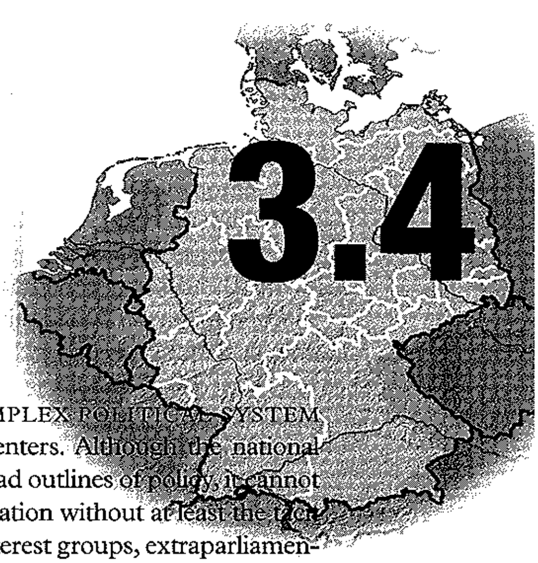
How Is Power Used?



THE FEDERAL REPUBLIC OF GERMANY HAS A COMPLEX POLITICAL SYSTEM characterized by the presence of multiple power centers. Although the national executive with its control over the civil service initiates the broad outlines of policy, it cannot secure the approval of its policy proposals or their implementation without at least the tacit prior approval of other actors in the political system: major interest groups, extraparliamentary organizations of the governing parties, influential members of the parliament, the states, the courts, the leadership of the health and social security system (the semipublic institutions that are the subject of the next section), the Federal Labor Agency administration, and even the opposition parties through their chairmanship of several parliamentary committees and their delegates in the Bundesrat. Strong opposition by any of these actors will hinder the efforts of the government and chancellor to determine the "main guidelines" of policy.

Successful policymaking must be accomplished within the framework of the politico-economic consensus that has developed over the past six decades. The political system resists any efforts to introduce major innovations within a relatively short time frame. Change tends to be gradual and incremental, and rarely will it have a redistributive effect.

The subsidies given to agriculture, the coal and steel industry, shipbuilding, and the construction trade have been a policy problem throughout much of the republic's history. Economic advisers, countless study commissions, and even the courts, in the case of the coal industry, have recommended that these subsidies be drastically reduced or eliminated.

Most governments on entering office promise to tackle the problem, but regardless of their partisan composition the subsidies continue. Even the enormous financial demands of unification have not made a dent in programs that pay construction workers when the weather is bad, coal miners to produce coal for which there is no market, and farmers to grow crops that will be added to the stockpiles of the European Union.

The federal structure of the republic, which gives the states extensive responsibilities in implementing national legislation, represents a further dispersion of political power and is yet another factor inhibiting major policy innovation.[1] The importance of the constituent states in the policy process has increased as the scope of their veto power in the Federal Council or Bundesrat has expanded. At present, more than half of all legislation is subject to a Bundesrat veto.

In addition, as discussed in Chapter 3.2, for most of the past forty years Germany has had the equivalent of "divided government"—that is, the governing coalition in the federal parliament (Bundestag) has differed from that in the Federal Council (Bundesrat). This situation has greatly reduced the capacity of a national government to use its power without extensive bargaining with the states. But even friendly states (those governed by the same coalition that rules in Berlin) can oppose, and indeed have opposed, national policy initiatives when they perceive a threat to state interests. The national government had to struggle for decades to change significantly the distribution of taxes between the national and state governments or to expand its influence in higher education, urban planning, and environmental protection legislation. In these areas, all the states have guarded their prerogatives, particularly when they are governed by parties not in power in the federal parliament (Bundestag). Many other reform initiatives during the past twenty years have been blocked by each of the major parties, depending on which one has held the majority in which chamber. During the grand coalition from 2005 to 2009, divided government ceased at least temporarily. The coalition of Social Democrats and Christian Democrats controlled more than 70 percent of the seats in the Bundestag and enjoyed a similar majority in the Bundesrat. The new government, elected in 2009, had a narrow majority in the Bundesrat for only a few months. In May 2010 both of the parties in Merkel's government lost seats at a state election and their short-lived majority in the Bundesrat. The new grand coalition, which took office in late 2013, controls about 80 percent of the parliament's 631 seats, but because of other coalition alignments in the states, it will have a much smaller majority in the Bundesrat. Finally, the Federal Republic has transferred some important policymaking power to the institutions of the European Union. Agricultural policy is made largely in Brussels under the terms of the EU Common Agricultural Policy (CAP). And since 1999 control over monetary policy has been in the hands of the European Central Bank (ECB), because Germany is a member of "Euroland," the eighteen nations that have adopted a common currency, the euro. As for defense, the Federal Republic's military is fully integrated into the command structure of the North Atlantic Treaty Organization (NATO), and Germany also participates in all of the EU defense programs.

