

Discussion paper

**EUROPEAN EMPLOYMENT OBSERVATORY  
GERMANY**

**Reduction of non-wage labour costs and skills promotion**

**Quarterly review of labour market trend and policies  
4<sup>th</sup> Quarter 2007**

by

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Munich January 2008

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Latest information included at 31 January 2008.

## 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 %. The regulation is included in Social Code Book III (SGB III).
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. The regulation is included in Social Code Book II (SGB II).
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

The German labour market still shows a strong performance as regards employment growth and the reduction of unemployment. The signals of a slow down, however, are visible. In 2008 job growth will therefore be cut by half to rates between 0.5 and 0.9 %. The divide between eastern and western Germany will continue with unemployment rates at a double level in the eastern part.

In the area of labour market policies, the Federal government introduced a series of changes by the beginning of 2008. Among these is the further reduction of unemployment insurance premiums by 0.9 percentage points – an important step to reduce non-wage labour costs as far as it will not be compensated by rising health insurance costs. New programmes will be launched addressing long-term unemployed and older workers in regions with unfavourable labour market performance. Migrants will be supported by education and training benefits. Moreover, a skills initiative is planned with almost ½ billion Euro focussing on disadvantaged youth.

With these policy actions, Germany is in line with the recommendations given by the European Commission's NRP assessment. In particular the reduction of non-wage labour costs and the concentration on disadvantaged labour market groups accommodates the EU demands. The skills initiative, however, is still missing concrete commitments and detailed planning. No progress can be discerned as compared to the 2007 NRP. This particularly applies to life-long learning. The plans remain vague and the issue is not listed among the top priorities where it should be.

In the 4<sup>th</sup> quarter of 2007 the public debate in Germany concentrated on one issue more or less: social justice. Facing rising income dispersion (and the growth of the new left-wing party Die Linke), the Social Democrats claimed for the introduction of minimum wages. Trade unions started into collective bargaining rounds with wage claims between 5 and 10 %, and almost all political parties moved towards the reconstruction of welfare elements in the German social system. The strong employment growth and the "jobs first" argument used by the European Employment Strategy had no weight in this debate. The ideas of the recent economic and labour market reforms seemed to be forgotten.

The elections for the Länder parliaments which took place in January 2008, however, came up with a puzzling result: the confirmation of the reform-oriented conservative government in Niedersachsen, and the shift towards the reform-sceptic Social Democratic Party in Hessen. The real winner was the new Linke which, however, attracted to 5 to 7 % of the votes only.

These voting results can hardly be interpreted as a broad denial of the German reform approach. In contrast, the reformers won under the condition of a consensus-oriented and integrative policy. This approach seems to belong to the basic rules of democratic policy making, but was nevertheless ignored by some right-wing hardliners in Hessen.

## 1. Introduction

In the boom phase of the business cycle Germany experiences not only the end of decent wage policies but also a broad public debate on social justice. The "jobs first" ideas of economic and labour market reforms in recent years seem to be forgotten. This quarterly report therefore concentrates on distributional issues, minimum wage policy and the public assessment of recent policy changes in the two Länder elections in Niedersachsen and Hessen.

## 2. Update on economic and labour market trends

### 2.1. Recent labour market trends

#### *Macro trends*

Labour market dynamics in Germany are still very strong but were gradually flattening during the last months. Following the latest report of the Federal Labour Agency, employment increased by 586,000 in January 2008 as compared to the previous year. This was a plus of 1.5 %, however a bit less than the growth rate of 1.7 % reported in September 2007 (Quarterly Report for Germany, October 2007, page 5). Unemployment started to increase to 3.66 million due to seasonal reasons only. Compared to the previous year, the figures are 15 % lower. Labour demand remained at the high level of 1.2 million vacancies in the IV<sup>th</sup> Quarter 2007, but started to decline recently.

#### *Employment*

Employment growth among registered employees was stronger than average. With an increase of 2 % against the previous year, the core group of the German labour market continued to recover from the decline during recent years. Almost half of the additional registered jobs were full-time jobs. Self-employment increased slightly (+1 %) while the number of exclusive mini-jobs declined (- 1.7 %). Employment in 1-EURO-Jobs decreased by 5 %.

The number of jobs in Eastern Germany grew by 1.7 % but did not keep pace with the Western labour market (+2.1 %). Strong employment growth was measured in cities of Hamburg and Berlin.

