

## **UNEMPLOYMENT AND EMPLOYMENT IN GERMANY**

### **Abstract**

The intention of this paper is to present and evaluate the current situation of the German labor market. The first part of the text presents a closer analysis of unemployment and new regulations concerning the payment of unemployment benefits, known as Hartz IV. The next part deals with certain factors that keep companies from creating new positions.

Despite the recent reform, high unemployment benefits still compete with wages and discourage the unemployed from seeking employment that would be subject to income tax and social insurance contributions. It still pays to be unemployed, rather than take up work.

On the other hand, the high labour costs in Germany mean that particularly medium-sized and large companies decide to set up subsidiaries in countries where these costs are lower - preferably in China or Eastern Europe. Such measures allow them to remain competitive in the German market, but lead to additional job losses.

**Key terms:** Employment; Unemployment

### **Introduction**

The German economic growth lasted 25 years and turned the country into the world's third-largest economic power. Towards the end of the 1970s, the Gross Domestic Product (GDP) per German citizen reached 80% of that in America; after the reunification of the Germany, it fell to 74%. Germany has lost its leading position in the EU and now occupies 9<sup>th</sup> place in terms of per capita production (with only the Mediterranean countries lagging behind). Since 1991, the average annual rate of real growth has remained at 1.3% and is lower than in the USA, Great Britain and France. The low rate of economic growth is accompanied by high unemployment and high budget spending.

By selecting „Unemployment and Employment“ as the title of this paper, it was the intention to create awareness of the fact that one of the major problems of German social policy is to treat the symptoms, in this case unemployment, rather than to use measures designed to create new jobs.

Further lowering of the unemployment benefits, coupled with a reform of the collective labour agreements system would facilitate job generation, particularly in the low-paid sector, and contribute to a reduction of the overall rate of unemployment.

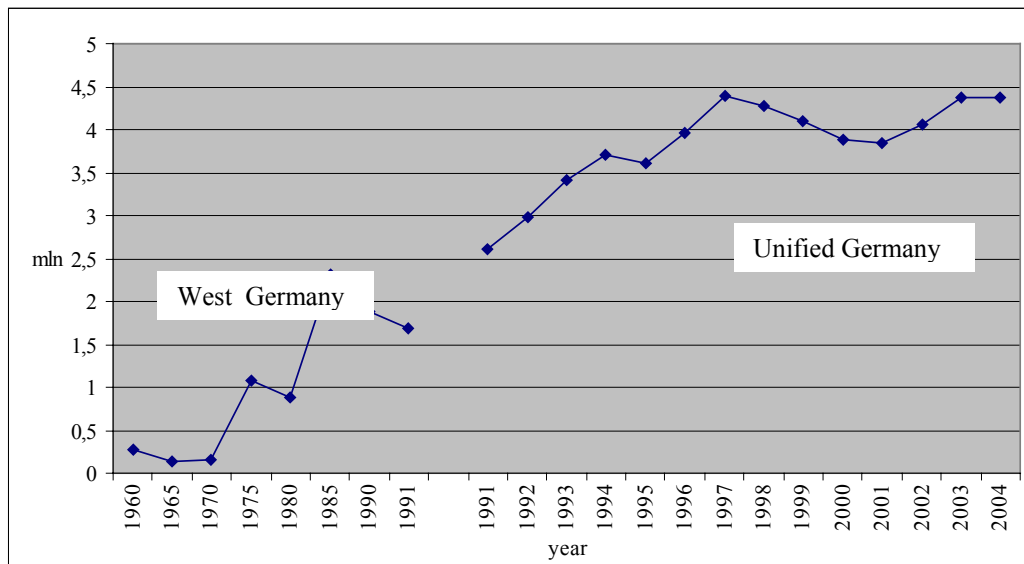
### **Unemployment**

Unemployment in Germany increased in four ten-year cycles, following which some one million new unemployed were added (Chart 1).

- The first cycle took place in the years 1970-80 during which there were approximately 900,000 unemployed.
- The second cycle covered the years 1980-91, adding some 700,000 new unemployed.

- The third decade stretched from 1992 to 2001; in Western Germany some 800,000 new unemployed appeared, with the figure for Eastern Germany reaching nearly 1.5 million.
- The fourth unemployment increase cycle began in 2002 and still continues today. In the year 2005, unemployment went above the 5 million barrier (before then the highest levels were: 2004 – 4,388,000, 1997 – 4,384,000) (Sozialbericht 2005).

