German Resistance to Welfare State Reform: 
Voter Blockades, Coalitions, and Unions

Ashley Hoyer
Missouri State University

UNDERSTANDING WELFARE STATES
While nothing is more controversial today in the United States, many countries within the European Union have successfully implemented welfare systems covering healthcare, job security and training, and education. Though actual implementation of a welfare state in the United States is doubtful in the near future, lawmakers should be vigilant of the experiences of those EU countries that now face the daunting task of reforming such systems. Of particular interest is the case of Germany—starkly different from its neighbors in its inability to successfully reform through welfare retrenchment.

To gain an understanding of the problems with Germany’s welfare state and what prevents its reformation, a working definition must first be established. A welfare state, in simple terms, can be defined as “a nation in which the government undertakes various social insurance programs such as unemployment compensation, old-age pensions, family allowances, food stamps, and aid to the blind or deaf” (Black’s Law Dictionary, 1999). Welfare states are often characterized as social nets that protect citizens from risks. Robert Cox (2001) explains that after World War II, the idea of a welfare state shifted from the stigma of aiding the poor to an idea that public assistance was a right to all citizens. Furthering this idea, countries developed states in which citizens were provided with not only resources to survive, but additional amenities that allowed citizens to actively participate in society.

Achim Goerres (2008) writes that there is a “life-cycle” in welfare states where “first, there is the education phase, then a phase
of work and taxpaying, and finally the phase of retirement and economic inactivity” (135). The idea then, is that citizens are more dependent during youth and old age—the education and retirement phases—and make up for their dependence by contributing to the system during the work and taxpaying stage. Goerres’ stages hold fast in looking at the German case. With an increasing population of retirees and fewer young workers contributing to the system, it is easy to understand the increasing imbalance of the German system. When governments seek to reduce social policies in an effort to regain balance, they often enforce retrenchment policies. Retrenchment, or reduction, in policies is often defined in terms of social transfers, policy transfers, and unemployment limits and has been the recent trend among several welfare states (Korpi, 2003).

The German welfare state can be classified as a state-corporatist model. Korpi (2003) classifies the state-corporatist model as one based on earnings-related benefits where “public programs tend to safeguard accustomed standards of living among the middle class, thereby decreasing the need for private solutions” (599). The de-emphasis on private solutions has led to a considerable challenge in attempting to privatize some aspects of government—in Germany, this is particularly true with pensions. As discussed later, the German system was only able to reform pensions through an incentive program that encouraged private insurance.

German resistance to change can be illustrated through the notion of path dependency—in particular, the emphasis of the welfare state as a measure of security over all other factors. Path dependency can prohibit meaningful, transformative reform because institutions that favor the specific path, von Wahl (2008) writes, “shape the range of choices policy makers have, and policy legacies are important drivers of political processes because of the ways in which they shape later decisions” (27). Germany’s emphasis on income security above all other notions of citizenship rights has restricted the government to reforming only those areas that can be demonstrated as either promoting further security or exhibiting no harm to security programs already in place (Cox, 2002).
Consequently, German policy is formed around the principle of risk-aversion which inevitably leads to policy that does not provide the significant reforms needed to transform an overburdened system. The German emphasis on income security makes proposals that introduce work requirements and unemployment limits on benefit collection, or work-for-welfare, largely unpopular because these proposals reduce the guarantee of income if one is unable to work. Cox (2002) argues that risk-aversion in the German model “places little emphasis on participation in the work force, since imbedded in the system is the assumption that people run serious risk of being unable to work” (179). Perhaps one of the most recent examples of German resistance to welfare reform occurred Gerhard Schröder’s Agenda 2010 which made joblessness more painful and encouraged those who were actively seeking jobs. Though unemployment dropped from 5 million in 2005 to 3 million in 2008, Germans found Agenda 2010 unsettling and Schröder’s Social Democratic Party paid politically when the SPD was ousted from power in 2005 (Economist, 2010b).

Accordingly, the German welfare state continues to struggle in comparison with its neighbors because of the continued resistance to the implementation of programs based on the work-for-welfare system. Cox (2001) states that “welfare reform stands out in Denmark and the Netherlands because it represents a qualitative change in the character of public policy, a change that amounts to reconsideration of the social rights of citizenship” (464-5). The German prioritization of income security above all other social rights becomes particularly burdensome with high levels of unemployment and no mechanism to encourage an active labor force.

