Identifying Policy Innovations Increasing Labour Market Resilience and Inclusion of Vulnerable Groups

National Report - Germany

Authors: Andreas Jansen and Matthias Knuth, University Duisburg-Essen, IAQ

The research leading to these results has received funding from the European Community’s Seventh Framework Programme under grant agreement No. 320121 (Project INSPIRES)
Index

Index ................................................................................................................................................. 3
PART ONE ......................................................................................................................................... 4
i. Characteristics of the national/regional labour market and social policies ......................... 4
   a. Institutional setting .................................................................................................................. 4
   b. Demographic structure .......................................................................................................... 13
   c. Socio-economic structure ..................................................................................................... 15
   d. Processes and actors of policy-making and policy implementation .................................. 19
Part Two .......................................................................................................................................... 21
ii. Current labour market situation .............................................................................................. 21
   a. Employment and unemployment situation .......................................................................... 21
   b. Unemployment situation ...................................................................................................... 24
   c. NEET’s situation .................................................................................................................... 24
   d. Contracts and working hours ............................................................................................... 24
   e. Wage levels ............................................................................................................................ 28
   f. Vulnerable groups .................................................................................................................. 30
Part Three ....................................................................................................................................... 55
iii. Trends in innovation .................................................................................................................. 55
    a. Content ................................................................................................................................. 55
    b. Forms ..................................................................................................................................... 62
    c. Actors ..................................................................................................................................... 63
    d. Measure effectiveness or return on investment .................................................................... 66
iv. Factors impacting labour market resilience ........................................................................... 67
    a. Positively ................................................................................................................................. 67
    b. Negatively .............................................................................................................................. 67
    c. No impact ............................................................................................................................... 67
    d. No measurable impact ........................................................................................................... 67
v. Challenges for innovative policies contributing to labour market resilience and labour     market inclusion ......................................................................................................................... 69
References ........................................................................................................................................ 70
Annex .............................................................................................................................................. 73
PART ONE

i. Characteristics of the national/regional labour market and social policies

a. Institutional setting

The illustration of the institutional setting of the German labour market is carried out along five essential and partly interrelated pillars of the German employment model, namely the social security system, the system of vocational training, the system of industrial relations and the labour law as well as labour market policy. For the description of the institutional setting of the labour market in Germany, however, it is not necessary to explain all instruments and regulations shown in Figure 1 but to concentrate on the most relevant to understand recent developments and trends in the German labour market.

i. The German social security system and active labour market policy

Statutory Unemployment insurance

Unemployment insurance is compulsory for dependent employees earning more than currently 450 Euros per month and not possessing the special status of civil servants. Benefits are paid to the individual in relation to previous income levels. The replacement rate is 60 per cent of previous earnings net of tax, and 67 per cent for a worker who receives tax allowance for at least one dependent child.

Claimants have to be between 15 and 65 years of age and have to be registered unemployed looking and available for work. For individuals aged between 15 and 49 years the maximum period during which unemployment benefits can be claimed is 12 months. For people of 50 years and over, in contrast, the period is extended up to 24 months after at least 48 months of contributions. To be eligible for benefits from the statutory unemployment insurance, individuals have to prove at least 12 months of insured employment within the last 24 months before they have become unemployed. In addition there is an enforceable obligation to be actively seeking work before the expiry of an existing employment relationship, i.e. when notice is received or three months before the end of a fixed-term employment relationship.

1 Civil servants become unemployed only in exceptional cases. Dismissals are possible because of conduct or personnel reasons but not due to operational reasons or redundancies.

2 This upper threshold is gradually rising with statutory pension age. For claimants born in 1949 and turning 65 in 2014, it is 65 years plus three months.

3 In the course of the Hartz reforms, this was initially shortened from 32 to 18 months, but nobody was affected by the short duration of 18 months because of the subsequent extension to 24 months.
Unemployment benefit II (Arbeitslosengeld II)
The unemployment benefit II is the result of the fusion of social assistance and unemployment assistance. It is a means-tested basic subsistence allowance for all people deemed fit for work\(^4\) between the age of 15 and the prevailing statutory age at which a pension can be drawn. This upper work limit has been rising progressively since 2012 is at present 65 ¼ years. In principle unemployment II is a benefit of unlimited duration. As with traditional social assistance, the new universal subsistence allowance, however, requires the claimants to reduce or overcome their need for assistance through their own efforts which may be limited only by personal and family factors, but not by the way the labour market is organised (e.g. customary local wage). This means that the individual (the client) is obliged to actively seeking work and to cooperate with the staff in the job centre. In the case that a client refuses a reasonable job offer, the benefit can be temporary reduced or, in extreme cases, fully cancelled.

Instruments for actively promoting employment
There are a wide range of instruments and measures of active labour market policy to foster the reintegration of unemployed people in gainful employment. From our point of view, however, there are three instruments which were or still are of particular relevance for the long-term developments of the German labour market. First, reflecting the strong emphasis on vocational education in Germany, vocational training used to be very important. In the course of the ‘activational turn’ in labour market policy, this has been downscaled in favour of short-term training for job-readiness, without much investment. Recently, there has been some re-orientation towards courses ending with vocational degrees, but without raising overall spending. – Secondly, new business start-ups by unemployed people were strongly supported by the Federal employment agency/the job centre. This was very important after the Hartz reforms but was recently scaled down. – Thirdly, the system of working for the benefit plus expenses or "one-euro jobs", is an important feature of active labour market policy in Germany. The main aim of this measure is to maintain or restore the employability of (long-term) unemployed people. Last but not least there is an increasing marketization of relations between the public employment service and external service provider observable, i.e. replacing support provided under the law on public grants or through direct commissioning with competitive procurement procedures or issuing of vouchers to job-seekers.

The statutory pension insurance
From 1996 onwards, categories of pension that could be drawn before reaching the statutory retirement age were first reduced in order to discourage people from claiming

\(^4\) Anybody who is considered medically able to work for three hours a day qualifies as fit for work. This exactly mirrors the definition of unfit for work ("complete incapacity") under German pension law. The basic subsistence allowance is therefore drawn by many people whose capacity is severely impaired for medical reasons.
them; from 2006 the minimum age at which such types of pension could be claimed was raised stepwise up to the statutory pension age, so that each special regime disappeared. This produced a gradually increasing incentive and ultimately an obligation to remain in work longer, since either a pension was no longer available as an alternative source of income or such a pension could only be acquired by accepting reductions (cf. Brussig 2010). In addition the stepwise raising of the statutory retirement age to 67 began in 2012 with an annual increase of one month, to rise to two months annually from 2024, so that by 2029 the statutory retirement age will be 67 for people born in or after 1964. The current impact is still limited, but the signal sent to workers and companies is already influencing expectations and behaviour. Actually the statutory retirement age for women and men is 65 years and 3 months. The earliest possible option for early retirement (without being invalid or severely disabled) is 63 years (old age pension for long-term insured). To be entitled to this category of pension, one has to have a contribution record of at least 35 years. In addition the old age pension will actually be reduced permanently by 8.1%, if a person takes the earliest possibility to retire permanently.

A second important aspect is the long-term fall in the pension level that has a negative impact on the ratio of relative lifetime earnings, expressed in "earnings points", to future anticipated pension payments. Workers can only partially compensate for this by increasing the number of contribution years (i.e. working longer) or by increasing their working hours (i.e. earning more).

With regard to disability/invalidity pensions, the German system can be characterised as restrictive in international terms (cf. Erlinghagen and Knuth 2010; Brussig and Knuth 2013). Disability pensions therefore do not function in any significant way as a labour market buffer in Germany (Brussig 2012).

### ii. Labour law

German labour law is aimed at regulating workers' basic protection without losing sight of the fact that most areas governed by the body of laws are also in the scope of collective agreements. In more concrete terms this means, that employees/trade unions on the one hand and employers/employers' associations on the other hand conclude employment contracts (in the case of employees/employers) and collective agreements (in the case of trade unions/employers' associations) about wages and further working conditions like working time, entitlements to paid leave or the dismissal protection in their own

---

5 Old age pensions most relevant for the labour market were an old age pension that followed a period of long-term unemployment or part time employment prior to retirement (Altersrente wegen Arbeitslosigkeit und nach Altersteilzeit) and an old age pension for women (Altersrente für Frauen). Before 1997 (the former) or rather 2000 (the latter) both pensions could be drawn from the age of 60 without any actuarial deductions. After 2001 (the former) or rather 2004 (the latter) both pensions still could be drawn from the age of 60, but by accepting actuarial deductions of up to 18% (0.3% for each month of early retirement before reaching the age of 65).
responsibility. The socially weakest group of this “bargaining triangle”, the workers, are additionally protected by binding legal regulations which define for most of the areas subject to individual and collective bargaining minimum standards. Deviations from these minimum conditions are permissible only to the extent that they are in the favour of the employee (Küsters 2007: 82).

Working time regulations and paid leave
Working time regulations are part of protective labour legislation. They are laid down in the Federal Working Time Act; the minimum amount of paid annual leave employees are entitled to is defined in the Federal Leave Act. According to the former act, the maximum daily working time is eight hours excluding breaks. However the effective working time on a daily basis can be extended up to a maximum of ten hours, provided that the worker is granted compensatory rest in order to guarantee that the overall working time does not exceed eight hours a day within a so called balancing period of either 24 weeks or six months. This exception allows flexible working time arrangements and temporary adjustments in production levels.

All employees are entitled to 24 days paid annual leave per year. Deviating from that overall rule, the entitlement to paid annual leave of young people aged between 15 and 18 years is higher and ranges between 25 and 30 workdays, depending on the respective age of the young person. This is fixed in the Youth Health and Safety at Work Act (Jugendarbeitsschutzgesetz). A second statutory exception is made for severely disabled persons who are entitled to an additional five days leave.

Both regulations define legal minima that may be exceeded by collective agreements, e.g. a lower daily/weekly working time or a higher entitlement to paid annual leave. In this respect Table 1 indicates, that nearly two thirds of the full-time employees in Germany covered by a collective agreement have to work less than 40 hours a week or rather eight hours a day. With regard to the agreed weekly working time, however, there are large differences between the eastern and western part of Germany. In eastern Germany, the weekly working time for more than half of the full-time employees covered by a collective agreement lies between 39 and 40 hours, but this applies to only 30% percent of the respective employees in western Germany. In contrast less than ten percent of the full-term employees in the eastern part have an agreed weekly working time of 35 hours or less, while this is true for more than one fourth of the full-time employees in western Germany. The considerable difference is also reflected in the average working time in East and West Germany (38.6 hours versus 37.5 hours).

---

6 Days = Work Days. Work Days are all days of the week with the exception of Sunday and statutory holidays.
7 Young people between 15 and 16 years are entitled to paid leave of 30 workdays in each calendar year; young people between 16 and 17 years to 27 and between 17 and 18 years to 25 workdays. It is not allowed to employ children and youths up to the age of 15.
The same patterns appear with regard to the paid annual leave. On average employees in East (29.5 days) and West (30.0) Germany covered by a collective agreement, have an agreed entitlement for paid annual leave that is considerably higher than the statutory minimum.

**Dismissal Protection**

The Dismissal Protection Act protects employees against arbitrary and unjustified dismissals. The law, however, doesn’t apply for all employees in Germany. Its coverage rather depends on the size of the enterprise, the date when the employment relationship started and the duration of the employment relationship. If the employment relationship has started in January 2004 or later, the law only applies to employees in companies with more than ten full-time employees. In case that employment has started before 2004, it applies to companies with more than five full-time employees.8

There is a distinction to be made between dismissals because of conduct or personnel reasons on the hand and redundancies (dismissals because of operational reasons) on the other hand. In this report we will exclusively focus on the latter, more widely used type of dismissals.

The law additionally distinguishes between a general dismissal protection that applies to all employees on the one hand and a specific protection against dismissals that is granted to employees who hold one (or more) of the following characteristics (see also Küsters 2007: 115):

---

8 Employees are counted as full-time workers if they are regularly employed for more than 30 hours a week. Employees with shorter working hours are considered in percentage figures. In this respect employees with a weekly working time up to 20 hours are considered as a “half employee (0.5)” and employees who work more than 20 but less than 30 hours a week as a “three-fourths employee (0.75)”.

---
1. Pregnant women and mothers up to four months after giving birth
2. Severely disabled workers
3. Employees during parental leave

The dismissal of employees who belong to one or more of these groups is either completely prohibited (as it is the case for pregnant women and mothers after giving birth) or “only permitted in exceptional cases if permission is granted by a government authority (as it is the case for severely disabled employees or employees during parental leave).

Table 2: Notice periods for dismissals in Germany

<table>
<thead>
<tr>
<th>The duration of the employment relationship when dismissal takes place</th>
<th>Notice period (in months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tenure of at least two years</td>
<td>1</td>
</tr>
<tr>
<td>Tenure of at least five years</td>
<td>2</td>
</tr>
<tr>
<td>Tenure of at least eight years</td>
<td>3</td>
</tr>
<tr>
<td>Tenure of at least ten years</td>
<td>4</td>
</tr>
<tr>
<td>Tenure of at least twelve years</td>
<td>5</td>
</tr>
<tr>
<td>Tenure of at least fifteen years</td>
<td>6</td>
</tr>
<tr>
<td>Tenure of at least twenty years</td>
<td>7</td>
</tr>
</tbody>
</table>

Source: German Civil Code (BGB) § 622 (2); periods of employment before the age of 25 are not taken into account for the calculation of the tenure. The notice period is two weeks during a probation period of a maximum of six months.

After a qualifying period of six months, all other employees are covered by the general protection rules of the law. One of the most important prescriptions of the Dismissal Protection act, besides the fact that arbitrary and unjustified dismissals are generally prohibited, is that dismissals without notice are allowed only as the exception and on certain conditions. The usual way is the dismissal with notice meaning, that statutory (or collectively/contractual agreed) notice periods have to be respected by both the employee and the employer (Table 2). The prescriptions of the Dismissal Protection Act again are legal minima that may be exceeded by collective or individual agreements. There are collective agreements in some industrial sectors (metal industry) for example, that have excluded older employees aged 53 or older from dismissals for operating reasons if they have a tenure of at least three years (Bäcker et al. 2008; 580).

Atypical employment

A last part of German labour law (as well as social law) referred to in this section is the statutory regulation of atypical employment. A In this context, three forms of atypical employment may be distinguished which are subject to specific legal conditions (either labour or social law):

---

9 Although marginal employment is not subject to special labour legislation but rather to special social legislation it is nonetheless listed in the following overview about various forms of atypical employment.
1. **Fixed-term work contracts**: In general there is an objective reason needed to employ an individual on basis of a fixed-term contract (possible reasons are that there is only temporary demand for additional employees, the respective employee functions as a substitute for another employee, the employee should work on a time-limited project etc.). Again, there are some exceptions from this general rule. An employer doesn’t need an objective reason for instance, if the particular job has a maximum duration of less than two years. Even within this period, however, an employer is not allowed to renew the employment contract on a fixed-term basis for more than three times. Furthermore persons aged 52 and older can be employed on the basis of a fixed-term employment contract without an objective reason and without any time limit, if they have been out of work for at least four months. In addition the total duration of consecutive fixed-term contracts has to be limited to a maximum of five years. A last broad exemption is the employment of scientific staff. Young researchers without a PHD working at universities, universities of applied sciences or research institutes receiving public funding, can be employed on a fixed-term basis for six years without objective reasons. Within this period they have to finish their PHD-thesis. In case they fail, they always need an objective reason (e.g. a project financed by third party funds) to get a new fixed-term contract. In case of completion in turn, the employment contract of then postdoctoral research fellows can still be carried out on a fixed-term basis for a further six years. Furthermore there is no maximum defined for the renewal of the fixed-term employment contracts.

2. **Labour leasing (Leiharbeit) or temporary agency work** was deregulated by lifting the ban on fixed-term contracts, concurrent contracts and re-employment, as well as the maximum duration of an assignment, and the EU Temporary Agency Work Directive was implemented in such a way as to give collective agreements precedence over the EU principle of *equal pay*. Employer-friendly "unions" not belonging to the German Confederation of Trade Unions subsequently agreed low wages for temporary agency workers, and it was only after lengthy legal battles that these organisations and the collective agreements concluded by them were declared unlawful.

3. **Marginal employment**: Workers with a very short duration of the employment contract of less than 50 work days or two months (irrespective of working time or income) or with a low monthly income of less than 450 € (irrespective of the duration of the work contract) are not subject to social insurance contributions which also means that they acquire no entitlements. Mini jobs are thus attractive above all for people who already have insurance from another source, e.g. through their parents or spouse, or as a pensioner or student. The employer pays a flat-rate tax, which means that earnings from mini jobs are not included in the household income tax assessment and that they are therefore not affected by tax progression, which represents a tax advantage on the one hand for second jobs and on the other – bearing in mind that the income tax systems "splits" the income of

---

10 It was not until 2012 that a procedure was introduced for setting a "wage floor" specifically for labour leasing, amounting to a modified form of an *erga omnes* rule (i.e. of general application).

11 The historical background to this system is that "housewives" were brought into the labour market when labour was scarce without disturbing the traditional male breadwinner model, i.e. by continuing to be covered by the social security entitlement of their spouse. These rules were never intended to raise the disposable income of low-paid workers or introduce incentives for unemployed people to accept work.

12 This must be seen in the context of health insurance being designed as family insurance and of survivor’s pensions still playing an important role in pension systems.
married couples (cf. Dingeldey 2002) – for the spouses of workers with medium to high incomes. Mini jobs are subject to specific social security and tax rules, but are not treated differently under labour law, so in theory protection against dismissal, fixed-term contract rules, collective agreements and statutory leave entitlement also apply to such "minimally" employed workers. In practice, however, things are different 13, and employers’ principal motive for using mini-jobs is flexibility.

iii. The collective bargaining system

It has become quite clear that the system of collective bargaining still is highly important for the regulation of the German labour market. Besides its primary function of wage bargaining it also plays a major role in shaping and improving working conditions. Its efficacy, however, strongly depends on its assertiveness. The assertiveness is directly linked to the bargaining coverage that has declined sharply over time. Figure 1 indicates that the number of workers in companies that are bound by a regional collective agreement has steadily decreased since 1998 when data were first collected, without a substantial rise in the number of company agreements.

