

EUROPEAN EMPLOYMENT OBSERVATORY

Pre-Assessment  
of the National Reform Program  
2007/08

Germany

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
Mandatory collective agreement	<i>Allgemeinverbindlicher Tarifvertrag</i> : In sectors with at least 50 % of the employees covered by collective agreements the social partners can apply for an agreement to be declared mandatory. The declaration – undertaken by the Collective Treaties Committee ( <i>Tarifausschuss</i> ) under the supervision of the Federal Ministry for Labour and Social Affairs – means that all companies of the sector have to adopt the agreement as minimum standards regarding wages and other elements of individual labour contracts. The declaration has to be in the public interest.
Midi-Jobs	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 %.
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.
1 € Jobs Auxiliary public 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

Being in the most favourable labour market situation since decades, Germany nevertheless stopped its reform activities. With rising numbers of jobs and declining unemployment this period would have been optimal to continue. However, the widening of income dispersion and declining social mobility gave reason to an influential debate on “social justice” which forced all political parties to suggest new programmes for income redistribution.

The debate was also nurtured by the signs of re-enforcing class structures. Training and job careers appear to be strongly influenced by social origin. Even without public institutions for elite promotion Germany thus strengthened its class division, leading to sub-optimal recruitment and labour allocation results.

The findings are certainly the opposite of what the European Employment Strategy intends. A widening income distribution and greater poverty risks are necessary to create income incentives and to convince the population that “jobs are first”. More jobs and visible opportunities to escape from poverty, however, are the necessary counter pieces of this strategy.

Germany therefore needs a debate on equal opportunities which goes far beyond the gender perspective. These demands directly address improvements in the creation of human capital, the allocation of human resources, and the competitive position of the German economy.

The development of a public system of life-long learning appears to be particularly important. Continuing adjustment and updates of knowledge are needed for all workers rather than learning for a whole working life in young years. This would cope with the problem of an ageing work force, and adjust to the rising speed of knowledge change. Courses need to be certified in order to provide labour market relevant assets to workers. This can hardly be done without public regulation and public financial support. An open process of coordination is suggested for German education and training policies to make efficient use of Federal and Länder Governments’ legal competences.

Economic dynamics are going to slow down in the near future – not only in Germany. Labour demand, incomes and social insurance revenues therefore must be expected to shrink. This means that labour market policies are facing harder times which will limit the scope for additional programmes. The times of concentrating policy efforts and raising the efficiency of actions are returning.

Regarding flexicurity, Germany does not follow the Danish model, but applies its own approach with the focus on flexible working places rather than labour markets. Among the four priorities of the flexicurity approach, measures are concentrating on working time arrangements – including working time accounts – and the modernisation of the social security system through the Hartz Reforms. For the transition to new jobs and activities, the early registration of unemployed, short-term work, and transition companies are the most important instruments. Life-long learning however is underdeveloped.

Advancements of the flexicurity approach therefore seem to be limited by the lack of social mobility rather than inadequate policy action. A society that perceives chances rather than risks would accommodate to such a strategy much easier than a society that holds to welfare state principles. Germany’s political debate actually moves along this conflict without having decided about the direction yet.

## A. Priority setting and policy response

### (1) What happened to German reform policies?

#### *Positive employment effects*

During the last 10 years the German labour market passed through a period of significant reforms, both politically and economically. The Hartz reforms particularly re-organised public labour market services and reduced social benefits. This raised the demands on unemployed persons and increased the economic risks of remaining inactive.

In parallel, the economy strengthened the efforts to restructure businesses and improve competitiveness. This was associated with considerable job losses until 2005.

Workers facing the growing risks of unemployment considerably changed their labour market behaviour through becoming more active in job search, accepting less favourable jobs and lower wages. Companies were thus able to find workers for hard-to-fill jobs – low-skill jobs in particular – and generally created more low-skill jobs ([IAB 2007](#)).

Supported by the strong global upswing, the German economy experienced unexpected employment growth since 2005. 1.6 million jobs were created until 2008 and registered unemployment decreased from 5 to 3.2 million. Many of the new jobs were covered by social insurance, but non-standard jobs expanded as well.

Overall, after a long period of persistent unemployment, the German labour market partly removed the imbalances through a considerable modification of behaviour and expectations. This was effectively supported by the policy reform. An unexpected upswing was the result.