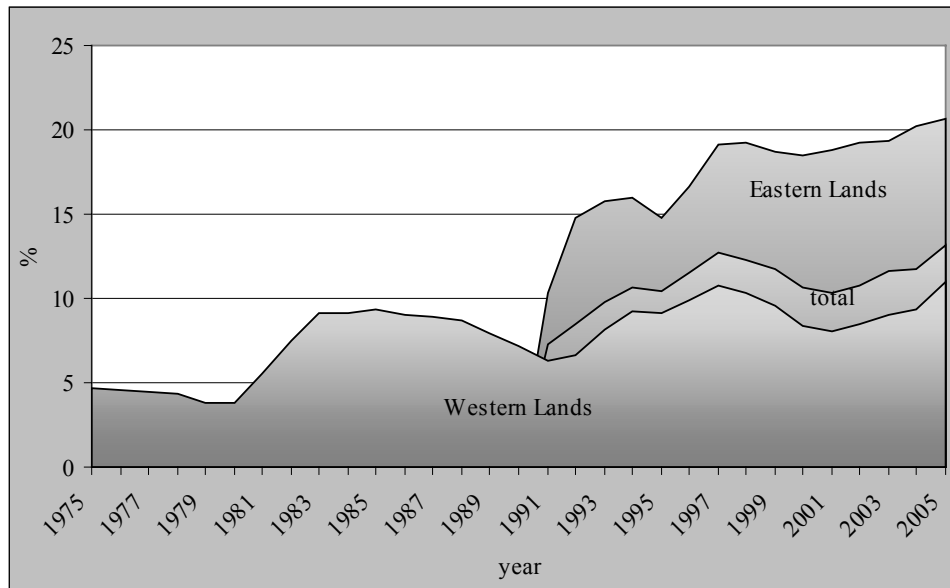
Chart 1. The number of unemployed in Germany in the years 1960-2004 (in millions)



Source: Own compilation on the basis of the data published by Bundesministerium für Wirtschaft und Arbeit, [www.bms.bund.de](http://www.bms.bund.de)

Unemployment in the New Lands remains very high and is due primarily to the transformation. On average, in 2005 there were 4,861,000 unemployed. This represented a rate of unemployment of 11.7% (18.8% in the eastern part of the country and 9.9% in the Western Lands). The period of drawing unemployment benefit increased. Persons, who in 2005 took up employment for the first time, remained unemployed for an average of 39.6 weeks (38.4 weeks in 2004, 37.6 in 2003). In the Western part of Germany this period was reduced by one week to 36.6 weeks, while in the East it increased by 2 weeks to 46.3 compared with the previous year (Arbeitsmarkt 2005. Amtliche Nachrichten der Bundesagentur für Arbeit. 54. Jahrgang. 2006). The number of long-time unemployed, i.e. persons out of work for more than a year, fell in 2005 to 36% (against 38.4% in 2004). However, this ostensible improvement stemmed from changes in the competencies of the agencies dealing with the unemployed. In January 2005, as part of the Hartz IV reform, those previously unemployed had to register with Job Centres.

Chart 2. Unemployment in Germany (in %) in the years 1975-2005



Source: Author's compilation on the basis of *Arbeitsmarkt 2005*. Amtliche Nachrichten der Bundesagentur für Arbeit. 54. Jahrgang. Nürnberg 24.8.2006, p. 32.

In the years 2000-2004, the share of the long-term unemployed increased by 16 percentage points (1.7 million people). Men predominate among them in the West, while women make up the majority of the long-term unemployed in the East. Above all, persons with the lowest qualifications are afflicted with unemployment (approximately 40%).

Growing unemployment is due to, among others, the liquidation of jobs in industry and the relocation of manufacturers to countries with lower labour costs. However, unemployed former industrial workers cannot find new jobs in a different sector, for example, in services, because there are too few vacancies there. The only option left to the middle-aged unemployed is to take early retirement. In the years 1995-2004, 1.33 million new full-time jobs were created in the services sector, while in the same period 1.1 million jobs were lost in the construction industry, 0.3 million in agriculture and 0.19 million in the mining and power sector. In total, 1.59 million jobs were lost in that time (Sinn, 2005, pp. 136, 140).