Semipublic Institutions

The use of political power in the Federal Republic is not restricted to the formal government institutions. Germany has an extensive network of semipublic institutions that play major roles in determining how power is to be used and how policy is to be implemented.

Among the semipublic institutions, the social security and health systems, like the bureaucracy and courts, have survived the frequent and sudden regime changes of the past 150 years. Both were established in the 1880s by the conservative chancellor Otto von Bismarck, who sought to ensure that the growing working class would support the existing monarchical regime and not the socialists. Through these social welfare programs, Bismarck tried, in effect, to buy workers' political support. The Federal Labor Agency (Bundesagentur für Arbeit), located in Nuremberg, administers a nationwide network of employment offices. This agency was established during the Weimar Republic and reemerged relatively intact after 1949. These institutions assume functions performed by national governments in centralized systems such as Great Britain and France. In Germany, they lessen the total political load carried by the national government, but they also reduce its strength.[2]

The Social Security and Health Systems

The German welfare state is one of the most generous and comprehensive in the world. Expenditures of the health, pension, industrial accident, child support, public housing, and veterans' programs account for about 40 percent of the national government's budget and provide citizens with more than one-fourth of their disposable income. Yet the administration of these huge programs is not carried out by either the national or state government but by the more than 1,800 social security and health funds located throughout the country. The pension and health care programs are financed largely through equal employer and employee contributions. But the state pays for civil servant pensions and about 80 percent of the pension costs for farmers. The costs of other programs, such as child support, housing and rent subsidies, and welfare, are taken from general tax revenues. Employers must pay the costs of the accident insurance program. The health, or "sickness," funds cover about 90 percent of the population. They are organized by economic sector (business, agriculture, and the professions), occupational group, and geographic area. The social security (pension and accident) programs insure about 39 million adults.

Germany's social security and health programs have undergone extensive changes since the founding of the Federal Republic. The governing boards of all the funds are now based on the principle of parity representation for the various businesses, professional, and labor interests most concerned with the programs. After 1949, the left or labor wing of the ruling Christian Democratic Union (CDU), working with the trade unions and the opposition Social Democratic Party (SPD) and enjoying the support of Chancellor Konrad Adenauer, was able to convince business interests that the confrontational class politics of the Weimar Republic should be replaced with a new emphasis on "social partnership." This change of emphasis, however, required concessions from both business and labor. The trade unions gave up their majority control of the health funds, and employers did the same for the pension and accident insurance funds.

The administrative independence of these funds is limited by federal law. The size of pension payments and the taxes to pay for them are determined by the parliament. But the funds do have considerable power to set the fee structure for physicians, to oversee the construction and management of hospitals, and to monitor the investment of pension fund capital. The concept of social partnership extends to the state as well. Indeed, the health and pension system funds, according to one authority, are "political shock absorbers," connecting "state with society because they leave it to the major economic interest groups to mediate the state's administration of major social welfare programs."[3]

Since the 1980s the combination of an aging population, a low birthrate, a sluggish economy, and the costs of unification has severely strained the postwar consensus on the welfare state. Cuts in benefits began under Chancellor Kohl and continued during the Schröder years (1998–2005). The introduction of the comprehensive Agenda 2010 program marked a fundamental shift away from the entitlement mentality of previous decades. Schröder's call for Germans to expect less of the state and more of themselves has essentially continued under the Merkel governments. In recent years the stronger economy has slowed the pace of social spending cuts, but the foundation for a leaner welfare state is now in place. The retirement age continues to increase with 67 as the eventual new standard age for full benefits. These payments from the state pension system will also decline over time and Germans are expected to supplement the core state pension with supplemental retirement savings programs.

Federal Labor Agency

The semipublic Federal Labor Agency has primary responsibility for organizing the labor market—that is, bringing jobs and job seekers together—and for administering the system of unemployment insurance. The agency also administers programs, financed from unemployment insurance revenues, which retrain workers and supplement the incomes of those people whose work hours have been cut back. In its programs, the agency gives special attention to the elderly, women, the handicapped, the long-term unemployed, and other special groups such as seasonal workers. Established in 1952, the agency is located in Nuremberg and is under the supervision, but not the direct control, of the Labor Ministry in Berlin. It is governed by a president, an executive committee, and a supervisory board, which includes representatives of trade unions, employers, and federal and state officials. The major guidelines determining labor policy are developed in Nuremberg and administered in hundreds of branch, local, and regional offices. Most of the unemployment compensation programs are financed by equal employer and employee contributions, which amount to about 3 percent of a worker's gross income. If the unemployment level is high, however, the federal government must subsidize the agency.

