

**Discussion Paper**

**EUROPEAN EMPLOYMENT OBSERVATORY  
GERMANY**

**Job Summit Promoting the Hartz Reforms**

**Quarterly review of labour market trends and policies  
1<sup>st</sup> Quarter 2005**

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## 1. Introduction

The red-green Federal Government undertook four major policy steps during the first four months of 2005, based on the Agenda 2010, the principal reform programme passed in March 2003 (see Annex, Box 1):

- (1) the implementation of the Hartz-programme – which is the reform of public unemployment insurance and active labour market policy – was completed by its last module Hartz IV. This included the combination of means-tested unemployment aid and social benefits, and the reduction of payment periods for unemployment benefits.
- (2) a “20-articles programme” was established in April 2005 in order to update the Agenda 2010 and to find the political compromise with the conservative opposition on a “job summit”;
- (3) The continuation of the tax reform concentrating now on capital income tax and inheritance tax.
- (4) The reform of the vocational training system through a new Vocational Training Act from 1 April 2005.

These measures were undertaken in a situation of severe imbalances on the labour market, with unemployment reaching a new peak of 5.2m in February 2005, and economic perspectives becoming gloomier. Coming closer to the important State election in North-Rhine-Westfalia in May, the political actors had to show the ways how to solve the unemployment problem. Therefore, the political programmes were updated while the implementation of measures in the parliamentary decision process remained to be controversial.

The public and scientific debate concentrated on two issues: the principal discussion on de-industrialisation was continued, and in the course of the EU directive on services a minimum-wage debate started with numerous contributions from policy actors, social partners and scientists. Both debates are presented by this report.

## 2. Labour market policy developments

### 2.1. Policy actions

#### 2.1.1. Completion of the labour market services reform: Hartz IV

The reform of labour market services was prepared by the *Hartz-Kommission* in 2002 and implemented by four steps:

- Hartz I (January 2002): introduction of public temporary work agencies (Personnel Service Agencies, PSA)
- Hartz II (January 2002): reorganisation of public employment services to Job Centres and introduction of marginal jobs regulation “mini- and midi-jobs”; support of self-employment of unemployed persons through the “Me plc” instrument (‘Ich-AG’) providing grants for unemployed people to become self-employed;
- Hartz III (January 2004): restructuring of public employment services to the Federal Employment Agency.
- Hartz IV (January 2005): merging unemployment aid and social welfare benefits to the basic income for job seekers (“Unemployment Benefit II”);

The reform programme is actually evaluated by various research teams. Results will be available in 2006.

The review of latest data for the reform shows a scattered picture (*Bundesagentur für Arbeit 2005*):

- The number of workers employed by PSAs has meanwhile decreased to the level of 23,000 in March 2005 (-13 % to the previous year). It was the expectation of the Hartz-Kommission that 150,000 to 250,000 persons will be employment by the agencies.
- A high number of unemployed used the possibilities to become self-employed either with the start-up grant for the “Ich-AG” (March 2005: 247,000; +94 % to previous year) or with the transition grant “Überbrückungsgeld” (March 2005: 97,000; +23 %)<sup>1</sup>.
- An increasing number of workers in mini-jobs<sup>2</sup>. The Federal Employment Agency (Bundesagentur für Arbeit; BA) estimates for the 1<sup>st</sup> quarter of 2004 a number of 4.7m mini-jobs in exclusive occupation, and further 1.6m mini-jobs in additional occupation.

The overall number of persons supported by active labour market measures of the BA decreased by 10 % over the period of March 2004 to March 2005.

By January 1<sup>st</sup> 2005 the last module of the Hartz reform (Hartz IV) was implemented by

- (1) reducing the maximum unemployment spell for regular unemployment insurance to 12 months for younger workers and 18 months for workers aged 55 and above.
- (2) the introduction of the “unemployment benefit II” as a the combination of the former unemployment aid and social benefits.

The two steps are closely linked as the former unemployment aid was paid to unemployed persons whose unemployment spell exceeded the maximum period of regular unemployment insurance. The reduction of the maximum period was expected to raise the number of beneficiaries substantially. In parallel, the system of social aid supported a great number of employable persons without a job (approximately 1m, 50 % of social benefits recipients).

The new unemployment benefit II was characterised as a major step of the Hartz reform as it merged two tax-funded systems with similar target groups. Most importantly, it includes incentives to work obliging beneficiaries to search for jobs and to accept every job offer by the labour offices. The volume of incidental incomes was extended (see below). Two instruments were created to raise job opportunities of the recipients: an entry benefit (Einstiegsgeld) supports the entrance into new jobs for a maximum of 24 months, and additional jobs (Zusatzjobs) are created by public authorities and non-profit organisations in social and environmental activities.