#### *Wider income relations*

Unavoidably the new labour market regime resulted in the widening of the income distribution. Both, the lower and the upper income groups expanded while the middle declined. Wage inequality among males aged 25 to 55 e.g. increased from 2.1 to 2.5 points in Western Germany and from 2.3 to 2.9 points in Eastern Germany ([Gernand, Pfeiffer 2007](#)). In addition, self-employed persons were able to achieve strong income growth. In the public debate this was largely attributed the Hartz reforms which not only reduced social benefits but raised the pressure to accept low-paid jobs.

#### *Declining social mobility*

In parallel, the chances to escape from poverty declined. Following recent empirical research for the 2002 to 2006 period, 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. Simultaneously, 69 % were in the same group after five years – 5 percentage points more than before ([Grabka 2008](#)).

#### *Re-enforcement of class structures*

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](#)).

### *The end of reform policies*

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 triggered, forcing now almost all political parties to suggest new programmes for income redistribution. 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. 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.

This has negative effects on long-term growth. It nurtures the debate on “social justice” and questions 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 findings are certainly the opposite of what the European Employment Strategy intends. A widening income distribution – and greater poverty risk – is necessary to create income incentives and to convince the population that “jobs are first”. More jobs and visible opportunities to escape from poverty, however, are the necessary counter pieces of this strategy.

Equal opportunities among all members of the society are violated 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 will have to be addressed in a much broader sense than this is actually done. The continuation of the European Employment Strategy therefore depends even stronger on the visibility of equal opportunities in the German society.

## **(2) The search for fair wages**

In 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 that is obliged to evaluate the application under general economic and social criteria.

- The “minimum wage standards act” (*Mindestarbeitsbedingungengesetz*) for branches with less than a 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.

This decision ended a long lasting debate on the need for wage protection through minimum wages. Trade unions, the Left Party and the Social Democratic Party strongly urged for a general minimum wage of 7.5 EURO per hour. This was justified by the argument that workers must be able to cover subsistence costs through labour income. A minimum wage would also support overall consumption. Moreover, wage policy should be inclusive rather than following the unsocial path of rising dispersion.

Employers of course saw minimum wages as the wrong path, destroying jobs and curbing employment growth. Jobs in low-productivity areas only exist if wages are low. Minimum incomes therefore should be guaranteed by the social system. This view was strongly supported by the majority of economists.

The minimum wage act applies a differentiated approach. Considering the superior role of collective bargaining in Germany, the identification of minimum wage levels is delegated to the social partners. They can take the evidence on local and occupational labour markets into account. Public institutions approving the demands for the introduction of a minimum wage are obliged to assess public interests. This appears as an adequate balance of interests and may lead to focused interventions rather than unspecified general rules.

### (3) Skills shortages and educational reforms

With three initiatives the Federal Government addressed the rising problem of skills shortages that became evident in the course of the labour market upswing:

- The “skills initiative” (*Qualifizierungsinitiative “Aufstieg durch Bildung”*) which suggests a broad range of actions from pre-school education to university training. It also includes suggestions to improve life-long learning ([Federal Government 2008](#)).
- The “action programme against skills shortages” (*Aktionsprogramm der Bundesregierung: Beitrag der Arbeitsmigration zur Sicherung der Fachkräftebasis in Deutschland*), which defined new immigration rules for skilled workers ([Federal Government 2008](#)).
- The continuation and expansion of the national training pact (*Nationaler Ausbildungspakt*), which performed very well in the boom period of the German labour market.

The programmes demonstrate the awareness of public authorities about the importance of educational reforms and their determination to combat skills shortages. However, they also reveal the shortcomings of education and training policies in Germany. On the one hand, changes of immigration rules and the continuation of the national training pact are short-term measures which help balancing the actual labour market. They do not address the reasons for shortages of skilled workers or the imbalances of the training markets. On the other hand, the Federal Government only has limited legal competences in the field of education, for which Länder governments are responsible. This principle was recently reaffirmed by the reform of federal rules in the German constitution. Principle reforms of the training system therefore can hardly be implemented at the federal level.

Recent reports (Kultusministerkonferenz, BMBF 2008) confirmed that

- expenditures on education and training compared to GDP declined significantly between 1995 and 2006 (from 6.9% to 6.3%);
- expenditures on life-long learning by the Federal Labour Agency declined by 70% those of private companies by 16%; participation rates in life-long learning also declined;
- preparatory measures for vocational training, addressing disadvantaged youth, expanded between 50 and 90% since 1992 (BMBF Berufsbildungsbericht 2008).

