



Ways out of the crisis

- Some points to consider for economic policy in Germany -

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I. **What this document is about**

The German economy is suffering from a crisis of confidence. After two years of virtual stagnation, only marginal growth is expected in 2003. Although there is no indication of any risk of deflation in Germany as things stand at present, the possibility of a protracted period of weakness accompanied by low capacity utilisation and rising unemployment cannot be ruled out. So far there is no sign of a fundamental reversal in trend. Nor are the expansionary forces leading to such a turnaround in evidence yet.

Germany has fallen far behind its European partners in terms of key data such as GDP growth, employment and the general government deficit. Moreover, growth in production potential has slowed substantially over the past few years and, at around 1½%, is currently ¾ of a percentage point below the euro-area average (excluding Germany).

This document seeks to provide some ideas on how economic policy can respond to these problems. In particular, it is necessary to develop a consistent underlying stance which will help to overcome the spreading mood of pessimism. In this connection, it is crucial that the large number of individual measures which are needed be embedded in a coherent overall strategy for structural reform and the use of macropolicies. Only if the various policy areas pull in the same direction will it be possible to achieve the momentum required to re-energise the economy.

The economic prerequisites for this are already in place, namely

- a sound public infrastructure,
- an internationally competitive and successful industrial sector and an efficient financial sector,
- labour productivity which, even after reunification (on an hourly basis), does not need to fear comparison with other industrial countries, particularly the United States.

Given these conditions, a comprehensive and consistent package of reforms should be capable of unleashing synergies which can be harnessed to solve the main challenges – a reduction in unemployment and the consolidation of the public sector budgets and the social security systems. At the same time, it should be realised that a further delay in tackling the

needed reforms will entail considerable costs in the form of lost economic growth. For example, projections of future potential growth undertaken by the Bundesbank and other institutions show that, if the status quo persists, the potential growth rate of the German economy will continue to decline from roughly 1½% at present to 1%. This would not only make the fiscal policy problems more severe but also lead to a further rise in unemployment. Not least, the strains and tensions in the banking and financial systems would probably also increase. For that reason, it would appear dangerous to delay the necessary adjustments any further. The many different challenges now have to be tackled in their entirety.

The present paper does not claim to offer a comprehensive solution for all of Germany's economic woes but merely to provide the impetus for developing a package of measures giving concrete shape and form to the somewhat abstract demands for consolidation of government budgets and calls for reforms to Germany's economic and social system. The aim is to strengthen the innovative capabilities of the corporate sector as well as performance motivation of all participants in the economic process by means of appropriate incentive structures.

That said, however, it is becoming increasingly more obvious that the persistent economic weakness also has deeper roots in social factors typified by a low birth rate and excessive expectations of the social security systems. The power of lobbies and interest groups and executive/consensual forms of policymaking are impeding the necessary reforms in many cases, resulting in inertia and an assertion of vested interests.

II. Why things have become the way they are

The current crisis in growth and confidence is reflected in the weak corporate propensity to invest which have been in evidence for some years. Thus, companies do not see their earnings outlook as being strong enough in the face of heightened uncertainty. The situation is as serious as it is because short, medium and long-term straining factors have converged and are reinforcing each other.

- Negative cyclical factors are being generated, above all, by the slowdown in the world economy. In addition, the geopolitical risks, the threat of terrorism, the high price of oil as well as the slump in share prices brought about, not least, by accounting scandals have put a short-term – and hopefully only temporary – damper on investment.
- Unlike its European partners, Germany has had to cope with the additional strain caused by reunification. This is mainly reflected in a higher burden of taxes and levies and the adjustment problems in the construction sector. Moreover, Germany was unable to benefit from the convergence process ahead of European monetary union, in which interest rates in countries that used to incline more strongly to inflation were guided down to the German level.
- The longer-term structural obstacles to growth are becoming increasingly apparent in Germany, especially the demographic trend, the excessive burdens placed on social security systems, the rigidity of the labour market and the tendency to over-regulate and to impose bureaucracy on government and corporate sector processes.

