



# **European Employment Observatory**

## **Quarterly Report from the SYSDem Correspondent**

### **Germany**

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in cooperation with  
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## Glossary

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| Business Foundation Allowance          | <i>Gründungszuschuss</i> : New regulation of business foundation support for unemployed UB-I recipients for a period of 15 months at maximum (valid since 1 August 2006). During the first nine months, a lump sum of EUR 300 is paid in addition to UB-I as a contribution to social insurance costs. During the following six months the lump sum is continued to be paid only if the business became the main entrepreneurial activity.   |
| 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 the “Hartz Commission” established by the German government in 2002.<br>The reform has four parts:<br>Hartz I (2002): introduction of public temporary work agencies (Personnel Service Agencies – PSA)<br>Hartz II (2002): reorganisation of public employment services; mini-jobs, ICH-AG<br>Hartz III (2004): restructuring of public employment services to the Federal Employment Agency<br>Hartz IV (2005): merger of unemployment aid and social assistance to UB-II |
| Midi-Jobs                              | <i>Midi-Jobs</i> : Registered employment with monthly wages between 401 and 800 € and reduced social insurance premiums.   |
| Mini Jobs                              | <i>Geringfügige Beschäftigung</i> : 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.  |
| National Training Pact                 | <i>Nationaler Ausbildungspakt</i> : Agreement between the Federal Government and the employers’ associations to offer additional dual training places. The pact started in 2004 and has been extended to 2014.   |
| Registered employment                  | <i>Sozialversicherungspflichtige Beschäftigung</i> : Employment contracts subject to public social insurance, i.e. dependent employment with salaries above 400 EURO per month.  |
| Rehabilitation benefit                 | <i>Eingliederungszuschuss</i> : a wage subsidy for employers who employ long-term or disabled unemployed. Subsidies are limited to 50 % of wages for 12 months. For disabled or older workers the limits are 70 % of wages for a maximum period of 24 months.  |
| Short-term work                        | <i>Kurzarbeit</i> : following articles 169 ff. SGB III, companies can apply for short-term work in the case of a considerable but temporary lack of work. At least one third of the work force must be endangered to lose at least 1/10 of the income (this rule was overridden by the adaptation of the regulation and will not be valid until the end of March 2012).<br>According to unemployment benefits workers receive 60 to 67 % of the omitting income. The maximum period is 24 months. Social insurance premiums are continued to be paid at the former levels. Employer contributions are subsidised by unemployment insurance.  |
| Social benefits                        | <i>Sozialgeld</i> : non-employable persons in a subsistence-based partnership with at least one employable person receive social benefits. This does not apply to children with the right to receive benefits defined in Social Code Book XII (SGB XII), e.g. disabled children.   |
| Subsistence-based partnerships         | <i>Bedarfsgemeinschaft</i> : These partnerships are defined by the Hartz-IV act as the private income and property units obliged to individual transfers among its members.  |
| UB-I                                   | <i>Arbeitslosengeld I</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).   |
| UB-II<br>“Hartz-IV”                    | <i>Arbeitslosengeld II</i> : Means-tested basic income for job seekers, paid after expiration of regular unemployment benefit. The basic rate is 364 EURO per month. The regulation is included in Social Code Book II (SGB II). This is also known as basic income benefit.   |
| One euro jobs<br>Auxiliary public jobs | <i>Ein-Euro-Jobs</i> : Temporary jobs for UB-II recipients in the field of social and public services. They are remunerated by EUR 1 or 2 in addition to UB-II benefits. Jobs need to be for the public benefit and have to be additional to jobs in the premier labour market.  |

## 1. Introduction

The expected jobless growth after the crisis did not happen. In contrast, German employment continues to grow in excess to the re-expansion of working hours. The public short-time work scheme which helped compensating the negative employment effects of the production downturn gradually vanishes. It was the German decision not to let the crisis deploy its destructive forces and to preserve companies and workplaces which now appears as a fundamental strength.