The data for March 2005 show 2.1m recipients of regular unemployment benefits, 4.3m recipients of unemployment benefit II, and 1.6m recipients of social aid (Sozialgeld) who are actually not searching for work. There is no evidence yet how this group of unemployed can be placed in the labour market. The high number of mini-jobs and the additional schemes for subsidised employment (1€-jobs) provide an expanding labour market for this target group.

### **2.1.2. A 20 articles programme of the Federal Government and a job summit**

The programme for strengthening growth and the business cycle was passed on 6 April 2005 by the Federal Government to update the Agenda 2010. The 20 articles of the programme concentrate on a series of labour market related measures, the continuation of the tax reform, and the promotion of businesses through direct help, investment programmes and deregulation (see Annex, Box 2).

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<sup>1</sup> The start-up grant called “Ich-AG” (me plc) is given for 3 years as decreasing monthly payments: 1<sup>st</sup> year 600 €, 2<sup>nd</sup> year 360 €, 3<sup>rd</sup> year 240 €. The transition grant “Überbrückungsgeld” paid for 6 months is equal the unemployment benefit plus the share of social security contributions which would have been paid by the labour office.

<sup>2</sup> Monthly earnings of less than 400 €.

Labour market related measures are targeting at

- *Training and youth unemployment*, where a remake of the national training pact with the employers is not only intended to reduce the lack of apprenticeships offered by the companies but also to address the specific problems of disadvantaged youths. Employers should agree to offer 30,000 additional apprenticeships and 25,000 additional entry qualifications. In addition, unemployment spells of young workers should be shortened to less than 3 months on average through individualised coaching, training and placement services. By a training programme for less dynamic regions, in eastern Germany in particular, training capacities should be extended, training networks improved and long-term training strategies developed.
- *Activation of older workers and social benefits recipients*, who should be offered more jobs through the extension of fixed-term contracts. The revision of the part-time and temporary employment act plans to allow the extension of fixed-term contracts if job duration lasts for at least two years. Through regional employment pacts for older workers, which will be negotiated with Länder governments, regions and social partners, 50,000 additional jobs for beneficiaries of the new “unemployment benefit II” should be created. Moreover, social benefits recipients will be allowed to earn a higher proportion of incidental earnings within a range of 160 to 310 € Marginal tax rates for low income earners will be reduced to 70 %.
- *Restriction of labour inflows and wage competition*, in particular with the new Member States, through the extension of the “expatriates act” (Entsendegesetz) to all or at least to relevant sectors<sup>3</sup>. A task force was established to counteract illegal employment and quasi-self-employment (see Section 2.2.2).

Moreover, existing laws will be revised. In particular applicants for the “Ich-AG” will have to provide business plans for their self-employed activities. A principle revision of the compulsory long-term care insurance is envisaged in order to avoid the rise of non-wage-labour costs.

The business sector will be supported through

- *The promotion of innovation and start-up companies*. Through loans and subsidies medium-sized companies will receive funds for innovative investments, and a “Fund for High-Tech-Investment” will promote spin-offs from companies and universities. A new internet platform called “Startothek” will provide all legal and regulatory information required by start-ups.
- *Investment programmes* for transport infrastructure which are intended to raise demand in the construction industry. Moreover, a “CO<sub>2</sub>-Building-Restoration-Programme” is expected to provide similar effects. The revision of the “Energy Supplies Law” will de-concentrate electricity and gas markets and raise investments.
- *Deregulation* which is expected to reduce costs in the business sector, in particular through the suspension of 360 regulations and laws, and the reduction of statistical reporting duties to companies. In addition, the planning procedures for construction and transport infrastructure projects will be simplified. A new approach to reform the complex structure of federalism in Germany will be undertaken.
- *Lower taxes*, in particular the reduction of corporate income tax from 25 to 19 %, the reduction of the double taxation of company profits through trade and income taxes, and the reduction of the inheritance tax. This might be balanced by the suspension of house owner benefits or other subsidies; however, the definite steps are far from being clear (for more details see Section 2.1.3).

