political players, each of which is equipped with methods serving as checks and balances against the others. Since the overall topic of this work is concerned with government bills as opposed to legal ordinances or administrative regulations, the processes surrounding their passage, as opposed to that of the others, will be focused on more carefully.

Germans describe their system of federalism as *Politikverflechtung*, or “political interdependence.” This is because in the German system, differing interests are brought together “through a policy process that resists central reform initiatives and defies sustained attempts to steer policy objectives.”³² This is best explained through the functional division of powers via allotting legal deliberation to the federal level and implementation to the *Länder* (provincial) governments. This has created an interlocking of political tiers played out in the upper house of the German parliament or *Bundesrat*, which essentially exists as a federal forum for *Länder* governments.³³ When compared to the American federal system, the differing elements of the German system become quite clear. In the United States, the powers of the federal government are independent from those of the individual

³² Katzenstein, Lewis J. *West German Politics*. New York: Columbia UP, 1986:45.

³³ Saalfeld, Thomas. “Political Parties.” *Governance in Contemporary Germany: the Semisovereign State Revisited*. Cambridge, UK: Cambridge UP, 2005. 46-77, here 46.

states. The German federal system, most clearly represented by the cabinet ministries and the *Bundestag*, is required to reach some sort of concordance with the *Bundesrat* on the most important policy issues. The difficulties of the system of political interdependence are further exacerbated when the issues of state ministries' administration of federal programs and the so-called "Joint Tasks" involving sharing of financing and implementation of certain legislation are considered.³⁴ This system truly incorporates numerous levels of government, all of which have significant power, in the creation of legislation.

Formally, ideas for new policies originate from executive ministries, parliament, or the Chancellor.³⁵ Most of these bills come from a coordinated effort on behalf of the Chancellor and the various ministries. However, the *Bundesrat*, with bills sponsored by the majority of *Länder* governments, and the *Bundestag*, with written support of at least five percent of the chamber members, can write potential policy as well. Legislation initiated by the executive branch or the *Bundesrat* is discussed in draft form initially by a federal ministry. The *Bundesrat* then works closely with the ministry to draft a bill suitable enough for the *Bundestag*. Legislation which originates within the *Bundestag* is not subject to initial scrutiny by the executive branch or the other house of parliament.³⁶

Next begins what is perhaps the most important process a bill can endure: deliberation within the *Bundestag*. Here, much of the work is done in committees

³⁴ Katzenstein. *Policy and Politics in West Germany*. 46-50.

³⁵ Sturm, Roland. "Continuity and Change." *Developments in German Politics 2*. Ed. Gordon Smith, William E. Paterson, and Stephen Padgett. Durham, NC: Duke UP, 1996. 123.

³⁶ Edinger. Lewis J. *West German Politics*. New York: Columbia UP, 1986. 229.

hoping to hammer out a compromise suitable for passage.³⁷ After an initial reading, extensive committee deliberations lead to a version of the bill suitable for a second reading. After this reading, debates along with a vote further test the viability of a piece of legislation. If necessary, a third reading will be held with a final vote thereafter. The passage of a bill within the *Bundestag* will then open it up for deliberation within the *Bundesrat*.³⁸

While generally not as powerful as the *Bundestag*, the *Bundesrat* is still able to serve important deliberative and policymaking functions. Once a bill reaches its chamber it can either be approved and sent to the Chancellor, tagged with a “suspensive veto” (which can be overridden by the *Bundestag*) or, in specific cases where both houses of the German parliament cannot agree on a bill, be sent to a conciliation committee (*Vermittlungsausschuss*) where members of both houses will attempt to negotiate some form of compromise. If a bill can survive this arena, it is then required to garner the signatures of the Chancellor, the minister over the policy area of which the bill is concerned, and the federal president to be fully enacted into law.³⁹

In this capacity, the *Bundesrat* performs as a vital link between the federal government and the governments of the individual *Bundesländer*. Each individual *Bundesland* sends a certain number of delegates based on the population of their respective *Land*. These representatives then nominate a chief “vote-caster,” forcing

³⁷ Green, et al. "A Blockaded System of Government?" 58.

³⁸ Edinger. *West German Politics* 229.

³⁹ James. "Government and the Political Parties." 50 ; Edinger,. *West German Politics* 228-229.

the *Länder* delegations to vote as a bloc. Since the delegations are based upon the strength of the political parties on a state level and not nationally, the political makeup of the *Bundesrat* can and often has differed greatly from that of the *Bundestag*.⁴⁰

Through these various processes and characteristics, the *Bundesrat* plays a vital role in the legislative process, especially with legislation that affects the individual *Bundesländer* more so than the federal government. This is chiefly due to the federal reforms of 2006 which, among many other things, defined an array of so-called “concurrent” legislation. Under this reform, anything defined as concurrent legislation (chiefly economic regulations and labor market reform) requires an absolute majority of *Bundesrat* votes for passage.⁴¹ Although this is a crucial issue to consider as of the completion of this work, the Alliance for Jobs and Hartz reforms were not subject to these federal reforms as they were both undergoing the policymaking process before 2006.

As a result of these differences between the federal and *Länder* levels of government, especially with respect to party makeup, the *Bundesrat* has set itself aside as the “most visible ‘veto point’ in German politics.”⁴² This is especially true when each house of the German parliament has a different party in the majority. This system of “cooperative federalism,” which was seemingly intended to form consensus through problem solving, persuasion, bargaining or coercion is instead

⁴⁰ James. "Government and the Political Parties." 49-51.

⁴¹ Katzenstein. Policy and Politics in West Germany. 17 ; Green, et al. "A Blockaded System of Government?" 59.

⁴² Green, et al. "A Blockaded System of Government?" 62.

manifested through strategies of conflict avoidance. In addition, this difficult political environment has created a situation where, generally speaking, complex policy issues are divided into smaller “decision segments.” These decision segments certainly make agreement easier to attain yet do not exist as a medium for powerful change.⁴³ The conflicting interests, motives, and political makeups of the federal governance and the *Länder* governments lead to incremental policymaking via the threat of *Bundesrat* intervention. If consensus is not reached in the *Bundesrat*, bills are threatened either by the potential veto or severe alteration of their intended effects, meanings, or scopes. As we will see, the role of the *Bundesrat* as an influential force on potential legislation played an important role during the passage of the Hartz reforms because, during that time, Schröder’s SPD did not control the *Bundesrat* and saw its influence within that body dwindle with individual *Länder* elections.

Another important factor in the success or failure of legislation lies in the German electoral system. This is chiefly due to the fact that the schedule for elections on the *Länder* level is staggered to the point to where there is almost constant campaigning on the part of the various parties. These elections can greatly change the makeup of the *Bundesrat*. Furthermore, the federal elections and in the timetables have been able to motivate parties into action that would be more or less politically impossible given normal circumstances. This is seemingly due to the idea that the parties attempt to present a united organization as opposed to individual

⁴³ Katzenstein. Policy and Politics in West Germany. 53-54.

political actors in the German system, and during an election acting upon such “unity” is crucial. The timing of these elections coupled with the timing of legislation can greatly affect political behavior from the individual politician all the way up to the party *en masse* in the face of particular reforms.

In a later chapter, it will become clear that the ability of the *Bundesrat* to act as a veto power along with the timing of various elections did much towards the passage of the Hartz reforms.

Other Notable Veto Points

With respect to economic legislation there are numerous other veto-points which must be “hurdled” in order to successfully enact legislation. Although not nearly as influential as the aforementioned elements of policymaking, their significance is worthy of note. This section will address these other processes, namely the German judicial system and the various “parapublic” institutions, and briefly outline their potential to affect economic reform.

The German judicial system consists chiefly of three types of courts: Standard criminal or civil courts, specialized courts (courts which deal with special subject areas such as labor or patent law), and constitutional courts. The courts are arranged in a multi-tiered system ranging from local to supreme federal judicial bodies.⁴⁴ It is important to note that, under the constitutional system of checks and

⁴⁴ Edinger. West German Politics 26-27.

balances, German judicial authority exists as an independent judiciary.⁴⁵ This frees the German policymaking process from potentially influential court renderings which are founded in political rather than pragmatic or judicial decisions. While all courts in the German system serve important and varying functions, the single most significant court is the Federal Constitutional Court (*Bundesverfassungsgericht*). This court consists of sixteen judges presiding over two courts. The judges serve twelve year sentences and, although they are appointed by the *Bundestag* and *Bundesrat*, they rarely if ever follow the political wishes of parliament or the Chancellor. This court serves the important role of performing judicial review and possibly vetoing any legislation passed by any house of the German parliament on the grounds of unconstitutionality.⁴⁶

The last institution, or “node” as referred to by Katzenstein, of the German policy network which will be expounded upon in this chapter is the collection of various “parapublic” German institutions. These parapublics chiefly serve to bridge the gap between the public and private sectors.⁴⁷ These institutions are best exemplified by the Federal Reserve (*Deutsche Bundesbank*), now defunct due to the introduction of the Euro, and the Federal Labor Agency (*Bundesagentur für Arbeit*) yet are certainly not limited to those two organizations. The parapublic institutions chiefly play a corporatist role in the legislative process, conduct research, and carry out certain policies. In the case of the Hartz legislation, the *Bundesagentur für Arbeit*

⁴⁵ Katzenstein. *Policy and Politics in West Germany*. 385.

