

Discussion paper

**EUROPEAN EMPLOYMENT OBSERVATORY
GERMANY**

Robust German labour market

**Quarterly review of labour market trend and policies
1st Quarter 2010**

by

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Contents

Executive Summary	4
1. Introduction	5
2. Update on economic and labour market trends	5
2.1. Macro developments	5
2.2. Labour market trends.....	5
2.3. Major restructuring cases and their employment implications	7
2.4. Labour market policy.....	7
3. Measuring of policy developments against Commission's assessment	8
4. Recent labour market reports	9
Bibliography	12

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.
Short-term work	<i>Kurzarbeit</i> : following articles 169 ff. SGB III, companies can apply for short-term work in the case of a considerable but temporary lack of work. At least one third of the work force must be endangered to loose at least 1/10 of the income. According to unemployment benefits workers receive 60 to 67 % of the omitting income. The maximum period is 18 months. Social insurance premiums are continued to be paid at the former levels. Employer contributions are subsidised by unemployment insurance.
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>Bedarfgemeinschaft</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 “Hartz-IV”	<i>Arbeitslosengeld II</i> : Means-tested basic income for job seekers, paid after expiration of regular unemployment benefit. The basic rate is 351 EURO per month. The regulation is included in Social Code Book II (SGB II). This is also known as basic income benefit.
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 presents an impressive example of stability in the historically unique crisis. In face of a 6 % decline of GDP there is only a minor contraction of employment (0.3 % compared to the previous year) and a moderate increase of unemployment (+3 %). This has to be attributed to a whole set of actions which characterise the particular German flexicurity approach:

- Employers hoarded human capital as far as possible in order to safeguard the skills basis established during the upswing. This was done at the expense of labour productivity and unit labour costs.
- Workers accepted various types of working time adjustments and low wage increase in face of rising unemployment risks.
- Public agents supported jobs by the traditional short-time work programme and an extensive business promotion programme.

In this combination, the actions have been very successful and there is a certain probability that the strategy of preserving jobs works. Most recent business indicators do not only reveal a strong optimism among companies regarding the near future. They also indicate significant improvements of incoming orders and production. The decision to keep staffs employed now puts the companies into the position to expand production without handicap.

Of course, the situation remains fragile. The financial crisis is not yet over as some of the financial intermediaries are still operating with losses. Moreover the crisis has meanwhile arrived in public budgets and has put several EU member states at risk. This will further increase debt levels and curb future growth. The real economy however seems to have profited from the restructuring efforts undertaken during the last decade. This made the German economy significantly stronger and provided the financial buffers to pass through the crisis without losing its knowledge base. As far as further shocks stay away there is a good chance that the recovery has started.

Recent evaluation studies show that the German labour market has become more flexible. Rising numbers of non-standard forms of employment improved the allocation of labour. Labour market reforms – the Hartz reform – created more jobs and were at the benefit of women in particular. The “one euro jobs” had positive job placement effects.

While overall employment levels are not a matter of current concerns, the education and training system still requires substantial improvements. Two major issues arise:

- The dual training system needs to be more inclusive regarding disadvantaged youth and young people with migration background.
- The introduction of bachelor studies in universities failed in most areas: curricula have not been renewed, options have not been extended for students, exchange between universities has not been improved, permeability did not increase etc. Students were on strike for several months protesting against the restrictive organisation of studies.

The efficiency of the education and training system appears to be crucial for further progress. The optimal development and use of human capital at all levels of proficiency appears as a key point of future reforms. Policy action however does not seem to follow this orientation. The high number of school and university dropouts requires a substantial reform of teaching. University studies need to be re-oriented again as they are not supportive to creativity and ingenuity. This however is needed in competition with the rapidly growing Asian countries.

1. Introduction

More than one year after the financial meltdown, the German labour market does not show signs of a crisis. This has to be attributed to a whole set of reactions by public authorities, employers and workers. The report will provide evidence how the different actions worked and what the outcome was during the first quarter 2010.

2. Update on economic and labour market trends

2.1. Macro developments

Almost euphoria is coming up in the German economy. The latest figure from the ifo business climate indicator signals a 3 % increase within one month and the return of this economic sentiment measure almost to pre-crisis levels ([ifo Institute 2010](#)). One can see the depth of the crisis in these changes and the relief that things are improving now.

The revival of economic activity is supported by the economic stimulus programmes worldwide and the resulting expansion of world trade. Economic growth in Germany is expected to be positive in the first quarter of 2010. Over the year GDP increase is forecast to range between 1.2 and 2 %.

