

Discussion paper

EUROPEAN EMPLOYMENT OBSERVATORY
GERMANY

The end of labour market reforms?

Quarterly review of labour market trends and policies
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by

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Latest information included at November 7 2007.

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.
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	<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.

Executive Summary

Germany is actually experiencing the peak of the labour market cycle. Forecasts for 2008 are expecting the bisection of employment growth. Unemployment is nevertheless assumed to decline further.

The favourable employment performance was created by economic restructuring, moderate wage increase, and the labour market reform known as Hartz Reform. Ten years after the first announcement of the 3.5 million target, unemployment has now arrived at that level. This was the common achievement of companies, workers and politicians.

As recent surveys indicate, the reform is going to become effective. It contributed to rising employment and declining unemployment. The willingness to accept less-skilled jobs, lower remuneration and less favourable job conditions increased among job applicants. Low-skilled jobs could be filled more easily and additional jobs were created for these workers. Almost half of the surveyed companies with job placements during the last 12 months were convinced that these changes in the applicants' behaviour were effectuated by the policy reforms. The German labour market appears to be more flexible than it was before.

The Federal Government therefore has little reason to change the course of labour market reforms. The Social Democratic Party as one of the government's coalition parties however is decided to change the Hartz Reform through the extension of unemployment benefit periods for older workers, flexible early retirement schemes and sectoral minimum wages. By many experts this is perceived as a counter-reform, as a return to welfare concepts rather than the continuation of activating labour market policy. The political majorities seem to be on the welfare side, the majority of the population in particular.

Government decision during the third quarter of 2007 concentrated on opening labour markets for foreign engineering graduates, re-organising unemployment insurance through e.g. lowering the contribution rate from 4.2 to 3.9 %, and protecting the German labour market by additional registration requirements for foreign employers.

Collective bargaining remained controversial. While most sectors agreed on substantial wage increase (3.7 % on average), locomotive drivers are continuing to strike for a separate agreement and a substantial wage plus. Mandatory collective wages are envisaged for agency work and mailing services.

1. Introduction

In a phase of outstanding employment performance, Germany sees a serious debate about the usefulness of its labour market reforms, the impact of policy changes on income distribution, the consequences of global wage competition, and the need for a reform re-addressing welfare principles.

This report concentrates on this debate, providing first the empirical background on labour market trends and recent policy decisions. The second part is almost exclusively dedicated to present the arguments of the debate and recent evaluation results.

2. Update on economic and labour market trends

2.1. Recent labour market trends

Macro trends

The German labour market continued to grow with strong dynamics: 672,000 new jobs were created within one year (+1.7 %, September 2006/07). Unemployment declined by 650,000 (-16 %) in the same period, and vacancies continued to stay at the level of 1.25 million in the IIIrd quarter of 2007. The gradual slow-down of economic growth which can be observed since the IVth Quarter of 2006 did not yet arrive at the labour market.

Table 1 Business cycle 2005-2007 in comparison to 1998-2000

	Change			
	2007/2005		2000/1998	
	%	000	%	000
GDP	5.5		5.3	
Volume of hours worked	2.0		1.2	
Employment	2.3	875	3.3	1233
Self-employment	2.0	89	1.3	50
Dependent employment	2.3	786	3.5	1183
Full-time	0.9	200	0.1	22
Part-time	5.2	586	13.8	1161
Mini-Jobs	2.4	139	15.5	628
Part-time, excluding mini-jobs	8.2	447	12.2	533
<i>Agency workers</i>	<i>66.2</i>	<i>294</i>	<i>33.3</i>	<i>82</i>
<i>Share of total dependent employment</i>	<i>2.1 % (2007)</i>		<i>0.9 % (2000)</i>	

Source: [IAB 2007](#).

The upswing also appears to be strong in the sense of labour intensity. Compared to the last labour market boom period in 1998-2000, the present period does not create more jobs: 875,000 new jobs emerged until now in relation to 1.233 million in 1998-2000 (Table 1). However, employment growth is more labour intensive. While the 1998-2000 upswing almost exclusively created part-time jobs, now a greater number of full-time jobs are

established (+200,000 compared to +20,000). As a result, the total volume of hours worked increases by 2.0 % while only 1.2 % was added in the 1998-2000 period.