Figure 1: Collective agreements and existence of works councils in western and eastern Germany (as a percentage of workers covered in companies with five or more employees)

Source: Ellguth and Kohaut 2013, data from IAB Establishment Panel

The number of workers whose employment relationship is not covered by any collective agreement at all thus increased from 25% to 42% in Western Germany and from 40% to 55% in Eastern Germany, between 1998 and 2012 (top and bottom segments in Figure

13 In many cases, workers are paid only for the hours worked, and leave entitlement and sick pay do not apply (RWI 2012; Federal Ministry of Family Affairs, Senior Citizens, Women and Youth 2012; Eichhorst et al. 2012).
At the same time, the proportion of workers in whose company a works council was elected has decreased, although legally it would have been possible for a works council to be elected in all the companies included here (with more than five employees). The proportion fell from 49% to 43% in western Germany and from 39% to 31% in eastern Germany (bottom three segments in Figure 1). The proportion of workers in companies without a works council and not covered by a collective agreement thus increased from 21% to 34% in western Germany and from 35% to 45% in eastern Germany (top segment in Figure 1).

This is all the more problematic if one considers that Germany does not have a general statutory minimum wage yet (Eurofound 2013). Thus the rising share of low-pay work can directly linked to the weaknesses of the collective bargaining system.

**iv. The system of vocational training**

The most important reason for the comparably high employment and low unemployment rate of young people aged 15 to 24 years is the still high importance of the vocational training system in Germany (Figure 10). In 2011, 66.6% of the employed workforce had gone through some kind of vocational training (21.9% academic education, 11.5% no formal qualification – Bosch 2014). Shifts in these proportions over time, compared to 1995, are rather small (66.4% / 18.6% / 15% in 1996). Note, however, that these data reflect the distribution of highest degrees completed within the workforce. In terms of current entries into educational careers, academic studies and apprenticeships are almost at equal level, but when vocational training in schools (mostly for non-academic vocations in the health and care sector) is included, non-academic vocational training still outnumber academic training (Wolter 2014). Apprenticeships still account for around 70% of non-academic training (Bundesinstitut für Berufsbildung 2012: 229).

Because of the high esteem for vocational training, the inability of some school-leavers to find an employer who will hire them as an apprentice is always a political issue. Therefore, there are numerous programmes in place aiming at preparing these young people for an ordinary apprenticeship or replacing the private employer with a publicly financed apprenticeship. Consequently, youth unemployment is low and large proportions of young people who are not well prepared for the labour market are somehow kept out of unemployment. Since 2006, the proportion of young cohorts in these compensatory systems has declined to around 15% in 2010/2011, reflecting increasing demand for young people on the labour market.

---

14 These figures have recently been broadly corroborated by the Federal Statistical Office, which reported 41% of workers in companies without a collective agreement in Germany in 2010 (Federal Statistical Office 2013b).

15 A respective bill, however, shall pass the German Bundestag in the first half of 2014. According to the draft bill a general cross-sectional minimum wage of 8.50 € shall be introduced on 1 January 2015.
Legally, an apprenticeship is a specific type of labour contract, and therefore it is treated like employment in labour market statistics. However, by its very nature, the apprenticeship contract is of limited duration (2 to 3½ years, depending on the trade). This implies four peculiarities of German statistics for young people: high employment rates, low inactivity rates, low unemployment rates and a high proportion of fixed-term contracts. Many apprentices stay with their employers after completing their apprenticeship. Some collective agreements foresee that apprenticeship graduates will be hired part-time and for a fixed term if their employer does not want to employ them permanently. This gives them a basis for searching jobs with other employers. This again produces low unemployment but high proportions of fixed-term jobs.

b. Demographic structure

Although the birth rate has gone below the number of deaths since the early 1970s, there has been no substantial decline in the population as a whole because life expectancy has increased simultaneously.

Table 3: Net migration in Germany; 1954 - 2013

<table>
<thead>
<tr>
<th></th>
<th>Total of persons</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Immigration</td>
<td>Emigration</td>
<td>Migration balance</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Annual average (thsd)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Former FRG</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1954 – 1969</td>
<td>456</td>
<td>325</td>
<td>131</td>
<td></td>
</tr>
<tr>
<td>1970 – 1979</td>
<td>700</td>
<td>544</td>
<td>156</td>
<td></td>
</tr>
<tr>
<td>1980 – 1990</td>
<td>673</td>
<td>478</td>
<td>195</td>
<td></td>
</tr>
<tr>
<td>1991 – 1999</td>
<td>1070</td>
<td>717</td>
<td>354</td>
<td></td>
</tr>
<tr>
<td>2000 – 2007</td>
<td>770</td>
<td>642</td>
<td>129</td>
<td></td>
</tr>
<tr>
<td>1991 - 2007</td>
<td>929</td>
<td>681</td>
<td>248</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>682</td>
<td>738</td>
<td>-56</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>721</td>
<td>734</td>
<td>-13</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>798</td>
<td>671</td>
<td>127</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>958</td>
<td>679</td>
<td>279</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>1081</td>
<td>712</td>
<td>369</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>1226</td>
<td>789</td>
<td>437</td>
<td></td>
</tr>
</tbody>
</table>

Source: Federal Statistic Office 2009; 2014a

In addition there was positive net immigration in the majority of the last 40 years (Table 3; Annex Table 13). One of the most striking findings in Table 3 is the rather positive net migration in recent years (2010 to 2013) indicating that Germany is still benefiting from the crisis by attracting more (often young) people from eastern and southern Europe.
Rising immigration to Germany, however, must not necessarily be seen as the result of an increased attractiveness of Germany as a whole or the German labour market in particular. Rather, it appears that there is a lack of alternatives for European immigrants. The steep increase in the unemployment rate in Spain, for instance, has not only induced a larger number of Spanish nationals to migrate, but it has also influenced the location choices of migrants coming from other European countries, diverting flows out of Spain into other destination countries with better economic prospects. Hence some destination countries, such as Austria, Germany and Great Britain, have received larger migration inflows in recent years as the crisis has increased its relative attractiveness compared to other potential destinations” (Bertoli et al. 2013: 4, 35; Table 4).

Table 4: Migration in- and outflows by country of origin 2013

<table>
<thead>
<tr>
<th></th>
<th>Inflows (thsd)</th>
<th>Outflows (thsd)</th>
<th>Migration Balance (thsd)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>1226</td>
<td>789</td>
<td>437</td>
</tr>
<tr>
<td>Poland</td>
<td>197</td>
<td>124</td>
<td>73</td>
</tr>
<tr>
<td>Romania</td>
<td>135</td>
<td>85</td>
<td>50</td>
</tr>
<tr>
<td>Italy</td>
<td>61</td>
<td>28</td>
<td>33</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>59</td>
<td>38</td>
<td>21</td>
</tr>
<tr>
<td>Hungary</td>
<td>59</td>
<td>35</td>
<td>24</td>
</tr>
<tr>
<td>Spain</td>
<td>44</td>
<td>20</td>
<td>24</td>
</tr>
<tr>
<td>Greece</td>
<td>35</td>
<td>14</td>
<td>21</td>
</tr>
</tbody>
</table>

Source: Federal Statistic Office 2014a

Since the beginning of the new millennium, however, both the overall population (since 2003) and the population of working age (since 2000) are decreasing. The main reason for the former trend is that the birth deficit could no longer be offset by respective gains in migration.

Table 5: Projection of the actual and future birth deficit in Germany; 2008 to 2060

<table>
<thead>
<tr>
<th>Year</th>
<th>Births</th>
<th>Deaths</th>
<th>Birth Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>683</td>
<td>844</td>
<td>-162</td>
</tr>
<tr>
<td>2020</td>
<td>660</td>
<td>948</td>
<td>-292</td>
</tr>
<tr>
<td>2030</td>
<td>580</td>
<td>990</td>
<td>-409</td>
</tr>
<tr>
<td>2040</td>
<td>522</td>
<td>1011</td>
<td>-488</td>
</tr>
<tr>
<td>2050</td>
<td>501</td>
<td>1077</td>
<td>-603</td>
</tr>
<tr>
<td>2060</td>
<td>465</td>
<td>1018</td>
<td>-630</td>
</tr>
</tbody>
</table>

Source: Federal Statistic Office 2009
The second trend is mainly driven by the fact that baby boomers have (or rather are) increasingly gone (going) to retirement. According to a projection of the Federal Statistical Office (2009) this trend will continue due to a further increase in the birth deficit in Germany (number of births – number of deaths; Table 5). This, however, doesn’t rule out the possibility of a growth of the population in the short run, like it is the case for 2012, but it will not be possible to compensate further death surpluses by any net gains in migration in the long run (Table 13).

 Besides these overall demographic trends, the developments outlined above will strongly change both structure and size of the population of working age (today 54 million), that is going to shrink and age considerably over the future years. Similar to the overall trend, the decrease of the working age population is a successive process and will clearly be perceptible from 2030 onwards, when people born before 1964 will have reached normal retirement age (Table 6). According to the projections of the Federal Statistical Office the demographic change will result in a 27% fall in the population of working age until 2060.16 In turn, increasing the retirement age from 65 to 67 years would enlarge the working-age population by a maximum of 2 million people until 2060.

Table 6: Working Age Population aged 20 to 64 years; 2008 - 206017

<table>
<thead>
<tr>
<th>Year</th>
<th>Upper Limit of the Projection</th>
<th>Lower Limit of the Projection</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Millions of people</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>2020</td>
<td>48</td>
<td>48</td>
</tr>
<tr>
<td>2030</td>
<td>42</td>
<td>43</td>
</tr>
<tr>
<td>2040</td>
<td>38</td>
<td>40</td>
</tr>
<tr>
<td>2050</td>
<td>36</td>
<td>39</td>
</tr>
<tr>
<td>2060</td>
<td>33</td>
<td>36</td>
</tr>
</tbody>
</table>

Source: Federal Statistic Office 2009

The most striking characteristic of the socio economic structure of Germany surely is the still existing difference between the former Western part and the former Eastern part of Germany. This becomes particularly evident in the still existing income disparities between East and West Germany.

---

16 This is a rather positive projection of population development, because this respective development will only apply, if annual net immigration is at least 200,000 people. In case of a lower net immigration the decrease will be much stronger (e.g. the working age population will decline by more than one third, if there is a net immigration of "only" 100,000 people.

17 Deviations between the respective values in Table 6 and Table 13 are due to a different definition of the working age population. In Table 6 working age population is defined as the total of people aged between 20 and 64 years. The respective age bracket in Table 13 is 15 to 64 years.
While average annual gross earnings per employee in West Germany exceeded 37,000 € in 2013, the respective value in East Germany was still below the threshold of 30,000 €. Furthermore, these discrepancies have remained more or less stable since the mid-1990s (Figure 2; Bäcker und Jansen 2009; Jansen 2011a, 2011b). One central reason for these still existing discrepancies is both the low trade union density and the even lower amount of companies being member in an employers association in the Eastern part that can directly be linked to a very low assertiveness of the respective trade unions (Ellguth and Kohaut 2013). A second bundle of reasons are related to considerable differences in the economic structure of both regions. These differences include significant dissimilarities regarding the importance of particular sectors of the, differences regarding company size on and differences in the export strength of companies in the Eastern and the Western part. In this respect Table 7 indicates that a considerably higher proportion of employees in West Germany are working in business sectors that incorporate a comparably high level of value added, like the manufacturing sector and the skill-intensive business services. Taken together nearly 40% of the West German employees are employed in those sectors; the respective proportion in East Germany is about one third. In contrast the share of employees working in sectors which incorporate a relative low level of value added like hospitality or cleaning is considerably higher in East than in West Germany. In addition a higher proportion of East German workers are employed in the non market related service sector, like civil service or health and social-service in which wages usually are lower than in the skill-intensive business sectors despite the fact that they are just as or even more skill-intensive than the market-related services.
The differences in the sectoral composition, however, do not explain the significant differences in average monthly wages within the respective sectors shown in Table 7. The main reason for these discrepancies can be seen in differences in the required skill levels of the employees meaning, that the skill-intensive jobs in the manufacturing sector are mainly concentrated on production sites located in West Germany, while comparably lower skilled, executing tasks are more concentrated on East German production sites. This corresponds to a strategy of West German companies to gain from the lower wage level in the Eastern part of Germany - often characterised as an 'extended workbench' (Bäcker and Jansen 2009; Jansen 2011a, 2011b).

Differences in company size are a further explanation for the still existing discrepancies in the wage levels between East and West Germany. Table 8 highlights that, in comparison

---

18 Banking, Insurance Industry, Real Estate, Consulting etc.

19 Security, Cleaning etc.
to West Germany, relatively high proportion of East German employees work in a small or medium sized company (48.4% compared to 43.3% in West Germany).

Table 8: Distribution of employees by establishment size in East and West Germany, 2009

<table>
<thead>
<tr>
<th>Company Size</th>
<th>West in 1000 (% of total employment)</th>
<th>East in 1000 (% of total employment)</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 10 employees</td>
<td>4,843 (17.3)</td>
<td>1,295 (20.8)</td>
</tr>
<tr>
<td>10 to 49 employees</td>
<td>7,284 (26.0)</td>
<td>1,716 (27.6)</td>
</tr>
<tr>
<td>50 to 249 employees</td>
<td>7,330 (26.2)</td>
<td>1,771 (28.5)</td>
</tr>
<tr>
<td>250 and more employees</td>
<td>8,561 (30.6)</td>
<td>1,440 (23.1)</td>
</tr>
<tr>
<td>Total</td>
<td>28,018 100</td>
<td>6,222 100</td>
</tr>
</tbody>
</table>

Source: Bechmann et al. 2010: 118

In contrast the proportion of employees working in a large company with 250 and more employees is considerably higher in West Germany (30.6% compared to 23.1% in East Germany). Company size could have an impact on wage levels or the degree of atypical employment because trade union density is much lower in small than in large companies.

Figure 3: Annual gross earnings per employee in selected Federal States of Germany (full-time, part-time employees); without marginal employment; 2003 to 2013

Source: Volkswirtschaftliche Gesamtrechnungen der Länder (VGRDL)
A last aspect worth mentioning in this chapter is the fact that there are not only large differences between the Eastern and the Western part of Germany, but that there are also rising discrepancies between the different Federal States in the Western part. The rising differences are best illustrated along the development of the average annual gross earnings per employee already used to illustrate the differences between the Eastern and the Western part (Figure 3). Of particular note is that the relative position between the different Federal States in the Western part of Germany remains remarkably stable over time. Hamburg and Hessen had already been the two Federal states with the highest annual gross earnings per employee in 2003. The same is true for Schleswig-Holstein and Lower Saxony, the two Federal States with the lowest annual gross earnings per employee. What has changed over time is the absolute difference between the respective Federal States. While there was a discrepancy in annual gross earnings of about 6,100 € between Hamburg and Schleswig-Holstein in 2003 for instance, the respective difference was 8,145 € in 2013.

d. Processes and actors of policy-making and policy implementation

Germany is a federal state made up of 16 regional states of very uneven size. Legislative matters relevant to our subject (the issues dealt with under an Institutional setting) are mostly prerogatives of the national parliament, but the second chamber representing the regional states can veto legislation affecting them. As a rule, national laws are carried out by the regional states; the national state maintains hardly any executive agencies on the ground. For example, policemen and tax collectors are employees of the regional states even though they carry out national laws. Regional states not only employ teachers and professors, but they are also responsible for educational policies (except vocational training), which creates regional differences in school systems. There is no immediate accord possible between social and employment policies on the one hand and educational policies on the other. If, for example, regional school systems fail to equip all young people with appropriate basic education, national budgets will have to bear the larger part of subsequent employment problems.

Social security is in large part organized as social insurance, institutionally divided along the lines of fundamental risks in life: illness, old age, unemployment, work accident, and need of nursing care. The unemployment insurance fund operates also as the public employment service. All social insurance institutions operating country-wide by their nature are subject to federal legislation and supervision. They collect their revenues from employers and employees as contributions levied on wages. Their budgets are not part of the national government’s budget, though they may receive subsidies from the national budget for responsibilities of general societal interest, beyond the immediate risks insured. Social insurance funds are bodies of public law, self-governed by the social partners. The national government has no discretionary or managerial powers over the insurance funds. This is why legislation on social and employment policies is meticulous and detailed: law (legislation as well as decrees the specific possibilities of which must be defined in law) is the government’s only way of steering the social insurance
institutions. Decentralisation of statehood to the member states as well as the institutionalization of social security in social insurance bodies explains why the national state is rather small in terms of numbers directly employed (only 13% of all public employees – social insurance bodies employ 7%) and why law has such a preponderant role in social and employment issues.

The story of decentralisation and self-government continues when focussing on the next level, the member states with their 43% of public employees. Though the states are responsible for education and employ the teachers, it is the municipalities who are responsible for school infrastructure including ancillary staff. They run or guarantee most in-kind social and educational services like the youth welfare office or the community college. Childcare facilities are usually a mix of facilities run directly by the municipality and by charities. With 37% of all public employees, the municipalities are almost as sizeable as employers as the state administrations.

Social assistance for people unable to support themselves and without any (sufficient) entitlement to social insurance used to be a fully municipal responsibility. As a consequence of the Hartz reforms, the federal government assumed responsibility for needy persons of working age and considered able to work (see p. 5 for the new benefit), as well as for their children, at least as far as their living allowance is concerned; a large part of the housing costs lies still with the municipalities. As a consequence, responsibilities for servicing these recipients (now the majority of the unemployed in Germany) in so-called jobcentres are distributed in rather bizarre ways: In three quarters of the territories, the respective local branch of the public employment service forms a 'joint facility' with the municipal administration; in on quarter of the territories, the municipality runs the jobcentre alone (see Knuth 2009 for details).