According to the statistics of Deutsche Bundesbank, German concerns have created some 4.5 million jobs abroad, with some 60% of larger firms (with 1,000-5,000 employees) setting up branches outside the European Union<sup>1</sup>. In 2002, investments in Eastern Europe reached €27 billion<sup>2</sup>. Therefore, the objective should be to reduce labour costs and create incentives to take up employment. The foundations for changes were created under Agenda 2010<sup>3</sup>.

<sup>1</sup> SAP, the largest company in the world making business software, will invest €780 in India over the next five years, with €30 million going towards scientific research and development of new technologies [Der Tagesspiegel, 3 8.06, No 19269, p. 16]

<sup>2</sup> More than Great Britain and France put together (€21 billion) and the USA (€9.4 billion). [Sinn H.-W., *Die Basar-Ökonomie. Deutschland: Exportweltmeister oder Schlusslicht?* Econ Verlag, Berlin 2005, p. 122]

<sup>3</sup> Announced in the spring of 2003, Agenda 2010 was a list of reforms which Chancellor G. Schröder intended to implement. The reform was deemed very radical, and for this reason not all the changes planned by Schröder have been put into practice (e.g., the union-based negotiation system - 'Mitbestimmung' - has been left in place). However, the reform of the social and tax systems has been implemented:

1) stricter unemployment benefit regulations, benefit payment period reduced from 32 to 12 months, reduction of the benefits paid to persons remaining out of work for more than a year, obligation to accept any job, regardless of education and qualifications and penalties for failing to take up offered employment;

The reduction of benefits has failed to change the situation in the labour market, because it did not generate new jobs. At a time of considerable, and even growing unemployment, the unemployed have been offered a chance to earn additional income by taking part in the schemes offered by Job Centre<sup>4</sup>. This offer includes programmes launched by the Labour Office – Arbeitsbeschaffungsmaßnahmen (ABM / the employment creation programme), motivation courses, vocational training courses, skills refreshing courses and the Mehraufwandschädigung (MAE) programme, which could be loosely translated as ‘compensation for additional effort’. This is a new programme offered by the Job Centre. Here, persons claiming dole are given an opportunity to take up employment in public utility enterprises and State institutions, doing jobs that require no specific qualifications. This programme has replaced the so-called socially useful work (gemeinnützige Arbeit), which was available to persons on social security benefits. The pay is between €1 and 1.5 per hour, and the wages are not deducted from the benefit. The maximum working time per week may not exceed 30 (6 hours per day). These programmes are financed with federal funds (tax revenues), managed by Job Centre.

In 2005, a total of 1.24 million persons took advantage of the programmes offered by the Federal Work Agency and Job Centre, 70,000 more than in 2004. Out of this number, 6.5% took part in ABM, as many as 51% in MAE, with the remaining 42.5% engaged in other schemes.

After the reform, the financial situation of the long-term unemployed worsened compared with the period prior to the changes.

In the first half of 2005, a four-person family in western Germany, living on social benefits, received on average EUR 1,560 / month, while the average pay at that time was EUR 1,465/month. In the years 1970-2000, social benefits increased four-fold, and pay only three-fold (Sinn 2005, pp. 83, 85). This has led to a situation in which a person on the average pay receiving no additional benefits is in a worse financial situation than the unemployed (Table 1-4).

Table 1. Benefits received by a single unemployed person before and after the Hartz IV reform (since 1.1.2005)

Previous gross pay EUR 2,000, Western Germany Rent €317 (regional average)	Benefit up to 2004	Benefits received as of January 2005	
	€736.65	in year 1	€747
		in year 2	€705
		in year 3	€662

Source: Selected calculation examples taken from the website of Bundesministerium für Arbeit und Soziales, [www.arbeitsmarktreform.de](http://www.arbeitsmarktreform.de)

2) reform of the healthcare system aimed at reducing contributions, introduction of surcharges on medical appointments and hospital stays and increased prescription charges;

3) introduction of a tax on the activities of persons practising liberal professions, additional tax on tobacco products (the revenues are to be transferred to the healthcare system - €2.5 billion in 2005, Euro 4.6 billion in 2006), reduction of the income tax as of 1.1.2004. The lowest rate pegged at 15% (instead of the previous rate of 19.9%), the highest at 42% (instead of 48.5%). However, tax allowance, for example on the building of own houses, and travel to and from work, have been abolished, together with bonuses for civil servants).

<sup>4</sup> These jobs are now referred to as ‘labour market 2’ (2. Arbeitsmarkt), to distinguish them from employment in ‘labour market 1’ (1. Arbeitsmarkt), i.e. the offer generated by the market.

