

Job miracle in Germany? How the former sick man of Europe got healthy

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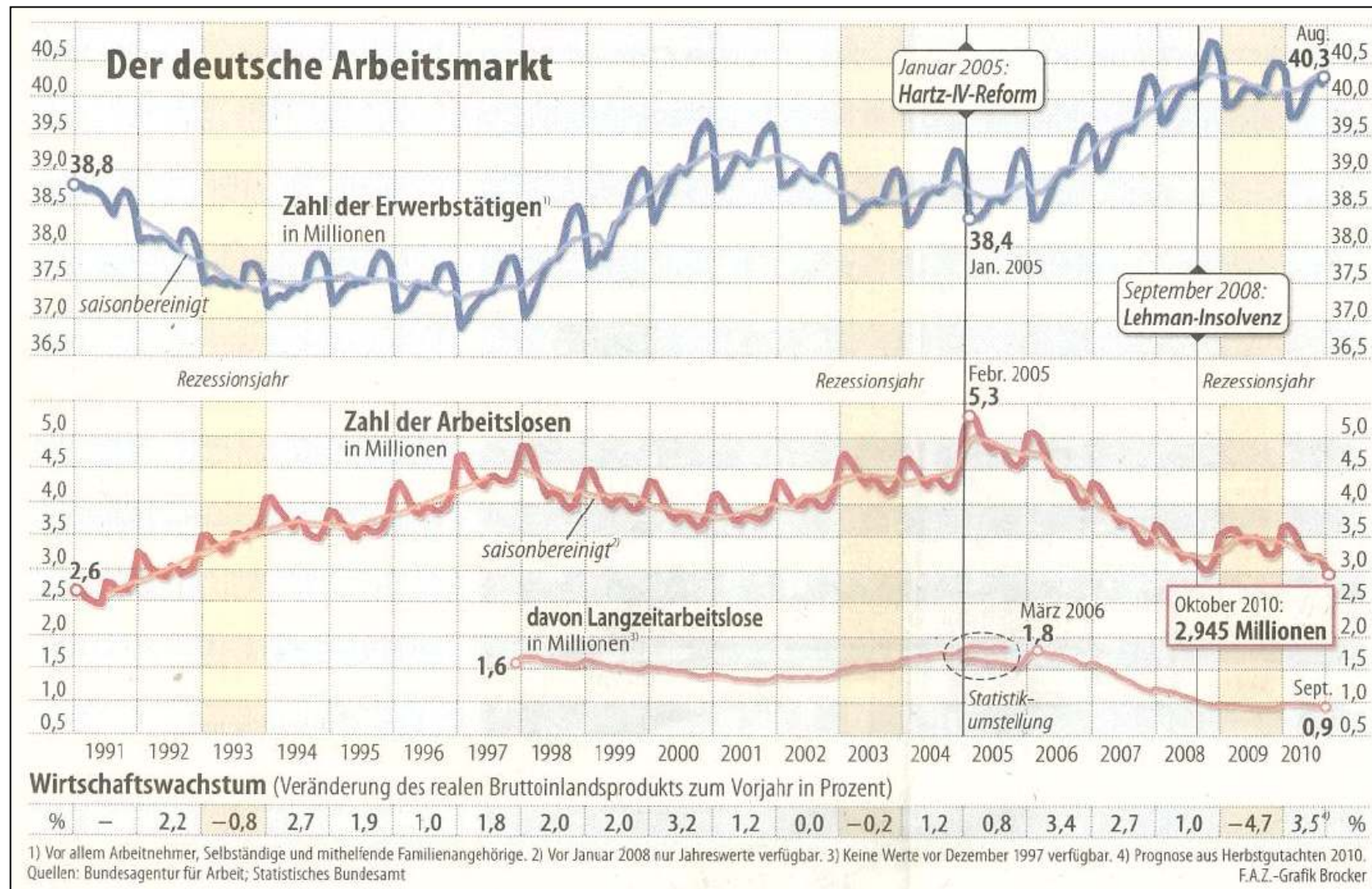
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1. Facts – The german labor market today

