

**Discussion Paper**

**EUROPEAN EMPLOYMENT OBSERVATORY  
GERMANY**

**The New Flexibility of Collective Bargaining**

**Quarterly review of labour market trends and policies  
2<sup>nd</sup> Quarter 2005**

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## Glossary

Agenda 2010	Principal economic and social reform programme of the SPD-Bündnis90/Die Grünen government coalition passed in March 2003
ICH-AG	Business foundation grant ( <i>Existenzgründungszuschuss</i> ; § 421 I SGB III) for UB-I recipients, which supports unemployed becoming self-employed for up to three years (1 <sup>st</sup> year: 600 € per month, 2 <sup>nd</sup> year 360 €, 3 <sup>rd</sup> year 240 €)
Job Summit	Agreement between red-green government and CDU/CSU opposition from 17 March 2005 on principles of further labour market reforms
Hartz reform	Reform of unemployment insurance under the Federal Employment Service ( <i>Bundesagentur für Arbeit</i> ) and active labour market policies, named after Peter Hartz, principal staff manager of Volkswagen and the president of "Hartz Commission" established by the German government in 2002. The reform has four parts: Hartz I (2002): introduction of public temporary work agencies (Personnel Service Agencies – PSA) Hartz II (2002): reorganisation of public employment services; mini-jobs, ICH-AG Hartz III (2004): restructuring of public employment services to the Federal Employment Agency Hartz IV (2005): merging of unemployment aid and social assistance to UB-II
1 € Jobs	Jobs in the area of social and public services for UB-II recipients. They are remunerated by 1 or 2 € in addition to UB-II benefits. Jobs need to be additional to jobs in the premier labour market and to normal activities of the institutions.
UB-I	Regular unemployment benefit
UB-II	Means-tested basic income for job seekers, paid after expiration of regular unemployment benefit

## 1. Introduction

The election of the State Parliament in North-Rhine-Westphalia in May 2005 was more than important – as it was indicated in the last quarterly report – it was determining: with its conservative vote it wiped off the power from the red-green coalition and prompted Chancellor Gerhard Schröder to initiate new elections on the federal level. This will now probably happen on September 18.

With this further shift of political majorities in the Länder Parliament (*Bundesrat*) most of the policy actions planned during the first quarter of 2005 – the job summit agreement in particular – had to be postponed. Therefore little account can be given here on legal decisions in the area of labour market and integration policies. Public activities concentrated much more on the implementation of the fourth and last module of the Hartz reform. The prospect on new elections, however, stimulated public debates on policy concepts. Out of the many subjects in discussion, two issues were selected for this quarterly report: the new election programmes as published by the political parties, and the debate on the reform of collective bargaining. Moreover, a review of new literature is given.

## 2. Update on economic and labour market trends

### *A low growth economy ...*

While economic forecasts for 2005 were adjusted to lower levels during the first quarter they stabilised during the second quarter. As listed in Table 1 all ten publications since April ranged between 0.7 and 1.2 % for 2005 GDP growth, and 0.3 to 0.7 % for employment growth. The unemployment rate is expected to stay at 11 % on average with little differences among the forecasts.

2006 will bring a small rise in GDP growth rates to approximately 1.5 %. In the view of economic research institutes considerable risks are coming from the oil price while the change of the government coalition will not affect economic performance significantly.

As exports will continue to be strong, the weak elements of the German economy are private consumption and housing investment. This is linked to the unfavourable job situation. Employment growth will continue to come from part-time and marginal jobs rather than “regular” jobs registered by social insurance (for ex-post developments see Section 4: Deutsche Bundesbank 2005).

The economic research institutes DIW and IWH therefore are not in favour of the rise of VAT by 2 percentage points to 18 % as it is planned by the CDU/CSU party. The negative effects will immediately reduce consumption while the positive effects on non-wage labour costs will work with significant time lags. However, the ZEW research institute justified VAT increase as being required to consolidate the Länder budgets.

Following the IWH, eastern Germany is expected to pick up only very slowly with the western Länder. In 2005 and 2006 economic growth will not be faster than in western Germany, per capita income will rise marginally from 64.3 % of the western level in 2004 to 65.1 % in 2006, and the overall productivity level will be 72.7 % of the West. A further decline of population through emigration is expected. The main reason for the weak economic performance is identified in low capital formation. In competition to the new EU Member States eastern Germany has lost much of its attractiveness for investments.

