Discussion paper

European Employment Observatory
Germany

Recession started

Quarterly review of labour market trend and policies

2nd Quarter 2008

by

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Contents

Latest information included at 31 July 2008.

Glossary

Business Foundation Allowance	*Gründungszuschuss:* 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 sump 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 *(Bundesagentur für Arbeit)* 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	*Midi-Jobs:* Registered employment with monthly wages between 401 and 800 € and reduced social insurance premiums.
Mini Jobs	*Geringfügige Beschäftigung:* 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	*Nationaler Ausbildungspakt:* Agreement between the Federal Government and the employers associations to offer additional dual training places. The pact started in 2004.
Registered employment	*Sozialversicherungspflichtige Beschäftigung:* Employment contracts subject to public social insurance, i.e. dependent employment with salaries above 400 EURO per month.
Rehabilitation benefit	*Eingliederungszuschuss:* 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	*Kurzarbeit:* 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 loose at least 1/10 of the income. According to unemployment benefits workers receive 60 to 67 % of the omitting income. Social insurance premiums are continued to be paid at the former levels.
Social benefits	*Sozialgeld:* 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	*Bedarfsgemeinschaft:* 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	*Arbeitslosengeld 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	*Arbeitslosengeld II:* 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).
1 € Jobs Auxiliary public jobs	*Ein-Euro-Jobs:* 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

Employment growth in Germany is decelerating rapidly. In June 2008 the annual growth rate was only 1.4 %, compared to 1.8 % in February. Vacancies are declining strongly and short-term work is increasing. Economic forecasts therefore see a slow-down of employment growth during the next year in particular. Registered employment, however, is still growing at a rate of 2.2 % per annum. This is at the expense of other forms of employment – slow growth of self-employment and a decrease of Mini-Jobs and 1-EURO-Jobs.

The overall unemployment rate was 7.7 % (7.5 % by ILO standards) in July 2008. This was 1.2 percentage points less than in the previous year. Due to continuing decrease of labour supply, unemployment rates are expected to stay at the present level also during the next year.

Participation in active labour market policy increased at a rate of 2.1 % to 1.590 million in July 2008. While support of job seekers and training measures were extended, the support of people on the job, employment creation measures and other support measures undertaken by municipal services were reduced.

Facing rising skills shortages, the Federal Government passed an "Action Programme against Skills Shortages" alleviating immigration of skilled workers from EU and non-EU countries but extending the limitations for intermediary and lower skills. This includes the New Member States for which immigration restrictions for lower skills will be continued until 2011.

The decision about the programme was accompanied by the scientific debate on skills shortages which – on the one hand – tried to exaggerate the problem with the calculation of a 0.8 % GDP loss through shortages of highly skilled workers. Vacancy surveys on the other hand do not confirm these results, referring particularly to the flexibility of employers in coping with labour shortages. Company-based training and restructuring strategies are important to avoid skills shortages at the micro-level.

After a long-lasting debate, the Federal Government passed the Minimum-Wage-Act, introducing rules and instruments for implementing sectoral and regional minimum wages. It coincides with the differentiated system of collective bargaining rather than applying a standard minimum wage.

The Federal Labour Agency published a report on the efficiency of the different organisational forms of placement services – coming to the result that the Agency's services perform significantly better than those of municipalities. The shocking news however was the low average placement rates of all services: only 3.4 % of UB-II recipients could be placed in registered jobs during the first half of 2007.

The official report on the education and training system (Education in Germany 2008) came to the conclusion that – in spite of serious performance problems – expenditures on education and training decreased in relation to GDP (from 6.9 % in 1995 to 6.3 % in 2006). Important reforms are demanded in all parts of the system, particularly in dual training and life-long learning.

1. Introduction

The second quarter 2008 brought a series of publications and policy decisions, thus making the selection of information not easier. The focus is on policy decisions which – after long debates – addressed the problem of skills shortages and minimum wages. This is also reflected in research publications. Moreover, the recent report on Education in Germany is presented which gives a detailed view on the German education and training system and suggests fundamental reforms.