In 2002 the Federal Labor Agency came under sharp criticism from the government's accounting office for overstating its record of securing jobs. The agency claimed that it was responsible for about 60 percent of all job placements in the country, but the accounting office said the actual figure was less than 20 percent. It turned out that the agency was taking credit for many job placements that were actually achieved by job seekers. The report undermined the credibility of the agency and damaged the Schröder government.

In 2005, as part of the Agenda 2010 reform program, the agency, now under new leadership, was assigned a critical role in the new job placement plan. Its offices were extensively remodeled into "job centers" with state-of-the-art communications and computer facilities. So far, its record of job creation is mixed, and some political leaders of the CDU/Christian Social Union (CSU) and especially the Free Democratic Party (FDP) would like to abolish the agency and allow private firms to take over, with the government paying some of the costs.

The Use of Power in the Social–Liberal Era, 1969–1982

The basic pattern of incrementalism and a problem-solving, bargaining approach to politics that developed during the period of Christian Democratic control (1949–1969) continued unchanged under the social–liberal (SPD–FDP) coalition that governed from 1969 to 1982. The SPD achieved a gradual shift in distributive policies in the direction of greater benefits for lower- and lower-middle-status groups (tax, welfare, and education policies) and the germination of a possible shift in the distribution of power and influence within Germany's industrial enterprise (codetermination). The other major change associated with SPD rule from 1969 to 1982 was Ostpolitik, the normalization of relations among West Germany, the nations of central Europe, and the Soviet Union. This change, however, did not represent any major challenge to the consensus. Instead, it drew on previous initiatives made during the mid- to late 1960s when the Christian Democrats were still the dominant party, so support for the "new policy" within the parliamentary opposition was considerable.

Conflicts between the two coalition partners arose more frequently over socioeconomic policy, and especially over questions of the organization of the economy, reform of vocational (apprenticeship) training, land use laws, inequality of capital resources (compulsory profit sharing), and tax reform. The Free Democrats generally opposed greater state intervention in the economy and greater worker participation in a company's decision-making process at the expense of capital and management. The FDP also opposed the leveling implied in the profit sharing plans supported by the Social Democrats and their plans for increasingly progressive taxation. In short, when an issue involved the redistribution of economic resources and power—that is, increasing the resources of one group (workers) at the expense of another (the middle and upper classes)—there was extensive conflict within the coalition. In response, the Free Democrats were usually able to force a compromise that benefited its largely upper- and middle-class clientele. The Social Democrats, at least in this area, probably gave up more than their numerical strength required, and the Free Democrats exerted more influence than their size warranted.[4]

The coalition was more harmonious when problems were largely regulative and distributive in character. There was essentially little difference between Social Democrats and the Free Democrats in the areas of civil liberties, education, internal security, defense, and foreign policies. In fact, these issues dominated the legislative program of the first SPD–FDP government led by Willy Brandt (1969–1972).

How Power Was Used in the Kohl Era, 1982–1998

The Christian Democrats returned to power in 1982 promising a fundamental change (Wende) in the republic's policies and its "moral–cultural" climate. The era of free-spending, permissive socialism had, in the view of the Christian Democrats, had a corrupting effect on the West German community. Chancellor Helmut Kohl promised a return to traditional values: thrift, hard work, and discipline, as well as an end to the entitlement mentality of the SPD–FDP years. The victory of his government in the 1983 election, however, stemmed primarily from the recession of 1981–1983, Germany's worst since the Great Depression of the 1930s. Many voters associated this economic slump with the policies of the previous government. The Christian Democrats promised an economic upturn through a German version of supply-side economics: cuts in government spending, including most social programs; investment incentives for business; lower taxes; and reduced state deficits. Although these policies, when finally implemented, did not produce changes as drastic as those associated in the early 1980s with "Reaganomics" or "Thatcherism," they did represent a departure from the generous support given to social welfare programs during the SPD–FDP governments.

But the welfare state was by no means cut drastically during these years. Indeed, most analysts argue that most of the cutbacks in education, health, and pension spending lasted only until early 1984.[5] By 1985 the Kohl government was suffering from sharp losses in state elections to the Social Democrats, which dampened its enthusiasm for further cuts. Numerous surveys over the past thirty years have consistently shown that citizens are willing to accept marginal reductions during difficult economic times, but they still firmly support welfare programs and expect the state to assume fundamental responsibility for the health and well-being of the population. Spending for social programs dropped from 32.3 percent of the gross domestic product (GDP) in 1983 to 30 percent in 1986. Although budget deficits dropped from $30 billion in 1982 to $8 billion in 1987, by 1989 they had risen again to about $20 billion. In the 1987 election, there was little talk of a Wende, or of any further reductions in social programs by the Christian Democrats.

