

OPINION

Agenda 2010 – Germany on the Move



Germany is caught in a trap of stagnation and structural rigidity. By now it has become clear that pure macroeconomics cannot lead the country out of the crisis. As a consequence, unemployment in Germany will climb above 4.5 million this year and continue to rise in 2004.

In this deplorable situation, Chancellor Schröder's proposals to resolve the structural crisis of the German economy, put forward in his Reform Agenda 2010, offer some encouragement. First initiatives by the Federal Minister of Economics and Labor, as well as the recommendations by the "Rürup Commission" for a reform of the social security systems, have given an indication as to where the journey is headed. But while the government has certainly chosen the right path, true change will require quick and decisive action to implement the proposed measures, many of which merely represent first steps towards more far-reaching reform efforts. Schröder's plans have drawn strong opposition from his fellow Social Democrats, the unions, and –

with respect to the planned reform of the Crafts Code – even from business leaders. However, any compromise that would delay or dilute the planned reforms could jeopardize the entire mission.

Business leaders complain about plans to broaden the "master craftsman privilege", which requires a master craftsman certificate as a qualification to start an own business in the handicraft sector. This rule currently applies to 94 different professions. Schröder's plan is to allow journeymen to start their own business in 62 professions. This proposal would also harmonize German regulations with EU law. In the remaining 32 professions, which involve potential dangers to the health and lives of individuals, extensive professional experience would be required for journeymen to become self-employed. These and other modifications of the Crafts Code would enhance competition and pave the way for new jobs in this sector. Therefore, despite staunch opposition from the German handicraft industry, this reform must be implemented as soon as possible. It would serve as an example for similar competition-enhancing measures in the service industry or in the health care sector, which is another target for deregulation identified in the Chancellor's reform agenda.

Further proposals within the "Agenda 2010" that are both courageous and consistent include the reduction of the maximum entitlement period for unemployment benefits to 12 months, the merging of unemployment assistance and welfare benefits, and the delegation of responsibility for the job placement of able welfare recipients to local job centers. This would render the public administration more efficient, reduce the financial burden on the communities, and put more pressure on unemployed individuals to accept a job. Such reforms are, of course, politically difficult to implement. But their realization would still allow the welfare state guarantees of the labor market to be kept on a socially fair level.

Another important mission of the Agenda 2010 is to ensure the financing of the social security systems in the face of an ever-decreasing number of workers. In this area, Chancellor Schröder has tried to define a course without anticipating the proposals by the Rürup Commission. These proposals have meanwhile been put forward, and they point towards substantial structural reforms.

Given the staggering costs of the health care system, the Commission has suggested alternative financing methods, such as expanding the mandatory health insurance towards a general worker's insurance, or introducing a system of health insurance premiums independent of income but with the possibility of tax-financed subsidies for the less fortunate. The premium system seems best suited to ensure allocative efficiency. While social policy solutions should be tax-financed, the cost consciousness of the insured should be enhanced through the introduction of co-payments.

Significant modifications of the pension insurance system, on the other hand, are still not in sight. The Rürup Commission has at least noted that it will be necessary to raise the retirement age to 67, abandon the early retirement policy, and recalculate the pension formula to reflect the changing ratio of workers and retirees. These measures will help keep the level of pensions insurance from rising further, but they will be insufficient to sustainably lower the financial burden on labor.

Some of these reform proposals certainly fall short. But taken together, the bundle of measures currently debated could provide a strong impetus. The positive effect on employment will be even larger if the government does not sacrifice economic growth for the sake of fiscal consolidation.

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