

Discussion paper

**EUROPEAN EMPLOYMENT OBSERVATORY  
GERMANY**

**Tackling the crisis with short-time work**

**Quarterly review of labour market trend and policies  
1<sup>st</sup> and 2<sup>nd</sup> Quarter 2009**

by

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## 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.
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. According to unemployment benefits workers receive 60 to 67 % of the omitted income. The maximum period is 18 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. 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 "Hartz-IV"	<i>Arbeitslosengeld II</i> : Means-tested basic income for job seekers, paid after expiration of regular unemployment benefit. The basic rate is 351 EURO per month. The regulation is included in Social Code Book II (SGB II). This is also known as basic income benefit.
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.

## 1. Introduction

Policy actions are currently dominated by the financial and economic crisis. The short-time work program and the stabilisation of jobs in vulnerable companies absorb large parts of resources, both physically and financially. The measures to combat the crisis have been effective until now: However the crisis can be expected to expand during this year – on the labour market in particular.

## 2. Update on economic and labour market trends

### *Macro developments*

The German public has been shocked by the June 2009 GDP forecast of the Deutsche Bundesbank: Minus 6.2 % are expected for the German GDP in 2009 and stagnation for 2010. Employment will decrease by 0.9 % in 2009 and 2.8 % in 2010. A 10.5 % unemployment rate is expected by then.

Indicator	Current value		Change to previous year
Employment	April 09	39.96 million	- 150,000
Employment subject to social insurance contributions	March 09	27.34 million	+ 119,000
Unemployment	May 09	3,46 million	+ 175,000
Regular unemployment (among persons eligible for UB-I)	May 09	1.20 million	+ 229,391
Regular unemployment (among persons eligible for UB-II)	May 09	2.26 million	- 54,597
Unemployment rate	May 09	8.2 %	+ 0,4 pp.
ILO unemployment rate (seasonal adj.)	April 09	7.7 %	+ 0.3 pp.
Short-time workers	March 09	1.25 million	+ 1.09 million
Vacancies	I/09	870,000	- 24 %
Working hours per employee	I/09	335,0	- 3.4 %
Monthly gross salary per employee	I/09	2,180	+ 0.3 %
Days lost through industrial disputes	2008	131,679	- 154,689
GDP (constant price, seasonally adjusted)	I/09		- 3.8 %
Inflation	April 09		0.7 %
GfK Consumer climate	May 09	2.5	- 50 %
Ifo Business climate (2000 = 100, seasonally adjusted)	May 09	84.2	-18.4%
Labour Productivity per employee (index 2000=100)	I/09	99,64	- 6.8 %
pp = percentage points			

Source: Agentur für Arbeit (2009), Statistisches Bundesamt (2009)

During the first quarter 2009, the labour market still remained in comparatively good performance with an employment decrease of 0.4 % against the previous year. Unemployment increased by 175,000, and the unemployment rate was 0.4 percentage points higher than in the previous year (8.2 %).

The consequences of the economic crises became more and more visible. However, the increased use of cyclical short-time work and other working time adjustments have attenuated the negative effects of the recession on employment so far. On average 34.5 % of working time were lost per short-time worker. Thus, a full-time equivalent and a potential relief of unemployment of 431,000 persons can be calculated (Bundesagentur für Arbeit 2009).

Vacancies nevertheless declined by ¼ compared to the previous year. In the non-supported primary labour market the decrease was even stronger (-29 %).

### *Emerging skills gaps/shortages*

The skill shortages of 2008 largely disappeared in the private sector. Expenditure programmes of the public sector however have created new imbalances in social services, health services and the education system (IAB 2009). Nurses, elderly care workers, teachers, kindergarten teachers and social education workers have been on the way to displace engineers from their top position among vacancies.

### *Major restructuring cases and their employment implications*

Four main cases of (almost) insolvent companies appeared during the first quarter 2009:

- Opel AG (automotive industry)
- Arcandor (retail trade)
- Schäffler / Continental (supplier of automotive parts)
- Porsche / Volkswagen (automotive industry)

Opel has been separated from General Motors and is expected to be bought by MAGNA, an Austrian/Canadian car parts manufacturer, and the Russian Sherbank. A share of 10 % is planned to be held by the Opel staff. The takeover includes job cuts by 10,000 of the 55,000 Opel jobs in Europe.

Arcandor is a retail business with around 90 department stores in German cities. The holding which manages around 50,000 working places went bankrupt on 9 June 2009. Metro, the biggest European trade company, plans to buy 60 department stores. Employment losses are currently unclear. The insolvency of Arcandor continues the sequence of bankruptcies in German retail trade in 2009: Hertie, Woolworth, Sinn Leffers were big retail stores which were unable to survive.