The CDU/CSU opposition answered with a programme containing 32 suggestions for a “Pact for Germany” which was proposed as the basis for cooperation with the government

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<sup>3</sup> Until now, this act allows the construction industry to declare collective minimum wages as compulsory for all companies. The general precondition for this declaration is that collective agreements cover the area of Germany and more than 50 % of the workers in the sector are employed in companies subject to the collective treaty.

at the job summit on 17 March 2005. This programme gives similar priorities to the removal of entry barriers on labour markets, deregulation, and tax reform and is in agreement with several points suggested by the government. Among these points is the increase of incidental incomes for “unemployment benefits II”, the revision of temporary employment contracts, the simplification of planning procedures for infrastructure projects, the suspension of outdated regulations, the reform of care insurance, and parts of the tax reform. Nevertheless, the proposals reveal a different employment strategy. In particular, the paper suggests

- opening collective wage agreements for long-term unemployed;
- legal regulation of company-based labour and wage treaties as an alternative to collective agreements;
- a reform of dismissals legislation with an option for redundancy payments;
- deregulation of working time legislation and labour law in general;
- withdrawal of the government’s proposal for the German anti-discrimination act;
- reduction of unemployment insurance rates from 6.5 to 5 %;
- introduction of individual health insurance premiums, which contrast to the family-based insurance rates of the existing system.

Moreover, it urges for a principal reform of income tax and the reduction of public deficits.

### **2.1.3. Continuation of the tax reform**

In 2005 public budgets will raise the overall tax burden by 1.2b € compared to 2004. This will be 0.2 % of total tax revenues in 2005, and the same amount is planned for 2006 (*DIW et al. 2005, p. 69*). While a cut of income tax rates will reduce revenues, the cancellation of tax privileges for house owners and financial investors is expected to partly compensate the reductions. Moreover, the increase of tobacco taxes, trade taxes, and in particular the introduction of the truck toll on motor highways will more than compensate tax cuts.

Further steps of the tax reform are in the policy debate:

- The reduction of corporate income tax from 25 % to 19 % was one of the consensus points of the “job summit” in March 2005; however, the budgetary compensation of lower tax revenues still is unclear.
- Inheritance tax is planned to be reduced for company owners who continue their business for at least 10 years. Revenues from this tax almost tripled since 1991 to 4b € annually. The proposal will reduce revenues from this Länder tax in the long-run by approximately 10 %.
- In addition, trade taxes paid by partnerships will reduce income tax burdens at a higher share.

Non-wage labour costs were at the level of 41.9 % of gross wages in 2004. Contribution rates can be expected to decrease by 0.6 percentage points in 2005 due to (still abiding) cost reductions in public health insurance (-0.15 percentage points). This will be partly compensated by the rise of contribution rates to compulsory long-term care insurance for childless workers. The rates of public pension insurance (19.5%) and unemployment insurance (6.5 %) will not change.

### **2.1.4. Revision of the Federal Training Act**

With the revised Federal Training Act, implemented by 1 April 2005, the Federal Government drew the conclusions from a long lasting debate on the effectiveness and flexibility of the German apprenticeship training system. The system was criticised as being slow in adapting curricula for the 365 training courses, outdated by postponing the creation of

new occupations, and inflexible regarding the transmissibility between different training levels. With the new Federal Training Act these points were picked up (*BMBF 2005*):

- *Modernising vocational training*: the law allows experimentation with new occupations and curricula; the shortening of training periods from 3 to 2 years, the split of final examinations into two steps, and it implements various other organisational innovations. The revision of curricula will be continued at a high path: 100 curricula have been revised since 2000 and 21 will follow in 2005.
- *Approval of training components*: school-based training will be accepted as a substitute to company-based apprenticeship; entry qualifications will be approved as parts of training; shortened or simplified training courses will be opened for continuation in longer or more complex training courses;
- *Chances for disadvantaged youths*: special training courses for disadvantaged youths – like entry qualification – will be extended; training components will be part of regular training;
- *Internationalisation*: training components can be passed in foreign countries with full approval; the European content of training curricula will be fostered;
- *Regionalisation*: while the company-based part of apprenticeship training is regulated by the Federal Government, the school-based part is the responsibility of Länder governments. The new law promotes the creation of regional partnerships for training between schools, companies and social partners in order to better adjust training systems to local needs.

The Federal Training Act 2005 provides a new frame for vocational training in Germany without defining the content. This will have to be done by the Federal Committee for Vocational Training (Bundesausschuss für Berufsbildung), a four-partite body consisting of employers and trade unions, Länder governments and the Federal Government. As this body was responsible for many of the developments criticised in the past, reform dynamics might not accelerate as expected. The implementation of the reforms, therefore, highly depends on the actions undertaken by the representatives of the governments.