The present economic situation, however, includes substantial risks emerging from the financial system rather than the 'real' economy. In several EU Member States rising public debt and austerity programmes are driving unemployment and poverty rates apart and create tensions among social groups, particularly among those who managed to keep their income position and those who are now affected by budgetary cuts and unemployment. This is not only going to affect social stability in a series of countries but questions the project 'Europe' as the recent elections revealed.

Labour market policy therefore has a strong interest to reduce the still substantial instabilities in the financial system, in particular to resolve high risk banks – such as the German *Landesbanken* – and to force financial institutions to apply more sustainable business practices. Labour market policy can also contribute to reduce the negative impacts of the crisis by actively recruiting workers from high unemployment countries and by using EU funds even more for restructuring of the weaker economies.

Germany has an important role in this process. It should continue the financial reforms both at national and international level. The strong job increase opens the opportunity to integrate workers from abroad. The opening of the German labour market for eight of the New Member States is the right step ahead to intensify European integration. Foreign direct investment could contribute to restructuring in the countries with sub-optimal investment levels. This however needs attractive development models in these countries. In such a situation of high risks, protective shields are not only needed for financial markets but also for the labour market.

With the 'Hartz-Reform' Germany has another success story to present. The former 'sick man of Europe' recovered from its sclerosis and now shows an impressive labour market performance. This started with the millennium turn when the secular rise of structural unemployment – which could be observed in each economic downturn from the 1970s and 1990s – did not occur for the first time. The behaviour of both companies and workers has changed considerably since then, and the 'Hartz-Reform' enforced these trends. Now, in the first quarter of 2011, we see that the labour market is less and less dependent on public support, in terms of both income support and support by active labour market policies. The German workforce obviously has learned how to solve job related problems on its own, and the retreat of public intervention strengthened this learning process.

There is nevertheless a lot to do: the reduction of non-wage labour costs (health insurance costs in particular), the improvement of upward mobility in the workforce, the creation of a public life-long learning system etc.<sup>1</sup> The weak position of the present government, however, does not improve the probability of substantial reforms in the near future. The biggest problem of the coalition government is its difficulty to find a consensus among the partners, and its second biggest problem is that it has lost its majority in the Council of States (*Bundesrat*). This results in the visible erosion of political support in the population. Active labour market policy, therefore, tends to touch peripheral subjects, such as the adjustment of basic income support and the introduction of an 'educational package' to help children of low-income families. Both programmes are continuing the activation policies of the 'Hartz-Reform', their effectiveness, however, can be questioned.

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<sup>1</sup> For details see: Vogler-Ludwig (2011): Pre-Assessment of the German National Reform Programme 2010/11 – Time for a Policy Change. Unpublished document provided to Directorate General for Employment, Social Affairs and Inclusion.

## 2. Assessment of latest economic trends and latest labour market policies

### 2.1. Economic and labour market performance information

#### *Economic performance*

The German economy continues its upswing. Real GDP growth was at 4.0 % in IV/2010, employment grew by 1.2 % and productivity per employee rose by 2.9 % (Table 1). Business expectations considerably improved as did the consumer climate among private households. The crisis is over, at least in the real economy. The financial sector, however, still bears considerable risk potentials, as the restructuring of the State-owned *Landesbanken* has not made substantial progress.

Assuming that the financial risks will be kept under control, the business cycle forecasts are very positive. For 2011, the forecasting institutions expect a real GDP growth rate of 2.5 % on average, and 1.9 % is calculated for 2012 (IAB 2011a). Lower growth rates are due to the expiration of the German business support programme launched during the crisis, and the austerity programmes in several EU countries and the US. The German economy nevertheless will continue to profit from high growth in Asia, and the forecasts assume that economic bubbles on raw material markets and in China will not destabilise the economies. The feedback from the Japanese catastrophes is assessed to be minor.