Table 2. Benefits received by an unemployed single parent with one child before and after the Hartz IV reform (since 1.1.2005)

Previous gross pay EUR 2,000, western Germany	Benefit up to 2004	Benefits received as of January 2005, including child benefit and allowance	
		Rent €414 (regional average)	€1,078.48
in year 2	1.103 €		
in year 3	1.090 €		

Source: as above

Only single parents bringing up one child are slightly (EUR 12) better off after three years of drawing the new benefits. The benefits paid to the remaining groups, including single parents with two children, are slightly lower<sup>5</sup>.

Table 3. Benefits received by an unemployed single parent with two children before and after the Hartz IV reform (since 1.1.2005)

Previous gross pay EUR 2,000, western Germany	Benefit up to 2004	Benefits received as of January 2005, including children's benefits and allowances	
		Rent €485 (regional average)	€1,425.50
in year 2	€1,368		
in year 3	€1,368		

Source: as above

Tab. 4 Benefits received by a married unemployed couple with two children before and after the Hartz IV reform (since 1.1.2005)

Previous gross pay EUR 2,000, western Germany	Benefit up to 2004	Benefits received as of January 2005, including children's benefits and allowances	
		Rent €538 (regional average)	€1,634.50
in year 2	€1.574		
in year 3	€1.574		

Source: as above

The difficult situation in the labour market results mainly from high labour costs borne by employers and little flexibility of this market (extensive regulations protect employees but have a negative effect since employers cannot afford to hire new staff because the redundancy procedure is very strict<sup>6</sup> and guarantees employees long periods of notice and / or severance pay).

### Labour market safeguards system

The legal framework of the regulations applying to job placement, occupational advice

<sup>5</sup> The corresponding figures for the Eastern Lands are lower due to lower rents and benefits (€331 per person).

<sup>6</sup> There is even a regulation prohibiting the sacking of an alcoholic. The employer is obligated to allow such person to receive treatment without terminating the contract of employment.

and support in taking up employment is provided by Book III of the Social Acts Code (Sozialgesetzbuch III<sup>7</sup>) of 1969, amended in 1997 and 2003, by the adoption of the Modern Services in the Labour Market Act. The main objective of the employment policy is a free choice of occupation, consistent with the abilities and interests of a given person, and the creation of employment possibilities for all who want to take up work. The aim of unemployment insurance is to provide income in the event of non-culpable unemployment, thus minimising its economic and social costs.

The leitmotif of the 2003 reform of the unemployment benefits system was: a Social State that activates. Some of the provisions of this reform had been implemented in 2002, others came into effect as of 1.1.2004. One of the changes involved assigning different competencies to the existing agencies. The unemployment insurer is the Federal Labour Agency (Bundesagentur für Arbeit) which has replaced the Federal Labour Office. The provisions of the reform stipulate that the Labour Agency is obligated to inform the unemployed of the situation in the labour market, of vacancies, to provide occupational advice, job placements and to attempt to reduce the period of drawing benefit. The Agency deals with people in the first year of unemployment. Its main task is job placement. To this end, steps have been taken to ensure that Agency personnel deal with 150 persons, and in the case of those aged 15-25, with just 75, instead of 400-800 each, as was the case before. (Hartz IV. 2005, p. 58). This is to offer job seekers a better standard of service and increase their chances of finding work.

The financial resources at the disposal of the unemployment fund include revenues generated by the contributions paid in equal parts by the employee and the employer (totalling 6.5% of the gross pay). This contribution is paid by every employee, regardless of the amount of income. The expenditures of the Federal Labour Agency in 2005 amounted to EUR 53.08 billion. Out of this amount, EUR 13.41 billion was spent on the unemployed in the Eastern part of Germany (25.3%), and EUR 39.67 billion in the Western Lands (Arbeitsmarkt 2004, p. 18). The funds of the FAD come mainly from contributions and federal funds.

Until now the accounts of the Labour Agency used to be in the red. In 2006, the revenues of the FAD exceeded its expenditures for the first time. In August 2006, this surplus was estimated at approximately EUR 8 billion. It may increase to over EUR 9 billion by the end of 2006. The positive balance of the FAD is not due to a reduction of the number of the unemployed, but results from the division of the competencies of two different offices (the Labour Agency deals with the unemployed in their first year out of work and who are financed with national insurance contributions, while those who are out of work for more than 12 months receive benefits from Job Centre and are financed with taxes). The proposal tabled by the CDU, to reduce the unemployment insurance contribution from 6.5% to 4%, is gaining the upper hand in the debate on the use of the FAD surplus. This would allow overall social insurance contributions to be reduced to below 40%.

