Longest period of employment growth ever

At the end of 2019, Germany is looking back on 14 consecutive years of employment growth. Even the weakest year, the post-crisis year of 2009, saw a minute increase. This is the longest period of employment growth since the post-war reconstruction era from 1950 to 1965 in West Germany.¹ The annual number of paid working hours has been growing as well, though with a slump in 2009 and some subsequent stagnation (Wanger et al. 2019). In other words, though working short-time during the crisis and part-time in general certainly do work as multipliers when economic growth is translated into employment, this is only the smaller part of the story. Compared to 2005, the number of gainfully employed persons was 14% higher in 2018, whereas paid hours of work were 11% more.

In a demographic situation with a shrinking population of working age, employment growth of this magnitude was only possible through further feminization, diversification and ageing of the workforce. Employment numbers of the age group 50plus increased by 66%, while their employment rates went up from 34 to 45%.² For demographic reasons and with employment rates being high already, male nationals had little to contribute to overall employment growth, whereas women increased their employment rates by 10 percentage points. Female nationals and non-nationals experienced increases of similar magnitude, though at different levels. Without migration, employment growth of this magnitude would not have been possible. 46% of the additional jobs since 2005 were filled by non-nationals, and numbers of non-nationals in employment increased by 77%. Between 2006 and 2018, the percentage of foreign-born among the employed population grew from 15 to 19%. Refugees contributed to this development with around 360,000 persons in employment in September 2019 (Bundesagentur für Arbeit - Statistik/Arbeitsmarktberichterstattung 2019; Knuth 2019b).

Unemployment rates came down from 10.3 to 3.4%, with slightly higher rates for men than for women. The share of long-term unemployed persons (12 months or more) in total unemployment decreased only modestly from 56 to 41%, whereas the share of extremely long-term unemployment (48 months or more) came down from 21 to 16%. The employment upswing has left certain vulnerable groups behind whose unemployment cannot be explained in terms of insufficient demand for labor (cf. Knuth 2015). Employers simply consider these groups as not employable under normal conditions, i.e. without massive assistance and wage subsidies (see 3.2 for policy response).

¹ Comparable data for East Germany before the German unification are not available.
² These and other figures without reference are retrieved from the European Labor Force Survey via the Eurostat online database: https://ec.europa.eu/eurostat/data/database.
2 Weak economic dynamics

Normally one would expect a period of extraordinary employment growth as described above to be underpinned by similarly remarkable economic dynamics. However, GDP growth has been modest and recently declining, averaging at 1.7% per year in real terms since 2006. Considering that this modestly increasing output was produced by growing numbers of workers, GDP per capita growth averaged even weaker at 0.6% (Statistisches Bundesamt (Destatis) 2019). In other words, growth in labor productivity, though slightly above Euro zone average (Herzog-Stein et al. 2019), has been lower after 2008 than before (Belitz et al. 2019) and recently turned negative, which explains how weak economic growth can continue to generate employment growth. Low and decreasing investment rates may explain to some degree why productivity development has slowed down, though investment expenditures should increasingly be viewed with caution in this age of digitalization (Haskel and Westlake 2018). Other indicators, however, do support the view that Germany’s currently so favorable employment record is not based on an extraordinarily dynamic economy. Job turnover analysis reveals that employment growth was not fuelled by increasing job creation rates at plant level. Job creation rates have in fact declined, while job destruction rates have declined even sharper (Matthes et al. 2019, p. 7), thus resulting in an overall positive employment balance. One might argue that innovation has taken place within existing workplaces, thus avoiding displacement of workers. However, working conditions surveys of employees show no increases in the incidence of new tasks, of participation in innovation activities or of being confronted with challenges beyond one’s current skills in 2018 as compared to 2012 and 2006 (Lück et al. 2019). This is confirmed by company surveys according to which innovation activities have even been declining since 2010, the year of recovery after the financial crisis (Dahms et al. 2015, S. 89; Dettmann et al. 2019, S. 95). Even the percentage of plants reporting ICT investments is on the decline since 2014 and has generally been at lower levels since 2008 than between 2000 and 2008. Statistical evidence apparently contrasts political rhetoric about “industry 4.0” or “digitalization” (Knuth 2017). This discourse seems to be more indicative of things that ought to happen (and would pose challenges if they were to happen) than dealing with things actually happening now.