Given this “mountain of problems”, households and enterprises cannot identify a clear, positive outlook. The German economy evidently finds itself in a crisis of confidence and growth. Any strategy for overcoming the muted economic growth must proceed from this analysis of the underlying causes. The various facets of the problem - chronological and material – have to be linked to create an overarching strategy. Confidence can only be regained if economic policymakers create reliable conditions providing viable underlying conditions for the planning horizon of enterprises and households.

III. Which are the key factors to note?

The strengthening of enterprise and consumer confidence calls for policy measures which are geared to the fundamental principles of the social market economy. This means that, as a fundamental principle, economic processes are planned and managed via the markets’ pricing mechanism. Furthermore, rules and incentive systems have to be created to give competition broad scope as a general means of searching for solutions to

economic and social problems. The government's primary task is to set the framework within which economic processes are to take place, to ensure the availability of public goods and to ensure public security.

This principle calls for and encourages individual initiative, personal responsibility and the willingness to take risks. Once reforms strengthen the forces of competition and encourage greater personal responsibility, consumers will gain the confidence that they will not be deprived of the fruits of their labour. The way out of the economic crisis is by unleashing market forces in this manner.

Moreover, it must be clear that output and performance, i.e. the creation of value and jobs, have priority over distributional policy. Social policy should additionally embrace the subsidiarity principle, i.e. government should only intervene if private protection against life risks is not possible or if it would place too great a strain on the individual's financial means. The social security systems have to be scrutinised in the light of this principle. More competition and scaled-back government regulation could help to place a lid on social security costs and make a contribution to lowering the high non-wage labour costs which constitute a major obstacle to employment.

IV. What macropolicy can achieve

Given the multifaceted problems of the crisis in growth and confidence, conventional macropolicies can play only a modest part in overcoming them. Monetary policy is oriented to EMU-wide requirements and determinants, while the scope available to fiscal policy is limited by government deficits which are already excessively high. Furthermore, the underlying reasons for weak growth are structural rather than cyclical. Even so, it is necessary to examine the fundamental stance taken by monetary and fiscal policy, although it should be realised that a viable overall strategy is possible only if appropriate monetary and fiscal policies are accompanied by wage and salary restraint and the credible implementation of fundamental structural reforms.

1. Monetary policy

Given the painful experience of many industrial countries in the 1970s and, in some cases, also in the 1980s, there is general consensus today that, in the longer term, monetary policy is not a suitable instrument of growth and employment policy or a means of fine-tuning the economy. In the longer term, monetary policy actionism is not only ineffective but counterproductive. Any attempt to engage in a monetary countercyclical policy can easily produce the very opposite of the intended effect if market participants' inflation expectations are destabilised and if the uncertainties under which market participants operate become greater. It is now generally recognised that a monetary policy geared to the medium term with the object of maintaining price stability and steadying inflation expectations is the best contribution that it can make to economic growth. It is for this reason that the Maastricht Treaty rightly enshrines price stability as the primary objective of European monetary policy.

This is the aim pursued by European monetary policy. Although it is expansionary in the current economic situation, it remains aligned to the price stability objective. In Germany, too, the ECB's monetary policy does not pose an obstacle to an economic upturn. Long-term interest rates are at historically low levels. Germany has achieved price stability and the euro-area inflation rate is expected to go back down below 2% in the course of 2003. Corporate investment is being encouraged by the low interest rates and private consumption is being promoted by stability-induced higher real incomes. If the inflation rate were to drop further and more quickly than expected, additional scope for a further interest rate cut would open up. However, this will not solve the inherent structural problems facing the German economy. The monetary conditions for stronger growth are in place. However, if they are to be utilised to full effect, the German economy must be freed of its rigidities, the disincentives of the social security systems have to be corrected and the necessary scope for private sector activity has to be created by means of consolidation of the government budgets and a sustained reduction in the government ratio.