⁴⁶ Green, et al. "A Blockaded System of Government?" 60.

⁴⁷ Groser, Manfred. "Ökonomie parastaatlicher Institutionen." *Jahrbuch für Neue Politische Ökonomie*. Tübingen: J.C.B. Mohr. 1988. 2:239-53

had the greatest potential to enact change upon or hinder the reforms. As the agency responsible for the management and distribution of unemployment benefits, it had a great potential to be significantly affected by the reforms. As we will see in a later chapter, the *Bundesagentur für Arbeit*, rather serendipitously, served to the benefit of Schröder's Hartz reforms in an surprisingly untraditional way.

Conclusion

The difficulties of enacting far reaching or comprehensive reforms in Germany are numerous and well documented. As far as policies are concerned, centrism is the norm and radical change is almost never an option. Keeping this in mind, it is interesting and rather intriguing to see major labor market reform in the form of Hartz I-IV succeeding. The Hartz reforms, were met with great controversy, sparked debates and protests, and cost Schröder's SPD the Chancellery and control over the *Bundestag*. This is especially interesting, considering the failed Alliance for Jobs during the first Schröder administration. The Alliance and the Hartz Commission pursued nearly identical policies, yet only one escaped the influence of the German veto points. The next two chapters will study both the Alliance for Jobs and the Hartz Commission in order to determine how the Hartz reforms were not able to elude the very processes which doomed the Alliance.

The Alliance for Jobs

The Alliance

When elected Chancellor of Germany in 1998, Gerhard Schröder made an immediate commitment to structural economic reform geared towards a reduction in unemployment. With the newly formed coalition between the SPD and the Greens enjoying a “comfortable” 21-seat majority in the Bundestag, Schröder and his brand of pro-market populism were able to pursue a “job creation pact” between German industry and labor.⁴⁸ Furthermore, Schröder placed very high priority on the issue of unemployment as a part of Germany's six-month presidency of the European Union, which began in 1999.⁴⁹ This “pact,” dubbed the Alliance for Jobs, whose complete title is actually the Alliance for Jobs, Training and Competitiveness (*Bündnis für Arbeit, Ausbildung und Standortsicherung*), was evidence of a growing German commitment to combating unemployment.⁵⁰ In addition, its title suggests the idea that the goals of the Alliance were to enhance and promote Germany's role as the center of European economic activity. The Alliance for Jobs was an attempt by the Schröder government to bring together varying political and corporatist

⁴⁸ "German Socialists Formalize Greens Alliance." The Boston Globe 26 Oct. 1998, City ed., sec. A2.

⁴⁹ McCathie, Andrew. "Schröder's Daring Quest: Consensus on Job Policy." The Australian Financial Review. 7 Dec. 1998: 15.

⁵⁰ "Bündnis Für Arbeit." Frankfurter Allgemeine Zeitung 8 Dec. 1998, sec. Politik: 2.

interests in order to reach a consensus among the various interests and ideologies as to what needed to be done to boost the lagging German economy.

The initial idea for the Alliance had come from Klaus Zwickel, the new head of IG Metall, as a method for potentially securing a more proactive role for the trade unions in economic reforms. Zwickel's initial vision involved the commitment of employers and unions to moderate wage agreements while providing in return a fulfillment on promises of job creation.⁵¹ Endorsed by Schröder and supported by the traditionally SPD-friendly trade unions as a way of creating jobs, the Alliance for Jobs was based on a few core plans and tenets. First, the Schröder government planned to find stable jobs for 100,000 young unemployed people. Second, the tax and welfare-state contribution requirements for the low wage sector and the so called "self-employed" were reexamined by the commission.⁵² Third, the Alliance analyzed the German retirement age. The Alliance, namely the Minister of Labor at the time of the Alliance's formation, Walter Riester, moved to cut Germany's retirement age from 65 years of age down to 60. Furthermore, Riester set forth plans and ideas of funding this reduction in retirement wage through having employees forego one percent of the increasing wage rate. These provisions and actions called for by the Alliance for Jobs were more or less based on a system used previously in the Netherlands which met with much success.⁵³

⁵¹ Dyson, Kenneth. "Binding Hands as a Strategy for Economic Reform." 230.

⁵² McCathie, Andrew. "NEWS FEATURE: Germany to Set Down Markers for Tackling Unemployment." Deutsche Presse-Agentur 4 Dec. 1998 ; Dyson. "Binding Hands as a Strategy for Economic Reform." 230.

⁵³ McCathie. "Germany to Set Down Markers for Tackling Unemployment" ; "Bündnis Für Arbeit." Süddeutsche Zeitung 10 Oct. 1998. 3 Feb. 2008.

The launch of the ambitious Alliance for Jobs was accompanied by incredibly high expectations and support across the federal ministries, the employer organizations, and the trade unions. However a weaker economic outlook at the beginning of the Schröder administration would prove difficult for the government's attempts to conquer unemployment, which was at the time higher than 10 percent.

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Although optimism within the newly formed Red/Green alliance was high, skepticism surrounding the situation was not at all rare due to a previous attempt by the then-outgoing Chancellor Helmut Kohl to build an Alliance for Jobs of his own. This previous commission collapsed as a result of elevated tensions between the unions and employers over welfare and labor cuts. Despite this failure, many felt after Schröder's electoral victory and the formation of the Red/Green alliance that both the positions of labor unions and employers had seemed to solidify concerning the need for economic reform and how they wanted to see unemployment handled. These difficulties signified that a successful creation and implementation of the Alliance for Jobs would be an early test of Schröder's political skills and reputation as a *Politischer Macher*, or one who brings about change through the politics of compromise.⁵⁵ Unfortunately for Schröder, his attempts to bring about compromise would lead to the unsuccessful end of the Alliance for Jobs.

⁵⁴ Dyson. "Binding Hands as a Strategy for Economic Reform." 229 ; McCathie, Andrew. "Schröder takes over power as economic outlook darkens." Deutsche Presse-Agentur 22 Oct. 1998.

⁵⁵ McCathie, Andrew. "Schröder faces tough task in forming job alliance." Deutsche Presse-Agentur. 29 Sept. 1998 ; Dyson. "Binding Hands as a Strategy for Economic Reform." 229.

The Makeup of the Alliance: Typical Corporatist Policymaking

Since the Alliance for Jobs was ideally envisioned as a widely accepted set of compromises among the federal ministries, the labor unions, and the employer organizations, a great deal of significance and influence was given to numerous organizations and political players, each of which represented different economic and political motives and ideologies.

First, several key members of the Schröder cabinet played crucial roles in the Alliance for Jobs. Walter Riester, former deputy chairman of IGMetall and the Minister of Labor and Social Affairs was afforded great influence within the work of the Alliance as a representative of labor interests.⁵⁶ Oskar Lafontaine, a leftist member of the SPD (and the eventual parliamentary faction leader of the German Left Party) was appointed as the head of the Federal Finance Ministry in order to complement the more moderate stances of Schröder and other involved ministers while representing the ideologies of the more leftist faction of the SPD and the Green party coalition members.⁵⁷ Bodo Hombach, Schröder's Minister for Special Affairs and Chief of the Chancellery, was assigned the responsibility to organize and develop the Alliance. Underneath Hombach's direction, a steering group of policy direction made up of various groups representing particular issues was put together

⁵⁶ Dyson. "Binding Hands as a Strategy for Economic Reform." 228-230.

⁵⁷ "Fraktion DIE LINKE Im Bundestag - MdB Lafontaine." Die Linke Im Bundestag. Die Linke. <http://www.linksfraktion.de/mdb_lafontaine.php> ; Bündnis Für Arbeit; Hauptsache Reden." Focus Magazin 7 Dec. 1998: 20-24.

in order to determine the source of Alliance policies. In addition, he created what was called the “Benchmarking Group,” a division of the commission which was designed to “inject new thinking.” In reality, this group sought to use the Alliance to counteract the ideologies and actions of Lafontaine and his counterparts on the SPD left, to promote discussion on the nature of Schröder’s commitment to economic modernization, and to promote the Chancellor as a public figure of the hopeful reforms.⁵⁸ As a centrist, Schröder elevated Hombach to his position chiefly due to his firm stance against Lafontaine’s policies.⁵⁹ Finally, Schröder, in order to preserve his credibility as an agent of compromise, chaired the top-level meetings among the core players and members of the Alliance himself.⁶⁰

The corporatist elements of the German policymaking system were so embedded in the legislative process that IG Metall, the most dominant metalworkers' union in Germany and major trend-setter in national bargaining, “expected” employers to have full participation in the commission’s discussions well before members of the Alliance were appointed.⁶¹ Klaus Zwickel, the aforementioned chairman of IG Metall, was an active participant in the talks, and business interests represented by people and organizations such as Dieter Schulte of the German Trade Union Federation and Hans Olaf Henkel of the Federation of

⁵⁸ Dyson. "Binding Hands as a Strategy for Economic Reform." 229-231.

