Chapter 4  GERMANY

Section 1 The Making of the Modern German State
Section 2 Political Economy and Development
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Official Name: Federal Republic of Germany (Bundesrepublik Deutschland)
Location: Central Europe
Capital City: Berlin
Population (2008): 82.3 million
Size: 357,021 sq. km.; slightly smaller than Montana
Politics in Action

May Day in Europe—and most of the world—is usually a day of traditional protests and celebratory parades by organized labor movements and democratic left wing political parties, but in Hamburg in 2008 there was a sharper edge to the demonstrations. Challenging the social forces of the democratic left were groups of far right-wing nationalists who provoked the most radical of the left to engage in sometimes violent clashes in the streets. The German weekly Der Spiegel reported that 1,100 neo-Nazis and members of the extreme right-wing National Democratic Party (NPD) confronted over 7,000 anti-fascist left wing groups in a day-long series of demonstrations, barricades, and fires.

When such street protests lead to violence in Germany, they usually cause observers to raise the spectre of the turbulent Weimar Republic years in the 1920s, when Nazis and Communists had much larger conflicts as Germany’s first experiment in democracy gave way to Hitler’s Third Reich. These contemporary conflicts are but a pale image of those events. When such street protests lead to violence in Germany, they usually cause observers to raise the spectre of the turbulent Weimar Republic years in the 1920s, when Nazis and Communists had much larger conflicts as Germany’s first experiment in democracy gave way to Hitler’s Third Reich. These contemporary conflicts are but a pale image of those events.

However, they are a disturbing indicator of significantly increased fragmentation of German democratic politics in the early 21st century compared to the more consensual politics in the years since the end of the World War II in 1945.

For almost all of the post–World War II period, the Federal Republic of Germany (FRG) admirably developed a stable, democratic government run by two large parties, the Social Democratic Party (Sozialdemokratische Partei Deutschlands, SPD) on the moderate left, the Christian Democratic Union and its sister party the Christian Social Union (CDU/CSU) on the moderate right, and one smaller party in the center, the pro-free market but socially liberal Free Democratic Party (FDP). In what came to be called a “two and a half party system” the FDP, depending on the issues, would join one of the two larger parties to form stable governments for the first forty-plus years of the FRG.

The emergence of the environmental Green Party, gaining seats in the Bundestag for the first time in 1983, was one harbinger of change. The other was the increasing growth of the Left Party (die Linke), once a mostly eastern German former communist party that began to develop considerable strength in the west in 2004. The 2005 election confirmed that the days of the “two and a half party” system were long gone, as the FDP and the two new parties received almost 26 percent of the total vote. The electoral arithmetic had become much more complicated because the three smaller parties won enough seats to prevent one of the two large parties coalescing with only one of the smaller ones. The only other possible

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*Significantly, no far right party has ever achieved the 5 percent threshold for winning seats in the Bundestag, but the NPD has recently surpassed 5 percent of the vote and won seats in two eastern German state parliaments.
result—other than a three-party coalition—was what in fact occurred: a “Grand Coalition” between the SPD and CDU/CSU. Since 2005, however, this compromise coalition has produced considerable disagreement, ineffective governance, and enabled the three smaller parties—as the only opposition—to increase their support in opinion polls to almost 35 percent of the electorate by mid-2008.

The increasing fluidity of the party system has made coalition possibilities much more difficult. The longer that the SPD and CDU/CSU remained in a coalition in which agreement on major issues was difficult, the more support increased for the three smaller parties. Since the 2005 election, the “natural” coalitions of CDU/CSU and FDP on the moderate right, and SPD and Greens (who comprised the government from 1998–2005) on the moderate left, have been unable to form because neither potential coalition controlled 50 percent of the seats. The Left Party’s 8.7 percent share of the vote in 2005—and its increasing popularity to between 12 percent and 14 percent in opinion polls in mid-2008—made coalition possibilities difficult: none of the other parties wanted to join in coalition with the Left due to its status as a former communist party.

By the third year of the SPD-CDU/CSU Grand Coalition, German politics had become more stable, thanks to a popular chancellor in Angela Merkel and

FIGURE 4.1
The German Nation at a Glance
modest economic growth. But it had also become more unpredictable than it had been during most of its democratic history since the end of WWII. While Germany was certainly not about to descend again into the pre–Third Reich chaos of the 1920s, German democracy faced some of its sharpest challenges and unpredictable outcomes in decades.

**Geographic Setting**

Germany is located in central Europe and has been as much a western European nation as an eastern European one. It has a total area of 137,803 square miles (slightly smaller than the state of Montana). Its population of 82 million, comprising over 85 percent ethnic Germans, all of whom speak German as the primary language, is roughly evenly divided between Roman Catholics and Protestants. It has the largest population of any country in western Europe and is second only to Russia in all of Europe. Germany has been relatively homogeneous ethnically; however, ethnic diversity has been increased by the presence of several million Turks in Germany, first drawn to the Federal Republic in the 1960s as Gastarbeiter (guest workers)—foreign workers who had no citizenship rights. Furthermore, increased migration across borders by EU citizens is further decreasing cultural homogeneity.

For a densely populated country, Germany has a surprisingly high proportion of its land in agricultural production (54 percent). It is composed of large plains in northern Germany, a series of smaller mountain ranges in the center of the country, and the towering Alps to the south at the Austrian and Swiss borders. It has a temperate climate with considerable cloud cover and precipitation throughout the year. For Germany, the absence of natural borders in the west and east has been an important geographic fact. For example, on the north, it borders both the North and Baltic seas and the country of Denmark, but to the west, south, and east, it has many neighbors: the Netherlands,
Belgium, Luxembourg, France, Switzerland, Austria, the Czech Republic, and Poland. Conflicts and wars with its neighbors were a constant feature of German life until the end of World War II.

Germany’s lack of resources—aside from iron ore and coal deposits in the Ruhr and the Saarland—has shaped much of the country’s history. Since the Industrial Revolution in the nineteenth century, many of Germany’s external relationships, both commercial and military, have revolved around gaining access to resources it lacks within its national borders. Germany is divided into sixteen federal states (Bundesländer), many of which correspond to historic German kingdoms and principalities (such as Bavaria, Saxony, and Hesse) or medieval trading cities (such as Hamburg and Bremen).
CHAPTER 4  Germany

Critical Junctures
Nationalism and German Unification (1806–1871)

The first German “state” (or more accurately, entity) was the Holy Roman Empire, founded by Charlemagne in 800 a.d. (sometimes referred to as the First Reich). But this loose and fragmented “Reich” (empire) bore little resemblance to a modern nation-state; it was composed of up to 300 sovereign entities including the territories of present-day Germany, Austria, and the Czech Republic.

Two main factors hindered German state formation: uncertain geographic boundaries and religious (Protestant vs. Catholic) division. As a result of these divisions, the German language, as well as German physical and cultural traits, played a larger role in defining national identity than such features did in other European states. For many nineteenth-century Germans, the lack of political unity stood in sharp contrast to the strong cultural influence of such literary and religious figures as Goethe, Schiller, and Luther.

The victories of the French emperor Napoleon against Prussia and Austria brought an end to the Holy Roman Empire in 1806. But the defeat and occupation aroused strong German nationalist sentiment, and in 1813–1814 the Prussians—the largest and most powerful of the German-speaking states—led an alliance in a “War of Liberation” against Napoleon’s France, culminating in a new German confederation created in 1815.

In 1819, authoritarian Prussian leaders confidently launched a tariff union with fellow German states that by 1834 encompassed almost all of the German Confederation except Austria, greatly expanding Prussian influence. But free-market capitalism and democracy did not take root in the Prussian-dominated Germanic principalities. Instead, there surfaced qualities such as a strong state, the dominance of a reactionary group of noble landlords in eastern Prussia called Junkers, a patriotic military, and a political culture dominated by honor, duty, and service to the state.