With regard to the provision of social and health services, there is a strong tradition of charities, those of the churches being quite important. The role of church charities is related to religious pluralism and compromise which ended religious wars in 1648. Later, it was the precondition of nation-building from petty states in which populations once followed the creed of their prince. Since not the state but the churches were supposed to be responsible for people’s souls, nobody was to be forced to die in a state or municipal hospital or to attend a public kindergarten but should have a choice between institutions of his creed – or later, even political affiliation. This is why still today the public employment service only offers basic services like counselling and job placement but commissions training or long-term activation to providers. The strength of the charities may be highlighted by the fact that they together have more employees (1.8 million) than the municipalities (1.1 million). The decentralisation of service provision (in the case of charities with their traditional roles not adequately to be understood as ‘privatization’) explains why the percentage of public employees is relatively small in Germany by international comparison.

As for collective bargaining, we refer to iii. (p.11).
Part Two

ii. Current labour market situation

a. Employment and unemployment situation

The development of the German labour market looks particularly positive in view of the unemployment rate in a longer period. From the early 1980s until 2005, the unemployment rate climbed from one economic cycle to the next: when growth was weak or even negative, unemployment surged, but when the economy picked up again unemployment did not return to its previous level. This pattern seems to have been broken now. After 2005 the unemployment rate declined more or less steadily and reached in 2012 almost the pre-unification level of 1990 (Figure 4).

Figure 4: Average yearly unemployment rate and changes in GDP 1983-2012; in percent

The term “jobs miracle” (Krugmann 2009) was first applied to Germany when the most severe recession since 1929 caused a decline in GDP of around 5% in 2009 with no substantial rise in unemployment rates (neither a rise of inactivity rates (Figure 30 in Annex 2) The increase in unemployment in Germany during the recession was in fact one of the lowest among the countries of the EU, amounting to just 0.3 percentage points between 2008 and 2009 (compared with an EU 28 average of 1.9 percentage points). The exceptional position of Germany during the European crisis becomes even more apparent when taking a wider observation period into account. While unemployment rose within the EU 28 about 3.5 percentage points (from 7.1 % to 10.6 %) between 2008 and 2012, it

declined in Germany from 7.6% to 5.6% (-2.0 percentage points). This occurred while economic growth rates were at levels that had been compatible with rising unemployment rates in earlier periods. Thus, any "miracle" on the German labour market is due not to stronger growth but to a heightened responsiveness of the employment as well as the unemployment level to actually only modest growth triggers. Just in passing it may be noted that Germany needs extreme export surpluses in order to maintain only moderate growth rates which raises some doubts with regard to the sustainability of this trajectory.

For the description of particular trends it is useful to consider regional peculiarities. Thus we have disaggregated Germany into five larger regions. This regional classification is not common in Germany – neither in academic nor in political debates - but an own construction in order to spare the reader dealing with 16 federal states (for details see Annex 1).

Figure 5: Unemployment rates at regional levels 2000 - 2012; Germany; in percent

Whereas the general cyclical pattern of developments in the five regions is strictly parallel, there are clear regional differences both with regard to unemployment levels in general and the impact of the economic crisis since 2008. We find higher unemployment in the east, which is identical with the former German Democratic Republic except for former West Berlin which was economically not very viable either. However, beginning from 2005, 15 years after the unification, the gap between the east and the west is clearly narrowing, and the east's weakness in global exports turned out to be a strength in the
financial crisis which hardly affected the east at all. Accordingly those regions with a comparably high share of exporting manufacturing firms were the main victims of the world recession (Figure 5).

“The economic crisis has had a differing degree of impact on the branches of industry. There was a big decline in employment in the manufacturing industries, employee leasing (temporary employment) [...], transport and logistics and the fields of information and communications. In contrast, the areas of education as well as child, health and social care have registered continuing sharp rises in employment [...]. The hospitality industry (hotels and catering) has also been unaffected by the crisis.” (Federal Employment Agency (Bundesagentur für Arbeit 2009: 6)

Figure 6: Employment and unemployment rate in the EU 28 and Germany 2000 to 2012; in percent

This becomes particularly obvious in Table 11 (Annex 1). Federal states with a particular low share of exporting firms in manufacturing, transport or logistics like Mecklenburg - West Pommerania (-0.4%; East), Berlin (-2.4%, East) and Schleswig-Holstein (-2.7%, North) experienced a comparably modest decline in GDP in 2009 (compared to 2008). The opposite pattern appears in the federal states with large industrial locations, like Baden-Württemberg (-8.8%, South) or the Saarland (-10.0%, Southwest), which show an above average decline in GDP between 2008 and 2009. The
decline of the GDP in Hesse (-7.7%, Southwest) was mainly caused by the financial crisis of the banking sector with Frankfurt as one of the financial capitals in Europe.

While the numbers presented so far already have illustrated the fundamental change in Germany’s labour market over the past seven years, Figure 6 in addition highlights the significant difference to the overall employment trend in the EU 28. While the trend over time for the latter shows the combination of a rise in the unemployment rate on the one hand and a corresponding decline in the employment rate between 2008 and 2012 on the other hand, the increase of the unemployment rate in Germany was comparably small and limited only to 2009, and it went along with a still rising number of people in work (Figure 6). Between 2005 and 2012 the employment rate increased by 7.3 percentage points and hit a historic high of nearly 73% (in 2012).

b. Unemployment situation

This has been treated in conjunction with employment. This is only a place holder inserted in order to have the standard numbering of paragraphs.

c. NEET’s situation

Please refer to p.37: We have dealt with this as a subsection of the 'young' vulnerable group. We do not see much sense in taking them out of the context here.

d. Contracts and working hours

Figure 7 shows some developments underlying this new trend: The population of working-age has been shrinking since as far back as 2000, but the number of people in work has been rising since 2005 (and also during the previous cycle from 1997 to 2000) in a counter-movement, resulting in a historic high of the employment rate in 2012. Until about 2006, the number of total hours worked (the volume of work) was decreasing, a trend that seems to have been reversed since with 2009, however, being an exception.
An important intervening factor is the reduction of average annual working time of those in work\textsuperscript{20}, as shown in Figure 8 in regional disaggregation. In sum, more people are sharing a 'pie' of work that has, for the time being, ceased to shrink. At the same time, the population of working age is decreasing, which makes for higher employment rates and lower rates of both unemployment and inactivity even though economic growth rates are only moderate.

Looking at average individual working hours per year in regional disaggregation, there are again only slight differences in the cyclical patterns but some difference in levels (Figure 8). Average hours are somewhat higher in the east which reflects different regulations in regional collective agreements, lower coverage by collective agreements (cf. Figure 1) and lower shares of part-time work including marginal employment, the latter tracing back to more gender-equal employment patterns in the erstwhile German Democratic Republic and better childcare provision even today. In other words, much of the higher unemployment rate of the east (cf. Figure 5) would disappear if part-time work were to become as common in the east as it is in the west.

\textsuperscript{20} The distribution of working time in Germany is very uneven, especially with respect to gender. Within Europe, the gender working-time gap is greater only in Austria, Ireland, the United Kingdom and the Netherlands. Comparing the working-hours profiles of men and women in the United Kingdom, Germany, Sweden and Slovenia, only in the United Kingdom was the proportion of women in "very short" part-time work (under 20 hours) higher than in Germany (Kümmerling 2013, p. 5).
Whereas the crisis of 2008/2009 hardly affected unemployment (Figure 5) or employment (Figure 7), it clearly left its mark on average working time. The shock of the crisis was absorbed primarily by internal adjustment of working hours. The reduction of working hours was in part compensated by short-time allowances; another part was managed by decreasing balances in working time accounts.

Figure 8: Average annual working hours 2000-2012 per worker in the five German regions

Source: Federal Statistical Office 2014; Volkswirtschaftliche Gesamtrechnungen der Länder (VGRDL)

In the former case, workers received wage replacements for hours lost from the unemployment insurance fund, possibly supplemented by employers’ payments; in the latter case, workers would receive their full pay for overtime hours they had already worked and ‘put in the bank’. This flexibility was possible since in the course of the economic upswing between 2005 and the first half of 2008 a noteworthy surplus of working hours had been accumulated on these accounts (Möller 2010: 331). Thus there was a sizeable buffer stock of working hours available at the onset of the crisis and “firms could react to the crisis by pushing their workers to reduce their surpluses or even to accumulate deficits” (Möller 2010: 332). In the period under consideration, the long-standing decline in average working hours does not result from reductions of the full-time standard. Rather, it reflects an increase of ‘atypical’ forms of employment. In particular
the increase in marginal employment\textsuperscript{21} (so called “mini-jobs” earning no more than 450 Euros per month now, 400 Euros during the period under consideration; see Figure 9) and “solo-entrepreneurs” explains how the total number of persons in gainful employment and the number of employees paying social security contributions drifted apart until 2005; the latter have only been rising again since 2007. This trend is reinforced by the fact that total hours worked apparently stopped falling in 2006 (cf. Figure 8).

Figure 9: Workers in atypical employment and in standard employment relationships 2000-2012; in millions\textsuperscript{22,23}

Taking full time workers subject to social insurance contributions as the reference for the ‘standard employment relationship’, Figure 9 shows how their numbers declined by 2.1 million (-8.8\%) until 2006, while the number of workers in atypical employment considerably rose by the same amount (+20.0\% compared to 2000). The strongest increases in absolute numbers can be observed in the group of part time workers subject to social insurance contributions (+600,000 persons) as well as in the group of workers

\textsuperscript{21} Marginal employment is better known as “mini-jobs”. At present workers in marginal employment are allowed to earn up to 450 € without the obligation to pay taxes or social security contributions. Thus, the gross income equates to the net income. Employers on the contrary have to pay contributions to the statutory health insurance (13\%) as well as to the statutory pension insurance (15\%) plus a flat-rate income tax of 10\%.

\textsuperscript{22} Break in time series between 2011 and 2012 for the groups of the full- and part-time workers subject to social security contributions.

\textsuperscript{23} For workers in marginal employment displayed in Figure 9, the “mini-job” is their only job – mini-jobs as second jobs exist in considerable numbers but are excluded in this account of persons’ employment status.
in marginal employment as their only job (+700,000 persons). The largest relative rise took place in the group of the temporary agency workers which doubled between 2000 and 2006. This overall trend in the German labour market continued after 2006. Subsequent to a temporary increase between 2007 and 2011 (including a comparably small decline between 2008 and 2009) the number of full time workers subject to social security contributions in 2012 was on the same level as in 2006. The same is true for people in marginal employment. In contrast, the number of workers with a fixed-term contract (+100,000) as well as the number of temporary agency workers (+300,000) is substantially higher than 2006. The strongest increase however, can be observed in the group of part time workers who are subject to social security contributions. Their total amount rose from 2007 to 2011 by 1.2 million people (+26.7%). Hence, the positive labour market trends in Germany since 2005 are primarily based on the strong increase of atypical forms of employment.

Problems associated with atypical employment are not confined to lower job security (which, by the way, does not apply to part-time covered by social insurance) or to proportionally lower earnings (and accordingly lower pension claims in the German system of earnings-equivalent social insurance) for part-time workers. Rather, atypical forms of employment are strongly related to low hourly wages in Germany and thus to the substantial growth of the low wage sector.

### e. Wage levels

Table 9 indicates that the share of low pay workers is highest among workers in marginal employment and that it increased markedly over time from 67.2% in 2001 to 71.2% in 2011 (+ 6.0%). An above average share of low pay workers can also be seen in the group of persons employed under a fixed-term contract. In 2011 more than 40% of this group received an hourly income below the respective low wage threshold. Furthermore, the considerable increase of low pay workers within this group since 2001 is conspicuous (+9 percentage points or 28.2%).

Summing up the brief overview about general employment trends over time, the picture is ambiguous. From a purely quantitative perspective, the German labour market seems to be highly resilient. Even in the worst economic crisis since 1929 employment participation rose, the inactivity rate declined and unemployment moved up only marginally.

"Hence, the German economic miracle can be described as one of a stable labour market in 2009 and beyond, where employment stayed high and unemployment moved up only marginally with lower working hours per person - in spite of a substantial output decline." (Rinne and Zimmermann 2012: 4)

The concept of resilience, however, focuses not solely on the quantity of jobs as well as the level and duration of employment and inactivity but also takes the quality of jobs created or secured over time into account. If the development of atypical employment and
low wage work is also considered, the conclusion becomes less clear because the decline in unemployment and the increase in employment did not go along with a rise in well-paid and secure jobs but rather with a substantial increase of atypical employment and low wage work – especially on the margins of the labour market. Hence it can be concluded that a rising employment rate/a shrinking unemployment rate is not synonymous with an increase in decent employment in terms of sufficient wages and/or a fair length of the weekly working time to realise a sufficient monthly income.

Table 9: Share of low pay workers within particular groups of employed persons 2001 and 2011; in % of the respective group

<table>
<thead>
<tr>
<th>Group of employed persons</th>
<th>2001</th>
<th>2011</th>
<th>Change in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sex</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>14.5</td>
<td>18.6</td>
<td>28.3</td>
</tr>
<tr>
<td>Female</td>
<td>29.9</td>
<td>29.6</td>
<td>-1.0</td>
</tr>
<tr>
<td>&lt; 25 years</td>
<td>48.7</td>
<td>60.6</td>
<td>24.4</td>
</tr>
<tr>
<td>25 to 34 years</td>
<td>20.3</td>
<td>24.5</td>
<td>20.7</td>
</tr>
<tr>
<td>35 to 44 years</td>
<td>17.2</td>
<td>18.6</td>
<td>8.1</td>
</tr>
<tr>
<td>45 to 54 years</td>
<td>16.4</td>
<td>16.4</td>
<td>0</td>
</tr>
<tr>
<td>55 years and older</td>
<td>26.4</td>
<td>28.1</td>
<td>6.4</td>
</tr>
<tr>
<td>Citizenship</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nationals</td>
<td>21.3</td>
<td>23.3</td>
<td>9.4</td>
</tr>
<tr>
<td>Non nationals</td>
<td>23.5</td>
<td>31.1</td>
<td>32.3</td>
</tr>
<tr>
<td>Kind of work contract</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed-Term</td>
<td>31.9</td>
<td>40.9</td>
<td>28.2</td>
</tr>
<tr>
<td>Not limited</td>
<td>16.4</td>
<td>18.3</td>
<td>11.6</td>
</tr>
<tr>
<td>Working Time arrangement</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marginal employment</td>
<td>67.2</td>
<td>71.2</td>
<td>6.0</td>
</tr>
<tr>
<td>Part-Time</td>
<td>25.5</td>
<td>23.1</td>
<td>-9.4</td>
</tr>
<tr>
<td>Full-Time</td>
<td>13.7</td>
<td>15.6</td>
<td>13.9</td>
</tr>
<tr>
<td>Total</td>
<td>21.4</td>
<td>23.9</td>
<td>11.7</td>
</tr>
</tbody>
</table>

*Source Kalina and Weinkopf 2013: 6*

Furthermore these overall labour market figures do not say much about the labour market developments of particular vulnerable groups like young and older employees, migrants and severely disabled. Table 9 gives some indications that vulnerable groups have a higher risk of being part of the low pay sector than other groups on the labour market and that their risk considerably increased over time. This is particularly true for young employees (<25) and non-nationals. The latter group experienced the sharpest rise in the share of low paid workers. The respective share of non-nationals, working for a wage below the respective low-wage threshold rose from 23.5% in 2001 to 31.1% in 2011, an increase of 7.6 percentage points. Therefore it must be examined whether vulnerable groups on the labour market were hit more strongly by unemployment or were forced more strongly into inactivity or costly early retirement than other groups of employed people in the course of the crisis. That will be done in the following section.
f. Vulnerable groups

In the following section we take a closer look at some particular groups on the labour market who are often characterised as “vulnerable”, meaning that they have a higher risk to become unemployed and/or to stay in unemployment for a longer time period than other groups. In addition, some of the examined vulnerable groups, like the disabled and the lone parents, have problems to enter the labour market at all - the former group because of physical or mental limitations, the latter one primarily due to limitations with regard to working times and the corresponding limitations in finding adequate child care facilities. In the following section, the five vulnerable groups are defined in more detail. After this brief introduction, some overall statistical figures about the labour market development of the respective groups are shown and discussed (Section 4.2).

i. Vulnerable groups on the German labour market – a brief characteristic

Overall we are taking a closer look at five vulnerable groups:
1. Young people on the labour market aged between 15 and 24 years.
2. Older people aged between 55 and 64 years. Since the end of the 1970ies, labour market problems of this group were largely covered up though extensive use of early retirement schemes. However, nearly all former pathways to early retirement were phased out gradually since the beginning of 2000. Thus, it is of interest, how the group of older people master the institutionally forced prolongation of their working lives.
3. Migrant workers are a rather large group on the German labour market if we consider both non-nationals and nationals with migrant backgrounds who were either born abroad or whose parents were born abroad. German citizenship of the latter group derives from descent (German repatriates from Eastern Europe and the former Soviet Union), from naturalization, or (only recently, after citizenship reforms) from being born inland. However, the internationally comparable data of EUROSTAT do not allow such far-reaching differentiations. Thus, the bulk of statistical evidence presented and discussed here distinguishes only nationals and non-nationals.
4. A second sizeable group is the disabled. Besides the rather rough differentiation between disabled and severely disabled people, it would be quite useful to differentiate between physically or mentally disabled people on the labour market as well as between people who are born disabled and people who had become disabled in the course of their lifecourse or rather their employment history. For the latter group, it is also of importance, at what age they had become disabled. However, the existing statistical data do not allow such fine distinctions.
5. The vulnerability of the last labour market group focused on in this report is mainly based on the fact that the German welfare state still follows the tradition of a (modified) breadwinner model – in theory, irrespective of whether the woman or the man is the breadwinner. This is a consequence of the still high importance of Christian-democratic parties and the still existing belief within these parties that the family has to be the prior entity to fulfill care obligations. The corresponding lack in child care facilities and the
resulting working time restrictions make it particularly difficult for single parents to reconcile family responsibilities with working life.

\[ \text{ii. Some technical statistical information} \]

\textit{Employment}  

Employment is reported according to the labour force survey standard: a person is employed if reporting to have worked at least one hour during the preceding week. In addition, in the German institutional context, there is the narrower category of employment covered by social insurance. This excludes civil servants, self-employed and mini-jobbers (employees in marginal employment earning 450 € or less. Part-time jobs are covered by social insurance if earnings exceed this threshold.