The failure of Schäffler – a manufacturer of car parts – to takeover the five times bigger Continental tire producer endangers 4,500 jobs in Germany. Meanwhile Continental plans to takeover Schäffler. Substantial financial losses will have to be absorbed.

A similar situation emerged in the case of Porsche and Volkswagen. Porsche accumulated a debt of 10 bn euros in the course of the expected merger and now was close to insolvency. Investors from Qatar and Japan helped. The restructuring needs of Volkswagen, however, remain to be solved.

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

### **3.1. Aim and assessment of recent policy developments**

#### **3.1.1. Extension of short-time work**

**Policy area:** Offering employment security

**Description of measure:**

The short-time work was prolonged from 18 to 24 month. In Germany cyclical, seasonal and transfer short-time work are distinguished, while only the cyclical short-time work was prolonged. Enterprises can apply for it at the Federal Labour Agency if at least one employee has 10 % less work and would earn 10 % less due to temporarily order decreases. Then, between 60 and 67 % of the difference between gross salary and reduced salary are paid by the Federal Labour Agency. Furthermore, from the seventh month, social security contributions can also be beard by the Federal Labour Agency upon request.

**Aims and objectives:**

The measure enables enterprises to retain their employees and to ensure their planning reliability until the end of 2010. The Federal Government indicates this measure as the key instrument to save jobs during the crisis.

**Legislative status:**

The prolongation form 18 to 24 month and the bearing of social security contributions after the seventh month of short-time work was enacted by the federal cabinet on the 20.05.2009.

**Positions of social partners:**

In general, social partners in Germany appreciate this measure as it prevents dismissals.

**Preliminary assessment of the measure:**

- **Short-term:** Short-time work is a successful measure to overstay short temporarily order decreases. The Federal Labour Agency assumes that a short-time worker costs 590 euros per month, while an unemployed would cost 1500 euros. At first sight short-time work seems to be cheaper than unemployment. But if employees will become unemployed after a period of short-time work, the Labour Agency would have to pay double.
- **Long-term:** The success of this measure is strongly dependent on the length of the economic crisis. If employers can retain their staff until an economic relaxation – which is soonest expected for the beginning of 2010 – is still insecure.

**3.1.2. Introduction of minimum wage legislation**

**Policy area:** Improving wage setting mechanism

**Description of measure:**

Minimum wage regulations on a sectoral basis. Social partners have to decide on minimum wages within the system of collective bargaining. The government intervenes in case of the failure of collective bargaining.

**Aims and objectives:**

- Establish barriers against downward spirals of wages for low-skilled/ low-income workers
- Avoid inflexibility of standard minimum wages
- Involve social partners

**Legislative status:**

Both chambers (*Bundestag, Bundesrat*) passed the two acts (14 February 2009):

- Expatriates act (*Arbeitnehmer-Entsendegesetz*) which allows to declare collective minimum wages to be mandatory for the sector
- Minimum labour conditions act (*Mindestarbeitsbedingungengesetz*) which allows the government to declare minimum wage standards for labour contracts in sectors without representation by social partners.

**Positions of social partners:**

Trade unions strongly urged for general minimum wages but finally accepted the sectoral solution. Employers participated in the process. Some even supported it actively in order to reduce competition by low price suppliers – in particular from abroad (construction industry, mail services).

**Preliminary assessment of the measure:**

- **Short-term:** Effective in branches with downward wage movements. Selective rather than general. Strong control by social partners. Public supervision of the process.
- **Long-term:** Reduction of wage flexibility and limited job growth in low-wage sector.

