



European Employment Observatory

Quarterly Report from the SYSDEM Correspondent

Germany

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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 omitting 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>Bedarfgemeinschaft</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

Germany has left the crisis behind. GDP growth is higher than ever thanks to buoyant exports, employment is smoothly growing, and unemployment is decreasing. This is more than expected, and can be attributed to four major facts:

- The determined government action both at national and international level which successfully embanked the destabilisation of the financial sector and which counteracted the spill-over into the 'real' economies.
- The use of the traditional short-time work scheme which supported working time flexibility and contributed to consumer trust. The expectation of a soon recovery was correct and justified to focus on internal rather than external flexicurity. This supports the recovery by the rapid expansion of human resource capacities without high recruitment and training costs.
- The successful restructuring of the German economy during the last decade which now provided the competitive advantages to participate in the expansion of world trade.
- The successful restructuring of labour markets which achieved the activation of large parts of the workforce and re-allocated labour into the competitive segments of the economy.

The German labour force was thus hardly affected by the crisis, neither in terms of high unemployment nor in terms of low incomes. Two years after the crisis, the country can draw a positive balance. Everything might have been much worse.

The historical process of the last ten year has nevertheless enforced the centrifugal powers which have now been accelerated by the crisis. The 'Hartz Reforms' triggered the creation of the left-wing party 'Die Linke' – significantly weakening the centrally-oriented Social Democrats. Globalisation and the strong inflow of non-nationals now supports the emergence of a right-wing party – significantly endangering the also centrally-oriented Christian Democrats. The political spectrum in Germany seems to differentiate into socialist, nationalist, and environmentalist centres of gravity. This will make politics not easier.

The well performing 'real' economy is nevertheless faced with serious problems. The social 'divide' continues to open. The economy however urgently needs a well trained workforce. This requires both higher training investments and more intensive integration of non-nationals. The plans to expand education and training are still not implemented, and the integration of the foreign non-Christian population is more controversial than ever. The conflicts with the political area are evident and make economic progress not easier.

It can be questioned if Germany will be able to find a new long-term orientation under these circumstances, at least not without a clear signal from the upcoming elections. The continuation of the ongoing appeasement politics is much more probable with a minimum of conflict but also a minimum of progress.

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

2.1. Economic and labour market performance information

Economic performance

The recovery of the German economy gained momentum in the second quarter of 2010. According to the Federal Statistical Office, real GDP increased by 2.2 % compared to the previous year. This is the highest growth rate for a quarter since the German unification. Five quarters after the recession, 60 % of the economic downturn has been compensated. The upswing was strongly export driven and stimulated investment activities. The comparably good employment developments kept labour incomes less affected and influenced the private consumption positively. The economic stimulus programmes supported the construction sector which increased by 16 % between the first and the second quarter 2010. In the same time, the industrial production increased by 5.4 % (Ministry of Economics 17.08.2010).

Labour market development

The brightening economic performance affected the labour market positively and main indicators improved: total employment increased by a year-on-year rate of 0.2 % in the second quarter of 2010. Most importantly, however, the sum of total hours worked increased by 2.5 % while short-time work decreased: in March 2010 683,000 persons received cyclical short-time work allowances which is only a good quarter of the peak volume in May 2009. Working time flexibility thus contributed substantially to compensate the negative effect of the economic downturn on employment.

The unemployment rate decreased from 8.3 % in August 2009 to 7.6 % in August 2010. In West Germany the rate was 6.6 % and 11.5 % in East Germany. Compared to the previous year it declined by 0.5 percentage points in the West and 1.3 in the East.