Increasing skills shortages (Bossler et al. 2018) had self-amplifying effects since firms tended to hoard skilled workers whom they expect to be even more scarce in the future (Klinger and Weber 2019). Since wage increases, despite increasing difficulties in hiring, have remained modest overall, wage costs have neither discouraged employers from hiring nor have they been a strong incentive to replace labor by capital. To sum up, the basis for Germany’s employment growth has not been rapid modernization but the exploitation of well-established business models to their limits (cf. Knuth 2018). This poses risks when such limits are reached.

3 Is the tide about to turn?

Against the backdrop of increasing tensions between international trading partners, mutual threatening with rising tariff barriers and more than three years during which

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3 The argument runs that investment in intangibles like data, data structures, knowledge, branding and customer ties becomes entangled in day-to-day operations and thus figures as wage costs of production rather than R&D or external purchases of investment goods.
Employment Growth on Fragile Economic Foundations

the UK has been teetering on the edge of leaving the European Union, global trade growth has slowed down since 2018. Though German exports as well as export surpluses have been unbroken until October 2019 (latest figures), the Cesifo business climate index has been on the decline since 2018, though with an upward turn in the very last months of 2019. The monthly IAB labor market barometer shows a similar pattern, with a decline since the beginning of 2018 but an upward twist in November and December 2019. Since the development of wages has normalized since 2013 (Herzog-Stein et al. 2019), domestic demand has stabilized the economy (Dullien 2019).

However, whereas average annual employment growth was 1.1% from 2011 (after recovery from the financial crisis) to 2018 and 1.4% in 2018, it was only 0.9% in 2019. There was a slight decline in job vacancies in the third quarter of 2019; in the metal industries, this decline is more marked and started already in the first quarter (Kubis 2019). So apparently the export-oriented industries are preparing for change, with the imminent substitution of combustion engines by electrical power in the car industry as an additional factor. Because certain mechanical and exhaust-related components are not needed in electric vehicles, a recent study sees over 400,000 jobs at stake in the automotive industries until 2030. In addition, narrowing interest rate spreads are increasingly jeopardizing the traditional business model of the banking industry as older loan contracts with higher interest rates are expiring. New paytech services are processing payments at much lower costs than traditional banks.

Public announcements of staff cuts by companies in the manufacturing, finance and retail sectors appear to have become more frequent already since 2017. This does not yet show up in labor market statistics, however. There is no increase of job exit rates, and the slight increase of entries into unemployment from employment (a rise of 2.2% in 2019 compared to 2018) can only cautiously be interpreted as a turning point when considering that this indicator had been negative in all the previous years since 2010. Three factors are mitigating companies’ public announcements of staff cuts: (1) Announcements are usually higher than effective cuts, since firms want to preserve scope for manoeuvre in negotiations with works councils; (2) a good deal of the cuts are usually managed without dismissals, by not replacing retirees and other quits, and possibly by speeding up retirement; (3) where dismissals may become inevitable, this lies still in the future, in most cases.

So the overall picture of the economy and the labor market is ambiguous. Cautious optimism in some assessments seems to be not without political calculation, whereas the international economic environment as well as the shaky foundations of the German “employment miracle” give reason for pessimism (German Council of Economic Experts 2009).

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6 Wage stagnation, losses in real wage and decline of the labor share had been characteristic of the period 2003 to 2011.
4 Labor market policies

The year 2019 brought two major innovations in active labor market policies which can be related to the overall employment and labor market situation.