2. Fiscal policy

One of the key tasks of an economically sound policy is to ensure orderly public sector finances. This is required by the provisions of the Maastricht Treaty and, in specific detail, by the Stability and Growth Pact. In addition, balanced government budgets are a prerequisite for a stability-oriented monetary policy to unleash expansionary effects through low interest rates. Moreover, fiscal policy should allow the built-in stabilisers to act to the extent that this is not in conflict with consolidation needs. Whether or not fiscal policy should be anticyclical in operation depends on the scope available for action and, thus, the “starting position” of the government budgets and therefore has to be decided according to the given situation.

The Stability and Growth Pact provides sufficient flexibility for this, albeit solely on the basis of sound government finances. The pact itself does not stipulate a timetable for achieving a balanced government budget; this is governed by agreements made by EU bodies. The obligation to trim the structural deficit by at least 0.5% of GDP p.a. constitutes an acceptable compromise between the need for consolidation and cyclical concerns.

The German Federal government is expecting a general government deficit ratio of no more than 3% assuming economic growth of 1%, which would comply with the obligations imposed by the Maastricht Treaty. If, however, economic growth falls short of this forecast, the automatic stabilisers will only be able to show the desired effect if credible medium-term consolidation and reform measures are initiated at the same time.

3. Wage policy

In times of persistent high unemployment (underemployment), wage policy has a particularly large responsibility. Given high underemployment, the primary objective of any pay-rate policy aimed at boosting employment must be to refrain from making full use of the scope for distribution. The increase in real wages and salaries must be less than the gains in productivity so as to strengthen the corporate sector’s propensity to invest and to lower the threshold for employment. The scope available for distribution in the economy as a whole sets out the framework for this. However, it is only possible to determine what is actually (additionally)

available for distribution retrospectively. A correspondingly cautious approach has to be taken in determining what is distributable.

To this end, the following factors have to be deducted from the overall scope available for distribution:

- productivity gains attributable solely to personnel layoffs,
- price hikes due to external factors, e.g. higher oil prices,
- the advance distribution in favour of the general government sector arising from an increase in indirect taxes and other levies,
- the cost of any cuts in working hours.

With respect to the price component, it is important to ensure congruence with monetary objectives. Finally, in terms of employment policy it is important to allow for any changes in the corporate sector's real wage costs, meaning that non-wage labour costs also have to be taken into consideration.

The positive, pro-active contribution that management and labour should make over and above such employment-neutral guiding variables depends on the particular situation. Given the plethora of problems and the tendency for unemployment to become entrenched, a substantial discount on the neutral wage rate would be advisable for a certain period of time. The ultimate guiding principle is that wage policy should be based on a medium-term approach which is capable of stabilising expectations.

However, using such macroeconomic parameters as a guide should not be construed as justifying a "one-size-fits-all" wage policy. Uniform wage and salary increases throughout the economy take as little account of employees' differing skills and the specific requirements of individual jobs as they do of the necessary structural adjustments in individual sectors and regions. Local fine-tuning of wages and salaries is required to make full use of employment potential. Management and labour can make a decisive contribution to this by setting out a framework which is as flexible as possible. Ultimately, it is a matter of placing greater value again on the "market clearance function" of wages and salaries. This, in turn, calls for greater flexibility in the institutional structures of the wage-formation process and in working conditions. Part 4 of the next section deals with this in greater detail.

V. The areas in which fiscal and structural policy adjustments are called for

Key elements of an economic policy strategy for higher growth and employment include a reduction in levies (particularly non-wage labour costs), heightened incentives to work by making appropriate changes in the transfer systems as well as “de-bureaucratisation”. Above and beyond that, it is necessary to reduce the structural deficits and to tackle the long-term demographic problems, and thus bolster confidence in viable fiscal conditions in Germany and, by meeting the conditions of the Stability and Growth Pact, in the euro area as well.