- Lowest unemployment rate since 18 years: 7 %, i.e. less than three million
- Lowest level of long-term unemployed since reunification: 900,000
- Highest employment level: 41 million employed (out of 80 million)
- Increased participation rate of elderly (55-64 years): +16 % up to 53 % (2008)
- Increased participation rate of women: +6 % up to 64 % (2008)
- Expected GDP-growth this year: +3 %
- Expected GDP-growth next year: +2 %

1. Facts - The german labor market

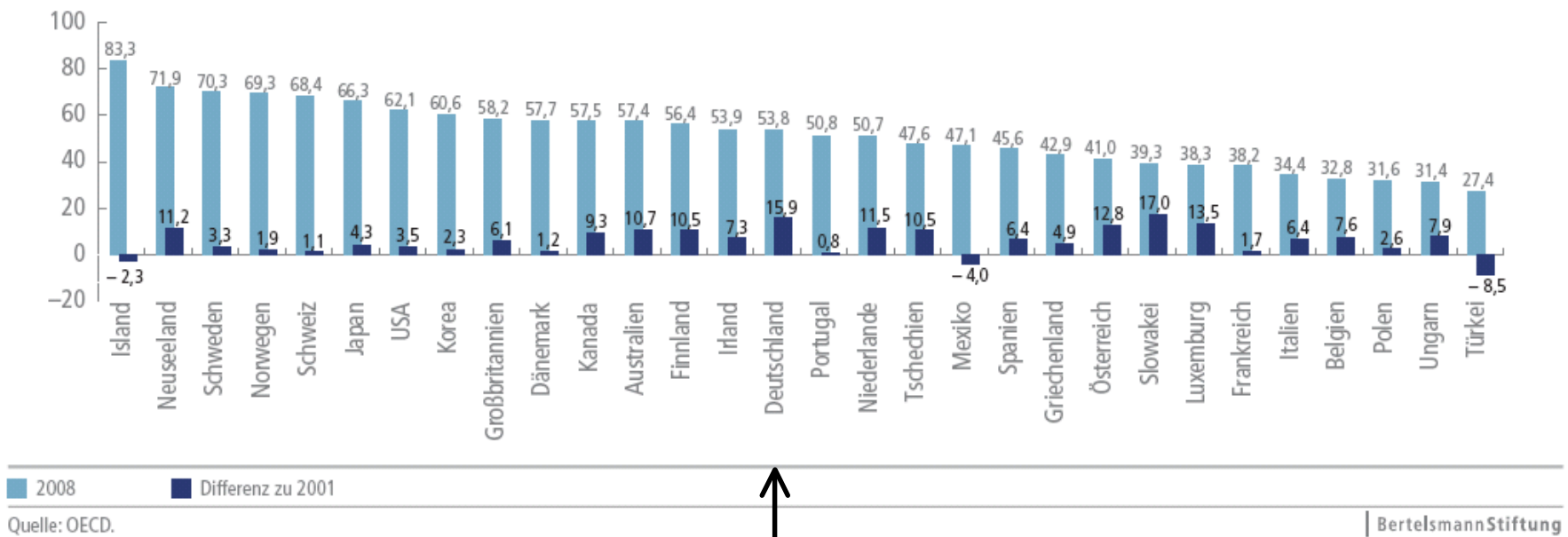


Source: FAZ, 28 October 2010

Participation rate of elderly (55-64 yrs) in 2008: 53%

Abbildung 9: Beschäftigung Älterer (55 bis 64 Jahre), 2001 und 2008

Angaben in Prozent

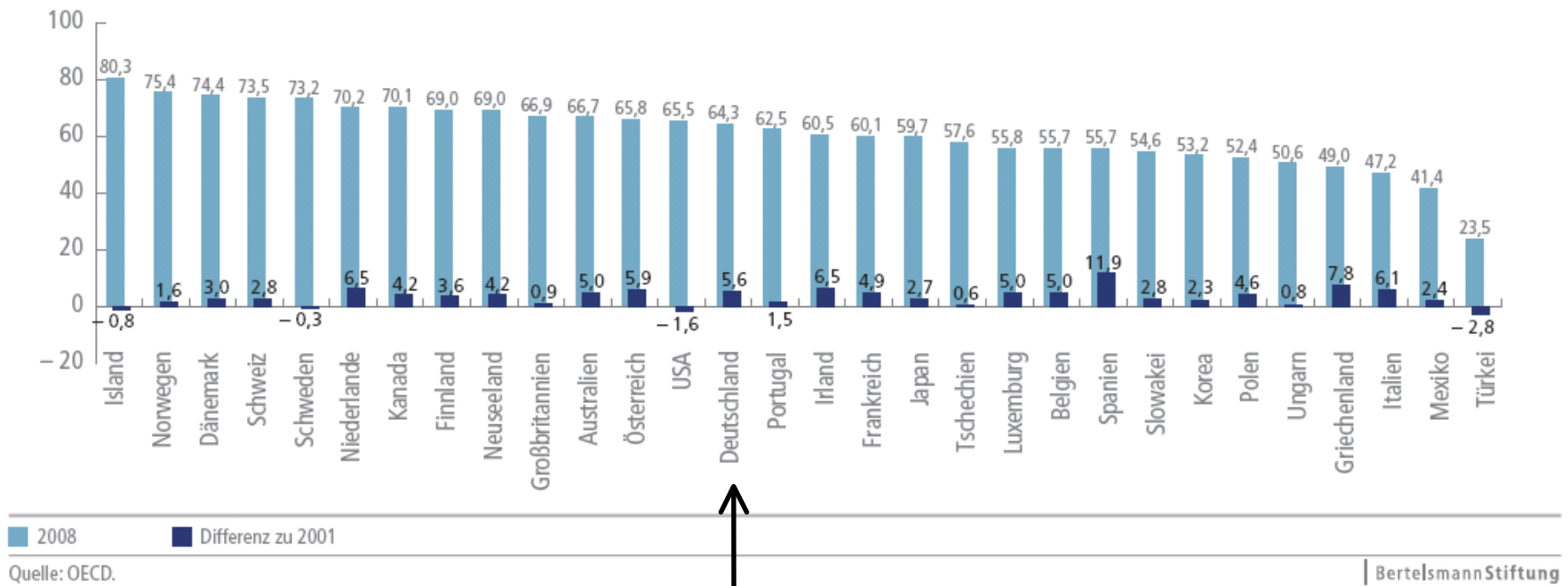


Source: labor market and employment 2000-2009, Bertelsmann Foundation 2009