Economic imbalances however are still severe. Capacity utilisation in German manufacturing is significantly below pre-crisis levels (75.2 % in January 2010). Labour productivity per person employed declined at an annual rate of approximately 5 % in 2009. Even on an hourly basis, productivity shrunk by 2 %. This resulted in a strong increase of labour unit costs.

Economic growth therefore is still fragile. It strongly depends on the control over financial risks in capital markets, particularly on the resolution of public debt difficulties in a series of EU countries. Uncertainties therefore contribute to the expectation of slow growth during the next year.

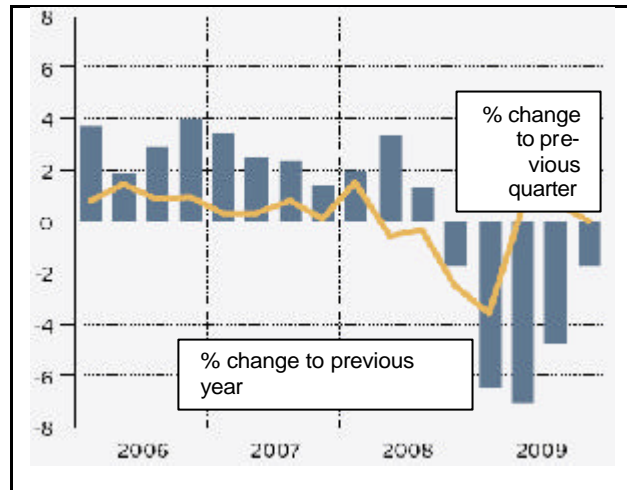
2.2. Labour market trends

Employment remained stable until the second quarter of 2009 but declined afterwards. However the reduction was small in comparison to the decline of overall production. As already described in previous reports, the major part of adjustment was achieved by the flexibility of working time. Public short-time work schemes, the reduction of overtime accounts and collective agreements contributed to this.

Short-time work still plays an important role in the German labour market. 890,000 short-time workers were reported by the Federal Labour Agency in December 2009 – a decline by 41 % since the peak in May 2009. This means that the equivalence of 238,000 full-time workers was kept in employment.

Important contributions to the moderate labour adjustment have been provided by workers and employers. Workers have reduced overtime and their positive balance on working time accounts which were accumulated during the boom phase. Moreover, part-time employment increased considerably at the expense of full-time jobs. Employers have accepted higher labour unit costs in order to keep their staffs. Together this has allowed labour hoarding to an extent which has not

German GDP at constant prices



Source: BMWI

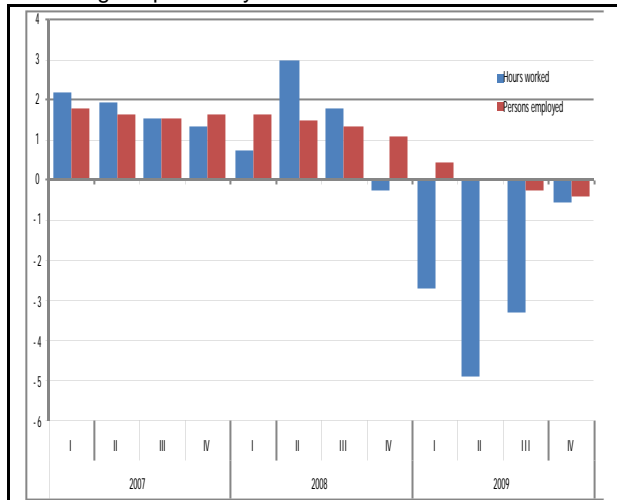
been observed in previous business cycles. Obviously the expectation of a rapid recovery and the relevance of a skilled labour force both have changed the companies' employment behaviour.

The effects of these changes are considerable. On one hand, stable employment kept consumption levels relatively high and thus contributed to economic stability. On the other hand, the continuation of labour contracts is now the basis for the rapid expansion of the economy.

The crisis was associated with strong shifts from private to public jobs. Manufacturing jobs in particular declined by 4 % compared to the previous year while health care, social care and education expanded at similar rates. Agency work declined strongly by 7 %.

Unemployment increased by 3 % (February 2010 compared to the previous year). This was achieved by three factors: the moderate job cuts, the positive effects of active labour market policies, and the decrease of labour supply. Therefore, overall underemployment – which includes participation in active labour market programmes – increased by 6 %, according to the calculations of the Federal Labour Agency (2010). The reduction of labour supply is expected to unburden unemployment by 130,000 during the year 2010.