**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 (%)
<b>Federal government</b>	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
<b>Federal Government</b>	Apr 05	1.0	0.5	–
IW (Institut der deutschen Wirtschaft)	May 05	0.75	0.3	–
OECD	May 05	1.2	–	–
IFW (Institut für Weltwirtschaft)	June 05	0.7	0.5	11.6
Ifo (IFO Institut für Wirtschaftsforschung e.V.)	June 05	0.8	0.5	11.1
IWH (Institut für Wirtschaftsforschung Halle)	June 05	1.1	0.5	11.0
DIW (Deutsches Institut für Wirtschaftsforschung)	June 05	0.9	0.6	10.9

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

### *... and a stagnating labour market*

The available forecasts from June 2005 continue to see a minor rise in employment of  $\frac{1}{2}$  % and the stagnation of German unemployment rates around 11 %.

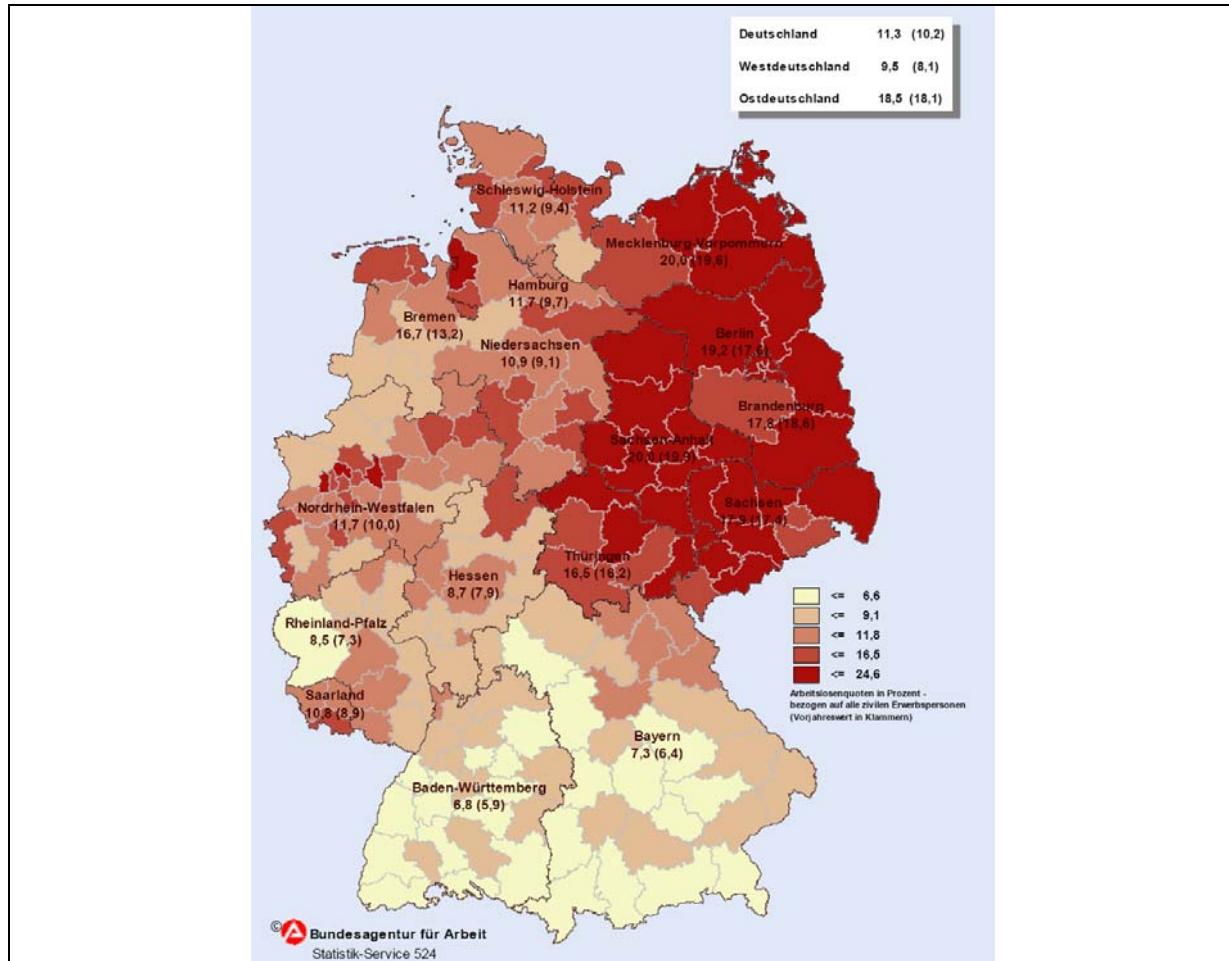
Labour market figures for 2005 were strongly affected by the recent Hartz IV reform which raised the number of unemployed and employed persons simultaneously:

- Following the latest report by the Federal Labour Office for June 2005 registered unemployment was at the level 4.7 million, a decrease since the beginning of the year but an increase of 470,000 against the previous year. The figures included the estimated effect of 330,000 additional unemployed due to the Hartz IV reform. These persons were counted as social assistance recipients in the 2004. 41 % of the unemployed were registered as recipients of regular unemployment benefits (UB-I) and 59 % as recipients of the means-tested basic income for job seekers (UB-II). The share of UB-II-recipients increased since the beginning of the year by 15 percentage points. Additional expenditure by the Federal government concerning UB-II is presently estimated to 10 billion € for 2005.
- The unemployment rate was at 11.3 % in Germany, 9.5 in western and 18.5 in eastern Germany (see Chart 1).
- Unemployment of young persons (aged 25 and younger) decreased considerably by 127,000 since February 2005.

- The number of employees registered by social insurance decreased by 333,000. The number of publicly supported 1€-jobs and self-employed ICH-AGs rose.
- Positive signs were coming from the labour demand side where registered vacancies increased to 439,000 which is an increase of 40 % to the previous year. Deducting publicly funded jobs (1€-jobs etc.) the increase was still 16 %.

Figures from the Federal Labour Office revealed that actual placements are concentrating on persons having been employed before unemployment (90 % of placements) while non-employed persons (in particular former social aid beneficiaries) are underrepresented.

**Chart 1**      **Unemployment rates Germany, June 2005**



*... with limited long-term perspectives*

Without a substantial change of employment policies the German labour market will not be able to raise job growth significantly. This is the result of the recent long-term forecast of employment and demographic trends published by the Institute für Arbeitsmarkt- und Berufsforschung (IAB)<sup>1</sup>. Labour demand is expected to grow by 0.2 % annually until 2020 which will be a plus of 1.3 million. However, employment will grow only in western Germany by 0.5 % p.a. while it will decrease by 1 % in eastern Germany. This is less attributed to different economic growth rates (West 1.3%, East 1.0 %) than stronger increase of

<sup>1</sup> More details will be provided in the next quarterly report when all parts of the long-term forecast will be published.

productivity in eastern Germany (West 0.8 %, East 2 % p.a.). Sustainable growth dynamics are presently out of sight (Schnur, Zika 2005: 5).

The labour force projections expect an accelerating decrease which will reduce labour supply by 1.4 million until 2020 and 9 million until 2050 (Fuchs, Dörfler 2005). The share of older workers (50+) will increase from 23 % in 2003 to 32 % in 2020. Female participation rates are expected to rise in the age groups from 30 to 60, and the share of female labour force will grow from 43 % to 47 %. Due to continuing immigration, the share of foreign workers will increase by 2 percentage points to 12 % in 2020, according to the median forecasting variant.

### **3. Labour market policy developments**

#### **3.1. Policy actions**

The first quarter of 2005 brought both, the entry into the new system of labour market policy and public employment services called the Hartz IV reform, and the development of the strategic debate on the “Job Summit”. The second quarter, however, was characterised by the implementation of Hartz IV rather than new legislative or programmatic decisions.

##### *Legal decisions postponed*

Important legal decisions have been postponed through delegation to the parliamentary mediation committee (*Vermittlungsausschuss*):

- Anti-discrimination act: the conservative majority in the Bundesrat rejected the law as it introduced stronger restrictions than demanded by the EU Commission;
- Unemployment benefits (UB I): the decision of the government to postpone the reduction of payment periods for older workers (18 months) to 2008 was rejected; the regulation will therefore become effective in February 2006 as far as it is not changed in the meantime;

The Parliament (*Bundestag*) decided:

- That managers of the approximately 1000 companies registered at the stock exchange have to report on their salaries from 2007 onwards; the publication can be avoided by the  $\frac{3}{4}$  vote of the shareholder; the SIX company (car leasing) was the first company to reject the demand;
- Long-term unemployed are allowed higher incomes in addition to UB II.
- The government started a programme for 1€-jobs through which 30,000 long-term unemployed should get a job for up to three years;