Agency work plays a significantly stronger role in the present upswing than it did before. With a growth rate of 66 % it contributed one third to overall job creation and now has a share of 2.1 % of total dependent employment. This can be seen as one of the risks of the present upswing, as agency work is employed due to its flexibility rather than cost advantages. Companies obviously are looking ahead of declining employment through a higher share of agency work.

Structural unemployment – which was the core problem of the German labour market over decades – now seems to decline. In combination with the small rise of inflation and the constant level of vacancies the continuous decline of unemployment indicates a reduction of the NAIRU (“non-accelerating inflation rate of unemployment”). The German labour market obviously is gaining flexibility. This might reduce the risks involved in agency work and contribute to broader burden sharing of employment risks among the labour force.

Employment

For the first time since German unification, employment exceeded the level of 40 million in September 2007 (Chart 1). 27.2 million were employed in registered jobs, 4.9 million in mini-jobs (mini-job as the only job), and 3.1 million as civil servants. 4.5 million were self-employed, and finally 0.3 million were in publicly supported jobs (1-€-jobs).

The number of registered jobs grew by 2.2 % compared to the previous year. Half of these were additional full-time jobs. In Eastern Germany the growth of registered jobs was slightly stronger than in the Western part (2.3 % compared to 2.2 %). The number of jobs increased in all regions and sectors, except the financial and public sectors.

Unemployment

Registered unemployment decreased to 3.4 million in October 2007. 1 million was covered by regular unemployment insurance (providing UB-I) and 2.4 million by public basic income guarantees (providing UB-II). The number of unemployed decreased in both segments: - 27 % for regular unemployment and - 10 % in basic income schemes. The number of long-term unemployed decreased by 22 % to 1.2 million. The total share of long-term unemployed now is 39.9 % compared to 42.9 % one year ago.

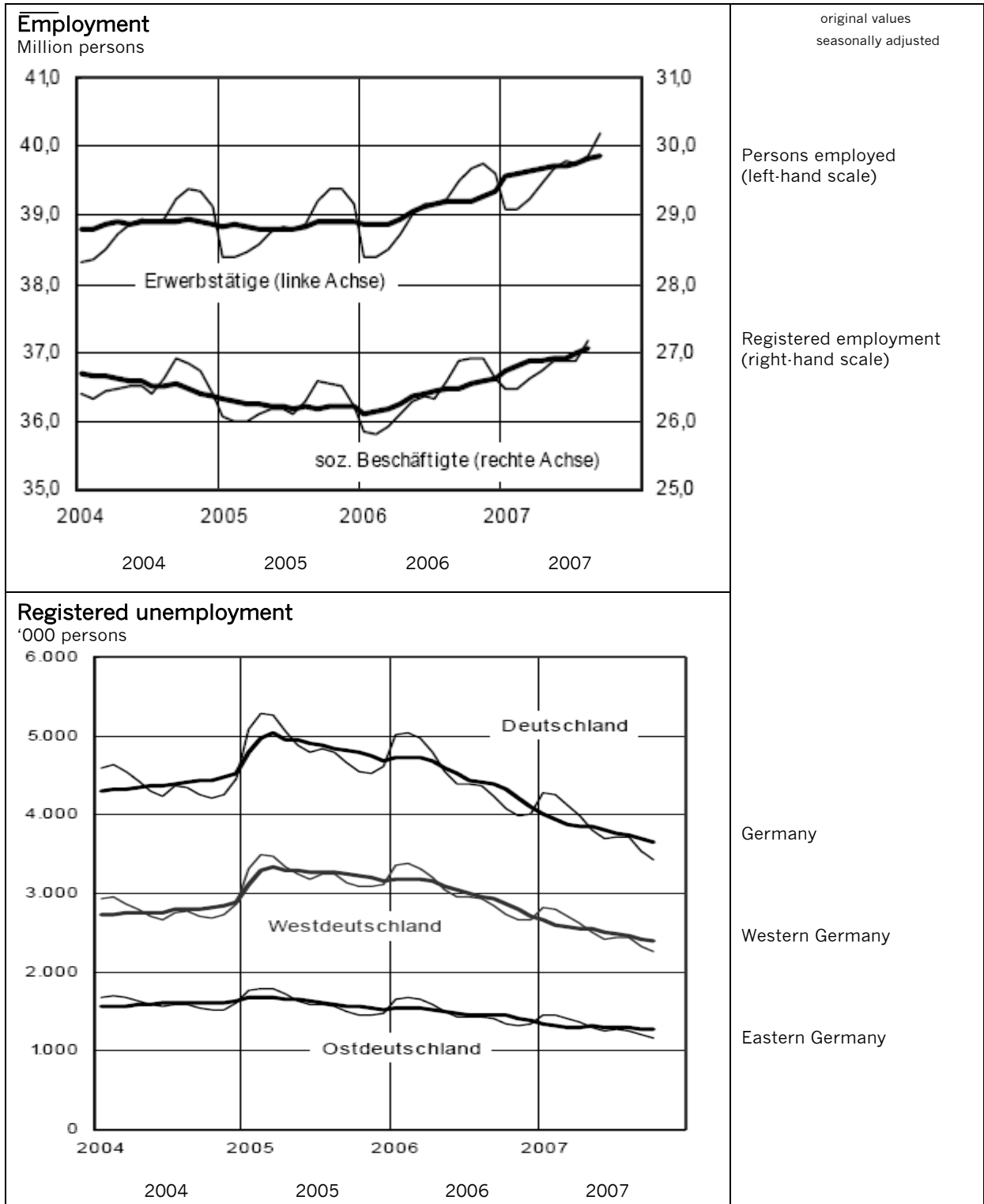
The decrease is primarily associated to the upturn of labour demand. Labour supply however also contributed through a decline of the labour force by 73,000 in relation to the previous year.

