

An Anglo-German Foundation Report

# **Employment policies in Germany and the United Kingdom: The impact of Europeanisation**

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## **Executive Summary**

### **Introduction**

The need to respond to a persistently high level of unemployment in an increasingly integrated Internal Market led the EU to develop the European Employment Strategy (EES). Given the wide variation in employment performance, and in labour market policies, of the EU member states, the traditional Community method of harmonised policy did not seem feasible in the employment field. So a new mode of EU governance, the Open Method of Co-ordination (OMC), was pioneered by the EES in 1997. This involved a system of guidelines, annual reports, assessment and recommendations. Co-ordination was to be achieved by benchmarking, policy learning and peer review as well as peer and public pressure, which would lead to a movement of policies towards best practice. The OMC is hence seen as one answer to policy development as the EU enlarges and as policy extends into ever more sensitive areas. This makes it particularly important to understand the way in which the OMC operates.

This study considers the operation of the EES in Germany and the UK, which are particularly good exemplars for analysing the impact of the EES because of the large differences in their political and economic systems. The analysis sought to answer four broad research questions. First, would the EES have an impact on national institutions and the networks of actors involved in employment policy? Second, have media and public coverage of the EES led to a Europeanisation of public deliberation and opinion on employment issues? Third, has there been convergence of national employment policies due to the EES? Fourth, has the UK's employment performance been superior to Germany's as a result of its more flexible labour market? This would also provide support for the flexible labour market policies contained within the EES.

## **The EES and the policy-making process**

- The EES did not lead to the establishment of entirely new institutions and policy-making systems; existing ones were utilised, although existing institutional and procedural aspects were further developed to meet the requirements of the EES.
- The national EES-related decision-making systems are characterised by complex interactions between the ministries and *Länder* and between them and the social partners in Germany. The UK by contrast has a centralised structure, with fewer actors involved and with the consultation of the social partners channelled via one ministry.
- Social partner consultation at an early stage of the policy process was new in both Germany and the UK. The extent of this involvement was limited by the demands of the annual cycle and the time pressures involved, together with the limited resources of the social partners.
- The policy networks are generally characterised by the complexity and large number of interactions, but overall the EES is a rather closed process, with relatively few experts involved. The 2003 reform of the EES could enable the social partners to become engaged in a more meaningful way in the multi-annual policy reviews.

## **The public and media debate on the EES**

- There has been very little attention given to the EES in the media and, if anything, interest is diminishing over time.
- It is national problems and policy that predominate; between 1997 and 2002 only about 3% of the 206 employment-related articles in the 12 newspapers under scrutiny referred to the EES.
- National parliamentary debates on the EES were limited and were not discussed to any extent in the media.
- The lack of public attention given to the EES limits the effectiveness of recommendations in affecting national employment policy.
- It is notable that the EES was not used as a justification by Germany in support of its recent Agenda 2010 reforms.

## **The EES and national employment policies**

- Even though German employment policy was largely in line with the Employment Guidelines (EGs), policy change was only marginal until 2003. Fundamental reform then came with Agenda 2010, but this was motivated primarily by budgetary problems and rising unemployment.

- UK employment has generally been more congruent with the EES, but it was already aligned with the Strategy at its commencement. New measures which the UK has introduced have been the result of domestic pressures and preferences.
- The EES may affect policy more subtly by influencing the views of the circle of policy experts involved. Such an effect would only have a gradual impact on policy, and would be difficult to separate from more general processes affecting expert opinion.

### **The EES and national employment performance**

- The EES has operated for only just over six years and its effects on employment policies are even more recent. Given the lag in the effect of policies and the influence of more general macroeconomic factors, it is difficult to isolate the independent effect of the EES.
- Generally the EES supports more flexible labour market policies. The UK has the most flexible labour market in the EU, and Germany one of the more inflexible ones. So a comparison of labour market performance between these two countries provides an assessment of the potential benefits of pursuing EES policies.
- On most criteria the UK is performing better than Germany:
  - The UK's overall employment, female and older workers' employment rates are higher than Germany's.
  - Unemployment and long-term unemployment are lower in the UK.
  - Structural unemployment has fallen more in the UK than in Germany.
- Deeper analysis suggests the UK's relative performance is less satisfactory:
  - Unification has undermined overall German performance: directly as a result of the inclusion of East Germany (but the effect is small), and by depressing the overall growth of the economy.
  - Some differences such as those relating to female employment are long-standing and will only change slowly.
  - UK unemployment has been underestimated because of the existence of a significant amount of hidden unemployment – people of working age who are no longer part of the measured labour force.
  - Some aspects of German employment performance are good, e.g. the low unemployment ratio of young people, and a smaller variation in regional employment rates.

### **Conclusions**

- The impact of the EES on national decision-making processes has been rather low.
- The EES has had no real impact on the media debate or national political deliberation.

- The EES has not led to a sea-change in national employment policies, even though agenda-setting in this area has been in line with the overall targets of the EES.
- The UK with its greater conformity to the EES has enjoyed better employment performance than Germany, but the outcomes are not as good as headline figures suggest, and the problems of unification are still having an impact.
- The EES is relatively new and its impact could grow with time, but so far it has had a regrettably small visible impact on employment policy making, policy and performance.

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***Notes to the editor:***

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