Participation rate of women in 2008: 64 %

Abbildung 5: Beschäftigungsquote der Frauen 2008 und Veränderung zu 2001

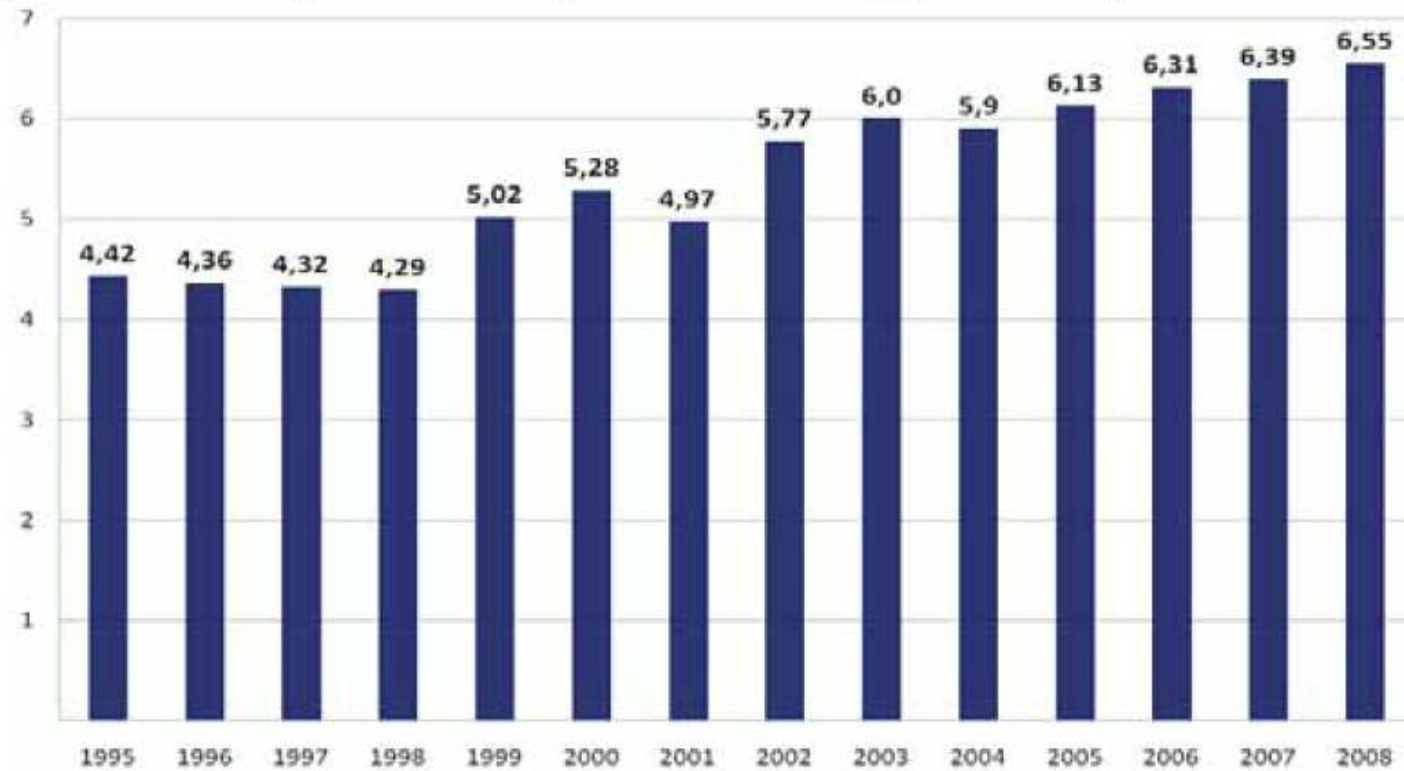
Angaben in Prozent



Source: labor market and employment 2000-2009, Bertelsmann Foundation 2009

Low wage employees in Germany: Main increase before Hartz IV reforms

Zahl der Niedriglohnbeschäftigten unter abhängig Beschäftigten in Mio.

