



European Employment Observatory

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1. Introduction

For many years, the German labour market was characterised by a high level of structural unemployment. The share of long-term unemployment in total unemployment used to be above 50% prior to 2007, but has decreased since then. Nevertheless, in 2011, the share of long-term unemployed (those unemployed for more than 1 year) was still largely above EU 27-average (48% in Germany and 42.7% in the EU-27)¹. According to national administrative statistics the share of long-term unemployment is lower, as unemployed taking part in active labour market programmes are usually monitored as exiting unemployment, while after participation in the measure they enter a new unemployment spell. Their share among all unemployed increased from 37% in January 2000 to 41.7% in April 2007 and then decreased to 29,6% in February 2010, but rose to 32% in June 2011 (Bundesagentur für Arbeit 2011a). The long-term unemployment rate grew from 3.2% in 1995 to 6.1% in 2005. Ongoing from 2006 the long-term unemployment rate fell constantly and reached a level of 3.1% in 2011 (Bundesagentur für Arbeit 2011a)². The long-term unemployment rate according to LFS data rose from 4.0% in 1995 to 6.0% in 2005 and afterwards fell constantly to 2.8% in 2011.

The development of the German labour market was marked by increasing unemployment rates up to 2007 when overall unemployment began to fall. This past trend was described by some observers by the hysteresis effect (e.g. Bundesministerium für Wirtschaft und Technologie 2012, Klinger/Rothe 2010), but it seems that it could be reversed during the upswing which preceded the global financial and economic crisis (2006-2008). The German economy recovered rapidly after a fall of GDP in 2009 (Figure 1).

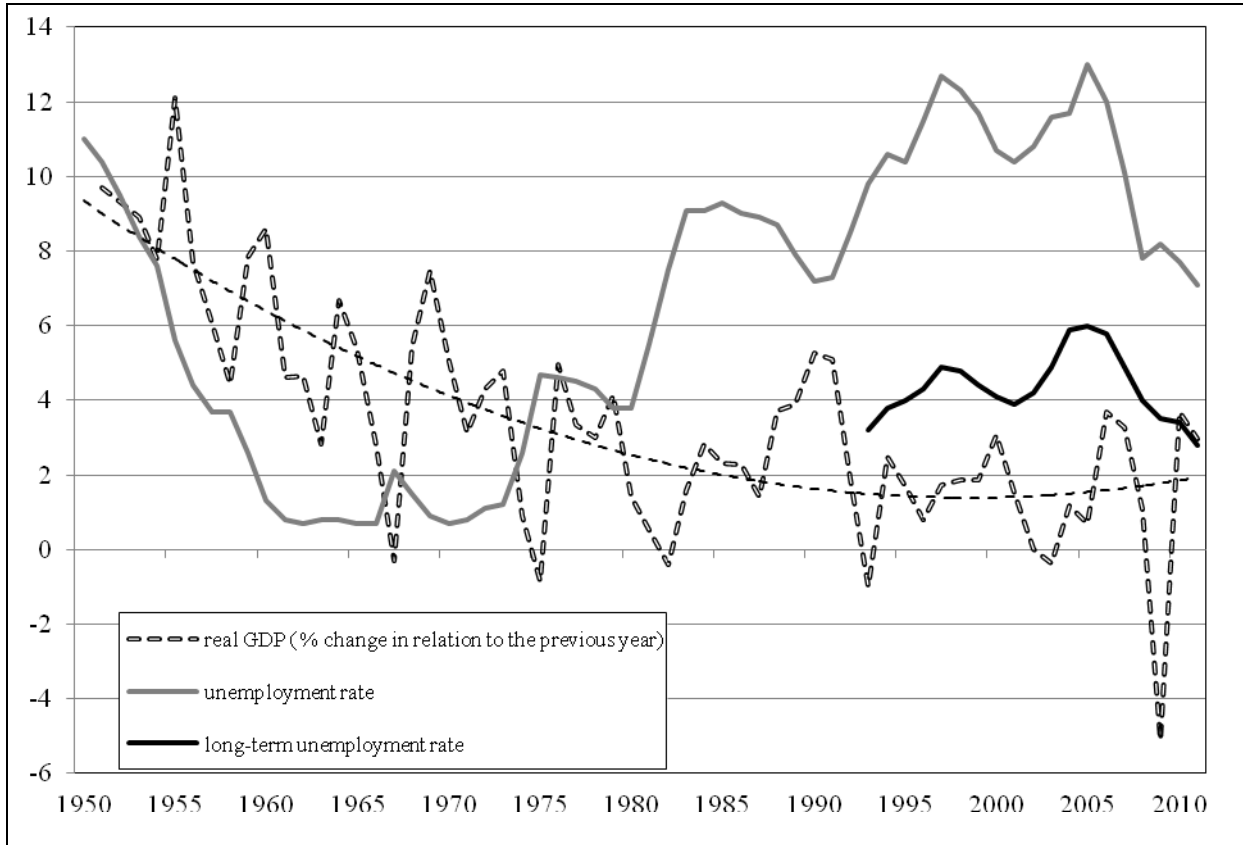
Problems at the labour market to adapt to structural change due to skills mismatches and inflexibilities at the labour market were one of the reasons for the long-term trends towards rising unemployment rate, a slowing down of economic growth over the past decades another reason (see Figure 1). Although, employment increased over the past decade (by 3%), labour volume measured by the sum of annually hours worked declined slightly between 2000 and 2010 as employment growth was driven by increased part-time employment of women (Federal Statistical Office of Germany, national accounts). A