How Power Was Used in the Unification Process

The speed and effectiveness of the external dimension of unification belied the conventional wisdom that modern democracies cannot act in a timely and decisive manner. In less than eleven months after the opening of the Berlin Wall on November 9, 1989, the Kohl government concluded the following:

- treaties with the four World War II powers that ended their occupation rights in Germany, including Berlin; reduced the German army by about half; and set the eastern borders of the unified country
- a separate agreement with the Soviet Union in which Moscow agreed to withdraw its twenty-one Red Army divisions from East Germany by 1994 and to allow a unified Germany to remain in NATO in exchange for about $40 billion in aid
- major treaties with East Germany merging the countries' economic and social welfare systems (June 1990) and regulating the entrance of East Germany into West Germany's political, constitutional, and legal order (August 1990)

Also in less than eleven months, the Kohl government secured the support of all of Germany's neighbors and allies as well as its adversaries in the former communist bloc. Even though Great Britain and France were initially opposed to unification, their influence was more than countered by the strong support of the United States.

Internal unification was a much more difficult process, requiring bargaining and compromise between and among the pivotal domestic political players. Some difficult unification-related issues such as abortion and property rights were not resolved in the unification treaties but were left to the new parliament or the courts to resolve. The financing of unification is another example of incrementalism, influenced by political and electoral considerations.

In financing unification, the Kohl government proceeded with the usual political caution. Although some advisers in 1990 urged Chancellor Kohl to appeal to patriotic sentiments and call on West Germans to sacrifice and accept stiff tax increases to finance the rebuilding of the east, most public opinion polls found little support for such an approach. Instead, the government transferred about half of the costs to the pension, unemployment, and health care programs and financed the remainder of the $1.6 trillion through borrowing and a series of direct and indirect taxes.

It was also only after the 1990 election that taxpayers began to get the bills for unification. In spite of his campaign pledge of "no new taxes," Kohl announced in 1991 that the unexpectedly high costs of unification would necessitate a temporary increase in income taxes, specifically 7.5 percent "solidarity" surtax. Additional revenues were raised by sharp hikes in gasoline taxes and social insurance premiums. Overall, since 1990, thirteen different tax increases have been imposed, usually in the manner just described.

The Use of Power by Schröder's Red–Green Coalition, 1998–2002

After their dramatic victory in 1998, the Social Democrats and the Greens assumed the reins of power with a full policy agenda. But few governments have ever gotten off to a worse start. Neither party had solid experience in governing at the national level. The Social Democrats had been out of power since 1982, and the Greens were in their first-ever national government. This lack of experience showed in the early months as confusing and conflicting policies were announced.

The Schröder government chalked up a major policy achievement in 2000, when the chancellor skillfully guided a major tax reform package through both houses of the parliament. Under the new law, the most significant since World War II, the top corporate tax rate dropped from about 52 percent to 39 percent by 2005. Individual rates were also cut from a high of 51 percent to 42 percent, and the bottom rate went from 24 percent to 15 percent. The tax package was very similar to the one the Kohl government failed to pass in 1997.

Like Kohl, Schröder had a solid majority in the Bundestag, but his coalition held only a minority in the second chamber, the Bundesrat, which represents the states. To gain the Bundesrat's approval of the tax package, the Schröder government needed thirty-five votes. The five state governments governed either by the SPD alone or in coalition with the Greens were secure, but their vote total was only twenty-three. The six states governed either by the CDU, the CSU, or CDU–FDP coalitions had twenty-eight votes, but they opposed the tax package. Schröder needed to secure at least twelve of the seventeen remaining votes of the five states in which the SPD governed either in coalition with the CDU (Berlin, Bremen, Brandenburg), or with the FDP (Rhineland-Palatinate), or with the Party of Democratic Socialism, or PDS (Mecklenburg–West Pomerania). In the FDP and PDS states (seven votes), the SPD had a dominant position; among the grand coalition states it was the largest party in Bremen and Berlin.

Schröder and his finance minister had various sweeteners ready for the potential turncoats: Berlin received about $40 million to cover the extra security costs incurred by the influx of foreign dignitaries visiting the new/old national capital and to support the city's museums; the small and very poor state of Mecklenburg–West Pomerania received support for a new power plant. The smallest state, Bremen, was assured that the weighting system for state-to-state revenue sharing, which benefits the small states, would not change. This was pork barrel politics German style. Late on the eve of the decisive vote, Schröder had his majority.