Internationally, Germany compares poorly regarding the share of education and training expenditures and the share of university students. The prevailing selection procedures during initial education and training are seen as the main reasons for social disparities. The transition from primary school level to dual vocational training appears to be complicated – for disadvantaged youth in particular. The present system has limited efficiency. Moreover the transition of social status is re-enforced at the entry to university studies, migration background leads to disadvantages at all educational levels, and girls are performing continuously better while boys appear as the new trouble group (Kultusministerkonferenz, BMBF 2008).

Modernising the whole education and training system appears as one of the top priorities on Germany's reform agenda:

- The structure 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;
- A public system of life-long learning must be established with certification of knowledge; the focus on initial training must be overcome;
- The number of university graduates should grow considerably through efficiency programmes and the expansion of capacities;
- Education and training expenditures need to be expanded.

As the Federal Government lacks competences to implement new policies, it might learn from the experience of the European Commission in the field of employment policies. An open process of coordination could be established with the Länder governments that defines targets, creates commitments, establishes a monitoring process and gives recommendations for policy development. Even without legal competences, such an open process can bring the education and training issue much further than the present cooperation among Länder Governments, the conference of the ministers for education (Kultusministerkonferenz). Moreover, the performance of the Länder's educational policies at present provides a weak position to defend existing political structures.

#### **(4) The turn of the labour market cycle**

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 see a slow-down of employment growth during the next year in particular.

The risks of a down-turn of the number of jobs are rising with the smouldering global banking crisis, which is already reflected by the increasing number of redundancies in the banking sector. High energy prices and rising inflation are going to cut private incomes and accelerate wage claims. The deteriorating US cycle can be expected to shift the world economy towards declining growth.

While companies are still working at high capacity utilisation, the prospects for the future are becoming gloomier and labour demand will probably decline. The accumulation of adjustment needs and – vice versa – the extension of economic imbalances can be expected to significantly change the labour market situation in Germany within the next 12 months.

This will make many of the present plans obsolete. One of them is the idea to further reduce contribution rates to unemployment insurance below 3%. Everyone should be glad if the rate would not have to be raised again in the course of increasing unemployment. Unemployment insurance cannot be expected to bear the whole burden of lowering non-wage labour costs. Other areas of social insurance – health insurance in particular – are demanded to contribute finally to this target. Moreover, the plans for balanced public budgets are also in danger. This postpones many plans to reduce tax burdens which would be strongly needed to revive private consumption.

## **B. Flexicurity pathways<sup>1</sup>**

### **(1) Principal orientation**

Compared to the Danish model, Germany addresses the path to flexicurity in a peculiar way which aims at achieving more flexible labour markets without abandoning its traditional principles of social security. The focus of flexibility is directed on the adaptability of existing working places rather than the creation of new ones. The focus of security is put on the protection of working places rather than a “barrier-free” transition from one to another. Germany therefore prefers supporting strong companies rather than promoting restructuring of the economy. The Danish model does not serve as a benchmark as this would require the reduction of job protection through less restrictive redundancy regulations and other measures for increasing labour market flexibility. High fluctuation rates are not seen as an advantage. The trade-off between high labour mobility and high work efficiency is clearly solved in favour of efficiency.

There is also a clear priority for “good” jobs expressed by various statements of the Federal Minister for Labour and Social Affairs (Olav Scholz, BMAS). Following the broadly supported German social model, the combat against precarious jobs and undeclared work is more important than maximising the number of jobs.

Regarding life-long learning the BMAS also expressed the view that this should remain the major responsibility of social partners. Collective agreements are seen as the appropriate instrument for the extension of continuing training and social partners should bear the greatest part of costs. Mobility within the educational system, however, is seen as an important aspect of flexicurity.

Out of the four elements of flexicurity, Germany’s actions concentrated on modernising labour law (I) and the reform of social security systems (IV) while the transition to new jobs (II) and life-long learning systems (III) were less important.

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<sup>1</sup> This Section strongly profits from an extensive interview with representatives of the Federal Ministry for Labour and Social Affairs (BMAS) held on 12 June 2008. The interview partners were the Head of the Department for Principal Aspects of Labour Law, the Deputy Head of the Department for International Labour Market Policies, and representatives of the Departments for European Employment Policies and Labour Market Policies.

