

Discussion paper

EUROPEAN EMPLOYMENT OBSERVATORY  
GERMANY

The end of the labour market upswing?

Quarterly review of labour market trends and policies  
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by

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## Glossary

Business Foundation Allowance	<i>Gründungszuschuss</i> : New regulation of business foundation support for unemployed UB-I recipients for a period of 15 months at maximum (valid since 1 August 2006). During the first nine months, a lump sum of EUR 300 is paid in addition to UB-I as a contribution to social insurance costs. During the following six months the lump sum is continued to be paid only if the business became the main entrepreneurial activity.
Hartz reform	Reform of unemployment insurance under the Federal Employment Service ( <i>Bundesagentur für Arbeit</i> ) and active labour market policies, named after Peter Hartz, principal staff manager of Volkswagen and the president of the “Hartz Commission” established by the German government in 2002. The reform has four parts: Hartz I (2002): introduction of public temporary work agencies (Personnel Service Agencies – PSA) Hartz II (2002): reorganisation of public employment services; mini-jobs, ICH-AG Hartz III (2004): restructuring of public employment services to the Federal Employment Agency Hartz IV (2005): merger of unemployment aid and social assistance to UB-II
Midi-Jobs	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	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

Based on the strong economic upswing, the labour market situation in Germany continued to improve. Employment grew by 636,000 since June 2006 (+1.6 %), Unemployment continued to decline strongly with a minus of 671,000 (-15 %) against July 2006. The unemployment rate was 8.9 % compared to 9.5 % in April. Vacancies, however, stopped increasing further.

Labour market conditions are obviously approaching the phase of a mature cyclical boom. This is expressed through the rising debate on skills shortages but also the acceleration of wage increase. Employment is expected to grow by 0.7 to 1.4 % during 2007 and 0.5 to 1.8 % in 2008. This will further reduce unemployment rates to levels around 8 %, or 7 % by ILO standards.

With these perspectives, active labour market policy was slightly reduced. In particular, measures supporting self-employment and job creation programmes were shortened. In parallel, labour market policy was decentralised, and preparatory measures to training were extended in face of the unfavourable balance on training markets.

A programme for long-term unemployment was initiated which is also part of the decentralised approach. Municipalities, Länder and the Federal Government intend to create 100,000 additional jobs in the welfare sectors. Resources are concentrated on areas with at least 15 % unemployment rates.

After a long discussion the decision was taken by the coalition board of the Federal Government to develop minimum-wage regulations further. The expatriates act will be opened to additional sectors and a minimum-wage act will be passed allowing for regulations in non-unionised sectors.

Collective wages increased by 3.7 % compared to the previous year. Nevertheless, collective bargaining remained highly controversial with strikes in both of the former public telecommunication and railway companies. Employers in the retail trade and construction sector showed averseness to follow the general wage increase.

Controversial debates were conducted on the use of the rising financial surplus of unemployment insurance. Advocates for a reduction of contribution rates below the already planned 3.9 % were opposed by those urging for an improvement of benefits and services. The decision will have to be taken in the course of the year.

The Federal Ministry for Education and Research submitted the plan for a reform of dual training, including the concentration on basic skills and the extension of choices for specialisation. Modular training, however, was restricted to disadvantaged youth.

From the research side two interesting papers were published. The first study by the Berlin Institute pointed to the risk that arises from the emigration of young women from Eastern Germany. This is seen as a particular challenge to economic and social development. The second study stated that wage diversity in Germany significantly increased since the beginning of the nineteen-nineties.

## 1. Introduction

This quarterly report on Germany describes the upswing on the German labour market with impressive figures. Since the beginning of the decade Germany was not in such a favourable position. Economic forecasts expect the continuation of the “sunny weather” until 2008.

The report also refers to recent policy decisions in the area of long-term unemployment, minimum wages and collective bargaining. Two research studies are reviewed concerning the risks of emigration from Eastern Germany and wage diversity.

## 2. Update on economic and labour market trends

### 2.1. Recent labour market trends

The German labour market still shows enormous improvements compared to the previous year. Employment grew by 636,000 since June 2006 (+1.6 %), Unemployment continued to decline strongly with a minus of 671,000 (-15 %) against July 2006. The unemployment rate was 8.9 % compared to 9.5 % in April. Vacancies, however, stopped increasing further.