\textit{Unemployment}  

Unemployment is reported according to the labour force survey standard: a person is unemployed if reporting to have not been gainfully employed at all, actively searching a job and available at short term. However, some disaggregated data for unemployment are only available from the national unemployment register. The national administrative definition is wider: A person is unemployed if not gainfully employed for 15 hours per week or more, actively searching for a job of 15 hours or more, and available for job placement by the Federal Employment Agency.

The empirical overlap between the two concepts is described for 2010 by the Federal Statistical Office like this:

\begin{tabular}{|c|c|c|}
\hline
unemployed only by international standard & unemployed by both standards & unemployed only by national standard \\
\hline
0.8 million & 2.1 million & 1.5 million \\
\hline
2.9 million & & 3.6 million \\
\hline
\end{tabular}

Numerically, there was a difference between the two concepts of 700,000 persons; however, incongruence between the two definitions added up to 2.3 million which is more than the two concepts’ intersection of 2.1 million. Data collection through a survey versus administrative register makes also a difference when identifying long-term unemployment: In the national count, unemployment is interrupted by periods of illness, taking part in labour market programmes, or failing to report to the office. In the survey, respondents are likely to omit such episodes when stating for how many years they have been searching for a job.

\[ \text{iii. Employment trends for vulnerable groups} \]

In the following section the labour market development of the respective groups is in the main focus. The analysis starts with the groups that are characterised as vulnerable
because of their age, namely the young and the older people and proceeds in numerical order.

The position of young people on the labour market

When comparing the European countries at the beginning of 2000, Germany can be characterised as a country that combines a comparatively high employment participation of young people aged 15 to 24 years with a low unemployment as well as a comparatively low long-term unemployment rate of the respective age group. This becomes particularly evident in Figures 7 to 9 in which the data for Germany is compared to the respective numbers in the EU 28. Firstly, it shows that in 2000 the employment rate of young people in Germany exceeded the respective EU 28-rate by 9.1 percentage points (46.1% in Germany compared to 37.0% in the EU 28). Secondly, the unemployment rate was nearly 10 percentage points lower than the respective EU 28 rate (8.5% in Germany and 18.3% in the EU 28). Thirdly, the proportion of long-term unemployed as a percentage of all unemployed persons of this age group was also considerably lower in Germany (23.5% compared to 34.0% in the EU 28 – a difference of 10.5 percentage points; Figure 10).

Figure 10: Employment- and Unemployment Rates of the population aged 15 to 24 years; Germany and EU 28; 2000-2012; in percent

All these gaps, however, narrowed considerably between 2000 and 2005. In the latter year, the difference in the employment rates between the EU 28 and Germany was merely 6 percentage points; the difference in the unemployment rate only 3.2 percentage points and the difference between the respective proportions of long-term unemployed even
only 0.8 percentage points (compared to 10.5 percentage points five years earlier). The reason for this successive approximation, however, was not a boost in the employment participation of young people or a significant decline in youth unemployment or long-term unemployment in the EU 28 – all three rates remained more or less stable over time, but a sharp increase in youth unemployment (from 8.5% in 2000 to 15.5% in 2005) and long-term unemployment (from 23.5% to 31.8%) in Germany during the recession years between 2002 and 2005 (including years with comparatively low growth rates in GDP; Figure 4). The boost in (long-term) unemployment and long-term unemployment was accompanied by a significant decline in the employment rate (from 46.1% to 41.9%).

The rather positive labour market development in Germany after 2005 led to a more or less steady decline in the unemployment rate of young people from 15.5% in 2005 to 8.1% in 2012. Between 2008 and 2009, however, it increased by 0.6 percentage points, while the respective increase for the people aged between 25 and 64 was 0.2 percentage points. Hence young people had suffered a bit more from unemployment during the worst period of the crisis than the working population between 25 and 64 years. The increase, however, was relatively small compared to the increase on the overall EU 28-level (+ 4.3 percentage points).

Figure 11: Long-term unemployment rates of different age groups; persons aged 15 to 24 years and 15 to 64 years; Germany and the EU 28; 2000-2012; in percent

Source: EUROSTAT 2014; 2000 + 2001 = EU 27
The long-term unemployment rate also declined steadily since 2007. In 2012, it was nearly on the same level than in 2000 (23.5%) – again a significant difference to the development for all age groups. The overall long-term unemployment rate in 2012 lay considerably below the respective rate in 2000 (-6.1 percentage points). The same is true for 2008/2009, the harshest years of crisis. The long-term unemployment rate declined for both groups under consideration between the two years, but the decline was much faster for all ages (-7.0 percentage points compared to -2.0 percentage points for the young people; Figure 11).

The development of the employment rate points in the same direction. Since 2006 it increased more or less steadily up to a millennium high of 47.9%. Between 2008 and 2009, however, it declined by 0.6 percentage points (from 46.6% to 46.0%) while the respective employment rate for all ages had further increased (Figure 6). In addition the employment rate of young people decreased between 2011 and 2012 (from 47.9% to 46.6%). This actual decline is quite surprising because the overall figures for Germany show a slight increase in the overall employment rate within the respective time period.

One explanation is a rising share of young people taking up studies instead of vocational training over time (Wolter 2014) and therefore, unlike apprentices, not counted as gainfully employed.

Figure 12: Unemployment Rates and unemployment gaps of young people (15-24 years) and people aged between 25 and 64 years; EU 28 and Germany in comparison

Source: EUROSTAT 2014; 2000 + 2001 = EU 27
Taken all reported differences into account and bearing in mind that the growth in GDP was also comparatively low between 2011 and 2012 one can conclude that both, the employment- and the unemployment/long-term unemployment rate of young people reacts a bit more sensitive to the respective economic downswing than the respective rates for older age groups. In other words: Despite the fact that, taken on its own, the labour market position of young people has improved significantly since 2000 and can be described as rather favourable compared to the respective position of young people on the overall EU 28-level\textsuperscript{24}, the comparison between the young people on the one hand and the people of all ages on the other hand leads to the conclusion, that young people on the labour market suffered a bit more during the crisis. This becomes even more evident, if a longer observation period, a second comparison group and the development in relative terms (the unemployment gap) is taken into account.\textsuperscript{25} In this respect Figure 12 shows the development of the unemployment gap between the young people on the one hand and the people aged 25 to 64 years on the other hand. The gap had increased continuously over time and reached a millennium high of 1.6 in 2012. This means, that the unemployment rate of young people was 1.6 times higher in 2012, than the respective rate of the people aged 25 to 64 years. Thus, while the absolute difference between both the employment and unemployment rate in the EU 28 and Germany has grown since 2000 (Figure 10), the relative difference between the unemployment gaps have declined over time (a difference of 1.2 in 2000 compared to a difference of 0.9 in 2012).

Figure 13 shows one particular reason for the nonetheless positive labour market development for young people since 2005 (rising employment rate; declining unemployment- and long-term unemployment rate) by indicating, that the increase in employment went along with a considerable rise in the share of young people working part time. Between 2000 and 2012 the proportion of part-time workers among the young people in employment had increased by nearly 10 percentage points (from 12.0% to 21.7%). However, the increase is smaller than the respective increase in the part-time rate for all ages (Figure 13). Hence there are no hints that the significant increase in part-time work shown in Figure 9 is at the expense of young people only.

\textsuperscript{24} In contrast to this comparatively positive development in Germany, youth unemployment had been rising sharply in the EU 28 since 2008. Between 2007 and 2012 the unemployment rate of young people aged 15 to 24 had increased by more than 7 percentage points, reaching a new millennium high (22.9\%) in 2012. This sharp increase in unemployment was accompanied by a decline in the employment rate of young people in the EU 28 (from 37.3\% in 2008 to less than one third in 2012). These opposing trends in Germany and the EU 28 led to the fact, that the gap between the respective rates in Germany and the EU 28 is actually considerably wider than in 2000 (Figure 12).

\textsuperscript{25} In order to measure the gap we take the ratio of the two unemployment rates, not their absolute difference since that would be misleading. Here, the ratio between the unemployment rate of the young people aged 15 to 24 years on the hand, and of people aged 25 to 64 years on the other hand is taken into account.
Demography is a second important reason. According to Möller (2010: 333), German companies were already lacking of qualified staff during the two worst recession years 2008 and 2009 and respectively keen to keep their already existing labour force even during an economic crisis (labour hoarding strategy).26

“Export manufacturers are known for their specialized and highly trained workforce. For a typical firm this is an enormous asset. This firm-specific human capital would be lost in case of dismissals. In a recovery search, hiring and training costs for professional workers are by no means trivial. This will be aggravated in the future because the recruitment of skilled workers of this category will probably become more and more difficult given Germany’s demographic prospects. Therefore, firms are interested in keeping their core workforce stable. If faced with a temporary demand shock they will likely choose a strategy of labor hoarding.” (Möller 2010: 333)

Furthermore there is growing need to get a sufficient piece of the shrinking pie of young, qualified people (Federal Ministry of Education and Research 2009: 52; see Table 6 and Table 13 in the Annex for the demographic details).

“The skills shortage is going to increase the usability of vocational training and job related skills and qualifications in the short-term until 2015. According to national experts this means better employment opportunities for qualified

---

26 It is obvious that this demographic reason is not limited to young people.
young employees.” (Own translation of Federal Ministry of Education and Research 2009: 52)

**NEET’s situation**

Even though employment and unemployment figures are key indicators to describe the labour market situation of the working age population or rather particular groups of the population of working age, they only provide an imperfect view of youth’s labour market situation because it does not provide any information about young individuals outside the labour force. In this context two additional groups can be identified, namely those aged 15 to 24 years (or rather 18 to 24 years) who are still in the educational system (school, school-based VET or university) and the so called NEETs. This category refers to those young people who are neither in employment nor in education or training and thus not only economically, but completely inactive.

Figure 14: NEET rates in the EU 28 and Germany; 15-24 years and 18 to 24 years; 2004-2013

![Graph showing NEET rates in the EU 28 and Germany; 15-24 years and 18 to 24 years; 2004-2013](image)

Source: EUROSTAT 2014

Figure 14 shows how this rate evolved in Germany and the EU 28 from 2004 to 2013 among young people aged 15 to 24 years (orange and red line) and 18 to 24 years (brown line).

---

and green line). The trends and differences between the two regions turn out to be similar to those observed for the employment and unemployment rate. However, there are two aspects which should be mentioned. First, there is in both the EU 28 and Germany a clear difference in the NEET-rate of young people aged 15 to 24 years on the one hand and those aged 18 to 24 years on the other hand that can mainly be explained by the fact that most of the young people aged 15 to 17 still attend school.

The second interesting aspect is the changing relation between the respective NEET-rates in the EU 28 and Germany. While there was only a marginal gap in the NEET-rate for the age group 18 to 24 years between the EU 28 and Germany in 2004 (1.9 percentage points) and especially in 2005 (0.6 percentage points) for instance, this gap has considerably risen to 8.2 percentage points until 2013.

**The position of older people on the labour market**

Older people aged between 55 and 64 years were one of the main targets of institutional reforms and innovations since 2000. Within the rather large bulk of labour market and pension reforms and innovations, reforms of the statutory pension system, which significantly changed the transition-to-retirement-process, can surely be seen as the main reason for the trends and changes on the labour market focused on in the following section. Table 10 therefore gives a short overview of the most essential reforms of the institutional framework with regard to the transition to retirement also describing the likely (and also intended) effects of the respective reform. Demography or rather the demographic change is a second important factor.
Table 10: Timeframe of labour market and pension reforms in Germany since 2000

<table>
<thead>
<tr>
<th>Reform</th>
<th>Implementation date</th>
<th>Main measures</th>
<th>Likely effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phasing out of early retirement options</td>
<td>1996; relevant from 2000 on</td>
<td>Gradual increase of the respective retirement age for particular groups on the labour market (unemployed people/people in part-time employment prior to retirement, women, long-term insured (35 years), disabled) from 60 (63) to 65. Since then each early pension had two age threshold. A lower threshold of 60/63 years at which early retirement was still possible while accepting a reduction in the statutory pension benefit (actuarial adjustments; 0.3% for each month of early retirement (max. 18%)). A upper threshold at which (early) retirement was possible without any pension reductions.</td>
<td>Gradual closing of most pathways to early retirement. Increased individual costs of early retirement. Increased work incentives for older workers.</td>
</tr>
<tr>
<td>Reform of disability pensions</td>
<td>2001</td>
<td>Abolition of occupational invalidity as an insured event. The ability to work in any job on the labour market for at least 6 hours became the only factor for receiving a disability pension. A distinction was introduced between a full and a partial disability pension. Disabled persons are eligible for a full disability pension if they are not able to work in any job on the labour market for at least three hours a day. They are eligible for a partial disability pension if they are able to work more than three, but less than six hours.</td>
<td>Closing a further potential pathway to early retirement. Especially: Preventing the long-term unemployed from &quot;dodging&quot; the &quot;activation system&quot; that was introduced shortly afterwards by taking a disability pension.</td>
</tr>
<tr>
<td>Further phasing out of early retirement and prolongation of working life</td>
<td>2006-2010</td>
<td>Gradual raising the age threshold for standard retirement age up to 67 from 2012 to 2029. Increasing the lower age threshold for the early pension for unemployed (Altersrente wegen Arbeitslosigkeit) from 60 to 63 from 2006 to 2008. Phasing out of the regulation that unemployed persons aged at least 58 years can receive unemployment benefits (after 18 months unemployment benefit II) without actively searching for jobs (58er Regelung; January 2008). Subsidised part-time employment scheme for older employees (Altersteilzeit) closed for new entrants (2010).</td>
<td>Closing of further pathways to early retirement or rather an early withdrawal from the labour market. Increase work incentives for older workers.</td>
</tr>
</tbody>
</table>

Source: Authors illustration

Demography influences the labour market participation in two ways. Firstly, a declining working age population leads to an increasing competition for qualified workers and, in
the following, to an increasing need to keep even the older employees in the company. Hence, the significant increases of the employment rate and along with this trend, the considerable decline of the unemployment rate over time can partly be explained by the labour hoarding strategy already mentioned above (Figure 15).

Figure 15: Employment- and Unemployment Rates of the population aged 55 to 64 years; Germany and EU 28; 2000-2012; in percent

Secondly, comparatively large birth cohorts have recently entered the age group 55 to 64 years. This micro-demographic aspect has a rather positive influence on the employment rate of the whole group because the labour market participation of younger birth cohorts within this age group is considerably higher. Thus, another part of the explanation for the rising employment rate of older people is the higher quantitative amount of people aged 55 to 59 years compared to the respective amount of people aged 60 to 64 years (Jansen 2013; Mümken and Brussig 2012).

A third explanation is the rising proportion of older people working part-time. In 2012, more than one third of the workforce aged 55 to 64 years worked part-time. In 2000, the respective rate was 24.9%. Thus the proportion of part-time employees had increased by 8.5 percentage points between 2000 and 2012 (Figure 16).
When comparing the labour market position of older people aged 55 to 64 years in Germany and the EU 28 at the beginning of the observation period in 2000, one essential difference stands out. While employment rates were nearly on the same low level (37.4% in Germany compared to 36.8% in the EU 28), unemployment rates used to be considerably higher in Germany (12.7% compared to 7.3% in the EU 28 - a difference of 5.4 percentage points). Overall there are four reasons for this significant difference between Germany and the EU 28. First, the successive phasing out of early retirement options had already started in 2000, although only for a comparatively small group of older people, while in the majority of European countries the institutional extending of working lives started later. However, the importance of this factor gradually rose until 2006, when more and more options for early retirement had phased out.

As a second reason, “anticipated dismissals” have to be mentioned. Older workers who were approaching the age of 60 were dismissed in order to become eligible for the early old-age pension for unemployed before the beginning of the gradual phasing out of this early retirement option. The third reason was the still problematic labour market situation in the Eastern part of Germany at this point in time, of which older people suffered in particular (Jansen und Schmitz 2012). A fourth reason can be seen in the difficulties older people faced at this point in time (or rather still face until today), to
become reemployed. This becomes particularly evident in Figure 17 which indicates that nearly 70% of the older people in unemployment were long-term unemployed.

Figure 17: Percentages of long-term unemployed in all unemployed and long-term unemployment gaps of different age groups; 15 to 64 years and 55 to 64 years; Germany and the EU 28; 2000-2012; in percent

Source: EUROSTAT 2014; 2000 + 2001 = EU 27

The institutional pressure to remain on the labour market for a longer time, was not reflected in the hiring practices of the companies (Brussig 2011). Instead, the difference in the unemployment rates between Germany and the EU 28 remained more or less stable or rather worsened until 2005 (Figure 15). Despite an increasing employment participation of older people in Germany (the employment rate increased from 37.4% in 2000 to 45.5% in 2005), the unemployment rate further increased up to 12.7%. This development is a clear reaction to the reforms of the successive phasing out of early retirement options since the beginning of the millennium. Older workers were more and more institutionally forced to stay longer at work (reflected in the rising employment rate) or better to participate on the labour market (reflected in the rising employment rate and the rather constant unemployment rate between 2003 and 2006) but at the same time they were progressively not able to stay in employment or to find a new job (reflected in the rising unemployment- and long-term unemployment rate).28 In the same period the respective rate on the overall EU 28-level declined by 0.9 percentage points,  

28 However, the rise in long-term unemployment can also be an effect of the Hartz-reforms: Hitherto ‘inactive’ recipients of social assistance were defined as unemployed jobseekers from 2005 (Bundesagentur für Arbeit 2005).
from 7.3% to 6.4%. Accordingly the gap between Germany on the one hand, and the EU 28 on the other hand widened (6.3 percentage points).

