

Discussion paper

EUROPEAN EMPLOYMENT OBSERVATORY
GERMANY

Two Years of the Renewed Lisbon Process:
Did the European Employment Strategy Gain or not?

by

Kurt Vogler-Ludwig

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Glossary

Business Foundation Allowance	<i>Gründungszuschuss</i> : New regulation of business foundation support for unemployed UB-I recipients for a period of 15 months at maximum (valid since August 1 2006). During the first nine months, a lump sum of EUR 300 is paid in addition to UB-I as a contribution to social insurance costs. During the following six months the lump sum is continued to be paid only if the business became the main entrepreneurial activity.
Hartz reform	Reform of unemployment insurance under the Federal Employment Service (<i>Bundesagentur für Arbeit</i>) and active labour market policies, named after Peter Hartz, principal staff manager of Volkswagen and the president of the “Hartz Commission” established by the German government in 2002. The reform has four parts: Hartz I (2002): introduction of public temporary work agencies (Personnel Service Agencies – PSA) Hartz II (2002): reorganisation of public employment services; mini-jobs, ICH-AG Hartz III (2004): restructuring of public employment services to the Federal Employment Agency Hartz IV (2005): merger of unemployment aid and social assistance to UB-II
Midi-Jobs	Registered employment with monthly wages between 401 and 800 € and reduced social insurance premiums.
Mini Jobs	<i>Geringfügige Beschäftigung</i> : Jobs with monthly incomes up to EUR 400. These can be regular or occasional jobs and jobs in addition to regular employment. Employers pay 30 % of wages to social insurance.
National Training Pact	Agreement between the Federal Government and the employers associations to offer additional dual training places. The pact started in 2004.
Registered employment	<i>Sozialversicherungspflichtige Beschäftigung</i> : Employment contracts subject to public social insurance, i.e. dependent employment with salaries above 400 EURO per month.
Rehabilitation benefit	<i>Eingliederungszuschuss</i> : a wage subsidy for employers who employ long-term or disabled unemployed. Subsidies are limited to 50 % of wages for 12 months. For disabled or older workers the limits are 70 % of wages for a maximum period of 24 months.
Social benefits	<i>Sozialgeld</i> : non-employable persons in a subsistence-based partnership with at least one employable person receive social benefits. Above the age of 16 rates are equivalent to UB-II.
Subsistence-based partnerships	<i>Bedarfgemeinschaft</i> : These partnerships are defined by the Hartz-IV act as the private income and property units obliged to individual transfers among its members.
UB-I	<i>Arbeitslosengeld I</i> : Regular unemployment benefits for singles provide 60 % of the last net income for 12 months. For parents the rate is 67 %.
UB-II	<i>Arbeitslosengeld II</i> : Means-tested basic income for job seekers, paid after expiration of regular unemployment benefit. The basic rate is 345 EURO per month.
1 € Jobs Auxiliary public jobs	Temporary jobs for UB-II recipients in the field of social and public services. They are remunerated by EUR 1 or 2 in addition to UB-II benefits. Jobs need to be for the public benefit and have to be additional to jobs in the premier labour market.

Executive summary

Effective reforms can hardly be implemented within a few years. As the German example shows, they can take more than a parliamentary period – and there is no guarantee that the policy actors inventing and implementing the reform will also get the return in form of votes. In Germany they did not because the initial effects of the reforms were so negative.

This review therefore tries to develop a historical perspective, which begins before the renewed Lisbon process. In order to understand the impact of European policy thinking – the European Employment Strategy in particular – it appears to be necessary to start earlier and follow the paths of policy development.

Germany joined the European approach of the Lisbon Strategy with its Agenda 2010 and the Hartz reforms on the labour market. An integrated reform approach was developed for the economic and social system. Labour market reforms were at the heart of it. This approach targeted at activating unemployed and social benefits recipients and thus applied the ideas of the European Employment Strategy in the German context. Moreover, it was linked to the European social model, which was seen as an important foundation of modern democratic systems.

The experiment worked. The shift of economic risks from public to private actors changed the behaviour of unemployed, employees and companies and thus created the basis for the present upswing of the German economy. In spite of the severe controversial on these reforms and the change of government coalitions in the course of these debates, the reform survived and was reaffirmed by the National Reform Programmes in 2005 and 2006. There can hardly be a better example of the effectiveness of the European approach than Germany.

It remains unclear, how the ideas were developed or transferred between the political actors. The political science approach to analyse publication and citation does not appear to be efficient as the transfer of ideas is much quicker than the rotation of printing machines. The assessment of the impact of the European Employment Strategy therefore has to take the accordance of policies rather than the exegesis of policy debates as its major criteria.