#### *Labour market development*

The labour market continues its excellent performance (Table 1). Total employment increased by 494,000 persons in the comparison from February 2010 to February 2011. The annual growth rate of 1.2 % is remarkable as average working hours per employee expanded in parallel by 2.1 %. This was also due to the reduction of short-time work by 867,000, down to 237,000 in September 2010. Vacancies increased by 20 % on an annual basis. These figures continue to indicate the strong recovery of labour demand in the German economy.

The revival was in favour of registered employment. The number of registered jobs (with mandatory social security contributions) increased by 608,000 (+ 2.7 % compared to January 2010). This increase was even stronger than in the fourth quarter of 2010 when a plus of 1.8 % was measured. The growth of registered employment concentrated on agency work (+ 33 %), business services (+ 3.5 %), and health and social services (+ 3.3 %). Part-time employment increased 4.3 %. There was a minor decline in self-employment (- 0.2 %), and a strong decline in public 'one-euro-jobs' (- 26 %) (Bundesagentur für Arbeit 2011).

This signals that the German labour market is less and less dependent on public support. It creates a high number of additional jobs which, however, are filled by flexible and less secure types of jobs. As the recent job vacancy survey for IV/2010 revealed, 45 % of the newly occupied jobs are fixed term contracts, the majority of them with duration between six and eighteen months (Economix 2011, p. 28).

Together with the high degree of working time flexibility, which was at the centre of labour adjustment during the crisis, agency work and fixed-term contracts are two core elements of labour flexibility in the German labour market, which help opening job opportunities and allow entering the labour market for the peripheral parts of the workforce. It will have to be observed whether this flexible part of the labour markets will gradually gain more stability or will continue to be the adjustment buffer for economic fluctuations.

Following the good employment performance, registered unemployment continued to decrease by 10 % in March 2011 compared to the previous year (Bundesagentur für Arbeit 2011). This improvement was slightly better in western Germany (- 12 %). The eastern part saw an 8 % decline. Regular unemployment (UB-I) decreased 21 % while the number of unemployed persons among the basic income recipients (UB-II) was not more than 3 % lower than in the previous year. Long term unemployment shrunk by 5.4 % to the rate of 31 % in total unemployment. The total unemployment rate was 7.1 % (- 0.9 pp to the previous year). This was a rate of 6.3 % ac-

ording to ILO standards. In 2011 the unemployment rate will further decline to an average of 6.9 %, and 6.4 % in 2012 (IAB 2011a).

On 1 May 2011 Germany will remove the restrictive immigration rules for eight of the new EU Member States. The Federal Labour Agency expects 140,000 migrant workers annually (Spiegel-Online, 23.4.2011, BA-Chef rechnet mit 140,000 Einwanderern). Immigration will particularly affect low-skill jobs and agency work.

**Table 1 Economic and labour market indicators**

| Indicator   | Current value |               | Change to previous year |
|---|---------------|---------------|-------------------------|
|   |               |               |                         |
| Employment  | February 11   | 40.29 million | + 494,000               |
| Registered employment                                   | January 11    | 27.86 million | + 608,000               |
| Unemployment  | March 11      | 3.21 million  | - 350,000               |
| Regular unemployment (among persons eligible for UB-I)  | March 11      | 1.01 million  | - 275,000               |
| Regular unemployment (among persons eligible for UB-II) | March 11      | 2.20 million  | - 74,500                |
| Unemployment rate (seasonally adj.)                     | March 11      | 7.1 %         | - 0.9 pp                |
| ILO unemployment rate (seasonally adj.)                 | February 11   | 6.3 %         | - 1.1 pp                |
| Short-time workers                                      | September 10  | 237,000       | - 867,000               |
| Vacancies   | IV/10         | 996,000       | + 200,000               |
| Quarterly working hours per employee                    | IV/10         | 334.2         | + 2.1 %                 |
| Monthly gross salary per employee (in €)                | IV/10         | 2,587         | + 2.3 %                 |
| GDP (index 2000 = 100, price adjusted)                  | IV/10         | 111,6         | + 4.0 %                 |
| Inflation (index 2000 = 100)                            | March 11      | 109,8         | + 2.1 %                 |
| GfK Consumer climate index                              | March 11      | 6.0           | + 2.8 pp                |
| Ifo Business climate (2000 = 100, seasonally adjusted)  | March 11      | 111.1         | + 12.8 pp               |
| Labour productivity per employee (index 2000=100)       | IV/10         | 106.47        | + 2.9 %                 |
| Note: pp = percentage points                            |               |               |                         |

Source: Bundesagentur für Arbeit (2011), Statistisches Bundesamt (2011), Ifo Institute, GfK, Economix.

