

Decent Work Country Report - Germany*

by

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March 2008

International Labour Office
Regional Office for Europe and Central Asia

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ISBN 978-92-2-122033-6 (web pdf)

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Glossary

| | |
|--------|--|
| ABM | Arbeitsbeschaffungsmaßnahmen (Job Creation Schemes) |
| BA | Bundesagentur für Arbeit (German Federal Employment Office) |
| BMAS | Bundesministerium für Arbeit und Soziales (Federal Ministry for Employment and Social Matters) |
| BMBF | Bundesministerium für Bildung und Forschung (Federal Ministry for Education and Research) |
| BMFSFJ | Bundesministerium für Familien, Senioren, Frauen und Jugend (Federal Ministry for Families, Seniors, Women and Youth) |
| BMWi | Bundesministerium für Wirtschaft und Technologie (Federal Ministry for Economy and Technology) |
| BDA | Bundesverband der Deutschen Arbeitgeber (Federation of German Employers) |
| BDI | Bundesverband der Deutschen Industrie (Federation of German Industry) |
| CDU | Christlich Demokratische Union Deutschlands (Christian Democratic Union) |
| CSU | Christlich-Soziale Union Deutschlands (Christian Social Union) |
| IAB | Institut für Arbeitsmarkt- und Berufsforschung (Institute for Employment Research) |
| DGB | Deutscher Gewerkschaftsbund (German Federation of Trade Unions) |
| DIW | Deutsches Institut für Wirtschaftsforschung (German Institute for Economic Research) |
| PSA | Personal-Service-Agentur (Staff Service Agency) |
| SPD | Sozialdemokratische Partei Deutschlands (Socialists Party) |
| Ver.di | Vereinigte Dienstleistung (Union in Services) |
| WSI | Wirtschafts- and Sozialinstitut der Hans-Böckler-Stiftung (<i>Economic and social sciences Institute of the Hans-Böckler-Foundation</i>) |

I. Introduction

Until the 1990s, the Rheinian labour market model of Germany was a comparatively egalitarian system. Influential trade unions and a vast improvement of the standard of living in the 1950s and 1960s had laid the basis for comparatively high and universal standards for the protection of workers against dismissal, restrictions of inconvenient hours of work and safety at the workplace. The distribution of wages remained relatively compressed.

In the 1990s, these high standards became increasingly under pressure for two major reasons: First, an increasing awareness evolved that protection of workers, high wage levels and the small dispersion of wages came at the cost of the unemployed as they prevented firms from creating new jobs (OECD, 1999: 47-132). Second, an intensified institutional competition, resulting from the rising mobility of goods, capital and certain groups of workers, extended the companies' opportunities to relocate production facilities abroad in order to reduce labour costs. As a consequence, workers in Germany, especially those with simple qualifications, were increasingly competing for jobs with workers in countries where the wage level is lower or the working conditions worse. Wages and conditions of work, which might be acceptable in a poorer country, may appear indecent in Germany where commonly more resources are required to keep up a credible way of life and avoid social exclusion.

The end of the 1990s marked a turning point. The Social Democratic government regarded cuts in the social protection system and deregulation of work as unavoidable in order to hold up the core elements of the German welfare state. A comprehensive package of labour market reforms worked out by the Commission on Modern Services on the Labour Market (*Hartz Commission*) under the headline of the Agenda 2010 was established and implemented into law between 2002 and 2005 (see box I). They substantially changed the institutional conditions of the labour market, especially in the low-wage sector, and the social protection systems.

Box I: Recent legal changes implemented in the scope of the Hartz-reforms

Unemployment Benefit 1

The Unemployment Insurance (*Arbeitslosengeld*), which is an insurance-based scheme, meaning that entitlements depend on contributions paid in the past, has been transformed into the so-called Unemployment Benefit 1 (*Arbeitslosengeld I*). In February 2006, the receipt period of that benefit was shortened to 12 months or, for beneficiaries older than 55 years, 18 months (Steiner, 2007: 5). In 2007, the coalition parties agreed a legal draft for the re-prolongation of the receipt period for older people. It passed the Second Chamber of the parliament in February 2008 and stipulates that unemployed persons older than 50 can obtain the Unemployment Benefit 1 for up to 15 months, persons older than 55 for up to 18 months and persons older than 58 for up to 24 months (*Financial Times Deutschland Online*, 15-02-2008).