Jobs in business services continued to grow significantly by 6.5 %. This growth, however, was mainly due to the rise of agency work. The hotel and catering sector grew by 3.5 % as did transport and communication. Additional jobs also emerged in the manufacturing sector (+ 2 %). In contrast, employment in banking and insurance, construction, and public services declined between 1 and 2 % against the previous year.

#### *Unemployment*

In addition to positive cyclical reasons, the strong decline of unemployment against the previous year was affected by the use of seasonal short-term work which allows companies to flexibly switch between working periods and unemployment with the support of unemployment insurance. In particular the construction industries and others branches used this instrument. Short-term worker are counted as employees and thus reduce unemployment.

The overall unemployment rate was 8.7 % (8.1 % by ILO standards). This was 1.5 percentage points less than in January 2007. In Eastern Germany the unemployment rate

decreased by 2 percentage points to 14.9 %. In Western Germany it was 1.4 % lower (7.1 %).

### Vacancies

The number of vacancies stagnated at the high level of 1.2 million in the IV<sup>th</sup> quarter of 2007. This includes 207,000 vacancies for publicly promoted jobs. Out of the 1.04 million jobs offered in the primary labour market, 170,000 were in Eastern and 870,000 in Western Germany. Constant levels of job offers can be observed in both regions.

### Dual training

The Federal Labour Agency presented its final assessment of the training year 2006/07 and came to a positive assessment of the national training pact (Press Release 31. January 2008). 626,000 new training contracts were signed during the training year. This is an increase by 8.6 % against the previous period. Both, the favourable business cycle and the efforts of employers's associations and chambers contributed to this increase. Moreover, the placements activities of the Federal Labour Agency also helped presenting balanced training statistics by the beginning of 2008:

- 88.900 additional training places were offered by the employers, and 53,600 companies newly engaged in dual training.
- 43,000 places for preparatory training measures were offered the companies. Supported by the Federal Labour Agency, this entry-qualification was the bridge to regular training for two thirds of the participants. Many companies which offered such training places raised their training activities in general or started to become a training supplier.
- The volume of non-company-based training was increased considerably.

The number of training applicants without a dual training place was reduced to 11,300, which is a share of 1.5 % of all applicants.

### Active labour market policy

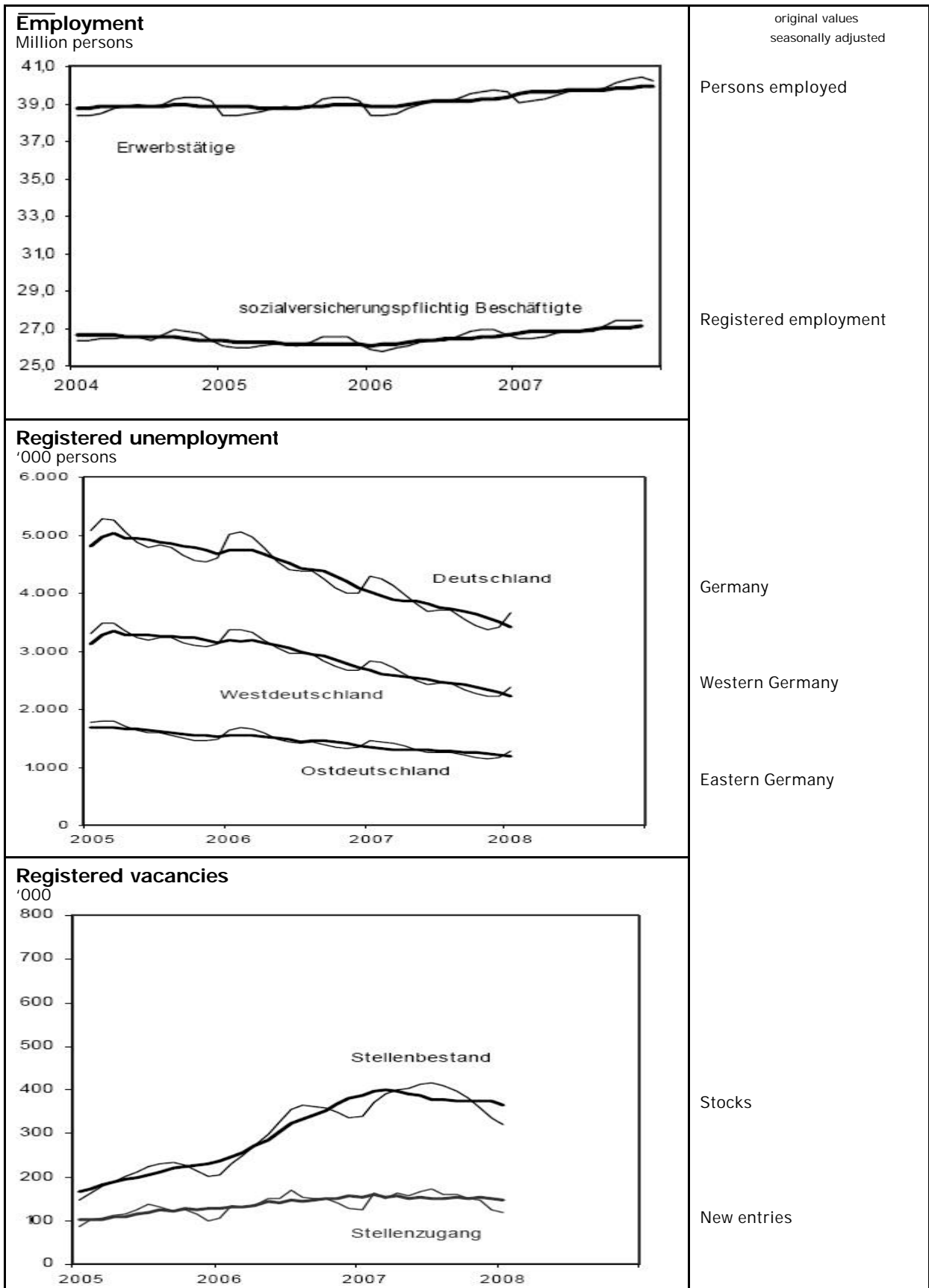
The number of participants in active labour market policy measures decreased by 3.3 % compared to the previous year (Table 1).