4.1 Training subsidies for the employed

Lack of training opportunities for employees has been a long-standing concern. When the Employment Promotion Act of 1969 was replaced by Book III of the Social Code in 1998, certain non-enforceable “obligations” of employers and employees with regard to maintaining employability were established in the introductory paragraphs of the law. Nevertheless, employers’ spending on continued vocational training of their employees, measured as a percentage of total labor costs, remains behind EU average at a level only about half of that in Denmark or France.\(^9\) The percentage of companies offering training programs to their employees has not increased since 2010, and increases in participation on the side of employees are small (Müller et al. 2017). Surveys of participation of workers in continued vocational training invariably show that those with the highest risks of falling behind - employees without formal vocational qualification, foreign-born workers, and older workers whose skills may have become obsolete - are those with the lowest participation rates. Most alarmingly, but not surprisingly, employees whose jobs are largely comprised of routine tasks and who are therefore most at risk of being replaced by computers or robots participate less in continued vocational training than others (Heß et al. 2019).

Against this backdrop, the Federal Employment Agency began to subsidize vocational training courses for employed persons as early as 2002. This departure, though very small in numbers in its beginning, marked a substantial shift in philosophy. The Agency’s budget is in fact derived from unemployment insurance contributions equally shared by employers and employees. The idea of a social insurance implies that claims are justified by a clearly defined social risk, in this case unemployment. Spending unemployment insurance contributions on employed persons requires a “pro-active” or “preventive” interpretation of the unemployment risk. Consequently, the training subsidy must be concentrated on those at risk of becoming unemployed unless their skills are updated, and with the objective of preventing unemployment. In addition, since training their employees is, in principle, the obligation of employers and since employers might benefit from updating their workers’ skills, legal as well as political issues of competitive distortion and prohibited public aid are always lurking in the background of such programs. These are the reasons why the program started very cautiously in 2002 with restrictions to workers aged 50plus employed in establishments with no more than 100 employees. From the beginning, training costs as well as wage costs for hours not worked due to training participation could be covered by the subsidy, fully or in part, and depending on application by the employer. In order to ensure that the subsidy would not simply replace employers’ expenditures for workplace instructions, courses must take place off premises and must provide skills and knowledge beyond short-term workplace adaptation.

Practical experience showed that the take-up of the subsidy was extremely modest, far below consecutive annual budget estimates, so that there was no problem of

budgetary overload or of an unwarranted proliferation of subsidies but rather a problem of getting the program off the ground. Therefore, in subsequent years, the program was extended step by step to workers without certified vocational qualification and in the dimensions of lowering age thresholds of eligible participants and raising size thresholds of eligible employers. Most recently, the beginning of 2019 saw yet another big step in these directions so that now the aforementioned criteria define percentages of the subsidy but no longer exclude any category of workers or companies completely. The subsidy now ranges from 100% of the training costs in workplaces employing less than 10 persons to 15% of the training costs in establishments employing 2,500 or more, whereas wage costs during participation are subsidized between 100% for unskilled workers and 25% for skilled workers in establishments employing 250 or more. The role of the social partners is acknowledged by allowing a 20% training cost subsidy (instead of 15%) in large establishments (2,500 employees or more) if the training is regulated by collective agreement. In detail, this makes for quite a complex grid of eligibility conditions, which may be an obstacle for implementation. Nevertheless, there is rising take-up of the program.

Since seasonal effects of the business cycle and of summer vacations have always made September the month with the highest take-up, it is adequate to make a comparison saying that take-up in September 2019 (latest figures available) has been 34% higher than in September 2018 for the training cost subsidy. The take-up of the wage subsidy (which used to be quite low) has risen more steeply and caught up with the training cost subsidy, so that both have seen around 6,000 entries in September 2019. The stock of participants at any point in time is about four times higher than the number of monthly entries, which gives an indication of the average duration of the courses. At its current pace, the program reaches about 0.1% of the employed workforce of 34 million every year, which makes for an average chance of ever participating during a 35-year working career of about 3.3%. In other words, though the approach of the program is ambitious and its recent upsurge impressive, its scope remains modest and far from providing the solution to ubiquitous challenges of transforming the economy along the lines of digitalization and decarbonization.