As already suggested in the introductory passage of this section, the picture fundamentally changed afterwards. In Germany the employment rate continued to increase considerably and had reached a millennium high of 61.5%. In addition it had even significantly risen between 2008 and 2009 (+ 2.4 percentage points), when most of the other (not only vulnerable) groups on the labour market exhibited a decline in the respective rate. Overall, the employment rate had risen by 24.1 percentage points since 2000. This remarkable trend was accompanied by a steady decrease in unemployment. Between 2006 and 2012, the unemployment rate declined by 6.5 percentage points. Even the long-term unemployment rate declined from 72.5% in 2006 to 63.0% in 2012. However, compared to the EU 28, the level of long-term unemployment is still high in Germany (Figure 17). Furthermore the relative affectedness by long-term unemployment in this age group had slightly risen over time, from 1.3 in 2000 to 1.4 in 2012. In contrast to the comparatively good labour market performance of older people in Germany, the correspondent development in the EU 28 is ambiguous. Due to the fact that most of the European countries had also taken reform measures to extend working life, the employment rate of older people aged 55 to 64 years had also increased since 2006. The unemployment rate, however, had increased significantly since the beginning of the economic crisis at the end of 2008 (+ 2.2 percentage points between 2008 and 2012). The same is true for the long-term unemployment rate that had increased by more than 10 percentage points since 2009.

*The position of the severely disabled on the labour market*

Figure 18 indicates that only a low share (34.3% in 2011) of the severely disabled is gainfully employed - compared to an overall employment rate of 72.5% in the same year. Thus the employment gap between all people of working age on the one hand and the severely disabled on the other hand exceeds the value of 2 in every year under review (Figure 18). This means, that the employment rate of the whole working age population is more than twice that of the severely disabled people. A first reason for the considerable differences is that a noteworthy share of the severely disabled people of working age doesn't work in regular companies and businesses but in sheltered workshops for the disabled (so called “Behindertenwerkstätten”) and thus are not counted in the respective employment statistics. This special type of companies fabricate certain goods and products on behalf of private or public companies, but offer special working conditions as well as special social protection for the disabled people employed. At present about 300,000 people are working in sheltered workshops.
The second reason for this is that severely disabled people have a much higher risk to be unemployed. As Figure 18 indicates, their unemployment rate is well over the respective unemployment rate for all people of working age - again in each year under review. Moreover, this discrepancy has worsened over time. While the unemployment rate of severely disabled people exceeded the respective overall rate by “merely” 40 % in 2005 (unemployment gap of 1.42), the respective difference was 132% in 2011 (an unemployment gap of 2.32). The relative worsening of the labour market position of severely disabled people of working age is a further example for the fact, that the comparably good labour market performance in Germany as it is shown in absolute measures (i.e. in Figure 7) conceals some problematic relative developments at the margins as well as for specific vulnerable groups. In addition severely disabled people have a higher risk to remain in unemployment. While in 2012 mean duration of unemployment for all people of working age was 64 weeks, the respective average for the severely disabled was 77 weeks (Interview with Claudia Tietz; Advisor for disability policy (Sozialverband Deutschland SoVD)). One explanation for this difference is shown in Figure 19 indicating that nearly half of the severely disabled are aged between 55 and 64 years (48%), while “only” 19% of the overall working age population belongs to this respective age-group. Thus, the group of the severely disabled is largely dominated by older people between 55 and 64 years – a group that have a comparably high risk of long-term unemployment itself (Figure 17). This means that a noteworthy part of the group of severely disabled people have a higher risk to remain unemployed.
the severely disabled combines at least two particular risks of becoming long-term unemployed, namely age and disability.

Figure 19: The severely disabled compared to the whole working age population; age structure, employment and unemployment; 2013

The aforementioned particularities in the age-structure of the severely disabled also explain to some extent the worsening of the unemployment gap mentioned above. The only slight decline of their unemployment rate from 15.4% in 2005 to 13.9% in 2011 (compared to the much stronger decline in the overall unemployment rate; Figure 18) is primarily the result of a significant increase in unemployment for older severely disabled aged between 55 and 64 years. While the number of severely disabled unemployed who are aged between 15 and 24 years as well as between 25 and 54 years declined between October 2008 and October 2013 by 5% or rather 12%, the number of older severely disabled unemployed increased by 56%. The high increase in unemployment for the latter group combined with the already known fact, that a comparably high share of the severely disabled of working age belongs to this group has finally led to the result that the number of unemployed within the group of the severely disabled increased by 6% between 2008 and 2013 (cf. Federal Employment Agency 2013).

A third reason for the comparably low employment as well as high unemployment rate is that most of the German companies with 20 and more employees don’t fill 5% of the
respective jobs with severely disabled employees as it is stipulated by law, but prefer to pay the compensatory levy. As Figure 20 indicates, about 60% of German companies are below the employment objective of the statutory obligation. Around 10% of the German companies even have to pay the highest rate of the payable compensatory levy (260 €). In contrast only less than 40% have to pay no compensatory levy. One reason for the high share of German companies that don’t fulfil the employment objectives of the statutory quota is the comparably low amount of the compensatory levy.

**Figure 20:** Share of German companies not meeting the target of the statutory employment obligation for severely disabled people; 2003-2011

Although there are slight changes in the numbers over time that might indicate a slight change in the behaviour of German companies, the figures remain more or less stable over time (Figure 20).

*The position of migrants on the labour market*

In Germany, employment rates of nationals and of non-nationals have both increased since about 2005, with nationals experiencing the trend reversal one year before non-nationals. However, non-nationals still achieve only about 80% of the employment rates of nationals. This employment gap of non-nationals has widened between 2001 and 2005 when the economy was going bad, but it has only started to slightly narrow as late as 2010.
At the European level, the employment gap of non-nationals was similar to Germany in 2000, has narrowed until 2008 and only slightly increased again in the wake of the crisis (Figure 21). In other words, there is a growing polarisation of the German labour market along the lines of nationality (possibly also ethnicity, which is not reflected in Eurostat data). A closer look at this development with focus on older workers is revealing: Non-nationals have under-proportionally participated in the paradigm shift of working longer as described above. Consequently, the employment gap for non-nationals has more drastically widened in the oldest age group, with perhaps a trend reversal as late as 2012. At the European level, there is no parallel trend.

The inferior position of older non-nationals on the German labour market is most likely related to the history of labour migration to Germany. Between 1955 and 1973, young workers were recruited from Southern Europe and Turkey, mostly for unskilled industrial jobs. Meanwhile, most of these kinds of jobs have disappeared from Germany due to automation and offshoring. However, many of the people who came are still there, and those who arrived around 1970 at an age of around 20 were around 60 in 2010. Most of them have no chance to be employed because of their lack of skills and because they lost their health working the most menial jobs. If the employment gap figure for 2012 indicates a trend reversal, it is simply because the group in question is passing the age threshold of 65 and thus moving out of the range of the calculation.
In 2000, unemployment rates of nationals and non-nationals in Germany were very close to EU-28 average, which implies that also the gap for non-nationals was of the same magnitude. The rise of unemployment in Germany until 2005 affected non-nationals over-proportionally so that their unemployment rate was then twice that of nationals, a development unparalleled at EU-28 level. Since then, unemployment in Germany fell for both nationals and non-nationals but the gap did not close. Since 2005, the unemployment rate among non-nationals in Germany is twice the rate among Germans. At EU-28 level, unemployment rose for both groups since 2008 but the gap did not widen much. Statistical modelling has shown that a large part of the difference in labour market achievement of nationals and non-nationals can be attributed to differences in human capital, including language skills, plus non-recognition of vocational or academic qualifications obtained abroad. Even though educational attainment of succeeding cohorts of second or third generation immigrants is improving, educational gaps are growing since educational outcomes of the native-born population are advancing faster.

"The German school system is notoriously ineffective in compensating social inequalities in family backgrounds." (Interview in the 'Education, Labour Market, Family' Division of the Federal Government Commissioner for Migration, Refugees and Integration, Berlin, 30 January, 2014)

The German labour market is very strongly structured and stratified along certified vocational qualifications, and it seems to have become even more skills-selective over time. On the other hand, there is also clear evidence of discrimination by employers along racial and ethnic lines. Despite growing public awareness, anti-discrimination legislation and procedural improvements in recognizing vocational or academic skills obtained abroad, the relative position of non-nationals on the labour market has not improved as the alleged ‘employment miracle’ unfolded.
Figure 23: Unemployment in Germany and the EU 28 by nationality; 2000-2012; in percent

With regard to fixed-term contracts, the same pattern emerges. In 2000, fixed-term contracts were less important in Germany than in EU-28, and the relative disadvantage of non-nationals was slightly smaller than at the EU-28 level. The slight decline in the share of fixed-term contracts until 2002 for nationals and until 2004 for non-nationals seems to reflect the depressed labour market situation of those years: When there are few new hires, the share of fixed-term contracts tends to decline. The reforms taking effect in 2005 triggered a temporary increase in hirings from unemployment and thus in the use of fixed-term contracts.30 Likewise, the decline of fixed-term contracts in 2012 reflects a downturn in hirings. A potential effect of the crisis of 2008/2009 on the share of fixed-term contracts is very small. Between 2006 and 2011, however, the share of fixed-term contracts for nationals hardly changed whereas it grew considerably for non-nationals, thus increasing the relative disadvantage of the latter group. This fits the assumption that stratification on the German labour market is increasing.

30 There was also some easing of fixed-term contracts for older workers but there is no evidence that this had any considerable effect on hirings.
At the EU-28 level, by contrast, there is considerable widening of the gap in contract status between national and non-nationals between 2000 and 2006. The crisis of 2008/2009 shows a clear effect, and the gap between non-nationals and nationals with regard to fixed-term contracts has subsequently been narrowing again as the share of fixed-term contracts for non-nationals declined. Since unemployment of non-nationals in EU-28 has not increased over-proportionally (see Figure 23), it seems unlikely that this relative improvement for non-nationals actually reflects growing disadvantage in hireings; rather it seems that inequality of non-nationals with regard to contract status has lessened and reached the German level in 2012. However, one should be cautious when interpreting aggregate developments from so many countries.

As pointed out before, growing shares of part-time work – in other words, a wider but uneven distribution of available work among the population of working age – account for a good part of the German ‘jobs miracle’. Figure 25 shows that this push towards part-time has ceased in 2007 for German nationals whereas it has continued until 2010, with a clear dip in 2008, for non-nationals in Germany. As a result, there is now a clear difference in part-time shares for nationals and non-nationals which did not exist in 2000. The dip in 2008 probably indicates that there were non-national part-timers in export-oriented industries who had to bear the burden of quantitative adjustment during the crisis.
Figure 25: Proportion of part-time employees as a percentage of total employment; differentiated by nationality; EU 28 and Germany; 2000-2012, in percent

Remarkably, we find a similar pattern at the EU28 level, except that there is not much increase in part-time shares for nationals.

Included in Eurostat part-time statistics is the German peculiarity of ‘mini-jobs’ not earning more than 450 Euros per month (400 per month until 2012). Therefore, it seems relevant to take a look at the position of non-nationals also in this respect. We measure the degree to which each group is affected by mini-jobs as the ratio between the numbers of persons employed exclusively in a mini-job to the number of persons employed in jobs covered by social insurance. Around 2000, there is hardly any difference between nationals and non-nationals in this respect. Almost simultaneously with the reform of the mini-jobs in 2003, a gap opens up and peaks first in 2006 and then, in the wake of the financial crisis, in 2009 when the relative frequency of mini-jobs becomes almost 40% higher among non-nationals than among nationals.
With regard to pay, there are marked differences between non-nationals and nationals. Whereas the percentage of low-wage earners (less than two thirds of median hourly gross wages) was 23.3% among nationals in 2012, it was 34.5% among non-nationals (cf. Table 9).

**The position of single parents**

Going beyond the list of obligatory ‘vulnerable groups’ that governs data collection in the INSPIRES project, we add a paragraph on single parents who must be considered as vulnerable in the context of the German employment and family system. In the absence of Eurostat data on this subject, we base this paragraph solely on national data, mainly taken from the Federal Employment Agency’s latest report on single parents (Bundesagentur für Arbeit – Statistik 2013).

Almost 20% of families in Germany with children under 18 years old are single-parent families, with a 2.8% increase within only seven years, from 2005 to 2012. Almost 2.5 million children are living in these families, 2.2 million of these under 18 years old. Almost 70% of single parents have only 1 child.

Employment rates of single parents with children under 18 rose from 67.1% in 2000 to 70.5% in 2012 (including those temporarily on parental leave). During this period, the part-time share of employed single parents rose from 39% to 50.3%. Their

---

31 Note: These are not percentages because minijobs are not part of employment covered by social insurance.
unemployment rate fell from 14.3% to 11.6%, but it is still considerably higher than the overall unemployment rate of 7.6% in 2012. Inactivity rates of single parents have remained stable around 20%. In 2012, 92.2% of unemployed single parents were female. Only 11% of unemployed single parents drew earnings-related, contribution-based unemployment benefits, whereas the remaining 89% received flat-rate minimum income benefits. 42.8% of unemployed single parents are long-term unemployed. Single parents counted as unemployed according to the national administrative definition made up for only 41% of single parents receiving minimum income benefits in 2012; the remaining benefits recipients were taking part in active measures (10%), were actually working but receiving supplementary benefits because their earnings were insufficient for supporting themselves and their children (17.5%), were exempt from working obligations because their youngest child was less than 3 years old (16%), were currently unavailable for work because of sickness (4%), or their status was unknown (10%).

In 2012, 10.3% of all households in Germany received minimum income benefits. Whereas only 3.7% of couples without children in their households were receiving such benefits, percentages were 7.2 for couples with children and 8.4 for couples with two and more children. For single households, the percentage was 12.9%; for single parent households as a whole: 39.4%; for single parents with two and more children: 49.3%. With almost every second single-parent household with two or more children receiving minimum income benefits, it appears more than justified to consider single parents as a ‘vulnerable group’ on the German labour market.

Over time, the percentage of employed single parents receiving minimum income benefits has considerably increased, which reflects the effects of activation strategies on one side and of growing low-wage employment on the other. Of those single parents who were in employment, only 18% were working full-time, 25% were working part-time covered by social insurance, and 40% were working ‘mini-jobs’ (small jobs exempt from social insurance), with the remainder being self-employed or of unknown employment status. The high proportion of part-time points to one important reason for high benefit recipiency among single parents: With childcare provisions still insufficient, particularly for children under 3, and with reduced family networks, single parents find it difficult to reconcile care responsibilities with full-time work. With part-time work, however, they find it hard to even support themselves, let alone their child or children. Statistics of earned income of single parents receiving minimum income benefits clearly indicate that earnings decrease as the number of their children increases, which points to reduced availability for work because of the number of children. Two thirds of single parents working part-time say they would like to work more (more than mothers living in couples and working part-time), but 45% say that it is not currently possible for them because of caring responsibilities (Achatz et al. 2013)

Among single-parent families receiving minimum income benefits, the percentage of those with only one child is slightly lower (60.8%) than among single parents at large (70%), which points to the number of children as an important poverty risk factor.
(incidentally not only for single parents). General financial support for children (child allowance, 184 Euros for the first and the second child) is too low in Germany to cover a child’s needs. Consequently, if a single parents’ earnings plus child allowance (plus possible other sources of income like alimony from a former partner) is below the family’s legally defined minimum needs, all family members may receive minimum income benefits, regardless of the parent’s employment status. The same mechanism applies for couples, but with two potential earners poverty risks are lower.

The financial crisis of 2008/2009 shows hardly any effect on the time series of single parents’ employment or unemployment rates. The reason for this is that the crisis mostly affected export-oriented industrial firms where part-time jobs are rare. Therefore, single parents’ employment is even more than women’s employment in general concentrated in service jobs that were not affected by the crisis.

The German Association of Single Mothers and Fathers’ scientific consultant points out, in the interview conducted with her, that 80% of single parents enter this situation after separation or divorce. The very career patterns single mothers become trapped in, yielding insufficient earnings after separation, actually originate while living in couples. Insufficient childcare, better career and earnings perspectives for men, tax privileges for couples with only one earner or with uneven earnings, derived social insurance entitlements for family members – all these factors still both pressure and lure family mothers away from the labour market. After separation, by contrast, the benefit systems and alimony legislation both require single mothers to engage more in the labour market, but at this stage career prospects are often already forgone.

“Since the problems of single parents originate from the German family model, it is useless to address single parents as such as a ‘target group’ whose problems could be solved as specific to single parents.” (Interview with German Association of Single Mothers and Fathers, January 15, 2014)
iii. Trends in innovation

a. Content

The relatively positive performance of the German labour market since about 2006/2007 and also through the crisis 2008ff. can be attributed to the following ten factors only some of which can be called ‘innovations’:

1. Moderate economic growth primarily based on exports and causing imbalances within the Euro zone (not a labour market innovation);
2. Demographic change leading to a shrinkage of the working-age population from 1999 on (not an innovation but an important underlying trend);
3. Pension reforms and concomitant activities effectively pursuing a ‘working longer’ agenda (an important and efficacious innovation);
4. A decline of average weekly hours worked per capita, but distributed very unevenly, reflecting increasing shares of part-time work (a rather ambiguous innovation insofar as it includes some growth of mini-jobs);
5. The traditional apprenticeship system of initial vocational training is still alive even during the crisis (not an innovation but a traditional strength);
6. Erosion of collective bargaining coverage (an important institutional change but neither intentional nor positive for labour market resilience);
7. The ‘activational turn’ in labour market policies epitomized by the Hartz reforms (a largely ineffective innovation with regard to overcoming long-term unemployment but a fundamental change of the ‘rules of the game’ on the labour market);
8. Flexible working-time arrangements even in the very long term (working-time accounts) in medium-sized and larger firms of the manufacturing sector (an innovation very important for the resilience of employment during the crisis 2008ff.);
9. Short-time working allowances having been extended and facilitated during the crisis of 2008ff. (not really an innovation but a traditional instrument flexibly adapted to the situation);
10. Statutory employment protection still covering the majority of workers despite deregulation of growing margins of the labour market (not an innovation but a traditional institution which obviously has not prevented employment growth but stabilized employment during the crisis).

Taken together, intentional labour market innovations do not seem to play a major role in Germany’s labour market resilience. These factors will be commented one by one below.

1. Exports and economic growth

Moderate economic growth since 2004, never exceeding an annual increase in GDP of 4%, has been largely driven by export surpluses which are the highest in the euro zone (see Figure 27). In other words, one of Germany’s mechanisms of creating jobs has been converting these jobs’ outputs into other countries indebtedness (Lehndorff 2012, 2014). However, to what extent the German success in exports is really dependent on wage restraint and unit labour costs developing far below European average is debatable; what
is clear, however, is that private consumption restrained by real wage stagnation prevents exports from being balanced by imports of consumer goods and services, holiday spending abroad having been important among the latter as far as Southern Europe is concerned.