**CHALLENGES TO THE WELFARE STATE**

*Unemployment*

One of the indicators that a welfare state will be under stress is the presence of an increasing unemployment rate. The situation is worsened as German labor policies continue to be based on high
wages and high tax rates that discourage firms from creating jobs. Flockton (1998) argues that “rising unemployment burdens the system of welfare provision in the form of a rise in charges, which subsequently feeds back on costs and generates a further rise in unemployment” (79). Demands for high wages negotiated through the German neo-corporatist structure combine with high tax rates—established to finance a welfare system in times of high unemployment—force employers to raise prices and become less competitive. As a result, these firms need less positions and unemployment continues to rise.

Wage competitiveness, however, is not Germany’s only problem in solving unemployment. German unwillingness to acknowledge immigrant qualifications and welfare dependency has left industry desperate for qualified help. An estimated half a million immigrants whose skill is not acknowledged by German industry are left to absorb long-term unemployment benefits. With extended long term unemployment among immigrants who comprise a large portion of Germany’s population, national GDP per capita is expected to drop 8-15% by 2035 (Economist, 2010d).

Though women comprise the majority of university students, most women only work part-time while parenting. While the west German ideology of “one breadwinner” has been updated to “1 ½ breadwinners,” most women agree that family life is sacrificed when a woman works full time (Economist, 2010d). As a result, Hartz IV, a welfare program based on protection of those with long term unemployment, supports 5 million people considered capable of working while only 1.4 million actually contribute to the workforce (Economist, 2010c). In addition to labor policies, Germany continues to be plagued by the reverberations of reunification and globalization.

Reunification
German reunification in 1990 has led to significant stresses upon the current welfare state and has only led to an increased population of unemployed citizens. Compared to eight percent nationwide, eastern
Germany continuously faces unemployment rates exceeding thirty percent (Fact Book, 2009). Cox (2001) writes:

> Germany…failed to implement welfare reform because of the peculiar burden of unification. The need to rebuild the industrial infrastructure in the eastern part of the country, to create a common currency and regulatory apparatus, and to cushion a population with poor skills from the social effects of the transition to an industrialized economy absorbed time and political energy that might otherwise have been directed to rethinking the welfare structure. (p. 471)

The overwhelming number of low skilled workers from the east has significantly increased unemployment rates as Germany continues to demand high-skilled workers. Implementation of western policies, however, has not been the only burden. Eastern dependency on the western system has continued to drain the initial welfare state structure. In 1989, prior to unification, the German federal budget operated at a surplus. By 1996, however, the federal budget was operating at a deficit of 3.9% of GDP, state debt had nearly doubled, and state expenditures as a share of the GDP went from 45.8% to 50.5% (Flockton, 1998: 81). Though Germany experienced strong growth in 2007, the eastern region of the country still depends on an annual transfer of nearly €80 billion from the west (Factbook, 2009). Within two decades, Germany has transferred almost €1.6 trillion (Economist, 2010a). With overwhelming levels of unemployment in the east, the German government faces a significant challenge in reforming the welfare state to meet an increasing number of dependents—largely unemployed—in the eastern region. It is clear that unless German legislators successfully implement measures that include work requirements for welfare benefits which also include requirements for women, the east will
continue to drain a system originally established to operate for only half of Germany’s current population.

**Globalization**

Globalization has also contributed to unemployment in Germany’s uniquely specialized industrial sector. Particularly menacing to the German case is the impact of technological development through globalization. The idea of globalization’s effect on technological development leading to higher rates of unemployment is derived from the assumption that technological development has caused an escalated need for highly skilled workers (Korpi, 2003). While Germany has no problem producing highly skilled workers, the problem lies with the lack of job positions for the unskilled. Reunification with the east—comprised largely of unskilled workers—has only intensified this problem. The demand for high skilled workers has caused unionization which discourages high levels of employment in an attempt to maintain high wages for skilled workers while simultaneously producing cost effective goods that are competitive in foreign markets.

Unemployment, intensified by reunification and globalization, is a cause of an overburdened welfare state and a major factor in the German case. Like most other European welfare states, retrenchment is a logical choice because taxation of individuals and businesses in Germany seems to be reaching a threshold (Clayton and Pontusson, 1998). Unlike other European welfare states, however, Germany faces the additional challenge of encouraging a system that rewards citizens for remaining in or returning to the labor force (Cox, 2002). Germany’s reformation process, however, faces a significant set of unique circumstances that prohibit significantly transformative reform.