## (2) Flexible work arrangements (Priority I)

Among the measures to achieve work place flexibility, working time arrangements have always ranged at top levels. German social partners used working time as a major instrument to adjust to the fluctuation of production volumes – trade unions with the general aim to reduce average working hours and increase the number of employees, employers with the aim to achieve more flexibility of working hours. In addition, unemployment insurance provides the instrument of short-term work (*Kurzarbeit*) which allows the reduction of working hours in case of sudden but limited periods of low production. Unemployment benefits are paid for reduced working hours.

Several laws were adopted which regulate the principles of flexible working hours:

- By a new *Law on Working Hours (Arbeitszeitgesetz)* which has taken effect on 8 November 2006, the Federal Government aimed at both, the warranty of health protection and security for employees, and the provision of a legal framework for employers and workers to arrange flexible working times. To assure security and health protection, the standard legal working time per day is limited to eight hours on average and ten hours at maximum. The average of eight hours has to be achieved within a period of six months. Moreover, the law arranges fixed rest periods for employees of 30 minutes for a working time of 6-9 hours and 45 minutes for trainees and employees having worked more than 9 hours a day. The weekly working time for employees is limited to 48 hours. (*BMAS 2007*).
- With the Long-term Working Time Accounts Act (*Gesetz zur Verbesserung der Rahmenbedingungen für die Absicherung flexibler Arbeitszeitregelungen*) that came into effect on 13 August 2008, the government attempted to make the use of long-term working time accounts more attractive as it attempts to reduce legal uncertainties by the implementation of various measures. First, accounts are to be protected against insolvencies of companies. Contractual partners are obliged to take adequate provisions for this case. Second, assets are protected when employees change their job. Accounts can now be transmitted if the new employer accepts the commitment. In case of non-acceptance the accounts are transferred to a working time fund of German pension insurance. Alternatively, accounts can be closed. Third, a clearer definition of working time assets helps strengthening the position of employees in general. Hence, the employees are given the chance to design their accounts by individual needs and aims (*Federal Government 2007*).
- At present, an age-related part-time schemes (*Altersteilzeit*) exists which aims at older employees who are interested in reducing their working hours. Over a period of three years before pension age, workers have to reduce working hours by half. Wages are paid at a reduced level but social insurance is continued. Most of the older workers are using a “block model” with full-time work in the first half and early retirement afterwards. The regulation will expire by the end of 2009. The decision whether and how to continue has not yet been taken. Alternative regulations have been found by the social partners in the metal industries.
- Fixed-term contracts are allowed for the maximum of two years if the need for labour is temporary. As consequence of the European Court of Justice’s judgement on 22 November 2005 on fixed-term contracts for older workers, the legislation was modified. Job related rather than individual criteria were defined for the justification of fixed-term contracts.

### (3) Transition to new jobs and activities (Priority II)

Without being a priority of German labour law, there are nevertheless important instruments to support the transition of workers to new jobs or new types of activities:

- *Early registration of unemployed:* persons who's job can be expected to be terminated are obliged to contact the Labour Agency three months ahead in order to be registered as job seekers. These workers have to use the placement services of the Federal Labour Agency which tries to avoid unemployment spells. Unemployment benefits are shortened in case of late announcements (*Bundesagentur für Arbeit*).
- "Structural short-term work" can be used to help redundant workers – or workers at risk of becoming redundant – to qualify for new jobs. This is mainly done with the instrument of transfer companies (*Transfergesellschaften*) which organise the process in case of mass redundancies. Training and re-qualification for the labour market takes a major part of the activities in transfer companies (*Vogler-Ludwig 2006*).
- As a result of deregulation measures on the law on agency work (*Arbeitnehmerüberlassungsgesetz*), the demand for agency work by companies has highly increased over the last ten years. Actually 2 % of the labour force is on agency work. From the employers' side agency work is used to raise the flexibility of labour input without the restrictions of regular working contracts. From the workers' side this is often used as the entry point to regular jobs. 55 % of agency work contracts are therefore limited to three months. Still, agency work is mostly provided by men working in the industrial sector. Agency work provides employment opportunities for job starters, job repatriates or unemployed. In the first term of 2007, 67% of all employees who signed a contract on agency work were not employed previously. More and more people being occupied in agency work are meanwhile working on registered jobs.
- As a major instrument to combine job and family work, a parent allowance was introduced on 1 January 2007 which is paid to parents of newly born children. Parents can get the allowance for up to fourteen months. One partner is obliged to either reduce the weekly working time to 30 hours at most or to abdicate work completely. 67% of the former net-income is paid, from 300 EURO for parents who did not work or earned less than 300 EURO monthly, up to 1800 EURO for high wage earners. According to a statement of the government in February 2008, the introduction of Parent allowance has had strong impact on German fertility rates over the previous year. Further, the rate of fathers who took part in child education grew tremendously and is expected to rise even further. (*Federal Government 2008*).
- In parallel, the healthcare reform which came into effect on 1 July 2008 provides employees who are burdened with home care of relatives with the eligibility to claim for release from work. In pursuance of the reform, employees can apply for an unpaid release from work up to six months. Within this time frame, they are covered by social insurance. In urgent cases of home care, employees are entitled to claim for an unpaid short-term release from work for up to ten days. Excluded from this regulation are firms with up to 15 employees. (*Bundesministerium für Gesundheit 2008*)

