Labor Market Reforms and Labor Market Performance in Germany

1 Introduction

As recently as 2003, Germany pitied itself as “the sick man of Europe” (Sinn 2003). At that time, unemployment ran at 4.4 million (10.5% unemployment rate) according to the national administrative count (youth unemployment rate: 9.9%), GDP shrank by 0.4% (2003 compared to 2002), and employment rates of the population 55 to under 65 years old were at around 40%, slightly below those of Spain. For three decades, there had been a stepwise escalation of unemployment, with increases during economic downturns and with decreases during upturns being too small to return to previous levels.

More than a year before economics professor Hans-Werner Sinn held his speech in November 2003, a commission appointed by then Chancellor Gerhard Schröder and headed by then Volkswagen’s HR director Peter Hartz had presented its proposals for reforming the Public Employment Service, the benefit system for workless people and the system of active labor market policies. Legislation taking up part of the Hartz Commission’s proposals had already been passed, but its centerpiece - the restructuring of benefits - was still under parliamentary negotiation. So Sinn’s gloomy depiction of the German economy and labor market was not free of political purpose but aimed at underscoring the urgency of reforms. The benefit reform was passed just before the Christmas break, but compromise about the structure of service delivery for the recipients of the new benefit took another year so that full implementation of the reform began only in January, 2005.

Subjecting all working-age benefit recipients to activation rules boosted the administrative unemployment count to 13% in 2005, but already in 2006 the tide began to turn: GDP grew by 3.9%, unemployment fell to 12% and continued to decline since, reaching 7.6% in 2014. Compared to 2005, unemployment figures were reduced by almost 2 million (60% of their peak level); according to internationally standardized Eurostat figures, German unemployment was even more than halved. Overall employment grew by 3.4 million, employment covered by social insurance by even 3.7 million, which implies that some previously unprotected jobs were replaced. Despite a dramatic GDP loss of 5.1% in 2009, following the 2008 financial crisis, favorable employment and unemployment trends were only halted but not reversed, and they continued again from 2010 on. Remarkably, all this was accomplished with growth rates hardly higher than those that had gone along with rising unemployment during the 1990s.

So the simplistic version of the story would be this: After more than three decades of cyclically growing unemployment, Germany fundamentally reformed its labor market policies, and the vicious trend was immediately reversed. No wonder experts and politicians in other countries are interested in the details of the reforms and want to adopt similar measures.

However, there are a couple of caveats to be observed:
First, the remaining dark sides of the German labor market should not be overlooked. Long-term unemployment has remained stable around one million (see Table 1). Chances of leaving long-term unemployment by taking up a non-subsidized job stand at about 1.5% per month, whereas it is six times as high for the short-term unemployed (Bruckmeier et al. 2015). Only one third of German employers would consider long-term unemployed jobseekers as candidates for hire (Moertel & Rebien 2013). The percentage of low-wage earners has been growing, mainly before the reforms, but not decreasing since, and attempts at remedy (see 4) are too recent to assess their effect. The reforms have directly increased the incidence of two categories of atypical employment (see 5 below), namely temporary agency work and short part-time free of social insurance (‘minijobs’), and yet, paradoxically, overall labor turnover has declined, rendering the labor market less dynamic.

Second, one should consider the possibility that the favorable developments on the German labor market have hardly anything to do with the reforms but are caused by long-term internal trends (like demographics) as well as changes of the external environment (like global markets) (see 2 for details).

Third, there is more than one reform that might be relevant to German labor market developments. We will therefore not only deal with the Hartz reforms (see 3 below for pension reform).

Fourth, there are important institutional changes not resulting from intentional reform but from gradual erosion of traditional institutions (see 4).

Fifth, some positive features of German labor market performance (like low youth unemployment or the successful ‘weathering off’ of the crisis of the financial markets - see 8 below) are not based on recent reforms but on institutional constellations that remained intact despite the reforms.

2 Relevant macro-economic developments
Before analyzing the German reforms and their possible effect in more detail, one should take a look at some macro indicators underlying the favorable labor market development. The first trend to mention here is demographic ageing. Whereas this is only seen as a problem by most, it can also serve as a cure for unemployment in the short term. Since 1998, the German population of working age (conventionally defined as 15 to under 65 years) has been on the decline. At first, this was compensated by increases in labor market participation. Since 2006, however, also the potentially active workforce is shrinking (Fuchs et al. 2011), which exactly coincides with the inception of the downward trend in unemployment.