The rate of registered unemployment was 8.2 % in October 2007. The rate by ILO standard was probably 0.5 percentage points lower. In Eastern Germany, the rate of registered unemployment was 13.6 %, and 6.8 % in the West. This is 2.1 and 1.4 percentage points less than in the previous year.

Vacancies

The number of vacancies stagnated at the high level of 1.25 million in the IIIrd quarter of 2007. This includes 190,000 vacancies for publicly promoted jobs. Out of the 1,05 million jobs offered in the primary labour market, 200,000 were in Eastern and 850,000 in Western Germany. Constant levels of job offers can be observed in both regions.

Chart 1 German labour market 2004 to 2007



Source: Bundesagentur für Arbeit (2007).

Dual training

The dual training markets actually experience a phase of relaxation as cyclical developments also have positive impacts. The number of registered dual training places increased by 57,000 to 516,000 in the training year 2006/07. In parallel, the number of applicants decreased by 29,000 to 734,000. This, however, still results in a negative balance of 218,000 places which would have been required to serve all demands during the training year. As most of the applicants who did not find a training place searched for alternatives, only 29,000 remained without an offer at the end of the training year, and 18,000 training places were not filled. Both figures were considerably below the previous year.

Even in the present boom phase, the balance of supply and demand on the German training market remains negative. In parallel, companies are complaining on skills shortages. This indicates that the dual training system provides a sub-optimal answer to the skills needs and therefore needs urgent reforms (see Vogler-Ludwig 2007).

Active labour market policy

The number of participants in active labour market policy continued to decrease. Over all measures a decline of 3.9 % against the previous year was reported by the Federal Labour Agency in October 2007 (Table 2). 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, were extended by one quarter as regards the number of participants. Activities in preparatory measures to training were extended in face of the unfavourable balance on training markets.

