

Discussion paper

**EUROPEAN EMPLOYMENT OBSERVATORY
GERMANY**

Declining income mobility

**Quarterly review of labour market trend and policies
1st Quarter 2008**

Kurt Vogler-Ludwig

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Latest information included at 13 May 2008.

Glossary

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. 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): 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.
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.
Social benefits	<i>Sozialgeld</i> : non-employable persons in a subsistence-based partnership with at least one employable person receive social benefits. Above the age of 16 rates are equivalent to UB-II.
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	<i>Arbeitslosengeld II</i> : Means-tested basic income for job seekers, paid after expiration of regular unemployment benefit. The basic rate is 345 EURO per month. The regulation is included in Social Code Book II (SGB II).
1 €Jobs 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.

Executive Summary

The German labour market shows a strong performance with employment growth of 1.7 % against the previous year and a decline of unemployment by 14 %. Most of the additional 683,000 jobs are registered jobs, half of them in full-time employment. Long-term unemployment continued to decrease by 23 %. The overall unemployment rate is 8.1 % (8.0 % by ILO standards). In such a favourable labour market situation, participation in active labour market policy measures decreased by 1.3 %.

Business cycle forecasts see a gradual slow-down of economic expansion during this and the following year, as far as none of the present risk become virulent – the banking crises in particular. Employment growth is expected to phase out during 2009.

Policy actions at the Federal level did not develop new approaches in the area of active labour market policy. The start of the ESF support period 2007 to 2013 was in the forefront, together with the proposal to promote the acquisition of company assets by the workforce. This follows an old idea to foster capital ownership among dependent workers.

Collective bargaining resulted in wage agreements around 3 and 4 % per annum for this and the coming year. The extension of mandatory wages to specific sectors will result in the coverage of 3.2 million workers if all applications by the social partners will be implemented.

The key issue of the public debate was the latest DIW study on declining income mobility. While income distribution in Germany widened through the extension of both, the upper and lower income classes, the middle-class seems to shrink. Most importantly, however, income mobility between the classes also appears to decline.

Together with the strong orientation of German educational attainment and top-level recruitment along social origin, Germany seems to face a serious problem of equal opportunities which goes far beyond the predominating gender view. Class structures appear to be re-enforced with the long-term result of sub-optimal human capital development, and the short-term reconstruction of welfare-state elements.

This is certainly the opposite of what the European Employment Strategy would expect. While the widening of the income distribution is necessary to create the incentives to raise activity rates, the counter pieces of job opportunities and social mobility are indispensable for the success of the strategy. The continuation of the European Employment Strategy therefore depends more than ever on the visibility of equal opportunities in the German society.

1. Introduction

This quarterly report shows recent labour market developments in Germany in bright light, showing a good performance of all indicators. From this point of view, the task book of active labour market policy is getting shorter and government intervention is less needed than before.

The problems which arise in this favourable situation are therefore associated to distributional issues rather than employment policies. Latest empirical evidence on income distribution and income mobility is assessed in combination with other results on social mobility in Germany.

The literature review refers to income distribution and the recent government report on migration.

2. Update on economic and labour market trends

2.1. Recent labour market trends

Macro trends

The German labour market showed strong growth during the first quarter of 2008. Total employment increased by 1.7 % against the previous year (+683,000), a slight acceleration compared to the 1.5 % reported in January¹. The upswing was labour intensive as 663,000 additional jobs were registered by social insurance and half of them were full-time jobs. Unemployment continued to decrease by 14 % against the previous year. Labour demand however decreased by 18 % to the level of 1.1 million vacancies.

Chart 1 **Employment trends**
Germany



Source: Bundesministerium für Wirtschaft und Technologie (April 2008).

¹ Vogler-Ludwig K.: Quarterly Report for Germany, January 2008.

Employment

Employment growth among registered employees continued to be stronger than average. The increase of 2.5 % against the previous year means a further acceleration of job growth in this category (+ 2 % in January). Again almost half of the additional registered jobs were full-time jobs. Self-employment (including assisting family members) increased by 0.9 % to 4.45 million, and the number of exclusive mini-jobs grew by 1.7 % to 4.89 million. Employment in 1-EURO-Jobs decreased by 9 % to 272,000.

The gap of employment growth between Western and Eastern Germany widened slightly: while registered jobs in Western Germany grew by 2.6 %, Eastern Germany achieved 2.1 % compared to April 2007. Strong employment growth was measured in Hamburg but weak growth in Sachsen-Anhalt.