The European revolutions of 1848 sparked many prodemocracy uprisings, including those of Berlin and Vienna, respectively, the Prussian and Austrian capitals. But these revolutionary democratic movements in Germany and Austria were violently and quickly suppressed. Germany was united instead by a “revolution from above” led by Count Otto von Bismarck, who became minister-president of Prussia in 1862. A Junker who reflected the values and authoritarian vision of his class, Bismarck realized that Prussia needed to industrialize and modernize its economy to compete with Britain, France, and the United States. He created an unlikely and nondemocratic coalition of northeastern rural Junker landlords and northwestern Ruhr Valley iron industrialists, known as the “marriage of iron and rye.” Unlike the French and American revolutionaries, the coalition leaders relied on the support of wealthy elites rather than on the democratic working class and peasant/farmers. Very simply, Bismarck was contemptuous of democracy, preferring “blood and iron” as his primary political tools. He was also as good as his word, launching three short wars—against Denmark (1864), Austria (1866), and France (1870)—that culminated in the unification of Germany. The so-called Second Reich, excluding Austria and with the King of Prussia as Kaiser (emperor), was proclaimed in 1871.

The Second Reich (1871–1918)
The Second Reich was an authoritarian regime controlled by industrial and landed elites. It was symbolically democratic in that the Iron Chancellor allowed for universal male suffrage for the lower house (Reichstag) of the bicameral legislature, but real decision-making authority lay in the hands of the upper house (Landtag), which Bismarck controlled.

The primary goal of the Second Reich was rapid industrialization, supported by state power and a powerful banking system geared to foster large-scale industrial investment rather than by the trial-and-error methods of free markets. This path was so successful that Germany had become a leading industrial power by 1900, emphasizing such industries as coal, steel, railroads, dyes, chemicals, industrial electronics, and machine tools. The state pushed the development of such heavy industries at the expense of those producing consumer goods. Lacking a strong domestic consumer-goods economy, Germany had to export a substantial portion of what it produced on world markets.
Rapid transformation from a largely agrarian society in the 1850s to an industrial one by the turn of the twentieth century created widespread social dislocation and growing opposition to the conservative regime. A small middle class of professionals and small-business owners with rising expectations pressured the government—mostly unsuccessfully—to democratize and provide basic liberal (that is, free-market) rights. Industrialization also promoted the growth of a manually skilled working class and the corresponding rise of a militant Social Democratic Party (Sozialdemokratische Partei Deutschlands, SPD). The Social Democrats’ primary goals were economic rights in the workplace and democratization of the political system. The party was greatly influenced by the founders of socialism, the Germans Karl Marx and Friedrich Engels. Socialist philosophy argues that workers, as producers of society’s goods and services, should possess the country’s economic and political power.

As German chancellor (head of government) from 1871 to 1890, Bismarck alternately persecuted and grudgingly tolerated the democratic and socialist opposition. He banned the Social Democratic Party yet created the beginnings of the first welfare state as a way to blunt the effects of rapid economic growth. Social welfare benefits included health insurance and the first forms of state-sponsored old-age pensions. This combination of welfare with political repression is sometimes referred to as Bismarck’s “iron fist in a velvet glove.”

Bismarck also significantly influenced German political culture by creating a strong and centralized German state. The Kulturkampf (cultural struggle) he initiated was a prime example of Prussian and Protestant dominance. Essentially a movement against the Catholic Church, it sought to remove educational and cultural institutions from the church and place them under the state. This action, which alienated the church and many Catholic Germans, left a powerful political legacy.

By 1900, Germany’s primary economic challenge consisted of obtaining necessary raw materials and accessing world markets to sell its finished goods, in order to sustain rapid economic growth. Germany then embarked on an imperial adventure sometimes called “the scramble for Africa.” However, as a latecomer on this continent, Germany could colonize only resource-poor southwestern and eastern Africa. From 1871 until World War I, Germany tried and failed to extend its colonial and economic influence. This failure inflamed German nationalists and pushed German leaders to rapidly develop the shipbuilding industry and a navy to secure German economic and geopolitical interests.

An undemocratic domestic political system, the lack of profitable colonies, an exposed geopolitical position in central Europe, and increasingly inflamed nationalism heightened Germany’s aggression toward other nations and ultimately prompted it to declare war in 1914.

German leaders expected World War I to be brief and victorious. It turned into a protracted conflict, however, and cost Germany both its few colonial possessions and its imperial social order. The Second Reich collapsed in November 1918, leaving a weak foundation for the country’s first attempt to establish a parliamentary democracy.

The Weimar Republic (1918–1933)
Kaiser Wilhelm II abdicated after Germany’s defeat in World War I, and the Weimar Republic (the constitution was drafted in that eastern German city) replaced the Second Reich. The SPD, the only remaining party not discredited by the failed war, found itself in charge of Germany’s first democracy. Its first unwelcome task was to surrender to the Allies—an action that was later used to discredit the party.

The new government was a procedural democracy (formal political institutions without broad public support), holding regular elections and comprising multiple parties from the far left to the far right. Yet it had a fatal flaw: the many right-wing political parties and social forces, as well as the Communists on the left, refused to accept the legitimacy of democratic government.

From the beginning, the SPD leadership was on shaky ground: it foolishly asked the undemocratic military to guarantee order and stability. Because SPD leaders signed the Treaty of Versailles and its onerous reparations payments for war costs that the victorious Allied coalition demanded from Germany, the right
Germany accused the government of having “stabbed Germany in the back.” Further, the SPD-led government failed to address the ruinous inflation of 1923, when the government was forced to print worthless *Reichmarks* to pay the huge war reparations.

Into this turmoil stepped Adolf Hitler, a little-known, Austrian-born former corporal in the German army, who became the leader of the Nazi Party in 1920 (*Nazi* is a German abbreviation for National Socialist German Workers’ Party). Taking advantage of a deepening economic crisis, the Nazis mobilized large segments of the population by preaching hatred of the left and of “inferior, non-Aryan races”—especially Jews, whom Hitler accused of defiling racial purity, betraying German patriotism, and enjoying illegitimate economic privilege.

After the Great Depression spread to central Europe in 1931, Germany became more unstable, with none of the major parties able to win a majority or even form durable government coalitions. Frequent elections produced ever-shakier minority governments, party fragmentation and lack of a stable majority. The Nazis relentlessly pressed for political power from a population that continued to underestimate Hitler’s real intentions and viewed his hate-filled speeches as merely political rhetoric. The Nazis were rewarded in early 1933 when they and their conservative allies maneuvered President Paul von Hindenburg, a former World War I general, into appointing Hitler chancellor in a Nazi-Nationalist coalition government sworn in on January 30. Once in power, the Nazis began to ban political parties and took advantage of a fire at the Reichstag that they tried to blame on the Communists to engage in sweeping repression of the opposition. Hitler then pressured President Hindenburg to grant—by “emergency” executive order—broad, sweeping powers to the Nazi-dominated cabinet. This act made the Reichstag irrelevant as a representative political body and enabled the Nazi regime to consolidate its hold on power.

**The Third Reich (1933–1945)**

After the Nazis had obtained the chancellorship, establishing social control was their next major priority. This took the form of banning political parties and then all civic and religious institutions. Ultimately, the Nazis employed propaganda and demagogy—along with the military, paramilitary, and police through arbitrary and brutal suppression of the opposition—to mobilize large segments of the German population. Using memorizing speeches and a relentless propaganda ministry led by Joseph Goebbels, Hitler exercised total control of political power and the media to reshape German politics to his party’s vision. This vision allowed no opposition, even within the party.

Initial Nazi domestic policy was focused on two major areas: centralization of political power and the rebuilding of an economy devastated by the depression of the early 1930s. The Nazis concentrated all political authority in Berlin, removing any regional political autonomy. The main purpose of this top-down system was to ensure the repression of political opposition, Jews and other minorities.

