



European Employment Observatory

Quarterly Report from the SYSDM 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

The German labour market shows an excellent performance with rising employment and declining unemployment. This is more than a surprise after the 5 % decline of GDP in 2009. As this report will argue, the rapid recovery is the consequence of economic restructuring, altered workforce attitudes, and a coherent labour market policy. There are not many errors to be detected as far as employment policy is concerned.

The basis for flexible adjustment was laid long before the crisis. Companies restructured their activities, collective agreements were amended with flexible elements particularly regarding working hours, and the social benefits system was reformed following the ideas of the European Employment Strategy. A new labour market regime emerged which successfully passed its 'stress-test' during the crisis.

The crisis also did not change the principal restructuring trends. Manufacturing is continuing to relocate jobs abroad, to China in particular, and business services – mainly the know-how intensive services – returned to their former growth path. The crisis brought the evidence that the German economy is a knowledge-based economy and human capital is its major resource. This explains the high preference of all actors – companies, workers and policy makers – for the preservation of jobs during the crisis. A fire-and-hire strategy would have devaluated the human capital at least partly.

In this situation, there is not much to do as regards labour market policies. The Constitutional Court nevertheless forced the Federal Government to revise the social benefits system, and to provide empirical evidence for the calculation of benefit levels. This is now under negotiation among the political parties without questioning the principles of the Hartz Reform.

Nevertheless, there are challenges which wait for an adequate response in the near future. One of these challenges is the opening of the German labour market to immigration from the New Member States which will happen in May 2011. It can be expected to have some effects as the German economy faces increasing skills shortages which are aggravated by the declining number of school leavers.

A second challenge is the increase of agency work which substantially contributed to employment growth. This trend supports the demand for the introduction of minimum wages in the agency work sector but also elsewhere, particularly in sectors which will see strong immigration flows from the New Member States.

Finally, the system of collective bargaining is under stress after the decision of the Federal Labour Court to allow multiple collective agreements in a single company. This raises the competition among trade unions and strengthens the position of occupational groups, like medical doctors, pilots, or engine drivers. As a consequence, employers and policy makers are currently developing strategies to avoid particularism in the collective bargaining system.

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

2.1. Economic and labour market performance information

Economic performance

The German economy appears to be in excellent condition. Real GDP growth was at 3.9 % in the third quarter 2010, employment grew by 1 % and productivity is rose by 3 % (Table 1). Business expectations considerably improved as did the consumer climate among private households. The crisis has been passed without serious damages.

This astonishing result has to be attributed to economic, social and political decisions which have not been observed in this form before:

- The rapid recovery of businesses is the result of strong restructuring efforts during the previous years, and the preservation of the workforce during the crisis. A considerable flexibility of working hours could be observed, supported by both workplace regulations and public short-time work schemes. This allowed companies to return to markets rapidly without the usual hire-and-fire inefficiencies. The strategy of labour hoarding worked.
- Trade unions and workers accepted reduced working hours and declining real wages during the crisis. This was based on the strong preference for workplaces rather than incomes. Wage claims remained moderate in 2009 and 2010. Companies were able to compensate at least parts of their declining productivity by wage cost reductions. The strategy of job preservation worked.
- The Federal Government intervened substantially with public expenditure programmes and the support of short-time work. This helped compensating demand slumps and supported the rapid recovery. The strategy of Keynesian macro-policies was successful.

The new thing is not only the broad strategic consensus which could be achieved among all actors. Even more important is the fact that all actors were aware of the pivotal role of human resources for combating the crisis and returning to steady growth. Such a volume of labour hoarding has never been observed in previous downturns.

This was already announced by the continuous debate about skill shortages in the German economy which started some years before the crisis. Being aware of the importance of a skilled workforce and the difficulties to recruit and train staff, human capital in the companies achieved a much higher economic value than in previous periods. From now on it appears to be evident for most of the actors that human capital is the basis for economic success and progress.

Labour market development

The labour market performed very well in both quantitative and qualitative regards (Table 1). Total employment increased by 427,000 persons in the comparison from November 2009 to November 2010. The annual growth rate of 1.0 % is remarkable as average working hours per employee expanded in parallel by 2.8 %. This was also due to the reduction of short-time work by almost one million and further working time adjustments. Vacancies increased by 20 % on an annual basis. There is little doubt that these figures indicate a strong revival of labour demand in the German economy.