Jobs in business services continued to grow significantly by 6.6 %. Again this growth was mainly due to the rise of agency work. The hotel and catering sector grew by 3.2 % as did transport and communication (+3.6 %). Additional jobs also emerged in the manufacturing sector (+2.3 %). In contrast, employment in banking and insurance, and public services declined.

Unemployment

Positive cyclical employment trends and the reduction of labour supply helped reducing unemployment further. The decline by 14 % to 3.4 million unemployed reveals the strength of these factors, which were slightly stronger in Western than in Eastern Germany.

Regular unemployment – which includes 31 % of all unemployed – decreased by 23 % against the previous year, while the number of UB-II job seekers declined by 10 %. Labour demand prefers persons with short unemployment spells but the labour market is not closed to long-term unemployed. This is revealed by the 23 % decline of the number of long-term unemployed. The share of long-term unemployed thus declined to 37.6 % compared to 41.7 % in the previous year.

The overall unemployment rate was 8.1 % (8.0 % by ILO standards). This was 1.4 percentage points less than in April 2007. In Eastern Germany the unemployment rate decreased by 2.1 percentage points to 13.1 %. In Western Germany the decrease was 1.2 percentage points to the level of 6.6 %.

Vacancies

The number of vacancies decreased to 1.1 million in the 1st quarter of 2008. This includes 184,000 vacancies for publicly promoted jobs. Out of the 960,000 jobs offered in the primary labour market, 110,000 were in Eastern and 849,000 in Western Germany. Labour demand therefore particularly declined in the Eastern part of Germany.

Dual training

The imbalance on training market was reduced as the number of applications for dual training decreased by 16 % and the number of training offers increased by 11 %. 274,000 applicants were still without a training place in April 2008. These were 18 % less than in the previous year.

Active labour market policy

The number of participants in active labour market policy measures decreased by 1.3 % compared to the previous year (Table 1). Participation in employment creation and the support of people on the job were reduced by 8 to 9 %. Support of unemployed to get a job on the primary labour market, however, was extended by 4.7 %. Other support measures – which are mainly undertaken by the local agencies and municipalities – continued

to grow by 7.8 %.

Table 1 Active labour market policy
Germany

	January 2008 (1000 participants)	% change to previous year
Improving chances on primary labour market	664,1	4,7
Counselling and support to job seekers	110,0	19,5
Training and qualification	245,9	4,6
Preparatory measures to training*	308,2	0,3
Support of people on jobs	347,2	-8,3
Support of employees	157,5	6,0
Support of self-employment	189,7	-17,6
Employment creation	331,5	-8,9
Employment opportunities for UB-II recipients	296,5	-8,1
Job creation measures	35,0	-15,4
Other support measures (free selection)	189,0	7,8
Total (estimated)	1531,8	-1,3
<i>ESF-BA-Programme</i>	24,1	-16,1

Source: Bundesagentur für Arbeit (April 2008)

2.2. Economic forecasts

The strong upswing of the German economy since 2005 will slowly cool down during 2008 and 2009 (Table 2). The economic forecasts for these years see GDP growth rates between 1.3 and 2.0 % in 2008 and between 1.0 and 1.6 % for 2009. Employment growth will continue particularly in 2008 (+0.6 to 1.2 %). For 2009 the expectations are much more cautious with job growth around 0.3 %.

Table 2 Economic forecast for 2008 and 2009
Germany

Institution	Date of publication	GDP (% change to previous year)		Employment (% change to previous year)		Unemployment rate (%)	
		2008	2009	2008	2009	2008	2009
Project Group Business Cycle Forecasts (former Association of Economic Institutes)	April 08	1.8	1.4	1.2	0.3	7.4	6.9
International Monetary Fund	April 08	1.4	1.0				7.7
DIW (Deutsches Institut für Wirtschaftsforschung)	April 08	2.0	1.6	0.6	0.2	8.2	8.3
HWWI (Hamburger Weltwirtschaftliches Archiv)	April 08	1.3	1.3	1.0	0.3	7.5	7.3
Federal government	January 08	1.7		0.7		8.2	
European Commission	January 08	1.6					
Expert Advisory Board (Sachverständigenrat)	November 07	1.9		0.8		8.3	

Source: Economix

The reasons for the slowdown are both, international and domestic. The world economy is expected to grow substantially less than in the previous years. Only the developing countries will continue to expand. The international financial crisis is going to affect consumption and investment decisions in the Western hemisphere. In Germany, private consumption will expand due to considerable wage increase but unit labour costs will increase in parallel. Together with the high EURO exchange rate this will affect company profits and decrease capital investments.

