

## Germany's labour market

# Wunderreform

### Ten years on, how does Germany's Agenda 2010 package rate?

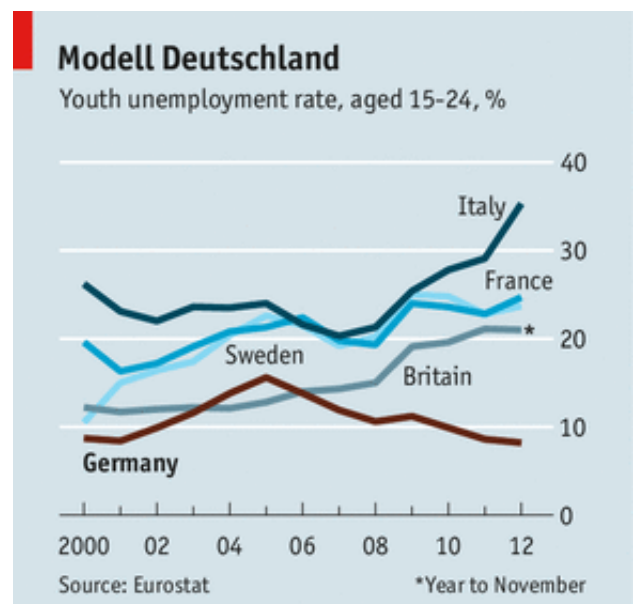
Mar 16th 2013 | BERLIN | From the print edition

WHEN Gerhard Schröder took to the podium in the Bundestag on March 14th, 2003, Germany was called the “sick man of Europe”. More than 4m Germans (11.6% of the workforce) were on the dole. A widespread assumption was that unemployment could never be defeated, merely “administered,” says Wolfgang Clement, who was the former chancellor’s labour and economics minister. Countering that spirit, Mr Schröder unveiled a package of reforms that he called Agenda 2010. The leader of the opposition, a little-known physicist from east Germany called Angela Merkel, derided it as unambitious. But it soon became clear that the agenda would transform Germany’s labour market.

Ten years later, what is the verdict? Financial crises be damned, Germany stands as an economic beacon, with record employment and the lowest youth unemployment in Europe (see chart). Some countries are studying Agenda 2010 as if it were a manual. Mr Schröder is being feted at conferences all over the world.

Only the Germans themselves, and notably Mr Schröder’s own Social Democrats (SPD) and the Greens, who were his coalition partners, seem unsure whether Agenda 2010 was a blessing or a curse. Now in opposition, but hoping this year to defeat Mrs Merkel, who replaced Mr Schröder as chancellor, the SPD cannot exactly disavow its own reform. But it is signalling to its blue-collar base and its own left wing that it might undo parts of it.

The aim was to make Germany’s labour market flexible again. It allowed small businesses to fire more easily, thus lowering their risk of hiring. It liberalised other rules, such as those for part-time and temporary work. Above all, it merged two types of benefits—federal assistance for the



unemployed and municipal welfare payments—into one guarantee of a basic living standard (called Hartz IV, after the former Volkswagen manager who proposed it).

The reform package also included rules that prod the unemployed into seeking, and accepting, work. Their time on benefits is limited to one year, or 18 months for those older than 55. And they cannot be picky about the jobs they take. This is what Mr Schröder calls “*Fördern und Fordern*”, a play on an umlaut that translates roughly as “assist and challenge”.

Politicians like Dietmar Bartsch of the Left, a party of former Communists from East Germany and radicals from the west, many of whom defected from the SPD after Agenda 2010, find the “challenging” undignified. By his telling, Germany’s employment boom is in fact a state-sponsored poverty programme, where armies of the underemployed eke out miserable wages in dead-end jobs.

Not so, says Michael Hüther, director of the Cologne Institute for Economic Research, an employer-financed think-tank. Low-wage jobs rose mainly in the years before Agenda 2010 and have stayed constant since. Although the number of part-time jobs has grown, many of the people who have them in fact want them, so that they can, for example, care for children as well.

Agenda 2010 does not deserve all the credit for Germany’s success. Restrained growth in wages and healthy demand for exports were at least as important. But Germany would be foolish to ignore a real achievement—and an important lesson.

From the print edition: Europe