The CDU cried foul. "Never in my 30 years in politics," lamented one CDU state leader, "have I witnessed such an abuse of a constitutionally established institution. Behind the backs of elected state officials, new majorities were shamelessly put together."[6] Bavaria's Edmund Stoiber complained that the CDU states had been bought by the Schröder government—the CDU governments in Berlin and Bremen were traitors to the party, he claimed. The truth is that, irrespective of party, small states do not like to be dominated by the larger states, and Schröder was able to play on this fundamental principle of federalism. It did not hurt that, historically, there has been little love lost between Berliners (Prussians) and Bavarians. Indeed, the CDU mayor of Berlin essentially told his fellow Christian Democrat in Bavaria to mind his own business.

Schröder's Second Term, 2002–2005

After its narrow reelection in 2002, the Schröder government went into another free fall. Economic growth dropped to minuscule levels, and unemployment and state debt soared.

New taxes and fees for health care further contributed to the government's low status in public opinion polls and, more important, in state elections, where it continued to lose votes. In March 2003, with his back to the wall, Schröder announced his Agenda 2010, calling it the most significant domestic policy change in the history of the Federal Republic. Ignoring his own party's history and the opinions of many of its members, he declared that "social welfare programs will be cut. Individual responsibility will be encouraged by government, which will also ask more of the individual in terms of financing social programs."[7]

In short, government would do less, and the individual would have to do more to sustain pensions, the health care program, and other social benefits. Unemployment compensation, welfare benefits, pensions, and health care programs were put on the chopping block. The government also would make it easier for employers to dismiss workers, thereby creating a more flexible labor market and a new low-wage sector.

Meanwhile, the savings from cuts in social programs and the elimination of some tax loopholes would be used to lower taxes, stimulate new investment, and create jobs. Tax breaks for new home buyers, a cherished program of the construction industry, would be phased out as well as the right of commuters to deduct the costs of traveling to their jobs. In the health care area, Schröder, with the consent of the CDU-controlled Bundesrat, introduced a copayment for office visits of about $12 and higher copayments for other medical procedures.

All of this was too much for many SPD supporters and the trade unions. Agenda 2010 was seen as a violation of the core principles of social democracy: social justice and a commitment to assist those in need. Thousands of people left the party, and the trade unions announced that they were reassessing their traditional support of the Social Democrats. Nevertheless, Schröder secured approval of this plan at a special party congress. With the help of the CDU in the Bundesrat, most of Agenda 2010 was passed in 2004 and began to take effect in 2005. Yet the program, which had heavy start-up costs, produced little immediate improvement in economic growth or job creation. One key component of Agenda 2010—the fusion of aid for the long-term unemployed with the welfare system—even provoked demonstrations throughout the country, especially in the eastern states. The change meant not only lower payments but also means testing the payments. Total family income, including the income from a spouse and savings, was to be considered in calculating the new welfare/unemployment benefit. In May 2005, with the economy still stagnant, unemployment at record levels, and his party deeply divided, Schröder, without consulting with his Green coalition partner, opted for new elections rather than continue this course. The seven-year Red–Green coalition was over.

How Power Was Used: Grand Coalition, 2005–2009

In November 2005, after almost two months of sometimes very difficult negotiations, the two largest parties—the Social Democrats and the Christian Democrats—entered into a grand coalition. The term *grand* is used because the two parties together controlled almost three-fourths of the 614 parliamentary seats. In theory, then, there was little that this government could not do, if the two partners agreed.

The first task of this government was the economy. The new government was quick to continue the policies associated with Agenda 2010. Many of the reform measures passed by the Schröder government started to work under the grand coalition. From late 2005 until the final quarter of 2008, more than 1.5 million new jobs were created, many of them taken by older workers responding to the reduced unemployment benefits of Agenda 2010. The economy grew by 3 percent in 2006 and 2.5 percent in 2007 in spite of a steep increase in the national sales tax. Even in 2008 a modest growth rate of 1.3 percent was recorded, albeit most of it in the first nine months of the year. This solid economic performance also meant higher tax revenues and a sharp reduction in national debt. The finance minister predicted a balanced budget by 2011, if not earlier. By 2008 the federal deficit had dropped from €74.2 billion to only €3.3 billion. Alas, the worldwide economic crisis dramatically changed this outlook, and the 2009 deficit skyrocketed to over €70 billion.