Action needs to be taken in the following areas in particular:

1. Consolidation of public finances

Only a clear fiscal policy stance aimed at consolidation by placing a ceiling on spending will allay consumers’ and, more particularly, investors’ fears of further strains emanating from fiscal policy and bolster confidence in the prospect of a shrinking government ratio and tax and social security ratio. Consolidation is a structural task leaving scope for the automatic stabilisers to work. At the same time, the consolidation course announced by the German Federal government with a view to achieving the objectives of the Stability and Growth Pact within the scheduled time frame by 2006 must be put into practice. All individual measures – such as limiting enterprises’ scope for netting losses against profits – must be reviewed in the light of their impact on capital formation and their contribution to competition and growth.

A consolidation strategy should satisfy the following fundamental criteria:

- The fundamental objectives of fiscal policy and the ways of achieving them must be clearly communicated. Transparency and unambiguous targets create confidence.
- In the past, consolidation on the expenditure side (particularly government consumption spending) has proved to be the most promising strategy. This is all the more important if lowering the tax and

social security burden is the explicit fiscal policy goal. Steps seeking to boost revenues by broadening the tax base should, if anything, form the basis of further reductions in tax rates.

- The macroeconomic assumptions underlying a strategy of consolidation should be cautious. The ex ante inclusion of growth dividends is not the hallmark of a reliable and confidence-inspiring course of consolidation.
- If it is to be convincing, a consolidation strategy also has to explain how long-term problems not yet reflected in current deficits are to be tackled.
- Embedding consolidation measures in necessary structural reforms improves the overall outlook for growth, and thus, in turn, makes it easier to reduce deficits.

Specifically, in the case of Germany and in the light of the objective of achieving a government budget which is close to balance by 2006, this produces the following quantitative framework:

- The overall structural deficit ratio stood at just under 3% in 2002, with the federal, state and local governments accounting for the bulk of this. The social security funds have to eradicate their relatively small deficits as quickly as possible in any case, if necessary by increasing contribution rates.
- Given that the objective of a budget “close to balance in the medium term” implies a tolerated deficit ratio of 0.5%, the federal, state and local governments must reduce their structural deficit by just under 2½% of GDP. At the same time, however, they face revenue shortfalls of a good 1% of GDP as a result of the tax cuts in 2004 and 2005. Accordingly, the aggregate structural consolidation requirement of the federal, state and local governments stands at 3½% of GDP or just under 0.9% of GDP per year.
- If structural consolidation is to be achieved solely through the expenditure side, nominal spending by the federal, state and local governments must remain more or less constant between 2003 and 2006, assuming a trend in real growth and the inflation rate of 1½% in each case.

We assume that the objective of a balanced general government budget is most likely to be achieved if each individual government entity undertakes to balance its budget by a fixed date (within this decade) and assumes clear individual responsibility for its own finances along the lines of “competitive federalism”.

Additional steps over and above those already adopted may be necessary to safeguard the consolidation course. Possible courses of action include the following:

- The home-ownership subsidy as one of the heaviest subsidies could be abolished altogether in the medium term provided that the distribution-policy objective of supporting families can be achieved in some other way, say, by means of housing allowances or direct income transfers to the needy.
- Unemployment and social assistance should be combined, a step which is already being planned. However, the entitlement of persons capable of working to claim benefits should be lowered to well below the current level of social assistance if offers of employment are rejected. In its current form, unemployment assistance constitutes a tax-financed protection of differing income levels for which there is virtually no justification. However, in this connection, allowance would need to be made for the revenue shortfalls of the social security funds as well as the additional burdens placed on local governments, which are responsible for social assistance.
- Active labour market policies should be scaled back substantially as they have frequently proved to be inefficient.
- All subsidies – including the traditional government-sponsored savings incentives – should be scrutinised. The suggestion of a 10 % across-the-board cut in subsidies may also be helpful in itself provided that this ushers in the beginning of a comprehensive reduction in all subsidies. In this connection, it would be necessary to define the dates and the annual rates by which the subsidies are to be pruned. If it is not possible for subsidies to be cut across the board, individual subsidies

should be made subject to the principle of degression and the period of time for which they are available restricted.