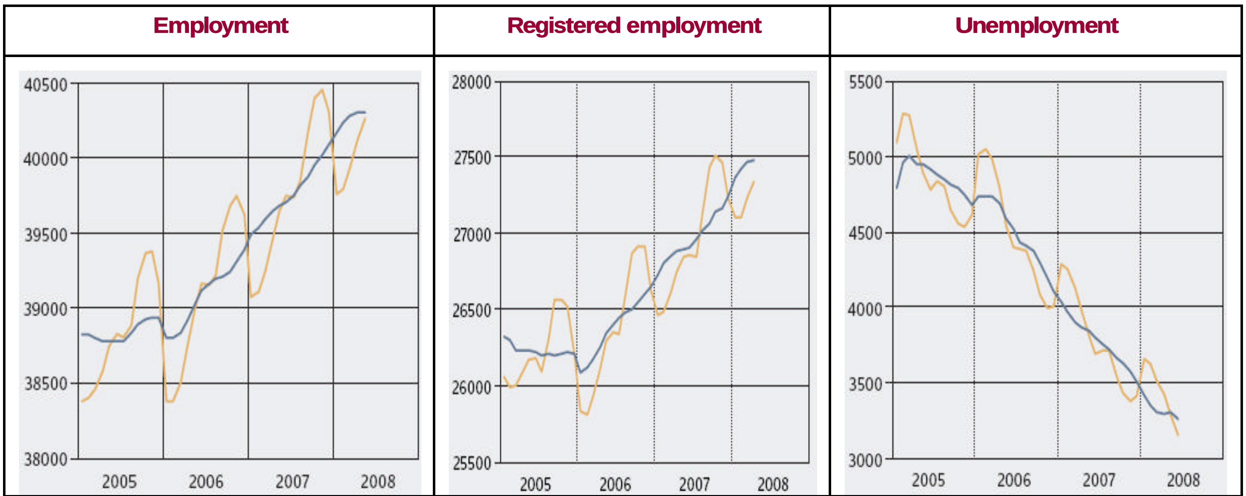
2. Update on economic and labour market trends

2.1. Recent labour market trends

Macro trends

Employment growth in Germany seemed entering a phasing-out period during the second quarter 2008. While growth rates compared positively against the previous year, the dynamics became weaker on a monthly basis. Press media reported on a rising number of mass layoffs in big manufacturing companies, and the number of short-term workers *(Kurzarbeiter)* increased by 8 % against the previous year. Vacancies decreased rapidly. Unemployment nevertheless however continued to fall.

Chart 1 **Employment trends**
Germany
Original values in 1000; seasonally adjusted values



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

Employment

The number of persons employed increased to 40.32 million in June 2008. There were 561,000 additional jobs compared to the previous year. Nevertheless this was a deceleration of 12 months growth from 1.8 % in February to 1.4 % in June 2008. More than half of the additional jobs were registered full-time jobs.

The number of registered jobs continued to grow by 2.2 % to 27.42 million. Job growth was particularly strong in business services (5.6 %). This was fuelled by the rise of agency work. Moreover, transportation and communication grew by 2.6 % and health and social services by 2.7 %. The manufacturing sector almost moved at the average speed (+2.1 %). Employment in the banking and insurance sector, construction and public services declined.

Self-employment (including assisting family members) increased slowly by 0.1 % to 4.48 million. The number of exclusive mini-jobs decreased by 0.6 % to 4.83 million, while second jobs increased by 7.2 % to 2.17 million. Employment in 1-EURO-Jobs decreased by 3 % to 301,000.

The gap of employment growth between Western and Eastern Germany continued to widen: while registered jobs in Western Germany grew by 2.3 %, Eastern Germany achieved 1.7 % compared to June 2007.

Unemployment

The number of unemployed decreased by 505,000 or 14 % compared to the previous year. 3.21 millions were counted in July 2008. This was due to both, the cyclical upswing of the number of registered jobs and the decline of labour supply during the year. Moreover, labour market policies helped to place more people.

Regular unemployment (covered by UB-I) decreased by 19 % to 968,000. The number of UB-II job seekers declined by 11 % to 2.24 million. This helped reducing the share of long-term unemployed to 37 % compared to 40.2 % in the previous year.

The overall unemployment rate was 7.7 % (7.5 % by ILO standards). This was 1.2 percentage points less than in July 2007. In Eastern Germany the unemployment rate decreased by 1,9 percentage points to 12.8 %. In Western Germany the decrease was 0.9 percentage points to the level of 6.4 %.