Employment and hours worked - Germany
% change to previous year



Source: Statistisches Bundesamt

Table 1 Economic and labour market indicators

Indicator	Current value		Change to previous year
	Date	Value	
Employment	January 10	39.83 million	- 97,000
Registered employment	December 10	27.55 million	- 87,000
Unemployment	February 10	3.64 million	+ 91,000
Regular unemployment (among persons eligible for UB-I)	February 10	1.36 million	+ 63,000
Regular unemployment (among persons eligible for UB-II)	February 10	2.28 million	+ 29,000
Unemployment rate (seasonally adj.)	February 10	8.2 %	+ 0.3 pp.
ILO unemployment rate (seasonally adj.)	January 10	7.5 %	+ 0.2 pp.
Short-time workers	December 09	0.89 million	+ 0.62 million
Vacancies	IV/09	942,000	- 14.0 %
Quarterly working hours per employee	IV/09	336,9	- 0.2 %
Monthly gross salary per employee	IV/09	2,527	- 0.2 %
GDP (constant prices)	IV/09		- 1.7 %
Inflation	February 10		0.6 %
GfK Consumer climate index	March 10	3.2	Index March 09: 2.5
Ifo Business climate (2000 = 100, seasonally adjusted)	March 10	98.1	+ 19.5 %
Labour Productivity per employee (index 2000=100)	IV/09	103,00	- 1.3 %

pp = percentage points

Source: Bundesagentur für Arbeit (2010), Statistisches Bundesamt (2010), Ifo Institute, GfK, Economix.

2.3. Major restructuring cases and their employment implications

Opel

The intensively debated case of the General Motors subsidiary Opel is still pending. The GM headquarters raised their financial commitment from 0.6 to 1.9 billion Euros and demand for a 1.5 billion Euros public guarantee. The Federal guarantee committee (Bürgschaftsausschuss) has not yet decided on the provision of the financial support, and this is not expected to happen before the State elections in North-Rhine Westphalia in May 2010 (Handelsblatt 24.03.2010). Following the plans from February 2010, 8,300 jobs will be cut in Europe, and 3,900 in Germany. Other sources report job cuts of 9,800 (Spiegel 9.2.2010). GM intends to invest 11 billion Euros which will mainly be used to modernise cars.

Siemens IT Services

The electrical technology company Siemens announced to restructure its IT services provider Siemens IT Solutions. In recent years the subsidiary was made independent and re-integrated again, strategies were altered and top managers exchanged. Now – with declining turnover and decreasing profits – the subsidiary will be prepared for sale.

Economic observers criticise that the subsidiary has significant disadvantages compared to its major competitors HP, IBM and Accenture. It is said to have a serious lag in innovation, cost disadvantages and a small share of outsourcing. The restructuring plans – which are the consequence of substantial management failures – are expected to cost 4,200 of the presently 35,000 jobs worldwide. In Germany 2,000 of the 9,700 jobs will be cut. Siemens will invest 500 million Euros on restructuring the subsidiary.

2.4. Labour market policy

Among policy leaders a controversial debate arose about the reform of the “Hartz” legislation. The suggestion of a further reduction of basic income benefits which was submitted by the Liberal Democrats was opposed by the Social Democrats who urged for longer unemployment benefits and a principal revisions of the “Hartz” reforms which they had introduced in 2005.

Actual labour market policy was not revised during the first quarter.

Overall participation declined by 4 % against the previous year. Vocational training and job creation programmes were significantly reduced while support of job placement expanded (see table).

Participation in labour market programmes, Germany, February 2010

	1000 participants	% change to previous year
Support of job placement	278,0	32,2
Vocational training	217,0	-20,7
Support of vocational training	370,0	5,3
Job integration	364,0	0,3
Support of employees	213,0	-0,3
Support of self-employment	151,0	1,1
Employment creation	292,0	-11,3
Other support measures	60,0	-49,9
Total	1581,0	-4,0

Source: Bundesagentur für Arbeit

Vocational training and preparatory measures for vocational training had an important share among labour market policy measures. Following the upcoming vocational training report 2010 (Berufsbildungsbericht) a rising mismatch can be discerned on dual training markets. The report therefore urges for principal changes of support policies. There is still a high share of disadvantaged youth in preparatory measures among the applicants for dual training places (450,000 or 45 % in 2009). Moreover about 10 % of the applicants must be assumed to disappear from training markets without starting vocational training. The integration of migrant youth appears to be particularly important (Handelsblatt 12.03.2010).

3. Measuring of policy developments against Commission's assessment

The 2008 Recommendations the European Commission suggested the following employment-related actions for Germany (COM 2010).