⁵⁹ "Charlemagne: Bodo Hombach, Germany's Trouble-Shooter." *The Economist*. 20 Feb. 1999: 49.

⁶⁰ Dyson. "Binding Hands as a Strategy for Economic Reform." 229.

⁶¹ "IG Metall Macht Alles Mit." TAZ: *Die Tageszeitung*. 28 Sept. 1998: 7.

German Industries were also included in the negotiations.⁶²

After nearly four years of debates, attempts to define a unified German policy, and personnel changes the Alliance for Jobs had failed to achieve its most ambitious goals. While some reforms were created as a result of the Alliance meetings, namely the JUMP employment and training program geared towards younger unemployed and the Job-AQTIF law for strengthened job placement, major reforms involving issues such as wages, working hours, and retirement age were not achieved. Although the final meeting of the Alliance was held in March of 2003, much of the original promise of reform had dwindled as early as 2001. Over the course of time in which the Alliance seemed potentially viable, it saw poorly implemented reform strategies, the resignation or removal of various Alliance members, and a lack of (and oftentimes downright refusal to) compromise on the part of the employer and labor interests. The lack of commitment on behalf of the commission participants became so problematic that the last meetings of the Alliance saw poor attendance on the part of various groups. The very last meeting even lacked a formal agenda.⁶³

In order to comprehend the failure of the Alliance for Jobs, it is important to understand some of the reasoning behind the use of a commission to implement public policy. As has been mentioned above, the German system of legislation establishes numerous influential actors with veto points. The number of and the

⁶² "Bündnis Für Arbeit; Zwickel Und Rogowski Streiten über Tagesordnung." Frankfurter Rundschau. 27 Jan. 2003, sec. 5 ; Germany. Presse- Und Informationsamt Der Bundesregierung. Bundesministerium Für Bildung Und Forschung. Bündnis Für Arbeit, Ausbildung Und Wettbewerbsfähigkeit. 29 Feb. 1999. <<http://www.bmbf.de/pub/buendnar.pdf>>.

⁶³ Dyson. "Binding Hands as a Strategy for Economic Reform." 229-232.

scope of influence afforded to these players, both within and apart from the federal government, force German policies, especially those involving labor and/or social issues, to be created incrementally and to a much lesser extent than in many developed democracies. The veto points over which Schröder seemingly had the greatest concerns were those involving the authority of representatives of both the labor unions and employer federations, along with the influence of his own party and coalition partners.⁶⁴

Early in the struggle to create broad labor and social reforms, Chancellor Schröder viewed his own party to be a “hindrance rather than a source of economic reform ideas” with a “long-term public image problem of governing competence.” The ongoing strife between the “modernizers” and “traditionalists” within the SPD caused Schröder to feel as if he and his party were losing credibility and greatly affected his ability to trust his party as a vehicle for reform.⁶⁵

In order to circumvent this potential political hurdle, Schröder attempted to bring about his reforms through social balance. This balance, he felt, was the only way to coax reluctant traditionalists to accept the far-reaching reforms encompassed within the Alliance for Jobs. He felt that the best way to bring about this social balance was by forging a compromise between the employer organizations and the labor unions.⁶⁶ This would turn out to be quite problematic

⁶⁴ Dyson. "Binding Hands as a Strategy for Economic Reform." 228-229.

⁶⁵ Ibid.

⁶⁶ Dyson. "Binding Hands as a Strategy for Economic Reform." 229.

for Schröder, as the interests of the labor unions and employers were too varied and opposed to one another to promote much in the way of concessions.

The main grievance of the labor unions was the unwillingness of the employers and the federal government to lower the retirement age and adjust the wages for industrial workers in Germany. Klaus Zwickel, as the Alliance representative for IG Metall, was accustomed to behaving as the “large and militant union that is accustomed to decades of influence in the Chancellor's center-left Social Democratic Party.” He and other labor union representatives stood firmly behind a plan which demanded a reduction of the German retirement age from 65 to 60 years. Knowing these reforms would not meet the favor of the trade and industrial federation interests in the Alliance, Zwickel threatened to lobby for very costly wage raises in future Alliance meetings and other various commissions or policymaking meetings if approval of the "retire at 60" plan could not be obtained. Aside from the pleas for a lowered retirement age and the threats of hiked wage demands, the union interests pressed hard for a “three-year period of moderate raises” for various industrial jobs. Industry leaders were reluctant for many reasons but most significantly cited the projected increases in input costs for the various German industries. Several estimates have this increase in costs at nearly

€5.6 billion over five years.⁶⁷ This complex wage conflict was central to the demise of the Alliance.⁶⁸

As a result of the lack of compromise among Alliance members, Zwickel accused Schröder of siding with industry which, in the eyes of union interests, would be contradictory to the longstanding close relationship between the SPD and labor unions in the Federal Republic. Zwickel would then vow to boycott the next round of talks “because all the possibilities for compromise (had) been sounded out.”⁶⁹

The various federal ministries would prove to be difficult for Schröder and the SPD modernizers during these attempted reforms. The *Ressortprinzip* of individual departmental responsibility kept the prerogatives of the various ministries separate from those of the Chancellery. The leftist ideologies of Finance Minister Oskar Lafontaine led to what has been described as “contemptuous indifference” on his part towards the reforms of the Alliance.⁷⁰ This indifference led to differences between him and the Chancellor, which in turn led to his 1999 resignation.⁷¹ His successor, Hans Eichel, although a supporter of the structural

⁶⁷ Schmid, John. "Schröder Forced to Drop Job Talks." International Herald Tribune. 23 Dec. 1999, sec. News: 1.

⁶⁸ Von Borstel, Stefan. "Tot Gelebtes Bündnis." Die Welt. 27 Sept. 2002: 11.

⁶⁹ Schmid. "Schröder Forced to Drop Job Talks."

⁷⁰ Dyson. "Binding Hands as a Strategy for Economic Reform." 233.

⁷¹ "Hans Eichel Favorit für das Bundesfinanzministerium." Börsen-Zeitung. 12 Mar. 1999, 49 ed., sec. 1.

reforms promoted by the SPD modernizers, used EU fiscal rules to avoid committing himself or his ministry to new programs of public investment.⁷²

The ministry of Labor and Social affairs under Walter Riester was equally as hindering to compromise. His ministry promoted reforms which were aligned to what is known as the “lump of labor” theory.⁷³ This theory, generally considered fallacious by economists, is based on the idea that there is a fixed amount of work available causing a “lump” of labor. This would mean that a reduction in working hours would provide firms with a need to hire more employees in order to make up for the lost work and thus reduce unemployment.⁷⁴ The plans proposed on the basis of this theory were very much in line with the wishes of the labor union interests participating in the Alliance for Jobs while being naturally against the motives and plans put forth by the various trade federation and employer representatives. For this reason, Walter Riester served as a very polarizing figure within the Alliance.

The coalition partner of the SPD, the Greens, also served little to promote the advancement of the Alliance. The German Green party has always been weak as far as economic reforms are concerned and seriously “lacked a powerful economic portfolio.” Since the reforms of the Alliance saw their roots in economic policymaking, the Green party had very little opportunity to present itself within the Alliance. Therefore, Schröder’s own coalition partner lacked any real incentive to

⁷² Dyson. "Binding Hands as a Strategy for Economic Reform." 233.

⁷³ Ibid.

⁷⁴ "Economics a-Z." The Economist Online. The Economist.