Unemployment Benefit 2

Since January 2005, Unemployment Assistance (*Arbeitslosenhilfe*) and Social Assistance (*Sozialhilfe*) have been merged into a single scheme called Unemployment Benefit 2 (*Arbeitslosengeld II*). Before the reform Unemployment Assistance had been provided with the aim of bridging temporary income losses resulting from unemployment. The amount of the benefit was dependent on the salary obtained in the last job. Social Assistance had been paid with the primary aim of poverty prevention, i.e. guaranteeing a decent existence for all citizens. The reception of Social Assistance was dependent exclusively on a person's needs, not on previous contributions or employment status. After the reform, persons who are physically able to work for at least three hours per day are entitled to a single benefit, the Unemployment Benefit 2. It is meant to serve two goals: poverty prevention and support for taking up or staying in employment. For the calculation of the entitlement, the income earned by the beneficiary's cohabitants is taken into account to a greater extent than before in the calculation of the Social Assistance payment. People unable to work can apply for Social Pay (*Sozialgeld*) (Bruckmeier and Schnitzlein, 2007: 10-12, 31; Konle-Seidl *et al.*, 2007: 6-17; Steiner, 2007: 5).

In October 2005, the amount of employment income not taken into account in the needs-test of the Unemployment Benefit 2 was changed. Since then, up to EUR 100 gross income can be earned in addition to the benefit without losing any entitlement to Unemployment Benefit. For all additional income between EUR 100 and EUR 800, the unemployment benefit reduces by 80 Cent per Euro earned (after deduction of taxes and social security contributions) and for all additional income between EUR 800 and EUR 1200, the unemployment benefit reduces by 90 Cent per Euro (Bruckmeier *et al.*, 2007: 2).

One-Euro Jobs

In January 2005 work opportunity rules (so-called '*one-Euro jobs*') were introduced allowing unemployed persons to work in communal and charity organisations for an hourly wage between one and two Euro without losing entitlement to unemployment benefits. They are supposed to be offered to the unemployed with the primary goal to increase their employability, but they can also be used to test the willingness of the unemployed to work. The main target groups are the unemployed younger than 25 years, the old stratum of the unemployed, the long-term unemployed and the unemployed with immigration background (Cichorek *et al.*, 2005: 3; Wolff and Hohmeier, 2008: 1f.).

Mini-Jobs

In April 2003, the wage level, below which employees are exempted from social security contributions, was lifted from EUR 325 to EUR 400. For each job falling below this threshold (mini-job) the employer is obliged to pay a lump-sum amounting to 25 per cent of the wage. From this, 12 percentage points flow into pension schemes, 11 percentage points into health insurance and 2 percentage points are deducted as taxes. For jobs, falling into the bracket between EUR 400 and EUR 800 monthly wage (midi-jobs), the employees' social security contributions are not fully levied but progressively increase from 4 to 21 per cent of the wage, the rate imposed on regular employment. Employers pay the full contribution of 20.85 per cent. The income tax is calculated according to the regular schedule (Rudolph, 2003; Steiner, 2007: 8).

Start-up Subsidy

Since the first of August 2006, the Start-up Grant (*Gründungszuschuss*) has been introduced, which replaced the former Bridging Allowance (*Überbrückungsgeld*) and *Ich-AG* ('Me Ltd.') subsidy. Whereas the individual amount of Bridging Allowance was based on unemployment benefits and social insurance contributions and paid for only six months, the *Ich-AG* allowance used to be paid as an annually decreasing lump-sum for three years provided that annual income did not exceed EUR 25,000. The new Start-Up Grant is first paid for nine months as a monthly allowance based on unemployment benefits plus a EUR 300 lump sum for social insurance. After this period, EUR 300 can be paid monthly for social insurance contributions for a half year. Moreover, the receipt of this self-employment subsidy has tighter conditions: The applicant needs to be registered as unemployed, eligible for unemployment benefits for at least 90 days, and prove his ability to run a business. Furthermore, only new start-ups declared as a single employment/activity are now supported. There is no obligation to be covered by social security (Caliendo and Steiner, 2007: 26).