Improvement of efficiency and effectiveness of job placement services

The integration and support of long-term unemployed is presently accomplished by Jobcenters which are operated as cooperation between the Federal Labour Agency and municipalities. There also exist 69 so-called Option Councils (*Optionskommune*) where only the municipalities are responsible for the support of long-term unemployed. As the legal cooperation between Federal Government and municipalities has been declared as unconstitutional, the Federal Government now decided to change the constitution in this respect. In addition to the continuation of the existing organisation of job placement services, the proposal includes the suggestion to extend the number of Options Councils to 110. As the Federal Government requires the support of the Social Democratic Party in order to change the constitution, it is still unclear under which conditions the opposition party will agree. The recent switch of the SPD towards more generous unemployment benefits may be a reason for more principal demands for labour market policy changes.

Promotion of integration of low skilled and long-term unemployed into the labour market

According to the recent evaluation of so-called "one euro jobs" by the Institute for Employment Research (IAB) there are slightly better chances for one euro jobs holders 28 month after the programme started (Hohenmayer and Wolff 2010). West German women particularly benefited from the instrument while East German men had no higher chances to find a job. In general the participation of long-term unemployed in this form of jobs promotes their social integration and readiness for work.

Due to the job vacancy survey of 4,000 firms which offer one euro jobs, half of the unemployed workers are assessed to be adequately trained for a regular job. One third of one euro job holders were not judged to be adequately trained. Most of these workers suffer lacks in communication skills and team working (Bela et al. 2010).

Improvement of flexicurity approach

The flexibility of the German labour market seems to have made considerable progress in recent years. This is documented by the rising share of non-typical employment (see section 4). In parallel, employers undertook considerable efforts to keep staffs in their jobs during the crisis. This indicates substantial changes of both, the employment behaviour of employers and the job search behaviour of workers which are consistent with the flexicurity approach. The particular German path toward flexicurity relies on internal rather than external flexibility of the allocation of labour. This is related to the strong role of skilled workers for competitiveness. Supported by strong governmental support with short-time work schemes, this flexicurity approach demonstrated its effectiveness during the economic downturn.

Better access to qualification

The Bologna reform targeted at the renewal of the curricula of university studies, lower numbers of student dropouts and higher numbers of students in general, and in MINT subjects (mathematics, engineering, natural sciences and techniques) in particular. The achievements of this reform were recently evaluated by the expert commission for research and innovation in 2010 (EFI 2010). According to the study most of the targets have not been achieved:

- The curricula have not been renewed and the students have now fewer possibilities to choose between different studies subjects than before the reform. Moreover teaching staff is confronted with a higher additional teaching amount which lowers research and student support.
- There is no additional time for orientation between school and university which is caused by shorter school and university duration.
- No accurate relation exists between bachelor studies and the dual training system.
- It is not determined how many students can and should continue with master studies after their bachelor degree.

Thus there is room for improvements:

- The universities need a larger scope for development for the creation of study courses.
- A more generous system of acknowledgement for study courses and exam achievements is required, which would increase the mobility of students. This comprises also comprehensive financial support, the extension of English courses and the promotion of cooperation between national and international universities.
- To lower the number of dropouts several measures are needed: credits and studentships, a flexible organisation of the study with the possibility for part-time studying, a higher amount of guidance and preparation and improvement of the organisational structure of university studies.
- The amount of students promoted by the public studentship programme Bafög needs to be extended. There exist also an offer of alternative student credits but the information channels and the supply need to be improved. This could also increase the amount of children from non-academics to start studying.

Improved incentives to work

The incentives for unemployed to work were improved with help of the Hartz reforms under the maxim "promoting and demanding" (*Fördern und Fordern*). The Liberal Democrats (*Freie Demokratische Partei*) started a principal debate on work incentives by the present basic income benefits. It was criticised that these incentives are too weak and the difference to wage incomes too small. The possibilities to earn additional labour incomes should be improved. The Social Democratic Party SPD, however, wants to change presumptions for Hartz IV by prolonging of the unemployment benefits I from 12 months to 24 month if the unemployed participates in a qualification for a profession and by abandoning the deduction of savings and fortune on UB II (SPD 2010). This would lower the original maxim of the Hartz reforms and could mitigate the incentives to work.

4. Recent labour market reports

Möller J. 2010.: The German labour market response in the world recession – de-mystifying a miracle, Journal of Labour Market Research Vol. 24 Number 4, Institut für Arbeitsmarkt- und Berufsforschung.

The study analysis the determinants of the unexpected smooth response of the German labour market to the demand shock in the aftermath of the financial crisis. It is revealed that the favourable performance of the labour market is mainly caused by an increased amount of labour hoarding.