##### *Implementation of the Hartz IV reform*

After the change of the benefit system for recipients of UB-II which used most of the capacities of the new “job centres” (regional labour offices) during the first quarter, activities of the second quarter concentrated on organisational implementation and placement services. In particular:

- Out of the 450 labour market districts, 362 created an institutional co-operation of labour offices (in the responsibility of the Federal Labour Office) and municipal social assistance services in order to integrate placement and social integration services. In 69 districts the municipalities took the services into their own responsibility, and in 19

districts the services are provided in parallel through the labour offices and the municipalities.

- 40,000 persons are now employed by the job centres, 15,000 coming from the municipalities. 80 % of the job centres moved to new premises; new IT facilities were established for 77 % of the staff.
- 2/3 of the regional Job Centres developed labour market and integration programmes for their activities and the remaining centres fixed some benchmarks;
- A service ratio of 1:75 (case managers in relation to unemployed) has been achieved in most job centres for youths (aged up to 25); for older unemployed the service ratio is actually 1:214 and the targeted ratio is 1:150;
- A benchmarking process was initiated to identify the 25 best local job centres.

The organisational implementation was improved through an agreement between the Minister for Economics and Labour and the President of the Federal Labour Office by 27 June 2005. This was seen as a further step towards decentralisation of labour market policies: The management of the job centres has full responsibility for labour market policies in the region including staff management, financial budget and administration. The Federal Labour Office keeps the responsibility for its own financial resources and those provided by the Federal Government by stipulating performance targets, quality standards and controlling procedures. Local job centres can be taken over into the responsibility of municipalities as far as this is demanded by local authorities.

In 69 labour market districts municipalities are responsible for labour market policies, most of them in Hesse. This is run as a 6 year experiment and accompanied by scientific evaluation. Until now, none of the big German cities decided to take this responsibility as labour market institution.

### **3.2. Public and scientific debate**

#### *Election programmes*

With the prospect on new elections, centrifugal forces accelerated and revealed a much broader political spectrum than it existed before. In particular, the creation of a new party – Die Linkspartei-PDS (*The Left Party-PDS*) – manifested the opposition against the Agenda 2010 and the defence of the German welfare state. The party received immediate support from left-wing social democrats and, due to the inclusion of the PDS, from eastern German population. But also the red and green coalition partners moved apart stressing the priorities of their regular voters.

Regarding the employment policies part of the rapidly published election programmes, the approaches appear to be quite different (Table 2). While all parties address the problem on non-wage labour costs, the CDU/CSU and the FDP are proposing direct reductions of social contribution rates. In the case of the CDU/CSU this should be compensated by an increase of value added tax by 2 percentage points while the FDP wants to cut expenditures. The left-wing parties are more in favour of broadening the financial basis through including civil servants and self-employed in mandatory social insurance.

Unemployment insurance – and Hartz IV in particular – would be modified by the conservative parties (CDU/CSU and FDP) through cancelling ICH-AGs or social jobs. Die Linkspartei-PDS plans to abolish the Hartz IV reform in favour of a more generous welfare state. The SPD and Bündnis 90/Die Grünen want to adjust present benefits under UB-II slightly upwards.