## 2.2. Employment implications of restructuring cases

*Siemens* is going to re-organise its industrial segment, a business division with 200,000 employees worldwide (Handelsblatt, 19.3.2011, Siemens baut Industriesparte um). The service division 'industry solutions' will be resolved. 30,000 workers will be moved to other parts of the company. Redundancies are not envisaged. The light division under the name 'Osram' will be sold on the capital market. The company also started a revision of its atomic energy segment (Süddeutsche Zeitung, 5.4.2011, Siemens stellt Atomkraft in Frage).

The German Military Force (*Bundeswehr*) is under substantial re-organisation (Spiegel-Online, 8.3.2011, Guttenbergs grausiges Erbe). While the details of the plans are not yet fixed, the Federal Government is reported to intend a reduction of the size of the military forces from 250,000 to 185,000 soldiers. The Federal Ministry for Defence will be reduced from 3,000 to 1,800 jobs. Total defence expenditures will be shortened by 8.4 bn euro. The restructuring case is of considerable importance to almost 40 local sites, most of them in rural areas.

The German States Banks (*Landesbanken*) with 46,000 employees are under considerable pressure to reorganise their business. Large parts of their investments lost value during the financial crisis. The model which is now discussed in case of the WestLB in Northrhine-Westfalia reduces the bank to a service organisation for the saving banks which own around ½ of the capital. This would mean job losses for the major part of the staff.

### 2.3. Recently implemented labour market policy measures

#### Reform of social benefits system

In February 2011, the Federal Government passed the new regulation of 'basic social income benefits (UBII)' and amended the support to low income families with an 'educational package'. The regulation includes

- the increase of regular social benefits to 364 euro per month (+ 5 euro).
- one fifth of the additional labour incomes can be retained from 100 euro up to incomes of 1000 euro per month. With the new regulation, the remaining labour income rises from 260 euro to 280 euro at the upper income limit.
- the 'education package' of 700 million euro supports children of low-income families with cooked lunch, school books and other materials, private lessons, sports and arts activities. Credits and vouchers are given to the families by the local labour agencies.

In addition, the reform package contains the cut of parent allowances, pension insurance payments, and heating cost grants for UB-II beneficiaries.

#### *Coherence with Europe 2020 targets*

Even if there is some scepticism about the effectiveness of the reform, it will not question the effectiveness of the Hartz Reform in total. The cut of additional grants will more than compensate the increase of regular benefits and thus further increase the incentives to actively search for a job.

#### *Effectiveness*

The Expert Advisory Board published a critical assessment of the reform, stating that the benefit to wage differential is narrow and the marginal transfer reduction rate is high: social income earners receive between 60 and 87 % of a potential labour income, and a potential job would cut their labour income by 90 % on average (Sachverständigenrat 2010, pp. 279). As a consequence, most of the working social benefits recipients are in marginal jobs with incomes below 400 euro. They are in the combined-wages-trap which mainly cuts the incentives to expand the number of working hours rather than labour participation itself. The Board concludes that the intended reform cannot be expected to change working incentives substantially. This is in line with the assessment by the Institut für Arbeitsmarkt- und Berufsforschung (IAB 2010).

First experience with the educational programme shows that only 2 % of the families who are eligible to the support make actually use of it. This is due to the fact that larger cities already provide similar services in their youth centres. These services still have to be merged with the new programme. The additional effect of the programme on youth services is expected to be low (Der Spiegel, 23.4.2011, Sozialpolitik: Bedürftige gesucht).

