

# Chancellor Gerhard Schröder Introduces “Agenda 2010” (March 14, 2003)

## Abstract

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In presenting his government reform program, Chancellor Gerhard Schröder urgently called for courage to reshape the welfare state through structural reforms, such as fiscal consolidation, tax cuts, and benefit reductions. He argued that these reforms were necessary to make the German economy more competitive on a global level.

## Source

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### AGENDA 2010

*Policy Statement by Chancellor Gerhard Schröder to the German Bundestag*

Mr. President, Ladies and Gentlemen,

In my responsibility for the future of our country, I will begin this policy statement with a dual motto that cuts to the heart of my message today: “Courage for peace and courage for change.”

We must summon the courage to fight for peace as long as there is still a glimmer of hope that war can be avoided.

We must summon the courage to make the changes that are necessary for our country to reclaim a leading position in Europe’s economic and social development.

The situation – everyone in this building senses it, but those outside do as well – is extremely tense, both internationally and nationally. The crisis in Iraq is straining the international economic situation, which is precarious enough to begin with.

Furthermore, Germany – and it is important to see this as well – is struggling with weak economic growth, the causes of which are among other things structural. Non-wage labor costs have risen to a level that is almost unbearable for employees. And for employers, these costs are an impediment to creating new jobs. Investments and spending on consumer goods have declined drastically, not least because during the past three years approximately 700 billion Euros were literally obliterated on the German stock markets.

In this situation, politics must take action to restore trust.

We must improve the basic conditions for increased growth and greater employment.

The federal government is convinced that it must prioritize and implement certain measures – to stimulate economic growth and consolidate the budget, to create jobs and boost the economy, and to ensure social security in old age and sickness – and I would like to present those measures to you today, point by point.

We will be cutting state benefits, promoting individual responsibility, and demanding that every individual make greater efforts.

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All elements of society will have to do their part: employers and employees, the self-employed, and retirees, too. We will have to make a massive joint effort to reach our goal.

But I am sure that we will reach it.

[...]

Ladies and gentlemen, I have also mentioned the motto “Courage for change” in the context of our domestic affairs in particular. In order to live up to our German responsibility within and for Europe, we must be prepared to undergo a transformation here at home. Either we modernize, and I mean as a social market economy, or we will be modernized, and here I mean by unchecked market forces that push social considerations to the margins.

The structure of our social welfare system has remained virtually unchanged for fifty years. In some instances (for example, the burden of labor costs), instruments of social security are even leading to the creation of new injustices. Between 1982 and 1998 alone, non-wage labor costs rose from 34 to almost 42 percent.

There is only one possible way to respond to this: it is imperative that we restructure and modernize the welfare state. The point is not to sound the death knell for the welfare state, but rather to maintain its substance. That is why we need comprehensive reforms.

[...]

Our Agenda 2010 includes far-reaching structural reforms.

These reforms will help Germany reclaim a leading position in prosperity and employment by the end of the decade.

They will help ensure that equity is maintained between the generations, and they will help strengthen the foundation of our state.

Ladies and gentlemen, I promised that I would explain the measures we are planning in the areas I mentioned on a point-by-point basis.

These measures focus on three main areas:

The first is “economic growth and the budget.” The dire state of the economy forces us to find a new balance between consolidation, stimulus, and tax relief.

We will not pursue a one-sided, egotistical path that reduces the burden on us today, but shifts the costs to future generations by running up debt. That is not a responsible path.

For this reason, we will adhere to our goal of budget consolidation and to the framework agreed upon in the Stability Pact. This pact, however, cannot be interpreted in a static sense.

It leaves room, and it must leave room, to react to unforeseen events. Phases of economic weakness – presently we are in such a phase in Germany and Europe – should not result in pro-cyclical policies.

We in Europe agree with our partners that we also need options for reacting to unforeseen events [in the world economy] that might result from the intensification of crises in different regions of the world. The Stability Pact also offers this option. We will make proactive use of these options together with our partners.

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However, the Stability Pact and European responsibility should not be used as an excuse for inaction here and now. Even in the present situation we want and need new impetuses for growth. This means encouraging both private and public investments, especially by local governments.

We are obliged, precisely in periods of low growth or economic stagnation, to keep public investment at a high level.

The federal government – and we will discuss this during our budget consultations – is definitely living up to its responsibility.