Table 1 Economic and labour market indicators

Indicator	Current value		Change to previous year
	Month	Value	
Employment	July 10	40.35 million	+ 137,000
Registered employment	June 10	27.66 million	+ 284,000
Unemployment	August 10	3.19 million	- 283,000
Regular unemployment (among persons eligible for UB-I)	August 10	1.03 million	- 183,000
Regular unemployment (among persons eligible for UB-II)	August 10	2.16 million	- 100,000
Unemployment rate	August 10	7.6 %	-0.7 pp
ILO unemployment rate (seasonal adj.)	July 10	6.9 %	-0.8 pp
Short-time workers	March 10	830,000	-429,000
Vacancies	II/10	805,000	+ 14 %
Total hours worked	II/10	13.5 bn hours	+ 2.5 %
Quarterly working hours per employee	II/10	315.5	+ 2.5 %
Monthly gross salary per employee (€)	II/10	2,295	+ 2.5 %
GDP (adjusted for price)	II/10		+ 2.2 %
Inflation	August 10		+ 1.0 %
GfK Consumer climate index	August 10	4.0	Index August 09: 3.4
Ifo Business climate (2000 = 100, seasonally adjusted)	August 10	106.7	Index August 09: 90.5
Labour productivity per employee (index 2000=100)	II/10	105,37	+ 3.9 %

Note: pp = percentage points

Source: Bundesagentur für Arbeit (2010), Statistisches Bundesamt (2010), Ifo Institute, GfK, Economix

Temporary employment

Temporary employment gained importance during the last decade. The number of temporary workers more than doubled within the last ten years, and declined during the crisis. Since June 2009 it increases again (Bundesagentur für Arbeit 2010b). In December 2009 the number of temporary workers was 632,400, (1.6 % of total employment) whereof 553,000 jobs were in registered employment.

Currently, a debate about temporary work between trade unions, employer representatives and government takes place in Germany. The Confederation of German Trade Unions (DBG, 2010) calls for equal pay and the introduction of a minimum wage for temporary work. The minimum wage should avoid wage pressure in this segment, in particular, when the German labour market will be opened for Eastern-European employees from May 2011 onwards.

In September 2010 the Federal Ministry of Labour and Social Affairs presented a draft amendment regarding temporary employment (Federal Government 2010a). The amendment aims to avoid the replacement of regular staff by temporary workers. However, the trade union IG Metall (2010) blames the government that this amendment addresses only a small part of the problems and does not improve working conditions regarding payment and job security. Employer repre-

representatives defend temporary employment as flexible labour tool. For cyclically dependent branches, such as engineering, temporary work is very important, to react quickly to new orders in particular after this severe crisis (Handelsblatt 14.09.2010).

The IAB (2010b) also points to the importance of temporary work as a flexible tool which can be an option for long-term unemployed to re-enter the labour market. However, only 7 % of unemployed who entered temporary employment, have had left temporary work completely after two years time.

Wage growth

In the first half of 2010 there were fewer collective agreements compared to the previous half-year. In many branches negotiations on collective pay scales were postponed. In some branches agreements about job security and the take-over of apprentices were decided.

Due to the currently improved economic performance, the call for higher pay scales increases again now. For example IG Metall called for a 6 % increase for 85,000 employees in the steel industry and better working conditions for temporary workers. No agreement is reached so far (Hans-Böckler-Stiftung 2010).

The improved economic situation is also reflected in monthly gross wages. After a 0.2 % decline in 2009, gross wages increased by 2.5 % compared to the previous year. The effect of the economic crisis on workers' incomes thus remained limited.

Labour market forecasts

The Institute for Employment Research of the Federal Labour Agency (IAB) foresees a strong economic recovery in 2010 (+ 3 %) and moderate growth in 2011 (+ 1¾ %). This will cause an employment increase of 350,000 persons each year. 40.6 million are expected to be employed in 2011 – this would be a historical record for the unified Germany. The IAB also expects a reduction of labour supply by 210,000 persons due to demographical changes. 90 % of this reduction will take place in East Germany. Unemployment will thus continue to decline, and will fall below the 3-million-benchmark (IAB 2010a).

The Institute for the Study of Labour (IZA) presented its long-term forecast which reveals that demographic changes will result in the lack of about one million employees between 2013 and 2035 (Wirtschaftswoche 23.08.2010).