#### **Cut of one-euro-jobs**

The Federal Government plans to reduce the support for 'one-euro-jobs', publicly financed jobs for UB-II recipients who are employed and re-integrated by practical work in municipal jobs. The lump sum of 263 euro per month which is paid to the municipalities as mentoring fee for each participant should be reduced to 150 euro. Moreover, the activities of the one-euro-jobbers should not substitute regular jobs (Süddeutsche Zeitung, 18.4.2011, Regierung kappt Ein-Euro-Jobs).

The Federal Government argues that the new regulations will avoid the deadweight losses, which were criticised by the Federal Court of Audit. Charity organisations, however, see a substantial reduction in the number of one-euro-jobs. The majority of one-euro-jobbers are assessed to dis-

pose of – at least partly – a set of positive competences, such as e.g. reliability (85 % of one-euro-jobbers), or working motivation (80 %; Economix 2011, p. 54). These competences are a good basis for this labour market group to profit from the presently favourable labour market conditions. Finally, the non-substitution criterion counteracts the idea of re-integration under 'real' job conditions. For a successful re-integration of low-skilled unemployed regular jobs will have to be used. Otherwise there will be no working environment which is close to real working life.

### 3. Recent labour market reports, surveys and other documentation

*Eichhorst/Thode (2011): Erwerbstätigkeit im Lebenszyklus. Benchmarking Deutschland: Steigende Beschäftigung bei Jugendlichen und Älteren. IZA Research Report No. 34.*

Source: [http://www.bertelsmann-stiftung.de/bst/de/media/xcms\\_bst\\_dms\\_33512\\_33513\\_2.pdf](http://www.bertelsmann-stiftung.de/bst/de/media/xcms_bst_dms_33512_33513_2.pdf)

While age and gender related differences of employment rates declined, formal qualification has become a major factor of segmentation in Germany. This is the main result of an international comparison of employment in a life-cycle perspective which comes to the following results:

- Germany is at third place regarding the difference of employment rates between qualification groups: low employment rates of low-skilled workers and high employment rates of academics.
- The NEET rate of the 25-29 years old is 17 %. Half of them are not actively looking for a job.
- The 'bridging system' for disadvantaged youth without apprenticeship training hides actual unemployment and is inefficient as it does not provide certified skills.
- Lifelong learning is underdeveloped.
- Great progress has been achieved among older workers whose employment rate increased 18 percentage points since 2001.

The study recommends improving the 'bridging system' and developing a labour market oriented lifelong learning system.

*Deutscher Bundestag (2011): Öffentliche Anhörung von Sachverständigen zum Thema Strategie statt Steit – Fachkräftemangel beseitigen (Bündnis 90/Die Grünen), Fachkräftepotential nutzen – Gute Arbeit schaffen, bessere Bildung ermöglichen, vorhandene Qualifikationen anerkennen (Die Linke) Parliament Hearing on Skills Shortages 14.02.2011.*

Source:

[http://www.bundestag.de/dokumente/textarchiv/2011/33282144\\_kw08\\_pa\\_arbeit\\_soziales\\_fachkr\\_aefte/index.html](http://www.bundestag.de/dokumente/textarchiv/2011/33282144_kw08_pa_arbeit_soziales_fachkr_aefte/index.html)

The experts generally agreed that there is a lack of skilled labour in certain sectors and regions, but there was disagreement whether there was a comprehensive skills shortage in Germany. In principle, all experts appreciated a facilitation of occupational skills accreditation for immigrants and considered Germany as being not very attractive to foreign workers. However, some negative effects of increased immigration on wage growth and the willingness of companies to provide advanced vocational training were also suspected. The German Confederation of Skilled Crafts apprehended a flood of low skilled foreign workers on the German labour market. Some of the experts thought instruments for efficient regulation of job migration, inspired by existing foreign models, were necessary.

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