- One crucial cost component is personnel, which accounts for 25% of the total spending of federal, state and local governments and which therefore cannot be spared comprehensive cuts. In connection with civil servants' remuneration, it has to be remembered that their jobs are absolutely secure. It must also be possible to render their working hours more flexible beyond 38 hours and to lower starting remuneration levels across all civil servant grades.

Generally speaking, the scope for operations-related layoffs should be examined and negotiated pay and remuneration structures tied more closely to performance. The individual *Länder* should be able to withdraw from nationwide salary and wage scale agreements so that suitable allowance can be made for regional or local conditions. Every change of 1% in the existing staff or pay rate level costs or saves €1.5 billion p.a.

- Systematic use should be made of potential for privatisation.
- As far as possible, any real property holdings still in public ownership should be managed in accordance with market economy principles. Not least, more private sector solutions should be sought for the construction and operation of roads financed by user fees.
- Competition among universities should be encouraged. Moreover, greater use should be made of university fees provided that due allowance is made for the principle of equal opportunity by means of targeted transfer payments.

2. Tax policy

Tax policy must offer a clear and reliable perspective in the aftermath of the numerous measures and proposals with partially contradictory effects, which have created great uncertainty on the part of the participants in economic process. The aim should be to reduce the burden of direct taxes in a multi-stage process, to simplify the tax code, to enhance planning security and, following the completion of the consolidation phase, to lower the tax burden further. The debate on the reintroduction of net worth tax and proposals concerning retroactive tax liability have been taking their toll on confidence.

The current debate is failing to take sufficient account of the fact that the three-phase tax reform passed in 2000 already provides for substantial cuts in income tax. It is now a question of implementing them consistently. If the consolidation course is jeopardised by this – given persistent very weak economic growth – further cuts in spending and in tax benefits have to be accepted.

From a macroeconomic point of view, even further cuts in income tax rates would be desirable. However, this cannot be attempted until consolidation of the government budgets has been achieved or there is a willingness to finance such moves by means of further spending cuts, broadening the tax base or by increasing other taxes.

The following tax measures, in particular, could be considered for this purpose:

- Shift away from direct to indirect taxes.
- Substantial simplification and broadening of the income tax base, e.g. by
 - abolishing employee travel allowances,
 - halving employee lump-sum allowances,
 - abolishing the tax-exemption for surcharges paid for work on Sundays, public holidays and on night shifts (on the grounds that it is not a matter for the government but for management and labour to agree on suitable compensation for the heightened workload involved in such activities),
 - abolishing the pension relief allowance for civil servants.

- Abolition of all reduced rates of turnover tax. The effects of the resultant increase in the price of food could be cushioned via the subsistence level defined for income tax purposes or by social assistance.

Following the uncertainty generated in the financial markets by earlier government plans, it is vital for the tax on investment income to be revised. Given the scope for evading tax in this area, the solution selected must capture investment income as fully as possible. The final tax on interest income as proposed by the German Federal government in conjunction with the capital gains tax represents a step in this direction. However, the specific form which this tax takes must also allow for the increase in the efficiency of the capital markets. Thus, this tax should not make it more advantageous for companies to borrow than to raise funds through equity financing.

3. Social security systems

Social security accounts for a major proportion of the non-wage labour costs. Taken together, the individual contributions are not only very high by international standards but are rising substantially both at present (on account of the unfavourable labour market situation) and also on a long-term basis (owing to demographic trends). This is having an adverse impact on the demand for labour.

A reform of the statutory health insurance system is the most pressing task. The average contribution rate here rose by 0.4 percentage point to 14.0% of assessable salaries at the beginning of 2002, with another increase of around ½ percentage point likely in the course of this year. There is no sign of any ensuing medium-term stabilisation.