<<http://www.economist.com/research/Economics/alphabetic.cfm?LETTER=L#LUMP%20OF%20LABOUR%20FALLACY>>

see the Alliance develop or succeed on behalf of the coalition government. It is fair to note that although the Green party was not a party which promoted the policies of the Alliance for jobs, it was also not a major hindrance either.⁷⁵

The Timing of the Alliance: Unfavorable Electoral Influence

Along with its design and makeup, the timetable of the Alliance for Jobs was simply not favorable enough to promote its success. While it is understood that certain issues and compromises inherent to the German system would require a great deal of time to work around, the Alliance for Jobs lasted nearly five years. Furthermore, the Alliance produced little results given the amount of time with which it and its members had to work. These delays were chiefly due to the inability of labor and employer interests to agree on what reforms should be made and to what extent they should benefit laborers. The continuing delays and renegotiations lasted longer than many could have anticipated and began to interfere with the hopes of the SPD in the then-upcoming 2002 federal election cycle. With his reputation and credibility as a bringer of political compromise and the pro-labor image of the SPD in serious jeopardy, Schröder was led to decide to, for electoral reasons, suspend reforms concerning labor and/or social reforms until what he hoped would be a second term as Chancellor.⁷⁶

⁷⁵ Dyson. "Binding Hands as a Strategy for Economic Reform." 233.

⁷⁶ Dyson. "Binding Hands as a Strategy for Economic Reform." 232-233.

Along those same lines, one could also argue that the timing in the creation of the Alliance for Jobs did not serve to its benefit. Having been established shortly after Schröder's 1998 electoral victory, the pressures of an imminent election present during the downfall of the Alliance were not evident during its beginning. Typically, parties must present a united front in the face of elections in Germany due to the system of proportional representation within the *Bundestag*. This system has voters elect the parties rather than the individual politicians, placing great pressure on the parties as far as policy definitions are concerned. While *Länder* elections could certainly be expected to occur during the early stages of the Alliance (as early as the spring of 1999), the federal elections were years away, thus allowing for greater division within the party. If the policies of the Alliance had been presented at a more advantageous time, it could be argued that the members of the SPD opposed to economic modernization would have simply accepted certain reforms to promote the electorally favorable image of a united party.

As we will see with the Hartz Commission, a favorable electoral timetable can certainly influence policymaking by "binding in" various actors who, under normal circumstances, would not at all support certain reforms. This is especially true when considering the division between Schröder's economic modernizing wing of the SPD and the more-traditional left wing.

Conclusion

The Failure of the Alliance for Jobs, Training, and Competitiveness can best be attributed to the inability of the commission members, namely the labor unions and industrial federations, to reach a suitable agreement on issues over which they possess a great deal of influence. In addition, interests of the various pertinent federal ministries and the Green party were not sufficiently in sync with those of Schröder, causing a disappointing lack of commitment on their part. Schröder and the modernizers of the SPD had brought the various interest groups and governmental players together in order to hopefully solidify a compromise and lock a great deal of potential opponents of Alliance plans into his hopeful reforms. The lengthy and fruitless discussions coupled with an approaching federal election cycle doomed the Alliance for Jobs. The inability of the Alliance to bring about meaningful progress during this time raised many fears that the various conflicting interest groups within the German political society were “eroding Germany's revered consensus tradition.”⁷⁷ This, however, would not stop Chancellor Schröder's commitment to economic modernization. During his next term, a commission put together by Schröder and led by his former colleague at Volkswagen, Peter Hartz, would attempt to enact social and labor reforms just as with the failed Alliance. This time, government by commission would succeed. The next chapter will explore the Hartz Commission and the tools it used to reach the success desired by Schröder in his creation of the Alliance for Jobs, Training, and Competitiveness.

⁷⁷ Schmid. “Schröder Forced to Drop Job Talks.”

Lastly, it is important to reiterate how typical the Alliance truly was. Numerous commissions of this nature were put together not only during the Schröder administration but throughout the history of modern German policymaking in order to hammer out economic reforms. In addition, many of those groups were not successful in reaching their goals due to the constraints placed on the German system. The primary reason the Alliance for Jobs, from among dozens of other typically failed commissions, was chosen for this work is simply the context in which it existed. The Alliance, just as with Hartz, was an attempt by the Schröder government to enact certain reforms which were geared at lowering the unemployment rate in Germany. This is important to note because, while many commissions have failed to enact real change in modern Germany, the Alliance for Jobs bears a striking resemblance to the Hartz Commission. If the Alliance for Jobs was part of “the rule,” then the success of the Hartz Commission was most certainly “the exception.” This ability of the Hartz Commission to break free from the restraints which bound the Alliance is the subject of the following chapter.

The Hartz Commission

The Commission

If the Alliance for Jobs, Training, and Competitiveness is to be viewed as a failure to create much needed reform through commission driven policies, the reforms devised under the Hartz Commission on Modern Services in the Labor Market (*Kommission Moderne Dienstleistungen am Arbeitsmarkt*) can be easily classified as a success. Whereas the Alliance for Jobs was simply not able to design strong reforms due to a failure to reach a sort of compromise on major issues, the Hartz Commission was undeniably able to reach a desired set of sweeping reforms that were not only drafted into law, but have also drawn comparisons to other far-reaching, conservative economic reforms such as Reaganomics and Thatcherism.⁷⁸

As German policymakers prefer “non-decisions, incrementalism and the middle ground to radical change and zero-sum games,” especially when dealing with reform of the famed German welfare state, the reforms pursued by the Schröder administration were obviously going to be quite difficult to derive and

⁷⁸ Bernstein, Richard. "A Generous State Pays, and Avoids Hard Reality; Europa." The International Herald Tribune. 23 Sept. 2005, sec. NEWS: 2 ; "SPD-Nahe Manager Monieren Informationspolitik Des Bundes; "Die Menschen Sehen Roten Faden Nicht" / Erfolge Von Hartz IV Besser Herausstellen / Kritik an Gewerkschaften" Frankfurter Allgemeine Zeitung 11 Aug. 2004, sec. Wirtschaft: 11.

implement.⁷⁹ The attempts towards reform by the first Schröder government failed and quickly (and, ironically enough, fortunately) fell out of the public spotlight due to the federal elections of 2003. Shortly after his narrow re-election victory, Schröder reaffirmed his commitment to economic reforms by introducing the Agenda 2010 program, which was designed to modernize the German welfare state, especially with regard to unemployment insurance. Agenda 2010 drew heavily on the work of the Hartz commission, which was first assembled in 2002 and was modeled in a fashion similar to the Alliance for Jobs. With representatives from the political sphere, employer organizations, labor organizations, and even academia, the Hartz Commission and its similar makeup was seemingly doomed to fail just as the Alliance for Jobs had failed.⁸⁰

But it turned out differently. The recommendations of the Hartz Commission would lead to the passage of four separate pieces of legislation, appropriately titled Hartz I-IV. While Hartz I-III were relatively uncontroversial, the fourth element of the Hartz concept, Hartz IV, met with a great deal of objection and uneasiness.

Success in Commission Makeup

The makeup of the Hartz Commission represented a great divergence from not only the makeup of the Alliance for Jobs itself, but also from the policies and

⁷⁹ Strum, Roland. "Continuity and Change." 120 ; Padgett, Stephen. "The Party Politics of Economic Reform: Public Opinion, Party Positions and Partisan Cleavages." *German Politics* (2005): 248-274 here 248.

⁸⁰ Green, et al. "The Reform of the Welfare State." 137 ; Hiltburg, Dietrich. "Hartz Kommission." Hartz IV, Hartz III, Hartz II, Hartz I - Wege Aus Der Armut? <<http://www.hartz-iv-iii-ii-i.de/hartz-kommission.html>>.

methods that it pursued for reforms. The differences between the two are chiefly a result of the strong tripartite makeup of the Alliance for Jobs and the eventual inability to make concessions or reach compromises to which its makeup led.

Peter Hartz, then the head of personnel for Volkswagen, was asked to lead Schröder's commission and to report on a series of "modern services for the labor market."⁸¹ Along with being given the reins to the commission, Hartz was allowed to choose the Commission members and define the mission and agenda of the organization. As the director of personnel at Volkswagen, Hartz was able to hammer out successful reforms of the company, preventing previous projections of job loss and/or outsourcing that affected the German automaker. As a result of his successes in the private sector, Hartz was labeled a compromiser and an innovator and Schröder hoped that these qualities, along with Hartz's modernist approach, would lead to the Commission success.⁸²

With only fifteen separate members, the Hartz Commission was relatively small. This smaller makeup avoided the tripartite principle of the Alliance and instead opted for the inclusion of SPD modernizers (such as the Minister of Labor for the federal state of North Rhine-Westphalia, Harald Schartau), modernizers within the trade federations and labor unions (such as Peter Gasse and Eberhard Schleyer, leaders within IG Metall and the ZDH, respectively), management

⁸¹ Dyson. "Binding Hands as a Strategy for Economic Reform." 234-5.

⁸² "Two Hartz Beat as One; Face Value." The Economist. 4 Sept. 2004.

consultants (such as Dr. Jobst Fiedler of Roland Berger Strategy Consultants), and members of academia with expertise in labor market policy (such as Dr. Werner Jann of the University of Potsdam and Dr. Günther Schmid of the Social Science Research Center of Berlin).⁸³ This was all geared towards enacting reforms that suited the wishes Schröder had for the Alliance for Jobs all under the guidance of the Commission's namesake, Peter Hartz.