Second, the secular trend of a decreasing volume of work (the annual number of hours of paid work in the economy as a whole) was halted, if not reversed since 2006. In the late 1990s, by contrast, GDP growth rates similar to those after 2005 had been compatible with a decline of the volume of work. A slow-down of productivity growth explains the change (Klinger & Weber 2014). This is favorable for the volume of work and thus for employment; it may, however, endanger German competitiveness in the longer term.
Finally, average weekly hours worked by those employed\(^1\) display a long-term downward trend. Since, during the period considered, there were hardly any reductions of full-time working hours, this downward trend reflects growing shares of part-time work, including very short part-time (the so-called minijobs - see \(^5\)). Working-time trends mirror increasing labor market participation of women who, in West Germany with its only modified but not overcome male breadwinner model, takes the form of part-time work at least for mothers of young children. Persisting and different female employment patterns in East Germany highlight how much women's perception of possibilities is culturally shaped.

To sum up, under conditions of moderate but steady economic growth, a slightly growing pie of work has been carved up into smaller pieces distributed among a shrinking labor force. This explains increasing employment and decreasing unemployment without any recourse to the reforms.

### 3 Pension reforms and the ‘working longer’ agenda

International perception of the German reforms is usually focused on the Hartz reforms of 2002 to 2005, whereas pension reforms tend to be overlooked or treated in separate discourses. Furthermore, because of their gradual and long-term nature, these reforms are difficult to pinpoint in time. Legislative acts, their coming into force and their gradual taking effect in practice are extending over a period of roughly 40 years, and further changes will surely be introduced before implementation of the most recent reform will be completed in 2029. The first piece of relevant legislation was passed as early as 1989, and the direction of reforms remained largely unchanged irrespectively of which political parties participated in government. A long-term approach in pension reform is crucial for keeping political opposition at manageable levels: At the time when legislation is debated and passed, nobody yet is immediately affected.

Although there are complementary private as well as company pension schemes, the compulsory public pension scheme still covers the vast majority of the economically active population, and it provides the larger part of old-age income for most retirees (Institut für Demoskopie Allensbach 2013). Therefore, the calibration of the public pension scheme has a strong effect on retirement decisions. In order to avoid technical details, one can simply distinguish two phases of pension reform: (1) the retrenchment of various pathways to early retirement, i.e. before reaching statutory pension age; and (2) the raising of the statutory pensionable age from 65 to 67 until 2029. The latter has begun to gradually take effect only from 2012 on with increases of one month per birth cohort; therefore, the changes in retirement behavior we see so far are primarily related to the first phase, i.e. the retrenchment of early retirement. Whereas early pensions used to be available at 60 (and still are for disabled workers), the earliest pension is now at 63, for which only long-term contributors to the pension fund are eligible.\(^2\)

Employment rates of workers 55plus soared from only 37% in 2000 to currently 65%, surpassing those of Denmark and the UK, and with the potential to soon catch up

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\(^1\) Currently around 1,370 hours - as compared to Korea's goal of a reduction to 1,800 hours by 2020.

\(^2\) After a contribution record of 35 years, contributors can claim a pension with permanent actuarial deductions; access without discount after 45 years was introduced last year (see Knuth 2015 for details).
with the champion group of Sweden, Norway, and Switzerland (cf. Knuth 2015, fig. 4). Pension reforms are not the single cause for this development, which was only possible under conditions of overall employment growth and a shrinking population of working age. Actually, employment growth went almost totally to the benefit of older workers (cf. Knuth 2015 fig. 1), simply because the young workers who could have met employers’ increasing demand for labor were not available in sufficient numbers. Consequently, the increase in employment rates of older workers went without any increase in youth unemployment. Gradual retirement schemes tying subsidies for part-time wage supplements to the hiring of young or unemployed people supported this development.

Despite an impressive and successful government program for helping older long-term unemployed people into work (cf. Knuth 2014), the relatively lower chances of older workers (compared to younger and medium-aged workers) to be hired hardly improved (Brussig & Eggers 2014). In other words, growing employment rates of older workers were mainly brought about by their staying longer in existing jobs. To relevant extent, the growing older of female cohorts who had participated in paid work more than preceding generations and who stayed in their jobs like their male counterparts contributed to this development.