After a year, those who are still without work are entitled to a lower benefit paid out by the Job Centre. Before the reform this benefit was called 'unemployment assistance' (Arbeitslosenhilfe). Job Centres were created following the merger of the Social Benefits Offices (Sozialamt) with the Labour Offices. Their funds come from tax revenues. After the launch of

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<sup>7</sup> Social legislation has been codified in twelve books. This process began in 1969. Due to the Hartz IV reform, the last books to have come into effect (as of 1.1.2005) were books II and XII. Each of them regulates a different area of social legislation: Book One (SGB I) General provisions, Book Two (SGB II) Basic protection of job seekers, Book Three (SGB III) Work support, Book Four (SGB IV) Common social insurance regulations, Book Five (SGB V) Statutory health insurance, Book Six (SGB VI) Statutory pension insurance, Book Seven (SGB VII) Statutory accident insurance, Book Eight (SGB VIII) Support for children and young people, Book Nine (SGB IX) Rehabilitation and participation of the disabled in social life, Book Ten (SGB X) Administrative procedure and data protection, Book Eleven (SGB XI) – Care insurance, and Book Twelve (SGB XII) Social benefits.

the Hartz IV<sup>8</sup> reform, the benefit is paid out from a single source and combines unemployment benefit (Arbeitslosenhilfe) with social security benefit (Sozialhilfe). This benefit is paid to long-time unemployed and is financed with tax revenues. Persons between the age of 15 and 65, who previously received social security benefit and are able to work, receive the basic job seeker benefit (Grundsicherung für Arbeitssuchende). This makes them eligible for vocational improvement courses or, if necessary, vocational retraining<sup>9</sup>, etc. hitherto available only to those claiming unemployment benefit. Their family members living in the same household receive social security benefit<sup>10</sup> (Sozialgeld).

Since 1.1.2005, there have been two types of unemployment benefits: benefit I and II (Arbeitslosengeld I and II) (Table %).

Table 5. List of unemployment benefit types

Criterion	Unemployment benefit I	Unemployment benefit II
Name before the reform	Unemployment allowance (Arbeitslosengeld)	Unemployment benefit (Arbeitslosenhilfe)
Eligibility depending on	Length of employment before the loss of the job, pay received, age.	Previously claiming benefit I, willingness and readiness to take up employment and lack of alternative sources of income, e.g. savings. Persons receiving this type of benefit are obligated to accept any legal work offered by the Labour Agency, also a Mini Job or part-time job.
Eligibility period	6 months, provided that in the last 7 years before losing the job the claimant was employed for 12 months, 12 months if the period of employment was 24 months (a maximum of 12 months, for those over 55 not more than 18 months)	No time restrictions

<sup>8</sup> The name Hartz derives from the surname of Peter Hartz (born in 1941), who in the years 1993-2005 was a member of the management board of Volkswagen SA and its personnel director. During that time he introduced a four-day working week and the 5,000 x 5,000 programme (meaning the hiring of five thousand employees, receiving pay lower than the tariff pay, i.e. DEM 5,000 per month). In recognition of these innovations, in 1994, he received an honorary doctorate and in 2004 an honorary professorship. In 2002, he was entrusted with developing a package of labour market reforms.

The implementation of the reforms, gathered under the collective name Hartz, commenced on 1.1.2003. By virtue of the Hartz I and II regulations, Mini Jobs, I-Company, the personnel services agency and the Job Centre have been introduced. Hartz III regulated the transformation of the Labour Offices into the Labour Agencies. Hartz IV was launched in January 2005. These regulations apply to unemployment benefits.

<sup>9</sup> Vocational retraining courses (Umschulung) last between 9 months and 2 years. They are open to those who have no chance of finding work in their existing trade (costs are met by the FAD). Vocational retraining is also possible for health reasons and in such case it is classified as rehabilitation benefit financed by the Local Health Boards.

<sup>10</sup> In order to simplify the procedure, the regulations of the reform cede the payment of all benefits and allowances to the long-term unemployed to one agency (previously, it was necessary to file a number of applications, e.g. for the social security benefit at the Labour Department, for the social security benefits for family members at the Social Welfare Department, for the housing allowance at the Housing Allowances Department, and wait for the amounts to be calculated by each of them. This often led to the claims remaining unconsidered because the procedures at one department blocked the procedures at another).

