

# When Economic Needs Trump Popular Will: The Case of the German Agenda 2010

Written by Marius Zeevaert

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MARIUS ZEEVAERT, JUN 1 2020

In the early 2000s, massive demonstrations took through German cities, as protestors criticised the government's welfare state reform. The object of critique, the Agenda 2010, changed German labour and unemployment laws and was deeply unpopular, as it was expected to increase the hardship of the unemployed. Nevertheless, then chancellor Gerhard Schröder enacted the reform between 2003 and 2005 despite stark opposition from the public and within his own Social Democratic Party, the SPD. Chancellor Schröder argued that the German welfare state is too gracious and makes the economy uncompetitive on the global market wherefore unemployment benefits should be reduced. Thus, with its Agenda 2010 reform, Schröder's government prioritised apparent economic needs for less gracious regulation over the popular and, specifically, its electorate's will. In this paper, the Agenda 2010 will be used as a case study to show how market needs and citizens' demands conflict in a competitive global economy and can lead to undemocratic outcomes by democratically elected officials. It is crucial to understand in what circumstances democratic governments may conduct undemocratic decisions due to economic pressures. As in the German case, the reform drastically altered the political landscape and led to increasing dissatisfaction with the democratic system itself.

The paper aims to answer the following research question: in what way can the Agenda 2010 be seen as undemocratic and what does it reveal about the contemporary market-politics tension? In the first section, democracy is defined followed by a brief explanation of why the Agenda 2010 came about despite public disapproval. Then the principal reason why the Agenda is undemocratic will be evaluated. Finally, the case study of the Agenda reforms will be utilised to explore how the broader tension between market and democratic demands plays out in a competitive and globalised world and what the consequences for democracy are.

### Theory

Most definitions of democracy focus on either constitutional or procedural aspects to determine whether a state system is democratic (Tilly, 2007, p. 7). If one of these two definitions of democracy were adopted, the answer to the research question would be clear: as Germany is a constitutional democracy and Schröder's government was elected freely and fairly, the Agenda 2010 is democratic. However, because even democratically elected governments might not always live up to democratic ideals with their specific decisions, this paper instead adopts a more comprehensive and liberal definition of democracy. Charles Tilly defines democracy more broadly as the state conforming to its citizens' demands while protecting their rights through "broad, equal, protected and mutually binding consultation" (2007, p. 13). To evaluate the Agenda 2010, this paper will scrutinise whether all Germans enjoyed the same rights under the law; whether citizens were protected from arbitrary state action; and whether different categories of citizens had equal political rights. Most crucially, the reform will be assessed on whether it respects mutually binding state-citizen deliberation.

### Background to the Agenda 2010

In order to assess whether the Agenda 2010 is undemocratic and what it reveals, it is essential to first understand the run-up and public dispute about the reform. After the 1998 parliamentary election when chancellor Schröder's Social

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Democrats (SPD) and the Green Party came into power, they faced a multitude of severe economic problems (Kuttner, 2018). The reunification of West and formerly communist East Germany had led to high unemployment rates of generally 11% and 20% in the East, as many Eastern companies could not compete on the global market. Simultaneously, the government invested massively in the decayed East's infrastructure. These developments together led to sustained high interest rates and slow GDP growth with some economists calling Germany "the sick man of Europe" (Kuttner, 2018). Schröder, who had started to rebrand the SPD as *Neue Mitte*, an economically more centrist party (Blair & Schröder, 1999, p. 2), reacted to the crisis by setting up a new commission spearheaded by his friend Peter Hartz. Crucially, before the election in 2002, voters merely knew that the Hartz commission had been set up, not what its proposals for tackling the economic issues were.

Only after being narrowly re-elected in 2002 did Schröder unveil the proposal by the Hartz commission, the "Agenda 2010" consisting of four Hartz laws (Schwander & Manow, 2017, p. 120). The four Hartz laws were designed to downsize unemployment benefits, force the unemployed into searching jobs quicker and into taking low paid jobs, all in order to bring down the unemployment rate and decrease labour costs (Kuttner, 2018). The most heatedly debated Hartz IV law declared that instead of getting 60% of the former net salary for 3 years and then 53% for an unlimited amount of time, unemployed people would now get 67% for 12 months and then 400€ per month (Schwander & Manow, 2017, p. 121). Additionally, people with unemployment assistance and social assistance were merged into one group and sanctions of up to 30% of the 400€ benefit were introduced for those unwilling to take proposed job offers, and, with a new class of mini jobs with very low salaries, lower social protections were created (Schwander & Manow, 2017, p. 121).