In contrast to the pre-Lisbon period, this accordance has improved considerably. In particular, the renewed Lisbon approach is clearly reflected in the German National Reform Programmes. Nevertheless, there is still something to do in order to fully implement the integrated guidelines. In particular, the implementation of a life-cycle approach in education and training, the reduction of non-wage labour costs, the decentralisation of labour market policies, the introduction of flexicurity elements in the core areas of the labour market, and finally an effective policy for the low-wage sector are the tasks waiting for a solution.

The visibility of both, the Lisbon Strategy and the European Employment Strategy still appear to be limited. The view that recent reforms in Germany are closely linked to these ideas is certainly not very common. However, the dissemination of these ideas into the public is growing in parallel with the widening international perspectives of public debates.

1. Impact at policy level

The experience from the Luxembourg process

For a long time social partners and policy actors in Germany regarded labour markets as national domains. Employment policies therefore were a domestic rather than European competence. During the negotiations of the Amsterdam Treaty, the (conservative) German Government actively aimed at restricting the scope of European employment policies. The National Action Plan from 1998 therefore hardly included any reference to the EU employment guidelines. Protection of national labour markets was the priority rather than the adaptation to the new rules of European and global competition. Mutual learning in the area of labour market and social policies was no urgent need to be addressed to the European level.

These preoccupation, however, gradually changed, and the implementation of the Luxembourg process is – at least by some analysts – appraised as an important incentive for this development (*Ostheim/Zohlnhöfer 2005*). In particular, the switch to a preventive and activating labour market policy, as it was adopted by the “Job-Aktiv-Act” in 2001, is seen as being directly linked to the European employment guidelines. The explanatory statements of the (red-green) government to the legal proposal explicitly mentioned them. The following parliamentary debate, however, did not make any reference. This can be taken as indication that the European Employment Strategy at that time still was a concept used by public administration rather than the public itself. The policy analysis of the 1998 to 2003 period came to the result that quantified targets and tangible recommendations had a particularly strong impact on policy design. Moreover, the recommendations by the European Council regarding early retirement and gender mainstreaming had a direct impact on the change of policy paradigms in Germany (*Ostheim/Zohlnhöfer 2006*).

Agenda 2010

The major reform approach for the German economic and social system was initiated by the Agenda 2010, developed by the Chancellor’s Office and approved by the Social Democratic Party in 2003 (*SPD Bundesvorstand 2003*). The paper presenting this approach did not directly refer to the European Employment Strategy but is visibly influenced by the policy debate at the European level. In particular, it proposes the link of economic, labour-market and social policies as the key to the modernisation of the German model. The socially-oriented market economy (*Soziale Marktwirtschaft*) should refer to the European social model which stabilised democracy in many countries of Europe. The Agenda 2010 started with a growth-oriented strategy, which was seen as the basis for economic recovery and job creation. It emphasised investments in education and training, job and training opportunities for the youth, and the extension of child care services. In its major part it suggested the reform of labour market policies and labour administration through the termination of early retirement schemes, the merger of unemployment aid and social benefits, and the reform of labour law. Finally, it contains suggestions on the reform of social insurance, public health and pension insurances in particular.

With this programme the German government joined the Lisbon process through a growth-oriented reform strategy, which – from the viewpoint of 2007 – contributed to the economic recovery of today. It remains unclear how this change of thinking emerged and what the direct impact of the European Employment Strategy was. The parallels however – in particular the activating and labour integrating approach – are striking and justify presuming a significant influence of the European policy debate. Moreover, the planned termination of early retirement schemes indicated a reversal of the previous supply restricting

employment policies.

Hartz reform

Germany implemented its labour market policy reform through four legal acts known as the Hartz reform. This was prepared by the Hartz Commission which presented its report in 2002 (*Hartz Kommission 2002*). The proposed reforms strongly urged for activating the unemployed and social benefits recipients. It used the flexicurity-related concept of transitional labour markets and proposed the decentralisation of public employment services.

The link to the European Employment Strategy is not only obvious but acknowledged at the end of the report. It directly refers to the employment guidelines of 2002, which were seen as an orientation for the reform of public employment services and labour market policies. Moreover, the members visited several European countries and the European Commission during the preparation of the report.

The increasing use of evaluation studies for controlling and adjusting labour market policies can also be booked on the account of EU policy approaches. Not only the ESF programmes are evaluated regularly, but the four parts of the Hartz reform and other policy measures as well. A comprehensive evaluation programme was launched with total expenditure amounting to 10.3 million EURO. A team of around 100 persons, engaged by 20 different research institutions is executing the task. After a long period of marginal importance, this can be seen as a new paradigm of policy evaluation in Germany.