Benefit amount	For persons with 1 child 67% of the average net pay (not exceeding EUR 495.60 per week), for childless persons 60% (not exceeding EUR 480 per week)	Until 2004 for persons with children 57% (childless 53%) of their net pay. As of 2005, this amount has been reduced to the level of the social security benefit (Sozialhilfe), i.e. EUR 345/month in Western Germany and EUR 331/month in Eastern Germany. In addition, in the first year of claiming this benefit, recipients are entitled to an allowance of EUR 180/month, reduced to EUR 80 in the second year, and allowances for children under 18, rent and heating (Bossert, Lampert 2004, p. 320).
Body in charge	Labour Agency	Job Centre
Bodies paying out the benefits also pay the sickness, pension and care insurance contributions for the unemployed.		

Source: Author's compilation based on information provided by Bundesministerium für Arbeit

As part of introducing modern services in the labour market, Personal Service Agencies (Personal-Service-Agentur / PSA) have been set up. Each regional Labour Agency must have at least one such agency. These units operate just like agencies offering temporary staff to employers. During a six-months trial period, the unemployed who work for the PSA receive remuneration equal to the benefit, and then their pay increases to approximately 70% of their last gross salary. Contracts are concluded for a maximum of six months. Failing to take up such work results in a 30% reduction of the benefit<sup>11</sup>. The PSAs were launched in the summer of 2003 in a difficult economic situation. In May 2005, there were 639 PSAs, offering a total of 25,572 jobs, with 20,067 taken up (78%) (Sozialbericht 2005, p. 14). Over two years (2003-2005), out of 94,554 persons who completed their employment via the PSA, 30,533 (32.3%) have found work covered by social insurance. Initially, the aim was to find work for 1% of the unemployed. This target has now been adjusted downwards. As the PSAs do not work as efficiently as expected, there is a debate on their liquidation.

The second innovation was the launch in 2003 of the so-called I-Company (Ich-AG), intended to encourage people to engage in economic activities at their own risk. Those deciding to do so received subsidies in the first three years (EUR 600 per month in year one, EUR 300 per month in year two and EUR 240 per month in year three).

The third new solution is the instrument called a Mini Job. This is part-time employment. The intention of the reformers was to reduce the rate of unemployment, particularly among unskilled persons. Earlier regulations defined a Mini Job as employment offering pay of up to EUR 325 per month and a maximum of 15 working hours per week.

Together with Mini Jobs, Mid Jobs were introduced. This is low-pay employment with wages between EUR 400.01 and 800 per month. Until now, the social insurance contributions on pay exceeding EUR 325 used to go up considerably (from 22% to 40%). Now, they increase in line with pay. This type of work is not really attractive for the unemployed, as the wages are equal to or only a little higher than the benefits.

The merging of the benefits has revealed a high rate of unemployment among the

<sup>11</sup> As of 2007, three consecutive refusals to accept a job on offer will result in a total suspension of the benefit.



young who, until that time, claimed social security benefits. In March 2005, 100,000 persons from this age group registered for the first time (Hartz IV. 2005, p. 78). This group is characterised by low skills (every third person has failed to complete school education) and participates mainly in motivation and orientation training courses. The JUMP (**Jugend mit Perspektive**) programme for the unemployed under 25 was launched in 1998, which reduced the rate of unemployment in that group from 11.8% in 1998 to 9.1% in 2001; and in the under-20s group from 9.6% in 1997 to 4.2% in 2004 (Sozialbericht 2005, p. 22).

Despite the difficult situation in the labour market, it was also possible to increase the rate of employment in the 55+ age group from 37.8% in 1998 to 41.2% in 2004 (Sozialbericht 2005, p. 24).

## Employment

The West German tariff autonomy<sup>12</sup> (Tarifautonomie) pertaining to collective pay agreements was immediately applied in the Eastern Lands. This resulted in pay increases far outstripping productivity increases.

Shortening working hours has failed to change the situation. It has distributed the available jobs among a small number of additional employees, and the total number of hours worked in Germany fell in the years 1982-2002 by approximately 30%. Over the same two decades, it increased in the USA by 38%, and in Holland by 34% (Sinn "Saving money!- No, thank you.", p. 2).