*Employment:* Growth is now strongly determined by registered employment. In contrast to previous years, half of the plus is full-time jobs registered by social insurance. Compared to the previous year, 561,000 additional registered jobs were accounted (+2.1 %; May 2007). Moreover, self-employment and mini-jobs continued to increase while the number of 1€-Jobs declined.

In Eastern Germany registered employment increased by 2.6 % compared to the previous year, while in Western Germany 2.1 % were achieved. Brandenburg and Sachsen had the strongest growth with +3.2 and +2.9 % against last year.

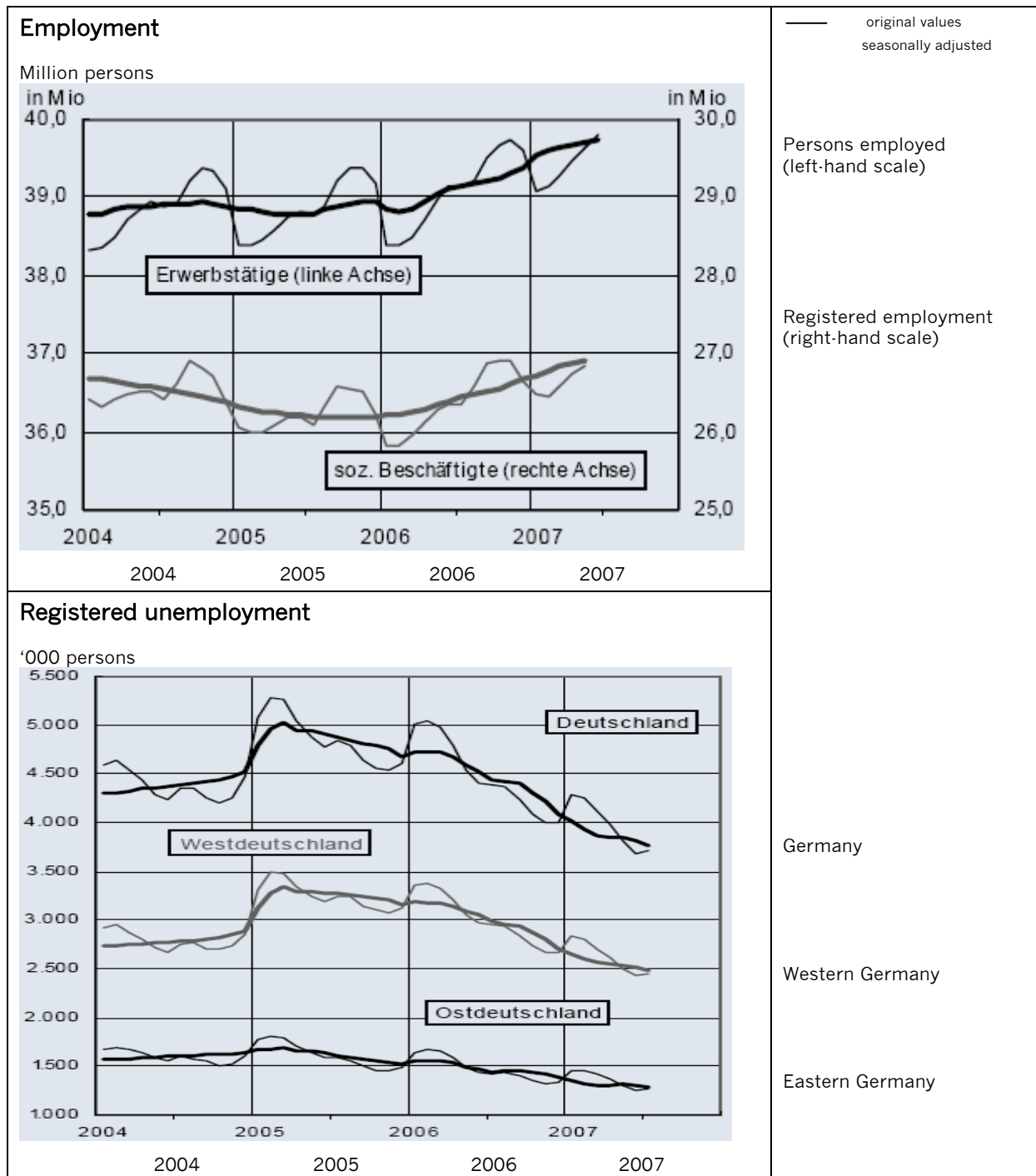
Additional (registered) jobs were mainly created by business services (+7.6 %), hotel and catering services (+4.0%), and transport and communication (+3.4 %). Most importantly, however, manufacturing and construction – which reduced employment for a series of years – extended employment again with rates of 2.0 and 1.4 % against the previous year. Banking and insurance, and the public sector in contrast reduced the number of registered jobs by -1.9 and -0.7%.