### 4.2 Creating jobs for those excluded from the labor market

Another program introduced in the beginning of 2019 is targeting the very long-term unemployed. As observed in previous contributions to this journal (Knuth 2015), the positive development of the German labor market has made the permanent exclusion of certain vulnerable groups even the more obvious. While the vacancy rate went up and firms reported increasing recruiting difficulties (Bossler et al. 2018), there was still an annual average, in 2018, of almost 150,000 people who had been unemployed since five years or more (Bundesagentur für Arbeit - Statistik 2018). These numbers are based on administrative registers where unemployment duration is counted anew after long-term sickness, being out of the labor force or taking part in a labor market program. Therefore, focusing on the duration of periods without employment is more indicative of labor market exclusion than registered unemployment. In a sample of persons who had been receiving minimum income benefits\(^\text{10}\) at least once between January 2005 and December 2014, 37% had experienced continuous periods without

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\(^{10}\) For an explanation of the two benefit systems for workless people see Knuth 2016.
any employment of more than six years (Lietzmann et al. 2018). Applying this percentage to the claimant population of 2018 will yield a magnitude of around 1 million persons. Using long-term benefit recipience\(^\text{11}\) as a second criterion, there were almost 550,000 persons in June, 2018, who had not been in gainful employment and had been receiving minimum income benefits for at least six years (Deutscher Bundestag 2018).

Against this backdrop, politicians and public opinion gradually turned around to admitting the existence of a core of excluded persons who will not be hired under normal conditions regardless of skills shortages, stricter benefit conditionality or benevolent activation programs. These persons tend to be older and to lack formally certified skills, they are more likely to live alone, and females are overrepresented in this group (Lietzmann et al. 2018). Since about 2012, church groups, charity organizations, trade unions, the associations of local governments and a spectrum of political parties ranging from Social Democrats to the Left Party and the Green Party had been debating a new intervention labeled a “socially inclusive labor market”. Contrasting a tradition of almost 100 years of multi-faceted publicly subsidized “make-work” schemes, this initiative can be characterized by four new features:

(1) The “socially inclusive labor market” is not intended to be a quantitatively massive employment program that would compensate for an overall lack of private demand for labor in times of recession or structural chance, as was the case with programs in the 1920s or after the German unification during the 1990s in East Germany. It is rather a program targeted at those excluded from the employment boom. Therefore, extremely low chances of being hired in an unsubsidized job must be ascribed to potential participants.

(2) Assuming that without the program, participants would not work and thus continue to claim the benefit, such a program can be considered partly self-financing. In other words, the net fiscal cost of the program is considerably lower than gross spending on the wage subsidy. It is difficult, however, to adequately represent this relationship in public budgets in order to boost the scope of a program.

(3) Taking notice of numerous evaluations of previous programs, it is now accepted that employment in highly subsidized jobs will rarely improve people’s chances of getting employed in non-subsidized jobs. Rather, the principal objective of the new program is providing participation in society through subsidized employment. This is not ‘workfare’ in the sense of obliging people to work in return for their benefit. By contrast, the benefit is transformed into offering employment at minimum wage level, thus emulating the normality of the work society for people who would otherwise be excluded from it. Since the principal objective is social inclusion rather than rapid placement in an unsubsidized job, participation can last up to five years, much longer than in most previous programs.

(4) Whereas previous “make-work” programs, in order to avoid competitive distortion, were restricted to the public or non-profit sector, the new idea is giving the subsidy to any employer, public, non-profit or pro-profit, who is willing to hire a candidate from the disadvantaged target group. Since all employers are

\(^{11}\) People may not qualify for the benefit even though they are without work because of other sources of income, mainly partners’ earnings.
free to participate, distortion of competition is no longer an issue, and since individual productivity of candidates is considered to be low, there is no fear of other workers being displaced. Furthermore, employers will be banned from the program if they appear to be substituting non-subsidized workers by subsidized ones. Allowing work in normal economic activities is expected to provide a more realistic work experience and to produce a social utility.