Right after Chancellor Schröder presented the Agenda 2010 on 14 March 2003, it was heavily criticised with a trade union leader calling it a "declaration of war" (Hassel & Schiller, 2010, p. 250). Hundreds of thousands protested every Monday, criticising that the new lower unemployment benefits would lead to more poverty and force the unemployed into complying with degrading mandatory checks and sanctions if they did not accept job offers (Hooper, 2003). Due to the sanctions people also expected that many unemployed would be forced into taking very low and temporary jobs, as not even a minimum wage was enforced at the time (Kuttner, 2018). However, is this critique enough to call the Agenda 2010 an undemocratic act?

## Evaluation: Was Agenda 2010 Undemocratic?

To assess whether and how the Agenda reform was undemocratic, one must return to Tilly's definition of democracy being an equal, mutually binding, broad and protected state-citizen relationship (Tilly, 2007, p. 14). The Agenda 2010 did not impede any German's citizenship rights and, therefore, did not decrease the broadness of state-citizen relations. Citizens also still received the same judicial protections from state power, pointing to Germany remaining a liberal country after the reforms. However, while all citizens still had equal voting rights, the opinion of voters about the Agenda seemed to have little importance to the governing coalition, highlighting that the fourth requirement of democratic actions – mutually binding consultation – was not valued.

In fact, the electorate merely knew that the Hartz commission was working on a reform of labour, investment and social laws before the election 2002 and was in the dark about its main proposals (Hassel & Schiller, 2010, p. 250). Given the SPD's history of supporting a strong welfare state, extensive labour law protections and high universalistic entitlements for all citizens, including the unemployed, voters did not anticipate that Schröder would break with these core beliefs (Nachtwey, 2013, p. 242-243). However, Schröder's Hartz commission had already settled on introducing sanctions and cutting unemployment benefits in secret meetings, while the chancellor still publicly claimed that the Hartz proposal was not intended to cut benefits (Hassel & Schiller, 2010, p. 225). By not publishing the main ideas of his reform before the elections, Schröder circumvented having to defend the Agenda's necessity for the German economy and, thereby, withheld the possibility for the public to pass their opinion on the most impactful of all his reforms.

Even Social Democratic and Green members of parliament were surprised when Schröder finally presented the Agenda in March 2003, as a small group of people in the Hartz commission, consisting of mostly businessmen and only a few politicians and union leaders, had developed the main reform (Hassel & Schiller, 2010, p. 221). The

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members of parliament, elected as representatives of the German citizens, were not only informed late about the Agenda but also had little to no influence in adapting it as the government pushed the four Hartz laws through parliament (Hassel & Schiller, 2010, p. 221).

Finally, Schröder's government also completely ignored public and intraparty disapproval of the Agenda, underlining that no real citizen-state consultation took place. After the public had digested the full reform plans, in 2004 66% of Germans thought that the reform was wrong and only 12% expected it to create more jobs (Wolf-Doettinchem, 2004). A staggering 75% of Germans found the plans socially unjust and even two-thirds of SPD members thought so (Wolf-Doettinchem, 2004). All in all, Schröder did not present his party's major policy shift on welfare laws before the elections, a small business-led commission designed the reforms, members of parliament as representatives of the people barely had any influence on the Agenda, and the massive public and SPD members' disapproval was not enough for the government to restrain from passing the reform.

The general public and voters of the SPD and Greens could not translate their judgment on the Agenda into state behaviour, whereas a small business and government elite decided on the reform and shielded it from any public judgment. That means that access to translating demands into state action was unequally distributed between voters and the Hartz commission. This unequal access to decision-making then also circumvented any mutually binding consultation between state and citizens. SPD and Green voters did not know that with their vote they would help the government to completely change the German welfare system with detrimental effects for many of them; nor did members of parliament listen to the society's concerns and influence or stop the Hartz laws. The German government believed in having to force people into a reform that they did not want, yet might appreciate once they see its results – a paternalistic stance, which Schumpeter called the “hallmark of anti-democratic belief (2013, p. 237). In sum, the Agenda 2010 was an undemocratic act, because voters lacked equal access and influence on the decision-making process, and the government did not consult its voters nor the general public on its actions.

## Assessment of the Agenda in Terms of the Democracy-Markets Tension

The Agenda 2010 was far more than a drastic and undemocratic reform of the German welfare state. It should also be evaluated in light of the broader globalised tension between democratic will and economic demands. This tension changed, when globalisation and trade increased from the 1970s onwards, and the intensified cross-border competitiveness between states led many to deregulate their economies to attract investments (Merkel, 2014, p. 118). The new international markets were detached from national regulations, and capitalism, thereby, managed to disengage itself from major political responsibilities, as international investors can invest in another country if national regulations become too strict (2014, p. 116).