Table 2 Active labour market policy
Germany

	October 2007 (1000 participants)	% change to previous year
Improving chances on primary labour market	598,4	-1,7
Counselling and support to job seekers	89,8	-10,6
Training and qualification	233,1	-6,5
Preparatory measures to training*	275,5	6,3
Support of people on jobs	368,5	-15,0
Support of employees	141,0	-5,2
Support of self-employment	227,5	-20,1
Employment creation	366,2	-5,6
Employment opportunities for UB-II recipients	321,7	-2,8
Job creation measures	44,5	-21,9
Other support measures (free selection)	183,2	24,6
Total (estimated)	1516,3	-3,9
<i>ESF-BA-Programme</i>	<i>28,5</i>	<i>-26,4</i>
*July 2007		

Source: Bundesagentur für Arbeit (October 2007)

2.2. Economic forecasts

Following the latest economic forecast by the Expert Advisory Board (*Sachverständigenrat 2007*) growth of the German economy will slow down from 2.6 % in 2007 to 1.9 % in 2008 (Table 3). The majority of other forecasts published during the IIIrd quarter 2007 expected only a gradual decline. This is surprising in face of the current turbulences on the financial markets, the restrictive financial policy, the high oil price, rising wages and inflation and the appreciation of the Euro. Following the forecasts, these factors will decel-

erate the expansion, but not bring it to an end. While estimated GDP growth rates for 2007 are stabilising around 2.5 %, the expectation for 2008 is around 2.2 %. The more cautious assumption about world trade is the reason for the lower growth expectation of the Expert Advisory Board.

All experts describe the German economy to be strong. It was able to create this boom through restructuring and flexible adjustments. It nevertheless depends on world markets, cost structures and a stable policy environment. The clouds actually appearing at the business sky – in particular the risk of a recession in the USA – can rapidly accumulate. They may cool down the climate or even release a storm. Actually nothing is visible yet, but the danger of a climate change is rising.

As regards the German labour market, the 2007 performance appears to be excellent. For 2008, however, forecasts expect half the growth of 2007. This is due to rising labour productivity after a strong recruitment wave. Unemployment rates will decline further to a level around 8 %. If the pessimistic scenario adumbrated above will become real, employment growth will certainly be lower.

Table 3 Economic forecast for 2007 and 2008
Germany

Institution	Date of publication	GDP (% change to previous year)		Employment (% change to previous year)		Unemployment rate (%)	
		2007	2008	2007	2008	2007	2008
Expert Advisory Board (Sachverständigenrat)	November 07	2.6	1.9	1.7	0.8	9.0	8.3
Association of Economic Institutes (ARGE-Institute)	October 07	2.6	2.2	1.7	0.8	8.7	7.9
Federal Government	October 07	2.4	2.0	1.7	0.8	-	-
IMF	October 07	2.4	2.0	1.7	0.6	6.5 ¹	6.3 ¹
HWWI (Hamburgisches Welt-Wirtschafts-Institut)	October 07	2.5	2.3	1.7	0.9	8.7	7.9
IW (Institut der Deutschen Wirtschaft)	September 07	2.5	1.9	1.4	0.7	8.7	8.1
EUROFRAME	September 07	2.7	2.2	-	-	6.7 ¹	6.1 ¹
RWI (Rheinisch-Westfälisches Institut für Wirtschaftsforschung)	September 07	2.5	2.6	1.7	-	8.7	6.3
European Commission	September 07	2.4	-	-	-	-	-
Institute for Employment Research (IAB)	August 07	2.7	2.5	1.6	0.8	9.2	8.4

¹Standardised unemployment rate
Source: Economix

3. Labour market policy developments

3.1. Policy actions

Labour market entry for foreign university graduates

Facing rising skills shortages in manufacturing, foreign graduates from engineering science (machine tool, automotive, and electrical engineering) can access the labour market without the usual counter check by the Federal Labour Agency (no negative impact on labour market, no German applicants available etc.). ([Bundesministerium für Arbeit und Soziales](#) 09/10/2007)

Financial re-organisation of unemployment insurance

The Federal Government submitted the proposal for a financial reform of unemployment insurance ([Bundesministerium für Arbeit und Soziales](#), 04/09/2007). This includes

- The reduction of unemployment insurance premiums from 4.2 to 3.9 % of gross wages from 01/01/2008 onwards.
- The cancellation of compensatory payments by the Federal Government for child care periods.
- The contribution of half of the costs for integration measures and administrative costs for UB-II through the Federal Labour Agency.
- The creation of a self-financed pension fund for the civil servants of the Federal Labour Agency.