As the leader of the Commission, with the explicit ability to appoint essentially whomever he pleased, Hartz was able to completely exclude the troublesome leadership of the German Confederation of Trade Unions, IG Metall, and Walter Riester's Ministry of Labor and Social Affairs. These agencies and leaders, which were unable to reach an agreement in the Alliance for Jobs, had a much reduced influence over the decisions made by Hartz and his commission members. This degree of power and influence of Hartz as chair of the Commission allowed him to act as a "motor of reform" as opposed to performing as a moderator similarly to how Schröder performed in the Alliance for Jobs. Because of this, Hartz was able to garner an initial agreement on "core principles" for the direction of the Commission from his members and guide the work of his commission to adhere to the accomplishment of goals, which adhered to those principles.⁸⁴

⁸³ Dyson. "Binding Hands as a Strategy for Economic Reform." 235; Hiltburg, Dietrich. "Hartz Kommission."

⁸⁴ Dyson. "Binding Hands as a Strategy for Economic Reform." 234-6.

Success in Timing

Just as timing played a crucial role in the downfall of the Alliance for Jobs, the time in which the Hartz Commission was assembled could perhaps not been more favorable for Chancellor Schröder and the SPD modernizers. As the Alliance for Jobs was on its proverbial last leg in early 2002, much of the focus of the SPD left economic concerns and turned towards the upcoming federal elections. Schröder's reputation as a compromiser and an economic modernizer were seriously damaged by the embarrassingly ineffective Alliance, yet this was not able to deter him from continuing to bring about economic reform through commission derived policies.⁸⁵

Schröder's opportunity to create a new, effective commission on labor reform came with the crisis of the Federal Labor Institution's failure in job placement policies. Seemingly coinciding with one of several embarrassingly unproductive Alliance for Jobs meetings, the Federal Audit Court of Germany discovered in January of 2002 that the Institution had falsified many statistics on job placements. Simply put, their job placement policies had failed to such an extent that they were fixing the numbers to cover up their inadequacies. At this point, all of Germany realized that the level of unemployment was actually significantly higher than the statistics had led people to believe. This led to the resignation of the chair of the Institution and gave Schröder the opportunity to promote Florian Gerster, an

⁸⁵ Dyson. "Binding Hands as a Strategy for Economic Reform." 234.

economic modernizer within the SPD, as the new head of the Institution.

Gerster was expected to make immediate reforms within the Institution.⁸⁶

It was at this time that Schröder asked Hartz to direct and lead his commission.⁸⁷ By removing himself from the reform process and putting in his stead a member of the private sector, Schröder effectively removed the commission from many of the obligations or expectations that could have occurred with associated interests groups or political parties. Furthermore, the “crisis atmosphere” created by the failed Federal Labor Institution put the trade unions and employer administrations who sought tripartite agreements towards labor market reforms “on the defensive.”⁸⁸ Now Schröder and the modernizers could demonstrate and utilize the growing sense of urgency towards agreement on reform by taking power away from Riester’s Ministry, IG Metall, and the German Confederation of Trade Unions.

Simply put, the failure of the Federal Labor Institution gave Schröder a window of opportunity to regain his credibility as an effective compromiser and economic modernizer by removing the influential individuals and organizations that worked against his compromising system during the Alliance for Jobs.

⁸⁶ Simonean, Haig. "Critical Report Stings German Labor Office Into Action: Claims That Successes in Finding Jobs for the Unemployed Were False Lead Ministers to Promise Reforms, Writes Haig Simonian." The Financial Times. 23 Feb. 2002: 6 ; "Florian Gerster Löst Bernhard Jagoda Ab." Börsen-Zeitung. 23 Feb. 2002 ; Dyson. "Binding Hands as a Strategy for Economic Reform." 234.

⁸⁷ Williamson, Hugh. "Federal Labour Office Reform Gains Impetus." The Financial Times. 7 Mar. 2002, sec. EUROPE: 9.

⁸⁸ Dyson. "Binding Hands as a Strategy for Economic Reform." 234.

“Binding the Hands” of Potential Opposition

Kenneth Dyson, in his work with *German Politics*, deals extensively with what he describes as “binding the hands” of potential opposition to, in this case, economic reform. He, along with numerous other scholars in this field, explains that, being a semi-sovereign state driven by consensus politics, Germany is subject to “powerful, entrenched interests” which act as “veto players” in many situations. Despite this, Dyson hypothesizes that it is possible to “bind in potential opponents” to otherwise veto-subject reforms “within larger processes that have their own dynamics.”⁸⁹

With concerns to the reforms proposed by the Hartz Commission, Schröder and the SPD modernizers were faced with the task of either appeasing, removing, or “binding in” the various interest groups at hand and the economically traditionalist elements of the SPD in order to see their passage. With the creation of the Hartz Commission effectively removing the influence of the various interest groups, Schröder would use the timescale of the 2002 federal elections coupled with a labor market crisis, the restructuring of his federal cabinet, and the rise of influence of the CDU/CSU in the *Bundesrat* to “bind” the traditionalist members of the SPD into accepting his reforms.⁹⁰

⁸⁹ Dyson. "Binding Hands as a Strategy for Economic Reform." 225-6.

⁹⁰ Dyson. "Binding Hands as a Strategy for Economic Reform." 234-7.

Going into the elections, the SPD seemed doomed to lose to a rising CDU/CSU.⁹¹ Schröder, Hartz, and other SPD modernizers were able to commit the traditionalists to their economic reforms in order to present a united SPD for electoral purposes. Furthermore, much of the energy of the party was dedicated to concentrate on the election giving Hartz a great deal of freedom to work with his Commission. With this freedom, Hartz used the urgency of upcoming elections to enforce a “strict discipline of confidential teamwork” to promote the “principle of unanimity in its conclusions.” Although he was given so much freedom, Hartz made the politically wise decision to regularly consult with SPD leaders, especially Schröder (with whom he had a “very close personal” relationship), to “ensure that the commission was sensitive to overall political constraints.”⁹² In short, the SPD needed to quickly recover from the labor market crisis caused by the embarrassing failure of the Federal Labor Institution in order to maintain control after the 2002 federal elections. The work of the Hartz Commission gave them a timely method to show the voting populace some sort of dedication to economic improvement.

After the narrow election victory of the SPD in October of 2002, Schröder had more time to ensure the implementation of the Hartz reforms and took full advantage of the new opportunity to restructure his federal cabinet to fit more closely with his ideologies.⁹³ To combat the difficulties presented by Walter Riester

⁹¹ Simonean, Haig. "Setback for SPD in German State Poll." *Financial Times*. 22 Apr. 2002: 12 ; "German Poll Shows People 'Extremely Dissatisfied' with Government." *BBC Monitoring Europe – Political*. 15 Nov. 2002.

⁹² Dyson. "Binding Hands as a Strategy for Economic Reform." 235.

⁹³ Helm, Toby. "Latest in Nation's Long Line of Photo Finishes." *The Daily Telegraph*. 23 Sept. 2002.

and his ministry with the Alliance for Jobs, Schröder eliminated his Federal Ministry of Labor and Social Affairs and the Economics Ministry led by the independent, Werner Müller.⁹⁴ He then created the new Ministry of Economics and Labor. To head this new Ministry, Schröder appointed Wolfgang Clement, a fellow SPD modernizer, with hopes that Clement would be able to work the four pieces of legislation drawn up by the Hartz Commission through the *Bundestag*.⁹⁵

Since certain elements of the Hartz legislation, especially *Arbeitslosengeld II* (Unemployment Compensation II) as a federal state administered service, were subject to *Bundesrat* veto, Schröder and Hartz would need a great deal of SPD commitment within the *Bundesrat* for the Hartz reforms to succeed. In February of 2003, the SPD lost a majority of *Bundesrat* representation when the CDU/CSU won provincial elections Lower Saxony and Hesse, giving the opposition party a strong *Bundesrat* majority. This growing majority could easily be used by the conservatives to garner even further concession in labor market reforms, which would perhaps be more difficult for the SPD traditionalists to swallow than the Hartz legislation. Ideologically speaking, many SPD modernizers were more in line with the ordoliberalism of the CDU/CSU. In December of 2004, after a “marathon all-night sitting” of the arbitration committee between the *Bundestag* and *Bundesrat*, the Hartz reforms

⁹⁴ Dyson. "Binding Hands as a Strategy for Economic Reform." 236 ; "German chancellor replaces labor and economy ministers with new 'superminister.'" BBC Monitoring Europe – Political. 7 Oct. 2002.