In the period after German reunification (1991) the working week was reduced under the pressure of the trade unions. The belief that working time reduction will allow the total volume of working time to be divided among a greater number of employees still persists. The annual working time was reduced between 1970 and 2004 from 1,956 to 1,443 hours<sup>13</sup>. In 2005, it was further cut to 1,350 hours<sup>14</sup>.

The collective pay agreements attained by the trade unions prevent businesses from offering low-paid jobs, and stop those willing to take them on from doing so. Had it not been for these restrictions, there would not have been so many unemployed people with low skills.

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<sup>12</sup> Tariff autonomy means that the trade unions conduct negotiations and conclude collective pay agreements with employers' unions (Arbeitgeberverbände) without the participation of the State. This freedom is guaranteed under Article 9 of the German Constitution.

German trade unions appeared in the industrialisation period, i.e. in the 1850s, as sector-specific or regional organisations. Their aim was to participate in the supervisory boards and influence the decisions taken by company owners (this objective has not been attained), and to reach equality in taking decisions regarding social and personal issues.

In Germany there are several types of collective agreements. The most general one is called Manteltarifvertrag and is concluded for a long period, even for unspecified time, until the conclusion of a new agreement. This agreement defines the general rules, e.g. relating to employment and dismissal, sickness, work in shifts and employee training courses. The rights and obligations of the parties are defined by an agreement called Tarifvertrag, which is a collective agreement concluded between the government and the national representation of employees, regarding work and pay conditions. There also exist collective agreements covering specific areas (Flächentarifvertrag), e.g. a given Land or one or more sectors. Here, enterprises outside the unions are not obligated to apply its regulations.

In addition, there are also pay agreements called Gehaltstarifvertrag, pay groups agreements (Rahmentarifvertrag), sector pay agreements (Spartentarifvertrag), agreements between the trade unions and a given company (Firmentarifvertrag, Haustarifvertrag and Werktarifvertrag) and social plan agreements (Sozialtarifvertrag) determining the order in which employees may be made redundant; here persons with children and sole breadwinners are always protected).

<sup>13</sup> Rentenversicherung in Zeitreihen. Band 22, Deutsche Rentenversicherung und Bund, Berlin 2005, Volkswirtschaftliche Daten, s. 245

<sup>14</sup> Arbeitsmarkt 2005. Amtliche Nachrichten der Bundesagentur für Arbeit. 54. Jahrgang. Nürnberg 24.8.2006, s. 44

Such systems operate in the USA and Japan. A reform of the collective pay agreements in Germany would allow companies to offer pay below the level set in such agreements, thus contributing to a reduction of the rate of unemployment.

The factors, listed in the table below, for example the regulations of the protection against unlawful dismissal or the limited opportunities of fixed-termed employment contracts keeping companies from creating new jobs. Therefore enterprises are heavily hindered in their flexibility to react to different order situations.

Table 6. List of factors that discourage businesses from creating new jobs in % (839 businesses = 100%)

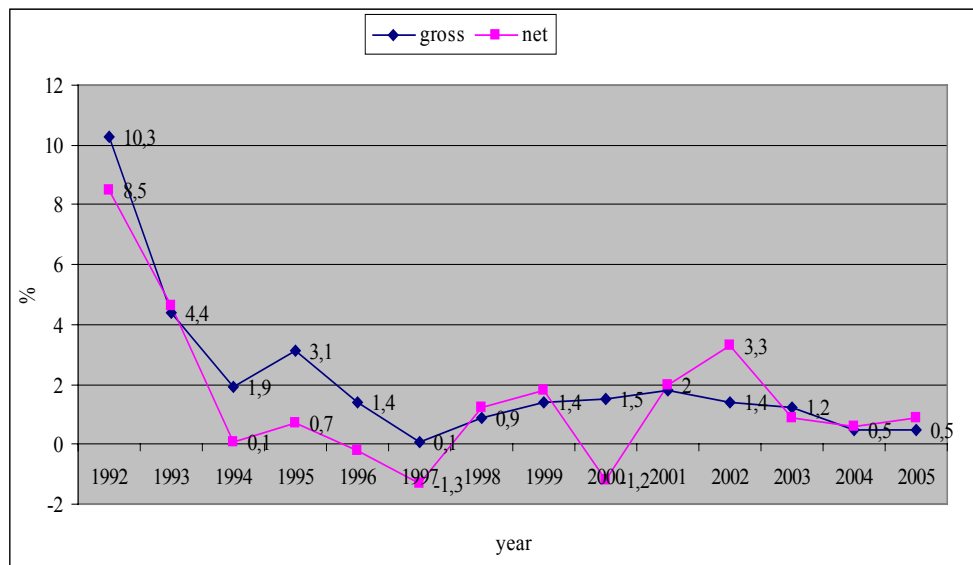
Criterion	Decided not to hire a new employee for this reason	Would create new jobs, provided that these labour regulations were changed
Statutory protection against dismissal	57	70
Inflexible tariff agreements	40	53
Lengthy litigation	39	44
Restricted possibilities of concluding contracts for specified time	29	65
Statutory working time regulations	29	50
Red tape, the obligation to carry out approbation proceedings	25	46
Statutory regulations regarding the right to work part-time	19	33
Strike regulations stacked against employers	17	29
Participation of the workforce in the decision-making process in the company	15	31