The Nazis’ economic program was also autocratic in design and implementation. Because free trade unions had been banned, both private and state-run industries forced workers, including slave laborers during World War II, to work long hours for little or no pay. The program emphasized heavier industries that required massive investment from the large manufacturing cartels, the banking system, and the state itself. Although some segments of big business had initially feared Hitler before he took power, most of German industry eventually endorsed Nazi economic policies. The Nazis also emphasized massive public works projects, such as building the *Autobahn* highway system, upgrading the railroad system, and constructing ostentatious public buildings. Almost all favored Nazi industries had direct military application.

During the Third Reich, Hitler fanned the flames of German nationalism by glorifying the warrior tradition in German folklore and exulting in imperial Germany’s nineteenth-century victories. Extolling a mythically glorious and racially pure German past, he made scapegoats of homosexuals, ethnic minorities, and, especially, Jews. Anti-Semitism proved an important political force that Hitler deployed to blame any political problems on this “external” international minority and to target them as enemies who should be relentlessly persecuted and suppressed. Thus, in the first years of Nazi rule, Jews were excluded from professions, including teaching, law, medicine, and the
The Nazis refused to abide by the provisions of the Treaty of Versailles. Germany began to produce armaments in large quantities, and remilitarized the Rhineland. The Nazis also rejected the territorial divisions of World War I, since Hitler claimed that a growing Germany needed increased space to live (Lebensraum) in eastern Europe. He engineered a union (Anschluss) with Austria in March 1938 and the occupation of the German-speaking Sudetenland section of Czechoslovakia in September 1938. The Third Reich’s attack on Poland on September 1, 1939, finally precipitated World War II.

Hitler strides triumphantly through a phalanx of Nazi stormtroopers (SA) in 1934. Source: Ullstein Bilderdienst.

Hitler’s grandiose visions of world domination were dramatically heightened by the German conquests of much of Europe during 1939 and 1940. In 1941, Hitler attacked the Soviet Union, assuming that defeating the Soviet Union would be as easy as his other conquests. The attack was an enormously costly failure, and foreshadowed the Third Reich’s defeat almost four bloody years later.

The most heinous aspect of the Nazi regime was the systematic extermination of 6 million Jews and the imprisonment in concentration camps of millions of other civilians. Concentration camps were first created in 1933 for Jews, political opponents, homosexuals, and gypsies. Prisoners were treated with extreme
brutality and large numbers were shot or died from starvation, disease, or overwork. Several years later, the Nazis created extermination camps in occupied countries like Poland, equipped with gas chambers to murder the Jews and other inmates. Hitler had explicitly stated in Mein Kampf (My Struggle), written in 1925 while he was imprisoned for leading a failed insurrection, that the Germans were the master race and all those of non-Aryan ethnicity, especially Jews, were inferior. But as with many of his statements during his rise to power, many Germans chose to ignore the implications of this hatred or thought it was mere exaggeration. The magnitude of Nazi plans for other races, religions, opposing political views, gays, and gypsies, among others, became apparent after Hitler came to power, but by then any chance of domestic opposition had passed. Persecution of Jews and other racial and ethnic minorities grew steadily more atrocious until Germany’s defeat in 1945.

A Divided Germany (1945–1990)

Germany was occupied by the victorious Allied powers from 1945 to 1949. However, cold war tensions soon led to the formal division of Germany: the Federal Republic of Germany (FRG) in the west, run by the Allies (Britain, France, and the United States), and the communist German Democratic Republic (GDR), directed by the Soviet Union in the east. This division was not expected in 1945, but postwar Germany soon took on the respective postwar visions of the two victorious sides. The major German cold war focal point was the city of Berlin, like Germany itself, divided between Allied- and Soviet-supported governments.

During the years of occupation in West Germany (1945–1949), German and Allied officials reduced the powers of the central state in domestic politics; some of these powers were assumed by regional governments. Western German reformers also rebuilt the party system, helping to create parties with more broad-based interests and ideological considerations. The most significant political development was the merger for the first time in 1946 of Roman Catholic and Protestant interests into the Christian Democratic Party. The result was the emergence of a large center-right party that ruled the FRG, alone or in coalition, for the first twenty years of the new republic.

Formal nation-statehood was restored to the two Germanys in 1949, and the Occupation ended, but neither half of divided Germany was fully sovereign. The FRG deferred to the United States in matters of international relations, as did the GDR to the Soviet Union. Neither of the two Germanys joined the cold war’s international alliances—NATO (North Atlantic Treaty Organization) and the Warsaw Pact, respectively—until 1955.

In 1949, the Federal Republic became a democracy, characterized by constitutional provisions for free elections, civil liberties and individual rights, and an independent judiciary. The Federal Republic’s democratic system produced rapid economic growth and remarkable political stability for the first forty years of its existence. Alternation from a moderate center-right government to a moderate center-left one, and back again, produced high standards of living and a genuine democratic regime. Under Christian Democratic chancellors Konrad Adenauer (1949–1963) and Ludwig Erhard (1963–1966), the FRG saw the establishment of a new parliamentary regime, an extensive system of social welfare benefits, a politically regulated market
economy, and the re-establishment of strong regional
governments.

Under Social Democratic chancellors Willy Brandt (1969–1974) and Helmut Schmidt (1974–1982), the FRG first enjoyed robust full employment and a large increase in social services. The SPD also advocated a more equal distribution of income. But later in the 1970s, two economic recessions produced increased unemployment and forced Chancellor Schmidt to introduce moderate cutbacks in social services. Unlike many Western capitalist countries in the 1980s, however, West Germany retained many of the social programs of the postwar welfare state, a stance that enjoyed wide public support.

The Christian Democrats returned to power in 1982 under the leadership of Chancellor Helmut Kohl, who formed a center-right coalition with the Free Democratic Party (FDP), a moderate centrist party that had allied with both of the two major parties in most governments since 1949. The 1949–1990 period established the viability of constitutional democracy in the Federal Republic, as the country maintained a firm commitment to parliamentary government and political stability.

In the meantime, the German Democratic Republic was established in Soviet-occupied East Germany in 1949. The GDR was a one-party state under the control of the Communist Party, which was known as the Socialist Unity Party (SED, Sozialistische Einheits Partei). Although the state provided full employment, housing, and various social benefits to its citizens, it was a rigid, bureaucratic, Stalinist regime that tightly controlled economic and political life under the leadership of party chairman Walter Ulbricht, Willi Stoph, and finally Eric Honecker. The East German regime stressed the desirability of communism and suppressed public dissent as deviationist and undermining the “true path of socialism.” The infamous Stasi, or secret police, was an extensive system of surveillance that kept tabs on all German citizens and ruthlessly dealt with those suspected of opposing the regime. East Germans caught trying to escape to the West were executed on the spot. In August 1961, East Germany erected the Berlin Wall to keep its citizens from fleeing to West Germany.

For more than forty years, the international role of the two Germanys was limited. Because of NATO’s geopolitical restrictions, West German energies were focused on rebuilding the economy and pursuing European economic integration. East Germany was similarly restricted. Although it became the strongest of the Warsaw Pact’s economies, it also loyally toed the Soviet line in international affairs.

The Challenge of German Unification (1990–1998)

Germany’s unification in 1990 took place rapidly. When Soviet rule over Germany and other communist regimes in East Central Europe loosened, and the Berlin Wall was opened in November 1989, the two German states envisioned a slow process of increased contacts and cooperation while maintaining separate sovereign states for the short term. Yet a currency reform provided East Germans with valuable West German deutsche marks and fueled massive migration westward in the summer of 1990. The process of German unification proceeded much faster than anyone could have imagined. After a referendum on unification and intense negotiations in the late summer, the former East Germany was incorporated into the FRG as five new West German states (Länder).

Formal unification took place in the fall of 1990 as Helmut Kohl, the “unification chancellor,” won a strong re-election victory for his center-right Christian Democratic–Free Democratic coalition. But unification euphoria did not last, as its costs strained Germany’s budget and democratic institutions. The process proved much more difficult than expected. The communist-planned economy (sometimes called a command economy) was much weaker than had been recognized. The production of goods was determined more by rigid government dictates than by real consumer needs, and what was produced was of shoddy quality. The East German level of technology was decades behind, and the unified German government spent huge sums just to rebuild communication networks.