One of the reasons why the simple equation “wage restraint = export surplus = employment growth” is debatable is that wage increases were actually the highest in export-oriented manufacturing. How the lagging behind of wages in the private service sector, via economies of service inputs, translates into low increases in export prices has not yet been convincingly demonstrated. 32 Actual price elasticity of demand for Germany’s principal export goods is another point in question. Part of the German success story in exports might simply be a historical strike of luck: Germany’s manufacturing portfolio happens to fit the demand of newly industrialising countries quite well, including their new elites’ interest in luxury cars, and some German companies have built up a brand reputation that may be more important for their sales abroad than price differences.

Figure 27: Current account balances in the euro area

Success in exports is not, in itself, an innovation, though it is of course based on a multitude of product and process innovations in manufacturing and on the skills of the workforce. If we are to assume, however, that wage restraint, stagnation of real wages, and increasing wage dispersion do play a role in export-driven economic growth, then this growth does relate to factors (6) and (7).

32 See Dustmann et al. 2014 for such an attempt.
(2) Demographic change

Population ageing as well as the ageing of the workforce have been long-term trends; however, actual shrinking of the working-age population between 15 and 65 is a relatively new phenomenon which began only in 1999 (see Table 13 in the annex, p. 76). Taking potential labour market participation of different cohorts into account, the potential workforce has been in decline since 2006 (Fuchs et al. 2011), which is exactly the year when unemployment rates started falling. Though demographic shrinking is not an innovation as such and may cause many other problems, it can help to balance supply and demand on the labour market and thus contribute to its resilience.

(3) ‘Working longer’ agenda

Taking effect from 1996, pension reforms have gradually phased out a considerable part of early retirement (see Table 10, p.39 for details). Employment rates 55plus have increased more steeply than in any other EU country. The growing older of female cohorts with employment rates higher than those of preceding cohorts is part of the story (Fitzenberger et al. 2001). The favourable employment climate has certainly facilitated increased participation of older workers; overall employment increases can be largely attributed to the age group 55plus (Dietz und Walwei 2011). There is probably also some cultural change with regard to values and opinions about the ‘appropriate’ retirement age. It should also be noted that the cohorts now approaching retirement are the first in centuries not having experienced war or post-war scarcities throughout their lifetime which might have positive effects on health and life expectancy.

Despite a relatively successful programme in support of re-employment of older long-term unemployed jobseekers, increasing employment rates of older workers do not seem to result from an improvement of their relative chances to be hired: The age gap in hiring probabilities has remained unchanged. Rather, increasing employment rates of older workers are the result of incumbent workers staying in their jobs longer. Effective disincentives against ‘voluntary’ dismissal of older workers into early retirement have contributed to employment stability during the crisis of 2008ff. There are programmes in place to make workplaces more ‘age-friendly’; however, they show little effect in terms of age-specific approaches to HR policies, training or task design. In fact, age-specific approaches to the improvement of working conditions make little sense. In order to make extended working careers sustainable, working conditions must be improved regardless of age.

(4) Work sharing

The trade unions’ project of redistributing work by lowering the full-time standard came to a halt in the wake of the German unification, and since then, average effective working times of full-timers have slightly increased again. Increases in employment numbers, however, have largely come in the form of part-time work. More persons have come to share the economy’s volume of work but on an increasingly uneven basis. The main driver for this is a still strongly gendered family and employment model rooted in the West German tradition. Due to insufficient childcare facilities, widely shared family values perceiving full-time institutional childcare as potentially harmful for the child (Bjerre et al. 2011), and a tax and benefit system incentivizing ‘1.5’ or ‘1.25’ earner models in families, increases in female labour market participation have to large extent taken the form of part-time work and minijobs (small part-time jobs earning a maximum of 450 Euros per month). While female participation in employment has grown, the
share of females in the volume of paid work has not. The reform of minijob regulations that was part of the Hartz reforms (see p. 61) has for some time boosted this development but it is not its primary cause.

If women are nowadays more keen to participate in paid work than was traditionally the case, this can be seen as the result of better education now equalling or (in the youngest cohorts) even surpassing that of men. If, however, this participation is only possible, for many women and in particular for mothers, in marginal, fragmented and non-continuous forms of employment this is the legacy of a patriarchal past and a lack of innovation in family, childcare and firms’ HR policies. This lack of innovation does, however, contribute to the increase of employment rates in times when paid work available does not grow and full-time work for the whole adult population seems impossible.

(5) Apprenticeship system

Rooted in medieval guild and craft traditions and widely expanded to manufacturing jobs during the 1970's, the German system of apprenticeship training has customarily facilitated school-to-work transitions (see also p. 12). Apprentices are employed by firms on the basis of a specific type of fixed-term contract for the purpose of their vocational training; they attend state-run vocational schools one or two days a week. The institutional framing of the apprenticeship as employment covered by social insurance has itself a statistical effect in terms of high employment rates of young people. After the completion of apprenticeships between 50 and 60% (depending on the business climate) stay with the training firm (Bellmann und Hartung 2010). About 20% find a new employer immediately, and about 25% experience some period of unemployment (Somaggio 2010). For graduates not taken on by the firm that trained them and having difficulties to find a new employer, collective agreements in some manufacturing sectors foresee that they will stay with their former training firm for some time on a part-time basis in order to give them time for job search without being unemployed.

The involvement of social partners and the state in the apprenticeship system creates public awareness and a sense of responsibility and concern for the vocational training of youth. School leavers wanting but not finding an apprenticeship as well as those not considered ready for vocational training are referred, as part of active labour market policy, to various sorts of intermediate training or to apprenticeships with providers of employment services substituting private employers. All this tends to lower youth unemployment rates.

Demographics as well as growing participation in tertiary education both lead to declining numbers of apprentices. Anticipating demographic change and the future scarcity of young people, firms continued to take on apprenticeships during the crisis 2008ff. at almost the same scales as before. Neither the apprenticeship system nor the substitute programmes for young people not finding an apprenticeship are new by any means. Nevertheless, they are important elements of labour market resilience with regard to young people. A recent innovation, however, is a new labour market programme for 'late starters', young people between 25 and under 35 who have not finished a vocational education. Numbers enrolled are still very small, but the new focus on this group reflects the growing concern about a coming skills shortage and the necessity to tap all available reserves in human capital.
(6) Erosion of collective bargaining coverage, wage stagnation, increasing wage inequality

Resulting from a process of attrition, primarily in terms of employers’ membership in employers’ organizations, percentages of workers employed in firms not covered by a collective agreement have increased (see Ellguth and Kohaut 2013 for details). Smaller firms and firms in the private service sector are more likely not to be covered than manufacturing firms, larger firms and the public sector. The absence of collective wage regulation in growing parts of the economy contributes to growing wage dispersion and a growing low-wage sector. As discussed before (1), it is controversial how much this development has contributed to Germany’s success in exports by translating into low export prices. However, it certainly has contributed to foreign imbalances by restricting domestic demand and thus curbing imports of consumables.

The erosion of collective bargaining is an important change but not a politically intended innovation and certainly not a positive development. Contrary to common wisdom it has not contributed to labour market flexibility or resilience. Working time flexibility (see (8)), which was so important for weathering off the crisis of 2008ff., was accomplished within the framework of collective agreements which are still effective in the export-oriented industries, these being the sectors most affected by the crisis. The same may be said about wage flexibility which was largely implemented within the framework of collective agreements via so-called hardship clauses (Brändle et al. 2011).

(7) ‘Activation’ in labour market policies

Following the international mainstream and the European Employment Strategy somewhat belatedly, Germany introduced, between 2002 and 2005, far-reaching reforms of unemployment-related benefits and employment policies. Actually these reforms were among the most radical in international comparison since the structure of benefits and of the public employment service were changed simultaneously (Knuth 2009). The underlying philosophy of these reforms was ‘activation’, i.e. the assumption that people remain in unemployment because they are not sufficiently active and effective in their job search.

Part of the activation agenda is the proliferation of in-work benefits. Where earnings are insufficient to support the person (in case of singles) or the family, proportions of the so-called unemployment benefit II (see p. 5) may be drawn as a supplement. In other words, counting earned income against the benefit (with some disregard as an incentive) serves the same function in Germany as earned income tax credits do in other countries. This measure can be seen as a state subsidy for low hourly wages, small numbers of hours worked, but also for large numbers of children exceeding their parents’ earning capacities. Small numbers of hours are often the result of health restrictions or of caring responsibilities. A typical constellation is that of mothers working part-time and having to apply for benefits after becoming a single parent because of separation. A recent assessment (Rudolph 2014) shows that such combinations of earned income with social benefits existed before the reform in similar magnitudes but have now become more visible because the reform tends to assemble all these cases in one and the same benefit category.

Almost ten years after the completion of ‘activating’ reforms it can be concluded that these reforms have failed to accomplish their principal objective, i.e. speeding up the job finding process of the long-term unemployed. Transition rates between unemployment and employment have increased only for the very short-term unemployed (under 6 months); for persons who have been unemployed for more than one year, transition rates have even slightly declined (Jaenichen und Rothe 2014). Seen against the backdrop of a
generally positive development of employment and unemployment, the German labour market is more polarized than ever before. By lowering reservation wages of those concerned, and through a generally intimidating effect of the reform discourse on workers (Erlinghagen 2010; Kettner und Rebien 2009), the introduction of activation policies may have contributed to wage restraint and to a decline in wages received in new jobs (Jaenichen und Rothe 2014). This may have sped up the matching process after short spells of unemployment but it has obviously not helped to bring the long-term unemployed back to work. Germany has traditionally followed a relatively ‘active line’ with regard to disability (Erlinghagen und Knuth 2010). In contrast to many other European countries, disability-related benefits have never been a substantial escape route from the labour market (Brussig und Knuth 2013). Before the Hartz reforms, people not qualifying for a disability pension but physically or psychologically too weak to work would be drawing social assistance, often without being registered as jobseekers. The Hartz reforms have converted social assistance for people of working age into a system of ‘minimum income benefits for jobseekers’. Consequently, the group in question is now defined as unemployed, but this recategorization has not increased their abilities to work or their chances to be hired.

Another factor explaining polarization on the German labour market is the high importance of vocational training and the structuring of the labour market along occupational lines; consequently, persons without a vocational or academic degree have poor employment chances. The promise to solve this problem by expanding the low-wage sector (see also Table 9, p.29) in which hitherto excluded workers would find jobs at wages matching their assumed low individual productivity was not fulfilled: Germany now has the relative largest low-wage sector in the European Union (after Lithuania – Rhein 2013), but the exclusion of workers with low skills and weak health has remained.

(8) Flexible working-time arrangements

At the other end of the labour market, in the upper stratum with standard employment relationships for qualified workers in medium and large firms manufacturing export goods, the most important development with regard to the resilience of the German labour market in the crisis was the long-term flexibilization of working time. This innovation was not deliberately designed to manage a crisis, but when the crisis came, working time accounts were well filled up and allowed companies to ‘dismiss hours’ instead of workers: By working shorter hours, workers would simply reduce their accounts and receive the same wages as before (see Figure 8, p.26 for the dip in working time in 2009). Some companies allowed this to be carried on even into the negative; in other words, whereas workers previously had worked overtime hours without pay, they now received wages for hours which they would only work in the future after the crisis was over. Obviously, such arrangements came almost equal to employment guarantees because employers could only recover their outlays from workers who stayed. This was only possible for companies with considerable financial reserves because they would continue to pay wages for production that either occurred in the past or would occur only in the future. In other words, wage restraint during the years before had obviously not only gone into low export prices but to a large extent into companies’ financial surplus.
Temporary extension of short-time working allowances

Allowances for short-time working are a very traditional instrument of labour market policy. In Germany, they are part of the unemployment insurance system. Rather than dismissing workers into unemployment, firms can, under certain conditions, reduce hours worked and paid, and workers will be compensated for their wage loss at replacement rates equal to those of unemployment benefits. The employer still has to pay full social insurance contributions and full wages for paid holidays. Adjustments made in the crisis concerned an extension of eligibility of firms (for the first time, temporary work agencies were included), extension of maximum durations, lowering of costs for the employer and subsidies for training costs. The number of workers on short-time working schemes soared to historical levels comparable only to the early 1990ies, the wake of the German unification. Nevertheless, short-time working schemes are estimated to have absorbed only between one quarter and one third of the total losses in working hours, which was no larger share than in previous downturns (Boysen-Hogrefe und Groll 2010).

Statutory employment protection and 'flexible' forms of employment

Like many other countries, Germany has relied on flexibilization of employment relationships ‘from the margins’ while statutory employment protection for core workers remained largely unchanged. In the course of the reforms since 2000, the following elements of deregulation ‘from the margins’ can be identified:

- The threshold of applicability of statutory employment protection with regard to company size was raised from five to ten employees, thus excluding another 10% of the workforce from the regulation (Koller 2010). However, since employment relations in small firms tend to be rather informal anyway, it is difficult to assess the real change effected.

- Temporary agency work was deregulated in far-reaching ways by lifting the ban on fixed-term contracts with temping agencies, allowing the synchronization of labour contracts with supply agreements as well as unlimited re-employment, and removing maximum durations of assignments. Following this, temporary agency work grew to almost 3% of total employment.

- The traditional construct of ‘marginal employment’ exempt from employees’ social insurance contributions and taxed flat-rate at only 10% was re-regulated once again to make it more attractive and named ‘minijobs’ (see p. 10 for details). In terms of labour law including statutory employment protection, minijobs do not justify any exemption. However, many employees or even employer do not know or care so that in practice minijobbers are often treated like day labourers. According to an employer survey, flexibility as employers’ motivation to use minijobs is more important than cost advantages (RWI 2012).

Even with all this, the majority of workers in Germany are still covered by statutory employment protection, and their share is higher in the medium-sized and large manufacturing companies which make up the basis of German exports than in the private service sector. Obviously, in order to manage the crisis of 2008ff., companies did lay off temporary agency workers and refrained from renewing fixed-term contracts. However, the dips in the numbers of agency workers and fixed-term contracts are only small and very short-term, and the time series for minijobbers shows no reaction to the crisis at all. Inflows from employment into unemployment increased only moderately, and the unemployment rate rose only very insignificantly. So the dominant HR strategy during the crisis was labour hoarding, and this strategy was invigorated by statutory

---

33 This can only be roughly assessed since, to our knowledge, the combination of firm size, type of contract and duration of employment which would be needed has never yet been used for exact estimations.
employment protection (Aiginger et al. 2011). As already explained (3), part of this story was that, due to pension reforms, voluntary separation agreements with older workers were hardly possible any more. So it may be concluded that the main institutional factor explaining the resilience of the German labour market in the crisis 2008/2009 was not an innovation but a very traditional ‘rigidity’ of the German labour market: Statutory employment protection. As explained before, working time flexibility and working time accounts (8) supported long-term loyalty between workers and firms, and short-time working allowances (9) as well as hardship clauses in collective wage regulations lowered the costs of labour hoarding to considerable degrees.

b. Forms

(1) *Exports and economic growth*
no specific actor – no specific form of innovation

(2) *Demographic change*
no specific actor – no specific form of innovation

(3) *'Working longer' agenda*
legislation, public discourse, awareness-raising programmes

(4) *Work sharing*
traditional family values, traditions of the childcare and school system, legislation in support of minijobs

(5) *Apprenticeship system*
tradition, old legislation, social partner involvement, continuous modernization of vocational profiles

(6) *Erosion of collective bargaining*
institutional attrition

(7) *'Activation’*
legislation, re-organization of the Public Employment Service, public discourse

(8) *Flexible working time arrangements*
collective bargaining and factory agreements

(9) *Extension of short-time working allowances*
legislation and ministerial decrees, following informal dialogue with social partners

(10) *Statutory employment protection and 'flexible' forms of employment*
legislation – and the omission of core regulations from new legislation
c. Actors

(1) Exports and economic growth

It is difficult to identify individual actors responsible for successes in exports. If the European Commission has now started discussing the economic imbalances caused by Germany, they will find it difficult to address their blame since Germany is not a planned economy in which the government would openly exert any influence on wage formation. In a positive perspective, the actors of economic success are well-trained workers and engineers designing products and delivering them in good quality so that the world wants to buy them. If we assume that wage restraint plays a role for export success, it is the social partners who are the responsible actors but also to blame for imbalances in the Eurozone. Insofar as labour market reforms may have weakened the bargaining position of trade unions by intimidating workers, the second Schröder government (coalition between Social Democrats and Greens 2002-2005) is the responsible actor. If we think of the erosion of collective bargaining and the absence of a legal minimum wage, we can point to the current Christian Democrats / Social Democrats coalition who have minimum wage legislation under way.

(2) Demographic change

The shrinking of the potential workforce is obviously a long-term consequence of low fertility rates. Difficulties in combining work and care responsibilities do play a role here, as well as perceived job insecurity and lack of career perspectives. In this sense, we can identify contradictions between educational, family and employment policies, and policymakers then are the responsible actors. However, current changes in these policies do not seem to have any short-term effect on fertility rates. In international comparison, a better accord between the aforementioned policies does seem to make some difference regarding fertility rates, but not to the extent of fundamentally different demographic trends. So we will probably have to accept demographic change as a ubiquitous trend in mature societies but without any major identifiable actor.

(3) Working longer agenda

The remarkable increase in the employment rates of older workers is clearly related to the pension reforms. Legislation in this direction began as early as 1992. Legislators of different political colours followed the same long-term approach of making changes gradual, having them roll out over long periods, and avoiding immediate effects on anyone and in disruptive ways. Because of these cautious implementation strategies, opposition against the pension reforms never took the form of a mass movement to which policymakers would have had to react. Trade unions, having to protect their members’ interests, are of course among the opponents. In practice, however, through collective agreements and through representation by works councils at company level, organized labour is more involved in jointly and pragmatically managing the working longer agenda than in actually delaying it.