Source: A survey carried out in the autumn of 2003 at 859 enterprises by Institut der deutschen Wirtschaft in Koeln, quoted from Wachstum und Beschäftigung fördern, p. 14

Because of high labour costs and extensive protection of employees against dismissal, new jobs are created in Germany only when the rate of economic growth reaches 2%, compared to 0.5-0.7% in the USA.

As pay has not increased for years (Chart 3), taking up employment, especially in the case of people receiving child and/or housing benefits, means a reduced income and no free time. Because of generous benefits not all claimants are interested in finding work.

Chart 3. Average annual gross pay increases in Germany in the years 1991-2005



Source: Bruttoinlandsprodukt 2005 für Deutschland, Statistisches Bundesamt, Wiesbaden 2006, p. 22

Unemployment in certain social groups (unskilled and/or not integrated foreigners) is a result of the education process. Schools do not prepare pupils for their future life as employees. Another high unemployment factor is the possibility of receiving relatively high benefits in the event of not taking up work. After several years of job seeking, filled with constant failures, unskilled persons gain the status of the “professionally unemployed”.

## Conclusion

The full employment objective, set in 1966 as part of the Stabilisation and Growth Act, has the following effects on the labour market and employment conditions: the supply of work declines, while pay increases, as this is a positive situation for the trade unions, periods of full employment result in pay increases. Despite the aforementioned objective, unemployment in Germany has been increasing continuously. The full employment objective has not been pursued since 1975. Some contributing factors are independent, while some appear as a result of other factors. The circumstances preventing the attainment of this objective include, among others:

- 1) rationalisation connected with the implementation of new technologies, replacing cheaper ‘labour’ with a more expensive, but also more effective, low-maintenance ‘capital’, e.g. assembly lines and robots,
- 2) saturation of the market with durable consumer goods, leading to the loss of jobs in industry,
- 3) the policy of the trade unions which, in the years 1969-1977 and the 1980s, led to pay increases out of step with productivity increases<sup>15</sup>, and to higher wages of semi-skilled

<sup>15</sup> In the EU countries unemployment has been growing since the oil crisis in the 1970s, because the governments, acting under pressure from the trade unions, prevented pay cuts, bearing in mind the interests of both the unemployed and the employed (e.g. Sweden, Switzerland, Austria). In the long run this harms the competitiveness and profitability of businesses. In the USA and Great Britain, pay increases were sacrificed in favour of increased employment.

workers,

4) the trade unions blocked attempts to increase the flexibility of employment forms, including extending the offer of part-time work, as well as regulations applying to redundancies: shorter periods of notice and redundancy conditions more beneficial to employers (allowing better rotation and competition).

Although unemployment is considered public enemy number one, the expenditures related to it still remain amongst the lowest in welfare states (approximately 10% of budget expenditures). In 2004, this spending was three times lower than the expenditures on pensions. This disproportion demonstrates the priority of the socio-economic policy, which is oriented towards supporting passivity (the period following the cessation of gainful employment), instead of activities aimed at creating and maintaining jobs.

The labour market reforms have not contributed to an improvement of the situation. The Hartz IV reform has made living on benefits less attractive, but because the market has not generated new jobs, it has not rendered work more attractive simply because of its acute shortage.

Employment, also in the low-paid sector of the labor market comprises various obligations for employers such as holiday claims or the maximum work time per week. Also in phases of recessions companies cannot reduce their workforce due to laws against unlawful dismissals. As long as these regulations are still in effect companies will hire only as many employees as absolutely necessary. A good opportunity for the German labor market to change is the reformation of wage agreements and employment regulations. This would create the foundation for flexible solutions for every company as well as for those in financial embarrassments.

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