Staff Service Agencies

The new reform also introduced 'staff service agencies' (*Personal Service Agenturen*, PSA), which are located at local or regional Employment Offices. Their overall purpose is to support unemployed persons in finding a job by giving employers financial incentives. By employing unemployed persons, private firms can receive bonuses and relief of unemployment insurance contributions. PSAs complement the work of privately organised temporary work agencies. They employ unemployed persons on fixed-term contracts and lease them primarily to other companies with the aim of long-term employment. Otherwise, they have to deliver training to enhance job seekers' employability. Since 2005 employment contracts are, as a rule, limited to a minimum of six months. PSAs' remuneration structure combines expense- and performance related components. Flatrate payments for expenses have since been at a uniform rate of 500 EUR per month for the first six months of employment at a PSA. Placement premiums are determined through competition but must not exceed EUR 3,500 (BMAS, 2006: 18).

This report shows that the reforms of the Agenda 2010 also had a strong impact on the conditions of the economically active population, particularly by widening the differences between groups of workers. In the German labour market of today, the conditions of workers differ more than ever with regard to wages, type of the work arrangement, length of working hours and working pattern, protection from dismissals and from unforeseen losses of income. The main trends are summarized in the table below.

Table I: Trends in working and employment conditions, Germany, 2008

| Matters | Trend |
|------------------------|--|
| Employment type | Growing share of self-employed, part-time and temporary workers in total employment at the expense of the share of regular full-time employment; Informal and exploitive labour concentrated in sectors where workers have simple qualifications. |
| Wages | Slow growth, in recent years even decline, of real wages; dramatic increase of the earnings of the richest; Expansion of the low-wage sector; Prevailing wage gap between east and west Germany. |
| Working hours | Growing spread of weekly working hours; Polarisation of part-time and full-time workers' working hours; Increase of unpaid overtime through the use of time accounts, inconvenient working hours and flexible working hours not controlled by workers; Modestly narrowing gap between working hours in the east and west. |
| Health and safety | Evidence that irregular, long and inconvenient working times, as well as job insecurity affect workers' health. |
| Social protection | Significant income losses for unemployed; New emphasis on active labour market policy promotes transition from unemployment into subsidised employment, but, as far as can be observed today, not into regular employment; Almost consolidated budgets of the social insurance systems as a result of the most recent economic upswing, restrictive fiscal policy, reforms of the social insurance systems in the past, and falling unemployment; Share of old-age insurance expenditure in the social budget rises at the cost of social assistance and health insurance expenditure |
| Work and Family | Not enough childcare facilities, especially in West Germany; women postpone child birth to times in which they expect higher work security. |
| Education and Training | Low qualification is an important determinant of unemployment and poverty; share of expenditure on education and training in GDP still below the target of the Lisbon strategy; excess demand for labour in the segment of highly qualified workers, but difficult recruitment of workers from abroad due to the immigration law. |
| Social dialogue | Decentralisation of collective bargaining, diminishing coverage of collective agreements; Workers' participation in firms' profit or capital still below 10 per cent. |

II. Economic and social context

1. Macroeconomic Development

After a period of sluggish growth between 2001 and 2005, Germany has experienced a remarkable economic recovery in recent years, which is reflected in GDP growth rates of 2.9 per cent in 2006 and 2.5 per cent in 2007. As we can derive from table 1, the main engine behind that growth was the export demand, the growth rates of which considerably increased as early as in 2004. In 2005 a considerable expansion of investments followed. However, the most recent economic upturn did not significantly influence the development of private consumption until the end of 2007. This was obviously the consequence of a modest increase of wages until 2006 and a tight fiscal policy. In particular, the value added tax of 2007, which saw an increase of the tax rate from 16 to 19 percentage points, made domestic demand shrink in 2007 (Projektgruppe Gemeinschaftsdiagnose, 2007: 31-35). Since 2006, we can observe an effect of the economic upturn on employment. The number of employed persons grew by 0.6 per cent in 2006 and 1.7 per cent in 2007 (see table 1.1). The unemployment rate, measured according to the ILO labour-force definition, reduced from 9.1 per cent in 2005 to 8.1 per cent in 2006 and 6.4 per cent in 2007 (ibid.: 51).