## 2.2. Public and scientific debate

### 2.2.1. The de-industrialisation debate

With the puzzling observation of rising exports but declining employment in the manufacturing sector, Germany experienced a new de-industrialisation debate. The label of Germany as a “bazaar economy” was created (*Sinn 2004*), which drew the picture of German manufacturing gradually converting into a trading business and losing its competences in the production of manufactured goods. On the other side, commentators referred to the rising trade surplus of German international trade drawing the conclusion that German competitiveness is very strong and thus the concerns about its structural deficits are obsolete.

As the Council of Economic Advisors pointed out in a comprehensive analysis of competitiveness, de-industrialisation is certainly happening in Germany (*Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung 2004, pp. 349*): The share of employment in manufacturing decreased from 30 % in 1990 to 21 % in 2003, and even after the transition period in eastern Germany the manufacturing sector continued to decline after 1995. Shrinking shares, however, can only be observed in terms of workers employed while the share of value added stagnated since then. This leads to the conclusion that German manufacturing is strong in economic terms regarding productivity, technology and price competitiveness, however, the competitiveness of labour is eroding.

Germany with a traditionally strong human capital basis lost (at least parts of) its comparative advantage through rising investments into education and training by many coun-

tries, less developed countries in particular. Combined with lower real wages, these countries were able to attract complex types of industrial production mainly in low-price market segments (*Büchtemann, Vogler-Ludwig, 1997*). The counter-action of German manufacturers was the concentration on high-price segments and a continuously higher productivity rate as compared to the major competing countries. This development was in favour of the quality of labour inputs but at the expense of the volume of labour inputs. Such arguments were recently confirmed by the article of *Paul A. Samuelson (2004)* who showed by a two-sector/two-commodities-model that learning effects in developing countries (China) are able to fully compensate the comparative advantage of industrialised countries (USA). And this is exactly what happened in the low-price markets of industrial manufacturing.

The Council of Economic Advisors presents some empirical evidence on trade and globalisation effects on employment. The result, however, remains vague: the overall share of export-based employment in manufacturing increased from 42 % in 1991 to 49 % in 2000 thus leading to a positive employment effect of exports. But the effect was not sufficient to compensate for the negative impact of rising imports and labour saving technologies in general. Manufacturing employment thus declined by 2.4m or 24 %. Similarly, the effect of foreign direct investment is assessed to be positive as most of FDI is intended to expand market coverage. While the number of German companies with foreign investment grew by 14,000 in the period observed, employing 2.1m additional workers, the positive employment effects were mainly abroad and domestic effects were rather weak. Globalisation, therefore, has positive effects on company profits and incomes; however, the dynamics of the German economy were too slow to compensate for the job losses in many industrial sectors.

As a recent population survey among 1000 German residents aged 18 and above revealed, the German population discerned the ambiguity of international business in a differentiated way which more or less follows the theoretical arguments (*Die Welt, 2 May 2005*): Asked for the expected effects from EU-extension, 66 % saw the major advantage in new markets and trade facilitation. The disadvantages were perceived in the relocation of labour to the new EU countries (37 %) and rising competition and cost pressure (33 %).

## **2.2.2. The minimum-wage debate**

The rising inflow of workers from the new Member States triggered a broad discussion on minimum-wages and job conditions in Germany. Starting point was the directive on services in the internal market by the European Commission which was seen as an indirect opening of the German labour market. Available evidence showed rapidly increasing numbers of workers from Eastern Europe working as self-employed craftsmen, free-lancers or illegal workers (*Die Zeit 2005*): 331,000 seasonal workers, 26,000 butchers, 30,000 cleaning staff etc. were summed up to 600,000 workers from the new Member States being already active in the German labour market. Most importantly, the number of crafts companies from accession countries was increasing rapidly to 4,440 in March 2005. Serious violations of minimum job conditions were detected: wages below 4 € per hour, working hours of more than 60 hours per week, evasion of social contributions payments etc. The control of 200 foreign contract working companies by the customs office in Munich revealed that only 20 % were working correctly due to existing legal standards.

As a first reaction the Federal Government established a task force to counteract illegal employment and quasi-self-employment. While the problem of trade in services was postponed by the prorogation of the EU directive on services, the public debate concentrated on the wage competition and the introduction of minimum-wages in Germany. In spite of the extensive system of collective agreements, Germany has no minimum-wage regulation setting national standards like in France or the UK. Collective agreements are only valid for the companies which are members of the employers association signing the agreements and only for unionised workers. Therefore, it is possible to circumvent the regulation e.g.

by subcontracting or outsourcing activities to collectively unbound companies. This happened in many of the cases discussed.