**Ageing**

With the number of ageing citizens dropping out of the workforce on the rise, more people depend on the system without contributing to it. Germany’s ageing population—over 20% of the population
compared to 12.8% in the United States—has started to take advantage of early retirement and consequently, the government has lost a major source of revenue in tax contributions while simultaneously distributing more services. The overwhelming workforce reduction coupled with an increased need for government assistance among the ageing population establishes significant concerns about pensions and healthcare demand (Flockton, 1998: 88). Cox (2002) summarizes the dilemma in arguing that “high wage costs make employers cautious about expanding their work force, and high benefits make it easy for older workers to exit early from the labor market. The result is a poor record of youth employment and a high rate of early retirement” (190). The benefits of early retirement are particularly appealing to the ageing population and consequently, reform that threatens benefit distribution is highly unpopular. While Germany continues to be underemployed and its citizenry seeks early retirement, the Economist suggests that “the unfunded future cost of [welfare] programmes pushed up public debt from 65% of GDP in 2007 to an implicit 250% of GDP (Economist, 2010c). These numbers are staggering to young individuals faced with the burden of providing social services to its older population.

**Resistance to Welfare Retrenchment**

*Germany’s “Greying” Electoral Blockade*

Germany faces significant challenges in reforming its welfare system due to a large majority of the electorate benefiting from the status quo. Korpi (2003) writes “resistance to welfare-state cuts comes primarily from categories of benefit recipients, such as retirees, the unemployed, the handicapped, and health-care consumers” (598). Voters tend to mobilize when their right to promised entitlements is being threatened. This is particularly true with the older block of voters in Germany who resist changes to pensions and retirement age as well as the implementation of work requirements. Older voters in Germany are an influential voice in the German electorate, and numbers of active voters in that block are increasing. The number of
voters aged 50 and older increased from 21.7 million (46.2% of the electorate) in 1990 to 24.1 million (49.7 % of the electorate) in 2005 with an overall increase of 3.5% (Goerres, 2008: 134). Germany is consequently, very close to reaching a grey majority.

A grey majority, estimated to reach Germany in 2015, has been predicted to be the end of hope for pension reform and will give Germany’s older population a considerable role in skewing policymaking (Goerres, 2005). Germany faces the significant problem of an overwhelming majority of its electorate creating an imbalance in the system that makes reform highly unpopular and politically costly (Clayton and Pontusson, 1998). That older voters will pose a threat to transformative welfare reform is without question. Though the grand coalition was able to push back the pension age from 65 to 67, it required a promise that pensions would remain constant despite changes in wages (Economist, 2010c). Because older voters and younger voters have divergent interests, the window of opportunity for reform of senior citizen entitlements is closing. Goerres (2005) writes, “Within the group of those who want to maintain the size of the welfare state, older people were clearly more in favor of shifting resources from the young to the old” (137).

This idea reflects the path dependency of Germany’s system on the notion of income security in conjunction with the welfare-state life cycle. It is only logical to infer that having contributed to the system in the “working and taxpaying” phase, older voters in attempting to maintain income security over other factors including equality, will vote to retain a system that may not be equitable to all parties involved. To reform, then, Germany must present legislation that is appealing to the older generation of voters and may consequently be a “watered-down” version of what is actually necessary for change.

The Character of Political Coalitions
Though citizen resistance to welfare reform contributes largely to Germany’s lack of reform, its history of uncomplimentary coalition governments can also be cited as why substantial reform has been
Piecemealed coalition governments, comprised of two or more parties with inherently different ideologies, will lead to policy making at the “lowest common denominator” which results in governments that are highly unproductive (Wahl, 2008: 29). In attempts to reform, Germany is unlike other European countries in that debate on important issues remains polarized instead of unidirectional (Cox, 2001). Piecemealed government coalitions prevented both Kohl’s and Schröeder’s governments from obtaining anything truly transformative because of consistently divided and chaotic parliament (Cox, 2002). Newly reelected Merkel, in indicating a coalition change for her new government, expressed frustrations with the lack of progress that the previous “grand coalition” caused (CNN, 2009).

Perhaps most frustrating is that while divided party government undoubtedly inhibits reform, it is not because parties irrevocably disagree on the need of reform on issues such as work requirements and tax reform. Rather, reform is inhibited by the disagreement over who gets the credit, or in some cases, the blame (Cox, 2002: 190). Unfortunately, individual party attempts at reform seem to be just as futile. Because parties are often ideologically different from one another and often claim to be defenders of the welfare state, it is difficult for one party to enact unpopular, albeit necessary benefit cuts without other parties generating blame which challenges the legitimacy of the party pursuing reform (Hering, 2008).