Investments earmarked in the federal budget have increased this year to 26.7 billion Euros.

But we will also have to enhance the financial strength and investment capacity of local governments on a long-term basis.

[...]

This program is the necessary supplement to our structural reforms on the supply side, and I will come to this immediately. The two approaches are interdependent. Without structural reform, any boost in demand will fizzle out. And without boosting the economy from the supply side, reform will go nowhere.

That is why we are tackling the issue from both angles. As planned, we will implement the next phases of the tax reform to reduce the tax burden by around 7 billion Euros on January 1, 2004, and by an additional 18 billion Euros on January 1, 2005.

The starting tax rate will be reduced from the 1998 rate of 25.9% to 15%, and the top bracket will be lowered from 53% to 42%.

We cannot afford to do more. That must be made clear to those who keep suggesting tax cuts as a panacea to the point where the state has to pay out more than it collects. That is part of the reality in this country.

If we really wanted to implement the demands that were voiced – by no means would all of them come at the expense of the federal government, but rather also at the expense of state and local governments – then this would only be possible by increasing the debt or increasing excise taxes. There would be no other reasonable way to finance it.

[...]

Work and the economy are at the heart of our reform agenda. A dynamic, growing economy and a high employment rate are the prerequisites for a healthy welfare state and, thus, for a functioning social market economy. We will not abandon the goal of giving everyone who can work and wants to work the chance to do so.

Therefore, we have opened up the labor markets to new forms of employment and entrepreneurship. We have introduced the “Capital for Labor” program. We have thoroughly improved the conditions for placing unemployed persons in new jobs. And we have found a new balance between the rights and obligations of job seekers.

We are in the process of reorganizing the Federal Employment Service [*Bundesanstalt für Arbeit*] so that it can actually fulfill its primary task – placing unemployed people in jobs – instead of merely doing administrative work.

In the last few months, we – in some cases, jointly – have made great efforts to continue to increase labor

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market flexibility. We have removed the red tape associated with temporary work and have enhanced its status so that businesses can easily find the qualified workers they need. We have greatly reduced the social security taxes on low-paid jobs that pay up to 800 Euro per month.

We will continue to significantly improve these basic conditions for fighting unemployment.

Our job placement system has obvious weak points. In days of full employment, this didn't matter, and since then we have spent twenty years discussing the issue without correcting the underlying problems.

We have now undertaken the necessary reforms. But now the firms that have vacancies to fill have to make use of these new procedures and regulations.

We have extended the length of time for which fixed-term employment contracts can be concluded, as was demanded. For people over fifty there is no time limit at all. This is also a measure to help older unemployed persons reenter the labor market. I am appealing to the business world to do this as well. It is not the responsibility of the federal government, but of business to proceed in a manner that gives people over fifty a chance to keep or return to their jobs. That is a responsibility that cannot be dumped solely on politics; rather, it concerns all of society and especially the economy. The economy and society must also assume responsibility for the community.

We will open up the labor market above and beyond the Hartz reforms; we will discourage illegal employment and make greater efforts to ensure that enough training positions are available. But it must also be clear that although we have worked quickly to legislate the Hartz proposals, it will take some time before the effect of the reforms is felt on the labor market. Our solution cannot and will not be to simply abandon our active labor market policies, above all in the Eastern German states [*Länder*], even before the new structures have been established and had a chance to take effect.

Therefore, we will need to maintain a second labor market in Eastern Germany for a transitional period. By the way, this holds true not only for Eastern Germany, but also for other particularly disadvantaged regions.

Ladies and gentlemen, we cannot just improve the conditions for business and the labor markets. We also have to think about our welfare system and ask ourselves if welfare assistance really helps those who need it.

I do not accept the idea that people who can and want to work have to go to the social welfare office, while others who aren't even on labor market can claim unemployment benefits [*Arbeitslosenhilfe*].

Nor do I accept the idea that people who are equally ready to work should receive different levels of financial assistance. Successful integration cannot take this form.

Therefore, we need a one-stop agency to provide all the relevant services. That way we can increase the opportunities of those who can and want to work. For this reason, we are going to merge unemployment assistance and welfare benefits. And to be precise – this, too, must be said – we are going to merge them at a level equal to that of present welfare benefits.