¹ In 2007, the corresponding share was 56.6% in Germany and 42.7% in the EU-27 (Eurostat, LFS).

² In 2010, about 13.7% of unemployed had been unemployed for 1 to 2 years and 16% for more than 2 years (www.sozialpolitik-aktuell.de).

further explanation for the past long-term trend of rising unemployment and high long-term unemployment rate refers to the institutional setting.

Figure 1 Development of annual growth rates of GDP, unemployment rate and long-term unemployment rate in Germany, 1950-2010, in %



Source: Eurostat (for the share of long-term unemployed), German Federal Statistical Office, IAB, statistical yearbooks of the GDR 1955-1960/61, 2008–2009 statistics of the German Federal Employment Agency, own calculations.

2. Incidence of long-term unemployment across different groups

With decreasing long-term unemployment, the share of disadvantaged groups among long-term unemployed has risen (e.g. low-skilled, people with health problems, older workers).

Low-skilled workers

In 2011, the unemployment rate among the low-skilled (ISECD 0-2) amounted to 13.4% and was five times as high as among high skilled (2.5%, ISCED 5-6); the unemployment rate of those with a medium skills level was 5.8%. Between 2007 and 2011, unemployment fell more sharply for the high- and medium skilled than for the low-

skilled (Eurostat, LFS). The share of people with no formal vocational training among long-term unemployed represented nearly half of all long-term unemployed in 2010 (Eichhorst, Thode 2011).

Age

The probability to exit unemployment for regular employment sharply decreases with age (Dietz, Walwei 2011). While over the past three years unemployment decreased for prime age workers as well as for those men and women being 55 to 59 years old, it increased for men being 60-64 years old (Eurostat, LFS) in a context of rising employment rates among all groups of older workers. Although the long-term unemployment share among the 50-64 years-old unemployed could be reduced from 73.2% in 2007 to 62% in 2011 it is still above German average. Labour market risks and low recruitment rates of older people are linked to low educational and skills levels (Duell, Vogler-Ludwig 2012).

Note, that youth unemployment has generally been less a problem than in many other countries. The same is true for long-term unemployment of youth (15-24 year olds) in Germany which amounted to 23.9% (share of that age group) compared to the EU average of 30,1% in 2011 (share of all unemployed in this age group, Eurostat, LFS).