4 Wage setting mechanisms

Institutional changes are not only brought about by institutional reform but also by ‘non-reform’ despite the gradual erosion of an institution. This may be said for the German system of wage-setting through collective bargaining. After the German unification, the West German system of industrial relations never fully took root in East Germany. Therefore, collective bargaining coverage in the East was lower from the beginning and began to decline in both parts of Germany after the unification. This allowed for increasing wage dispersion and a growing proportion of low-wage jobs, which is much larger in the East than in the West (Kalina & Weinkopf 2015). The weakness of collective wage-setting mechanisms especially in certain service sectors explains growing wage differentials between manufacturing and services, overall wage stagnation and even real wage losses during the years 2004-2006. Wage stagnation began well before the Hartz reforms; it may arguably be assumed that the reforms, through their intimidating effect on workers, prolonged the period of low nominal wage growth. The financial crisis of 2008/2009 worked to the same effect so that real wages recovered to the level of 1999 only in 2010 and have been rising since.

The lagging behind of German per-unit labor costs compared to other Euro zone countries has contributed to the imbalances in the Euro zone (Niechoj et al. 2011). Insofar as economic growth could only be achieved through massive export surpluses, it might be argued that wage restraint has improved German competitiveness on global markets. However, wage stagnation was most prominent in the service sectors, and attempts at demonstrating how low labor costs in services translated into price advantages of export manufacturing (Dustmann et al. 2014) appear not

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3 This can be attributed to the legacy of state-dominated trade unionism in East Germany until 1989, which left people in mistrust of unions; the deep rupture of the employment system following the German unification of 1990; and the resulting structure of smaller workplaces largely dependent on West German headquarters or prime contractors.
fully convincing. Furthermore, one would have to prove price elasticity of Germany’s principal export goods on global markets and that wage cost advantages have actually been transformed into price undercutting rather than into profit increases. It has been argued that an alternative growth strategy with higher wages and more domestic consumption would have created more jobs and less economic imbalances (Herzog-Stein et al. 2013).

Erosion and growing dispersion of wages must be seen against the background that Germany, like the Scandinavian countries, traditionally relied on the autonomy of the social partners in collective bargaining and therefore shunned the idea of a statutory minimum wage. Only sectoral *erga omnes* rulings were possible - but not in the absence of some collective agreement that could be assumed to be representative (see Knuth 2012 for more detail). It took a long time even for trade unions to accept that they were no longer able to influence wage setting in certain sectors. After the unions had adopted a legal minimum wage agenda, it took again several years until the current government coalition of Social and Christian Democrats made this a government programme in their coalition agreement of 2013. Subsequent legislation met with continued opposition by employers’ organizations. Nevertheless, as of January 2015, a statutory minimum wage of 8.50 Euros per hour took effect with some exemptions (see Knuth 2015 for more details). Less than one year after its introduction, a comprehensive assessment of the effectiveness of minimum wage legislation and its economic effects would be premature. However, a survey among employers about their hirings in 2014 showed anticipation effects (Kubis et al. 2015), which may be seen as a positive augury for employers’ compliance with the new regulation.

5 Deregulation on the fringes of the labor market

With regard to the so-called ‘flexibilisation’ of the labor market, Germany, since the mid-1980s, has followed the same pattern as many other countries: Traditional employment protection legislation was left largely unchanged but barriers against the use of ‘atypical’ forms of employment were gradually lowered, thus allowing an increasing dualisation of the labor market. The Hartz reforms continued this pattern but added an additional element: The area of applicability of employment protection legislation was reduced by raising the threshold of company size from at least five employees to at least ten, though with guarantees for incumbent workers, thus eventually depriving another 10% of the workforce of statutory employment protection. Given the informal nature of employment relations in SME’s, this move must be seen as largely symbolic; it cannot explain any short-term changes in labour market performance.

With regard to atypical forms of employment, temporary agency work was deregulated by lifting the previously existing bans against fixed-term contracts and rehiring, and the cap on the duration of assignments was removed. 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 bogus 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 organizations were declared illegitimate and the collective agreements concluded by them ruled void. After the reform, the number
of temporary agency workers more than doubled, though still not exceeding 3% of the total workforce.\textsuperscript{4}

Another revision of rules for atypical forms of employment concerns the traditional category of ‘marginal’ part-time employment which is exempt from employees’ social insurance contributions and subjected to only a flat-rate tax paid by the employer. Whereas the applicability of these exemptions was previously determined by a maximum of 15 working hours per week, since 2003 the threshold is defined by monthly earnings of first 400 Euros, now 450 Euros. After the reform, the number of these jobs as persons’ only job increased by about 340,000 within three years - and stagnated since. - The tax and contribution privilege can also be used for second jobs which does not, however, increase employment rates. Growth of this type has continued, reflecting increasing labor demand.