This financial crisis, which began in 2009 and quickly became the deepest international recession since the Great Depression of the 1930s, was the greatest challenge faced by the grand coalition. In early October, less than three weeks after the collapse of the Lehman Brothers investment bank in New York, the Merkel government announced that all individual bank deposits, regardless of amount, would be guaranteed by the state. Previously this protection on individual accounts had been limited to about $27,000. A few days later both parliamentary chambers passed the largest bank bailout plan in the history of the republic. About $700 billion was made available to troubled banks.[8] By early November 2008 work was completed on an economic stimulus package that included tax cuts and a "cash for clunkers" program to stimulate auto sales and improve the fuel efficiency of the domestic fleet. Almost $7 billion dollars were provided to fund more than 2 million new car purchases. A second, even larger, stimulus package was introduced in late January 2009; it contained additional loans, bailouts, subsidies, and spending programs. These guarantees and bailouts were budget busters but still below the levels spent by governments in the United States and France in response to the crisis.

The grand coalition did have some other successes. In addition to the economic record, which was previously discussed, it maintained and extended Germany's position as a world leader in environmental protection and renewable energy. Thanks to high levels of private investment and government subsidies, by 2008, 15 percent of the country's electricity was produced from renewable sources—well above the Merkel government's target of 12.5 percent. Moreover, almost 7 percent of Germany's total energy consumption by 2008 came from renewables. During the grand coalition, the number of "green" jobs also grew to almost 300,000. It now appears almost certain that by 2020 one-fifth of all electricity will be generated through renewable sources; a level unsurpassed by any other country of comparable size and development.[9]

On the negative side, the grand coalition did little to solve the problems of the country's health care system. A promised tax reform made little progress under the Merkel government. As we discuss in Chapter 3.5, two separate commissions charged with reforming the federal system to encourage more competition between the states produced few positive results.

Merkel's Second Government: The CDU–FDP Coalition, 2009–2013

After the 2009 election Chancellor Merkel was able to form the government she had wanted four years earlier: a center-right coalition with the Free Democrats. In spite of the solid record of the grand coalition, the CDU had to essentially share power with the other major party, the Social Democrats. But in 2009 the Free Democrats, who had been in opposition since 1998 achieved the best result in its history as it secured almost 15 percent of the party vote. The junior partner had an ambitious policy agenda, which was not always consistent with those of Chancellor Merkel.

But as the new government was just settling in, it was confronted with the worst crisis in the history of the European Union. The announcement of the new Greek government that its predecessor had "cooked the books" was soon followed by dire economic reports from other members of the eurozone: Ireland, Portugal, Spain, and even Italy. Germany's neighbors in the eurozone and indeed the entire world were now looking to Berlin and Chancellor Merkel for leadership. Germany's long postwar "vacation from history" was over.

The euro crisis thus became the dominant issue of Merkel's second government. It has elevated Germany into a hegemonic position in Europe, which it never sought. Through the crisis Merkel has become the single most powerful leader on the continent. Decisions in Berlin will determine the fate of the euro and perhaps the entire EU project. Her legacy will be defined by this issue. Simply put, if the euro survives, most of the credit will accrue to her. If it fails she will bear most of the blame. No postwar German leader has ever had so much influence throughout Europe. Yet no chancellor has ever been as calm and dispassionate about the euro crisis and the European Union itself. Her predecessors, above all Adenauer and Kohl, approached Europe in emotional terms. It was about war and peace and ensuring that the continent would recover from the damage of two world wars and regain its position as a major player on the world scene. In short it was about vision for these leaders and their counterparts in other countries. For Merkel, it is a problem to be analyzed calmly and rationally. It is a matter, as one observer put it, of "euros and cents." She shares none of the economic naiveté of Adenauer, Kohl and even Schröder, who, it could be argued, got Europe into trouble in the first place by putting politics ahead of economic reality and admitting countries such as Greece, Portugal, and Spain into the monetary union in spite of their indebted and crisis-prone economies.

The basic position of the Merkel government throughout the crisis is to use Germany's considerable economic power to save and strengthen the euro provided that the countries most impacted such as Greece, Spain, Portugal, and Ireland take measures to reduce deficits, balance their budgets, cut social programs, and reduce the size of the public sector.

Germany has committed billions to shore up the Euro, but it wants basic changes in the economies of the troubled states. It has shown an ability to drive a hard bargain, especially when dealing with the relatively simple problems of smaller eurozone countries such as Cyprus. In March 2013 when the small and divided island nation was on the verge of defaulting on its sovereign debt, Germany agreed to a bailout provided that wealthy Cypriot and foreign depositors in its banks assumed part of the costs through the unprecedented step of applying a special tax on their holdings.