*Unemployment:* Apart from seasonal fluctuations, unemployment continued to decline until July 2007 to the level of 3.715 million. In addition to increasing labour demand, the reduction of labour supply by 100,000 since mid 2006, and the severe administrative practices controlling unemployment status contributed to this improvement.

The reduction was stronger in Western Germany (- 17 %) than in Eastern Germany (-11%). The unemployment rate in Eastern Germany was 14.7 %, double the level in Western Germany (7.3%).

Strong labour demand particularly reduced the number of unemployed covered by unemployment insurance (SGB III). They are now one fourth less than in the previous year. The number of unemployed supported through social benefits (SGB II) also declined but at a lower speed (-11 %). In July 2007, 1.2 million unemployed were accounted to SGB III and 2.5 million to SGB II.

Chart 1 German labour market 2004 to 2007



Source: Bundesagentur für Arbeit (2007).

**Vacancies:** The rise of the number of registered vacancies came to a halt by the 4<sup>th</sup> quarter 2006. In particular, “normal” vacancies – excluding those for publicly supported jobs – did not increase further. The volume of newly registered vacancies declined.

**Dual training:** Following the new statistics on dual training markets which are established by the Federal Labour Agency and the chambers of industry, trade and crafts, the number of new company-based training places increased by 2.5 % against the previous training

year. Most of the increase by 7 % came from publicly supported rather than company-based training places. In Eastern Germany in particular training outside companies plays an important role. The actual balance of 683,300 applicants against 430,500 newly offered training places reveals the strong overhang of the demand for dual training which can hardly be expected to be removed in the course of the ongoing training year.

*Active labour market policy:* The number of participants in active labour market policy decreased by 0.7% compared to the previous year (Table 1). In particular, measures supporting self-employment and job creation programmes were reduced. The measures of local employment agencies, which can be chosen in context to the local employment situation, however, more than doubled in terms of the number of participants. Activities in preparatory measures to training were extended in face of the unfavourable balance on training markets.

**Table 1**      **Active labour market policy**  
Germany

	July 2007	% change to previous year
	1000 participants	
<b>Improving chances on primary labour market</b>	<b>593,0</b>	<b>2,5</b>
Counselling and support to job seekers	110,6	-2,8
Training and qualification	201,3	-2,0
Preparatory measures to training	281,1	8,4
<b>Support of people on jobs</b>	<b>373,0</b>	<b>-17,4</b>
Support of employees	144,7	3,1
Support of self-employment	228,3	-26,7
<b>Employment creation</b>	<b>367,6</b>	<b>-4,6</b>
Employment opportunities for UB-II recipients	324,2	-2,2
Job creation measures	43,5	-19,4
<b>Other support measures (free selection)</b>	<b>187,7</b>	<b>61,2</b>
<b>Total</b>	<b>1521,3</b>	<b>-0,7</b>
<i>figures include ESF-BA-Programme</i>	25,8	-31,6

Source: Bundesagentur für Arbeit (July 2007)

## 2.2. Economic forecasts

The German economy is expected to continue on the strong growth path which has already been entered in 2006. Recent business cycle forecasts for 2007 – published in May and June 2007 – ranged between 2.5 and 3.2 % for GDP growth (Table 2). The business climate, measured by the company-based indicator of the IFO institute, exceeded the level of the boom year 2000 by 6 percentage points in July. German companies evaluated their actual economic situation much better than seven years ago while expectations for the coming months surmounted the former levels only slightly. During the last six months the business climate indicator stagnated at high level. For 2008 forecasts are more cautious. Nevertheless growth expectations range between 2.2 and 2.7 %.