The revival was in favour of registered rather than marginal employment. The number of registered jobs (with mandatory social security contributions) increased by almost half a million (+ 1.8 %) while the number of marginal jobs grew by 0.9 % - mainly in form of secondary marginal jobs. However, almost half of the increase in registered jobs has to be attributed to agency work, which expanded by almost 1/3 and exceeded the pre-crisis level. 1.6 % of the employees are now engaged by labour agencies. Part-time employment contributed to the increase of registered jobs with a growth rate of 4% while full-time employment achieved a plus of 1.3 %. Self-employment increased by 0.2 %, and the number of publicly supported 'one euro jobs' declined by 6 % (Bundesagentur für Arbeit 2011).

Table 1 **Economic and labour market indicators**

Indicator	Current value		Change to previous year
Employment	November 10	41.09 million	+ 427,000
Registered employment	October 10	28.28 million	+ 498,000
Unemployment	December 10	3.02 million	- 260,000
Regular unemployment (among persons eligible for UB-I)	December 10	0.95 million	-161,000
Regular unemployment (among persons eligible for UB-II)	December 10	2.07 million	-99,000
Unemployment rate (seasonally adj.)	December 10	7.5 %	- 0.6 pp
ILO unemployment rate (seasonally adj.)	November 10	6.7 %	- 0.8 pp
Short-time workers	June 2010	417,000	-977,000
Vacancies	III/10	824,000	+ 177,000
Quarterly working hours per employee	III/10	339,6	+ 2.8 %
Monthly gross salary per employee (in €)	III/10	2,350	+ 2.2 %
GDP (constant prices)	III/10		3.9 %
Inflation	November 10		1.5 %
GfK Consumer climate index	December 10	5.5	+ 1.9 pp
Ifo Business climate (2000 = 100, seasonally adjusted)	December 10	109.9	+15.4 pp
Labour productivity per employee (index 2000=100)	III/10	107,00	3.1 %
Note: pp = percentage points			

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

These statistical facts underline the above interpretation of the economic recovery:

- The strong economic upswing favours employment earlier and stronger than in previous recoveries. Labour has become the major source of growth and the economy has a strong need for a skilled and well-trained workforce.
- The labour market has not only been sufficiently flexible to adjust to the downturn but to the present upswing as well. It provides a variety of flexibility elements in form of working hours, wage adjustments, and contractual arrangements. Collective agreements have been modified to allow for greater flexibility and now contribute to the high adjustment speed of the labour market.

Indeed, it is a different labour market which emerged during the crisis. If we compare it to the 'sclerotic' appearance in the 1990s and earlier, the differences are striking:

- The strong labour-saving behaviour of companies changed to an efficiency-raising orientation which is based on competence enhancement rather than cost cutting.
- The attentive job-orientation of workers has changed to a stronger self-determinedness which does not expect public institutions to provide a sufficient number of jobs and adequate incomes.
- The fundamental change of labour market policies – known as Hartz Reform – altered the defensive attitude of policy makers towards an activating role and terminated the dominating welfare state approach.

The behavioural change on the German labour market is confirmed by calculations undertaken by the Expert Advisory Board in its recent annual report: if the correlation between production and employment had remained the same as it was during the 1998 to 2008 period, employment had declined by 500,000 in 2009. Actually it declined by not more than 30,000 (Sachverständigenrat 2010, p. 260). This provides the evidence for the significant changes and the effectiveness of labour market reforms which successfully passed the 'stress-test' during the crisis and now contribute to economic growth.

2.2. Employment implications of restructuring cases

As there are no important restructuring cases except the takeover of the construction company Hochtief by the Spanish ACS Holding – a case which is still in a premature phase as far as employment is concerned – this section will look at sector employment restructuring since the crisis.