Incorporating the disadvantaged East Germany into the FRG had an adverse impact on a wide range of public policies, including unemployment expenses, structural-rebuilding funds, and the large tax increases necessary to pay for it all. Because the production apparatus in eastern Germany was so deficient, unemployment soared. The proportion of the unemployed
Germany—approximately 20 percent, more than twice the figure in the prosperous west—helped fuel scattered ultra-right-wing political movements. Skinheads and others targeted foreigners (often Turks) as scapegoats, and there were several vicious attacks on minority groups beginning in the 1990s.

The difficulties of unification were complicated by the Kohl government throughout the 1990s. In order to win the support of eastern Germans, he sugarcoated the enormity of the unification process as well as its duration. In order to win the support of western Germans, he had to convince them that the 7.5 percent “unification tax” imposed on them in the early 1990s would be sufficient to achieve economic integration. Unfortunately for Kohl, the longer the unification process remained incomplete, the less willing the German electorate was to give him continued support.

By 1998, Kohl’s center-right coalition had run out of both gas and ideas. Successfully convincing Germans that a change was necessary, newly elected SPD Chancellor Gerhard Schröder, a generation younger than Kohl, formed a coalition government with the environmentalist Green Party for the first time in the nation’s history. Significant too was the continued high support for the former Communist Party (now called die Linke) in eastern Germany (over 20 percent), which enabled it to gain more than 5 percent of the total German vote. With almost 54 percent of the electorate voting for parties of the left, clearly a new era had arrived in Germany.


Germany’s leaders—from Konrad Adenauer, the first postwar chancellor, through Schröder—were all strong supporters of European integration. Germany is the economic anchor of the EU, and its membership in the EU has enabled it to do things and to take on needed political responsibilities that it would be unable to carry out alone. Former chancellor Kohl (1982–1998) realized this and was a firm advocate of all measures that would assist in a smooth, stable, and comprehensive EU.

The accelerating pace of European integration, however, produced movement toward a common monetary policy, a European central bank, and a single (virtual) currency in 1999. This, followed by the replacement of eleven European national currencies in favor of the euro on January 1, 2002, placed additional pressures on the Federal Republic. Many Germans wondered whether the EU would provide the same stability as the redoubtable deutsche mark (DM) and the inflation-fighting Deutsche Bundesbank. The fall in value of the euro by some 25 percent in relation to the dollar in 1999 and 2000—and its subsequent rise to more than 50 percent greater than the dollar eight years later—was worrisome to Germans long accustomed to a stable and predictable DM. So too was the loss of domestic control of monetary and fiscal policies, due to the EU requirement that member states not run deficits greater than 3 percent of GDP.

With respect to open borders and seemingly free-flowing immigration, Germans also feared that Europeanization threatened to erode what it meant to be German. At the same time that immigration and political asylum increased in Germany during the 1990s, the birth rate, particularly in the former GDR, dropped precipitiously. Far-right and even some moderate right-wing politicians used these demographic changes to whip up nationalist support for decreasing the flow of migrants to the FRG. Ironically, these demographic changes also coincided with the inability of the highly regarded secondary educational system to produce enough skilled workers for the information age. Germany’s vocational educational system and integrated apprenticeship system, described in Section 2, have worked exceptionally well for traditionally strong German industries, but they have been less effective in producing highly qualified workers for the information sector. Finally, the issue of democratic governance was an additional European challenge. With fiscal and monetary policy essentially determined by either Brussels or the European Central Bank, where does democratic governance really lie?

Germany after September 11 (2001–)

The terrorist attacks on the United States had several significant effects on German domestic and
international politics. Among the most significant were immigration/globalization, antiterrorist measures, and Germany’s relationship with the United States.

The enlargement of the EU with the addition of twelve central and eastern European countries since 2004 highlighted the challenge that immigration poses for Germany, since there are no restrictions on movement by citizens of member states to other EU member states. During the Gastarbeiter period after World War II, immigration to Germany was comparatively straightforward. Workers came from southern Europe and Turkey, supposedly for limited periods, and would return home when economic conditions no longer required their services. Of course, several generations of Turkish-Germans remain in the Federal Republic. But in the first decade of the twenty-first century, in addition to migrants coming for economic opportunities in a globalizing world, a wave of migrants arrived from unstable and repressive countries in Africa and East Europe seeking political asylum.

The discovery that some of the 9/11 terrorists had lived in Hamburg prior to the attacks only added to the tension. Germany’s sensitivity after World War II to the excesses of the Nazi regime was responsible for the liberal asylum laws; postwar German governments viewed with pride the country’s openness to oppressed people facing repression. Yet the discovery that several of the terrorists belonged to an Al Qaeda cell in Hamburg before going to the United States created uneasy discussion in Germany on the issue of freedom versus security. In the wake of 9/11, the Schröder and Merkel governments increased domestic surveillance to locate additional terrorist cells, and made a series of arrests and detentions. While such aggressive actions by police and security forces helped identify potential threats to domestic and international security, they rested uneasily with considerable segments of the German population, creating tension between Germany and the United States.

Germany’s opposition to the Iraq war also drove a large wedge between the United States and the Federal Republic. The tension was exacerbated by the conduct of Gerhard Schröder during his 2002 reelection campaign. His leading issue in the final weeks of the campaign—largely reflecting the preferences of the German public—was in direct opposition to the Bush administration’s Iraq policy in the months before the war in early 2003. Although the campaign never degenerated to the level of American–French acrimony regarding the Iraq war, the long-standing strong relationship between Germany and the United States took a significant hit because of this dispute. Further exacerbating these tensions were the acquittals of two Moroccan alleged terrorists in Germany in February 2004. Because the Bush Administration refused to release witnesses—who were being held in detention in the United States—who could potentially exonerate the two Moroccan suspects in Germany, the judges in the two German courts were forced to release the two defendants because they could not present a proper defense.

Themes and Implications

Historical Junctures and Political Themes

Because of the historic importance of militarism and a corresponding authoritarian political culture, Germany’s role in the world of states is contentious. For all states, military strength is a basic tool used to shape and consolidate. But in Germany, late unification propelled by war created a state that caused tremendous fear among Germany’s neighbors. The conduct of World War I and the crimes of the Third Reich during World War II intensified this fear. Although more than fifty years have passed since the end of World War II and although Germany’s independent political actions are constrained by the EU, many Europeans remain wary of Germany’s international role.

The second theme, governing the economy, has been colored profoundly by Germany’s late unification and the issue of state building. Delayed unification and industrialization in Germany prevented it from embarking on the race for empire and raw materials until the late nineteenth century. The pursuit of fast economic growth and an awakened sense of German nationalism in the late nineteenth century
produced an aggressive, acquisitive state in which economic and political needs overlapped. The fusion of state and economic power enabled Hitler to build the Third Reich. Consequently, policy-makers and political leaders after World War II desired to remove the state from actively governing the economy. Thus, the postwar period saw the development of Modell Deutschland (the German model), a term often used to describe the Federal Republic of Germany’s distinctive political and socioeconomic features. While amazingly successful for decades after World War II, it remains an open question whether these economic institutions will continue to function well in a unified Europe.4

The democratic idea, our third theme, is one that developed much later in Germany than in most other advanced industrialized countries. It was not until 1918 and the shaky Weimar Republic that Germany attained democracy at all. Despite a formal democratic constitution, Weimar was a prisoner of forces bent on its destruction. Unlike stable multiparty political systems in other countries, the Weimar Republic was plagued by a sharp and increasing polarization of political parties. And of course Germany’s descent into authoritarianism in the 1930s destroyed every vestige of democracy.