People with health-related employment barriers

In December 2010, about 23% of long-term unemployed had health-related problems. While the number of long-term unemployed could be reduced by 42% between 2005 and 2010, the number of long-term unemployed with health-related employment barriers could be reduced by only 29% (Eichhorst, Thode 2011).

People with a migration background

People with a migration background³ are twice as likely to be long-term unemployed than people without a migration background as they are largely overrepresented among the low-skilled labour force. Following the general recent trend, their long-term

³ A person with a migration background is (i) a person without German citizenship, (ii) a person whose birthplace is located outside the current borders of the Federal Republic of Germany and migration to Germany happened after 1949 or 3) the birth place of at least one of the person's parents is located outside the current borders of the Federal Republic of Germany and migration to Germany happened after 1949 (according to German Federal Statistical Office)

unemployment rate could be reduced in recent years (Engels et al. 2011).⁴

Regional differences

The long-term unemployment share decreased in all *Länder* between 2007 and 2010, in particular in the most economically dynamic regions. In 2010, the long-term unemployment rate varied between 7.5% (*Land Berlin*) and 1.6% (Bavaria).

3. Factors driving transitions into and out of LTU

In contrast to other European countries, and despite a large drop in production and in GDP, the past global financial and economic crisis did not have a large negative impact on unemployment. Labour volume could be reduced through pursuing a strategy of internal flexibility. Key elements consisted of reducing working hours in the context of flexible working-time schemes, which were put in place by the social partners well before the crisis started, and the take-up of short-time work by companies. High take-up of these measures is related to skills shortages experienced by companies during the upswing preceding the crisis.

During the most recent upswing search-unemployment increased, reflecting high labour market dynamics. Thus, between 2010 and 2011, the number of unemployed with unemployment spells for less than 1 month increased slightly, while the number of those being unemployed for more than 1 month declined. Overall, between 2007 and 2011 the number of unemployed with unemployment spells ranging between 24 and 47 months could be halved (Table 1).

Table 1 Changes in unemployment rate by duration of unemployment in months, 2007-2011, in %

< 1 m	1-2 m	3-5 m	6-11 m	12-17 m	18-23	24-47 m	>48 m	Total
1.8	-16.8	-19.9	-22.3	-32.5	-41,4	-50,7	-36,8	-30,6