2.2. Employment implications of restructuring cases

Karstadt

After the bankruptcy of retail trade holding Acandor in June 2009 its subsidiary company Karstadt GmbH had to close 13 department stores by spring 2010 (EEO Quarterly Report June 2010). After a period of negotiations with the landlord Highstreet, the investor Nicolas Berggruen finally bought the remaining 120 department stores and prevented the split-up of the chain with 25,000 employees. On 03.09.2010 the Local Court Essen approved the insolvency plan. The new investor plans to spend € 70 million to modernise the business without any job cuts. The employees of Karstadt contribute € 150 million to the consolidation via the abandonment of holiday and Christmas allowances (Handelsblatt, 03.09.2010).

Business experts criticise that investments will be too low to modernise the company and point to the fact that department stores in Germany generally suffer from decreasing attractiveness. According to Metro, the biggest competitor of Karstadt, the German retail market is still too small for two big department store chains (Handelsblatt, 07.09.2010). While current employment at Karstadt appears to be secured, sustainable employment levels are far from being guaranteed.

2.3. Recently implemented labour market policy measures

Austerity programme of the Federal Government

Description

As reported in the EEO Quarterly Report II/2010, the Federal Government plans to save around € 80 bn within the next four years in order to consolidate the public household. The new debt of the Federal Government should decrease from € 57.5 bn in 2011 to € 24.1 bn in 2014.

By its accompanying budget law from 1 September 2010, the Federal Government undertook a first step to implement the consolidation plan. This law included budget cuts indicated in Table 2: out of the € 5.8 bn budget cuts, € 2.5 bn will be financed by the cut of special UB-II benefits, such as contributions to pension insurance or the cut of parental allowance. Other measures include the cut of heating subsidies or the reduction of parental allowance for high wage earners. In addition, the air traffic tax and tax cuts for farmers were decided. The plan foresees the public expenditure cuts of a similar size like the present budget cuts, the introduction of a nuclear fuel tax and – by 2012 – a financial transaction tax. According to the draft law, the Federal Government will increase expenditures for research and education by € 12 bn in 2011.

Table 2: Budget cuts of the Federal Government (1 September 2010)

Measure	Potential savings 2011	Description
Accompanying budget law (1 September 2010)		
Air traffic tax	€ 1.0 bn	The tax applies to commercial passenger flights and is levied for domestic and international flights if they depart from a German airport. The tax amounts to € 8, € 25 and € 45 depending on the distance of the destination
Lower energy tax benefits for plants and farmers	€ 1.5 bn	The measure mostly offsets exceptions of the so called eco-tax (<i>Ökosteuer</i>) especially for energy intensive companies. The reduced tax rate will increase from 60 to 80 %.
Preference for public dept in insolvency procedures	€ 0.2 bn	Public tax claims will have preference in insolvency procedures.
Abolition of transition premiums for UB-II recipients	€ 0.2 bn	The premium for unemployed which is paid during the transition from unemployment-I-benefits to unemployment-II-benefits will be abandoned.
Deduction of parental allowance from UB-II benefits	€ 0.5 bn	Parental allowance will be deducted from UB-II benefits
Cut of pension insurance for UB-II recipients	€ 1.8 bn	The Federal Government will no longer pay contributions to the pension insurance for unemployment-II-benefit recipients.
Cut of unification-related pension benefits	€ 0.3 bn	The benefits from reunion will be paid by sustainability reserves (<i>Nachhaltigkeitsrücklagen</i>) of the pension insurance.
Cut of heating subsidy	€ 0.1 bn	Due to lower energy costs, the heating subsidy for housing benefits recipients will be abandoned. This does not apply to unemployment-II-benefit recipients
Parental allowance will be reduced	€ 0.2 bn	The parents allowance will be reduced from 67% of net income to 65 % for parents with a net income above € 1.200.
Additional steps planned		
Nuclear fuel tax	€ 2.3 bn	
Financial transaction tax	Start in 2012	
Budgetary measures	€ 5.4 bn	
Total	€ 11.2 bn	