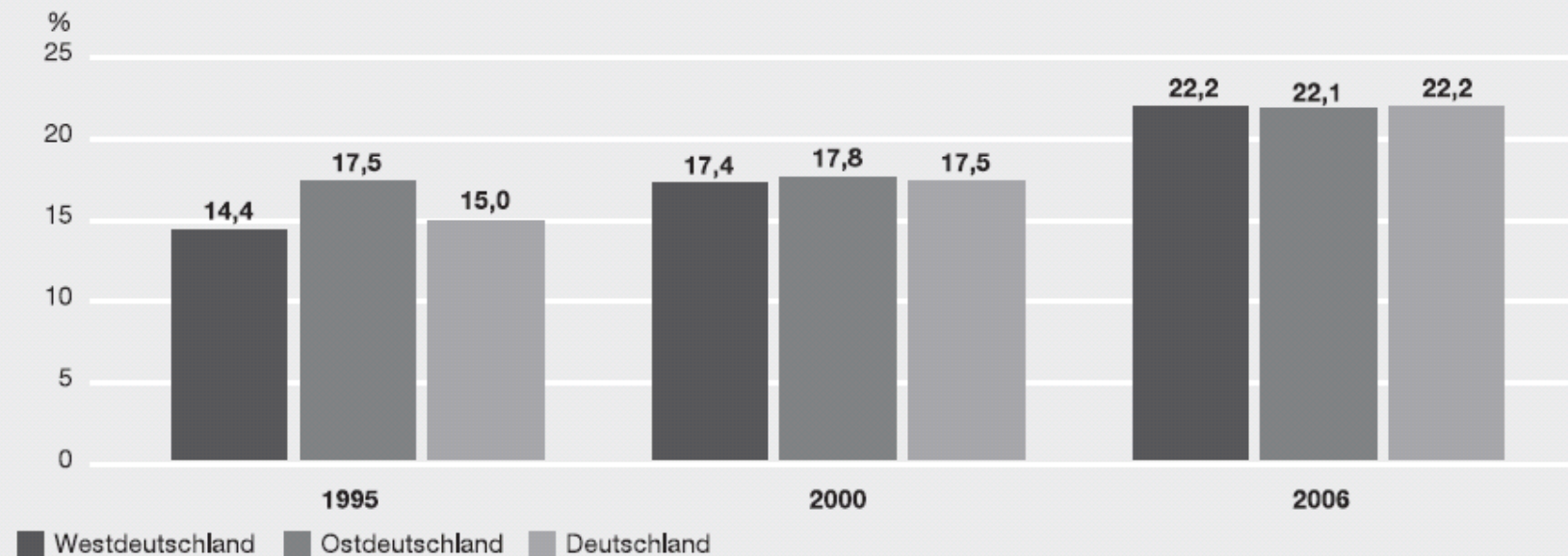


Quelle: SOEP/IAQ 2010

Development of low wage sector (1995-2006)

Abbildung 1

Entwicklung des Niedriglohnanteils unter allen abhängig Beschäftigten im Zeitverlauf (getrennte Niedriglohnschwellen für Ost- und Westdeutschland), in %



Quelle: Sozio-ökonomisches Panel, eigene Berechnung.

2. The sick man of Europe

Remember the nineties if you assess the German case today!

We observed

- High structural unemployment that has increased with each recession since decades
- High long-term unemployment (above 50 %)
- Insider-outsider issues
- High barriers to enter the labor market especially for low-qualified people
- A small low-wage sector until the mid-90s
- Overall impression: Static and inflexible labor market with low levels of growth

→ sick man of Europe (Economist)

3. Reforming the German labor market

Hartz reforms 2002-2005: „Push and Pull Approach“

- Core: merger of unemployment aid and public assistance (since 2005)
- New system (simplified):
 - 12 months unemployment benefit, means test, basic income
 - Effect: reduction of reservation wage
- Other changes of labor market institutions:
 - Improved job placement system
 - Deregulation of agency work
 - Enlargement of marginal employment (400 € jobs)
 - Subsidies for self employment

→ Lowering barriers to enter the labor market

Note: No change of employment protection legislation

4. The healthy man of Europe

Before the crisis (autumn 2008)

- Low level of unemployment: below 3 million
- High level of employment: above 40 million
- Sound fiscal position
- Moderate wage increases
- Improved internal and external flexibility
- High competitiveness of the German export industry
- No housing bubble

→ Healthy before the crisis

„One can not only observe a cyclical recovery but also an increase in the flexibility and dynamism of the labor market“
(Council of Economic Advisers 2008)

5. Germany in the crisis

Hit hard: - 5 % GDP growth in 2009

Expectation: 5 million unemployed in 2010

But: Joint reaction by bargaining partners and state

- Wage moderation in the crisis
- Internal flexibility by working time accounts means hour reduction
- ALMP: Simplified access to „Kurzarbeit“ (short-time work or partial unemployment scheme) yields massive hour reduction
- External flexibility by fixed-term contracts and agency work

→ labor hoarding rather than firing

5. Germany in the crisis

- Plus „deficit spending“ (expansionary fiscal policy)
- Effect: more people stay with their companies, earn less
→ labor productivity decreased

Overall assessment:

Bargaining partners reacted as optimists
on a transitory demand shock

5. Germany in the crisis



Source: Economist, 11 March, 2010

6. The growth engine of Europe

- About 300,000 jobs got lost in manufacturing especially in South Germany
- But more than 300,000 service sector jobs were created in the same time
- enormous structural change during the crisis
- Labor hoarding allowed for strong recovery (no recruitment necessary)
- Agency work contributed to upswing in 2009 which was surprising
- New record high in 2010, but still only 2 % of all German employees are agency workers
- Very strong recovery in 2010: Germany as engine of growth in Europe and an annualized growth rate slightly behind China

7. Conclusions

- Germany is now perceived as „champion of flexibility“ (Economist, October 7th, 2010)
- Mindset change 1: No fixed quantity of labor so that participation rate increase and unemployment rate decrease is not a contradiction
- Mindset change 2: Companies need internal and external flexibility instruments
- Current discussion in Germany I: Lack of skilled workers restricts growth
- Current discussion in Germany II: Division of labor between state and individuals with respect to employment security

'good to know you'



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