At the same time, we are also doing more for the people from whom we have to demand more. We are therefore putting an end to the practice that caused the long-term unemployed to lose all entitlements to benefit payments when they accepted a job. For this reason, for a fixed period, long-term unemployed persons who start working will be allowed to receive considerably more than the current 15 percent of their benefits. This should and will be an incentive for people to take up employment.

This is a clear message to those people in our society who have been unemployed for more than twelve

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months. In the future, however, no one will be allowed to live off the community. Anyone who refuses a reasonable offer of work – and we will be modifying the criteria for what constitutes reasonable – will have to reckon with the imposition of sanctions.

Furthermore, we are reforming those aspects of labor and social law that have become obstacles to employment over the years. But here, too, I have something to say upfront: protection against dismissal, as an inherent part of our social market economy, is not just a social achievement, but also an economic and cultural one.

Our country has not become strong through the laws of the jungle or unscrupulous hiring and firing, but rather through secure employees who are motivated not by fear but by the will to achieve something together with capable employers.

But we are aware of the tremendous changes that are occurring in the foundations of our economy. Therefore, we have to make changes, even to dismissal protection, to make it less unwieldy for employees and also for companies. This is especially true for small firms with more than five staff members. We must lower the psychological barrier that such firms must cross before hiring someone new. The economics and labor minister has developed pertinent recommendations, which will be implemented without any compromises.

[...]

We will also – this should be viewed cumulatively – introduce an elective severance pay arrangement for employees who are laid off for operational reasons. In such cases, the employee should be able to choose between suing for reinstatement and accepting a statutory severance package.

Finally, we want to change the way that companies use social criteria to determine which employees to lay off, so that even in times of economic hardship the most productive employees can keep their jobs. In the future, instead of applying fixed social criteria such as age or seniority, priorities should be worked out between the employer and employee representatives and made binding. This will provide a more reliable basis on which businesses can plan, and it will make it easier to hire new people.

We are pursuing this goal along with another measure. To help start-ups, we will double the maximum length of a fixed-term employment contract to four years. Start-ups will also be exempt from mandatory contributions to professional associations and chambers of industry and commerce for four years.

Our strategy for greater employment is rounded out by measures to eliminate illegal employment, which is still growing at a rate that should embarrass us all.

Of course, we must condemn illegal employment on the grounds of morality and solidarity. But we must also condemn it on account of social and economic dictates. We have already made legal employment more attractive through the Hartz reforms.

Big companies and major concerns are certainly important for our economy. But the engine of growth is, and will always be, small and medium-sized businesses.

Small and medium-sized businesses complain about high non-wage labor costs and bureaucratic regulations. For this reason, we will greatly improve the position of smaller companies in the future. We will radically simplify the tax law for small companies, reduce accounting obligations and thereby dramatically cut their tax burden. The Small Business Act will improve the starting conditions for fledgling entrepreneurs.

People who start their own businesses, and thereby create jobs for themselves and for others, have our

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respect and our political support.

It is not right – and I would like to make this very clear – that founders of new businesses and many smaller companies have to spend more time talking to bank loan managers than developing and marketing their products.

In this context, we must make clear that regardless of the difficulties in the finance sector – difficulties, I might add, that emerged from management mistakes, not policy ones – institutions working in this sector need to pay more attention to their actual task, namely of offering financing options to small and medium-sized companies, than has recently been the case.

The federal government and state institutions cannot take the place of private finance institutions. They can only offer supplemental services. Therefore, we instituted the “Capital for Labor” program and so-called secondary loans, which can be treated like equity capital in assessments of creditworthiness, to improve loan conditions for the companies. But long-term refinancing options must be provided by private institutions.

It would be a mistake to assume that debureaucratization and greater flexibility can and may only be demanded by one side of society. No, we must also modernize and streamline German law on the craft sector, so that the number of start-ups in this field grows again, so that more jobs are created, and that existing jobs are more secure than they have been previously, for instance, when businesses change hands.

[...]

Labor law and collective bargaining agreements together provide a detailed set of rules for labor relations in Germany. This creates security. But the system is often not as flexible and differentiated as it needs to be in a complex economy in international competition. In view of the economic climate and the labor-market situation, the responsible parties – legislators and collective bargaining partners – must make use of the scope they have to make it easier for businesses to hire new employees. To this end, it is imperative that options are written into collective bargaining agreements to give individual employers and their employees the leeway needed to promote employment and create secure jobs.