Merkel’s current challenge, then, is to provide policy reform that insists upon coalition agreement or informal support by other parties.

**Social Organizations and Unions**
The final challenge to German reform can be seen in the unique character of unions and social organizations that provide both bargaining and blockading measures in order to advance income security for their groups. Social groups can encompass interests ranging from environmental protection to retirees. The highly unique state-corporatist model in the German system has provided for
powerful unions that regularly negotiate employee needs with firms, larger sectors, and government policy-makers. Clayton (1998) attributes welfare resilience to “successful mobilization by well-organized groups representing the interests of consumers of welfare benefits...as well as employees of the welfare state” (68).

Germany is unique to European counterparts such as the Netherlands and Denmark in the unusual bargaining strength of its unions. Cox (2001) argues that “differences in the character of corporatist representation and wage bargaining in Germany [compared to the Netherlands and Denmark—both highly successful reformed welfare state], explain why reform fails” (470). As a result, welfare states with a weak union voice have high occurrences of decentralized wage bargaining and a weaker sense of corporatism that ultimately leads to greater government autonomy (Cox, 2001). Strong social organizations and unions have been seen to both increase unemployment through high wage demands and prevent reform through strong bargaining power in the interest of those that are employed.

Path Shaping
While it is clear from the discussion above that Germany’s future success in reforming welfare policies relies largely on the government’s reaction to the inevitable “grey majority,” its formation of congruent political coalitions, and its relationship with powerful social organizations and unions, ultimate legislative success depends on path shaping that revolves around Germany’s emphasis on the principle of income security. A social constructivist approach argues that rather than continuing along the path dependency route, governments should “create discourse that changes the collective understanding of the welfare state” (Cox, 2001: 475).

Social constructivism is based on the idea that preferences are formed by a person’s social environment influenced by other members of their community which could include government officials and the overarching presence of a government in general. Korpi (2003) writes “major welfare-state institutions are likely to be of
relevance for the formation of values, attitudes, and interests among citizens in ways that are of relevance for patterns of collective action” (598). By the creation of a new understanding of the welfare state, governments are able to diverge from the dependent path and participate in path shaping. This is essential when noting that as reported in 1997, nearly 70% of all Germans expressed favor toward their existing welfare system (Cox, 2001: 493). Because such a high percentage of Germans favor the current system, political leaders have failed to implement policy reform because they have failed to shape a path for major opponent groups such as the “grey” voting block, opponents within coalitions, and influential organizations and unions.

Perhaps the best example of the potential of path shaping in achieving significant reform can be found in the German pension reforms of 2001. German legislators sought to change the pension system from a defined-benefit model to a defined-contribution model. The policy was largely contested because workers did not accept the idea of paying into the system of retirees while simultaneously contributing to their own (Korpi, 2003). The proposal failed in Kohl’s government and out of fear of electorate backlash, Schroeder’s government took nearly a year to develop a proposal. The government worked closely with union leaders because previous union opposition had been a major contribution to the death of previous proposals. Failure to cooperate among members of parliament also prevented timely negotiations. When the successful agreement for gradual reduction of income-replacement coupled with incentives for private pension savings was finally revealed to the public, German legislators were careful in presenting the plan. The plan ensured long-term stability that would continue to protect income security while simultaneously reducing the burden on the government (Cox, 2002).

By shaping the discourse that accompanied the proposal, pension reform was implemented without significant political backlash. Path shaping in Germany has proven to be successful in
both obtaining reform and reconstructing citizen perception of the welfare state. Accordingly, as Germany faces the need to reform major sectors of its labor system, governments should attempt to form a discourse surrounding reform as the ultimate measure of continued security for the German people.

Conclusion
Although pension reform is a definitive example of reform in Germany, it remains clear that the welfare system faces significant overhauling if it will remain effective for the German people. With increased stress on the German system caused by high levels of unemployment and an increasingly ageing population, legislators face significant challenges in creating transformative welfare policy that can navigate beyond voting blockades, artificial coalitions that prevent substantial, transformative change, and unusually strong social organizations and unions. For significant labor reform, Germany must implement key reforms that promote work requirements for public assistance and unemployment security as well as policies that urge a reduction in duration of unemployment (Cox, 2002). Hope for meaningful reform can be aided through government implementation of discourse that offers a path shaping alternative to the path dependent system that Germany currently maintains. Reform, regardless of the means, is truly the answer to German income security in the following decades.

References