The introduction of a general nation-wide minimum-wage was excluded very rapidly by the public policy debate as this was seen as a state-intervention into the system of independent wage negotiations by the social partners. However, two options emerged as feasible possibilities:

- The extension of the “expatriates law” (*Entsendegesetz*) on relevant branches. This law is applied in the construction sector and extends the validity of compulsory collective agreements on foreign companies working on the territory of Germany. The Federal Minister for Economics and Labour can declare a minimum-wage negotiated by the social partners as compulsory for all companies if this is in the public interest (§ 5 of the law on collective agreements – *Tarifvertragsgesetz*). The only condition is that a collective agreement exists – which is not the case for various service sectors. As the European Court has recently confirmed the consistency of this law with European legislation, this type of minimum-wage regulation seemed to fit best into the regulatory system of wage determination in Germany.
- The second possibility would be to activate the “unused” law on minimum job conditions (“*Gesetz über die Festlegung von Mindestarbeitsbedingungen*”) from 1952. This would allow the Federal Minister to fix minimum job conditions which were negotiated by technical committees of the social partners. As this alternative largely complies with the expatriates law, it was not further considered.

The alternative to extend the expatriates law to relevant branches was strongly supported by the trade unions, while the employers were more than sceptical. Their major argument was that minimum-wages fixed by the existing collective agreements are significantly higher than minimum-wages in other countries. Minimum wages in European countries range between 32 and 50 % of average wages, and the level in the United States is 36%. Collectively agreed wages at the lower bound range between 50 and 63 % in German manufacturing, 43 to 56 % in the trade and banking sector, and are close to the average in some branches of eastern Germany (*iwd 2004*). Compulsory wages at these levels would reduce employment – unskilled jobs in particular – and endanger companies. The great number of the eastern German companies which are not bound to collective agreements (80 %) would experience rising labour costs. In addition, the effects of the recent change in social benefits (Hartz IV) would be counteracted by a minimum-wage regulation above benefit’s level.

In the scientific debate minimum-wages were defeated as a “tariff on the import of labour” which – in a second round – would lead to the re-introduction of tariffs on traded goods. (*Franz 2005*). Minimum-wages were expected to cut jobs and economic growth. The majority of policy leaders – including the conservative side – however were in favour of a minimum-wage regulation under the expatriates law.

### **3. Update on economic and labour market trends**

The economic forecasts for Germany in 2005 saw a recovery slowly starting at the end of 2004 and continuing during the year. Most of the research institutes and public institutions publishing such forecasts during the 4<sup>th</sup> quarter of 2004 expected a GDP increase of 1.2 to 1.8 % (Table 1). However, in the course of time, the expectations became gloomier. At present, the European Commission and the IMF/Worldbank expect just half of the former growth rates, and the economic research institutes confirm this view. The most recent projection by the economic research institutes published by April 26 sees GDP and employment growth in 2005 at 0.7 % and the unemployment rate at 11.1 %. The Federal Government coming out with its latest figures four days later also reduced the expected

growth figures from 1.6 to 1.0 % for GDP. Employment is forecasted to grow by 0.5 % in 2005.

The decline of forecasted GDP growth rates is substantiated with macro-economic factors, rising oil prices and rising EURO exchange rates in particular. The reason for Germany's low growth rate in comparison to other economies affected by the same macro-economic conditions is its slow path of economic and labour market reforms. While the effects of the recent labour market policy reform (Hartz IV) cannot yet be discerned, an important element of the reform is still missing: the reduction of non-wage labour cost.

**Table 1 Economic forecasts for 2005**  
Germany

Institution	Date of publication	GDP growth (% change to previous year)	Employment growth (% change to previous year)	Unemployment rate (%)
Economic research institutes	Oct 04	1.5	0.5	10.1
Council of economic advisors	Nov 04	1.4	0.4	10.5
OECD	Nov 04	1.2	–	–
IAB (Institut für Arbeitsmarkt- und Berufsforschung)	Nov 04	1.8	0.4	10.4
Federal government	Jan 05	1.6	0.8	10.7
DIW (Deutsches Institut für Wirtschaftsforschung)	Jan 05	1.8	–	–
IW (Institut der deutschen Wirtschaft)	Feb 05	1.5	–	–
RWI (Rheinisch-Westfälisches Institut für Wirtschaftsforschung)	March 05	1.0	0.8	10.9
IfW (Institut für Weltwirtschaft)	March 05	0.6	0.7	11.1
European Commission	Apr 05	0.8	0.7	9.7
IMF/Worldbank	Apr 05	0.8	–	–
Economic research Institutes	Apr 05	0.7	0.7	11.1
German Federal Government	Apr 05	1.0	0.5	–

Source: Institut für Arbeitsmarkt- und Berufsforschung (2005), Economix.