Based on this analysis, Dani Rodrik claims that the fact that many states accepted the new globally competitive and unregulated market in the 1970s, created a situation in which governments face a trilemma between the hyper-globalised market, national sovereignty and democracy (2011, p. 200). According to Rodrik, because many states accepted globally competitive markets, they now found themselves in a situation where they had to choose to either act nationally sovereign and participate in the global market competition or to give up some national sovereignty for international democracy (2011, p. 200). From that viewpoint, states that accept hyperglobal markets cannot act both democratically and nationally sovereign, because global markets can only be democratised on a global level, which leaves out national sovereignty. And, because national hyperglobalist policies are unpopular with voters due to their weakening of labour rights and increase in economic insecurity, governments circumvent democratic deliberation with their voters on these regulations (Rodrik, 2014, p. 201).

Seen from the lense of Rodrik's so-called globalisation trilemma, the SPD's decision to introduce the Agenda 2010 to increase German international competitiveness by adopting national policies was a reaction to hyperglobal competition. Schröder's aim to make Germany more competitive while staying nationally sovereign over the welfare laws meant that the democratic ideal of involving the public in these deliberations was side-lined and the public opinion ignored. It is especially peculiar that the SPD, which used to be a champion for nationally sovereign and democratically deliberated economic policies, suddenly adopted the hyperglobal market paradigm with a national policy that ignored the democratic will of its constituents (Nachtwey, 2013, p. 246).

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While global competition and the sluggish economic situation at the time gave impetus to Schröder's reform, the decision was by no means the only option the government could have employed. Thus, it was the government's own choice to prioritise global competitiveness over voter concerns and restrict its own policy options by engaging in what Colin Leys dubbed market-driven politics (2001, p. 2). When adopting market-driven politics, governments believe that they can no longer manage their economies based on voter concerns but must adhere to international market forces that determine macroeconomic policies and favourable regulations (Leys, 2001, p. 2). Given this impetus of globalisation for governments to constrain themselves to market-driven politics, it is relevant to analyse how citizens react to these policies.

One of the most outspoken analysts of the consequences of market-driven politics on the democratic system is Colin Crouch who developed the concept of post-democratic states. In these states, governments are democratically elected and protect liberal freedoms but only a small economic elite decides on specific economic issues, which citizens resent in different ways (Crouch, 2004, p. 8). The process behind the German Agenda 2010 fits this post-democracy theory well, as only a small economic elite had a say in the development and judgment of the reform and citizens showed their resentment to it in different ways. Of course, the Agenda itself does not mean that Germany is a post-democratic state as Crouch describes one, but it is well apt to highlight some of the consequences of market-driven politics.

For example, Crouch's claim that perceived post-democracy leads to some voters continuing to vote but losing trust in the system is supported by the fact that the Agenda 2010 led to a sharp drop, of minus 9%, in satisfaction with democracy (Fervers, 2019, p. 419). Additionally, Crouch's prediction of decreasing political participation as a response to post-democratic policies is corroborated in the case of the Agenda, as the SPD lost 120,000 of its 600,000 members in the two years after it was presented (Paterson, 2004). A significant increase of non-voters in subsequent elections can also be attributed to Schröder's announcement of the reform (Fervers, 2019, p. 423). Finally, statistical research has shown that, as Crouch claimed, voters react to post-democratic policies, such as the Agenda 2010, by increasingly voting for radical parties such as the far-left Linke in Germany (Fervers, 2019, p. 424).

This brief overview of the effect of the Agenda on German democracy highlights that the reform did not merely exemplify an undemocratic move towards market-driven politics but rather that market-driven politics itself has massive consequences on political participation and the democratic system. Though beyond the scope of this paper, it is critical for further research to examine the adverse effects of market-driven politics on political participation in more detail.

## Conclusion

In summary, this paper aimed to judge in what way the Agenda 2010 was undemocratic and what it reveals about the broader tension between market demands and democratic will of the people. Although Schröder's government was elected freely and fairly, it did not provide equal access for society to affect and voice an opinion on the welfare reform. A small business elite decided on the Agenda, which despite being far developed and of primary importance, was not presented to the public before the 2002 election. As access to decision-making was unequal, and the voters could not engage in mutually binding consultation on the Agenda, it was an undemocratic policy. Against the backdrop of a globalised market economy, Schröder's government decided that improving global competitiveness was more important than democratic deliberation. Whereas the SPD had been the champion of a strong welfare state previously, it now adhered to market-driven politics, where attractiveness to international capital owners, and not to voters' demands, are most decisive. Finally, the Agenda also negatively affected the democratic system as such by decreasing trust in democracy and political participation while increasing voting for radical parties. Overall, the Agenda 2010 was not only an undemocratically achieved policy brought about by global market competitiveness requirements but also showed that citizens' participation in the democratic system crumbles when economic needs trump the popular will.

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*Written by: Marius Zeevaert*  
*Written at: University of Amsterdam*  
*Written for: Sebastiaan Tijsterman*  
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