Source: Eurostat, LFS

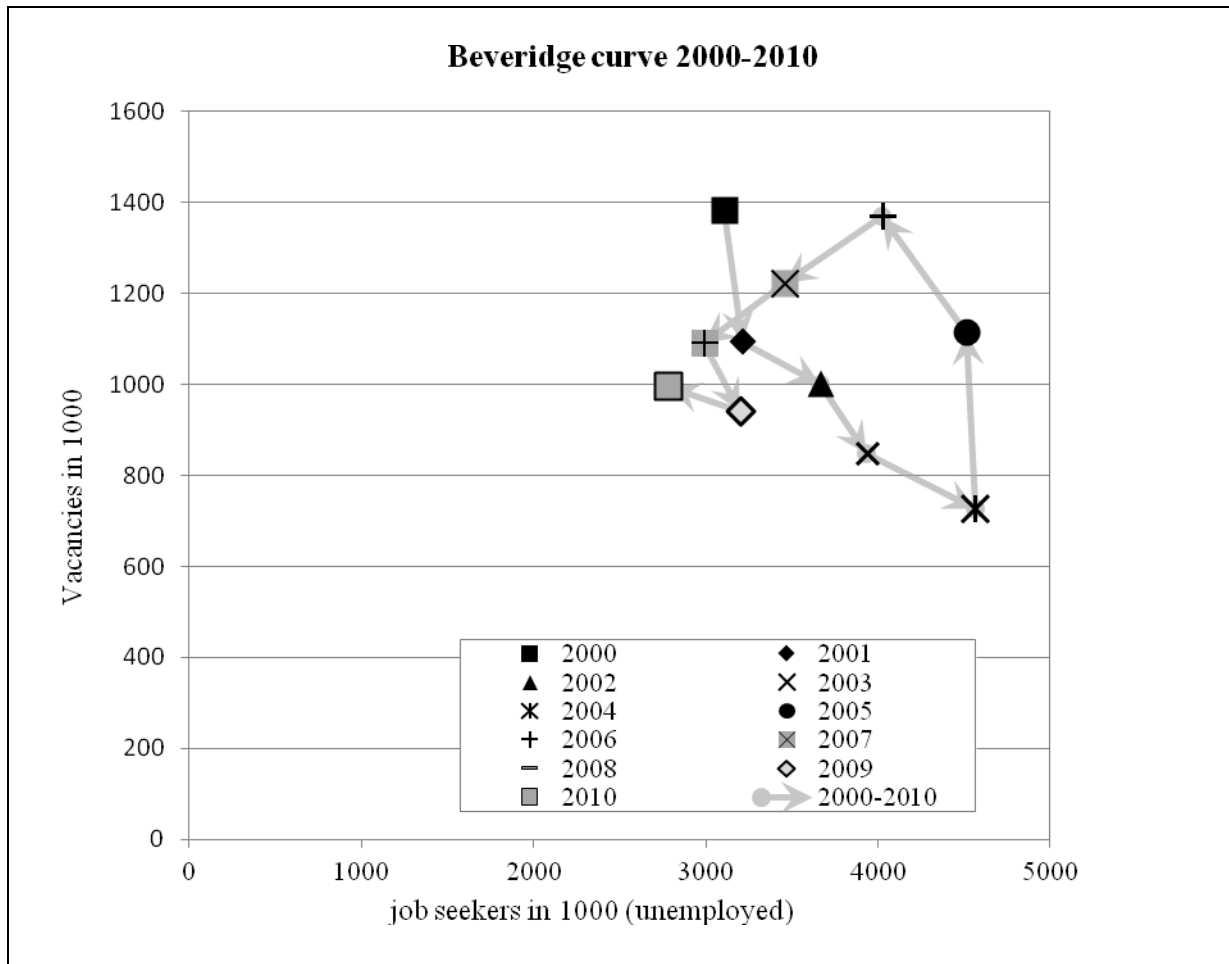
Between 2007 and 2010, the inflow rate⁵ into unemployment increased from a level of

⁴ Although the fall in long-term unemployment was a little bit lower for people with a migration background, in particular among women.

15.3% to 19.1%. At the same time the outflow rate also increased from 16.3% in 2007 to 19.3% in 2010.⁶ Only in 2009 the outflow rate was lower than the inflow rate. The inflow rate into long-term unemployment rose from 5.2% in 2007 to 7.5% in 2010 and the outflow rate rose from 8.5% in 2007 to 9.5% (Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Lage 2011).⁷

Over the past decade, the ratio between the number of vacancies and number of unemployed was lowest in 2004 and improved over subsequent years. In the year 2009, however, the vacancy-unemployment-ratio dropped again but quickly recovered in 2010 (Figure 2).

Figure 2 Number of vacancies and of unemployed in Germany, 2000-2010



Source: BMAS (Federal Ministry of Labour), Eurostat, IAB, Economix Research & Consulting

⁵ Measured as the ratio between the number of inflow to the stock of unemployed; yearly average.

⁶ From January to September 2011 inflows decreased on average to 18.1% and outflows to 18.4%.

⁷ From January to September 2011 inflows into long-term unemployment declined to 7% on average and outflows to 8.5%.

Data for the year 2011 show that 14.9% of those exiting long-term unemployment over the whole year took up a job on the regular labour market⁸, 23% participated in an active labour market programme, 3% terminated long-term unemployment on the grounds of specific rules because they could pre-retire or had a reduced working capacity, 4.1% exited working life, 11.1% were not available for work or not cooperative. As much as 35% exited long-term unemployment due to disability (Deutscher Bundestag, 2012).