Following the forecasts, employment will continue growing by 0.4 to 0.8 % and the German unemployment rate will stay at the high level of 10 to 11 %. The slight increase of employment in face of low GDP growth rates – and the reciprocal slow increase of labour productivity – can be addressed to a significant change of the employment structure towards marginal employment, part-time employment and self-employment. Since 2000 the number of marginally employed workers increased by 23 % and the number of part-time workers and self-employed workers by 8 %. However, the number of full-time workers in dependent jobs declined by 8 % (Bach et al. 2005). This is a clear trend towards flexible but also marginalised forms of employment which brought a greater number of workers into employment but did not raise total labour input. The number of hours worked continuously declined in recent years.

Compared to the previous year total employment rose by 200,000 to 38.5m in February 2005. The average participation rate of the population aged 15 to 64 increased slightly

from 67.4 to 67.6 % (Statistisches Bundesamt 2005a). In a long-term comparison between 1991 and 2003, female participation rates in western Germany increased by 6.4 percentage points to 63.6 % while male participations rates decreased by 1.7 percentage points to 79.4 %. In eastern Germany labour participation decreased by 6 percentage points for males (2003: 78.3 %), and by 3.4 percentage points for females (2003: 71.4 %).

The labour market situation of older workers improved slightly: Employment of older workers aged 55+ increased by 1.2 % annually since 1991 in particular in part-time, self-employed and marginal jobs. This raised labour force participation of older workers between 2 and 13 percentage points – mainly for the age group 60 to 65 and for females (Statistisches Bundesamt 2004).

Average monthly gross wages and salaries of full-time workers in the manufacturing sector were 2990 € in January 2005 (Statistisches Bundesamt 2005b). In the trade sector workers earned 2767 € and 3415 € in banking and insurance business. On average wages of white collar workers were 53 % higher than those of blue collar workers, and males' wages were around 25 % higher than females' wages. These figures are uncontrolled for educational levels. In comparison to the previous year, average wages rose by around 2 % in the three sectors. Wages of females rose by 2.2 % in the manufacturing sector, by 2.4 % in the trade sector, and by 1.9 % in the financial sector.

#### 4. Recent labour market reports

Institut für Arbeitsmarkt- und Berufsforschung (2004):  
**Deutschland. Entwicklung des Arbeitsmarktes im Jahr 2005**  
Ausgabe Nr. 17 / 12.11.2004  
<http://doku.iab.de/kurzber/2004/kb1704.pdf>

IAB, the research institute of the Federal Employment Agency, gave the following forecast for the German labour market in 2005:

- A slightly economic pick-up with an economic growth of 1¾ %.
- An increase in employment of 0.3% or 120,000 persons (annual average).
- A rising number of self-employed, family workers, minor employed and part-time workers.
- A slight reduction in unemployment (-15,000) results in 4.37 Million unemployed persons at the yearly average.

Due to the merging of unemployment benefit and social welfare unemployment-registrations are expected to increase, primarily in the first months of 2005.

Bundesministerium für Bildung und Forschung (2005):  
**Berufsbildungsbericht 2005**  
[http://www.bmbf.de/pub/bbb\\_2005.pdf](http://www.bmbf.de/pub/bbb_2005.pdf)

The annually published „Berufsbildungsbericht“ provides information about important developments in the vocational training market. According to the 2005 report, the number of apprenticeships increased in 2004 for the first time since 2000 (2.8 %, i.e. 573,000 apprenticeship-contracts in total). The improvement is associated with the pact the Federal Government concluded with the central employers' associations ('Nationaler Pakt für Ausbildung und Fachkräftennachwuchs'). On September 2004 a lack of 45,000 training places was counted (6 % of total).

There are various programmes from the Federal Government and the Ministry for Education which should help to bridge the gap.

- In 2006 an integral programme will be launched and offer regionally tailored solutions.

- Furthermore the Federal Government wants to bring forward the modernisation of vocational training through the revised Federal Vocational Training Act passed on 1st of April this year.