Nevertheless, a gradual deceleration of growth is expected for Germany rather than a rapid jump into recession. Unemployment rates will therefore continue to remain at levels around 7 to 8 %.

3. Labour market policy developments

3.1. Policy actions

ESF start

The new ESF phase 2007 to 2013 was launched with a conference in Berlin at 15 April 2008. The programme should address two million people – unemployed, trainees and business founders in particular. Through a national integration plan, persons with migration background will be promoted. 3 ½ billion EURO will be disposable from EU sources and 6 billion EURO together with national co-funding.

The programmes will be concentrated on policies for long-term unemployment and youth. Moreover, life-long learning and the improvement of equal opportunities play an important role.

Company assets for workers

The Coalition Board of the Federal Government decided on an initiative to promote capital ownership by employees ([Federal Government 2008](#)). For this reason, the existing asset promotion act (*Vermögensbildungsgesetz*) should promote the acquisition of company assets with a subsidy of 20 % (18 % until now), and extend income limits to 20,000 EURO for a single person (40,000 for couples). The maximum of 360 EURO per annum should be tax free. Shares of capital funds are included as far as 75 % of the capital is flowing back to the companies the workers are coming from. An information campaign is planned to promote capital investments by workers.

Collective bargaining

The 2008 bargaining cycle continued with comparatively high wage agreements:

- Public sector: +5.1 % for 2008 and 2.8 % plus flat-rate payment of 225 EURO for 2009.
- Chemical industry: +4.4 % for 13 months and 3.3 % for the subsequent 12 months. The collective agreement includes regulations for age-adjusted work organisation, training, part-time schemes etc. Financial funds will be provided for this purpose by the employers through a “demographic contribution” of 300 EURO per year.
- Medical doctors: 4 % annually for 2008 and 2009.
- Retail trade: in a partial agreement with one big retailer the long-lasting negotiations approached step-wise. 3 % wage increase was agreed plus a fringe benefit of 1 % of the annual income.

On demand of the social partners the introduction of mandatory sectoral minimum wages through the expatriates act (*Arbeitnehmer-Entsendegesetz*) should be extended on agency work, care, security and cleaning services, private continuing training, forestry and mining. In total 3.2 million workers would then be covered by these regulations.

Regarding the role of collective agreements, the European Court decided that the exclusion of companies which do not pay collective wages is not legal in public procurement. Wage payments according to collective agreements can only be postulated if agreements were mandatory.

3.2. Public and scientific debate

The middle-class debate and declining income mobility

The recent empirical study by the Deutsche Institut für Wirtschaftsforschung (DIW) on the German income distribution (Grabka 2008) attracted public attention in an exceptional way. A wide range of media reported on the decline of the German middle-class while the lower and upper margins appeared to grow: between 2002 and 2006 the share of the lowest eighth of the population (with less than 50 % of the average income) increased by half to 11.4 %, and the share of the top level group (with at least twice the average income) by one third to 9.2 %. This was in strong contrast to the 15 years before where the German income distribution remained more or less unchanged.

This was already reported in previous Quarterly EEO Reports, based on other sources, like the OECD or the Council of Economic Advisors. It is due to the diminishing power of collective bargaining in the services sectors, and the declining level of social benefits through the Hartz Reforms. The new aspect now raised through the DIW study points to income mobility rather than distribution: The probability to stay within the initial income group increased for both the lower and the upper income groups: 66 % of the population at poverty risk (with incomes less than 70 % of median incomes) was still in same situation after five years. This share was only 54 % in the 1996 to 2000 period. In parallel more persons of the upper income groups persisted in their position: 69 % were in the same group after five years – 5 percentage points more than before. The stability indicators for the middle class declined accordingly.

These findings are certainly the opposite of what the European Employment Strategy would expect. A widening income distribution – and greater poverty risk – is necessary to create income incentives and to convince the population that “jobs are first”. The counter pieces of this strategy, however, are a rising number of jobs and visible opportunities to escape from poverty. While the number of jobs definitely increased since 2005, the income distribution toughened, at least during the 2002 to 2006 period. It will be most interesting to see how these figures developed during the employment boon between 2005 and 2008.

As far as these findings apply, the development was worsened through class structures determining educational attainment and the recruitment of top position in the German society. The PISA study repeatedly pointed to the observation that school attendance strongly depends on social origin: even if some improvements were achieved since 2000 the child of an academic has a 2.2 times greater chance to attend the Gymnasium than the child of a skilled worker (OECD 2007). Germany appears among the countries with the strongest links to social origin. In addition, investigations among postdoctoral academics revealed that the probability to achieve an executive position was 100 % higher for individuals with an upper class background, compared to a person with a working class background (Hartmann 2008)².