**Table 2 Election programmes of German political parties concerning labour markets, social insurance and taxes**

	CDU/CSU	SPD	Bündnis 90 Die Grünen	FDP	Die Linkspartei- PDS
Non-wage labour cost	<ul style="list-style-type: none"> <li>Reduction of unemployment insurance rates from 6.5 to 4.5 %;</li> <li>Lump-sum contribution to health insurance;</li> <li>Stable contribution rates to pension insurance;</li> </ul>	<ul style="list-style-type: none"> <li>Inclusion of civil servants and self-employed in public social insurance;</li> <li>Increase of factual pension age to 65;</li> </ul>	<ul style="list-style-type: none"> <li>Citizen insurance (health, care, pension): equal provisions/pay to all citizens, contributions according to individual income; includes all population groups;</li> </ul>	<ul style="list-style-type: none"> <li>Basic health and care insurance run by private insurance companies;</li> <li>Employers' contribution to health insurance limited to 6.5 %;</li> </ul>	<ul style="list-style-type: none"> <li>Inclusion of civil servants and self-employed in public citizen insurance;</li> </ul>
Unemployment benefits	<ul style="list-style-type: none"> <li>Abolition of ICH-AG (self-employment of unemployed);</li> </ul>	<p>Equal benefits under UBII in western and eastern Germany (345 € per month);</p>	<ul style="list-style-type: none"> <li>Higher and equal benefits for UBII in western and eastern Germany; no setting-off for partner's income;</li> </ul>	<ul style="list-style-type: none"> <li>UBI restricted to 12 months;</li> <li>No 1€-jobs;</li> <li>closing of staff service agencies;</li> <li>no ICH-AGs;</li> </ul>	<ul style="list-style-type: none"> <li>Abolition of Hartz IV programme;</li> <li>Higher and equal benefits under UBII in western and eastern Germany (420 €);</li> </ul>
Redundancy protection	<ul style="list-style-type: none"> <li>For newly recruited workers: No protection in companies with less than 20 employees; protection starts in larger companies after 2 years job tenure;</li> </ul>			<ul style="list-style-type: none"> <li>Only for employees in companies with more than 50 employees and 4 years job tenure;</li> </ul>	<ul style="list-style-type: none"> <li>Extension;</li> </ul>
Co-determination				<ul style="list-style-type: none"> <li>Only employees of the company can be member of supervisory board;</li> </ul>	<ul style="list-style-type: none"> <li>General extension;</li> <li>Application in international companies;</li> </ul>
Collective bargaining system/ Minimum wages	<ul style="list-style-type: none"> <li>Company-based employment pacts;</li> <li>Beneficiaries of UBII can be paid 10 % below CA wages for a maximum of 2 years;</li> </ul>	<ul style="list-style-type: none"> <li>Collective agreements should define minimum wages which can be declared as generally valid; otherwise legal regulation:</li> </ul>	<ul style="list-style-type: none"> <li>Regional and sectoral agreements or legal regulation;</li> <li>Low income grants;</li> </ul>	<ul style="list-style-type: none"> <li>With a majority of <math>\frac{3}{4}</math> of the staff collective agreements can be neglected by the company;</li> </ul>	<ul style="list-style-type: none"> <li>Minimum wage of 1,400 € per month;</li> </ul>
Taxes:	<ul style="list-style-type: none"> <li>Income tax: entry tax rate 12 % (-3); maximum 39 % (-3);</li> <li>VAT: 18 % (+2);</li> <li>Corporate tax: 22 % (-3);</li> <li>Lower subsidies;</li> </ul>	<ul style="list-style-type: none"> <li>+3 %points additional income tax for incomes &gt; 250.000 €;</li> <li>Corporate tax: 19 % (-6);</li> </ul>	<ul style="list-style-type: none"> <li>Income tax: maximum 45 % (+3); reduction of tax advantages for couples (splitting);</li> <li>Business tax: inclusion of rents and capital incomes;</li> </ul>	<ul style="list-style-type: none"> <li>Income tax: three steps: 15, 25, 35 %; one step in the long-run; capital gains 25 %;</li> <li>Corporate tax: 2 steps (15, 25 %) with local surcharge;</li> <li>Business tax cancelled;</li> <li>Subsidies: cut by 20 %.</li> </ul>	<ul style="list-style-type: none"> <li>Income tax: Entry tax rate 15 % (0); maximum 50 % (+8) for annual incomes 60.000 € and above;</li> <li>VAT: extension of reduced tax rate (7%) on crafts trades;</li> <li>Corporate tax: 15 % and 35 % (for profits &gt; 200,000 €);</li> </ul>

UB I: regular unemployment benefit; UB II: means-tested basic income for job seekers;

Redundancy protection should be lowered following the conservative programmes while Die Linkspartei-PDS wants to extend these regulations. Similarly, the FDP wants to restrict co-determination while Die Linkspartei-PDS wants to develop it further.

Collective agreements take a high priority in the election programmes due to the recent debate (see below). The conservative parties want to establish company-based agreements while the SPD and Bündnis 90/Die Grünen prefer the regulation of minimum wages with reference to the rising competition on services markets. Die Linkspartei-PDS aims at a minimum wage of 1,400 € per month.