A major source of economic growth is the world-wide upswing which strongly supports German exports. Growth rates of 8 and 9 % are expected for 2007 and 2008, and total exports will exceed the trillion EURO threshold by 2008. Cyclical dynamics are meanwhile strong enough to include domestic investment and consumer markets.

This further improves the labour market situation in Germany. Employment is expected to

grow by 0.7 to 1.4 % during 2007 and 0.5 to 1.8 % in 2008. This will further reduce unemployment rates to levels around 8 %, or 7 % by ILO standards.

**Table 2 Economic forecast for 2007 and 2008**  
Germany

Institution	Date of publication	GDP (% change from previous year)		Employment (% change from previous year)		Unemployment rate (%)	
		2007	2008	2007	2008	2007	2008
Ifo Institut	June 07	2.6	2.5	1.2	1.0	8.8	8.1
IfW (Institut für Weltwirtschaft)	June 07	3.2	2.7	1.4	1.8	8.8	7.2
HWI (Hamburgisches WeltWirtschafts Institut)	June 07	2.8	2.5	1.3	0.8	8.7	7.9
European Commission	May 07	2.5	2.4	0.7	0.5	7.3 <sup>1</sup>	6.5 <sup>1</sup>
OECD	May 07	2.9	2.2	1.2	0.8	6.9 <sup>1</sup>	6.3 <sup>1</sup>
IMK (Institut für Makroökonomie und Konjunktur)	April 07	2.2	2.1	1.1	1.0	8.7	7.8
IMF	April 07	1.8	1.9	0.5	.	7.8 <sup>1</sup>	7.6 <sup>1</sup>
IWH (Institut für Wirtschaftsforschung Halle)	March 07	2.0	2.5	1.0	0.4	8.8	8.2
RWI (Rheinisch-Westfälisches Institut für Wirtschaftsforschung)	December 06	1.9	.	-0.1	.	9.5	.
Expert Advisory Board	November 06	1.8	.	0.7	.	10.2	.

<sup>1</sup>Standardised unemployment rate  
Source: Economix

Risks for the continuation of the cyclical upswing arise from increasing cost pressure caused by rising wages (see 3.1 – collective bargaining), and higher raw material prices, metals in particular. Moreover, instabilities in the US banking sector may change risk awareness of investors.

### 3. Labour market policy developments

#### 3.1. Policy actions

##### *Programme for long-term unemployed*

The Federal Government decided on a new [programme for long-term unemployed](#) which is expected to create 100,000 additional jobs in welfare-oriented activities like supervision of children in kindergarten and schools, support of public libraries and old peoples' homes. Jobs will be paid regular collective wages and supported for the maximum period of three

years. Working time should be 30 hours per week.

The programme concentrates on municipalities or administrative districts with an unemployment rate of 15 % and higher. These are 85 areas, 76 of them in Eastern Germany. Costs will be shared between the Federal Government, municipalities/administrative districts and Länder governments. The Federal Government supports the programme with 1.7 billion EURO until 2012. Additional 300 million are coming from European Social Funds. With rising tax revenues, the programme is expected to be “reasonably” neutral in financial terms.

### *Minimum-wage regulations*

The coalition board of the Federal Government agreed upon two steps in the field of minimum-wage policy:

- (1) the extension of the existing expatriates act (*Arbeitnehmer-Entsendegesetz*) on further sectors;
- (2) the revival of the act on minimum job conditions (*Mindestarbeitsbedingungengesetz*) to the act on minimum wages (*Gesetz für Mindestlöhne*).

The expatriates act is based on the declaration of mandatory collective wages (*Allgemeinverbindlichkeit*) for all companies of a sector. Social partners can apply for this declaration through the Collective Treaties Committee (*Tarifausschuss*) or the Federal Ministry for Labour and Social Affairs as far as 50 % of the employees are bound by collective treaties. The act does not define further sectors but opens a period of application for all sectors until 31 March 2008.

Sectors without representation through the social partners will be covered by the act on minimum wages. A committee of seven independent experts will assess the requirements for minimum wage regulations and make a suggestion to the Federal Government. This is authorised to pass the regulation which will be controlled by the customs offices.