In Germany, training measures are the most important ALMP in terms of budget and participants. The outflow rate out from unemployment into participation in an ALMP – training measure increased from 2.8% in 2007 to 4.9% in 2010 for all unemployed, and from 1.5% to 2.4% for long-term unemployed (Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Lage 2011). In contrast outflows rates due to participation in a job creation measure (the so-called second labour market, “*zweiter Arbeitsmarkt*”) declined slightly for the unemployed and the long-term unemployed and amounted 1.2% for long-term unemployed and rose to 1.3 for unemployed as a whole in 2010.⁹

4. Policies to prevent and tackle structural unemployment and LTU

4.1 Active labour market policies

Main reasons for the stabilisation of the labour market ongoing from 2009 are perceived to be linked to the implementation of the so-called Hartz labour market reforms (Klinger, Rothe 2010).

With regard to the more vulnerable groups (mainly the low-skilled), the so-called Hartz-reforms departed from the hypothesis that the flexibility of the labour market needed to be increased and the low-wage sector widened (wages were found to be rigid at the lower end) in order to open up employment opportunities for the low-skilled. Therefore, a strand of reform was concerned with: (i) easing temporary agency work, (ii) increasing

⁸ Note that exit rates from long-term unemployment into employment increased from 2.2% in January 2000 to 3.3 in December 2008 (and 3.2% in June 2011) (Bundesagentur für Arbeit 2011a).

⁹ The number of persons exiting long-term unemployment for taking-up a job on the regular labour market fell from 29 000 in June 2007 to 23 000 in June 2008 and 15 000 in June 2009. In the context of the economic upswing exits increased to a level of 25 000 in June 2010 and 21 000 in June 2011 (Bundesagentur für Arbeit 2011a).

the incentives for “marginal” employment (“mini jobs”¹⁰ and “midi jobs”¹¹) which helped to increase employment rates of women and older workers¹², and (iii) ongoing from 2005 a new type of job creation scheme designed as an in-work benefit scheme was implemented (the so-called “one-euro-jobs”).

In its National Reform Programme 2012, the German government strives towards a reduction of long-term unemployment by 20 percent until 2020 (base year: 2008). The German Government explicitly mentions policies directed towards the long-term unemployed (Bundesministerium für Wirtschaft und Technologie 2012).

In the following, an overview of major ALMPs which are likely to have contributed to reduce long-term unemployment or to have prevented entry into long-term unemployment is given.

Training measures for disadvantaged groups

It is widely recognised, that the dual training system contributes towards easing the transition from training to employment, as a number of trainees are taken over by the companies after having accomplished their training. However, entry into the training system is problematic for some groups. Young people at risk of not getting vocational training are largely overrepresented among young people with a migration background and a poor socio-economic status of the parents.

Therefore, Germany has created a huge ‘transition system’ for young people who do not succeed to access regular vocational education and training, among whom young people with a migration background are largely overrepresented (Vogler-Ludwig, Stock 2010). Preparatory measures (*Berufsvorbereitende Maßnahmen*) designed to ease the entrance into the vocational training system have played an important role in the past years.

In addition some smaller measures are implemented for immigrants: e.g. language

¹⁰ Mini jobs: *Geringfügige Beschäftigung* - jobs with monthly incomes up to EUR 400. These can be regular or occasional jobs and jobs in addition to regular employment. Employers pay 30 % of wages to social insurance.

¹¹ Midi jobs: Registered employment with monthly wages between 401 and 800 € and reduced social insurance premiums.

¹² The part-time share of older workers aged between 55 and 74 years increased from 31.1% in 2000 to 40.2% in 2010.

courses, specific programmes implemented in deprived areas (e.g. BIWAQ¹³) and upskilling people with a migration background and jobseekers with a low skills level in general (e.g. network integration through qualification (*Netzwerk "Integration durch Qualifizierung" IQ*)).

Wage subsidies

Integration wage cost subsidies (*Eingliederungshilfen*) are meant to compensate employers for productivity disadvantages when employing difficult-to-place jobseekers. The objective is to integrate unemployed with placement difficulties into regular, preferably long-term, employment.¹⁴

Evaluation studies have shown that in general the match between integration wage costs subsidies and jobseekers with particular placement difficulties is satisfying (Brussig et al. 2011). However, the measure seems to have a greater impact on the employment duration rather than on the hiring probabilities of disadvantaged groups.