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

	January 2008 (1000 participants)	% change to previous year
<b>Improving chances on primary labour market</b>	<b>450,4</b>	<b>3,5</b>
Counselling and support to job seekers	78,3	15,4
Training and qualification	207,9	4,6
Preparatory measures to training*	164,2	-2,6
<b>Support of people on jobs</b>	<b>331,0</b>	<b>-10,9</b>
Support of employees	130,9	4,2
Support of self-employment	200,1	-18,6
<b>Employment creation</b>	<b>316,7</b>	<b>-10,1</b>
Employment opportunities for UB-II recipients	279,9	-9,2
Job creation measures	36,8	-16,4
<b>Other support measures (free selection)</b>	<b>170,1</b>	<b>11,4</b>
<b>Total (estimated)</b>	<b>1268,2</b>	<b>-3,3</b>
<i>ESF-BA-Programme</i>	<i>27,1</i>	<i>-26,4</i>
* October 2007		

Source: Bundesagentur für Arbeit (January 2008)

**Chart 1 German labour market 2004 to 2008**



Source: Bundesagentur für Arbeit (2008).

This is mainly attributed to the reduction of support measures for people on job and employment creation programmes. Employment opportunities for UB-II recipients were reduced by 9.2 % and the support for self-employed persons by 18.6 %. Participation in counselling and training measures, however, was extended by 3.5 %. In particular, participation in other support measures – which are mainly undertaken by the local agencies and municipalities – grew by 11.4 %.

Related to the decreasing number of unemployed, the ALMP participation rate increased from 31 % in January 2007 to 34 % in January 2008.

## 2.2. Economic forecasts

The potential risks for the business cycle which were visible during 2007 now became realities: the banking crises, the downturn of the US economy, the up rise of wages and higher inflation are going to affect real markets and the expectations of economic actors. Business cycle forecasts for Germany are therefore gradually slowing down to growth rates between 1.5 and 2.1 % for 2008 (Table 1).<sup>1</sup> This means that the 2008 employment growth rate is expected to be cut by half: 0.5 to 0.9 % as compared to 1.7 for 2007. The unemployment rate of 2008 is estimated to range around 8 %.

**Table 2** 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
Federal government	January 08		1.7		0.7		8.2
DIW (Deutsches Institut für Wirtschaftsforschung)	January 08		2.1		0.5		8.2
IMK (Institut für Makroökonomie und Konjunkturforschung)	December 07		1.5		0.6		8.0
Ifo Institut	December 07		1.8		0.7		8.0
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 <sup>1</sup>	6.3 <sup>1</sup>
HWI (Hamburgisches Welt-Wirtschafts-Institut)	October 07	2.5	2.3	1.7	0.9	8.7	7.9

Source: Economix

<sup>1</sup> The growth expectations for 2009 are still rather vague. Some of the forecasters expect a decline of GDP growth to 1.5 %, but other see a recovery to 2 % or even more.