### *Collective bargaining*

Collective wages increased by 3.7 % on average in 2007. This is an exceptional achievement compared to previous years and will provide real wage increase to employees. The social partners signed new wage contracts for one third of workers covered by collective agreements.

Beyond rising wages, the period of collective bargaining was characterised by several events indicating particular developments of German wage policy:

- After getting into a financial crisis Deutsche Telekom AG was negotiating with the trade union ver.di about outsourcing 50.000 employees in T-Service-companies. In June 2007 they agreed upon a compromise: Incomes will decrease by 6.5 % and working time will be extended from 34 to 38 hours per week. The agreement includes the protection against dismissal until 2012 for employees in T-Service and spin-off transfers of capital until 2010. In addition, the engagement of at least 4000 junior employees is foreseen.
- Strikes occurred in the retail trade sector as employers wanted to negotiate on flexible working hours and the cut of remuneration for late shifts and night work rather than higher wages.
- Wage negotiations appeared difficult in the construction industry as regional employers associations did not agree to the suggestions negotiated at the federal level.
- The German railway company Deutsche Bahn AG signed a contract for its 116,000 employees which raised wages by 4.5 % and a lump-sum payment of 600 EURO. The locomotive driver union, however, demanded an increase of 31 % and initiated a strike. Similar to the strikes of aviation pilots and medical doctors during the last years, a core group of employees tried to improve its wage position. First strikes of locomotive drivers were declared illegal by the courts as previous collective treaties

are still valid. Presently a striking vote is conducted among locomotive drivers.

### 3.2. Public and scientific debate

#### *Unemployment insurance*

In spite of the forecasted 4.3 billion EURO deficit, the Federal Labour Agency continued to operate with a considerable budget surplus of unemployment insurance in 2007. Rising labour demand and the restrictive regulations for UB-I are both contributing to this development. For 2007 a surplus of 5.5 billion EURO is expected. Together with the 2006 profit, 18 billion EURO will be available by the end of the year. These are 43 % of the expected 2007 revenues (42 billion EURO).

The substantial surplus raised the discussion about the use of these financial resources. The controversy developed between those preferring the reduction of the actual unemployment insurance rate of 4.2 % of gross wages, and those urging for the extension of benefits and services.

While the government coalition already decided to lower the unemployment insurance rate to 3.9 % by the beginning of 2008, a further reduction to 3.5 % was demanded. The suggestion is particularly supported by the CDU/CSU and the employers' associations, but also the Federal President argued for lower rates. The main argument is that financial resources of unemployment insurance belong to premium payers. Moreover, it would contribute to the lowering of non-wage labour costs and thus have positive employment effects.

The extension of benefits and services was substantiated with the argument that the restriction of UB-I payment periods to 12 months severely affects older workers who contributed to unemployment insurance for many years. The payment periods therefore should be extended for this group. Moreover, means-testing of UB-II benefits should be lessened, and active labour market policy should be extended. Among the advocates for these suggestion are the prime ministers of Saarland und Nordrhein-Westfalen (both CDU), the Federal Minister for Labour and Social Affairs (SPD) and trade unions.

The favourable development of tax revenues allowed the Federal Government to plan the reduction of net borrowing to zero until 2011. This initiated a similar debate as it was conducted on unemployment insurance with suggestions to lower tax rates and to extend public expenditure. In particular, the combined wage for low-wage earners and support programmes for unskilled youths are planned by the Federal Ministry for Labour and Social Affairs.

#### *Reform of dual training*

Under the lead of the Federal Ministry for Education and Research, an innovation circle consisting of employers' associations, trade unions and Federal and Länder governments presented its [strategic paper on the reform of the dual training system](#). One of the outstanding targets is to cut the 8 % share of early school leavers. As regards dual training curricula, the more than 300 dual training professions should be reduced through the introduction of basic training courses for a series of professions (commercial professions e.g.). Specialisation should be achieved later in the course of the three-year training, opening more choices and more flexibility. Modular training and two-year training however are not suggested for regular training due to severe concerns of trade unions. This is restricted to disadvantaged youth. Moreover, the upward mobility from dual to university training should be improved.