The constitution of the Federal Republic in 1949 was designed to overcome Weimar’s shortcomings. A system of federalism, constitutional provisions to encourage the formation and maintenance of coalitions, and a streamlined political party system proved solid foundations for the new democracy. Electoral turnout of 80 to 90 percent for almost all elections since 1949 further suggests that Germans have embraced democracy, although skeptics once argued that Germans voted more out of duty than anything else.5 However, four peaceful electoral regime changes in the past fifty years, in which both the government and the opposition functioned more smoothly than in most other democratic regimes, have finally put doubts about German democracy to rest. The remaining uncertainties involve how fully the democratic culture will penetrate formerly communist eastern Germany and how successfully Germany’s politics will adapt to a five-party system since the Left Party now appears to be a permanent fixture.

As for the fourth theme, the politics of collective identity, more than in other democratic countries, German political institutions, social forces, and patterns of life emphasize collective action rather than the individualism characteristic of the United States. This does not imply that German citizens have less personal freedom compared to those in other developed democracies or that there is no conflict in Germany. It means that political expression, in both the state and civil society, revolves around group representation and cooperative spirit in public action.

Certainly, Germany’s history from Prussian militarism through Nazism has led many observers to believe that collectivist impulses should be eradicated. However, to expect Germany to embrace an individualistic democracy like that of the United States is misguided. Germany’s development of a collective identity since 1945 has relied on a redefinition of German identity in a European context. For example, one of the first provisions of the SDP-Green coalition agreement was to ease Germany’s restrictive immigration law to enable those who had lived in Germany for decades to obtain citizenship. German collective identity is changing.

Implications for Comparative Politics

Germany differs from other developed countries in substantial ways. Germany—like Japan—was late to industrialize and late to democratize. But the most significant difference between Germany and other western European states is, of course, the Nazi period and the destruction that the Third Reich wrought. Concerns about this period, however, have been somewhat allayed by Germany’s stable democratic experience since 1949.

Germany’s significance for the study of comparative politics lies in several areas: the contrast between its nationalistic history and democratization in an integrating Europe; its unique form of organized capitalism that is neither state-led nor laissez-faire; its successful form of representative democracy that combines widespread participation and representation of the entire electorate in a stable parliamentary regime; and a politics of identity that builds on existing collectivities in an increasingly multifaceted political culture.
State and Economy

Germany’s capitalist economy relies on a coordinated network of small and large businesses working together. Most German banks—especially local and regional ones—see their primary role as providing long-term investments to support Germany’s internationally competitive manufacturing industries. German banks have been the prime foundation for the country’s economic pattern of stable, long-term relationships among economic partners rather than the short-term deals common among banks, investors, and firms in the United States. Although these practices have eroded somewhat among the largest banks (e.g., Deutsche Bank, Dresdner Bank) in the face of globalization, deregulation, and Europeanization, the core principles of this arrangement remain, particularly among small and medium-sized firms and financial institutions.

The Role of the State Before 1945

In the years before unification in 1871, many of Germany’s regional governments played a strong role in promoting economic growth and development. They worked directly and indirectly with private economic interests, thus blurring distinctions between the state and the market. The foundations for economic growth were established, and the most spectacular early leaps of industrial modernization happened, before Germany’s unification in 1871. The creation of a customs union (Zollverein) in 1834 from eighteen independent states with a population of 23 million people propelled industrial modernization by greatly facilitating trade among these states after centuries of economic stagnation.

Bismarck became the dominant symbol for Prussia’s hegemonic position in brokering the interests of grain-growing Junkers in the east with those of the coal and steel barons in the Ruhr. Bismarck used the development of the railroad as a catalyst for this “marriage of iron and rye.” He astutely realized that although railroads were a primary consumer of coal and steel, they also provided an effective way to transport the Junkers’ grain to market from the relatively isolated eastern part of Germany. The image of Prussian-led, rapid, state-enhanced industrial growth is important, but small-scale agricultural production remained in many parts of the southern states, particularly in Bavaria, and small-scale craft production continued in Württemberg and many other regions.

By 1871, a unified Germany was forced to compete with a number of other countries that had already developed industrialized capitalist economies. German business and political elites realized that a gradual, small-firm-oriented economy would face ruinous competition from countries such as Britain, France, and the United States. To become competitive, the German state became a powerful force in the German economy. The most influential analysis of German industrial growth during the nineteenth century was by economic historian Alexander Gerschenkron. He maintained that Germany’s transformation from a quasi-feudal society to a highly industrialized one during the latter two-thirds of the nineteenth century was made possible by explicit coordination among government, big business, and a powerful universal banking system (with a given bank handling a variety of financial transactions as opposed to separate banks for savings and commercial activities).

A severe economic crisis in 1923, caused largely by Germany’s payment of massive reparations to the Allies as required by the Versailles Treaty that ended World War I, destabilized the economy and produced massive hyperinflation. After the 1929 stock market crash, Hitler used demagoguery and hatred to claim that his leadership could produce the solution for all of Germany’s problems. During the Third Reich, between 1933 and 1945, the state worked hand in glove with German industry to repress workers, employ slave labor, and produce military armaments. As a result, a number of leading industrialists, notably those of the Krupp steel works and the IG Farben chemical complex, were tried and convicted of war crimes after the Allied victory.

The Social Market Economy

Unlike Anglo-American laissez-faire policies, or heavy-handed state-led economic policies, German
economic policies after World War II were indirect and supportive rather than clumsy and overly regulatory. Although the government sets broad guidelines, it encourages the formation of voluntary associations to coordinate negotiations among employers, banks, trade unions, and regional governments in order to reach the government’s policy objectives. Its economic policy-making is flexible in two ways.

First, German regulation establishes a general framework for economic activity rather than providing detailed standards. The government sets broad licensing and performance standards for most professions and industries. Government policy-makers believe that once their core requirements are met and their general objectives known, private actors can be trusted to pursue government goals without detailed regulation. Violating government standards can result in fines or, in some criminal cases, imprisonment. In contrast, the United States has no such core requirements. Instead, it often produces many layers of detailed—and sometimes contradictory—regulations in the wake of banking failures and financial abuses.

Second, among the major European economies, Germany has the smallest share of industry in national government hands; but it allows state governments to have considerable power. This is called cooperative federalism, which delegates to the states (Länder) the administrative powers to oversee the implementation of laws and regulations passed at the federal level.

Postwar policy-makers avoided a dominating role for the state in the Federal Republic’s economic life. Unlike the French and the Japanese states, which have intervened much more in the economy, the German state has evolved a careful balance between the public and private sectors. Germany has avoided the opposite pattern as well: the frequently antigovernment, free-market policies of Britain and the United States since the 1980s.

In other words, the relationship between state and market in Germany is neither free market nor state dominant. Rather, the state sets clear general ground rules, acknowledged by the private sector, but then allows market forces to work relatively unimpeded within the general framework of government supervision. For example, the Federal Bank Supervisory Office encourages banks to have slightly more capital reserves than the international standard and it certifies the competency of senior management. The German system of framework regulations has enabled German economic policy to avoid the sharp lurches between laissez-faire and state-led economic policy that have characterized Britain since World War II. This system often appears externally rigid but internally flexible (in the sense that large institutions and firms are often surprisingly flexible in adapting applied technologies to produce specialized goods). In short, this system regulates not the details, but the general rules of the game under which all actors must play.

Some would criticize such a system as being too cumbersome and inflexible. However, supporters praise its ability to generally produce agreement on major policy direction without major social dislocation. For example, the banks are legally allowed to develop close financial ties with firms in other industries, including owning their stock, granting them long-term loans, having representatives on their boards of directors, and voting as stockholders. The end result is that much private investment is based on “patient capital” geared toward long-term economic success rather than quick profits in the short term. Once agreement has been informally worked out among all the major parties, it is easier to move forward with specific policies and/or legislation. Since the time of the first postwar chancellor, Christian Democrat Konrad Adenauer, the Germans have referred to this approach as the social market economy (Sozialmarktwirtschaft).