The measures will burden the budget of the Federal Labour Agency by estimated 5.7 billion EURO annually. Moreover, the pension fund will need a basic funding with a volume 2.5 billion EURO. The resources will be taken from the reserve funds of the Federal Labour Agency.

Registration of foreign workers

Foreign employers of the cleaning and construction business have to inform customs authorities about the workers employed on the German territory in order to check the compliance with minimum standards of the expatriates act ([Bundesministerium für Arbeit und Soziales](#) 20/07/2007)

Collective bargaining

Collective wages increased by 3.7 % during the first half of 2007 ([Hans-Böckler-Stiftung 2007](#)). This was mainly achieved in the chemical and metal working industries while other sectors like public and private services, agriculture, and mining fell behind.

The locomotive drivers' union (*Gewerkschaft Deutscher Lokführer, GDL*) demanded a wage increase of 31 % and the conclusion of an independent agreement with the German railway company (*Deutsche Bahn*). After three months of occasional strikes in regional passenger rail, the union was now allowed by labour court extending the strikes on cargo and intercity transport. The offer by the Deutsche Bahn to raise wages by 4.5 % and by a lump-sum of 600 EURO is still rejected by GDL. Beyond higher wage increase, the union stresses the need for a separate collective agreement for locomotive drivers. This is not only rejected by Deutsche Bahn which sees the separation of its employees in different unions with great scepticism. Also TRANSNET, the union of the transportation workers, does not accept the plan.

In retail trade, the negotiations on a new treaty for the 2.5 million employees are stagnating since spring 2007. The union VER.DI demands for a wage increase of 4.5 to 6 % and a minimum wage of 1500 EURO for a full-time worker, The point of conflict however is the abolition of bonuses paid for late evening and night work, demanded by the employers. Further strikes are planned.

Mandatory collective wages were suggested for postal services and agency work. In the case of postal services, the liberalisation of mail services by 2008 is expected to raise competition in this market considerably. Newspaper publishers are particularly prepared to enter this market at lower prices than the Deutsche Post. In order to avoid wage competition, Deutsche Post and VER.DI signed an agreement which includes a minimum wage of 9 EURO per hour. Following the suggestion of the German Trade Union Federation and the Social Democratic Party this should now be declared mandatory for all postmen.

3.2. Public and scientific debate

Reform of the Hartz Reform

The recent party congress of the Social Democratic Party accepted the executive's program for social reforms (*Sozialdemokratische Partei Deutschlands, SPD, 22/10/2007*). This contains nine items:

- (1) The support of older unemployed through a one billion EURO program which should annually be spent by the Federal Labour Agency between 2008 and 2011.
- (2) The extension of UB-I for older workers from 12 to 15 months for unemployed aged 45+ and 30 insurance months, 18 months for 50+ and 36 insurance months, and 24 months for 50+ and 42 insurance months. Employers should be obliged to compensate benefits and social contribution rates if they make older workers redundant.
- (3) Flexible early retirement of workers aged 60+ should be provided through a new regulation continuing and amending the existing part-time retirement act (*Altersteilzeitgesetz*).
- (4) Bonus points in pension insurance should be provided to older employees.
- (5) Social partners should be allowed compensating the reduction of pensions through additional collective agreements.
- (6) Employees with children should receive bonuses if their labour income remains below subsistence levels.
- (7) Additional training efforts should be undertaken.
- (8) The contribution rate to unemployment insurance should be reduced to 3.5 %.
- (9) Agency work should be included in the expatriates act (*Arbeitnehmer-Entsendegesetz*) in order to avoid wage dumping. Moreover, wages of agency workers should be equal to regular workers' remuneration after a probationary period.