### 3. Labour market policy developments

#### 3.1. Policy actions

##### *New regulations since 2008*

By 1 January 2008 a series of new regulations became effective:

- Unemployment insurance premiums were lowered from 4.2 % to 3.3%.
- The initiative for older workers "Perspective 50plus" will be promoted with 275 million Euro. 62 regional employment pacts will be supported to improve labour market integration of older workers.
- The Federal programme "Kommunal-Kombi" will support 79 regions with high long-term unemployment to create additional jobs. Most of the jobs will be offered by municipalities.
- Vocational training will be opened to migrants if they can be expected to stay in Germany for longer. Education and training benefits will be provided (*BAföG*). This is one of the promises made in the national action plan.

##### *Skills initiative*

Under the lead of the Federal Ministry for Education and Research the Federal Government announced a skills initiative "career through education" (*Qualifizierungsinitiative "Aufstieg durch Bildung"*). The initiative – which was published just before the Länder elections in Hessen and Niedersachsen – includes a comprehensive list of activities:

- pre-school training for children below the age of 6,
- providing a second chance for disadvantaged youth and supporting dual training,
- improving upward mobility in training,
- improving school to university transition,
- raising the interest for natural science and technique,
- improving chances for women,
- promoting life-long learning.

A financial volume of 454 million Euro is envisaged. The major part is dedicated to an apprenticeship subsidy for employers engaging disadvantaged young people who are presently absorbed in preparatory measures to dual training (350 million Euro). For most of the other items no clear financial commitment is given. This is also due to the fact that Länder governments will decide on the measures and will also have to contribute to financial resources. Parts of the action plan therefore still are wishful thinking, and it might be another declaration without action.

##### *Collective bargaining*

The times of low wage increase seem to be gone. Rising company profits and employment growth triggered a wave of wage claims between 5 and 10 %. The public sector union (VER.DI) submitted an 8 % claim in December for the 1.2 million employees at the Federal and municipal level (the Länder have their own collective agreement). Private sector unions were more moderate e.g. with 5.5 % in the textiles and clothing industry, or 6 % in the hotel and catering business.

Collective agreements finally signed by the social partners were much lower, ranging around 3 % in the IV<sup>th</sup> Quarter 2007. The only exception was the locomotive drivers' union (*GDL*) which achieved a wage increase of 11 % in two steps over the year 2008. A nine months battle with strikes and public controversies came to an end with this agreement.

Collective bargaining appears to be associated to the general social justice concerns which are dominating present public debates. The trade union research institute (*WSI*) published

a report on income distribution, pointing to the fact that the net-wage ratio in total income continued to decrease even in times of rising employment (see Section 4). In contrast, the share of profits and capital incomes increased, and – in addition – is concentrated on a smaller number of persons.

While the fact that income dispersion is rising in Germany is confirmed by a series of economic studies – as is the fact that income distribution shifted towards capital incomes – the counterpart in form of rising employment is hardly assessed in present debates. This appears as the major achievement of economic and policy reforms in recent years. The “jobs first” agenda as it is proposed by the European Employment Strategy does not play a significant role in the assessments of actual trends.

### 3.2. Public and scientific debate

#### *Länder parliament elections*

In January the Länder parliaments of Hessen and Niedersachsen were elected with puzzling results: The big parties experienced both success and defeat. The Christian Democrats (CDU) had their victory in Niedersachsen with a conservative, reform-oriented programme. The Social Democrats gained in Hessen with reform critique, the claim for minimum wages and ecological arguments. The only common trend which can be observed in both Länder is the entry of the left-wing party (DIE LINKE) with voting shares between 5 and 7 %. The unemployed and blue collar workers voted for this party while white collar workers and the self-employed reacted differently in the two Länder.

One of the major issues of the election campaign in Hessen was integration policy. The Christian Democrats suggested stricter punishment of youth in order to reduce the volume of criminal offence. This triggered a nation-wide debate on youth criminal law. The negative appraisal of the conservative proposal by the election in Hessen made clear that there is no alternative to integration policies. Consequently, parts of the CDU separated from the hardliner position shortly after the election, demanding for more integration and education for disadvantaged youth.

The success of the Christian Democrats (together with the liberal party FDP) in Niedersachsen can be attributed to a more moderate type of policy, a reform policy which achieves a considerable degree of burden sharing, and gives priorities to economic and education policies. The Social Democrats could not compete with such a positive political balance attributed to the governing CDU Prime Minister Christian Wulf.