**3.2. Reactions to employment related EU recommendations**

<b>EU recommendations</b>	<b>Progress at national level</b>
<b>Define flexicurity pathway</b>	The German government remains reluctant to directly apply the flexicurity approach. However, <b>short-time work</b> is certainly an important contribution to flexicurity, using working time flexibility to stabilise jobs.
<b>Tackle structural unemployment</b>	The Federal Government passed a <b>national strategic plan</b> to counteract poverty and social exclusion (European Year 2010) which concentrates on children, basic income recipients, and non-employed. In large parts this is a communication strategy. 2.3 million euros will be spent for this programme.
<ul style="list-style-type: none"> <li>• Improve incentives to take up work</li> <li>• Review tax benefit system</li> </ul>	Not addressed in Q1
	Not addressed in Q1; However, the policy debate advancing the elections in autumn concentrated on <b>tax reforms</b> , income tax in particular.
<b>Improve the education and training system</b>	The Federal and Länder governments continued their investment programme for university training, research and innovation with the commitment to spend 18 billion euros in this area until 2019.
<ul style="list-style-type: none"> <li>• Develop life-long learning</li> </ul>	From April 2009, income limits for training vouchers were raised to 20,000 euros (40,000 for married persons). The benefit amounts to the maximum of 154 euros.
<ul style="list-style-type: none"> <li>• Provide incentives to employers</li> </ul>	A <b>training bonus</b> should help creating additional dual training places for disadvantaged youth – early school leavers, persons from preparatory training measures or bankrupt companies. The bonus amounts to 4,000 up to 9,000 euros per trainee for the whole training period.
<ul style="list-style-type: none"> <li>• Increase transparency on training markets</li> </ul>	Not addressed in Q1
<ul style="list-style-type: none"> <li>• Facilitate upward mobility</li> </ul>	The support of master craftsmen ( <i>Meister BAföG</i> ) has been improved. 272 m euros will be spent additionally during the next four years. The programme provides training credits for master courses.
<ul style="list-style-type: none"> <li>• Reduce inequalities in initial education</li> </ul>	In the <b>national integration plan</b> , the Länder committed to improve the learning capabilities of young migrants to the level of German youth until 2012. Currently the number of early school leavers among migrants is more than twice the level among German nationals.
<ul style="list-style-type: none"> <li>• Improve coordination between Bund and Länder</li> </ul>	Not addressed in Q1

#### 4. Recent labour market reports

*EU Labour Markets After Post-Enlargement Migration. Institute for the Study of Labour (IZA), 2009*

The number of immigrants from the New Member States to the EU15 countries rose between 2003 and 2007. But a mass-immigration as sometimes expected before the EU enlargement can't be observed, as the number of immigrants from the EU10 countries is still below the number of immigrants from Non-Member States.

The IZA publication reveals the effects of the post-enlargement migration on EU labour markets. According to the analysis undertaken in Germany, United Kingdom, Ireland, Sweden, Spain, Poland, Albania and the Baltic States, no evidence is found that the post-enlargement labour migrants would on aggregate displace native workers or lower their wages. Furthermore, they are not more dependent on welfare than natives.

On one hand, home countries can suffer from brain drain, as young and qualified workers leave the countries. On the other hand, the anticipated brain circulation between EU Member States contributes to solve their demographic and economic problems. Thus, the allocative efficiency in the EU can be improved.

In addition, the IAB (research institute of the German Federal Labour Agency) published an analysis about positive effects of work immigration on the German labour market. According to their results, the income of the native population in immigration countries will be reduced in the short run, but will rise in the long run.

*Globalisierung in der Wirtschaftskrise: Wie sicher sind die Jobs in Deutschland? (Globalisation in the economic crisis – How safe are jobs in Germany?) Kiel Institute for the World Economy, 2009*

The study investigated the potential relocation of jobs in Germany to foreign countries. The empirical analysis of job profiles came to the conclusion that 42 % of jobs subject to social insurance contributions are potentially at risk to be offshored (11.3 Million). Thereof, more than 11 % were classified as 'easy to relocate'. In Germany 38 % of jobs subject to social insurance contributions were classified as 'not relocate-able' (as they are tied to a certain place). In Switzerland and the USA three-fourths of jobs are classified as 'not relocate-able'.

Furthermore, the potential offshoring risk is given at any qualification level, and not only affects low skilled workers. On one hand industrial jobs are at risk, due to the high tradability of industrial commodities. But for jobs in the service sector the offshoring risk is also very high, as the number of jobs related to digitalised services is rising. These jobs have a particular low commitment on the place of consumption and thus have an even higher risk to be relocated.

The relocation of jobs would result in a noticeable loss of prosperity, as particularly high wage jobs showed a higher risk of offshoring.

Against the background of these results, the long-term economic challenge will be to retain jobs, without losses of earnings. To promote the qualification of premium jobs, even if these could possibly be relocated to foreign countries, should be interpreted as a chance to assure the higher income levels in Germany. This can only be achieved by a dedicated education policy to promote qualifications. The principals of lifelong learning and flexicurity are particularly important in this context.



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Web links:

Deutsche Bundesbank [http://www.bundesbank.de/presse/presse\\_aktuell.php](http://www.bundesbank.de/presse/presse_aktuell.php)

Ifo business climate Germany

<http://www.cesifo-group.de/portal/page/portal/ifoHome/a-wininfo/d1index/10indexgsk>

GfK consume climate indicator [http://www.gfk.com/group/press\\_information/press\\_releases/004091/index.de.html](http://www.gfk.com/group/press_information/press_releases/004091/index.de.html)