(4) Work sharing

Uneven work sharing through the spread of part-time and minijobs is in the first instance a result of more women wanting to work but finding it difficult to reconcile full-time work with caring responsibilities. Like with demographic change through low fertility rates, we might identify contradictions between educational, family and employment policies and
the responsible policymakers as actors. Another driver is tertiariisation of the economy with many services having peak times the coverage of which does not yield full-time jobs. Discretional interventions are to be found in the aforementioned re-regulation of minijobs which were made even more attractive in 2003. Since then, minijobs have become a customary and institutionalized means of parcelling work, and they are probably used far beyond any practical necessity. Here we could clearly say that the legislator – irrespective of parliamentary majorities – has repeatedly been the responsible actor.

(5) Apprenticeship system

The apprenticeship system in Germany is institutionalized by law. Its actual operation is overseen by the Chambers (of crafts, of manufacturing and commerce, of agriculture etc.) in which the social partners collaborate in vocational education committees. Participation of employers in training apprentices is voluntary; discussions about introducing a penalty for employers not participating have never materialized. So we might say that the principal actors who keep the apprenticeship system alive are individual employers who still see apprenticeship training as a useful channel of recruitment and as a social responsibility. The federal government, the state governments, the Federal Employment Agency, the social partners and the aforementioned chambers all work together in order to keep the sense of social responsibility alive. In addition, the legislator (by designing the instruments of active labour market policy) and the Federal Employment Agency are the actors responsible for maintaining the substitute system in which young people who fail to find an apprenticeship with a private employer are trained.

(6) Erosion of collective bargaining coverage

The actors responsible for the erosion of collective bargaining are, in the first place, employers who quit membership in the respective employers’ organization or (in the case of new firms) never choose to join. Secondly, it is the weakness of unions not having a sufficient number of members in these firms that would allow them to urge the employer into a company agreement or to make him prefer joining the respective employers’ organization rather than bargain individually. The latter is especially true for East Germany.

Policymakers can be criticized for ignoring or implicitly welcoming the weakening of the collective bargaining system and for removing or weakening some institutional props of trade union power. Trade unions themselves, however, must be criticized for ignoring the writing on the wall for too long: They still opposed legal minimum wage regulation (as allegedly weakening their bargaining role) in times when it was already obvious that they were no longer in a position to effectively regulate wages in certain sectors or regions. The unions were divided over this issue: The smaller and weaker ones came out in favour of a legal minimum wage much earlier than the large and powerful ones. Therefore, it took a long time until the German Trade Union Confederation adopted a stand in favour of legal minimum wages which are now in the process of legislation to take effect as of 2015.

(7) The ‘activational turn’ in labour market policies

After some foreboding during the term of the last Kohl government (reform of the Employment Promotion Act in 1997), it was the second Schröder government (the 2002 to 2005 coalition between the Social Democrats and the Greens) that really went through, by its four acts of legislation following the proposals of the Hartz commission, with the
paradigm shift from ‘active’ to ‘activating’ labour market policies. This move had been prepared since the early 1990ies both by neo-liberals and by intellectuals closer to the Social Democratic Party and influenced by Giddens’ ‘Third Way’ thinking. After 16 years of Christian-Democratic governments and the woes of the German unification, the feeling of a ‘reform backlog’ was widely shared in German society. Many believed that high levels of unemployment were attributable to rigidities of the labour market, to insufficient creation of unskilled service jobs because of wages at the lower end being too high, and to inactivity among the unemployed. So the protagonists of activation in the two parties of the coalition government believed they were acting in accordance with the mainstream in society. In the end, however, opposition within the Social Democratic Party was so strong that Schröder stepped back in 2005 hoping to be endorsed in premature elections – which he lost. The Social Democratic Party then became the junior partner in the first Merkel government.

(8) Flexible working time arrangements
It is clearly the social partners at sectoral level (trade unions and employers’ associations) and at the firm level (works councils and management) who must be accredited for this achievement which helped to manage the crisis of 2008ff. with very few redundancies. This demonstrates that in those sectors that make up for Germany’s current economic strength, the ‘old’ institutions are still alive and far from producing inflexibility and standstill. It should also be highlighted that flexible working time arrangements originated in the 1980ies when trade unions managed to negotiate working weeks below 40 hours: When the normal working day (in a 5-day week) becomes less than a fraction of 24 hours, systems of shift working require some sort of working time management. This was the beginning of working time accounts. In the 1990ies and after 2000, the legislator gradually followed up on this development by introducing obligations for companies to insure working time accounts against bankruptcy.

(9) Short-time working? allowances
The ‘grand’ Christian Democratic / Social Democratic coalition governing in 2008 (as a result of Schröders 2005 defeat), with regular federal elections in September 2009 already in sight, reacted quickly and flexibly to the social partners’ approaches demanding an expansion of the traditional instrument of short-time allowances. In stark contrast to the sidelining of the trade unions by the second Schröder government in the course of the Hartz reforms, the first Merkel government was prepared to manage the crisis in ‘neo-corporatist’ ways (Eichhorst und Weishaupt 2013). So the actors were the social partners, building on their tradition of jointly managing working time as explained above, and a responsive government.

(10) Statutory employment protection
Even the aforementioned second Schröder government, with its ‘Third Way’ and neo-liberal elements, did not dare to go beyond symbolic deregulation34 at the core of the Employment Protection Act. Deregulation remained restricted to the ‘fringes’ of the labour market.

34 An option was introduced for employers and workers to agree on a legally defined monetary compensation in exchange for the worker refraining from legal action against dismissal.
The results are ambiguous: On the one hand, we see a gradual rise of ‘atypical’ forms of employment (see p. 9); on the other hand, and in conjunction with still viable systems of collective bargaining and workplace representation already discussed, the ‘core’ of skilled male workers in larger manufacturing, finance and utilities companies was not directly affected by deregulations of labour law. It was arguably this constellation that urged employers in export-oriented industries (the ones hit hardest by the 2008 crisis) to seek an accord with trade unions in managing the crisis in other ways, namely through working time flexibility and by soliciting more generous short-time working subsidies from the government.

d. Measure effectiveness or return on investment

Looking at the overall performance of the German labour market (see 0, p.20), it can be concluded not only that the measures taken were effective but also that the institutions which survived without discretionary reform proved important and viable in making the labour market sustain the crisis and even expanding economic superiority in Europe – during the crisis and as a result of it.

A closer look, however, reveals a considerable number of downsides:

- There is not only growing income inequality, but there are also relatively high poverty and, in particular, in-work poverty rates.
- The promise of the Hartz reforms to integrate the long-term unemployed into the labour market was not fulfilled.
- Polarization of employment opportunities and employment quality has increased, and it shows a clear pattern of ethnic segregation.

Finally, there is a strange and unexpected phenomenon: Despite growing demand for labour, an intensive discourse about skills shortages and increases in temporary jobs, labour turnover has decreased sharply since the Hartz reforms. This seems to be the result of declining entry wages and a deterioration of employment conditions in new job offers. Since the trend towards the polarization of wages and conditions can only blaze its trail via new hires (as long as downgrading in ongoing employment contracts is still an exception), changing one’s employer does no longer pay off. The same was recently reported for a number of European countries (Welz et al. 2014). The alleged ‘core’ of well-protected workers are tied to their employers with ‘golden chains’ since they have no options for improving. The labour market functions less than before as a re-allocation mechanism. This calls its long-term resilience into question.
iv. Factors impacting labour market resilience

In this section, we simply highlight the points already developed in our previous analysis:

a. Positively

The apprenticeship system and the broad societal concern for young people's vocational education rooted in this system have largely protected young people from the effects of the crisis. Statutory employment protection and the closing of pathways into early retirement have prevented dismissals and urged companies into other ways of managing work losses during the crisis. Flexible working time arrangements in conjunction with the expansion of short-time allowances have made it possible to 'dismiss hours instead of workers' and to simultaneously stabilize workers' income. Demographic change (shrinking of the labour force) and increases in part-time working have narrowed the quantitative gap between supply and demand on the labour market.

b. Negatively

The erosion of collective bargaining coverage has contributed to wage restraint and growing wage inequality; aspects of the Hartz reforms have boosted certain forms of atypical employment, namely minijobs and temporary agency work. Both developments have contributed to a degrading of entry positions and of job offers available for placement by the Public Employment Service. This has stifled the allocation dynamics (labour turnover) on the labour market. The lagging behind of German per unit labour costs in comparison to the rest of the Eurozone has greatly contributed to the current imbalances.

c. No impact

We contend that the famous Hartz reforms, the 'activational turn' in German labour market policies, had hardly any impact on labour market resilience. This is also true with regard to most of the negative impacts attributed to them since trends like wage inequality, wage restraint, in-work poverty or increases in atypical forms of employment have started before the reforms. However, minijobs and temporary agency work received a new boost from the reforms.

d. No measurable impact

Germany's favourable position on the world market arguably results from a unique constellation. With still relatively high shares of employment in manufacturing, with strengths in technologies whose origins all date back more than a century, and thus with a strong focus on the 'real' economy (as contrasted with 'virtual' economies and the finance sector), Germany's product portfolio appears rather traditional. But it is exactly this portfolio that currently meets the demand of industrialising countries and their new elites. Furthermore, these 'old-fashioned' product lines of machine tools, plant engineering, power generation, chemicals, vehicles, luxury cars etc. have been carried to perfection and married with the digital world. When discussing apparent labour market resilience, we think it is important to take a comparative look at product markets. No country can create labour market resilience 'out of the blue', without regard to its productive base.
By contrast, if Germany has recently become an export champion also in meat, this is not due to any innovation but the result of ecologically harmful factory farming and wage-dumping in slaughterhouses. This is also a part of the German reality, as is bribery in soliciting government contracts for large industrial projects or armaments. We mention these points under “no measurable impact” since it will probably be very difficult to quantitatively disentangle the effects of product portfolio, product quality, product branding (the attraction of names like Mercedes or Siemens) and per unit labour costs.
v. Challenges for innovative policies contributing to labour market resilience and labour market inclusion

Demographic ageing and shrinking have helped to ease Germany's long-standing unemployment problem, but they are of course problems and challenges in themselves. There is some risk that skills shortages may impede the production of certain goods or services in the future. Migration can help in filling the gap but cannot, in any realistic scenario, fully compensate the shrinking of the workforce. Furthermore, the successful integration of migrants into the German employment system is a challenge in itself. Vocational segmentation of the German labour market, the high importance of formal credentials and the low proliferation of the German language in the world seem to render employment integration of migrant slightly more difficult than in some other European countries.

If migration cannot alone overcome bottlenecks, it will be indispensable to better tap internal human resources. This has successfully begun with extending the working lives of older people, and there is still some more potential in this direction. However, a much larger potential lies in the under-employment of women with responsibilities as mothers and caregivers. It is neither realistic nor desirable to impose on them the current full-time standard, but with more and better organized institutional care they could work more hours. A revitalization of the agenda for shorter working hours for both sexes would not only improve work-life balances and satisfaction but also allow mobilizing more hours of work overall and making better use of educational investments. A somewhat lower full-time standard would also help to make work sustainable over the life-course which is an indispensable buttress of the 'working longer' agenda.

In times of high and growing employment rates, the main remaining obstacle to labour market inclusion lies in restrictions of individual productive potential. One factor is the miscarriage of educational careers leading to unstable employment and finally long-term unemployment because of the lack of vocational qualifications. Another, biographically often related factor is poor health which limits physical and mental working abilities. The German educational system is still ill-prepared to compensate for parents' lack of cultural capital. The major challenge for labour market inclusion begins in kindergartens and has at its principal aim the reduction of the numbers of school dropouts and of persons without vocational skills in the young birth cohorts. All this must be seen against the backdrop that one third of the young population under 15 has a migrant background, which implies that in some city quarters where migrants are concentrated classes may be comprised of nearly 100% migrant children.

Whereas some educational progress seems possible and necessary, it is also a reality of highly sophisticated production systems like the German that there will always be persons unable to fulfil employers' demands. To some degree, this is moderated by shifts in the supply-demand-ratio on the labour market, but some people will never be hired no matter how severe labour shortages may appear. In Germany, this situation is accentuated by the fact that escape roads into disability benefits have always been under strict gatekeeping so that several hundred thousand persons are kept 'active' without any chance of finding employment in the regular, profit-driven labour market. Labour market inclusion for this group can only be achieved in a subsidized and protected 'social labour market' which currently exists only in minute forms. A period of high employment like the current one in Germany highlights the necessity of such instruments and policies because it makes clear that long-term unemployment will not disappear through the creation of even more jobs.
References

Achatz, Juliane; Hirsland, Andreas; Lietzmann, Torsten; Zabel, Cordula (2013): Alleinerziehende Mütter im Bereich des SGB II. Eine Synopse empirischer Befunde aus der IAB-Forschung (IAB-Forschungsbericht, 8).


Bäcker, Gerhard; Naegele, Gerhard; Bispinck, Reinhard; Hofemann, Klaus; Neubauer, Jennifer (2008): Sozialpolitik und soziale Lage in Deutschland. Band 1: Grundlagen, Arbeit, Einkommen und Finanzierung. 4. Auflage. VS Verlag für Sozialwissenschaften.


Eichhorst, Werner; Hinz, Thomas; Marx, Paul; Peichl, Andreas; Pestel, Nico; Siegloch, Sebastian et al. (2012): Geringfügige Beschäftigung: Situation und Gestaltungsoptionen (IZA Research Report, 47).


Eurofound (2013): Wages: A working conditions and industrial relations perspective. Background paper.


Knuth, Matthias (2013): Labour Market Reforms And The “Jobs Miracle” in Germany. European Economic and Social Committee.


Welz, Christian; Vargas, Oscar; Broughton, Andrea; van Gyes, Guy; Szekér, Lise; Curtarelli, Maurizio et al. (2014): Impact of the crisis on industrial relations and working conditions in Europe. Eurofound. Dublin.

Annex

Annex 1: Defining regions

Germany is made up of 16 federal states, three of which are merely large cities (Figure 28). Disaggregating our data by 16 regions could be confusing for the foreign reader. It appears to be more convenient to aggregate these 16 states into larger regions made up of adjacent states with similar labour market characteristics.

Figure 28: German Federal States
Ordering these 16 states by their unemployment rate in 2012 (annual averages) yields the following list (Table 11):

Table 11: German Federal States by unemployment rate, percentage of the German population 2012 and the decline in GDP in 2009 (compared to 2008)

<table>
<thead>
<tr>
<th>no</th>
<th>State</th>
<th>unemployment rate</th>
<th>percentage of German population</th>
<th>Decline/Rise in GDP in %</th>
<th>Aggr. region</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Berlin</td>
<td>12.3</td>
<td>4.2</td>
<td>2.4</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Mecklenburg-Western</td>
<td>12.0</td>
<td>2.0</td>
<td>0.5</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Saxony-Anhalt</td>
<td>11.5</td>
<td>2.8</td>
<td>-0.9</td>
<td>EAST</td>
</tr>
<tr>
<td>4</td>
<td>Bremen</td>
<td>11.2</td>
<td>0.8</td>
<td>0.3</td>
<td>NORTH</td>
</tr>
<tr>
<td>5</td>
<td>Brandenburg</td>
<td>10.2</td>
<td>3.0</td>
<td>0.3</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Saxony</td>
<td>9.8</td>
<td>5.0</td>
<td>-0.5</td>
<td>EAST</td>
</tr>
<tr>
<td>7</td>
<td>Thuringia</td>
<td>8.5</td>
<td>2.7</td>
<td>-0.9</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Northrhine-Westfalia</td>
<td>8.1</td>
<td>21.8</td>
<td>0.2</td>
<td>NORTH-WEST</td>
</tr>
<tr>
<td>9</td>
<td>Hamburg</td>
<td>7.5</td>
<td>2.2</td>
<td>1.8</td>
<td>NORTH</td>
</tr>
<tr>
<td>10</td>
<td>Schleswig-Holstein</td>
<td>6.9</td>
<td>3.5</td>
<td>1.7</td>
<td>SOUTH-WEST</td>
</tr>
<tr>
<td>11</td>
<td>Saarland</td>
<td>6.7</td>
<td>1.2</td>
<td>-0.1</td>
<td>SOUTH</td>
</tr>
<tr>
<td>12</td>
<td>Lower Saxony</td>
<td>6.6</td>
<td>9.7</td>
<td>0.5</td>
<td>NORTH</td>
</tr>
<tr>
<td>13</td>
<td>Hesse</td>
<td>5.7</td>
<td>7.5</td>
<td>-0.1</td>
<td>SOUTH-WEST</td>
</tr>
<tr>
<td>14</td>
<td>Rhineland-Palatine</td>
<td>5.3</td>
<td>5.0</td>
<td>-1.1</td>
<td>WEST</td>
</tr>
<tr>
<td>15</td>
<td>Baden-Württemberg</td>
<td>3.9</td>
<td>13.1</td>
<td>-1.1</td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Bavaria</td>
<td>3.7</td>
<td>15.5</td>
<td>-1.1</td>
<td>SOUTH</td>
</tr>
</tbody>
</table>

Grouping the 16 states into five adjacent regions, the ranking order by unemployment rate is only disturbed by two states with very small shares in the population: Bremen and Saarland. We thus arrive at the following five aggregated regions:

Table 12: German Federal States grouped into five larger regions

<table>
<thead>
<tr>
<th>Region</th>
<th>Description</th>
<th>Population share</th>
</tr>
</thead>
<tbody>
<tr>
<td>EAST</td>
<td>East Germany and Berlin</td>
<td>19.8</td>
</tr>
<tr>
<td>NORTH</td>
<td>the coastal states of West Germany</td>
<td>16.1</td>
</tr>
<tr>
<td>NORTHWEST</td>
<td>= Northrhine-Westfalia, the most populous state</td>
<td>21.8</td>
</tr>
<tr>
<td>SOUTHWEST</td>
<td>Hesse, Rhineland-Palatine, and the Saar</td>
<td>13.7</td>
</tr>
<tr>
<td>SOUTH</td>
<td>Bavaria and Baden-Württemberg</td>
<td>28.7</td>
</tr>
</tbody>
</table>
Figure 29: Five larger labour market regions
Annex 2: Demographic Figures

