



## Agenda 2010: Successful Reforms and Policy Advice

The 10th anniversary of the “Agenda 2010” labor market reforms – announced by former German Chancellor Gerhard Schröder on March 14, 2003, after many trials and tribulations of his Red-Green government coalition – has drawn a lot of good and important commentary. But what has been largely ignored in the debate is the influential role of economic research and policy advice in this reform process.

The success of Germany’s labor market modernization program – sometimes admirably referred to as the new “German model” – is recognized around the world. I doubt this would have been possible without the input provided by independent economic research, even though one might still deplore that many recommendations and proposals remained unheard or got watered down by compromise.

Sure enough, turning away from Germany’s long-standing labor market, pension and social policy traditions towards a future-oriented blueprint that placed a greater emphasis on work incentives, individual responsibility and flexibility carried substantial political risks. In many respects the government broke completely new ground in the spring of 2003.

Against the background of this political minefield, the design and implementation of the “Agenda 2010” is a great example of successful interaction between practical policymaking and advice based on sound economic research. In fact, impact evaluation was an explicit component of the reform program.

On the one hand, the ambitious reform project benefited from a remarkable amount of international expertise and exchange of knowledge. “Benchmarking” became an almost magic formula. On the other hand, modern labor market research with its method

of counterfactual analysis proved extremely valuable for the practical implementation of the reform. Thorough scientific evaluation of each reform step was completely unprecedented in the history of German policymaking. This allowed politicians to recognize undesired effects early enough to adjust the parameters of certain policy tools, or discontinue programs that had turned out ineffective. Efficiency-based assessments of the labor market policy toolset led to a more effective allocation of public funds.

In the light of the positive experience with the “Agenda 2010”, politicians and economists also built a new, much more productive relationship than what was previously common in Germany. The long-term perspective of economic research almost inevitably clashes with the pragmatic nature of policymaking, which tends to procrastinate until the problem has grown to an extent that makes action inescapable. This often results in a poor compromise which causes new problems. Economists, in turn, are accused of being out of touch with reality and ignoring the question of practical feasibility when making recommendations.

This gap has somewhat narrowed in the wake of the Agenda 2010. Today it is widely accepted that only evidence-based policy advice – as opposed to impulsive political action based on quick expert opinions – leads to sustainable solutions. Ultimately, excellence in research is the foundation of internationally competitive policy design. In this context, both politicians and economists have also recognized the benefits of a networking strategy for policy advice. IZA’s global research network is the perfect case in point.



Klaus F. Zimmermann



Institute for the Study of Labor



Editor: **Prof. Dr. Klaus F. Zimmermann**  
 Managing Editors: **Mark Fallak, Holger Hinte**  
 Address: IZA, P.O. Box 7240, 53072 Bonn, Germany  
 Phone: **+49 (0) 228 - 38 94 223**  
 Fax: **+49 (0) 228 - 38 94 510**  
 E-Mail: **compact@iza.org**  
 Web: **www.iza.org**  
 Graphics/Photographs: IZA  
 Printing: Güll GmbH, Lindau  
 Layout: Benedikt Kliche, Thomas Wasilewski