Vacancies

The number of vacancies decreased to 1.18 million in the 1st quarter 2008 (–18 % against the previous year). Out of these 958,000 jobs were offered in the primary labour market, and 132,000 were publicly supported jobs. Labour demand in primary labour markets declined in Western and Eastern Germany.

Wages and the tax wedge

On average, German full-time employees earned 3,093 EURO per month as gross wage in October 2006 *(Statistisches Bundesamt 2008)*. The average net wage amounted 1,986 EURO – 64.4 % of the gross wage after deduction of direct taxes and social security contributions. This was 0.8 percentage points less than in 1995.

Gross wages differ considerably among occupations: hair dressers earned 15,787 EURO while legal advisors earned 82,135 EURO per year. Managers earned 92,556 EURO annually. Employees of small companies got 70 % of the wages in big companies.

Dual training

Dual training markets continued to approach a more balanced position during this year. Also with the help of the cyclical upswing the number of training offers increased by 4 % while the number of applications for dual training decreased by 16 %. This reduced the lack of training places considerably. The reduction of the number of applicants has strong demographic reasons, in Eastern Germany in particular.

Active labour market policy

The number of participants in active labour market policy measures increased by 2.1 % compared to the previous year (Table 1). This however hides the substantial re-orientation of ALMP: measures to improve chances on primary labour markets were extended by 14 % together with support for employees (+20 %). In contrast support of self-employed people was reduced by 27 %, job creation measures decreased by 3 % and other support measures – which are mainly undertaken by the local agencies and municipalities – declined by 11 %.

Table 1 **Active labour market policy**
Germany

	June 2008 (1000 participants)	% change to previous year
Improving chances on primary labour markets	**697,9**	**14,1**
Counselling and support to job seekers	132,5	40,9
Training and qualification	227,9	12,6
Preparatory measures to training*	337,5	7,0
Support of people on jobs	**364,7**	**-8,2**
Support of employees	191,8	19,7
Support of self-employment	172,9	-27,1
Employment creation	**366,8**	**-0,2**
Employment opportunities for UB-II recipients	325,8	0,2
Job creation measures	41,0	-3,3
Other support measures (free selection)	**160,3**	**-11,1**
Total (estimated)	**1589,7**	**2,1**
ESF-BA-Programme	*21,8*	*-15,4*

* April 2008
Source: Bundesagentur für Arbeit (July 2008)

2.2. Economic forecasts

Forecasting institutions saw sufficient reasons to raise their expectations for 2008 (Table 2). Most of them calculated GDP growth rates between 2.3 and 2.7 % during this year and 1.0 and 1.5 % for the next. Employment growth is expected to keep pace with rates between 1.1 and 1.5 % in 2008 and 0.0 to 0.5 % in the coming year. Unemployment rates will hardly be affected. Taking the decline of labour supply into account they will range around 7.5 %.

The risks of economic development, however, are increasing:

- rising energy and food prices contribute to the acceleration of inflation and interest rates,
- the financial crises is going to show effects on real markets – including labour demand in the banking and insurance sector,
- the world-wide slow down of demand cycles affects business expectations and consumer sentiments.

While order books are actually filled and keep labour demand on high levels, the further development appears to be gloomier. The accumulation of risks is recognised by rising numbers of actors. Long-term decisions – investment plans and the recruitment for permanent jobs – are negatively affected. The rising share of agency work indicates the instability of the present boom phase on the German labour market. The forecasts presently published by the economic institutes may therefore appear to be optimistic.

This is also the case for the medium-term projection of economic development published by the Federal Ministry for Economics and Technology *(BMWI 2008)*. Assuming a strong German economy, the recovery of the world economy – the USA in particular – a low oil price and a stable EURO, the ministry expects a GDP growth rate of 1.5 % and employment growth of 0.25 % annually until 2012. Wages are expected to rise by 2.5 % p.a. while profits will increase by 4.5 %.

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
Institut für Wirtschaftsforschung, Halle	July 08	2.3	1.3	1.3	0.0	7.5	7.2
DIW (Deutsches Institut für Wirtschaftsforschung)	July 08	2.7	1.2	1.1	0.3	7.9	7.9
Ifo Institut für Wirtschaftsforschung	June 08	2.4	1.0	1.5	0.3	7.5	7.1
Deutsche Bundesbank	June 08	2.3	1.5	1.5	0.5	7.8	7.6
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
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

3. Labour market policy developments

3.1. Policy actions

Action programme against skills shortages

With an action programme against skills shortages the Federal Government passed revised immigration rules for skilled workers and prolonged general restrictions for workers from the New Member States (*Federal Government 2008*).