This appears to be important as the Social Democratic Party undertook a major reversal of its reform orientation in recent months. The SPD decided to extend unemployment benefits periods for older workers and suggest the introduction of general and sector-specific minimum wages. Rising awareness of social justice was signalled by the last party congress and multiple public statements by SPD representatives. But these changes were obviously not strong enough to avoid the progress of the LINKE and the success of conservative reformers.

Economic and labour market reforms caused a visible divide among the German society and supported the rise of the left-wing party. However, the principles of reforms do not seem to be questioned by the majority of voters as long as reforms are implemented with a minimum of consensus among the social groups. Polarisation according the Hessen conservatives is not supported. Thus the two Länder elections have been a vote for integration and consensus finding rather than a decision about future reform paths.

### Minimum wages

The coalition board of the Federal government agreed already in June 2007 on the extension of the expatriates act (*Arbeitnehmer-Entsendegesetz*) and the modernisation of the law on minimum job conditions (*Minderarbeitsbedingungsgesetz*). The approach is two-sided: the expatriates act protects wages of workers in sectors where social partners agreed on collective treaties. The minimum job conditions act covers the others sector without collective representation.

Following the government's decisions, the expatriates act is open to industrial branches in which at least 50 % of the workers are covered by collective agreements. Wages can only be declared as mandatory if a public interest is discerned, a downward wage spiral in particular. In principle mandatory minimum wages can be implemented if social partners agree and the public board for collective agreements (*Tarifausschuss*) adopts the proposal. The Federal Labour and Social Affairs Ministry, however, can declare minimum wages also if the board for collective agreements – representing the social partners – does not agree uniformly.

The expatriates act meanwhile includes seven sectors (construction, cleaning services, painters and varnishers, demolition, roofer, electrical engineering, mail services). Mail services were the last sector applying the regulation with a minimum wage of 8.00 to 9.80 Euro per hour.<sup>2</sup> Temporary work and textile services submitted their proposals with minimum wages between 6.20 and 9.20 Euro per hour. Security services and a series of other branches are also in the debate. Social partner must declare their interest until end March 2008.

For the minimum job conditions act, the Federal Ministry of Labour and Social Affairs meanwhile submitted a proposal which is in the consultation process at present. The legal procedure is planned to be terminated until summer 2008.

In spite of the government's decision, the implementation of these laws remains controversial. The German Trade Union Federation (*DGB*) – initiating the introduction of minimum wages – proposes a general minimum wage of 7.50 Euro. This is justified with the argument that workers must be able to cover subsistence costs through their labour income. It appears as a matter of justice that all workers can participate in growth and rising incomes. This would also support overall consumption in the economy. Wage competition must be restricted as it appears to be unsocial. Wage policy should be inclusive rather than following the path of rising dispersion.

The employers' associations (*BDA, BDI, DIHK, ZDH*), however, see minimum wages as the wrong path, destroying jobs and curbing employment growth. Jobs in low-productivity areas will only exist if wages are low. Minimum incomes are (and further should be) guaranteed by the social system. Moreover, there is the danger of misusing minimum wages as a barrier to competition on product markets. The employers' associations also doubt that the number of social benefits recipients which need transfers in addition to labour income is high. Following their calculations, only 0.15 % of all workers (64,000) are single full-time workers.

It is no surprise that the majority of economists are against minimum wages. Most expressively, the IFO Institute warns that the suggested minimum wage of 7.50 Euro will cost around 612,000 jobs due to labour substitution, higher prices and rising activities in the shadow economy (see Section 4). A minimum wage of 6.50 Euro would still cost 465,000 jobs. Wage incomes of minimum wage earners would certainly rise. As the purchasing power is shifted from employers to wage earners, no additional demand effects would

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<sup>2</sup> The implementation of this minimum wage was highly controversial as the Deutsche Post is the dominating company in mail services. The agreement was seen as a barrier against competition from new entrants into the mail services markets.

result from the introduction of minimum wages.

As the level of minimum wages is more important than the introduction per se, the Economic Advisory Board suggested a minimum wage of 4.50 Euro – a suggestion which was not considered as feasible in the political sphere.

#### 4. Recent labour market reports

##### *Erste Reue über Verteilungssünden? - Zur Einkommensentwicklung 2006*

*(WSI report on the income distribution in 2006)*

The WSI report on income distribution examines the latest empirical data on the macroeconomic development of the income distribution with a focus on wages and profits (and the distribution of income among individuals within private households).