Source: Federal Government (2010b)

The Social Party (SPD), the Green Party (Bündnis 90/Die Grünen) and the Left Party (Die Linke) criticise the programme as deepening the social divide in Germany. The programme is assessed as being socially imbalanced as the weaker parts of the population will be burdened while the wealthier parts – like bankers and speculators – will remain uncharged (Handelsblatt 15.09.2010, p. 16). The trade union representation (DGB) appeals in its autumn action programme 'Germany imbalanced' against the planned policy programme arguing with the social imbalance of the sav-

ings programmes (DBG 2010). Moreover, it is criticised that the programme shifts the financial burden to pension insurance, municipalities or can simply be expected to create higher social costs in the future.

Consistency with long term Europe 2020 targets and Employment Guidelines 7 and 8

The Federal Government argues that the cut of UB-II benefits and other social benefits will contribute to the further activation of unemployed. This would be in accordance with Guideline 7. However activation is not directly included in the measures which mainly affect income levels. The indirect effects are however not fully evident.

The plan to expand education and training expenditures complies with Guideline 8, and is highly important considering the weak development of education and training investments in the past. It remains unclear, however, what the relevance of these investments for poorly educated persons will be, and thus how this will be combined with the cuts of social benefits.

Effectiveness of countering the impacts of the crisis

The savings will support the household consolidation which is necessary after the expansion of spendings for economic stimulus packages within the last two years.

3. Recent labour market reports, surveys and other documentation

Social Science Research Center Berlin (2010): Mann Frau Macht Arbeit – Aktuelle Geschlechterfragen (Man Woman Power Labour – Current gender questions), WZB Mitteilungen No 129, September 2010 [web]

The study presents different articles about the current situation of gender differences in Germany. It continues the debate about the relevance of social inequality and contributes to the analysis of work-life balance. This is exemplified by female politicians having extra-parliamentary activities, gender-specific school teaching, and female scientist with young children. It provides a broad overview of the current gender debate in Germany.

Sachverständigenrat deutscher Stiftungen für Integration und Migration (German Foundation Council of Experts for Integration and Migration) (2010): Einwanderungsgesellschaft 2010 (Immigration Society 2010), Jahrgutachten 2010 [web]

This study examines the impact of immigration. Results and guidance are presented in 15 core messages showing the influence of immigration on population, economy, politics, culture and other areas of social life. In contrast to the heated public debate, integration into the German society shows satisfactory results. Large parts of the society have a pragmatic and constructive approach to integration. Nevertheless, there are important deficits regarding educational opportunities for young people with migration background.

Federal Ministry of Family Affairs, Senior Citizens, Women and Youth (2010): Fünfter Bericht zur Lage der älteren Generation in der Bundesrepublik Deutschland (Fifth report about the situation of the elderly generation in the Federal Republic of Germany): Bericht der Sachverständigenkommission, August 2010 [web]

This report provides an overview of the opportunities of age in the economy and the society and provides guidance how the potential of older people could be used more efficiently. The thematic areas comprise the demographic change and its economic impacts, and the contribution of elderly people for solitary. Moreover, the conditions, the health-promoting framework and preventive efforts for competence building and conservation at older ages are examined.

Beste, J., A. Bethmann and M. Trappmann (2010): ALG-II-Bezug ist nur selten ein Ruhekitzen (Obtaining unemployment-II-benefits is seldom a place to rest), IAB-Kurzbericht 15/2010. [web]

According to a representative survey of more than 10,000 unemployment-II-beneficiaries between 15 and 64, more than a half of them pursue a useful activity at least 20 hours per week: They educate children younger than seven years old, care for relatives or work but are still dependent on benefits. Many of them are in vocational training or in promotion programmes.

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