Table 13: Overall demographic figures of Germany

<table>
<thead>
<tr>
<th>Year</th>
<th>Population (Index: 2000=100)</th>
<th>Working age population (% of overall population)</th>
<th>Population aged 15 to 24 (% of working age population)</th>
<th>Population aged 55 to 64 (% of Working age population)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>82,259,540</td>
<td>55,788,284 (67.8)</td>
<td>9,256,689 (16.6%)</td>
<td>10,594,017 (19.0)</td>
</tr>
<tr>
<td>2001</td>
<td>82,440,309 (100.2)</td>
<td>55,755,743 (67.6)</td>
<td>9,394,744 (16.9)</td>
<td>10,301,764 (18.5)</td>
</tr>
<tr>
<td>2002</td>
<td>82,536,680 (100.3)</td>
<td>55,682,281 (67.5)</td>
<td>9,514,459 (17.1)</td>
<td>10,102,894 (18.1)</td>
</tr>
<tr>
<td>2003</td>
<td>82,531,671 (100.3)</td>
<td>55,509,566 (67.3)</td>
<td>9,621,676 (17.3)</td>
<td>9,893,589 (17.8)</td>
</tr>
<tr>
<td>2004</td>
<td>82,500,849 (100.3)</td>
<td>55,208,740 (66.9)</td>
<td>9,678,080 (17.5)</td>
<td>9,696,206 (17.6)</td>
</tr>
<tr>
<td>2005</td>
<td>82,437,996 (100.2)</td>
<td>54,918,049 (66.6)</td>
<td>9,689,597 (17.6)</td>
<td>9,523,481 (17.3)</td>
</tr>
<tr>
<td>2006</td>
<td>82,314,906 (100.1)</td>
<td>54,574,251 (66.3)</td>
<td>9,610,634 (17.6)</td>
<td>9,411,395 (17.2)</td>
</tr>
<tr>
<td>2007</td>
<td>82,217,837 (99.9)</td>
<td>54,417,397 (66.2)</td>
<td>9,498,464 (17.5)</td>
<td>9,521,961 (17.5)</td>
</tr>
<tr>
<td>2008</td>
<td>82,002,356 (99.7)</td>
<td>54,134,237 (66.0)</td>
<td>9,379,469 (17.3)</td>
<td>9,600,947 (17.7)</td>
</tr>
<tr>
<td>2009</td>
<td>81,802,257 (99.4)</td>
<td>53,877,881 (65.9)</td>
<td>9,251,529 (17.2)</td>
<td>9,731,506 (18.1)</td>
</tr>
<tr>
<td>2010</td>
<td>81,751,602 (99.4)</td>
<td>53,966,108 (66.0)</td>
<td>9,136,385 (16.9)</td>
<td>10,113,452 (18.7)</td>
</tr>
<tr>
<td>2011</td>
<td>81,843,743 (99.5)</td>
<td>54,131,105 (66.1)</td>
<td>9,040,382 (16.7)</td>
<td>10,448,295 (19.3)</td>
</tr>
<tr>
<td>2012</td>
<td>82,020,578 (99.7)</td>
<td>54,280,665 (66.2)</td>
<td>8,957,349 (16.5)</td>
<td>10,708,897 (19.7)</td>
</tr>
</tbody>
</table>

Source: Federal Statistical Office 2014
Annex 2: Additional figures regarding inactivity

Figure 30: Inactivity rates of different age groups in Germany; 2000-2012; in percent

Source: EUROSTAT 2014
Figure 31: Inactivity rates of different age groups in Germany and the EU 28; 2000-2012; in percent

Source: EUROSTAT 2014
Annex 3: Proportion of people with fixed term contracts in the age group 15 to 24 years

Figure 32: Proportion of people with fixed-term work contracts by age group; Germany and the EU 28; 2000-2012; in percent

Source: EUROSTAT 2014; 2000 + 2001 = EU 27
Annex 3: WP 3 - List of relevant innovations

<table>
<thead>
<tr>
<th>no.</th>
<th>Topic / issue</th>
<th>year(s) of taking effect</th>
<th>vulnerable group concerned</th>
<th>assessment</th>
<th>type of innovation</th>
<th>remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>reform of disability pensions</td>
<td>2001</td>
<td>disabled</td>
<td>P</td>
<td>reinforcing traditional policy</td>
<td>take-up rates in long-term decline, no break in time series due to reform; possibly trend reversal without reform</td>
</tr>
<tr>
<td>2</td>
<td>introduction of subsidized part-time work for older workers (phased retirement)</td>
<td>1996</td>
<td>elderly</td>
<td>+</td>
<td>diversion of a traditional (early retirement) path</td>
<td>Helps workers to stay in employment longer; however, in more than 90% of cases participants work full-time in the first half, filling up long-time working time accounts, and take time off in the second half. The traditional early retirement pathway via unemployment was replaced by early retirement while still formally employed.</td>
</tr>
<tr>
<td>3</td>
<td>phasing out early pensions</td>
<td>1996ff.</td>
<td>elderly</td>
<td>+</td>
<td>structural</td>
<td>massive increases of old-age employment rates as reforms take effect; development supported by demographic factors and favourable economic environment</td>
</tr>
<tr>
<td>4</td>
<td>introduction of a new early pension (from 63) for long-term contributors to the pension fund</td>
<td>2014</td>
<td>elderly</td>
<td>?</td>
<td>partial reversal of previous reform path</td>
<td>coalition agreement 2013: untargeted and inconsistent deviation from previous polices; implementation about to start</td>
</tr>
<tr>
<td>5</td>
<td>gradual raising of statutory pension age</td>
<td>2012-2029</td>
<td>elderly</td>
<td>?</td>
<td>structural</td>
<td>too recent and gradual to separate possible effects from innovation no. 3</td>
</tr>
<tr>
<td>6</td>
<td>Federal Programme “Perspective 50plus”</td>
<td>2005-2015</td>
<td>elderly</td>
<td>+</td>
<td>curative (almp for older long-term unemployed)</td>
<td>evaluated as more effective than standard treatment by the PES</td>
</tr>
</tbody>
</table>

**assessment scale**

+ positive impact on resilience-related outcome
P appears promising, but evidence lacking
+ evidence inconclusive
– negative
0 no effect (low take-up)
? no evidence available
<table>
<thead>
<tr>
<th>no.</th>
<th>Topic / issue</th>
<th>year(s) of taking effect</th>
<th>vulnerable group concerned</th>
<th>assessment</th>
<th>type of innovation</th>
<th>remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>De-regulation of temporary agency work</td>
<td>2003</td>
<td>general</td>
<td>++</td>
<td>structural</td>
<td>rise in temporary agency work, in part substituting standard employment, in part additional; buffer protecting core workers in crisis 2008/2009; for those concerned more trap than stepping-stone</td>
</tr>
<tr>
<td>9</td>
<td>Re-regulation of temporary agency work</td>
<td>??</td>
<td>general</td>
<td>?</td>
<td>partial reversal of previous reform</td>
<td>coalition agreement 2013; implementation still unclear; has been integrated in no. 8</td>
</tr>
<tr>
<td>10</td>
<td>Re-regulation of 'mini-jobs'</td>
<td>2003</td>
<td>general</td>
<td>++</td>
<td>path-dependent elaboration of a traditional element of the German employment system</td>
<td>temporary rise in minijobs, in part substituting standard employment, in part additional; contributes to work sharing; for those concerned more trap than stepping-stone; ambivalent function between precariousness and privilege</td>
</tr>
<tr>
<td>11</td>
<td>special rules for 'mini-jobs' in Private households</td>
<td>2003</td>
<td>general</td>
<td>?</td>
<td>see previous line</td>
<td>see previous line; has been integrated in no. 10</td>
</tr>
<tr>
<td>12</td>
<td>Raising the threshold of EPL applicability</td>
<td>2003</td>
<td>general</td>
<td>?</td>
<td>structural</td>
<td>Formally, another 10% of the workforce empted from EPL on the grounds of firm size. No evidence on effects, no debate.</td>
</tr>
</tbody>
</table>

**Labour law and social insurance contributions**

**Wage regulation**

<table>
<thead>
<tr>
<th>no.</th>
<th>Topic / issue</th>
<th>year(s) of taking effect</th>
<th>vulnerable group concerned</th>
<th>assessment</th>
<th>type of innovation</th>
<th>remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>sectoral minimum wages</td>
<td>2000ff.</td>
<td>general</td>
<td>+</td>
<td>structural</td>
<td>Positive evaluations: stabilization and improvement of the wage structure at the lower end without employment losses; reinforcing skilled work</td>
</tr>
<tr>
<td>no.</td>
<td>Topic / issue</td>
<td>year(s) of taking effect</td>
<td>vulnerable group concerned</td>
<td>assessment</td>
<td>type of innovation</td>
<td>remarks</td>
</tr>
<tr>
<td>-----</td>
<td>-------------------------------------------------------------------------------</td>
<td>--------------------------</td>
<td>---------------------------</td>
<td>------------</td>
<td>-------------------</td>
<td>--------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>14</td>
<td>legal minimum wage</td>
<td>2015</td>
<td>general</td>
<td>?</td>
<td>structural</td>
<td>coalition agreement 2013</td>
</tr>
<tr>
<td>15</td>
<td>universalization of in-work benefits (supplementary benefits for ‘working poor’)</td>
<td>2005</td>
<td>general</td>
<td>+-</td>
<td>structural</td>
<td>potentially positive: better work incentives and more work take-ups (no evidence available); potentially negative: subsidies for the creation of a growing low-wage sector (but main boost of low wages occurred before the reform); potentially no effect: similar provisions existed before within several social benefits schemes; reform has concentrated recipients in one benefit category, increased visibility, and made in-work poverty an issue</td>
</tr>
</tbody>
</table>

**Decent and sustainable conditions of work**

| 16  | re-integration of employees after long-term or repeated sickness              | 2004                     | (potentially) disabled    | ?          | curative          | slow implementation; evaluation n.a.                                                       |
| 17  | Federal Initiative “New Quality of Work” (INQA)                              | 2005                     | general, elderly          | ?          | awareness-raising | Overall, agenda-setting and changing the discourse about retirement and working longer has been successful; it is however difficult to assess the effect of this single programme. |

**Social protection against unemployment**

<p>| 18  | entrenchment of earnings-related, insurance-type benefits for unemployed people; making benefits more conditional on job search activity; tightening criteria of ‘acceptable’ job offers | 2003, 2005               | general; some specific regulation for elderly | +-         | structural         | 'Activation' has worked for the very short-term unemployed but not for the long-term unemployed. Unclear to what extent short-term unemployment is generated by activation and deregulation itself. |</p>
<table>
<thead>
<tr>
<th>no.</th>
<th>Topic / issue</th>
<th>year(s) of taking effect</th>
<th>vulnerable group concerned</th>
<th>assessment</th>
<th>type of innovation</th>
<th>remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>19</td>
<td>extension of short-time allowances</td>
<td>2008-2010</td>
<td>general</td>
<td>+</td>
<td>temporary extension of traditional instrument</td>
<td>absorbed about 1/3 of the employment shock in the crisis</td>
</tr>
<tr>
<td>20</td>
<td>creating a second tier of public employment services for working-age persons in need and without or with insufficient unemployment benefit entitlements</td>
<td>2005</td>
<td>general</td>
<td>—</td>
<td>structural (organizational and governance)</td>
<td>Unintended consequence of no. 18. Two models operating in the second tier: Fully municipalized jobcentres and ‘joint facilities’ formed by local branches of the Federal Employment Agency and the respective municipality. Performance of the former in terms of employment outcomes lags behind the latter; therefore assessed ‘negative’. Evaluation of reform in total not possible since counterfactual does not exist.</td>
</tr>
<tr>
<td>20 a</td>
<td>'job points'</td>
<td>2010</td>
<td>local</td>
<td>P</td>
<td>instrumental</td>
<td>Job placement services 'back to the roots': high street offices, anonymous access for jobseekers (⇒ job search free of sanctions and 'activation'), local employers can place job offers without being registered in the PES IT system (⇒recruitment without 'compulsory' candidates)</td>
</tr>
<tr>
<td>21</td>
<td>amending job transfer schemes (job-to-job placement for workers affected by restructuring)</td>
<td>2003 and 2010</td>
<td>general</td>
<td>0</td>
<td>gradual (overhaul of traditional instruments)</td>
<td>evaluation shows very small positive effect of 2003 reform; 2010 reform not evaluated; currently low take-up because of low redundancy rates</td>
</tr>
<tr>
<td>22</td>
<td>start-up support for unemployed people</td>
<td>2003ff.</td>
<td>general</td>
<td>+</td>
<td>gradual</td>
<td>evaluated as having positive effects on employment creation; problem: cyclical policies (support recently dramatically reduced)</td>
</tr>
<tr>
<td>23</td>
<td>make-work schemes for the long-term unemployed</td>
<td>2004ff.</td>
<td>general</td>
<td>+</td>
<td>gradual: temporary expansion of a</td>
<td>ambivalent effects: harmful for taking up regular jobs (lock-in effect), positive for social inclusion; reduced considerably in scale since 2011</td>
</tr>
<tr>
<td>no.</td>
<td>Topic / issue</td>
<td>year(s) of taking effect</td>
<td>vulnerable group concerned</td>
<td>assessment</td>
<td>type of innovation</td>
<td>remarks</td>
</tr>
<tr>
<td>-----</td>
<td>------------------------------------------------------------------------------</td>
<td>--------------------------</td>
<td>---------------------------</td>
<td>------------</td>
<td>-------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>24</td>
<td>marketization of employment-related services</td>
<td>2002ff.</td>
<td>general</td>
<td>?</td>
<td>structural</td>
<td>No evidence available about effects on service quality or outcomes for jobseekers - too many parameters of almp changing simultaneously. Qualitative evidence on deterioration of wages and employment conditions of frontline workers employed by providers.</td>
</tr>
</tbody>
</table>

**Vocational training and the regulation of occupational labour markets**

| 25  | introduction of training vouchers for unemployed jobseekers                   | 2002                     | general                   | -          | structural (with regard to using vouchers to implement traditional instruments of almp)                                                      | Vouchers emulate ‘consumer choice’ in a market for experience and trust-based goods – this is conceptually flawed and has empirically proved inefficient – too many vouchers are never used. |
| 26  | recognition of vocational qualifications obtained abroad                       | 2012                     | migrants                  | P          | gradual: regulations already existing for EU citizens and German repatriates were extended to all foreigners                                   | Take-up and the creation of an infrastructure for counselling and assessment seem promising; recognition rates are high; no evaluation yet available about employment outcomes of those whose qualifications are now recognized. |
| 27  | vocational training for low-skilled older workers employed by SME’s (WeGeBau) | 2006                     | elderly                   | P          | structural: almp’s for employed worker rare and under suspicion                                                                      | Originally initiated by Trade Union Confederation. Take-up numbers moderate, SME’s difficult to reach; no evaluation.                                                                 |

84
<table>
<thead>
<tr>
<th>no.</th>
<th>Topic / issue</th>
<th>year(s) of taking effect</th>
<th>vulnerable group concerned</th>
<th>assessment</th>
<th>type of innovation</th>
<th>remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>28</td>
<td>school-to-VET-to-work</td>
<td>ongoing</td>
<td>youth</td>
<td>+</td>
<td>gradual, repeated</td>
<td>helps to keep youth unemployment low; evaluation of long-term effects on labour market trajectories n.a.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>overhaul</td>
<td></td>
</tr>
<tr>
<td>29</td>
<td>vocational training for young people aged 25-30</td>
<td>2013</td>
<td>youth</td>
<td>P</td>
<td>gradual, extension of no. 28</td>
<td>low take-up rates, no evidence on effects available</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Family and employment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>parental leave benefit</td>
<td>2007</td>
<td>general (parents, also single parents)</td>
<td>+—</td>
<td>structural</td>
<td>As a wage replacement of limited duration, this benefit is clearly employment-related, whereas the forerunner regulation worked as a housewife bonus. Evaluation results are ambivalent with regard to labour market withdrawal or attachment, with differences by region and educational level.</td>
</tr>
<tr>
<td>31</td>
<td>caregivers’ leave</td>
<td>2012</td>
<td>general</td>
<td>0</td>
<td></td>
<td>hardly any take-up</td>
</tr>
<tr>
<td>32</td>
<td>childcare ‘guarantee’ for 1-3 year olds</td>
<td>2013</td>
<td>general</td>
<td>P</td>
<td>structural: the German family pattern with mothers of young children staying at home might change fundamentally</td>
<td>too early to assess impacts; implementation is cumbersome and slow</td>
</tr>
<tr>
<td>33</td>
<td>premium for not using public childcare</td>
<td>2013</td>
<td>general</td>
<td>?</td>
<td>partial reversal of previous policies</td>
<td>Generally criticized as contradicting no. 32 and no. 30: German family policy tries to cater to ‘traditional’ and ‘modern’ families simultaneously.</td>
</tr>
<tr>
<td>no.</td>
<td>Topic / issue</td>
<td>year(s) of taking effect</td>
<td>vulnerable group concerned</td>
<td>assessment</td>
<td>type of innovation</td>
<td>remarks</td>
</tr>
<tr>
<td>-----</td>
<td>---------------</td>
<td>--------------------------</td>
<td>---------------------------</td>
<td>------------</td>
<td>-------------------</td>
<td>---------</td>
</tr>
<tr>
<td>34</td>
<td>General Law for Equal Treatment</td>
<td>2006</td>
<td>migrants, elderly, youth</td>
<td>?</td>
<td>implementation of the European Anti-Discrimination Directive</td>
<td>Impossible to evaluate: Works mostly indirectly by raising awareness and preventing discriminatory decisions.</td>
</tr>
<tr>
<td>36</td>
<td>National Integration Plan / National Action Plan</td>
<td>2007</td>
<td>migrants</td>
<td>P</td>
<td>new form of policy-making: &quot;method of open co-ordination&quot; German style</td>
<td>Works mainly via awareness raising; i.e. as a frame of reference between government departments, government levels, social partners and corporatist institutions.</td>
</tr>
</tbody>
</table>

**Disability policies**

| 37  | National Action Plan Inclusion; regional programmes (federal states) | 2011 | disabled | P | implementation of UN inclusion guidelines; examples for the formation of new networks |