Officially named ‘mini-jobs’ since the reform, these jobs are not formally treated differently with regard to labor law or collective agreements. In practice, however, workers dismissed from such a job tend not to challenge their dismissal in court since it is more convenient for them to just find another mini-job. Especially in the context of ‘on-call’ arrangements, often only hours actually worked are paid and workers are not aware that they are entitled to holiday and sickness pay. These informal practices make mini-jobs an instrument of workforce flexibility and cost-saving for employers (RWI 2012; Bundesministerium für Familie, Senioren, Frauen und Jugend 2012; Hohendanner & Stegmaier 2012). Such jobs are mostly held by persons whose health insurance is covered otherwise: through marriage, by virtue of drawing a pension or a benefit for workless people, or via one’s parents (in the case of student jobs). The vast majority of mini-jobbers are female, and most of these jobs are service jobs.

Even without taking substitution into account, the possible gross effect of the deregulation of these two forms of atypical employment does not exceed a modest one million - as part of an overall employment gain of 3.4 million. On the other hand, if one wants to take a critical perspective of blaming the reforms for expanding the share of atypical employment, then this only holds true between 2003 and 2006. Since then, the share of ‘standard employment’ - full-time, open-ended, covered by social insurance and not with a temporary employment agency - has stabilized at around 62% of total employment, with a slight tendency to grow again in 2012 and 2013 (Statistisches Bundesamt 2015). This demonstrates that the distribution between ‘standard’ and ‘atypical’ employment is not only a question of regulation but also of supply and demand. The number of freelancers and of employees on fixed-term contracts has recently declined since companies have to offer good employment conditions in order to win specialists.

6 Reform of unemployment-related benefits

Restructuring and rescaling of benefits for working-age claimants were at the heart of the Hartz reforms. Until the end of 2004, Germany had three benefits relevant to workless claimants: (1) Contribution-based unemployment benefit (\textit{Arbeitslosengeld}), defined as a percentage of former net income (60 percent or 67

\textsuperscript{4} It was estimated that of the 450,000 additional agency workers (2010 compared to 2002), about half replaced temporary jobs, whereas the other half were new jobs (Jahn und Weber 2013). This would amount to a net employment effect of 0.5%, compared to the total workforce of 2002.
percent for unemployed persons without or with dependent children respectively), without means-testing but of limited duration of normally 12 months, up to 32 months for older workers. (2) Subsequent to the exhaustion of the eligibility period for (1), there was tax-funded unemployment assistance (*Arbeitslosenhilfe*) at replacement rates of 53 percent and 57 percent respectively, open-ended and means-tested; 3. The third tier was tax-funded social assistance (*Sozialhilfe*), flat rate, open-ended, means-tested, and available for all persons in need and unable to support themselves, irrespectively of their employment record.

With the reforms, maximum eligibility of unemployment benefits for older workers was shortened to 24 months. The period within which a minimum of 12 months of unemployment insurance contributions must be demonstrated in order to justify a claim was shortened from three to two years, thus making it more difficult for casual workers to establish a claim. The other two benefits, unemployment assistance and social assistance, were merged into a new benefit called “unemployment benefit II”. This is a misnomer insofar as the new benefit follows more the logic of social assistance than that of former unemployment assistance: It is not related to former earnings but flat-rate; criteria for acceptable job offers are stricter than for recipients of unemployment benefit proper; there is no family component but each family member becomes a recipient of the benefit. Through this logic, formerly economically inactive spouses are obliged to actively search for a job, and they are now included in the administrative unemployment count. This explains the aforementioned unemployment boost in 2005 when the new benefit was introduced. Every person of working age, able to work at least three hours per day, and in need of financial support qualifies for this benefit.

Retrenchment of unemployment benefit eligibility, a favorable economic climate which produces few inflows of ‘fresh’ unemployed claimants who would qualify for unemployment benefits, and the apparent intractability of long-term unemployment interacted to the effect that in 2014 less than one third of unemployed jobseekers received contribution-based and wage-related unemployment benefits, whereas more than two thirds of the unemployed received “unemployment benefit II”. Part of this benefit is also paid as a supplementary benefit to low earners who cannot fully support themselves and their families, and it is also paid while claimants are not available for work because of temporary sickness or because of caring responsibilities. Furthermore, young people in recipient families receive this benefit when they reach working age at 15, but they are not required to work and are not counted as unemployed as long as they are attending school. Children under 15 and family members unable to work receive a lower benefit called “social allowance”. This makes for a large number of claimants who are not unemployed. Table 1 gives an overview of this complex situation and demonstrates how the new system of “unemployment benefit II” plus social allowance for their dependents by far outnumbers the system of insurance-based unemployment benefits.
Table 1: Benefit claimants and unemployed jobseekers of different categories, October 2015 (Thousands)