The second major challenge of Merkel's 2009–2013 government was the major shift, or actually U-turn in nuclear energy policy, the so-called *Energie-Wende*. Following the nuclear disaster in Fukashima, Japan, in March 2011 Merkel announced that all of the country's nuclear power plants would be permanently shut down by 2022. Germany would thus become by far the largest industrial country to abandon nuclear power as an energy source. This policy was hardly on the agenda of her government when it took office

Table 3-7 The Merkel Economic Record, 2009–2013

Year	2009	2010	2011	2012	2013*
Real GDP growth (percentage)	–5.1	4.2	3.0	0.7	0.4
Employment (millions)	40.4	40.6	41.2	41.6	41.9
Unemployment (millions)	3.2	2.9	2.5	2.3	2.3
Unemployment (percent)	7.8	7.1	5.9	5.5	5.5
Inflation (consumer prices)	0.3	1.1	2.3	2.0	1.6
Federal deficit (€ billions)	–73.0	–103.6	–19.7	2.4	1.8
Federal deficit (percentage of GDP)	–3.1	–4.1	–0.8	0.1	0.1
Trade balance (as percentage of GDP)	6.0	6.2	6.2	7.0	7.0

*The figures for 2013 are estimates.

Source: Deutsches Institut für Wirtschaft, *Wochenbericht*, no. 25 (2013), 20.

Note: GDP = gross domestic product.

in 2009, Indeed, after the election (September 2010), Merkel with the strong support of her pro-business partner, the Free Democrats, made a significant change in the 1999 SPD–Green legislation, which called for the closure of all nuclear power plants by 2020. Merkel's 2010 revision of the 1999 law extended the life of most of the country's reactors until 2036. The SPD and especially the Greens strongly opposed this revision of the signature Green issue. Merkel's U-turn was also a response to public opinion, which became even more antinuclear after Fukashima. But she did not consult Germany's neighbors, which may well face rising energy prices as a result of the German policy. There are also serious doubts as to whether the 2022 deadline can be met.

Merkel's leadership position in Germany and Europe is based in large part on the strength of the country's economy especially as it compares to most of its European neighbors. As Table 3-7 shows, in 2010 the economy came roaring back as a 5.1 decline in GDP in 2009 became a 4.2 percent surplus in 2010 and a very healthy 3 percent growth rate in 2011. Much of this success is due to the strong medicine of the Agenda 2010 reforms. Reforming its labor market, reducing the costs of the social welfare system and reducing debt put Germany in a strong competitive position when the world economy revived after 2009.

But Germany also needs neighbors with healthy economies. With its export-driven economy, it must have customers who can afford to buy its products and services. With much of the continent in recession, the German economy also showed signs of much slower growth in 2012 and 2013 (see Table 3-7). Unemployment rose slightly in 2013 and the trade surplus was somewhat lower. Actually the export figures mask a much sharper decline in trade with its European neighbors that is being largely compensated for by large increases in trade with Russia and China.

The Process of Policy Implementation

The process of implementing national legislation takes place largely through the administrative structures of the state (Land) governments, and the national government often must depend on the states if legislation is to have its intended effect. At first glance, this

Demonstrators carry a banner featuring German chancellor Angela Merkel and Greek prime minister George Papandreou during a day of strikes in Greece in May 2010.

Source: Reuters/Pascal Rossignol.

system would seem to allow the sixteen states, especially those governed by parties not in power in Berlin, to sabotage or undermine national legislation they oppose on ideological or partisan political grounds. In practice, however, such sabotage has not taken place.

One reason is that German federalism has some unifying or centralizing characteristics that make this implementation phase function remarkably well. First, state governments and their bureaucracies have extensive input into the national-level legislative process through their membership in the Bundesrat (Federal Council). They are well aware of what legislation will entail in terms of administrative machinery and resources. Second, the laws and rules of procedure for state bureaucracies are unified. Unlike under US federalism, constituent states do not have different laws for divorces, bankruptcy, or criminal offenses. Also, the rules by which the civil service operates are the same for all states and the national government. Third, the constitution requires a "unity of living standards" throughout the republic. In practice, this "unity" means that richer states, such as Bavaria and Hesse, must pay, via grants and tax transfers, to bring the poorer states up to their levels of government services and standards.[10] Therefore, the expenditures of poorer states for public works or welfare are not drastically different from those of the more prosperous Länder. Differences between resources and expenditures are made up by this system of tax redistribution, or revenue sharing.