⁹⁵ "Wolfgang Clement Wird Superminister; Steinbrück Nachfolger Am Rhein? - Weiss Neue Kulturstaatsministerin - Wehrpflicht Auf Dem Prüfstand." Die Welt. 8 Oct. 2002; Dyson. 236 ; Livingston, Robert G. "A Rare Opportunity for the German Opposition." Financial Times. 25 Feb. 2003: 17.

were passed through parliament.⁹⁶ Schröder, Hartz, and the modernizers had effectively used the rising influence of the CDU/CSU in the *Bundesrat* to bind the traditionalists of the SPD to the Hartz reforms through concerns that more conservative labor market concessions could be made if the arbitration committee were given enough time.

Conclusion

The success of the Hartz Commission on Modern Services in the Labor Market can best be summed up by explaining how the makeup of the Commission itself, together with the timing of the Commission's work, allowed the divisive Hartz legislation to successfully pass through the difficult German legislative process. Whereas the Alliance for Jobs failed in policymaking as a typical victim of difficult, interest-driven politics, Hartz succeeded. As the outright leader of the Commission, Peter Hartz was given full control as to who would participate in the Commission's work and who would not. This effectively weakened the major anti-modernization forces of top brass within IG Metall and Riester's troublesome ministry by excluding them altogether from the process. The blessing-in-disguise of the collapsed *Bundesagentur für Arbeit* gave Schröder and his colleagues the necessary timing and sense of urgency to establish such a committee. In addition, the threat of an intensifying CDU/CSU within the *Bundestag* and during the federal elections of 2002

⁹⁶ Dyson. "Binding Hands as a Strategy for Economic Reform." 237 ; Green, et al. "The Reform of the Welfare State." 138.

allowed Schröder to “bind” the economic traditionalists of the SPD into the passage of the reforms proposed by the Hartz Commission.

It is important to note that very specific and mostly unusual circumstances were at play during the creation and passage of the Hartz legislation. Without the steadfast and politically astute drive of Chancellor Gerhard Schröder, the management skills of Peter Hartz, the downfall of the *Bundesagentur für Arbeit*, and the pressure of an imminent election on the opposition within the SPD, the Hartz reforms would have suffered a fate similar if not identical to that of the reforms attempted through the Alliance for Jobs.

The difficulty of implementing social reforms on the level of the Hartz reforms can be easily observed by the controversy they were able to generate. The Hartz reforms, most notably Hartz IV, spawned debates and protests while leading to the downfall of the Schröder Chancellery and the parliamentary control enjoyed by the SPD. It can be said without much objection or doubt that the process surrounding the Hartz Commission and the legislation it was able to pass were quite unusual in modern Germany.

Hartz I-IV: The Legislation and the Controversy

The Hartz reforms enacted many changes on a very grand scale throughout Germany. The restructuring of government agencies, reduction of unemployment and social security benefits, and the implementation of more active job creation programs were all core tenets of the Hartz legislations. As a nation which has for quite some time been characterized as a large welfare state, such policies were bound to cause a great rift within the German populace. This chapter will explore the nature of the reforms themselves as well as explain the effects they had on the German political landscape.

Hartz I-IV

Hartz I and Hartz II both came into effect within only one year of the founding of the Hartz Commission on January 1, 2003. Both of these reforms aimed to make newer jobs easier to create.⁹⁷ Hartz I promoted the foundation of "Staff Service agencies" (*Personal-Service-Agenturen* or PSA's) to promote job creation and placement.⁹⁸ Furthermore, Hartz I sought to further vocational training and the provision of subsistence payments through the Job Agency (*Arbeitsagentur*), which

⁹⁷ Hiltburg, Dietrich. "Hartz I." Hartz IV, Hartz III, Hartz II, Hartz I - Wege Aus Der Armut? <<http://www.hartz-iv-iii-ii-i.de/hartz-i.html>>.

⁹⁸ "Schon Jetzt Zweifel Am Erfolg Der Personal-Service-Agenturen." Frankfurter Allgemeine Zeitung. 20 Feb. 2003: 44.

was already in place.⁹⁹ Hartz II defined lower income "Mini- and Midi-Jobs" which were to have lower taxes and insurance payments enacted upon those employed in such jobs, provided for an entrepreneurial grant known as the "*Ich-AG*" (loosely translated as "Me Incorporated"), and created more jobs centers to aid the currently unemployed. These reforms met little objection and were enacted in little over one month from their proposal (November 29, 2002 – January 1, 2003).¹⁰⁰

Hartz III came into effect exactly one year after Hartz I and II. These reforms sought to restructure the Federal Labor Institution (*Bundesanstalt für Arbeit* or *Arbeitsamt*).¹⁰¹ Much of the restructuring dealt with providing the German government with more checks over the Institution and attempting to make the actions of the Institution more efficient.¹⁰² This was primarily accomplished through limitations on institutional autonomy, the loss of control over budgeting, and the conversion of the parapublic institution to a three-tiered federal agency. Since the Institution would become a true agency of the federal government, the name *Bundesanstalt für Arbeit* was changed into *Bundesagentur für Arbeit* (Federal Labor Agency). This reform also, with some controversy, shifted the burden of

⁹⁹ Oestreich, Heide. "Ab Januar Leiharbeit Für Alle; Gesetze zum Hartz-Konzept passieren mit knapper Koalitionsmehrheit den Bundestag." *TAZ, Die Tageszeitung*. 16 Nov. 2002: 6.

¹⁰⁰ Hiltburg, Dietrich. "Hartz II." Hartz IV, Hartz III, Hartz II, Hartz I - Wege Aus Der Armut? <<http://www.hartz-iv-iii-ii-i.de/hartz-i.html>>.

¹⁰¹ Hiltburg, Dietrich. "Hartz III." Hartz IV, Hartz III, Hartz II, Hartz I - Wege Aus Der Armut? <<http://www.hartz-iv-iii-ii-i.de/hartz-i.html>>.

¹⁰² Hartmann, Björn. "Die Hartz-Gesetze; Hartz I-III." *Die Welt*. 2 Feb. 2006: 2.

proof on whether an unemployed laborer was actually seeking work from the Labor Agency to the actual unemployed laborer him/herself.¹⁰³

Hartz IV, being concerned primarily with federal unemployment benefits, was naturally the most divisive and controversial element of the Hartz Commission. This reform argued that unemployment benefits for the long-term unemployed (*Arbeitslosilfe*) and means-tested social security income support (*Sozialhilfe*) should be combined into a series of single payments. Furthermore, this reform calls for the shortening of the length of time during which one can receive the unemployment benefits.¹⁰⁴

As the previous system stood, one could receive for anywhere between 12 and 32 months—depending on the age and previous employment of the recipient—worth of the full unemployment pay. This ranged from 60 to 67% of the previous net salary of the claimant. This was then followed by a series of unemployment benefits, which were approximately 55% of the same previous net salary. Hartz IV, through the combination of the benefits and the shortening of the duration of receipt restricted the full unemployment pay (called *Arbeitslosengeld I*, or “Unemployment Compensation I,” under Hartz IV) to a general 12 months with a 6-month extension available exclusively to workers over the age of 55.¹⁰⁵

¹⁰³ Hiltburg. “Hartz III” ; Dyson. “Binding Hands as a Strategy for Economic Reform.” 236.

¹⁰⁴ Green, et al. “The Reform of the Welfare State.” 137.

¹⁰⁵ Hiltburg, Dietrich. “Hartz IV.” Hartz IV, Hartz III, Hartz II, Hartz I - Wege Aus Der Armut? <<http://www.hartz-iv-iii-ii-i.de/hartz-iv.html>> ; “A Quick Guide to ‘Agenda 2010’.” *DW-World.DE*. 17 Oct. 2003. *Deutsche Welle*. <<http://www.dw-world.de/dw/article/0,2144,988374,00.html>>.

Once the time period of the *Arbeitslosengeld I* had expired, the payments would be lowered to a level similar to that of the previous *Sozialhilfe*, which was up to €345 per month with a stipend to cover what is described as “adequate” housing. This series of payments (*Arbeitslosengeld II*) was available only to claimants who met certain qualifications.¹⁰⁶ These qualities are namely the level of his or her savings, life insurance, and the income of the claimant’s spouse. Only if the state deems a person in need of such help after reviewing these criteria, then will the claimant receive the *Arbeitslosengeld II*.¹⁰⁷ Furthermore, to receive the *Arbeitslosengeld II* payments applicants can be forced to accept any job regardless of the adequacy of the pay it offers and the level of previous vocational training the applicant may have. The primary argument behind this move was to lower the assistance one would receive in order to encourage an active search for work.¹⁰⁸

Controversy

Controversy surrounding the Hartz legislation, especially controversy concerning Hartz IV, arose seemingly as soon as the legislation was implemented if not beforehand. Besides the obvious objections coming from welfare-state traditionalists within Schröder’s SPD and labor unions such as IG Metall, protests against the reforms broke out virtually across Germany. The “Monday Demonstrations,” as they were commonly referred to, began in the summer of 2004,

¹⁰⁶ Hiltburg. “Hartz IV.”