The report reveals that despite of the current upswing the rise in disparity, poverty and social exclusion sustained. The net wage ratio decreased again from 40.5 percent of private disposable income in 2006 to 38.8 percent in the first half of 2007, which is the lowest value since 1960. In contrast, the income rate of profits and assets increased again from 33.8 percent of private disposable incomes in 2006 to 36.6 percent in the first half of 2007. Unlike wage incomes, the incomes out of profits or assets only flow to relatively small groups of persons. Thus, the purchasing power of earned income accounts in 2007 for no more than a quarter of the macroeconomic demand. The researchers therefore doubt a sustainable development of domestic demand and with it of growth and employment.

Despite of the increase in employment the researchers also do not assume a trend reversal of the income distribution because the remuneration of newly created jobs would be rather bad. Furthermore, the fiscal policy would reinforce the trend: the increase in VAT at the beginning of 2007 would have burdened low incomes disproportionately while high incomes are planned to be disburdened through the business tax reform and the final withholding tax reform (*Abgeltungssteuer*).

Prior to 2007, the negative effect of the fiscal policy is less clear: income taxes on wages increased from 17.3 percent in 2005 to 17.5 percent in 2006 while income taxes on profits and assets increased from 5.9 to 7.1 percent. The contribution rate on wages increased from 16.7 to 17.1 percent and that of profits and assets decreased from 2.9 to 2.8 percent.

##### *Zur Einführung von Mindestlöhnen: Empirische Relevanz des Niedriglohnssektors*

*(Implementation of Minimum Wages: Empirical Relevance of the Low Wage Sector - Report published by the Ifo-Institut in October 2007)*

The report examines the effect of a minimum wage on employment in the low wage sector. The researchers base their calculations on surveys revealing the wage structure in the industry and the service sector in 2001 (published by the Federal Statistical Office in 2007). They assume moderate wage increases since 2001 so that their statements remain valid for today as well.

According to the survey, 18.1/ 8.5 % of all employees in eastern/ western Germany receive wages below 6.50 € per hour and 26/ 11.3 % below 7.50 €. In absolute terms that are 342 600 (492 100) employees in eastern Germany and 1 381 700 (1 831 600) employees in western Germany that receive less than 6.50 € (7.50 €) per hour.

A minimum wage would entail evasive reactions of employers: substitution of employees with machines, setting higher prices, employing illegally etc. The researchers assume a wage elasticity of 0.75 in which they draw upon other empirical studies. Their results show that a minimum wage of 7.50 € would induce 612,000 job losses (26.7 %). This would correspond to a decline in employment of 3 % in western Germany and 6.4 % in eastern Germany. A minimum wage of 6.50 € would still induce 465,000 job losses. Income gains of those who can keep their job and receive the minimum wage would be 1.2 bn € (minimum wage 6.50 €) and 1.8 bn € (minimum wage 7.50 €) respectively, which would correspond to 0.1 and 0.16 % of the overall realized wage incomes.

### *Das Erreichte nicht Verspielen*

*Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung (Not giving away the achievements - Report on the macroeconomic development in 2007, published by the Expert Advisory Board)*

The latest annual report of the Expert Advisory Board devotes a substantial part of the analysis to the German labour market. Under the title "Labour Market: On the Way to More Employment" the council analyses in section six the employment developments in Germany and suggests strategies to remove imbalances.

The analysis of labour market dynamics reveals that the current upswing is not only attributable to cyclical recovery but also to higher flexibility and dynamics. This indicates the declining rate of long-term unemployed: the number of unemployed in the SGB II declined by 268 000 persons in 2007, which corresponds to a decrease of approximately ten out of hundred. The overall unemployment rate decreased by 15.7 percent and employment increased by 1.7 percent in 2007.

The section alerts to considerable shortages of qualified labour in certain regions. Especially engineers, technical workers and manufacturers were scarce. The section therefore recommends for the short run a corresponding differentiation of the wage structure, the promotion of further education, the mobilization of qualified labour being unemployed or not economically active, and the recruitment of qualified labour from abroad. In the long run an improvement of the educational system would be indispensable.

The Board criticizes the approach of the engine driver's labour union to enforce an own labor agreement detached from the collective labour agreement of the Deutsche Bahn AG. It points out the risk of labour agreement plurality as being hardly manageable and provoking higher wage agreements. The Board also criticizes the agreed minimum wage in the postal sector and assesses the government's plans of enforcing higher employee involvement as shortsighted.

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