Measuring German, Austrian and Swiss Reform Activities: The D A CH – Reformbarometer

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Cologne Institute for Economic Research

Tokyo, September 8th, 2015
The D A CH Barometer – What is it?

The D A CH Barometer – Results

Important issues of the D A CH Barometer
The Reformbarometer – History

- In 1999 the British magazine „The Economist“ branded Germany as „... the sick man (or even the Japan) of Europe“.
- In September 2002 Chancellor Schröder was elected for a second term.
- With the introduction of the 2nd Schröder government the Cologne Institute for Economic Research started the Reformbarometer to monitor the coming pointers of the reform. It was published on a monthly basis.
- In 2006 our partner institutions Wirtschaftskammer Österreich and Avenir Suisse joined the project in order to create the annual D A CH Reformbarometer.
- In 2012 the methods of the Reformbarometer were revised.
The methods of the D A CH Reformbarometer

- Basic idea: Qualitative policy consequence assessment.
- Main point: To rate the current political decisions based on a fixed set of criterias for selected policy areas.
  - In the beginning: labour market, social security, tax and fiscal policies.
  - In 2012 several new policy areas were added: education, financial Markets, infrastructure / innovation / competition.
- All indicators were set to 100 in September 2002.
  - The Reformbarometer measures the variation of regulatory quality not the overall quality.
- New laws are rated according to their impact on the set of criterias.
The D A CH rating system – an example

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<td>1.1 Credit and capital supply of the economy improved</td>
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<td>2.3 Protection of Investors and debtors improved</td>
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<td>3.1 Resistance against external shocks improved</td>
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<td>3.3 Independence of monetary policies improved</td>
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<td>119,4</td>
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Source: Cologne Institute for Economic Research
Problem: Different levels in the beginning

Unemployed persons in per cent (ILO-Concept)

- All countries started in 2002 with an indicator of 100, but especially Switzerland had a better regulation in many policy areas.
- Improvement inside the indicator was harder to achieve for the Swiss.
- Germany performed quite well since 2002, but why?
- Due to a policy of reform?

Source: OECD iLibrary

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The D A CH Reformbarometer

September 2002 = 100

Sources: Cologne Institute for Economic Research, Wirtschaftskammer Österreich, Avenir Suisse

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The D A CH Reformbarometer for Germany
September 2002 = 100

Source: Cologne Institute for Economic Research
Performance boost due to new indicators

Partial indicators according to the new method – January 2011 = 100

- German regulation concerning education, financial markets and infrastructure was rather poor at the starting point. Improvements were quite easy to accomplish.
- The Government preferred a „policy of the steady hand“ in this period.
- Social security reforms resulted in higher burdens for the younger generation.

Source: Cologne Institute for Economic Research

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The Barometer: old and new methods

September 2002 = 100

Source: Cologne Institute for Economic Research

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The main problem – social benevolences

Partial Indicators according to the old method – September 2002 = 100

- When times got better the government started to provide social benevolences.
- Burdens were shifted towards the younger generation.
- Many changes concerned the nursing insurance.
- Competition in the social insurance schemes was steadily decreased.

Source: Cologne Institute for Economic Research

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Comparison of 4 governments since 2002
Month coming into office = 100

Source: Cologne Institute for Economic Research

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State finances: heavy impact by debt brakes

- Switzerland embedded a debt brake in its constitution in 2003, Germany in 2009.
- The introduction of the debt brake in 2009 scored 170 points in the D A CH Reformbarometer for Germany.
- In 2014 Germany reported the first balanced budget since 1969.

Source: OECD iLibrary
The Swiss debt brake – a success story

Governmental spending and targets of the debt brake in Switzerland – in Mio. CHF

- A review after 10 years with a debt brake showed a positive impact on governmental spending.
- In the past the government exceeded the debt brake targets in any year. In 2015 this might change due to the impact of the strong Swiss franc.
- The central governments dept quota reached 19 per cent of GDP.

Source: EFV, 2015

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Debt brake in Germany: An important step

Governmental spending and targets of the debt brake in Germany – in billion Euro

- For the federal government the German debt brake means that the new structural debt, i.e. cyclically adjusted borrowing, must not exceed 0.35 per cent of GDP from 2016 on.
- The federal states must fulfill the debt brake until 2020.
- The IMF predicts compliance with the Maastricht target in 2019.

Sources: Ministry of Finance, own calculations

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Dealing with the demographic challenge
Qualifications by age, 2012, in 1,000

- Qualification unknown
- No professional qualification
- Vocational training
- University (of applied sciences)
- Gap
- Children aged 0 - 15
- 5 additional age groups

Source: Statistisches Bundesamt; own calculations

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There is already a lack of skilled labour in certain professions

Number of Bottleneck Occupations by Degree
As of: May 2015

- Academic occupations: 27 (15%)
- Advanced training occupations: 40 (27%)
- Training occupations: 104 (37%)

Bottleneck Occupations: Vocational Training
Occupations with at least 100 unemployed people registered
As of: May 2015

- Elderly care: 0.27
- Refrigeration: 0.29
- Mechatronics: 0.31
- Electrical construction: 0.38
- Air transport operations: 0.40
- Train driving: 0.40
- Agricultural and construction machinery: 0.41
- Automation technology: 0.45
- Electrical operating technology: 0.45
- Railway infrastructure maintenance: 0.47

Source: Federal Employment Agency; own calculations

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Opening up for qualified immigrants

Qualification
Share of people aged 25 to 64 with a university degree, in per cent

- The federal government decided to open the German labour market for qualified immigrants.
- Several steps were taken. The most important one was the law for the recognition of foreign degrees rated in the D A CH Barometer in 2012.
- Unfortunately the policy remained inconsistent. The impact was lower than expected.

Source: Geis, 2012; Statistischen Ämter des Bundes und der Länder, Mikrozensus, 2011; own calculations
Recognition statistics under the new law

### Countries with most applications submitted 2013

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<th>Applications</th>
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<td>Poland</td>
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<td>Romania</td>
<td>1.503</td>
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<td>Russia</td>
<td>1.008</td>
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<td>Spain</td>
<td>813</td>
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<td>Hungary</td>
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<td>Austria</td>
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<td>Netherlands</td>
<td>627</td>
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<td>Greece</td>
<td>564</td>
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<td>Turkey</td>
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<td>Ukraine</td>
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### Professional groups with most applications submitted 2013

- **Medical healthcare sector**: 12,732 applications
- **Mechatronics, energy and electronics sector**: 702 applications
- **Corporate management and company administration sector**: 561 applications
- **Machine and vehicle technology sector**: 477 applications

Sources: Federal Employment Agency; own calculations