¹⁰⁷ Dribbusch, Barbara, and Heide Oestreich. “Sozialhilfe Für Alle; 345 Euro - So Hoch Ist Das Arbeitslosengeld II Für Alleinstehende. Das Muss Für Essen, Kleider Und Sonstiges Reichen.” *TAZ, Die Tageszeitung*. 15 Oct. 2003: 3.

¹⁰⁸ Hiltburg. “Hartz IV” ; Dyson. “Binding Hands as a Strategy for Economic Reform.” 236.

shortly after the legislation was passed. These demonstrations began in Berlin and spread to well over 100 different cities within the Federal Republic. Many of Schröder's and the SPD's traditional supporters who showed initial support for the legislation began to wane in their backing of the legislation. This initial backlash coupled with an upcoming electoral season seemed to strand Schröder, Hartz, and the supporters of Hartz IV as the supposed saboteurs of the German welfare state.¹⁰⁹

The decreasing support for Schröder became fully evident with the results of the 2005 federal election cycle. The election cycle in itself was even a glaringly obvious byproduct of the failing SPD in that it was triggered by a failed vote of confidence in the German *Bundestag* (which triggers an early election cycle).¹¹⁰ These elections saw the CDU/CSU led by Angela Merkel win a narrow margin of victory over the SPD. Although defeated, the SPD would get some solace in just how narrow the margin of victory was (close to 1%)¹¹¹ and the fact that they would still be part of the governing coalition as a part of the newly formed Grand Coalition of the CDU/CSU and SPD.¹¹² This shift of power within the *Bundestag* demonstrated what has been described as an "electoral backlash against Agenda 2010 and the Hartz IV labor market reform" and has been cited as proof that the German populace is "unprepared to countenance remedial measures involving reform and

¹⁰⁹ "Proteste Gegen Hartz Erstmals in Berlin." *Frankfurter Allgemeine Zeitung* 17 Aug. 2004, sec. Wirtschaft: 12 ; "It's Those People, All Over Again; Germany." *The Economist* 14 Aug. 2004.

¹¹⁰ "Early Election a Go for Germany." *National Post (Canada)* 22 July 2005.

¹¹¹ Paterson, Tony. "German Elections: Germany Left in Limbo Outcome to Close to Call." *The Independent (London)* 19 Sept. 2005, First ed., sec. News: 4-5.

¹¹² Dempsey, Judy. "Elections Give a Boost to Merkel's Coalition." *The International Herald Tribune* 27 Mar. 2006, sec. News: 1.

retrenchment in the welfare state.”¹¹³

This electoral reaction to the Agenda 2010 reforms, specifically Hartz IV, demonstrates both how important public opinion is in the passage of economic reform and how unpopular such reforms can be. It has been argued that, even despite the weakening German economy and labor market, the German public is “unprepared to countenance remedial measures involving reform and retrenchment in the welfare state.”¹¹⁴ If this is the case, then why would Schröder and his SPD modernizers pursue such a policy and, even more importantly, how would they go about doing so?

Schröder felt that the best method of drawing up such reforms lay in commission politics. If the various “veto powers” that exist in Germany were to widely support a significant piece of legislation, a commission that represented all of the interests at hand would be necessary. In fact, his style of “government by commission” is not at all uncommon in Germany and was certainly commonplace during the Schröder administration with the implementation of 32 separate commissions on numerous different issues.¹¹⁵

The difficulty of its passage and the division it created within the SPD clearly illustrate just how controversial the Hartz Commission proved to be. Germans have always been protective and resistant to change in their welfare state and the reaction to the Hartz legislations, most notably Hartz IV, is no exception. The

¹¹³ Padgett, Stephen. “The Party Politics of Economic Reform: Public Opinion, Party Positions and Partisan Cleavages.” *German Politics*. (2005). Volume 14: Nr 2. 248.

¹¹⁴ Ibid

¹¹⁵ Dyson. “Binding Hands as a Strategy for Economic Reform.” 228.

Institute for Economic Research in Halle determined that the average long-term unemployed laborer who qualifies for the provisions set forth by the Hartz legislation would receive approximately €350 per month whereas, before the reforms, they would receive on average €530 per month. Naturally, this drastic reduction in payment would be unpopular. The popularity of Chancellor Schröder, Peter Hartz, and the SPD plummeted in 2004 and 2005 sparking protests throughout Germany.¹¹⁶

While controversial and quite difficult to implement, the series of legislation drawn up by Hartz Commission proved Schröder to be an astute politician. His keen understanding of the German policymaking system and his apparent penchant for good timing allowed him to implement reforms which, although terribly unpopular, he and his supporters felt were for the betterment of Germany and the promotion of *Standort Deutschland*.

Conclusion: Hartz Since 2005

Although the policies promoted and implemented by the Hartz Commission were controversial enough to cost Schröder the Chancellorship and the SPD their parliamentary majority, many have argued that the legislation has, in general, benefitted Germany despite the initial backlash. In 2007, the number of unemployed Germans dipped below 4 million for the first time in five years. This

¹¹⁶ Wirtschaft Im Wandel. Institut Für Wirtschaftsforschung Halle. Halle, Germany. Feb. 2006. <<http://www.iwh-halle.de/>> ; Graw, Ansgar. "Der Protest gegen die Hartz-Reformen verstärkt sich." *Die Welt*. 17 Aug 2004.

was heralded by the Merkel administration as a result of wage restraints and the adoption of more flexible work practices by private enterprises. These numbers naturally meant good things for Chancellor Merkel at the polls but many non-conservatives were not "buying it." During this dip in unemployment, there were talks and speculations, especially by Vice Chancellor Franz Müntefering, that the Hartz reforms pushed through by Schröder as Chancellor were "finally paying off."¹¹⁷ Whatever the case may be, this period of time saw a significant increase in the public approval in the reduction of welfare benefits. This is chiefly evident with an 11% increase in the popularity of welfare reduction policies among the German populace in the early part of 2004. Although still a controversial topic, the work of the Hartz Commission, in the eyes of many, is viewed as a success, albeit not an immediate one.¹¹⁸

¹¹⁷ Dempsey, Judy. "German Unemployment Drops Below 4 Million." The International Herald Tribune. 2 May 2007. 20 Mar. 2008 <<http://www.iht.com/articles/2007/05/02/business/gcon.php>>.

¹¹⁸ Padgett. "The Party Politics of Economic Reform ." 256.

Conclusion

As we have seen, far-reaching reforms concerned with issues surrounding the German economy, labor market, and/or welfare state are indeed possible under certain circumstances. While Germany is oftentimes described as a country whose government is geared towards incremental policy changes, Gerhard Schröder's Hartz I-IV enacted great change in a short period of time. What makes the work of the Hartz Commission even more unusual is the fact that the Alliance for Jobs, a similar vessel geared towards such change during the earlier Schröder government, failed just before the Hartz Commission took shape. The shortcomings of the Alliance are an obvious result of the German incrementalist system which reined it in and rendered it weak. If the unsuccessful Alliance for Jobs was a typical result of the German policymaking process, the successful Hartz Commission was anything but.

Alliance for Jobs: A Failure

Of course, the initial attempts at large scale labor market reforms were with the Alliance for Jobs. This program, designed to reduce unemployment through a variety of benefits and reforms failed after nearly five years of fruitless deliberation because of the reluctance of the German system (and, to a lesser extent, populace) to

move towards major economic reforms. The Alliance for Jobs was typical of the German system not only in that it brought together varying interest groups in an effort to create reform through consensus politics, but also in the fact that the strength and “anti-incremental” nature of the proposed reforms caused the Alliance to fail miserably.¹¹⁹

The Alliance failed to work on account of seemingly every German “veto player” disrupting the policymaking process within the Alliance. The corporatist inclusion of the trade agencies and labor unions in the system would prove to be the most troublesome. With a failure on agreement and lack of communication between the two groups, most notably IG Metall on behalf of labor and the BDI on behalf of industry, no sort of real wage agreement could be met. Furthermore, Schröder would be labeled by labor interests as giving in to the interests of industry, a near-blasphemy in the eyes of traditional Social Democrats.¹²⁰

Schröder would also have difficulties with his various ministries, notably that of his Finance Minister Oskar Lafontaine and his Labor and Social Affairs Minister Walter Riester. These ministers either used their constitutionally granted *Ressortprinzip* of individual department responsibility or their ideological distance from the reforms themselves as a method of avoiding support for the Alliance.¹²¹ Even though Schröder took measures to combat this, specifically replacing Finance Minister Lafontaine with a person more in line with his economic ideologies in Hans

¹¹⁹ Dyson. "Binding Hands as a Strategy for Economic Reform." 230.