Tax concepts are rather diverse. The FDP goes for a radical simplification of income taxes and a reduction in parallel compensated by a general cut of subsidies. The CDU/CSU also plans a reduction of income taxes but an increase of VAT to compensate the reduction of unemployment insurance rates. Corporate taxes should generally be lowered. The SPD suggests an additional high-income-earners tax of 3 %, and the green party suggests a similar step combined with a reduction of tax advantages for couples (income splitting). Die Linkspartei-PDS is favour of an even more pronounced tax increase for higher incomes.

It has to be considered that much of the programmes are addressed to regular voters of the parties and thus they are no definite indication of what the future policies will be, in a coalition of parties in particular. However they reveal the approaches suggested to the public as a solution of the unemployment problem. Taking the recent mission statement of the IMF (see below) or other political commentators as a reference, none of the programmes can be expected to change the labour market situation rapidly. On the contrary, even the conservative programmes seem to adjust to the backstroke in reform policies as expressed by the rising public support to welfare policy approaches.

### *Reform of collective bargaining*

In its recent 2004 annual report the metal industries trade union IG-Metall described the situation of collective bargaining as increasingly difficult (IG-Metall 2005):

- Since 1998 the coverage of sectoral collective agreements – measured by the share of employees subject to sectoral collective treaties in the metal industries – declined by 6 percentage points to 74 % in western Germany, and by 8 percentage points (51 %) in eastern Germany. This was not compensated by the slight increase in company-based collective treaties negotiated between individual companies and trade unions.
- An increasing number of companies did not fully adhere to the regulations and 70 % of the negotiations with individual companies resulted in agreements less favourable for workers as compared to the sector agreement.
- A rising pressure was discerned to adjust sectoral collective agreements to the needs of companies by extending the flexibility of regulations and allowing for less favourable regulations. The IG-Metall agreed in 2004 to such an opening of the treaties by the “Agreement of Pforzheim”, but has great difficulties in accepting this clause.

Facing the erosion of the system of collective bargaining, many sectoral trade unions are confronted with strong demands for more flexible agreements (Box 1). In general the need for greater flexibility is justified with increasing competition on product markets and the expected loss of jobs. Therefore, greater flexibility of wages and working hours is often compensated by job-stabilisation agreements (company-based employment pacts) which guarantee jobs for the near future. Following the works council survey of the trade union institute WSI (*Wirtschafts- und Sozialwissenschaftliches Institut des deutschen Gewerkschaftsbundes*) among 2007 works councils in companies with more than 20 employees, 25 % of German companies established company-based employment pacts, 55 % among those with poor economic performance and 20 % among companies with a good performance. The pacts are valid for 19 months in weak companies to 3 years in strong ones.

The opening clauses of these agreements in general allow deviations from collective agreements for a limited period of time – in most cases with the approval of the social partners. Early agreements of the nineteen-nineties required evidence for severe economic hardship (the company is close to bankruptcy). Present opening clauses can be used to improve competitiveness. They are now also accepted for the purpose of defending jobs at the location.

In the election programme the CDU/CSU suggested a reform of collective bargaining going far beyond the ideas of the social partners: Works councils should be allowed to diverge from collective agreements if the majority of employees (2/3) agree. Social partners who are responsible for collective agreements will no longer have the right of intervention.

This even exceeds the demands of the employers association (BDA). Their idea was to allow for works council agreements with the approval of the social partners. Moreover, a new “principle of the greater advantage” (*Günstigkeitsprinzip*) was suggested: at present the principle says that deviations from collective agreements in individual labour contracts are only allowed if they provide better standards concerning wages and labour conditions. The new regulation would allow for lower wages or longer working hours in compensation for work place guarantees for some time. Employers associations are clearly defending the existing system of collective bargaining, though urging for reforms. They are also sceptical as regards majority votes on company-based contracts. They prefer individual agreements between workers and companies.

The trade unions are strongly against the decentralisation of collective bargaining: Hubertus Schmoldt (president of the IG-Chemie) recently said: “this is a radical change of the relation between management and staff. ... Works councils will be given a role where no balancing of interests will be possible.” (Handelsblatt 14.7.05). The IG-Metall objects further steps towards a decentralisation as this will make an end to all efforts to adjust collective agreements to the needs of companies. This would force trade unions to “carry collective conflicts into the companies” and will create a “new sort of class-struggle” (Berthold Huber, vice president of IG-Metall, N24 Netzzeitung, 28.6.05).