The action programme includes the following points:

- The labour market for university graduates from the New Member States will be open from 1 January 2009.
- University graduates from non-EU countries may immigrate as far as resident workers will not be displaced.
- Immigration restrictions for other workers from the New Member States (except Cyprus and Malta) will be extended until 2011.
- Immigration rules for professionals from non-EU countries will be adjusted: for unlimited residence permit applicants need a minimum income of 63,600 EURO per year. The former income barrier was 86,400 EURO.

- University graduates and skilled workers can receive a "secure residence status" if they have been employed in a qualified job for at least two years. Moreover, graduates from German schools abroad will also receive a preferential status.
- A monthly survey on skills shortages will be launched.

An alliance for "labour market adjusted immigration" will be founded which consults the Federal Government on immigration issues.

Minimum wage act

On 16 July 2008 the Federal Government decided on the "minimum wage act" which targets at implementing minimum wage instruments *(BMAS 2008)*. It consists of two parts:

- The "expatriates act" *(Arbeitnehmer-Entsendegesetz)* for branches with adequate representation of employees by the social partners (50 % of employees at minimum). Social partners can apply for collective wages to be declared mandatory by a collective committee which is obliged to evaluate the application under general economic and social criteria.
- The "minimum wage standards act" for branches with less than 50 % representation of employees. A main committee will check the needs for introducing a minimum wage in a branch, and a technical committee will fix the level and details of the minimum wage. The Federal Ministry for Labour and Social Affairs can pass the regulation for a limited period of time.

All regulations will be mandatory for domestic and foreign workers, independent from the location of their employer. Collective agreements are superior to minimum wage regulations.

With this regulation, the German Government introduced a sector-oriented approach rather than a general minimum wage. The deep differentiation of the German collective bargaining system accounts for the adjustment of wage levels to regional and sectoral labour markets. Moreover, mandatory minimum wages can only be passed if serious imbalances occur.

While the introduction of minimum wage standards is a new regulation with unpredicted participation, the expatriates act is already in force for several years. 3.2 million workers will be covered by this regulation.

Unemployment insurance

Unemployment benefits II were raised by 1.1 % from 347 EURO to 351 EURO per month.

Collective bargaining

During the 2nd quarter 2008 collective wages increased by 3 % in Western and 5 % in Eastern Germany *(WSI 2008)*[1]. Wage increase was particularly strong in the Eastern public sector (+8.7 %), the transport and communication sector (+4.2 %) and basic materials industries. The annual increase of collective wages amounts to 3.3 %. This is 1 percentage point more than in the previous year.

Through a strike with strong public attention, the employees from Lufthansa are demanding for a wage increase of 9.8 % for one year and better profit sharing conditions. The company offered 6.7 % for two years.

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[1] This covers the collective treaties agreed during the 2nd quarter 2008. The increase refers to wage levels of the previous contract rather than the annual growth. Usually, however, collective treaties are negotiated annually.

3.2. Public and scientific debate

Skills shortages

The debate about skills shortages was fuelled by the news that 165,000 vacancies for highly qualified workers could not be placed in 2006. The Institut der deutschen Wirtschaft *(Institute of the German Economy – IW)* came up with the calculation that this shortage costs 0.8 % of GDP *(IW 2008)*. These figures, however, largely overestimate the volume of skills shortages. The IAB vacancy survey states that 7 % of the companies reported on skills shortages in the fourth quarter 2007 – nothing to be seriously concerned about *(Spitznagel, Kettner 2008)*. The high costs calculated by the IW are based on a static model which does not reflect the capability of companies to avoid labour shortages. Beyond immigration of skilled workers (see action programme against skills shortages) changes in labour organisation, sub-contracting and the shift of orders to companies with lower capacitiy utilisation strongly reduce the costs of unfilled jobs.

The detailed analysis of business strategies against skills shortages by the IAB *(Fischer et al. 2008)* revealed that difficulties to recruit qualified staff increased since 2005. Small companies in particular were faced with such problems. The analysis also showed the importance of farsighted strategies to cover skills needs. Those companies which were engaged in dual and continuing training had significantly less shortages. More than half of the companies surveyed by the IAB company panel were engaged in training measures. Manufacturing companies prefer dual training courses, service companies continuing training.