There are several aspects which can explain the strategy of the companies for labour hoarding instead of laying-off workers:

- The internal flexibility is supported by working-hours accounts, collective agreements for flexible working time and short-time working schemes.
- Economically strong firms were mostly hit by the lower world demand. These companies had performed well before the crisis and experienced shortages of trained staff.
- The subsidised short-time work increases the incentives for labour hoarding.

It is concluded that the labour market benefited from advantageous conditions before the crisis, internal flexibility of companies, and the systematic use of labour market policy instruments.

Eichhorst W., Kuhn A., Thode E., Zenker R. (2010): Benchmarking Deutschland: Traditionelle Beschäftigungsverhältnisse im Wandel (Benchmarking Germany: Change of traditional employment), IZA Research Report No. 23, Institute for the Study of Labour, January 2010. [Web]

As part of the benchmark activities of the Bertelsmann Stiftung, the Institute for the Study of Labour (IZA) investigated the development of German employment compared to 28 OECD countries.

The number of registered and unrestricted full-time jobs has decreased by 4.6 % between 2001 and 2008. 60.1 % of all employees between 25 and 64 were in a normal employment in 2008.

Compared to other OECD countries only four other countries had a stronger decline (Netherlands, Poland, Malta and Luxembourg). While the share of traditional employment is still high in the industrial sector, only 53.2 % workers have an unrestricted full-time contract in the service sectors. This amount is also low compared to other countries.

The development of employment is not gender-neutral. The decrease of normal jobs is stronger among women than among men. Women experienced a higher increase of part-time employment, due to their higher share of service sector jobs. Employees in traditional jobs have a better dismissal protection but suffered from lower wage increase in recent years.

The authors point out that labour market reforms in recent years have led to an uneven distribution of risk between employees in normal and atypical employment. Thus, the permeability of different labour market segments should be improved in order to raise the prospects for persons in atypical employment.

The study results coincide with data from the IAB-Operating Panel (*IAB-Betriebspanel*). According to that the amount of restricted new hires among all new hires has increased from 32 % in 2001 to 47 % in 2009 (West Germany 45 %, East Germany 53 %). This means that almost every second new hire is restricted (IAB 24.03.2010).

Schmillen A., Möller J. (2010): Determinants of Lifetime Unemployment – A Micro Data Analysis with Censored Quantile Regressions, IAB-Discussion Paper 3/2010. [Web]

The empirical analysis of Schmillen and Möller, investigates the lifetime unemployment using administrative micro data for the time between 1975 and 2004 and multivariate statistics. Lifetime unemployment is defined as total length of all unemployment spells over a 25 years period. This perspective allows answering questions about determinants of unemployment for the West German birth cohorts 1950-1954.

The results of the empirical analysis reveal that lifetime unemployment is very unevenly distributed in West Germany. Over 60 % of the selected birth cohorts were not at all affected by unemployment. On the contrary half of the total amount of unemployment is concentrated on 5 % of the population in the sample (5 % of men and 6 % of women).

By using censored quantile regressions the study concludes that especially for men an unfavourable occupation in the beginning of the career can positively influence lifetime unemployment ex post. This leads to the following conclusions:

- Occupation-specific human capital is highly relevant
- There is a connection between human capital and unemployment
- Individuals with unfavourable investments in occupation-specific human capital suffer a distinctive depreciation of human capital which leads to a higher reservation wage and reduced search effort
- Good or bad luck in the beginning of the career have a significant and long-lasting effect
- The results indicate certain labour market inflexibility

Rohrbach-Schmidt D., Tiemann M. (2010): (Mis-)Matching in Deutschland: Eine Analyse auf der Basis formaler Qualifikationen und Fähigkeiten von Erwerbstätigen, Zeitschrift des Bundesinstituts für Berufsbildung 1/2010.

The study analyses the matching between formal skills of the employees and job requirements on the basis of the BIBB/BAuA-Working Population Survey (*Erwerbstätigenbefragung*). The analysis illustrates the extent of formal and ability-oriented matching and investigates to which extent the matching is depending on socio-demographical, qualification-related and job-related characteristics.

It reveals the following results:

- Almost every tenth employee in Germany is over-qualified for his/her job while around every fifth is under-qualified for the job. This means that around 70 % are formally appropriately employed (formal matching).
- 80 % of the interviewees assess that their technical skills match to requirements in their job (ability-oriented matching).

- The matching varies regarding gender. Women are more often over-qualified and men more often under-qualified for their job requirements.
- Workers with migration background are more often not adequately matched than workers without migration background.
- Young workers (15-24 years old) and older workers (over 65 years old) have higher rates of mismatching. Young workers try to establish on the labour market and older workers are glad to have a job.
- Non-routine activities are more often exercised by adequate-trained staff while routine activities are executed by under-qualified personnel.

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