Bundesregierung (2005):

**Lebenslagen in Deutschland. Der 2. Armuts- und Reichtumsbericht der Bundesregierung**

[www.bundesregierung.de/Anlage798441/2.+Armuts-+und+Reichtumsbericht+der+Bundesregierung.pdf](http://www.bundesregierung.de/Anlage798441/2.+Armuts-+und+Reichtumsbericht+der+Bundesregierung.pdf)

The second report on living conditions in Germany was released this February. Edited by the Federal Government it is planned to be published in the middle of each legislative period. Statistical data on income, property, employment and education are provided in order to assess the scope of poverty. The results are as follows:

- The slowdown of employment caused a slight increase in the ‘poverty-risk-quota’ (below the poverty line: 1998 = 12.1% / 2003 = 13.5% of the population).
- Unemployment is the most important poverty-risk factor followed by a low level of education, single parenthood, poor health or disability.
- Poverty-risk for households with at least one person full-time employed or two persons working part-time was 4% in 2002. Part-time employed and workers with children have the highest poverty-risk among the working population.

Institut für angewandte Sozialforschung GmbH (infas) (2004):

**Akzeptanz der Bundesagentur für Arbeit. Nullmessung im Jahr 2004.**

Oktober 2004;

<http://www.bmwa.bund.de/Redaktion/Inhalte/Pdf/akzeptanz-der-bainfas.property=pdf.pdf>

The Ministry of Economics and Labour asked the Infas institute to evaluate the restructured Federal Employment Agency. Through the use of Hartz III and IV the formerly called “Federal Employment Office” should change into a modern service provider. Annual reports from 2004 to 2006 will inform about the changes and improvements relating to acceptance and image of the FEA. The most important results are:

- The image of the FEA is closely connected to policy makers and has been worsening over the last 4 years. Only 21% of the population trusts in the FEA.
- In combating unemployment the contribution of the FEA is not seen as very prominent.
- Customer satisfaction went down. Only a half of the employers, unemployed and job seekers are satisfied with the services provided.
- 41% of the employers have no contact to the FEA at all. A quarter of them have had bad experiences in the past. 41% aren’t satisfied with successful candidates and 36% report of inadequate replacement offers. Nearly 40% of the employers criticise that the Agency does not meet their needs. Only 38% were satisfied by the service.
- 40 % of the people successfully searching for a job, the key factor was the access to social networks, applications by own initiative and ads. 9-14% were successful through the help of the Agency. 35-39% of unemployed and job-seeking persons said that they haven’t received any offer through the Agency.

## Literature

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**Annex**

## Box 1 Agenda 2010

*The Federal Government launched the "Agenda 2010" in March 2003. The programme is aimed at boosting economic growth, protecting social security systems and strengthening Germany as a business location. Core elements of the reform concept are:*

### Economy

- Reduction of non-wage labour costs.
- Easing of dismissals protection.
- Alleviation of the foundation of new businesses and take-overs in skilled trades (master craftsman's diploma is no more required).

### Vocational Training

- The 'Training Offensive' of the Federal Government expected the business community to fulfil its duty in youth training.
- Extension of the group of trainers (companies no longer require a formal diploma to offer training).
- Young people with learning difficulties can obtain a qualification within two years.

### Taxation:

- Income tax has been reduced by two steps in 2004 and 2005: The basic income tax rate was cut from 26 % to 15%, and the top rate from 48.5 % to 42%. The basic tax allowance was raised to EUR 7,664. This reduced tax revenues by 21b €

### Education and Research

- Increase of expenditures for education and research by around 25%.
- Reform of the student grant programme (BAföG-Reform) to extend the group of beneficiaries.
- The programme "Future Education and Supervision" is the governments answer to the results of the PISA study. Between 2003 and 2007 4b € will be allocated to establish and maintain full-time schools.
- The introduction of bachelor and masters degrees allows students to obtain a qualification in a shorter time period.

### Labour Market

- Reduction of unemployment benefits period to 12 months and 18 months for workers aged 55+.
- By 1 January 2005, the Unemployment Benefit II was introduced. It combines unemployment and social welfare benefits for employable job seekers in need of assistance. (Hartz IV)
- Implementation of the Hartz reform:  
Hartz I: introduction of public job agencies (Personnel Service Agencies)  
Hartz II: reorganisation of public employment services to Job Centres and introduction of marginal jobs "mini- and midi-jobs"; support of self-employment of unemployed persons through the "Me plc" instrument ('Ich-AG') providing grants for unemployed people to become self-employed);  
Hartz III (January 2004): restructuring of public employment services to the Federal Employment Agency.  
Hartz IV (January 2005): merging unemployment aid and social welfare benefits to the basic income for job seekers ("Unemployment Benefit II");

### Health:

- Implementation of the "Law to Modernise the Statutory Health Insurance Companies":  
Reduction of benefits; co-payments by insured persons; quarterly fee of 10 € charged for visits to practitioners and dentists.