The program suggests a change in policies for three major points of social policy:

- it wants to reverse the cut of public support for older workers as it was introduced by the Agenda 2010 of the former red-green government. This measure can be assumed to have supported the rise of activity rates among older workers and the decline of long-term unemployed. Nevertheless, older workers still have a greater risk of staying unemployed if they lose their job. This is addressed by the program which also includes some incentives to hold jobs and to employ older workers for longer. Moreover, the planned extension of regular pension age from 65 to 67 and the expiration of the part-time retirement act in 2010 should be substituted by a flexible scheme of early retirement from the age of 60 onwards.
- The idea of combined wages – as it was supported by the Federal Ministry of Labour and Social Affairs – is limited to low-income households with children. The former idea to establish a comprehensive scheme of combined wages for employees earning less than subsistence levels is not addressed anymore.
- The introduction of minimum wages is now implemented at the sector level rather than as general regulation. Agency work and mail services are the actual candidates

The SPD suggestions initiated a highly controversial debate which concentrated on the extension of unemployment benefits periods. While the German Trade Union Federation saw its own proposal now accepted by the big left-wing party, the Federation of German Employers (*Bundesvereinigung Deutscher Arbeitgeberverbände, BDA*) criticised the idea:

at a moment when the Hartz Reform shows its first positive results – among older workers in particular – benefits should be extended again. Longer unemployment benefits periods will increase the duration of unemployment. This position was supported by the majority of labour economists and even the charities.

The catholic charity CARITAS argued, the Hartz IV Reform was able to reduce the volume of hidden poverty and to improve the position of the lowest income households. Negative effects can be discerned among unemployed who had higher incomes before. This group however should be reintegrated rather than kept off from the labour market. The continuation of an activating policy is therefore suggested (*Cremer 2007*).

The Christian Democratic Union (CDU) decided at a party conference in 2006 to endorse the prolongation of UB-I payment only for people who contributed to unemployment insurance for a long time. The maximum payment duration should be lengthened to 15 months for people who paid contributions for 15 years, 18 months for people who contributed 25 years, and 24 months for people who contributed for 40 years. The CDU suggested financing the prolongation through cuts for workers with shorter insurance periods.

This reveals that there is a consensus area among the coalition parties. Moreover, 82 % of the German population would like to have a longer UB-I payment period for older workers. The political pressure to go in that direction is rising. The objections of the SPD-Minister for Labour and Social Affairs, Franz Müntefering, were already overruled at the SPD congress, and Chancellor Angela Merkel agreed to further examination of the proposal in spite of her continuous affirmation not to do anything which endangers the job creation process.

4. Recent labour market reports

Hartz Reform: impulse for the labour market (*Hartz Reform: Impulse für den Arbeitsmarkt*), IAB-Kurzbericht 19/2007. [[Internet Access](#)]

The report “Hartz-IV-Reform – Impulse für den Arbeitsmarkt” by the Institut für Arbeitsmarkt- und Berufsforschung (IAB) contains an analytical appraisal of the change in job-applicants behaviour in the course of the Hartz-IV-Reform. The study is based on the job vacancy survey, a representative business survey undertaken by IAB and Economix since 1989. In 2005 and 2006 the survey focussed on German labour market reforms.

The study reveals that not only the economic upswing but also the Hartz-IV-reform supported the current employment increase. According to the businesses surveyed the principle of demanding and assisting that the government pursued with the reform lead to a change in behaviour among job applicants. Businesses could staff jobs more easily and did create additional jobs for unskilled labour.

The main findings are the following:

- *More unsolicited applications:* 22 percent of the polled businesses perceived an increase in the number of unsolicited applications in 2005/2006 and only 11 percent perceived a decrease. Among the business discerning an increase were especially large businesses (43 percent).
- *Greater willingness for concessions:* businesses observed an increasing willingness among job applicants to make concessions regarding qualification-levels, remuneration and job conditions. Around one fifth to one fourth of the companies stated a greater willingness while one tenth recognised a decline.
- *Easier recruitment for hard-to-fill jobs – low-skilled jobs in particular:* In 2005 13 percent of businesses (2006 7 percent) stated that hard-to-fill jobs were easier to place. Obviously, the change in behaviour of applicants must have advanced recruitment for

these jobs. This was at the benefit of low-skilled workers: 20 percent of businesses with new hires could easier place low-paid jobs.