Table 1.1: Development of the macroeconomic situation 1995-2007

| % | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---------------------------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| <i>Growth rates</i> | | | | | | | | | | | | | |
| GDP ¹ | 1.9 | 1.0 | 1.8 | 2.0 | 2.0 | 3.2 | 1.2 | 0.0 | -0.2 | 1.1 | 0.8 | 2.9 | 2.5 |
| Private consumption ¹ | 2.2 | 1.3 | 0.8 | 1.5 | 3.0 | 2.4 | 1.9 | -0.8 | 0.1 | 0.2 | -0.1 | 1.0 | -0.3 |
| Public expenditure ¹ | 1.9 | 2.1 | 0.5 | 1.8 | 1.1 | 1.4 | 0.5 | 1.5 | 0.4 | -1.5 | 0.5 | 0.9 | 2.0 |
| Investment ¹ | 1.3 | -3.6 | 1.3 | 5.3 | 3.3 | 2.3 | -7.8 | -9.1 | 2.4 | -0.3 | 1.4 | 6.1 | 4.6 |
| Exports ¹ | 6.3 | 6.0 | 11.7 | 8.0 | 5.9 | 13.5 | 6.4 | 4.3 | 2.5 | 10.0 | 7.1 | 12.5 | 8.3 |
| Prices | 1.9 | 0.5 | 0.3 | 0.6 | 0.4 | -0.7 | 1.2 | 1.4 | 1.2 | 1.1 | 0.7 | 0.6 | 1.9 |
| Employment | 0.2 | -0.3 | -0.1 | 1.2 | 1.4 | 1.9 | 0.4 | -0.6 | -0.9 | 0.4 | -0.1 | 0.6 | 1.7 |
| Gross wages | 3.3 | 1.1 | -0.1 | 2.1 | 3.0 | 3.4 | 2.1 | 0.6 | 0.0 | 0.6 | -0.2 | 1.5 | 3.0 |
| Wages share | 71.4 | 71.0 | 70.3 | 70.4 | 71.2 | 72.2 | 71.8 | 71.6 | 70.8 | 68.2 | 66.8 | 65.6 | 64.6 |
| Elasticity of employment ² | 0.1 | -0.3 | -0.1 | 0.6 | 0.7 | 0.6 | 0.4 | / | 4.4 | 0.4 | -0.1 | 0.2 | 0.7 |

¹) In prices of 2000. ²) GDP-elasticity of employment: Ratio of the growth rate of employment to the growth rate of GDP. Source: Statistisches Bundesamt (2008); own calculations.

In the near future, the increase of exports is expected to become smaller, and GDP growth will be more strongly driven by rising domestic demand. Private consumption nonetheless stagnated in 2007, most likely also as a result of the VAT reform in the year before. The size of its increase in the future will depend on the time it will take that the negative effect of the reform on households' purchasing power to be overcome and on the development of wages. Investments still grew considerably at the end of 2007, but this growth is expected to slow down in 2008. The Council of Economic Experts expects the GDP growth to fall in 2008 by a rate of up to 1.9 per cent, particularly as a result of worsening global economic conditions. These include the interruptions in the financial sector following the crises on the U.S. real estate market, the appreciation of the Euro, especially against the U.S. Dollar, and declining export demand (Sachverständigenrat, 2008: 3-5). The autumn outlook of the Project Group Joint Diagnostics, comprising eight leading research institutes, appears to be more optimistic, assuming that economic growth "took a break" in the course of 2007 and GDP will continue to increase at a rate of 2.2 per cent in 2008.¹ Employment is expected to rise further, though not as much as in 2007. This expectation is based primarily on the assumption of a considerable expansion of domestic demand, not only in Germany but in the Eurozone as a whole. Uncertainties arise not only from the crises of the real estate market in the U.S. but also from the future development of oil prices, according to research institutes (Projektgruppe Gemeinschaftsdiagnose 2007: 31-35, 47-50).

¹ In autumn 2008, the German Council of Economic Experts corrected its growth estimation to a lower rate, namely 1.7 per cent, as a result of the financial crisis (Sachverständigenrat, 2008: 8).