Efficiency of public employment services

The Federal Labour Office published a report on transition rates from basic income provision (Hartz IV) to the labour market *(Bundesagentur für Arbeit 2008)*. During the first half of 2007 only 3.4 % of UB-II beneficiaries could be placed on a regular, registered job. Nevertheless the report comes to the conclusion that placement rates of the job centres administered by the Federal Labour Agency in cooperation with municipalities *(Arbeitsgemeinschaften - ARGE)* perform significantly better than the labour market services run by the municipalities independently *(Optionskommunen - OK)*. While 26 % of the ARGE were performing clearly above average, only 13 % of the OK achieved that level.[2]

The reason for the difference is seen in the superior experience of labour services in the job centres. Moreover, the common administration of UB-I and UB-II recipients appears to be important. Municipalities operating under the OK model separate UB-I and UB-II administration.

The report was strongly criticised as it was published during the debate on the reorganisation of public labour administration. The Federal Constitutional Court *(Bundesverfassungsgericht)* decided in December 2007 that the cooperation between municipal services and the Federal Labour Agency in local joint ventures (Job Centres) does not agree with constitutional rules. It appears as a non-legal mixture of administrative competences which restricts the autonomy of municipalities. The Federal and Länder governments were demanded to re-organise labour services until 2010 *(Bundesverfassungsgericht 2007)*.

[2] First in-official results from the evaluation of Optionskommunen (OK) indicate similar results.

4. Recent labour market reports

Bildung in Deutschland 2008 – ein indikatorengestützter Bericht mit einer Analyse zu Übergängen im Anschluss an den Sekundarbereich I

(Education in Germany 2008 – an indicator-based report with an analysis of the transition after secondary level I);
Kultusministerkonferenz, Bundesministerium für Bildung und Forschung, Bertelsmann Verlag, Bielefeld. (Kultusministerkonferenz, BMBF 2008)

Since the beginning, the OECD PISA studies criticised Germany as being one of the countries with a strong status-orientation of entries, transitions and graduations in the education and training system. The second official report on Education in Germany now explicitly addresses these issues and presents new empirical evidence for a severe structural problem of the educational system.

In the first part, the report states the achievements and returns of the education and training system in Germany:
- The increasing use of pre-school education.
- High entries into dual vocational training but also a rapid increase of preparatory measures extending the waiting loops at the entry to regular dual training.
- Low demand for university training. The actual entry rate of 37 % is still below the target of 40 % formulated by the Science Council *(Wissenschaftsrat).*
- Stagnating participation in life-long learning, indicating the discrepancy between public rhetoric and actual behaviour.

Regarding the achievements of educational reforms in recent years, the report lists:
- Improvement of competence levels of students at secondary I level.
- Stagnating numbers of school leavers without exams.
- Rising numbers of pupils with university-entry diplomas.
- Long training periods at secondary II level.
- Rising but still insufficient numbers of university graduates (22 % of the relevant population).

The second part addresses the transition from primary to secondary I level. This is seen as the crucial point where social disparities emerge. Decisions at that time will hardly be changed afterwards. The transition from primary school level to dual vocational training appears to be complicated – for disadvantaged youth in particular. The present system has a limited efficiency. Moreover the transition from dual vocational training to university studies is hardly possible. University graduates see favourable job and career perspectives.

These results are emphasised through the following statements:
- The role of social status is re-enforced at the entry to university studies.
- Migration background leads to disadvantages at all educational levels, however, migrants are not discriminated at the transition to labour markets.
- Girls are performing continuously better while boys appear as the new trouble group.

The third part reports on resources and expenditures, stating
- The reduction of expenditures on education and training compared to GDP (from 6.9 % in 1995 to 6.3 % in 2006).
- The strong reduction of expenditures on life-long learning by the Federal Labour Agency (-70 %) and companies (-16 %).
- The slight increase of per capita expenditures on education and training.

The authors conclude that

- the structures of dual vocational training demand for principal reforms. The dual system is on the way to lose its strengths. The system of preparatory measures needs to be reformed.
- Young people with migration background need early, specific and continuous support.
- The unsatisfied demand for additional teachers and trainers should not endanger the need for professional teaching.

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