## 4. Recent labour market reports

*Die demografische Lage der Nation.* (*The demographic situation of the nation*), published by the Berlin-Institut für Bevölkerung und Entwicklung 2007. [[Internet Access](#)]

Since decades Germany is among the countries with low birth rates and immigration has meanwhile come to a halt. The official population forecast by the Federal Statistical Office therefore reveals that until 2050 the German population will have decreased from 82 million people today to approximately 62-74 million. The study by the Berlin-Institut identified these changes as important challenges which will particularly affect economically weaker regions.

A sustainable population development can be expected for regions with sufficient offspring (e.g. parts of Lower Saxony) or regions which are economically attractive and thus attract migration (e.g. Baden-Württemberg and Bavaria). For structurally lagging regions – like most parts of the New Länder – the perspectives for a sustainable population development are strongly derogated by migration: 400.000 women and 273.000 men under 30 years migrated since German unification. Compared to 1989, population in the New Länder decreased by 8-12 %.

Most importantly, however, young women are migrating rather than young men. 63 % of all migrants from Eastern Germany since 1991 were female. This share of migrating women is the highest in Europe. And in the age group 18-29, only 90 women per 100 men are living in Eastern Germany. The authors explain the high share of female migrants with better educational results and worse job opportunities compared to men. 58 % of high-school graduates are women. The greater educational advance of women in the New Länder compared to other parts of Germany could be due to the high share of female teachers and the consequent lack of examples for boys. The better educational results make it easier for women to find a placement elsewhere while the worse employment chances give them an additional incentive to migrate.

Peter Blossfeld, Professor for sociology in Bamberg, argues further the communist system had produced self-confident and ambitious women, which still affects women today. They do not hesitate to move to Western Germany in view of a good job. Men in Eastern Germany, however, would often hope to get a sweat away job, for instance in the heavy industry or in construction sector, and would not perceive that these jobs are rare today. This leads to unemployment and makes them unattractive for the ambitious women searching for a partner with a higher social status. The researchers assume that the population in Eastern Germany (but also in the Ruhr area) will shrink further and people will continue to migrate to cities and economically attractive regions.

*Rising wage inequality in Germany.* Johannes Gernandt und Friedhelm Pfeiffer, April 2007, SOEPpapers on Multidisciplinary Panel Data Research at DIW Berlin. [[Internet Access](#)]

The study investigates the evolution of wages and wage inequality in Germany based on samples from the German Socio-Economic Panel (GSOEP) of the period 1984 to 2004.

Following the results, the German wage distribution was fairly stable until the economic downturn 1992/93. For the period between 1994 and 2004 wage inequality increased continuously. Measured by the ratio of real hourly wages of the ninetieth to the tenth percentile wage inequality among males aged between 25 and 55 increased from 2.1 to 2.5 points in West Germany and from 2.3 to 2.9 points in East Germany.

Rising wage diversity is a general phenomenon in the German labour market (Table 3). Similar changes of wage ratios can be observed in Western and Eastern Germany, among females and males, self-employed workers and foreigners. In Western Germany the low-

income group – measured by the tenth percentile – was not able to improve real hourly wages since the beginning of the nineteen-nineties, the middle and upper income groups (fiftieth and ninetieth percentile) however experienced considerable real gains. In Eastern Germany, only the upper income group profited while the middle wage group saw only minor improvements and the lower wage group faced stagnation.

The relative improvements for the upper wage groups in Eastern Germany might be addressed to the migration willingness of the high wage workers. But it might also be due to labour shortages in high skills. Explanations for the general rise in the wage inequality could be the non-neutral nature of technical change, a rising demand for cognitive, non-routine abilities, factor competition, decreasing social transfers, and decreasing union power.

**Table 3 Wage inequality in Western Germany**

(ratio of real hourly wages, ninetieth percentile compared to tenth percentile)

	Western Germany			Eastern Germany	
	1984	1994	2004	1994	2004
All workers	2.59	2.47	3.01	2.40	3.02
Females	2.46	2.37	2.95	2.42	3.00
Prime age dependent male workers	2.14	2.11	2.52	2.26	2.86
Self-employed workers	5.25	3.63	4.51	4.79	3.61
Foreigners	2.13	2.07	2.63	-	-

Source: Gernandt, Pfeiffer 2007.

## Literature

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