But the contemporary period has been much more stressful for this model. Among the many social components of the German economy once considered bedrocks, but now under pressure, are such diverse public benefits as health care, workers’ rights, public transportation, and financial support for the arts. In some respects, these benefits are similar to those provided by other European governments. However, the provision of some public benefits through organized private interests (such as the quasipublic “sickness funds” that provide for health insurance) makes the German social market economy a blend of public and private actions that support and implement public policies. The social market economy blurs state/market distinctions in the hope of producing a socially responsible capitalism. The social component of the social market economy is distinctive to Germany. Several programs, such as savings subsidies and vocational education, contribute to
the production of income. The former contributes to a stable pool of investment capital, while the latter helps create a deep pool of human capital that has enabled Germany to produce high-quality goods throughout the postwar period. But as we see below, these programs face daunting challenges.

Germany, for most of its postwar history, has been a high-wage, high-welfare nation that has maintained its competitive world position far better than have most other advanced industrialized states since the oil crises of the 1970s. An emphasis on high skills in key export-oriented manufacturing industries was the special path that German economic policy took to maintain its competitive position. An elaborate vocational education system combined with apprenticeship training underlay this policy, which was implemented through the works councils, firm-level institutions elected by every worker in all German companies with five or more employees. This system of training workers in advanced skills enabled Germany for many years to resist the postindustrial service sector emphasis pursued by countries such as the U.S. and Britain.

Relying extensively on its elaborate apprentice-ship program, Germany maintained a competitive position in such traditional manufacturing industries as automobiles, chemicals, machine tools, and industrial electronics. By relying on its highly skilled workforce, Germany resisted for many years the claim that it must lower its wage costs to match those of newly industrializing countries. Germany’s record suggests that a developed country in a globalized world economy can still compete in manufacturing by raising product quality rather than by lowering wage costs. Despite a lack of natural resources, Germany has maintained a trade surplus with a large working-class population that historically has spurned protectionism. With one in every three jobs devoted to exports (one in two in the four manufacturing industries just mentioned), protectionism would be self-defeating for German unions. The skills and productivity of its workers have helped German industry acquire natural resources and pay high wages. This has enabled Germany’s highly skilled blue-collar workers to drive expensive German automobiles, obtain high-quality medical care, and enjoy six weeks of paid vacation each year.

Germany’s research and development strategy has enhanced these economic policies. Rather than push for specific new breakthroughs in exotic technologies or invent new products that might take years to commercialize, the strategy is to adapt existing technologies to traditional sectors and refine already competitive sectors. This was the exact opposite of U.S. research and development strategy. During the postwar years, this policy has enabled Germany to maintain a favorable balance of trade and a high degree of competitiveness. However, German unification and European integration have forced German industry and policy-makers to reexamine and perhaps modify this model. Taking others’ core discoveries and quickly applying them to production requires coordinated policies among all producer groups. The primary challenge since the 1990s has been trying to integrate into this system former GDR workers raised in an industrial culture that encouraged workers to follow orders rather than apply skill and initiative. One of the major tasks for early twenty-first century governments has been to improve Germany’s vocational education system, particularly in the five eastern states.

Other than the government, the German institution that, until recently, was most responsible for shaping economic policy was the very independent Bundesbank (central bank). Bundesbank policy produced low inflation, both because this was a traditional demand of all central bankers and because of Germany’s history of ruinous inflation during the Weimar Republic. However, when the government wished to expand the economy by increasing spending or reducing taxes, the Bundesbank preferred policies that favored monetary restrictions over fast economic growth. As a result, the government and the Bundesbank disagreed on economic policy repeatedly in the years since after unification. Since the introduction of the euro, however, the European Central Bank (ECB) has usurped the Bundesbank’s role. Although the ECB is modeled on the Bundesbank (and is also located in Frankfurt), it signifies a change in German economic policy from the national to the European level.

Despite the long success of the German model, the early twenty-first century ushered in a period of deep introspection concerning economic stagnation. Upon its election in 1998, the SPD-Green government led by Gerhard Schröder pledged to maintain the core
features of the Sozialmarktwirtschaft. But it too found each of these traditionally successful policies facing mounting challenges from Europeanization, globalization, and a powerful deregulatory free enterprise ideology. However, the presence of the environmental Greens in the cabinet for the first time gave added weight and attention to climate change and environmental policies.

The expansion of the EU to twenty-seven countries in 2007 had an important impact on German-specific organized capitalist institutions. Now, German firms could go to lower-cost eastern and southern European countries to find the best deals rather than maintain the kind of long-standing business relationships that were the lynchpin of the German model. Continued globalization meant that lower-cost but high-quality goods, such as automobiles from East Asia, threatened the strength of Germany’s auto producers such as BMW and Daimler-Chrysler. More fundamentally, the German organized capitalist model was increasingly attacked at the ideational level. For many years, free-market adherents from abroad criticized the German model for its “clubby” relationships among what the Germans called the “social partners” (business associations, labor unions, and federal and state governments). Yet, as long as Germany’s economy thrived, German officials could shrug off the criticism. As the German economy’s troubles mounted, policy-makers had no effective answers to such criticism. Yet as the American financial crisis associated with deregulation and free-market policies spread to Europe in early 2008, some began to wonder whether the German organized capitalist model might still be appropriate after all.

Welfare Provision

Welfare policies can be described as the social part of the social market economy. Although the Federal Republic’s social welfare expenditures are not as extensive as those in Scandinavia, public services in the Federal Republic dwarf those in the United States. From housing subsidies to savings subsidies, health care, public transit, and the rebuilding of the destroyed cities and public infrastructure of the former GDR, the Federal Republic is remarkably generous in its public spending. Even under the moderately conservative rule of the CDU-led Adenauer coalition during the 1950s and early 1960s, there was a strong commitment to provide adequate public services. This strategy recalls Bismarck’s efforts to use public services to forestall radical demands in the late nineteenth century. For antidemocratic conservatives like Bismarck and for democratic conservatives like Adenauer, comprehensive welfare benefits were attempts to blunt and soften the demands of the Social Democratic Party and the trade unions. Welfare in Germany has never been a gift but a negotiated settlement, often after periods of conflict between major social forces.

During the mid-1970s, when unemployment grew from 1 or 2 percent to roughly 4 percent and when some social welfare measures were capped (but not reduced), citizens of the Federal Republic spoke of the crisis of the welfare state. Yet non-German observers were hard-pressed to find indications of crisis. Clearly, contraction of substantial welfare state benefits in no way approximated the cutbacks of the United States and Britain in the 1980s and 1990s.

Since the 1980s, continued high unemployment (by German standards) and the costs of support for workers who had depleted their benefits presented difficult dilemmas for the welfare state. German jobs tend to be highly paid, so employers have tried to avoid creating part-time jobs, preferring to wait to hire until the need for employees is sustainable. During times of recession, the number of new jobs created can be minuscule.

Current Strains on the Social Market Economy

Throughout the postwar period, unemployment was virtually nonexistent—hovering around 1 percent. Since the onset of economic strains in the 1980s, however, unemployment has not dropped below 6 percent. One persistent problem facing successive German governments has been shoudering the cost of sustaining the long-term unemployed. An even more serious challenge involved devising a way for the Federal Republic’s elaborate vocational education and apprenticeship system to absorb all the new entrants into the labor market. This problem could have undermined one of the strengths of the German economy: the continued supply of skilled workers. Despite these threats in the mid-1980s, both the
unemployment compensation system and the vocational education and apprenticeship system survived. However, the issue resurfaced with the large increase in the unemployment rate following unification in 1990, particularly in the eastern German states.

