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To the point!

Cross-Asset- and Strategy-Research

A good week for Germany

Social reform and wage agreements: cooperation works!

Germany is facing a recession. It is being forced upon us by an energy crisis and a loss of purchasing power due to inflation.

It is therefore all the more important that the social and political forces stand together and work constructively on possible solutions. And that is precisely what we saw in abundance last week. That makes me optimistic that we will meet the special economic challenges facing us with a special sense of responsibility.

Good compromises on labor market reform

Exhibit A: The reform of labor markets. The Schröder government's labor market reforms ("Hartz IV") helped Germany twenty years ago to get back on its feet and has brought a steady increase in employment. At the same time, however, it is also true that the reforms were designed in a completely different context. Germany was the "sick man of Europe" and record unemployment was a cause for grave concern in the country back then. Today, by contrast, we are suffering from a glaring shortage of labor.

A review of the increasingly unloved Hartz IV regime was therefore indicated. The focus must shift from rapid integration into the labor market to promoting education and training. This was precisely the thrust pursued by the traffic light coalition. But it also overshot the mark a bit. In the government's plan sanction mechanisms for uncooperative recipients of social benefits were scaled back too far. Protected private assets of the unemployed were set too high. This would have increased the risk of blunting that work incentives. With over 900 thousand unfilled job offers,



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The political and social forces pull together

A good compromise in reforming labor markets

we cannot afford that the state provides financial support to help people to stay outside the labor market.

This is where the opposition comes in. Since the approval of the Bundesrat (Upper House of parliament) is necessary to enact the labor market reform, the government had to bring the CDU on board. And so it came to pass that after only 90 minutes of sitting in the mediation committee, the best of all worlds was reached by compromise. Work incentives are largely retained, further training will play a bigger role and, at the same time, a slide into social exclusion is largely prevented for those affected. It all starts on January 1. This is how cooperation works!

Collective bargaining outcomes promote stability

Exhibit B: collective wage agreements. The eagerly awaited pilot agreement for the metal industry in Baden-Württemberg came to an end without much fanfare, rhetorical armament or waves of strikes. The union IG Metall had demanded 8%. It got it, but only spread over two years, rather than in one fell swoop. In view of the significantly higher inflation, the union agreed to a deal that will result in real wage losses for its members. The situation was similar in the chemical industry. This sense of responsibility for the overall economy deserves our respect.

One-off payments exempt from tax- and social security contributions help employees to cope with escalating prices, but without permanently increasing the cost base for companies. In this respect, the "[Concerted Action](#)" called by Chancellor Scholz in the summer was successful.

But companies, already battered by galloping producer price inflation, now also have to shoulder rising personnel costs. So everyone is doing their part to get us through this crisis safely and to secure employment. This is how cooperation works!

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