### Pensions:

- Contribution rates stabilised at 19.5% of gross income by a "rescue" programme.
- A new pension formula including a sustainability factor that takes into account changing ratios of those paying instalments to those drawing pensions.

### Families:

- More financial aid to make family and working life more compatible in the future: i.e. child care for children less than 3 years, development of all-day schools, housing benefit payments, a tax allowance for single parents.

**Box 2 20-Articles-Programme to boost growth and the economic cycle**  
 („20-Punkte-Programm: zur Stärkung von Wachstum und Konjunktur“)

**Labour Market and Social Policy:**

- *Extension of the “Expatriates-Act” (Entsendegesetz)* to all business sectors to protect the German labour market against wage dumping. This requires foreign employers to pay German minimum wages.
- *Temporary employment*: the revised part-time and temporary employment act shall allow fixed-term contracts not only for new labour contracts but also for those existing at least for two years. This should help raising labour participation of older workers.
- *Regional employment pacts*: The Federal Government will hold a series of talks with social partners and Länder governments to achieve “employment pacts” which help older workers and long-term unemployed. Actions will be promoted by 250m €
- *Incentives to work for the unemployed*: recipients of “unemployment benefit II” should be allowed to keep a greater proportion of incidental earnings. Marginal tax rates will be reduced to 70 % for low income earners.
- *Shortening youth unemployment*: in order to shorten unemployment spells of young workers (< 25) below three months, they shall be integrated into the labour market through individualised training and placement activities. This includes case management, training and integration treaties.
- *National training pact*: in consensus with employers’ associations 30,000 additional apprenticeships will be offered and 25,000 additional places for entry qualification in companies (Einstiegsqualifizierung). Entry qualifications are addressed to disadvantaged youths, take up to one year and are recognised as part of apprenticeship training.
- *Training programme for less dynamic regions*: a 17m € fund for training in economically less developed regions (especially eastern Germany) will be started in 2006. It will promote the expansion of training capacities, training networks, and the creation of long-term regional training strategies. The preference is on company-based training in eastern Germany.
- *Promotion of “Ich-AG”*: the promotion of business start-ups of unemployed (“Ich-AG”) will be continued, however, the beneficiaries will have to present a business plan and labour services will have the right to demand for training and coaching.
- *Reform of compulsory long-term care insurance*: the revision of care insurance and services intends stabilising non-wage labour costs and better services for people suffering from dementia.

**Taxation:**

- *Corporate income tax* is planned to be reduced from 25% to 19%.
- *Trade tax*: the overall tax burden for partnerships will be lowered through debiting trade tax as part of income tax payments.
- *Inheritance tax* will be lowered for company owners continuing their business for at least 10 years.
- *Suspension of house owner benefits*: the government suggests suspending the subsidy in favour of research and education. However, this proposal is not supported by the opposition which has the majority in the German Bundesrat.

**Deregulation:**

- *Suspension of 360 regulations and laws*.
- *Less statistical reporting*: small and medium sized companies will be disburdened from the duty for reporting statistical data through suspension of statistics, better use of administrative data and IT.
- *Accelerating construction and traffic projects* through a new law (PPP-Beschleunigungsgesetz), and enabling faster investments in road and power networks (“Planvereinfachungsgesetz”)
- *Reform of federalism*: the Federal Government demands a new attempt related to the reform of federalism (“Föderalismusreform”).

**Business start-ups and investment:**

- *Promoting innovation*: The European Recovery Programme was revised in order to promote innovation in medium-sized companies. The German Bank for Reconstruction (Kreditanstalt für Wiederaufbau KfW) will offer loans and subsidies to innovative businesses which fund up to 100 % of innovative expenditures with a maximum volume of 5m €. Interest rates will be two percent below the market level. In addition a “Fund for High-Tech-Innovation” will promote spin-offs from companies and universities with a volume of 140m € annually.
- *Startothek*: To simplify regulatory requirements for start-ups, an internet platform will be established (“Startothek”) to provide comprehensive access to Federal and Länder regulations.
- The *investment programme for traffic and infrastructure* with a volume of 2b € intends to create additional jobs and help the German construction industry.
- A new *“Energy Supplies Law” (Energiewirtschaftsgesetz)* aims to improve energy supplies through innovation and additional capacities. It intends to increase competition in the electricity and gas markets through open-

ing existing supply networks.

- The “CO2-Building Restoration Programme” (*CO2-Gebäudesanierungsprogramm*) aims to diminish exhaust gas pollution and stabilises the building industry.

Source: Federal Government (2005): <http://www.bundesregierung.de/artikel-.413.815312/20-Punkte-Programm-Zur-Staerku.htm>