In the early 1990s, the smoothly functioning German economic juggernaut faltered. First, the Kohl government badly misjudged the costs of unification. In 1992, Kohl finally acknowledged that the successful integration of the eastern economy into the western one would cost much more and take longer than originally predicted. Second, the structural challenges that the German political economy faced in the mid-1990s proved far more extensive than anything the Federal Republic had encountered since the 1950s. The amount budgeted in the early 1990s for reconstruction of eastern Germany’s infrastructure was approximately 20 percent of the entire national budget. Yet even these huge sums were not enough to help smooth the assimilation process, and a large gap in productivity levels still exists between the two regions. Third, western German democratic corporatist institutions, composed of employers and trade unions with a long history of cooperation, were difficult to transfer to eastern Germany since they had to be created from scratch. In their absence, the Treuhandanstalt (the government reconstruction agency—Treuhand, for short) took the path of least resistance and simply privatized some 7,000 of the total of 11,000 firms that it had inherited from East Germany. One of the most significant costs of this transition from state to private ownership was high unemployment in the eastern sector. Some 1.2 million workers were officially unemployed, and in the early 1990s, another 2 million enrolled in a government-subsidized short-term program combined with job training (this program’s funds were later slashed as part of an austerity budget).

The costs of the social market economy, particularly following unification, stretched the upper limits of Germany’s capacity to pay. Massive budget cuts became imperative by the early and mid-1990s. The completion of the EU’s single market placed additional strains on the German government. More significant for the German government, the EU has begun to disturb the intricate, mutually reinforcing pattern of government and business self-regulation. In addition, the growing push for deregulation in European finance threatens Germany’s distinctive finance-manufacturing links, which depend on long-term relationships between the two parties, not on short-term deals. Thus, the trend toward Europeanization may be incompatible with the consensus-oriented and coordinated nature of Germany’s political and social institutions as shown by the worldwide financial crisis in late 2008.
Tensions have also flared up between former East and West Germans. The East German economy was strong by communist standards and provided jobs for virtually all adults who wanted one. But East German industry, as in most other former communist countries, was inefficient by Western standards, and most firms were not able to survive the transition to capitalism. Among the most serious problems were overstaffing and inadequate quality controls. Consequently, many easterners lost their jobs when newly privatized firms had to compete in a capitalist economy.

In short, the magnitude of the problems in eastern Germany threatened to overwhelm the institutional capacity to handle them. It certainly helped defeat Helmut Kohl’s CDU/CSU-FDP center-right coalition government in 1998. Some pessimistic observers began to suggest that these stresses placed the German political economy in a precarious position. Germany’s economic prowess has depended on certain manufacturing industries that produce eminently exportable goods but whose technologies must constantly be upgraded and whose labor costs continue to rise. Complicating the demands on Germany’s economic institutions is the obligation to align Germany’s economic policies with those of its European neighbors.

Thus, early in the twenty-first century, the prospects for the German political economy seem dimmer than in previous decades. Poor economic performance created the Wirtschaftsstandort debate (literally, location for economic growth), which argued that the combination of domestic and international factors had made Germany a much less attractive place for investment by either international or German capital. In response to this challenge, the Schröder government passed a tax reform package in 2000, followed in 2003 by Schröder’s Hartz IV reform package of personal and corporate tax cuts that challenged many traditional labor market institutions to become more “flexible” along Anglo-American lines. These contentious issues helped precipitate the early election (one year ahead of schedule) in September 2005 that produced the SPD’s defeat. Although the reforms seemed to mollify the equities markets, they were bitterly opposed by the left-leaning rank and file of Schröder’s Red-Green coalition. For many, his programs represented an abandonment of fundamental principles and directly led some SPD members, most notably former SPD Finance Minister Oskar Lafontaine, to join with the former Communist Party of Democratic Socialism (PDS) from eastern Germany to form the new Left Party just before the 2005 election. Schröder’s policies divided the left-of-center parties and saw the CDU/CSU emerge as the largest party, forcing Schröder into retirement and leaving the SPD as only the junior partner in the Grand Coalition government.

Society and Economy

Booming economic growth after WWII provided a sound foundation for social development. The social market economy of the Christian Democrats was augmented by governments led by Social Democrats from 1969 to 1982, when the social programs of the 1950s and 1960s were extended and enhanced. The expansion of social policies provided Germany with a solid foundation for forty years. Until the 1990s, Germany provided generous benefits to almost all segments of the population, including support for public transit, subsidies for the arts, virtually free higher and vocational education, and a comprehensive welfare state. There was also a general tolerance for a wide variety of political and artistic opinion. But the costs of unification, adjustment to the EU, and globalization have begun to undercut Germany’s perception of itself as a prosperous country with a high standard of living and a well-paid work force. The strong role of trade unions and the consequent unwillingness of employers to confront workers on wage and workplace, once indicators of pride and success, have become sources of criticism. Higher unemployment and social service cutbacks have somewhat increased stratification of the society and the workplace. The primary workplace fault line lies between the core of mostly male, high-skilled blue-collar workers in the largest competitive industries and less-skilled workers, often employed in smaller firms with lower wages and not always full-time work. A significant number of women and immigrants are among the less-skilled workers.

Ethnicity and Economy

The most controversial social issue for German society since the 1990s has been race and ethnicity, with profound implications for Germany’s ideology and
political culture. Racist attacks against Turkish immigrants and other ethnic minorities have forced Germans to confront the possibility that almost fifty years of democracy have not tamed the xenophobic aspects of their political culture. The issue of ethnic minorities was exacerbated in the 1990s and 2000s by unification and European integration. Nationalism apparently has not disappeared. East Germans were raised in a society that did not celebrate, or even value, toleration or dissent and in which official unemployment did not exist. East Germany was a closed society, as were most other communist regimes, and many of its citizens had little contact with foreign nationals before 1989. In contrast, since the 1960s, West Germany has encouraged the migration of millions of guest workers (Gastarbeiter) from southern Europe. The Federal Republic has also provided generous provisions for those seeking political asylum, in an effort to overcome—to some degree at least—the legacy of Nazi persecution of non-Germans from 1933 to 1945.

The Gastarbeiter program originated after 1961 when the construction of the Berlin Wall caused a labor shortage because East Germans could no longer emigrate to the West. Thus, temporary workers were recruited from southern Europe with the stipulation that they would return to their native countries if unemployment increased. However, the economic boom lasted so long that by the time the economy did turn down in the mid-1970s, it was difficult for these so-called guests to return to homes in which they had not lived for a decade or more. These foreign workers produced heightened social strain in the 1970s and 1980s, a time of increasing unemployment. Because German citizenship was not granted to the guest workers or their children, the problem remained unresolved. The clash between German and Gastarbeiter cultures increased in intensity into the 1980s, particularly in areas where Turkish workers were highly concentrated. However, in a significant departure from past practice, the Schröder-led SPD-Green government in 1999 adopted a slightly easier immigration policy, allowing some second-and third-generation Gastarbeiter to obtain German citizenship or maintain dual citizenship.

Upon unification, few former GDR citizens were able to respond positively. Instead of guaranteed lifetime employment, they faced a labor market that did not always supply enough jobs, one where structural unemployment idled up to 25 percent of the work force. And they were expected to embrace completely and immediately a much more open and ethnically diverse society than they had ever known. Thus, immigrants and asylum seekers became scapegoats for the lack of employment, and Germans who were falling through the cracks of the welfare state were susceptible to racist propaganda blaming ethnic minorities for the rapid upheaval that had occurred. Events like these helped precipitate the—still relatively small—growth of the far-right NPD in the mid-2000s.

Germany’s changing economy produced a “tech shortage” in the early 2000s that forced the Schröder government to recruit software specialists from India who would be granted “green cards” (that is, permanent residency status) upon their arrival! In other words, a new wave of Gastarbeiter was arriving precisely when some Germans were increasingly agitated about the immigration boom. The problem, however, was that the speed with which the German economy needed to embrace the information sector could not wait. The country needed both to increase Germany’s presence in this complex sector and enable its traditionally strong industries to adapt to new forms of international competition. The economic pressures did not allow the luxury of waiting for the German secondary educational system to get up to speed.