National Reform Programme 2005

The new government coalition of Christian and Social Democrats which came into power in 2005 presented a national reform programme which might give the impression of being selective as regards the implementation of the integrated guidelines. The six priorities formulated by the programme¹ however can be seen as the adaptation of the integrated guidelines to the German economic and institutional context. They reveal that the German government has developed its own ideas of a national economic and social development strategy, which nevertheless were largely in line with European guidelines.

At the time when the programme was written, Germany was still far away from achieving even the core targets of the Lisbon process. The labour market was severely imbalanced, public budgets were beyond the Maastricht limits, and economic restructuring transmitted its negative impacts. This resulted in an unfavourable balance, which caused the end of the red-green government. The reforms of the Agenda 2010 and Hartz in particular nevertheless continued.

The 2005 national reform programme applied this approach and developed a long-term strategy for economic and labour market development with a focus on economic restructuring. This, however, was not the devaluation of labour market policies, which had been developed earlier by the Agenda 2010 and the Hartz reforms. The programme therefore stated the continuation of the policies – and this was indirectly a confirmation of the government's commitment to the European reform agenda.

¹ The six priorities are: developing the knowledge society; opening markets and improving competitiveness; improving conditions for entrepreneurial activities; creating consolidated public budgets, sustainable growth and social security; using ecological innovation as competitive advantage; adjusting labour markets to new challenges, encountering demographic change.

There are, however, some employment guidelines, which the German programme did not fully develop.

- In particular, the life-cycle approach of employment and training policies is still underdeveloped. The vocational training system continues to concentrate on initial training of youth rather than life-long learning. University training was also not developed to an instrument of continuing training. Moreover, equal opportunities for all social groups in education and training were not addressed.
- The problem of high labour costs was not removed, at least not through a reduction of non-wage labour costs. Social contribution rates continued to range around 40 % of gross-wages in spite of the reduction of unemployment insurance rates. Moreover, the tax burden on labour incomes did not significantly change; at least if the VAT increase is considered.
- The decentralisation of labour market policies was limited in a model where the Federal Labour Agency continued to implement a centralised policy in cooperation with municipalities. The scope for local approaches remained small in the majority of regions.
- An early retirement programme continued to exist in form of the part-time programme for aged workers.
- Labour market reforms touched the positions of unemployed and peripheral workers rather than that of core workers. The German labour market therefore is far away from the flexicurity model of Denmark, and the programme did not step into that issue. By contrast, the “flexible borders” of the labour market were extended.
- Finally, the programme did not suggest an approach for an extension of the low-wage sector, which could be able to employ the large number of less skilled but unemployed workers. The debates on this issue continued until recently.

National Reform Programme 2006

With the 2006 national reform programme, the government renewed its commitment to the continuation of the Hartz reform, which should contribute to the creation of an activating social state and redefine the relationship between individual responsibility and solidarity. Qualification measures and a new strategy for the low-wage sector should contribute to greater flexibility on the labour market. Migrants, youth and older workers were particularly addressed in a life-cycle approach. The compatibility of family and work was an issue of rising importance. The long list of reform measures left little doubt that the German government was aware of the challenges faced by the economic and social system and was decided to bring the reform process further.

In fact, during 2006 first signs of the effectiveness of the reform policy could be perceived. Most importantly, the labour market reforms had contributed to a change of labour market behaviour of both unemployed and employed workers. Trade unions agreed to the reduction of fringe benefits and the extension of working hours – in compensation with job guarantees in many cases. In parallel, the economic return of company restructuring started to overbalance the negative labour market impacts, which had dominated for so many years. There can hardly be a better example of the effectiveness of a reform policy and its principal orientation than this case of Germany.

Nevertheless, the German government and the European Commission appear as uncle and aunt of this success rather than its parents. This is because the major source of the actual growth and employment upswing in Germany was triggered off by changes in economic behaviour. The Hartz reform brought evidence that the government will no longer be able to guarantee a sufficient income, the pension reforms destroyed the expectation of a well-donated seniority, and globalisation made companies aware of serious challenges. Both, companies and workers reacted – not only the peripheral workers but those in the core of

the employment system as well.

From this perspective, it is still the Government who has to do the job of continuing and refining the reform approach with all the points mentioned under the 2005 National Reform Programme. And it will certainly be the European Commission who promotes and supports this process.

2. Governance

Visibility

It is difficult to measure the visibility of the Lisbon process or the European Employment Strategy in the public debate. Various former commentators came to the result that these aspects of EU policy are known by public administration and expert circles rather than a broad public. The question is whether this might have changed recently.

As little information is available on this issue, a survey of web-sites of public institutions was undertaken counting the number of nominations of German terms „Lissabon Strategie“ or „Lissabon Prozess“, and „Europäische Beschäftigungsstrategie“ on the web-sites of public institutions, like the Federal and Länder governments and the social partners. The survey was undertaken in June 2007. The results are presented in Table 1.