2. Recovery in the Labour Market: Only Cyclical or also Structural?

According to the evaluation of both the research institutes and the German Council of Economic Experts, the most recent economic upturn was, at least partly, attributable to the moderate wage policy and far reaching reforms of the social protection systems, most of which had been worked out by the Commission on Modern Services on the Labour Market (*Hartz Commission*) and implemented after 2002. Those reforms included the merger of unemployment and social assistance into a new basic benefit scheme at the level of social assistance, the so-called '*Arbeitslosengeld II*', a shortening of the receipt period of that benefit and the linkage of the entitlement to unemployment assistance with measures for the active labour market policy. The system of job-placement services has been reorganised and the regulations for temporary work relaxed. Furthermore, in the scope of the health care and old-age pension reforms, the catalogue of services covered by public health insurance has been trimmed and the method of calculation of old-age pensions modified by introducing a demographic factor. The social security contributions have been reduced (Sachverständigenrat, 2007: 186-245). These reforms contributed to a cut back in the cost of the social protection system and laid the basis for a flat development of public expenditure since 2002. The share of government expenditure in the GDP shrank from 48.5 per cent in 2003 to 44.0 per cent in 2007 (Projektgruppe Gemeinschaftsdiagnose, 2007: 52). The moderate wage policy had the effect that gross wages, adjusted for the price increase, have grown at a lower rate than the real GDP since 2001 and, as a consequence, the wages share in national income diminished (see table 1).

As the reforms mentioned above lowered the labour cost and increased the flexibility of the labour market, they are supposed to have enhanced the competitiveness of German companies on the global markets. It is as yet difficult to evaluate whether the most recent economic upturn was a purely cyclical phenomenon or whether it included also a structural component. The latter assumption would imply that, due to a change in the institutional environment, a greater level of GDP growth is achievable with a given unemployment rate or both variables can principally develop into the desired direction in the long run. Analyses carried out by the German Council of Economic Experts (Sachverständigenrat, 2007: 322-325) as well as by Fitzenberger *et al.* (2007: 32-43) find that the structural unemployment rate, as indicated by the non-accelerating inflation unemployment rate (NAIRU), have indeed lowered since 2005, but this decrease cannot be distinguished from random fluctuations over time with sufficient reliability (see also Boss *et al.* 2007).

Comparing the most recent economic upturn with the previous one, which had lasted from the second quarter of 1999 to the first quarter of 2001, it can be found that the recent upturn, which began in the fourth quarter of 2004, had already lasted for a longer period of time by the middle of 2007. It started with a much slower growth of both GDP and employment, but after the fourth quarter, i.e. since the beginning of 2006, the quarterly growth rates of these variables have increased considerably. After ten quarters, the cumulated growth of GDP and volume of work, measured in hours, was already greater than over the entire period of the previous upswing. However, the cumulated growth of employment, measured in persons, was still smaller. This is attributable to the fact that the new employment generated by the economic upturn of 1999/2000 consisted primarily of part-time jobs. The most recent upturn has been thus more employment intensive. It has generated not only more full-time jobs but also more jobs covered by social security than compared to the previous one (Sachverständigenrat, 2007: 325-332). Despite there being more jobs, most of them have been lower paid (see section III. 2.).

Additional insight can be obtained from the GDP elasticity of employment, which signifies the degree to which a rise of GDP is translated into the creation of employment. The value of that indicator indeed remarkably increased between 2005 and 2007, from around zero to 0.7, but it has not yet exceeded the amounts it reached during the previous economic upswing (see table 1). If the reforms of the past had induced a structural effect, we would expect the size of that indicator to become greater. It is worth noting that the GDP elasticity of employment showed its highest value in 2003, the only year in the observed period of time in which GDP growth was negative. This corresponds with the well-

known phenomenon of the German labour market that employment reacts to the development of the GDP most strongly at times of economic recession.

In summer 2006, the most recent economic upturn had already brought about a greater relative reduction of the unemployment rate than the previous. A modest effect on the number of long-term unemployed, whose share in the economically active population had remained at 4 per cent since 2003 (Statistisches Bundesamt, 2007c), can be noticed as well. The proportion of the long-term unemployed who found a job in the first labour market amounted to 1.9 per cent in 2006 and 1.8 per cent in 2007. It was thus on average by 0.2 percentage points greater than in the entire seven years before. The probability of finding a job in the second labour market had already increased one year earlier from 0.7 per cent in 2004 to 1.3 per cent in 2005. This might be attributable, to a great extent, to work opportunities such as ‘one-Euro jobs’, the most frequently used instrument of active labour market policy introduced with the *Hartz-reforms* (Sachverständigenrat, 2007: 333-341). The number of transitions from the first labour market into unemployment declined by 15.7 per cent in the first half of 2007 (Bach *et al.*, 2007: 5-6).