A smaller and more targeted programme is “JobPerspektive”, which provides wage subsidies to employers (up to 75% of gross wage costs) and aims at long-term unemployed persons with at least two employment barriers (Koch et al. 2012).

Direct job creation

The so-called Hartz reforms introduced a new type of wage cost subsidy for additionally created jobs with a social or ecological utility. In contrast to other schemes, they are legally not based on an employment contract. The stock of persons participating in “one-euro-jobs¹⁵” amounted to 261 000 in December 2010 representing about a sixth of ALMP participants (for inflows and outflows data see section 3 above). The German Trade Union Confederation has expressed its criticism about one-euro-jobs as referrals to this measure are not well targeted towards those who are the most difficult to place (DGB 2011). Furthermore, there are displacement and substitution effects.

¹³ BIWAQ - *Bildung* (education), *Wirtschaft* (Economy), *Arbeit im Quartier* (Work in the neighbourhood) is a programme initiated by the Federal Ministry of Transport, Building and Urban Affairs to integrate long-term unemployed and young people into work and vocational training at the urban level (http://www.bmbf.de/pub/bbb_09_eng.pdf)

¹⁴ From 2007 to 2010, there were yearly 280 000 inflows into this measure, in 2010 the number of inflows amounted to 260 000 (Brussig et al. 2011).

¹⁵ In addition to their means-tested benefit, the participants of “one-euro-jobs” are paid 1 to 2 Euros per hour. The measure generally last between 3 and 12 months.

A smaller direct job creation programme is Kommunal Kombi, a federal programme co-financed by federal funds and funds of the ESF; it concentrates on job creation for long-term unemployed in regions with exceptionally high unemployment rates. Funding will expire in the end of 2012¹⁶). Another smaller measure implemented at regional level is the activation programme community work (*Bürgerarbeit*).

In the light of the current debt crisis, the Government decided in July 2010 to cut down public expenditures (*Zukunftspaket*)¹⁷, including cuts in expenditures of the PES (*Bundesagentur für Arbeit*). Major elements are a cutting-back of one-euro-jobs and some other job creation schemes, as a stronger focus is set on the objective to integrate long-term unemployment at regular labour market.

Specific measures for older workers

The federal programme “Perspektive 50 Plus” has been established to promote recruitment of older workers. This is implemented at *Länder*-level. In addition to wage subsidies the programme foresees support for companies in their recruitment activities, promotion of mobility, and placement in temporary agency work (Duell, Vogler-Ludwig, 2012).

4.2 Policies aimed at reducing skills shortages/anticipating skills needs/re-skilling long-term unemployed

Demographic change and skills shortages have become a major concern in Germany. Against this background, the Federal Ministry of Labour has developed a concept to secure future skills (Bundesministerium für Arbeit und Soziales 2011, Bundesagentur für Arbeit 2011b). Skills forecasting is being carried out and is developed further (Prognos AG 2008, Zika, Helmrich 2010). The Federal Ministry of Labour launched a major skills forecast project by sector and occupations by 2030.

¹⁶[http://www.iaw.edu/iaw/De/Forschung:Arbeitsm%C3%A4rkte und Soziale Sicherheit:Laufende Projekte:Kommunal-Kombi](http://www.iaw.edu/iaw/De/Forschung:Arbeitsm%C3%A4rkte%20und%20Soziale%20Sicherheit:Laufende%20Projekte:Kommunal-Kombi)

¹⁷ www.bundesregierung.de/Webs/Breg/DE/Sparprogramm/sparprogramm

4.3 Unemployment benefit system

The main changes introduced by the Hartz reforms relating to the unemployment benefit scheme consisted of a reduction in the maximum length of unemployment benefit I¹⁸ receipt and the introduction of the means-tested unemployment benefit II¹⁹, which in large part replaced the social assistance benefit. As a result of the benefit reform unemployment rose in 2005, as a number of people who were social assistance recipients had to register as unemployed and search for a job but had not done before the reform.

