



# Germany: From the „Sick man of Europe“ to the „New German Miracle“

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# Indicators of the new Success

**Growth among the highest in industrialised countries recently**

**Government deficit only 1 percent of GDP in 2012**

## **Employment gains**

- ▶ Highest employment level since re-unification
- ▶ Employment ratio 71 %, up from 64 % in mid 1990s (OECD, 15-64years)
- ▶ Low skilled employment ratio: 55 %, up from 46 % at end of 1990s

## **Unemployment decline**

- ▶ 3 mio. in 2011, down from nearly 5 mio. in 2005
- ▶ Long term unemployment 1.1 mio, down from 1.7 million in 2007
- ▶ Unemployment lower than before last recession (Hysteresis broken up)
- ▶ Significantly lower structural unemployment (NAIRU, Beveridge Curve)

# Main gist of reforms

## Starting point - after burst of dotcom bubble in 2000

- ▶ Growth stagnation and rocketing unemployment: “Sick man of Europe”

## Main gist of reforms

- ▶ Focus on supply side, strengthen growth drivers
- ▶ Reduce government debts – and burden on future generations

## Strengthen growth drivers

- ▶ Investment – e.g. via lowering corporate taxation, bureaucracy costs
- ▶ Employment – reforms of labour market and wage policy making
- ▶ Productivity – corporate restructuring
- ▶ Innovation – increase R&D spending, also in corporations
- ▶ Education – many reforms following PISA shock
- ▶ Competition – reduce product market regulations (e.g. crafts)

# Reduction of government indebtedness

**Stronger growth and higher employment contribute decisively to higher tax revenues and thus to a reduction of government debt**

**But also general consolidation was needed**

- ▶ Expenditure cuts: from nearly 49 % in 2003 to 43.5 % of GDP in 2007
  - ▶ Now: 46 % of GDP due to impact of financial crisis
  - ▶ E.g. Subsidy cuts, Reform of social system, avoiding further increases
    - ▶ Pension insurance reform (extend pension age 67, adjust pension level for life expectancy, ratio of employed/pensioners)
    - ▶ Health insurance reforms (of different quality, shift towards tax financing)
- ▶ Tax increases, e.g. VAT, but lower income taxation before
  - ▶ Shifting of tax burden from income to consumption

**After crisis: Balanced budget rule (structural deficit, corrective mechanism)**

# Focus on labour market reforms

**Main gist: Make labour cheaper, more flexible, reduce entry barriers, provide greater incentives to work and improve job agencies**

## **Make labour cheaper – lower relative labour/capital price**

- ▶ Wage moderation and working time increase (co-operation from trade unions)
- ▶ Lowering of non-wage cost (or prevent further increase)
  - ▶ Reform of pension, health insurance; strongly lower unemployment insur. Contributions
- ▶ Open up of low wage sector - integrate low-skilled workers
  - ▶ Formerly huge problem with highest unemployment rate of low-skilled among industrialised countries – now success also here

## **Make labour costs and labour use more flexible**

- ▶ Firm-level opening-clauses for wage-agreements (exchange for job security)
- ▶ Increase working time flexibility (Overtime / working time accounts)

## **Lower entry barriers into labour market**

- ▶ Liberalise of temporary work agencies and fixed-term contracts
- ▶ Lower job protection (firms up to 10 employees (formerly 5) exempted)

# Focus on labour market reforms

**Agenda 2010: “Fördern und Fordern” ~ ‘Ask and assist’ (Flexicurity)**

**Ask more from the unemployed:**

**Increase incentives to take on new job**

- ▶ More pressure on job search and on taking on new job (possibly. lower paid)
- ▶ Reduce generosity and duration of unemployment assistance
  - ▶ Shorten duration of first stage of unemployment assistance  
(which is related to former working income)
  - ▶ Abolish former second stage of unemployment assistance
    - ▶ which was also related to former incomes, but permanent
    - ▶ Introduce “Hartz IV” = means tested fixed unemployment assistance  
(depending not on former income, but on social minimum, depending on family size)

**Assist people better**

- ▶ Increase effectiveness of job agencies
- ▶ Subsidise new employment for problem groups, re-qualifications, etc.

# What can be learnt from the German example?

## Beware of arrogance

- ▶ Many other reform examples: US, UK, NL, DK, S, ...
- ▶ D learnt esp. from northern continental EU countries (with strong welfare systems)
- ▶ Pathological learning: Reform effort only after crisis
- ▶ To-do list still open, e.g. services liberalisation, skill shortage (OECD)

## Pay-off of supply-side reforms takes time to materialize

- ▶ Schröder-Government broke down under reform burden
- ▶ Merkel-Governments have continued reforms – although at slower pace
  - ▶ But also also some (partly questionable) measures to counter public reform resentment
  - ▶ E.g. minimum wages, tax increase on rich, exc.pension incr.. unempl.duration re-increased >57years

## What can southern EU-countries learn: Crisis also a opportunity!

- ▶ Decisive, no piecemeal, reliable reforms: Change expectations
- ▶ But also needed: patience and social cohesion
- ▶ Eurozone bailout fund buys time and puts pressure on vested interests which resist many important reforms



**Thank you for your kind attention !**

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