The president of the Federal Labour Court, Ingrid Schmidt, doubts the consistency of company-based agreements with the German constitution. A functioning system of collective bargaining needs social partners who can enforce the regulation. Moreover, works councils are not able to represent workers like trade unions as they are financed by the

#### **Box 1 Opening clauses in collective agreements**

- The major step towards the decentralisation of collective bargaining was undertaken in the metal industries by the “Agreement of Pforzheim” in February 2004 when the trade union IG-Metall and the employers association Gesamtmetall agreed allowing companies to deviate from collective treaties if it appears necessary to defend jobs. If all possibilities to improve the employment situation in the company were exploited the social partners can allow the company on demand to reduce wages below or to extend working hours beyond collective standards.
- Opening clauses are presently in negotiation in retail trade. The employers' association (HDE – *Hauptverband des deutschen Einzelhandels*) suggested
  - To adjust additional holiday and Christmas payments to the profit situation of companies;
  - To allow companies through approval by the social partners to fall below collective wages in case of economic difficulties;
- The proposal is strongly rejected by the trade union (VERDI) with the argument that collective agreements have to guarantee equal competitive conditions for all companies (Handelsblatt 5.7.05). 30 to 40 % of retail traders are not subject to collective agreements;
- The printing industry abandoned the regulation of opening clauses in exchange of more flexible working hours.
- In the paper industry the negotiations on the general terms of collective agreements (*Manteltarifvertrag*) failed as the trade union (VERDI) did not accept a clause which would allow companies to increase weekly working hours temporarily to 40 hours without monetary compensation. One of the reasons for the rejection was that no approval by social partners should be required. The employers association suggested allowing such a regulation only in case of employment guarantees. Due to the failure of negotiations the existing general terms expired and trade unions now are planning to negotiate with companies individually. Nevertheless this is seen as the end of the sector-wide collective agreement (Handelsblatt 30.6.05).

employer and have no right on strikes in the case of conflict (Ingrid Schmidt, N24 Netzzeitung, 29.03.05).

#### 4. Recent labour market reports

##### *Deutsche Bundesbank:*

Rascher Wandel der Erwerbsarbeit (*Rapid change of gainful employment*). Monatsbericht Juli 2005.

[http://www.bundesbank.de/download/volkswirtschaftsberichte/monatsberichte/2005/200507mb\\_bbk.pdf](http://www.bundesbank.de/download/volkswirtschaftsberichte/monatsberichte/2005/200507mb_bbk.pdf)

The report undertakes a long-term analysis of employment in Germany since 1991 and pinpoints a considerable change in job structures: While overall employment figures remained more or less at the level of 39 million, the number of "non-standard" forms of employment increased significantly at the expense of "standard" full-time jobs. In particular the number of part-time jobs and marginal jobs (*geringfügige Beschäftigung*) increased together with self-employment. Moreover fixed-term jobs and agency work were extended. Together with the great variety of working time arrangements the spectrum of different forms of jobs considerably contributed to increasing labour flexibility at the micro and macro level.

The reasons for this change can partly be found in the change of sectoral employment structures – the rising labour demand in services in particular – but also in the general need for greater flexibility of labour inputs at the company level. Moreover, the tax wedge between real producer and consumer wages continuously widened during the period observed (with the exception of the last year 2004). Deregulation of labour markets affected non-standard rather than standard jobs. All this worked in favour of non-standard jobs with the effect that overall volume of hours worked (*Arbeitsvolumen*) decreased and total productivity on an hourly basis increased by 2 % annually.

Considering the negative effects on social insurance budgets, the Deutsche Bundesbank recommends the reduction of non-wage-equivalent benefits, and the rise of wage flexibility.

##### *Ombudsrat – Grundsicherung für Arbeitssuchende*

Zwischenbericht 29.06.2005 (*Appeal council for basic social benefits: interim report*)

<http://www.ombudsrat.de/Ombudsrat/Redaktion/Medien/Anlagen/zwischenbericht.property=pdf,bereich=ombudsrat,rwb=true.pdf>

The interim report is the first public assessment of the Hartz IV reform starting on 1 January 2005. The Ombudsrat (*appeal council*) consists of three prominent persons (Christine Bergmann, former Federal Minister for Families, Seniors, Women and Youth, Kurt Biedenkopf, former Prime Minister of Saxonia, and Hermann Rappe, former Leader of the IG-Chemie, the trade union in the chemical industry). The report summarises the difficulties and problems arising with the implementation of the Hartz IV reform.