<table>
<thead>
<tr>
<th>Category</th>
<th>Unemployment benefit</th>
<th>Unemployment benefit II / social allowance</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>unemployed</td>
<td>764</td>
<td>1,885</td>
<td>2,649</td>
</tr>
<tr>
<td>of these: long-term (&gt;1 year)</td>
<td>(106)</td>
<td>(917)</td>
<td>(1,023)</td>
</tr>
<tr>
<td>not unemployed (either employed and in need of supplementary benefits or not available for work)</td>
<td>not possible</td>
<td>1,509</td>
<td>1,509</td>
</tr>
<tr>
<td>dependents (children and family members unable to work)</td>
<td>no benefit</td>
<td>1,720</td>
<td>1,720</td>
</tr>
<tr>
<td>number of claimants</td>
<td>764</td>
<td>5,114</td>
<td>5,878</td>
</tr>
</tbody>
</table>

Source: (Bundesagentur für Arbeit - Statistik)

An appraisal of this claimant pattern can only be ambivalent. On the one hand, the large number of claimants in the second tier of benefits stands for a universal floor of minimum income support that is available irrespectively of unemployment status or previous attachment to the labor market and also serves the function of providing supplementary income for low earners. On the other hand, this pattern is characterized by the contraction of the first tier of benefits, the resistiveness of long-term unemployment and the pervasiveness of poverty.

The abolishment of wage-related unemployment assistance has increased workers’ fear of unemployment (Erlinghagen 2010), since after 12 months they will only receive a flat-rate benefit at the poverty threshold, and because of stricter means-testing they will have to consume most of their savings before they can receive unemployment benefits at all. It appears that this situation has accelerated the job search of ‘fresh’ unemployed, since the rate of outflows from short-term unemployment into employment has increased (Jaenichen & Rothe 2014). On the other hand, this very fear may also have contributed to the decline in overall employee turnover (Giannelli et al. 2013) through increasing the risk aversion of incumbent workers: If they were to take up a new job with a new employer, they would temporarily (for the first six months) forgo legal employment protection, and with less status protection in case of unemployment than before the reforms, this is perceived as more risky.

By contrast, outflows from long-term unemployment have not improved despite increasing demand for labor. Around one million long-term unemployed have remained, almost 40% of the total number of unemployed. Among unemployed recipients of “unemployment benefit II”, almost half are long-term unemployed (see Table 1). The inclusion of all persons in need who are able to work at least three hours per day, which complements the definition of disability (not able to work three hours), has undoubtedly contributed to this situation: Around one quarter of the long-term unemployed claimants on unemployment benefit II are burdened with health restrictions (Koch & Kupka 2012).
7  Duplication of the Public Employment Service

An unintended side-effect of the benefit reform was the creation of a rift in the Public Employment Service. As shown in section 3.4, the new ‘unemployment benefit II’ follows very much the logic of social assistance for which the municipalities were traditionally responsible. Though the reform was designed to relieve municipalities of part of their financial burdens for social assistance (Hassel & Schiller 2010), a majority of them did not want to give up their responsibility for serving clients at risk of poverty. The political and constitutional conflict that ensued was resolved by a series of compromises practically leading to the division of the PES into two tiers (Knuth 2009; Knuth & Larsen 2010). The first tier made up of 156 employment agencies (regional branches of the Federal Employment Agency) continues to be responsible for claimants of contribution based unemployment benefits - who have become few (see Table 1). The second tier consists of 404 local jobcentres serving the much larger group of claimants of ‘unemployment benefit II’. Three quarters of these jobcentres are ‘joint facilities’ (Gemeinsame Einrichtungen) created as separate legal entities by the municipalities and the regional employment agency, whereas one quarter of the jobcentres (serving one-fifth of claimants) is run by the respective municipalities alone. In the context of municipal self-government and federalism5, the governance of the second tier of the Public Employment Service is very delicate.

The institutional rift of the Public Employment Service and the resulting obstacles of its governance tend to counteract the thrust of the reforms towards more efficient services. The figures of job placements directly managed by the jobcenters are quite low, despite the emphasis put on more effective placements during the reform discourse.

