

O P I N I O N

Germany's Reshaped Government Coalition – A Fresh Start for the Labor Market?



Just barely did Germany's coalition government of Social Democrats and Greens emerge victorious in this year's federal elections. While the critical stance over Iraq probably tipped the balance in favor of Chancellor Schröder's government, the timely presentation of the Hartz Commission's report at the height of the election campaign laid the groundwork for the government's renewed mandate. After the public outcry over the manipulation of job placement statistics by the Federal Employment Services (BA) in Nuremberg earlier this year, a reform commission headed by Volkswagen personnel director Peter Hartz set out to draft innovative approaches towards the goal of increased employment. Schröder managed to boost the poor image of his government in spite of persistently high unemployment with the pledge to fully implement the proposed changes after the elections.

The new government's first steps signal a determination to learn from the mistakes made during the first term in office. A crucial indicator of this "fresh start" attitude is the new setup of key federal ministries. At the center of this reorganization will be the new Federal Ministry of

Labor and Economics. It is based on a split-up of the Federal Ministry of Labor and Social Affairs (BMA), which will pass its responsibility for social welfare systems to the Federal Ministry of Health (BMG). The decision-making power over macroeconomic policy and the annual report on the state of the economy will be taken away from the Federal Ministry of Finance (BMF) and put back into the hands of the Economics Ministry.

This means that the necessary organizational separation of social and labor market policies will finally be implemented. In fact, it was the dominance of social over allocational motives that impaired labor market policy across the political spectrum for many years. After all, jobs are created in the economy. To work towards this end is the objective of sound economic policy. As a first step, it will be necessary to merge staff from the Federal Ministry of Economics and Technology (BMWi) and the BMA into an effective new unit. This will not be an easy task, with the former specializing in competitiveness issues and the latter primarily accustomed to the distribution of monetary benefits.

It is indeed a clash of two very different cultures. If the future head of the new ministry wants to bring the rather recalcitrant societal groups back together in a true "Alliance for Jobs", he will certainly have to show first that he can do it in his own backyard. The fact that Schröder has put former North-Rhine-Westphalian State Premier Wolfgang Clement – a proven political heavyweight – in charge of this task shows that he has carefully thought the issue through.

Consequently, expectations are running high. In light of the fragile state of the German economy, the decision to depart from the course of strict fiscal austerity is to be applauded. Of course, the medium-term budget consolidation strategy should not (and must not) be compromised. Female participation in the labor market needs to be strengthened by an expansion of all-day schooling. The gradual abolishment of the "master craftsman privilege" (Meisterprivileg) would create new jobs

and enhance competition in the crafts sector. Given its high cost and questionable effectiveness, active labor market policy – with the only exception of reintegration assistance, which has proven quite successful – should be reduced substantially.

But we still need more reform signals. The general impression of a new beginning in Germany could be underscored by breaking two economic policy taboos: shop opening hours and layoff protection. A more flexible regulatory framework in both of these areas would certainly be a bitter pill for the unions to swallow. In order to allay doubts, however, temporary or regional programs could be implemented. For instance, new shop opening hours could be tried first in eastern Germany and Berlin. By the same token, an option to choose between the current system of layoff protection and a system of legally governed severance payments could be offered to older job-seekers or long-term unemployed for an initial period of ten years.

The implementation of the Hartz Commission proposals, though anxiously awaited, is merely a start. One of its most crucial steps will be the introduction of personnel service agencies. Cooperating but also competing with private-sector temp agencies, they are supposed to employ jobless workers and hire them out to potential employers on a temporary basis. From the early stages on, the focus should be on problem groups of the labor market, such as the low-skilled, older or foreign-born workers. The new agency will be able to provide job offers and thus test the willingness of the unemployed to take up work. The hiring company, on the other hand, will be able to hire the worker at less than market rates for a limited time without facing layoff restrictions. Accompanied by a reform of unemployment insurance and the proposed merging of unemployment and welfare benefits, this could be the start of a new reformist era, which would have the potential to radically change the face of the overly rigid German labor market.

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