The council expressed its belief that the Hartz IV reform was the right step and gave recommendations to revise parts of the regulation and to improve the organisation. Among various adjustments of tax and social benefits regulations it recommended to introduce equal benefit levels in eastern and western Germany with the argument that regional differences in purchasing power can also be observed among western regions. The organisation could be improved by overcoming the administrative hurdles and competence conflicts of the mixed administration of jobs centres (Federal Labour Office and municipalities), by solving the technical and staffing problems, by improving the cooperation among

the different partners, by introducing assessment indicators for efficiency measurement, and by introducing clear administrative structures.

The council saw the starting problems arising from the urgent need to guarantee benefits payments to the recipients, however stipulated to concentrate on placement services. It welcomed the focus on young persons but simultaneously expressed its concerns for older workers. It recommended exploiting local knowledge to improve the employment situation for long-term unemployed,

*International Monetary Fund (IMF):*

Germany—2005 Article IV Consultation. Concluding Statement of the Mission. June 28, 2005  
<http://www.imf.org/external/np/ms/2005/062805.htm>

Being quite positive about the reform programme “Agenda 2010” undertaken by the German government, the IMF urges for further reforms: High labour costs and unsustainable public finance demand for a coherent reform plan and a decisive strategy. The current recovery will remain fragile as long as structural problems hamper domestic demand growth.

As regards fiscal policy, the ageing problem requires eliminating the structural deficit until 2010. This should be done by expenditure cuts (subsidies in particular), recalibrating social security benefits, a comprehensive tax reform, and a revival of fiscal federalism.

On labour markets the Hartz IV reforms are presently expanding the supply side while labour demand appears to be restricted by high labour costs and rigidities. The new Hartz IV system improved the incentives to work but it cannot be expected to expand labour demand, for full-time employment in particular. Therefore, the costs of the programme will be higher than expected and the implementation needs to be improved. Streamlining responsibilities between labour offices and local governments should reduce administrative overlap. Job placement should be intensified. Additional federal fiscal costs should be offset by lower intergovernmental transfers from the federal government. The basic feature of unemployment benefits II as a negative income tax should be strengthened through a reduction of benefit levels to able-bodied participants who are unwilling to work. The extension of assistance duration for elderly unemployed workers is expected to undermine the benefits of the new system.

On product markets, Germany should continue to support the EU services directive, as the country would gain a substantial number of jobs in its high value-added engineering, construction, and R&D sectors. A more dynamic services sector is seen to be crucial to help offset the decline in manufacturing employment where jobs are shifting to lower cost locations. Explicit or de-facto sectoral minimum wages should be avoided.

*Prenzel M. et al. (PISA-Konsortium Deutschland):*

PISA 2003. Ergebnisse des zweiten internationalen Vergleichs. (*PISA 2003. Results of the second international comparison*). Kiel.  
[http://pisa.ipn.uni-kiel.de/Ergebnisse\\_PISA\\_2003.pdf](http://pisa.ipn.uni-kiel.de/Ergebnisse_PISA_2003.pdf).  
[http://pisa.ipn.uni-kiel.de/Vorinformation\\_E.pdf](http://pisa.ipn.uni-kiel.de/Vorinformation_E.pdf)

As the first presentation of the Programme for International Student Assessment (PISA) in 2000 the second international comparison for 2003 (published in June 2005) initiated a controversial debate on education and training policies in Germany. The assessment of students’ competences in mathematics, natural science, and reading revealed that the 15 years old in Germany are slightly above the OECD average. This means that they are 1 ½ school years behind the best students of the survey in Finland, Korea, or the Netherlands.

Nevertheless, this was a significant improvement in average grading by about 3 to 4 % compared to the year 2000.

Great differences continued to exist between the German Länder which are responsible for education policies. Bavaria, Baden-Württemberg and Saxony were the top Länder while North-Rhine-Westphalia, Hamburg, Brandenburg and Bremen were at the lower end with a distance of 10 to 12 % in average grading. Bavaria succeeded to join the top group of countries being placed at rank 5 in the international comparison.

The most critical result of the international comparison was that the German school system is the most selective concerning social status. In no other comparable industrialised country the correlation between social origin and school competences is so strong. No other country fails to integrate the children of less skilled workers or migrants to that extent. The probability that children of wealthy parents start university studies is 7.4 times higher than for children from poor social levels. Interestingly, the Länder with higher grades also perform better in social integration. This is also attributed to particular training courses for migrants.

## Literature

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