After six years of debate, the Social Democratic Party managed to negotiate a package for subsidized “participation in the labor market” into the 2018 coalition agreement with the Christian Democrats, with a quantitative target of up to 150,000 participants. The Ministry for Employment and Social Affairs, headed by a Social Democrat, pressed hard to implement this in legislation, allowing the new program to start in January, 2019. Employers will receive a subsidy of 100% of their wage costs in the first two years of a person’s employment, decreasing by 10 percentage points in the following years to 70% in the fifth and last year. Participants will be paid the legal minimum wage - or more if the employer is bound by a collective agreement. In order to be eligible for this kind of employment, candidates must be aged at least 25, must have received minimum income benefits for at least six years within the previous seven years, during which period they must not have had any regular job. These criteria may be waived for disabled candidates or those living with at least one child under 18. Participation in the program is voluntary in the sense that it is not included in the definition of ‘reasonable employment’ whose refusal will be sanctioned. On request, there is an additional subsidy of 3,000 Euros per participant for vocational training, and participants are receiving coaching services in order to help them adapt to the working environment. Participants who manage to leave the subsidized job in favor of an unsubsidized one can still make use of the coaching for the subsequent six months if needed. Contrary to the intention of stabilizing the set of labor market instruments and of overcoming, in particular, the habit of repackaging and relabeling instruments of subsidized employment every few years, a compromise in the latest stage of the legislative process set a temporal limit for the new instrument at the end of 2024.

The program started slowly, reaching about 34,000 participants in December, 2019. If the program were to continue at this pace, the target of 150,000 participants would be reached only in the very end. More than two thirds of the participants are over 45 years old and only 9% are in the youngest eligible age group between 25 and 35. Women and non-nationals are underrepresented. A break-down of the jobs by occupation and sector gives the impression that “normal” pro-profit employers apparently do play some role but their exact share in the program remains to be seen (Bundesagentur für Arbeit - Statistik 2020).

5 Overcoming the Hartz reforms?

Though modest in size, the new program for “participation in the labor market” certainly marks a shift in philosophy, contrasting the philosophy of the reforms of 2003-2005. The emphasis has partly shifted from benefit conditionality, sanctions and financial incentives towards in-kind services (job coaching). Work is reframed work as a central element of social cohesion and participation rather than an obligation to be enforced by all means. On the one hand, this shift reflects a more relaxed attitude towards labor market issues within society at large, resulting from many years of
employment growth and low unemployment. On the other hand, overcoming the blemish of its erstwhile neoliberal turn under party chairman Gerhard Schröder has become a concern of growing importance within the Social Democratic Party (SPD). In 1998, when Schröder became Chancellor in a coalition government with the Greens, the SPD commanded 41% of the vote, not far from its all-time high of 46% in 1972. In the election for the European Parliament in May, 2019, the SPD got 16%, and in current opinion polls they are down to 13%. The larger part of this downfall (from 41 to 23%) occurred between 1998 and 2009, the decade of the labor market reforms. The demise of Social Democracy, which is to be observed not only in Germany, must of course primarily be attributed to structural changes in Western economies and societies. However, since such structural changes are beyond the party's influence, inner-party debate has concentrated on the party's social policy profile and on marking its distinctions from its Christian Democratic coalition partner since 2005 (with interruption from 2009 to 2013).

To that end, the Social Democrats have outlined “A New Welfare State for a New Era” which was approved by the Party Convention in December, 2019 (Ordentlicher Bundesparteitag der SPD 2019). In this concept, they envisage shifting the balance between contribution-based, wage replacing unemployment benefits on the one hand and means-tested minimum income benefits on the other in favor of the former. They plan to extend the duration of unemployment benefit eligibility after long-standing employment by taking lifetime contribution records into account, and participation in training programs is promised to extend benefit eligibility even further. After this extended eligibility for unemployment benefits is exhausted and need for minimum income benefit arises, means-testing will be more generous for those experiencing an immediate transition between the two benefits. There will be a grace period of two years during which financial and property assets are disregarded in the means-testing. Housing costs will be covered without questioning their adequacy during the first two years.

The strategic thrust of these proposals is obviously reducing employed persons’ anxieties about the financial and status consequences of losing their jobs. Raising the legal minimum wage from now (2020) 9.35 Euros per hour to 12 Euros is targeting employed people as well. There is less in the package for those who already depend on minimum income benefits. Among them, only those who have been on the benefit for at least six years qualify for the new employment program described above.

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12 See Knuth 2019a for the institutional constraints which the party’s paper does not address in its proposal to raise the minimum wage “in perspective”. Of course, in a very long perspective, it will become 12 Euros anyway.
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