- *Additional low-skilled jobs:* in 2005/2006 every tenth business created new jobs for low-skilled labour. This explains the unexpected high number of job vacancies for unskilled labour in autumn 2006.

Almost half of the firms which see changes among job applicants are convinced that these changes were caused by the Hartz-IV Reforms. In particular if a series of changes was observed, the connection to the reforms becomes more distinct. The report therefore concludes that the Hartz-IV Reforms effectively supported labour market development. Particularly low-skilled applicants contributed to the improvements through change of behaviour.

The labour market integration of immigrants in Germany, published by the Organisation for Economic Co-Operation and Development (OECD) in 2007.

The report “Jobs for Immigrants – Labour Market Integration in Australia, Denmark, Germany and Sweden” by the OECD is a study on the experience of the four countries with respect to the integration of immigrants into the labour Market. Since immigration is a feasible policy option to alleviate the adverse consequences of ageing populations and to help fill labour shortages, the study aims to help governments to improve their immigration policies. In this context, the study focuses on the integration of immigrants into the labour market, because it is one of the most essential factors to ensure social cohesion and the acceptance of further immigration by the host countries population.

Germany received a large number of low-skilled labour (“guestworkers”) during the recruitment period prior to 1973. Since the late 1980s humanitarian immigrants and ethnic Germans from Eastern Europe emerged. The later entries were not linked with labour market needs and coincided with a worsening of the economic situation.

Immigrant men are reasonably well integrated in the labour market. Their employment and unemployment rates were very close to those of natives until 1992 and are still quite well when compared to other countries despite the negative effects which the deteriorating economic situation had on immigrants. In contrast, the employment rates of immigrant women in Germany are very low (especially for Turks). This might only partly be culturally related and to some degree an outcome of policies, because immigrant spouses with foreign nationality did not obtain immediate labour market access. Even when access was given, it was initially subject to labour market testing. Most of these legal obstacles have been removed under the new immigration act.

Despite of the much better legal position and higher educational attainment compared to other migrant groups, employment rates among ethnic Germans with less than eight years of presence have fallen particularly since 1992. The researchers attribute this to their lower ability to speak German.

The change in Germany’s composition of immigration flows since the 1980s has given rise to a complex integration framework. For those “guestworkers” who stayed, some language training and migration-related advice was provided. For ethnic and humanitarian migrants separate structures were created. Today all immigrants whose presence is not merely temporary are subjected to the same integration structures. The integration activities still focus on language learning.

The researchers criticize that the introduction courses only aim at a basic level of German language knowledge and do not adapt to the professional needs of immigrants. For labour market integration, they would need special language training. It is striking that only 15 percent of ethnic migrants who participated in language courses for unemployed migrants

were in employment six months after course completion. The researchers recommend a better evaluation in order to adapt the courses sufficiently to migrants' needs.

The gap between the educational attainment of the "second-generation" and that of their native counterparts is higher in Germany than in other OECD countries. The researchers explain this outcome with the low skills of many of the parents immigrating as "guest-workers" since the late 1980s and with a lack of the educational system which caused human capital to be more transmitted across generation than in other OECD countries. The researchers criticize the early educational streaming, the clear hierarchy and low permeability of the German educational system. Because kindergarten and primary school are generally only half time, the gap between the educational attainment of the second generation would be particularly pronounced for children where a language other than German is spoken. They recommend assure a better permeability between the educational tracks and to increase the coverage of kindergarten places in order to promote language learning of migrant children at the earliest stage.

The low initial educational attainment of the second generation impedes their access to vocational training. The participation rate of young foreigners in vocational training is therefore only about half that of nationals. Consequently the employment rates of Germany's second generation are lower in relative terms than those observed for the second generation in other countries.

Because about one-third of the foreign population needs special permission to have access to self-employment, migrants are under-represented among self-employed. In face of the potential positive contribution of self-employment to a dynamic development of the economy and its importance as an integration tool, legal access to self-employment and the access to financial micro-credits should be improved.

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