Differences between states do exist in policy areas in which the Länder have sole or major responsibilities—mainly education (especially primary and secondary) and internal security (police and law enforcement). Educational reform has proceeded differently in the various states. In states historically governed by the CDU/CSU such as Bavaria, there are relatively few comprehensive schools, whereas in the traditional SPD states, such as North Rhine–Westphalia, comprehensive schools are more numerous. Procedures for screening candidates for public employment also have varied, with CDU/CSU states taking a more hard-line position on this issue. Until 1992 the abortion issue also divided the western states and the five new eastern regions. Although the abortion law applies to the whole country, it is easier for women to receive treatment in the Protestant states than in the Catholic regions. Implementation of the 2000 same-sex marriage law (Life Partnership Act) also has varied among the states. The more liberal states such as Hamburg and Berlin allow gay couples to register their union in a Registry Office (Standesamt) just like heterosexual couples (but none of the churches allow same-sex marriages). Conservative states such as Bavaria and Baden-Württemberg have denied same-sex couples the use of the Registry Office; they must go to the offices used to register "other" relationships and groups such as foreign residents. In some states, same-sex couples receive a marriage certificate, while others give only a "receipt" documenting their partnership. States opposed to such unions also charge same-sex couples two to three times the normal fee of about $30.00.[11]

NOTES

1. In June 1991 the parliament, in a close and dramatic vote, decided to relocate the government and parliament from Bonn to Berlin, which had been the national capital from 1871 to 1945. The decision was in part an attempt to demonstrate to East Germans that a unified Germany was more than a simple enlargement of the old Federal Republic. The narrow vote in parliament was preceded by a nationwide debate. Supporters and opponents of the move were found in all the political parties. The 1990 unification treaty stated that Berlin was the capital but left open whether the government and parliament would relocate. Supporters of Bonn contended that moving the government would weaken the postwar federal system. Bonn was associated with West Germany's postwar transformation into a stable democracy and a model member of the western community of nations. For some, Berlin was a symbol of Germany's militaristic, authoritarian, and totalitarian past—the Prussian kaisers and Adolf Hitler all waged war from Berlin. The city's supporters countered that it was unfair to blame an entire city for the acts of a few individuals many years ago. They pointed to Berlin's steadfast commitment to western values during the darkest days of the Cold War. The vote was followed by more than eight years of planning and frequent postponements of the eventual move, which took place in the summer of 1999.

   Although Berlin is the official political capital and the seat of the parliament and central government, not all major administrative units of the federal government have their central offices there, and the current practice is to disperse national offices throughout the country. None of the major federal courts are in Berlin but are scattered about in Karlsruhe, Nuremberg, and elsewhere. The federal railways and federal bank are in Frankfurt, the airline has its administrative center in Cologne, the national archive is in Koblenz, and the Federal Criminal Office (the German version of the US Federal

Bureau of Investigation) is in Wiesbaden. This dispersion of administrative offices reflects the decentralized character of the Federal Republic and, perhaps more important, the fact that the states preceded the federal government after 1945. Indeed, many of these offices were the product of the occupation period. The five new states are receiving their share of federal offices. The Federal Administrative Court has moved from Berlin to Leipzig (Saxony), the national environmental protection office has moved from Berlin to Dessau (Saxony-Anhalt), and the Federal Labor Court has moved from the West German city of Kassel to Erfurt (Thuringia).

2. Peter J. Katzenstein, *Policy and Politics in West Germany* (Philadelphia: Temple University Press, 1987).
3. Ibid., 58.
4. Manfred G. Schmidt, "The Politics of Domestic Reform in the Federal Republic of Germany," *Politics and Society* 8, no. 2 (1979): 165–200.
5. Jens Alber, "Der Wohlfahrtstaat in der Wirtschaftskrise—Eine Bilanz der Sozialpolitik in der Bundesrepublik seit den frühen siebziger Jahren," *Politische Vierteljahresschrift* 27, no. 1 (March 1986): 28–60.
6. Cited in *Frankfurter Allgemeine Zeitung,* October 14, 2000, 2.
7. Cited in Matthias Geyer, Dirk Kurbjuweit, and Cordt Schnibben, *Operation Rot-Grün: Geschichte eines politischen Abenteuers* (Munich: Deutsche Verlagsanstalt, 2005), 260–261.
8. Katharina Schuler, "Ein historischer Tag in Berlin," *Die Zeit,* no. 43, October 17, 2008, 1.
9. *Spiegel Online,* September 2, 2009, www.spiegel.de/politik/deutschland/0.1518.html.
10. By 2012 there were only four "rich states" (Bavaria, Baden-Württemberg, Hesse, and Hamburg) sharing revenue with the other twelve "poor" states. Obviously, the paying states would like this program changed. They argue that they are being penalized for their success and efficiency and must subsidize the spendthrift receiving states. In 2009 a constitutional amendment was passed requiring the states, with some exceptions, to balance their budgets. The amendment also places certain restrictions on the ability of the national government to borrow money.
11. David P. Conradt, *The German Polity,* 8th ed. (New York and London: Longman, 2005), 103.