Incidentally, in practice – and this should also be made clear – there have been many success stories involving such exception clauses on the basis of current collective bargaining law. These successes should not be downplayed.

These successes have created jobs and training positions and have increased the competitiveness of the companies.

It is clear, however, that company agreements concluded on the basis of exception clauses in order to secure jobs and particular business locations require the approval of the collective bargaining partners.

But it also clear that dogmatic inflexibility is just as counterproductive as aggressive attacks on the collective bargaining system.

Appropriate regulations must be made in collective bargaining agreements in order to create a more flexible framework. That is the challenge facing the collective bargaining partners, and it is also their responsibility. Article 9 of the Basic Law makes independent collective bargaining a constitutional right. But it is not only a right, but also an obligation, because Article 9 obliges collective bargaining partners to assume responsibility for the economy and society in general. Individual interests cannot and may not be placed above the interests of society as a whole.

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Therefore, I expect the collective bargaining partners to forge – along the lines of what already exists, but on a far broader scale – in-company alliances, as is already the case in many sectors. If this does not happen, then legislation will have to be passed.

[...]

Solidarity, the protection of the weaker members of society, and insurance against life's risks are not only enshrined in the constitution. They are, at least in my mind, the foundation of our social order.

We have been witnessing a totally nonsensical debate – and not just in recent weeks – in which people are acting as if we were deciding whether to abolish the welfare state or maintain the status quo. In view of the radically changed conditions of the economic basis of our society, anyone who poses the question in this way has already lost.

It is perfectly obvious that a society such as ours can only have a really good future as a modern welfare state. Cohesion in a society in which demographics, the type and length of employment, but also cultural conditions are changing so dramatically can only be guaranteed in the form of a welfare state. But we have to stop burdening the labor factor (and it alone) with the costs of welfare benefits that serve society as a whole.

To be sure, we will achieve considerable savings by restructuring the system and reducing the bureaucracy. But it will be absolutely essential to cut entitlements and benefits that are already overburdening the younger generation and thwarting our country's prospects for the future.

People working in factories and offices expect us to lower the burden of taxes and levies. Let me emphasize once more: We will do that in stages in 2004 and 2005. Our measures to modernize the social security system will reduce non-wage labor costs. That is certainly not always easy and the measures that we will have to implement in addition will definitely not be easy. We will limit unemployment benefits for people under fifty-five to twelve months and for people over fifty-five to eighteen months, because this is necessary in order to keep non-wage labor costs under control. Therefore, it is also necessary, against the backdrop of an altered job placement situation, to offer incentives to work.

Of course, no one is excited about this. That's simply how it is, and I didn't think it would be any different. Occasionally, unpopular measures have to be implemented anyway – and, by the way, I'm not greeting these measures with enthusiasm either. But they are necessary nonetheless. And that's why we'll implement them.

[...]

This has been my presentation of what I call "Agenda 2010." I have described what we have to do to overcome our difficulties – step by step, no question, but we must tackle them – and develop Germany's strengths anew. Our country has great potential, there can be no doubt about that – potential that we can and must awaken through joint efforts.

We are placing demands on society but we are doing it so people can be given new opportunities to develop their skills and deliver high performance.

We want to create these opportunities for ourselves. First of all, this means opportunities for education and investment in research and development.

Other countries have shown us that far-reaching structural reforms have to go hand in hand with greater investments in education and research in order to achieve lasting success. But the following must also be changed: in no comparable industrial country does social background have such a decisive influence on

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educational opportunities as it does in Germany. That cannot continue.

[...]

Our country must become a center of confidence in Europe once more – both for our own sake and also for the sake of Europe.

I imagine that there are a lot of know-it-alls in associations and elsewhere who are already putting forth new demands, even before the present demands have been thoroughly implemented. I want to say to all of them: not all of today's problems started yesterday. Not all of the solutions we are discussing today can have an impact tomorrow. But I am determined not to continue allowing prolonged procrastination over problems just because they seem all but insurmountable.

Ladies and gentlemen, I will not accept solutions failing because of special interest groups, because the strength to find common ground is lacking.

We Germans can be proud of the strength of our economy, of the achievements of our people, of the strength of our nation, and of the social traditions of our country.

We have everything we need to create a good future for our children. If everyone does his or her part and stands together, we will achieve this goal.

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