The contribution rate for statutory pension insurance was also raised at the beginning of 2003. In the absence of any further adjustments, demographic trends will necessitate sharp rises in contribution rates in spite of the recent reform, the effects of which are already casting a shadow over the current economic climate. Further reforms should be implemented now to allow for this and to offer a clear perspective in the pension-savings area with the aim of avoiding any further substantial increase in contribution rates.

Health insurance reform

A reform of the statutory health insurance system must take account of the following characteristic features and trends in the health care sector:

- The health care sector is a major economic sector which is growing strongly, particularly in terms of employment, and which makes a significant contribution to overall economic growth.
- The sharp rise in health insurance spending is mainly due to medical advances which have led to the development of cost-intensive new methods of treatment as well as changes in the age structure of the population at large. Cost-cutting productivity gains can be achieved to only a limited extent compared with other sectors owing to the labour-intensive nature of the health care sector.
- The German public-sector health system is characterised by a highly opaque set of regulations, a benefit-in-kind principle which further heightens this lack of transparency, monopolistic structures on the part of health care providers, who are additionally able to control their own demand to a large extent, as well as the absence of any incentive to rationalise and a tendency for surplus capacity to be created in the hospital sector.
- The system is financed by a mixture of a risk-sharing principle typical of an insurance system and a comprehensive “solidarity” approach. Whereas the benefits for all insured persons are identical, contributions are calculated as a proportion of their work income up to a maximum assessment amount. At the same time, the parity employer/employee financing ties payment of the health insurance contribution to an employment contract. As a result, the trend towards higher costs in the health system automatically results in higher non-wage labour costs.

Four principles for growth-oriented reforms can be derived from this diagnosis:

- The link between health insurance contributions and employment contracts must be severed,
- The equalisation of risk must be separated from the solidarity principle,
- The existing inefficiencies on the provision side must be eradicated,
- Competition among hospitals and health care providers must be strengthened.

Continuation of the pension reform

The reform of the statutory pension insurance system which came into effect at the beginning of 2001 provided for the launch of a capital-based pension-savings system and a reduction in the annual pension adjustments up to 2010. This could mean that any sizeable increases in the contribution rate will be unlikely in the rest of the decade. However, this presupposes economic growth allowing a substantial increase in employment.

As pension adjustments will in any case lag substantially behind wage and salary increases between now and 2010, further short-term intervention appears problematic. Additional hectic ad hoc measures changing the existing rules from year to year would tend to veil the necessity of further longer-term reforms. However, one possibility to consider would be an increase, to some extent, in the discount factor in force until 2010.

In the long run, a principle of defined contributions will need to be implemented in order to avoid placing excessive burdens on future generations. There are two possible alternatives here:

- One simple, yet radical reform would be to replace the existing pension adjustments by a method based on total wages rather than average wages. This would cause all fluctuations in employment to trickle down into pensions and possibly also result in “negative” pension adjustments.
- A more “easygoing” alternative would be a step-by-step increase in the age of retirement in tandem with the possibility of opting for an earlier retirement age subject to reductions in retirement benefits calculated in accordance with actuarial principles. Although the demographic strains

will primarily affect pensioners under this model, too, they will be staggered according to age groups. Justification for this is that life expectancy is also gradually rising and younger pensioners in particular (or future pensioners) are one of the causes of the unfavourable demographic trend on account of declining birth rates and are thus doing less to fulfil their part of the “inter-generational contract” than earlier generations.

4. Strengthening labour market efficiency

The following measures aimed at improving incentive structures and the clearing function of the labour market should be implemented to supplement employment-oriented wage policies and the reduction in the tax wedge:

- As already mentioned, unemployment and social assistance should be combined. However, the entitlement of persons able to engage in gainful employment should not exceed that of social assistance recipients, and payments to recipients capable of working, but unwilling to do so, should be reduced substantially. There is very little to justify the payment of unemployment assistance as a tax-financed entitlement based on the wages or salaries previously received. However, it would be necessary to make up for a revenue shortfall in social security funds and additional burdens on local governments, which are responsible for paying social assistance.
- Support for the creation of a separate wage segment for employees with few or no skills is required in the form of a system of incentives and sanctions:
 - easing of the “progression trap” by means of gradual netting of wages from gainful employment against social assistance benefits,
 - pay subsidies, (partial) exemption from social security contributions,
 - shorter period of eligibility for unemployment benefits in tandem with intensified efforts at job placement,
 - effective sanctions for misuse.
- The historically evolved employee rights should not be permitted to constitute an insurmountable obstacle to “outsiders” on the labour market. The many different working-hour models now in use show that employee protection rights have to be redefined in the light of current conditions. Any

regulatory measure must always take account of the aggregate costs in terms of wages, working hours and job security as well as their implication for market access conditions. The following adjustments are urgently required:

- Extension of the “favourability” principle to include the safeguarding of jobs. It should be possible to pay wages below the agreed scale or to implement longer working hours in the interests of employees in a firm at risk.
- General broadening of the scope for non-centralised wage settlements at the level of the individual company, shortening of the binding period for negotiated pay agreements in the event that an enterprise leaves the state of being bound by pay agreements, sparing use of declarations of the general application of collective agreements.
- Easing of dismissal protection rules which only serve to protect persons who have a job but simultaneously increase the duration and persistence of unemployment.

The measures which have now been adopted (extension of so-called “mini jobs” to €400, reduced social security contributions for employees earning up to €800 per month, tax deductibility of household-related services, more stringent netting rules for unemployment assistance) are to be welcomed but their effectiveness will need to be subject to independent review at a later date.

All in all, the task is to make employment contracts more flexible. The Hartz Commission has tabled important proposals to improve the job-placement activities of the labour offices but these are not enough on their own. Management and labour have to agree on suitable terms and conditions in pay agreements to make their contribution to creating new jobs and to eradicating obstacles to employment by reducing the rigidity of the labour market.

5. Other policy areas

The main features of a growth programme are undoubtedly a reduction in the high tax and social security burdens, a reform of the systems of social protection and making the labour market more flexible. However, there are other areas in which action is needed even though the effects will partly only become apparent in the longer term.

- In the product markets, (remaining) liberalisation in Germany has already made relatively large strides. Indeed, Germany is ahead of most of its European partners in the telecommunications and electricity sectors and – at least to some extent – in the gas and postal sectors. Nonetheless, there is still much to do, particularly:
 - the completion of the single European market,
 - the final opening of grid industries
 - extension of shop opening hours.

- It should be made easier for enterprises to be started and expanded. Approval-granting procedures must be speeded up and simplified. Market access barriers such as the “craft code” must be reviewed and abolished in cases where the rules are no longer compatible with an open competitive system.

- A reform of the education system is overdue:
 - In an increasingly knowledge-based world, human resources have a key role to play; moreover, having skills and qualifications is still the best protection against unemployment.
 - The central objective of the school system must be to impart knowledge more efficiently and to develop learning skills.
 - In the university sector, greater attention should be paid to the principle that providing education is expensive.
 - Universities must be allowed to determine their own selection procedures and set fees. The internal university reforms must be continued and competition among the universities strengthened.

VI. What counts: a consistent overall package

With the planned reforms, it will be crucial for the interrelating factors to remain clearly identifiable and for the overall package to form a coherent whole. When viewed in isolation, an objection can be quickly found to every positive side of an individual measure. Necessary steps must not be watered down by an exaggerated search for consensus or a allowance for the particular interests of individual parties.

The Council of Economic Experts is correct in stating in its most recent annual report that it is no longer enough to simply doctor the symptoms. “Instead, what is required is a brutally honest diagnosis as this forms the sole basis for a long-term all-embracing therapy. Only by adopting radical structural reforms can Germany be made fit to face the mounting challenges of global competition, technical progress and demographic trends” (Section 18). The key is to strengthen the willingness to assume risk, to perform and to develop initiative. Although the just distribution of adjustment burdens is also important to ensure the acceptability of the reforms, the priority must be to promote competition and growth.