¹²⁰ Dyson. "Binding Hands as a Strategy for Economic Reform." 233.

¹²¹ Ibid.

Eichel,¹²² the lack of cooperation among Schröder and his ministries would be quite damaging to the Alliance.

Even the SPD-Green alliance showed little support for the Alliance for Jobs. Within the SPD there were many detractors from the Alliance proposals. Furthermore, the Green party had not yet established itself as a party of economic reform or modernity; therefore it had little, if any, interest in the Alliance and saw little to its potential success.¹²³ These party disagreements served to hurt the Alliance and could have been especially damaging to the reforms if non-friendly legislation in the eyes of SPD traditionalists and Greens were to be brought forth in the *Bundesrat*.

In short, a lack of support on behalf of corporatist interests, various ministries, and members of Schröder's own SPD and Green coalition partner contributed to the failure of the Alliance for Jobs.

Hartz Commission: A Success

As the Alliance for Jobs was put to rest by certain forces within the German legislative system, the Hartz Commission would benefit from those forces as well as be blessed with the grace of, simply put, good timing. The Hartz Commission, in its success, demonstrates that, under certain circumstances, the German system of incremental economic policy change can either be circumvented or, in specific

¹²² "Hans Eichel Favorit fuer das Bundesfinanzministerium." *Boersen-Zeitung*, 12 Mar 1999, 49 ed., sec. 1.

¹²³ Dyson. "Binding Hands as a Strategy for Economic Reform." 233.

situations, even utilized to pass otherwise “impassable” legislation.

First, the tripartite makeup of interests behind the Alliance for Jobs was avoided with the Hartz Commission. The size of the Commission was kept small in order to better allow its ideological and planning leader, Peter Hartz, to guide the its policies and actions. Furthermore, Hartz was given the freedom to choose who could and could not be a part of his Commission. Although public policymakers, labor interests, and employer federations were all represented just as with the Alliance, the Hartz Commission opted to include economic modernizers and those who Hartz knew would be more ideologically in tune with him and the Chancellor. This means that IG Metall was still, in fact, represented on the Commission but simply not by their more polarizing and idealistic leader, Klaus Zwickel. In addition to the typical elements of the corporatist German system, the Commission had representatives from both management consultant agencies and members of academia who served as labor market policy experts.¹²⁴

Secondly, one of the very elements of the Alliance for Jobs which helped lead to its end served greatly to the benefit of the Hartz Commission. The timing of the 2002 federal election cycle had arguably the greatest impact on the ability of the Hartz Commission to unanimously draft passable legislation that would have otherwise died in the implementation stage. In addition, the discovery by the Federal Audit Court of Germany that the Federal Labor Institution had falsified

¹²⁴ Dyson. "Binding Hands as a Strategy for Economic Reform." 235 ; Hiltburg, Dietrich. "Hartz Kommission." Hartz IV, Hartz III, Hartz II, Hartz I – Wege Aus Der Armut? <<http://www.hartz-iv-iii-ii-i.de/hartz-kommission.html>>.

certain labor statistics, essentially proving that their job placement methods were not working and that unemployment in the Federal Republic was higher than everyone had previously anticipated, gave Schröder and Hartz the necessary fuel for their “fire of urgency.” Along with those developments, the rising influence of the CDU/CSU within the *Bundesrat* after the 2003 state elections saw the need for the SPD traditionalists to support the modernizing reforms in order to keep further conservative concessions from being made.¹²⁵

The oncoming federal elections led to a dwindling in support by much of the SPD (and certainly the Greens) for the already dying Alliance for Jobs. This change in focus by the SPD allowed Schröder to promote his commission derived policies through Peter Hartz, effectively removing the work of the Hartz Commission from the mainstream of his administration and the SPD as a party. Furthermore, the failed Federal Labor Institution created a critical air which allowed him to create the Hartz commission with little resistance or criticism. Now, Schröder, Hartz, and the SPD modernizers could place the traditionalists and the stubborn labor representatives on the defensive for not actively promoting change within the German labor market which, during an election season, is quite a heinous crime to commit. This gave them nearly free license to remove some of the most influential veto players from the labor market reform process.¹²⁶

As the federal elections of 2002 gave Schröder ample cause to allow Peter Hartz to create his commission, the state (or *Länder*) elections of 2003 gave the

¹²⁵ Dyson. "Binding Hands as a Strategy for Economic Reform." 233-235.

¹²⁶ Dyson. "Binding Hands as a Strategy for Economic Reform." 234-7.

Hartz reforms ample opportunity to work their way through the *Bundesrat*, the house of parliament that represents the states. During these elections, the SPD lost their representative majorities in two federal states, allowing the CDU/CSU to greatly strengthen their *Bundesrat* majority. The CDU/CSU, being the more conservative of Germany's two, large "catch-all" parties, generally promotes free-market economic liberalism as is popular among business interests. This, grouped with the obvious fact that many of Schröder's SPD modernizer counterparts were economically more in line with CDU/CSU policies caused many within the SPD to worry that the *Bundesrat-Bundestag* arbitration committee would be used to give businesses and other conservative interests more concessions than the Hartz legislations already provided for.¹²⁷ In essence, the SPD quickly pushed the Hartz reforms through the *Bundesrat* in order to prevent it from becoming an even more conservative piece of economic reform at the hands of the rising CDU/CSU. These elections and the effects they had on the Hartz legislation are a rare instance of the German political system working towards the benefit of non-incremental and controversial policymaking.

Lastly, the success of the Commission as opposed to the Alliance can be attributed to the cunning of Peter Hartz and the political astuteness of Chancellor Schröder. Hartz, having garnered an impressive reputation as a leader in innovative policymaking as the head of personnel at Volkswagen, was able to parlay his skills in the private sector to the Hartz Commission. He was able to act as the "motor" for

¹²⁷ Livingston, Robert G. "A Rare Opportunity for the German Opposition." *Financial times*. 25 Feb. 2003: 17 ; Dyson. "Binding Hands as a Strategy for Economic Reform." 237.

reform as opposed to the “moderator” for reform as Schröder had been with the Alliance for Jobs. He provided the Commission, which in itself was of his own design, with a series of “core principles” in order to guarantee a solid, unanimous approach to reform.¹²⁸ Schröder demonstrated his steadfast dedication to economic modernization and his political astuteness by announcing the Agenda 2010 reforms when he did. In the wake of the failed Federal Labor Institution and with a looming federal election cycle, the introduction of potentially wide-felt economic reform would almost be welcomed. Schröder understood the difficulty and hostility of such a climate and knew that he would be more than able to promote such reforms even though the Alliance for Jobs was technically, although not in practice, still ongoing.

The Unusual Nature of “Government by Commission”

The Hartz Reforms, especially Hartz IV, are certainly unusual reforms within the Federal Republic. For decades, Germany has been characterized by an incremental system of policymaking with gradually-changing and consensus-laden legislation being most definitely the norm. This is especially true with economic reforms, thus the anomaly. The idea of “government by commission,” especially with respects to economic reforms, is not at all new within the Federal Republic. This style of governance, Dyson argues, reflects a “response to the complex policymaking structures of Germany and the manifold veto points that they offered

¹²⁸ Dyson. "Binding Hands as a Strategy for Economic Reform." 234-6.

to powerful organized interests.”¹²⁹

Although these commissions may be typical in their given setting, when the pursued policies attempt to break the status quo of sorts, the commission system collapses and the infamous *Reformstau*, a term first coined in 1997 by then Federal President Roman Herzog, meaning “reform blockage,” takes hold.¹³⁰ With the Alliance for Jobs, this was most certainly the case. However, although this work only deals with one unsuccessful case, there are other failed cases worthy of mention, including the Alliance for Jobs of 1996 and the post-Hartz Rürup Commission on the financing of social insurance systems.¹³¹

The failure of the Alliance for Jobs is, without doubt, the norm in the incremental German policymaking system. This means that the Hartz Commission’s success is certainly the exception to the rule. The controversial nature of the Hartz Reforms demonstrate that, although effective economic reform usually falls victim to the corporatist and incrementalist German policymaking process, certain very specific circumstances can actually provide a situation where the German system enables the passage of such legislation.

¹²⁹ Dyson. "Binding Hands as a Strategy for Economic Reform." 228.

¹³⁰ Dyson. "Binding Hands as a Strategy for Economic Reform." 225.

¹³¹ Schmid, John. "Cracks Appear In Germany's Rigid Union Bargaining." The International Herald Tribune 28 March 1996 <<http://www.iht.com/articles/2007/05/02/business/gcon.php>> ; Dyson. "Binding Hands as a Strategy for Economic Reform." 237-244.

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