In 2010, about 41% of unemployment benefit II recipients were long-term unemployed. Other unemployment benefit II beneficiaries include mainly people in employment with low income²⁰ as well as people in education and training and short-term unemployed who are not eligible to unemployment benefit I. The other way round, there are some long-term unemployed among unemployment benefit I recipients (older people).

According to a study carried out by the German Institute for Economic Research (Goebel et al. 2010), the share of low-income earners increased from 18 % to 22 % between 2000 and 2009, and their average income decreased from 680 euro to 645 euro per month. The stronger need to live from labour income rather than public transfers enabled employers to fill low-paid jobs even at decreasing wages. As a result, the share of employed persons who depend on public transfers in addition to their labour earnings increased to 1.4 million (Duell, Vogler-Ludwig 2011).

In 2011, about 86% of long-term registered unemployed with an unemployment duration of 12-17 months were in receipt of unemployment benefit I or unemployment benefit II, while the share of benefit recipients amounted to 75% in 2007. Similarly, the share of benefit recipients being unemployed for 18 to 23 months increased from 74% in 2007 to

¹⁸ *Arbeitslosengeld I*: Regular unemployment benefits for singles provide 60 % of the last net income for 12 months. For parents the rate is 67 %. The regulation is included in Social Code Book III (SGB III).

¹⁹ *Arbeitslosengeld II ("Hartz IV")*: Means-tested basic income for job seekers, paid after expiration of regular unemployment benefit. The basic rate is 374 EURO per month. The regulation is included in Social Code Book II (SGB II). This is also known as basic income benefit.

²⁰ It is possible to combine work and the receipt of Unemployment Benefit II (known as the *Aufstocker*) up to a certain threshold, e.g. a single household with gross earnings of 1 200 € will not receive means-tested Unemployment Benefit II (Koller, Rudolph 2011).

81% in 2011 and for those being unemployed for more than 48 months from 79% to 89%. The major increases in the share of beneficiaries registered as unemployed could be recorded between 2010 and 2011 (Eurostat, LFS).

As part of the Hartz reform in Germany, young people are eligible to the so-called unemployment benefit II, which is means-tested. This involves the obligation to participate in education and training, to accept public jobs, or to combat drug problems etc. They have to sign an integration agreement with the PES. In addition, in Germany the sanction mechanism for not taking-up a job or a training measure are more severe for young people compared to adults.

Sanction rates increased between 2007 and 2011, both for adults and youth. In 2011, the sanction rate among unemployed benefit II recipients was on average 12.4% for youth and 5% for all job seekers. The main reason for the recent increase was misbehaviour in reporting, which accounted for two thirds of sanctions in 2011. About a sixth of beneficiaries were sanctioned for not complying with obligations fixed in the activation agreement and one in seven for refusing to take up or continue a job, training or an ALMP (www.statistik.arbeitsagentur.de).

5. Conclusions

Declining shares and rates of long-term unemployment in Germany and a reversal of the long-term trend of rising unemployment marks a major turnaround at the German labour market.

Several factors seem to have helped to reverse the former trend and to break persistence of high long-term unemployment:

- Economic dynamics before and after the economic crisis hit Germany;
- The introduction of the means-tested unemployment benefit II in 2005 (merging social assistance and unemployment assistance) and the shortened entitlement period to the more generous unemployment benefit is likely to have boosted job-search intensity of some groups of jobseekers and increased their acceptance of fixed-term contracts and agency work;

- The expansion of the low wage sector eased by the Hartz-reforms;
- The expansion of small part-time jobs;
- Activation of young people and the implementation of the “bridging system” helping disadvantaged young people to integrate the training system;
- The implementation of active labour market policy measures, in particular training measures, seems to have been more successful in an improved labour market environment and have helped to prevent inflows into long-term unemployment.

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