Gender and Economy

Until the late 1970s, men traditionally dominated all positions of authority in management and the union movement. The union movement has made greater strides than management in expanding leadership opportunities for women, but men still hold the dominant positions in most unions. More than half of all German women were in the work force by the late 1970s, but their participation only reached 66.8 percent in the 1990s, while the male participation rate remained steady at 80 percent (see Table 4.2). Beyond the workplace, the differences between the laws of the former East and West Germany have created a firestorm of controversy. In the East, women had made far greater social and economic progress than in the West, and both women and men had received generous government support for childcare and family leave. During the last Kohl government, one of the
most heated debates concerned the cancellation of the more liberal East German policies toward women (including abortion) in favor of the more conservative and restrictive ones of the Federal Republic. In the 2005 election, Angela Merkel’s weakness among women voters, especially in the east where she grew up, was due to her changing positions on the abortion issue. Once favoring the liberal eastern policy, she changed her position as she rose within the CDU, a switch that may have helped her gain the chancellorship in 2005.

Perhaps the most significant obstacle that German women have to overcome is not so much the benefits that they receive but the premise on which women’s role in German society is defined.8 Women’s benefits in German society have been tied more to their roles as mothers and wives than as autonomous individuals. This means that within the context of the labor market, individual German women face discrimination and assumptions about their career patterns that American women have largely overcome. As increasing numbers of women enter the German workforce, it is harder for them to achieve positions of power and responsibility as individuals than it is for their American counterparts.

A final social cleavage is the generation gap, which has two dimensions. The first of these is the so-called postmaterialist social movement, which focuses on lifestyle concerns rather than bread-and-butter economic issues. It has not hinged on class, since many within this group tend to be university-educated children of the middle class. This group has not, however, been able to create an identity strong enough to challenge the highly skilled working class’s dominance in the structure of the Federal Republic. The still-dominant working-class culture of the Federal Republic has acted as a barrier to the postmaterialist social movement’s attaining further influence.

The second aspect of the generation gap comprises pensioners and older workers. The German birthrate fell markedly in the last decade of the twentieth century, particularly in the former GDR. This placed great demographic pressure on the German welfare state because the low birthrate and the increasing age of the baby boom generation meant that fewer younger workers now contribute to the welfare and retirement benefits of an increasing elderly population. This time bomb is just hitting German politics in the early 21st century, largely because the Kohl government during the 1980s and 1990s essentially ignored it. Pensions are one of many unresolved issues with which the Angela Merkel-led CDU/CSU-SPD Grand Coalition struggles.

Germany in the Global Economy

Germany’s relationship to the regional and international political economy is shaped by two factors: the EU and globalization.

The European Union

The EU was embraced by most Germans and by the political and industrial establishment, especially in the first few years after unification. As Europe’s leading economic power, Germany has benefited greatly from European integration. Many actions and policies that might once have been viewed by its neighbors as German domination have become more acceptable when seen as Germany’s active participation as a member of the EU. But the cost for Germany was that it had to adapt to an unfamiliar free-market economic model quite different from the organized capitalism that had developed after World War II.

Several difficult issues confront Germany’s international position in the early twenty-first century. One concern is whether German-specific institutional arrangements, such as its institutionalized system of worker (and union) participation in management, tightly organized capitalism, and elaborate system of apprenticeship training, will prove adaptable or durable in wider European and global contexts.9 Before the worldwide economic crisis in late 2008, most observers thought that Germany’s institutional, political, or cultural patterns may not successfully transfer beyond

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**Table 4.2**

<table>
<thead>
<tr>
<th>Year</th>
<th>Male</th>
<th>Female</th>
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<tbody>
<tr>
<td>1997</td>
<td>80.3%</td>
<td>62.8%</td>
</tr>
<tr>
<td>1999</td>
<td>80.9%</td>
<td>63.5%</td>
</tr>
<tr>
<td>2001</td>
<td>80.1%</td>
<td>64.9%</td>
</tr>
<tr>
<td>2003</td>
<td>79.2%</td>
<td>65.1%</td>
</tr>
<tr>
<td>2005</td>
<td>80.4%</td>
<td>66.8%</td>
</tr>
</tbody>
</table>

The Federal Republic. Since then, the idea of a more stable form of capitalism received a second look. Germany in a Globalizing World

Issues such as trade, economic competition with East Asia and North America, the introduction of the euro, the general pace of economic integration, climate change, and patterns of financial regulation have challenged the German postwar policies of finding a stable balance between state and market.

As a goods-exporting nation, Germany has always favored an open trading system. Management and unions realize that exports represent both profits and jobs, and that seeking refuge in protectionism would be self-defeating. Yet international competition has caused unemployment to remain persistently high in the early twenty-first century (near 10 percent). With respect to banking regulation, the Schröder government sponsored a law (since endorsed by the Merkel government) that enabled banks to sell their large ownership shares in German companies. This altered the prevailing postwar policy of encouraging banks to maintain equity holdings in other firms as a form of investment oriented toward the long term. This took the German model perilously close to the Anglo-American world of highly mobile capital investment. Many large German banks now see themselves more
as international players than as German ones. Some have suggested that the pressures of competing in a globalized world economy have made the German-specific patterns of the country’s political economy more of a liability than an asset. Similar criticisms have occurred since the mid-1970s, but the challenges to the German model in the early twenty-first century seem the most fundamental yet.

However, the worldwide economic crisis of 2008 that originated in the American housing and financial sectors has exploded into western Europe. Many wonder whether the more traditionally regulated form of continental European organized capitalism might be far more preferable than American-style deregulation after all.

The primary goals at the Federal Republic’s founding in 1949 were to work toward eventual unification of the two Germanys and, more important, to avoid repeating the failure of the Weimar Republic that resulted in Hitler reaching power and the laying to rest of the legacy of the Nazi regime. When unification was blocked indefinitely, the founders instituted the Basic Law (Grundgesetz) as a compromise. They preferred to wait until Germany could be reunited before using the term constitution (Verfassung). After unification in 1990, however, the term Basic Law was retained because of the FRG’s unqualified success after World War II. In addition, the institutional framework spelled out by the basic law for the FRG was simply applied to the five Länder of the former GDR.

The other goal, ensuring a lasting democratic order, presented a more complicated problem. Two fundamental institutional weaknesses had undermined the Weimar government: (1) provisions for emergency powers enabled leaders to arbitrarily centralize authority and suspend democratic rights, and (2) the fragmentation of the political party system prevented stable majorities from forming in the Reichstag. This second weakness, instability, encouraged the first: the use of emergency powers to break legislative deadlocks. It was, of course, Weimar’s weakness that made possible the Nazi takeover, and so the primary motivation of state rebuilding after World War II was to minimize the risk of extremism. The attempt to deal with these problems involved introducing federalism and a weak presidency to curb the risk of arbitrary power, and instituting reformed electoral procedures and what was named the constructive vote of no confidence to curb instability.

Organization of the State
The Basic Law and Promoting Stability
Under Allied guidance during the occupation, the builders of the postwar government sought to inhibit centralized power by establishing a federal system with significant powers for the states (Länder). It is paradoxical that a document that owes so much to the influence of foreign powers has proved so durable. Under the Basic Law of the Federal Republic, many functions that had formerly been centralized during the imperial, Weimar, or Nazi periods, such as the educational system, the police, and the radio networks, now became the responsibility of the states. Although the federal Bundestag (lower house) became the chief lawmaking body, the implementation of many laws fell to the state governments. Moreover, the state governments sent representatives to the Bundesrat (upper house), which was required to approve bills passed in the Bundestag.

There was little opposition from major actors within the Federal Republic to this shift from a centralized to a federal system. The Third Reich’s arbitrary abuse of power had created strong sentiment for curtailing the state’s repressive capacities. Further, the development of a federal system was not a departure but a return to form. Prior to the unification of Germany in 1871, the various regions of Germany had formed a decentralized political system with such autonomous institutions as banks, universities, vocational schools, and state administrative systems.

Several methods were used to surmount party fragmentation and the inability to form working majorities,