The major burden of employment losses had to be borne by manufacturing industries which lost 6 % of their pre-crisis peak in the third quarter 2008 and experienced only a minor improvement since the second half of 2010. Business and financial services on the other side lost around 3 % but recovered from the second quarter 2009 onwards with an increase by 5 %. In addition, public and social services expanded, together with the construction sector. Retail trade, transport and hotel and catering services saw a minor decline.

This pattern reveals that the crisis has reinforced former restructuring trends:

- In spite of the expansion of exports, manufacturing industries continued to reduce employment levels by outsourcing and foreign direct investments. Local production was substituted by imports and growth potentials abroad were opened by investments – particularly in China. This is what we had before, and the crisis worked as a further trigger.
- In parallel, business services expanded their activities and financial services followed. The trend towards know-how-based services is strong again and is the basis of economic success in manufacturing and other sectors.
- Public expenditure programmes allowed for employment expansion in social services and construction and brought a breakthrough in social care services in particular. This is the sector which now reports the most severe labour shortages.

There is a high probability that the future will not see the return of manufacturing jobs to Germany. Instead job growth will happen in business services and social services. The expansion of jobs in the construction sector however cannot be expected to be sustainable. It will decline again with the phasing-out of public expenditure programmes.

2.3. Recently implemented labour market policy measures

Reform of social benefits system

In February 2010, the Federal Constitutional Court (*Bundesverfassungsgericht*) called for a principal revision of social benefits, as the calculation of regular ‘basic social income benefits (UBII)’ was not based sufficiently on empirical data and the methods remained unclear. It declared the regulation as unconstitutional. This was the fourth major legal decision against the ‘Hartz’ reform, after the European Court which criticised age discrimination in 2005, the Constitutional Court’s decision against the cooperation between municipalities and the Federal Labour Agency (2007), and the Federal Social Court’s decision against child benefits in 2009.

In October 2010, the Federal Government submitted a new proposal for the calculation of social benefits which included

- The increase of regular social benefits to 364 euro per month (+ 5 euro).
- One fifth of the additional labour incomes can be retained up to incomes of 1000 euro. With the new regulation, the remaining labour income rises from 260 euro to 280 euro at the upper income limit.
- A ‘education package’ of 700 million euro should specifically support children of low-income families with cooked lunch, school books and other materials, private lessons, sports and arts activities. Credits and vouchers will be 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 UBII beneficiaries. These cuts can be expected to further increase the incentives to actively search for a job.

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 there is some probability that the support of children will finally result in the cost-free expansion of educational services for low-income families. This also coincides with the focus on education and training in the Europe 2020 strategy.

Effectiveness

The reform is still under debate as the Federal Council (*Bundesrat*) refused its approval in November 2010. One of the main arguments is that the reform will raise the financial burdens for municipalities. Moreover, the improvement and expansion of schools and child care facilities is seen as superior to the provision of vouchers and other direct support to families.

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).

Charity organisations calculated a higher basic income for adequate living subsistence of 394 euro and question the need for a budget-neutral reform (*Süddeutsche Zeitung*, 13.1.2011, *Wo beginnt die Armut?*). The German Confederation of Trade Unions (*Deutscher Gewerkschaftsbund*) also criticised the calculation of basic incomes of being determined politically rather empirically and suggests an expert commission to undertake these calculations. Moreover, the foundation of a round table for child poverty is proposed (*DBG 2011*).

3. Recent labour market reports, surveys and other documentation

Bertelsmann-Stiftung (2011): Soziale Gerechtigkeit in der OECD – Wo steht Deutschland? [\[web\]](#)

The study measures social justice in 31 OECD countries based on indicators for the reduction of poverty, access to education and training, labour market inclusion, social cohesion and equity, and generational balance. The indicators place Germany in the middle of the range of countries at rank 15. It criticises the rise of income inequality and child poverty, the status-related access to education and training, the problem of long-term unemployment, and the polarisation of the society.

IAB-Forum (2011): Migration – Integration. [\[web\]](#)

The publication is a collection of papers on the state of integration among migrants, the expected effects of the opening of the German labour market in 2011, and the efficiency of integration policies. It includes policy recommendations particularly addressing the need of minimum wage regulations. The immigration of workers from the New Member States is expected to have positive effects on the German economy, and it will favour resident workers. Former immigrants will see competition from the new immigrants.

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