8  Boosting a traditional virtue: internal flexibility of the firm

The first talk of a German "jobs miracle" was when the German labor market came through the economic slowdown of 2008-2009 virtually unscathed (Krugman 2009). It was curious that employment was affected so little by the biggest decline in economic activity since 1929. Whereas in earlier downturns unemployment had already increased when economic growth dipped below 1%, in 2009 employment even increased by 0.1% against the background of a 5.1% fall in GDP. For many observers, this proved that the German labor market had become ‘resilient’ as a result of the reforms. However, a closer look reveals that the mechanisms which were decisive for managing the crisis so well are more closely related to traditional institutions and virtues than to the reforms.

There was no property market bubble in Germany to burst and therefore no loss of domestic demand; only the export-oriented part of the economy was directly affected by the crisis. These companies in particular had developed a system of long-term working-time accounts, based on collective agreements, that gave them a level of flexibility in working hours that was unprecedented - and unmatched internationally (Groß & Schwarz 2009; Ellguth et al. 2013). After three years of economic upswing, workers had considerable hours in credit that they could use up

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5 Supervision of the municipalities is the responsibility of the 16 Länder - the federal government has no direct control over municipalities.
during the crisis, and companies had financial reserves with which to continue paying compensation (Schneider & Gräf. Bernhard 2010; Bohachova et al. 2011). Once credited working hours had been recuperated, the employment situation was kept stable using a very traditional instrument of labor market policy, namely the partial replacement of wages for hours not worked by a short-time working allowance funded through unemployment insurance, whose scope was temporarily expanded as an emergency response to the crisis. The number of short-time workers reached the historically second-highest recorded level in 2009. Short-time work nevertheless offset only about one quarter to one third of the decline in production. The by now well-advanced overhaul of the retirement system (see section 3 above) and the shortening of the duration of unemployment benefit for older workers (see section 6 above) largely prevented companies from responding to cyclical downturns as they generally had previously, namely with the voluntary redundancy of well-protected older workers, whose unemployment would then open the door to an early pension (Rosemann & Kirchmann 2010). Dismissing younger workers would have been equally inopportune since companies would have deprived themselves of human resources badly needed in the future.

If there is any connection between the Hartz reforms and the management of the financial crisis, it may have been that workers, works councils and trade unions were more willing to compromise on fringe benefits and even wages because employees had been put on the defensive by the Hartz reforms and by the public debate surrounding them (Kettner & Rebien 2009). After Hartz, any imposition at work seemed preferable to unemployment, and this meant that there was considerable room for negotiation to maintain companies’ workforces.

9 Some tentative conclusions in view of Korea’s Tripartite Agreement on Structural Reforms of the Labor Market

The contraction of Germany’s social safety net – the centerpiece of the Hartz reforms – does not explain economic and employment growth. It may have pushed redundant workers to take up new jobs sooner and with more sacrifices in terms of pay, working conditions and travel-to-work distance; however, it has increased the risk aversion of incumbent workers, thus reducing the re-allocation of labor on the market overall.

The availability of minimum income support at subsistence level for every resident in need is certainly a characteristic of a fully developed welfare state. However, making such support conditional on activation for the labor market for people of working age and able to work may have ambivalent effects if the definition of ‘able to work’ is too wide: Germany, in this way, has boosted long-term unemployment instead of labor market integration. A welfare state aiming at universal activation for work must be prepared to deal with all sorts of physical and mental health problems.

Since the volume of paid work is limited in economies based on high productivity, the shortening of working hours and their wider distribution among the population of working age is indispensible for achieving higher employment rates and more gender equality in labor markets. Germany is an ambiguous example in this respect since the wider distribution of work went along with growing inequality in working hours, thus contributing to the dualisation of the labor market. While female employment rates
increased, the gender working time gap remained virtually unchanged (Kümmerling et al. 2015).

A long-term approach to pension reform seems to ease their acceptance and the stability of the course taken. Proper timing of such reforms in the context of demographic change can help to increase employment rates of older workers without endangering the employment prospects of the younger generation. More difficult to predict than demographic change is the economic environment at the time when reforms will eventually take effect. In this respect, Germany was simply fortunate.

The number of jobs to be gained from dualisation of the labor market appears to be rather limited. Internal flexibility of companies in terms of working hours and work assignments can serve as an equivalent for external flexibility to considerable degrees but is more conducive to developing and maintaining high-quality workforces. On the other hand, dualisation is not only a matter of regulation but can be corrected by changes in the balance between supply and demand on the labor market. Reducing supply by curbing excessive working hours may also help to reduce dualisation.

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