### (4) Life-long learning systems (Priority III)

Life-long learning still is the responsibility of workers and employers. In some branches collective agreements exist which regulate the entitlement and the scope of training. As the Federal Government is not inclined to undertake a public initiative and is reluctant to provide financial resources, a reversal of the present declining trends in LLL participation can hardly be expected at the moment. Public initiatives however are necessary to create a

widely accepted framework for certified continuing training and to share the financial burdens of adult training.

### **(5) Modernising social security systems (Priority IV)**

With the Hartz Reform, Germany has undertaken a major reorganisation of its social security system through improving labour market integration but also by lowering social benefits. This contributed to the reduction of unemployment in low-wage segments of the labour market in particular.

In addition, Germany recently revised its labour immigration laws, allowing more immigration of skilled workers from the New Member States and non-EU countries. Inflows of unskilled labour however remain restricted. This contributes to higher competition in qualified labour markets and raises labour flexibility.

## **C. What should be done?**

Summarising the previous arguments, labour market related policies in Germany should focus on three points:

(1) Germany needs a debate on equal opportunities which goes far beyond the gender perspective. The status orientation of the educational system and elite recruitment is far from showing optimal results and wastes important human resources. The protection of the core labour market with employees in unlimited full-time contracts resulted in the uneven distribution of labour market risks through expanding the scope of “peripheral” employment in marginal jobs, low-paid self-employment, fixed-term contracts and agency work. Social policies – orientated towards equal living conditions rather than equal chances – reduced the incentives for individuals to profit from opportunities and disregarded systemic discrimination by the education and employment status.

Germany still adheres to the welfare state principles trying to compensate the results of market processes through financial benefits rather than guaranteeing for non-discriminatory markets and equal opportunities for all actors. This appears to be inefficient and costly. The country therefore needs to re-enforce the rules of non-discrimination in many areas of public and private life. It needs a broad public debate on equal opportunities and the role of the welfare state. And it needs a new assessment of mobility, individual risks, and the values of an open society.

These demands go beyond the principles of democratic life. They directly address improvements in the creation of human capital, the allocation of human resources, and the competitive position of the German economy. Germany has experienced a rollback in many areas of economic and social performance during the last two decades. With the stop of reform policies it might return to the former trends again.

(2) Germany needs a major reform of its education and training system. As already expressed in former NRP assessments, the focus should be on developing an effective life-long learning system. Continuing adjustment and updates of knowledge are needed for all workers rather than learning for a whole working life in young years. This would cope with the problem of an ageing work force, and adjust to the rising speed of knowledge change. Courses need to be certified in order to provide labour market relevant assets to workers. This can hardly be done without public regulation. In addition, life-long learning and the modernisation of the educational systems require a substantial rise of public expenditures.

The Federal Governments' position that life-long learning is in the responsibility of social partners is weak as it is mainly driven by financial considerations. Without additional money the targets cannot be achieved.

As the Federal Government lacks the legal competences to implement its own educational policies, an open process of coordination is suggested, bringing Federal and Länder Governments together in a structured procedure of targets, monitoring, and recommendation.

(3) Economic dynamics are going to slow down in the near future – not only in Germany. Labour demand, incomes and social insurance revenues therefore must be expected to shrink. This means that labour market policies are facing harder times which will limit the scope for additional programmes. The time of concentrating policy efforts and raising the efficiency of actions are coming again.

With less money, active labour market policy will have to improve the quality of consulting services rather than providing additional financial incentives. The support for self-employed workers and training will be limited and more One-EURO-Jobs will be needed. In short, a scenario for an economic downturn is necessary which makes active labour market policies effective under difficult conditions.

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