Table 1.2: Development and structure of employment 1995-2006

| % | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|--------------------------------|------|------|------|------|------|------|------|------|------|------|------|------|
| Employment rate ¹ | 66.2 | 65.8 | 65.6 | 66.3 | 67.2 | 68.3 | 68.6 | 68.2 | 67.7 | 68.1 | 68.0 | 68.8 |
| Unemployment rate ¹ | 7.1 | 7.7 | 8.6 | 8.1 | 7.5 | 6.9 | 6.9 | 7.6 | 8.8 | 9.2 | 9.1 | 8.1 |
| -Male | 5.5 | 6.5 | 7.3 | 7.0 | 6.5 | 6.0 | 6.2 | 7.1 | 8.3 | 8.7 | 8.8 | 7.8 |
| - Female | 9.0 | 9.3 | 10.1 | 9.5 | 8.7 | 7.9 | 7.7 | 8.2 | 9.3 | 9.7 | 9.5 | 8.4 |
| - under 25 | 12.1 | 13.2 | 14.3 | 13.4 | 12.1 | 11.4 | 11.3 | 13.3 | 15.7 | 15.9 | 15.7 | 15.1 |
| - 25 and older | 6.3 | 6.9 | 7.7 | 7.3 | 6.8 | 6.2 | 6.2 | 6.8 | 7.7 | 8.2 | 8.2 | 7.1 |

¹) ILO labour force concept. ²) Share of registered unemployed in active population (concept of the German Federal Employment Office). Source: Statistisches Bundesamt (2007c: 84)

Turning to the supply side of the labour market, we observe that between 1995 and 2006 the total population increased by 1.0 per cent, while the population in the working age shrank by 0.8 per cent as a result of the aging population (see table 1.3). This implies a challenge for society, as a decreasing number of persons of working age is available for sustaining a growing number of persons who commonly do not work. Keeping the labour force participation rate unchanged would require the share of economically active persons in the population of working age (activity rate) to increase. In fact, between 1995 and 2006 the activity rate of Germany grew to an extent that the effect of the decrease of population in working age on the labour supply has even been over-compensated. The rise in the activity rate was especially strong among women and older people. However, with 68.4 per cent, the female activity rate still fell short of the male by a sixth in 2006.

As the employment to population ratio remained more or less stable between 2000 and 2005 at a level of around 68 per cent, the increase of the unemployment rate from 6.9 to 9.1 per cent is primarily attributable to the increase in the labour supply (see table 1.2). Only the recent growth of employment, beginning in 2006, has made the unemployment rate fall. The unemployment rate of people younger than 25 was around twice as high as among older during the entire time period from 1995 to 2006. By contrast, the gap between male and female unemployment rates continuously narrowed. After 1995 when the female unemployment rate amounted to 9.0 per cent, thereby exceeding the rate among males by 3.5 percentage points, it came to 8.4 per cent in 2006, only 0.6 percentage points above the male unemployment rate.

Table 1.3: Development and structure of the labour force 1995-2006

| | 1995 | 1997 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|-------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total population (in 1000) | 81,570 | 82,029 | 82,024 | 82,160 | 82,277 | 82,455 | 82,502 | 82,491 | 82,465 | 82,369 |
| Working age population (in 1000) | 55,289 | 55,643 | 55,611 | 55,433 | 55,312 | 55,231 | 55,059 | 54,771 | 55,131 | 54,859 |
| Active Population (in 1000) | 39,756 | 39,321 | 39,527 | 39,356 | 39,560 | 39,597 | 39,751 | 39,594 | 40,625 | 41,055 |
| Labour force participation rate (%) | 48.7 | 47.9 | 48.2 | 47.9 | 48.1 | 48.0 | 48.2 | 48.0 | 49.3 | 49.8 |
| Activity rate (%) | 71.9 | 70.7 | 71.1 | 71.0 | 71.5 | 71.7 | 72.2 | 72.3 | 73.7 | 74.8 |
| - Male | 81.0 | 79.3 | 79.2 | 78.8 | 79.0 | 79.0 | 79.2 | 79.3 | 80.4 | 81.1 |
| - Female | 62.6 | 61.8 | 62.7 | 63.0 | 63.9 | 64.3 | 65.1 | 65.2 | 66.8 | 68.4 |
| - 15-24 years | 54.5 | 50.9 | 51.6 | 51.7 | 51.9 | 50.8 | 50.5 | 48.9 | 50.1 | 50.8 |
| - 25-54 years | 84.6 | 84.0 | 85.1 | 85.3 | 85.6 | 85.8 | 86.1 | 86.0 | 86.2 | 86.9 |
| - 54-64 years | 44.6 | 45.1 | 44.2 | 42.9 | 43.1 | 43.8 | 45.3 | 47.6 | 52.0 | 54.8 |

Source: ILO Laborsta-Database; own calculations.