These results reveal that Germany – even without public institutions for elite promotion – strengthened its class division, reduced the incentives for career development, and applied sub-optimal recruitment procedures. This is not without negative impacts on short-term and long-term developments. In the short-run, a wide debate on social justice was trig-

² These results are based on 2001 surveys among 6,500 engineers, lawyers and economists of the doctoral age groups 1955, 1965, 1975 and 1985.

gered, forcing now almost all political parties to suggest new programmes for income redistribution e.g. for social benefits recipients and pensioners. The success of the left-wing party DIE LINKE is the visible expression of voters demanding for such a policy. The labour market reform policy initiated by the Agenda 2010 under the former Chancellor Schröder thus came to an end.

In the long run, the distortion of the selection process through the educational system and elite recruitment means a second best solution for human capital development. The orientation along social origin criteria guarantees class stability rather than the identification of superior competences. This will have negative effects on long-term growth. Moreover, it violates equal opportunities among all members of the society in a way that goes far beyond the presently prevailing gender aspects. Through creating a public sense of fairness and non-discrimination, the issue of equal opportunities therefore should be addressed in a much broader sense than this is actually done.

The enforcement of class structures and the sub-optimal selection of German elites seem already to reveal their negative impacts. A series of corruption scandals in big German companies (e.g. SIEMENS, VW), tax fraud suspicion against top managers, and high redundancy payments to executives in spite of substantial management errors seriously damaged the reputation of the economic elite. It nurtured the debate on "social justice" and questioned a reform policy demanding for higher individual risks instead of welfare provisions. From this point of view, it was the incredibility of the upper class that ended reform policies in Germany. The continuation of the European Employment Strategy therefore depends even stronger on the visibility of equal opportunities in the German society.

4. Recent labour market reports

Schrumpfende Mittelschicht – Anzeichen einer dauerhaften Polarisierung der verfügbaren Einkommen?

(Shrinking middle class – signs of a long-lasting polarisation of disposable incomes?)
Grabka M.M. (2008) DIW-Wochenbericht 10/2008.

Comparisons of income data between 2002 and 2006 revealed a shrinking middle class, whose share in total population decreased by 8 points to 54 %. Both groups at the lower and upper end of the income distribution gained. However downward mobility was stronger than upward mobility and income disparities increased. In total, income mobility declined: 66 % of the population at poverty risk (with incomes less than 70 % of median incomes) was still in same situation five years after. This share was only 54 % in the 1996 to 2000 period. In parallel more persons of the upper income groups persisted in their position: 69 % were in the same group after five years – 5 percentage points more than before. The stability indicators for the middle class declined accordingly.

The author explains these changes with the higher unemployment risks during the 2000 to 2006 period, the labour market reforms which affected lower income groups, and the rising share of part-time employment. The shrinkage of the middle class is also related to the upward move of self-employed in particular.

The data also reveals the change of family patterns. More single parents were among the vulnerable income groups while the number of couples without children increased among the highest income groups. The number of the classical middle-class families with children younger than 16 decreased substantially.

Income satisfaction of the population decreased since 1991 and the share of those with "sorrows about the personal economic situation" increased. Latest data for 2007 however indicate a turnaround initiated by the upswing of the Germany economy.

Migrationsbericht 2006

Migration report 2006. Federal Ministry for the Interior, Federal Office for Migration and Refugees. Berlin [\[Internet Access\]](#)

The share of foreigners remained constant at 8.8 % of the population in Germany. Half of them are from EU Member States and three quarters from Europe. The balance of immigration and emigration is now balanced after a long period of continuous inflows since the beginning of the nineties. Germans tend to emigrate from Germany, many to the United States. The migration balance is negative with 59,000 persons in 2006. Migration is particularly high from and to Poland (153,000 immigrants and 108,000 emigrants). Other countries, like Turkey, Romania, or Italy are participating at considerably lower levels of less than one third compared to Poland.

Only 15 % of the immigrants to Germany received a work permit, in addition to those 37 % coming from EU Member States, 18 % wanted to study and most of the others came for family reasons. The immigration of German nationals from former socialist countries almost came to an end.

The number of naturalised foreigners increased in 2006 slightly to 124,000, but did not achieve the high level of 2000 (184,000). Many of these persons were from Turkey, the Balkan countries and Poland. Official forecasts expect Germany to be an immigration country at least until 2050.

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