Such evidence is certainly limited as it provides a snapshot of the day and the selection of information usually provided in the Internet. For this reason, newspapers and news channels were excluded from the survey, as their presentation of information strongly depends on the news priorities of the day.

The data indicate that EU policies regarding the Lisbon process and the European Employment Strategy are not among the top priorities on the web sites. The Federal Government is the institution, which most extensively reports on the two EU policies. This is in general done through informative and descriptive articles, press releases and documents. The Länder governments did not provide the same amount of information. Some even did not make any reference but others did it more intensively. Among the social partners, the Confederation of German Trade Unions is reporting more than the Confederation of German Employers.

A striking result is that important policy papers only scarcely refer to the Lisbon Strategy or the European Employment Strategy. The Expert Advisory Board did not make any reference on these two notions in the last expertise from autumn 2006. The Agenda 2010 only made one reference but the paper of the Hartz Commission at least made its acknowledgements. During the parliamentary debates of the Deutsche Bundestag various references were made to the European Employment Strategy.

In addition to the provision of Internet information, presentations of the European Employment Strategy were made. E.g. in June 2006 the European Movement of Thuringia and the European Representation of the Federal Labour Agency organised an exposition on [“The Lisbon Process in Practice: Employment in Thuringia”](#) which presented the approach of the European Union. In addition, regional development organisations showed how to create employment through innovation. This pointed to the importance of local actors for the Lisbon Strategy.

Table 1 **Visibility in the WWW**
(number of nominations of German terms „Lissabon Strategie“/„Lissabon Prozess“, „Europäische Beschäftigungsstrategie“ on the web-sites of the institutions; June 2007)

Institutions	Lisbon Strategy	European Employment Strategy
<i>At Federal level</i>		
Federal Government	174	12
Federal Ministry of Labour and Social Affairs	62	35
Federal Ministry of Economics and Technology	62	9
<i>At Federal State level</i>		
Baden-Württemberg	0	0
Bavaria	13	24
Berlin	2	3
Brandenburg	11	4
Bremen	1	1
Hamburg	1	0
Hessen	10	4
Lower Saxony	27	10
Mecklenburg-Western Pomerania	0	0
North Rhine-Westphalia	1	2
Rhineland-Palatinate	0	0
Saarland	2	0
Saxony	2	9
Saxony-Anhalt	7	18
Schleswig-Holstein	3	1
Thuringia	1	5
<i>Social partners</i>		
Confederation of German Employers' Association (BDA)	1	4
Confederation of German Trade Unions (DGB)	15	4
<i>Important papers</i>		
Expert Advisory Board (annual expertise 2006)	0	0
Plenary protocols of the Deutsche Bundestag in the 15 th and 16 th legislation period (since 2002)	0	40
Agenda 2010	1	0
Hartz Commission	1 chapter (2 pages)	0

Source: Economix.

The Allianz Lisbon Indicator

The Allianz insurance company created the Lisbon Indicator in order to synthesise the progress of EU Member States in implementing the Lisbon Strategy. Six indicators (GDP growth, employment rate, skills level of work force, labour productivity, growth-oriented investment, sustainability of public finance) were combined and compared to target values.

The largest nine EU economies were evaluated based on their ability to reach the targets derived from the original Lisbon Agenda in each of these areas. Based on the performance in each of the six categories, every country was given a performance indicator, demonstrating to which degree the country reached – or was on the way to reach – the goals.

The results are presented in Table 1. Following these results, Germany made considerable progress in achieving the Lisbon targets with a move from rank 9 to rank 6 among the nine EU countries listed in the Table. The overall score for the 3rd Quarter 2006 was 0.91 compared to 0.65 one year ago (with 1.0 as the benchmark for the achievement of the targets). The EU15 Member States also made considerable progress with an average value of 0.9 compared to 0.73 one year ago.

Table 2 Allianz Lisbon Indicator

Rank	Country	Overall Score 2006 Q3	Change in Ranking since then	Rank one year ago	Score one year ago
1	Sweden	1.37	←	1	1.26
2	Belgium	1.09	↑ ↑	8	0.72
3	Netherlands	1.02	↓	2	0.95
4	United Kingdom	0.98	↑	4	0.85
5	Spain	0.98	↓	3	0.87
6	Germany	0.91	↑ ↑	9	0.65
7	EU15	0.90	←	7	0.73
8	Austria	0.83	↓ ↓	5	0.83
9	France	0.80	↓ ↓	6	0.78
10	Italy	0.43	←	10	0.33

Source: Allianz Dresdner Economic Research: European Growth and Jobs Monitor (2006).

Literature

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