3. How to Spend the “Return on Reforms”?

In summary, the figures above show that in the light of favourable economic development since 2004 the business conditions for companies have enhanced, the situation in the labour market improved and the public budgets relaxed: Companies obtained high revenues on the world market which have been partly invested into new equipment. Employment rose and the unemployment rate, partly also the rate of the long-term unemployed, fell. The deficits of the health and old-age insurance (*Pflegeversicherung*) reduced, and the unemployment insurance recorded a surplus in 2007, partly as a result of the falling number of beneficiaries. The deficit of the state, which had in the past exceeded the 3-per-cent threshold set up in the Stability and Growth Pact for several years, reduced to 1.6 per cent in 2006. In 2007 the budget was balanced for the first time since the reunification (Projektgruppe Gemeinschaftsdiagnose, 2007: 50).

However, these improvements came at the cost of a prudent wage policy and effective cuts in social protection. The decrease of workers' real wages since 2002 has been considerable (see section III.1.1). The unemployed persons' entitlement to social assistance and unemployment benefits effectively shrank as a result of the stricter means tests introduced into the new benefit schemes (*Arbeitslosengeld II* and social assistance). Income losses were especially high among the poorest stratum of that group (see section III.4.3). The focus of the current discussion in Germany is about whether the “return on reforms” (Sachverständigenrat, 2007: 8) generated in the most recent economic upturn should be spent on scaling back the reforms of the past.

The German Council of Economic Experts and the research institutes have issued a warning not to overstate the achieved success in output growth and employment creation, the greatest part of which arises from cyclical fluctuations of business conditions. Structural unemployment appears to still be high. The assets presently flowing into the public budgets should be kept in reserve for maintaining the scope of action during the next economic downturn. The experts particularly dissuade from a re-prolongation of the receipt duration of unemployment benefit, from stricter regulations for temporary work and from the introduction of minimum wages. The resources of the social insurance budgets should not be spent on services which they are not meant to provide. The path of the reforms of 2002, an important target of which was budget transparency and organisational efficiency, should be further developed. Labour market policy should continue its efforts to reduce structural unemployment by focussing on the particular aspects of the *Hartz* reforms positively evaluated by research institutes.² The funding side of the social insurance systems should be substantially reorganised

² The results of those evaluations are laid down in a final report of the Federal Ministry of Labour and Social Policy (BMAS, 2006).

(Sachverständigenrat, 2007: 9-12). The research institutes admonish fiscal policy not to leave its restrictive path, to keep labour costs low and further approach the goal of a balanced budget. They point to the fact that, if cyclical fluctuations are adjusted for, there is still a deficit of the state in 2007 amounting to 0.5 to 1.0 per cent. Nevertheless, parts of the anticipated rising tax revenues should be spent on promotion of investments. Wages should not increase by more than 3 per cent to avoid pressures on price increase and labour demand (Projektgruppe Gemeinschaftsdiagnose, 2007: 60-62).

The federal government has announced it is to continue the tight fiscal policy of the previous years with the overall goal of reaching a consolidated budget in 2011. Regarding the conditions of workers and the unemployed, the emphasis shall remain on an activating labour market policy, promotion of training and education, and completion of the reforms of the health and old-age insurance systems. The recently evaluated instruments introduced with the Hartz reforms shall be tightened and developed. It is envisaged to prepare a common concept for the reorganisation of the low-wage sector. In particular, the government's reform strategy for the following years includes the following measures:

- ban on loans for the German Federal Employment Office (*Bundesagentur für Arbeit*) from the federal budget until 2011;
- reorganising the health insurance system by setting up a Health Fund into which employers and employees will pay lump-sum contributions determined by decree of the government in order to stabilise the health contributions among the different insurance companies;
- opportunity to set up minimum wages for sectors with a coverage rate of collective agreement lower than 50 per cent;
- wage subsidies for occupation of unemployed persons difficult to be placed in a job (*Beschäftigungszuschuss*), as well as for integration (*Eingliederungszuschuss*) or training (*Qualifizierungszuschuss*) of young persons being unemployed for more than a half year;
- creation of more childcare facilities and subsidies for kindergartens opened up in small- and medium-size enterprises;
- tax release for households aids;
- promoting the integration of older people into the labour market in the scope of the “Initiative 50plus”, among others measures by developing existing wage subsidies for the employment of older people and relaxing the rules for temporarily limited employment of persons older than 52;
- easier recruiting procedure for specialists in mechanical and electrical engineering and vehicle manufacture issued from the twelve new Member States of the EU and for the recruitment of foreign graduates from German universities;
- Initiative for Qualification and a prolongation of the National Pact for Training and Young Specialists in the scope of which the German Employers Associations commit to offer a predetermined number of training positions.

Furthermore, a concept for the promotion of employees' holding shares in their employers' companies is currently being developed by a joint workgroup of the coalition parties in the parliament (BMWi, 2008: 10-46).

In their evaluation of German economic and social policy, the main employers' and employees' organisations of Germany agree only in so far as they call upon the government to expand the level of public investments, especially for the promotion of education and training. While the employers' organisations regard those investments as an important precondition for competitiveness in the global economy, the employees' organisations point in particular to their role in the reduction of structural unemployment. However, the opinions of the employers' and employees' representatives differ considerably with regard to most other aspects of the reforms affecting the labour market proposed by the government (BDI and BDA, 2007: 6; DGB, 2008: 15).

The Federation of German Industries (BDI) and the Federation of German Employers (BDA) welcome the reduction of social security contributions and the flexibilisation of the labour market especially in

the area of temporary work. These reforms should be further developed. Temporary work should not be considered as precarious employment but accepted as a standard type of work. The employers' organisations resist legally determined minimum wages, if not migrant workers causing undesirable social cleavages in a certain sector. They oppose the idea of wage subsidies for the integration of unemployed persons who would otherwise be difficult to employ. With regard to collective bargaining, the BDI and BDA caution against the growing influence of trade unions representing small professional groups, as they would use their power to carry through high wage increases and thereby jeopardise the tariff unity and no-strike function inherent in collective agreements on the branch level. They suggest splitting up future agreements on wage increases into two components: a moderate basic elevation to be applied to all companies of the branch and a one-time payment depending on the business conditions of the individual firms (BDI and BDA, 2007: 5-8).

The German Federation of Trade Unions (DGB) doubts that the various forms of marginal employment and temporary work, introduced as instruments of active labour market policy in the scope of the *Hartz*-reforms, have contributed to the most recent economic upturn and reduced structural unemployment. Correspondingly, pointing to the dramatic worsening of employment conditions resulting from those reforms, the trade unions struggle for a partial retraction of the *Hartz*-reforms. The generated jobs in the secondary labour market and the growing number of temporary jobs would not secure decent living conditions for workers nor would they facilitate transition into regular employment. Instead they would contribute to undermine the protection of workers employed in regular jobs. Temporary workers should be granted an equal hourly wage as workers with a regular contract performing the same type of work. This type of work should be applicable by companies only as a temporary instrument to react to peaks in the development of their business, replace workers in cases of illness and avoid overtime work. The DGB does not support subsidised wages. Instead statutory minimum wages should be set up in order to establish a "halt point" when employers fail to conclude collective agreements. The trade unions have announced that, in the collective bargaining round of 2008, they will claim for wage increases high enough to compensate them for the real wage losses of the previous year. The trade union of the service sector, for example, will struggle for a rise of wages by 8 per cent (DGB, 2008: 7-17).

To summarize, after 2002, the year in which the Hartz-Commission had presented its recommendations for active labour market policy, people in employment experienced on average an obvious loss with regard to job security and wages. A large sector, characterised by extremely low hourly wages, high flexibility and precarious work conditions, has evolved. Doubts on the decency of work have arisen especially with regard to that segment of the labour market. The valuation of the desirability of this development depends on the extent at which this sector has evolved at the expense of workers in regular employment, and to what extent it has enabled unemployed persons' integration into working life. At present, despite considerable efforts through empirical investigation, the research institutes can not yet confirm an effect of the *Hartz*-reforms on the creation of unemployment with sufficient reliability. Employment has been on the rise since 2006, but it is not yet known whether this increase is just caused by an improvement of the external economic environment or also a result of the sacrifices demanded from workers in the past. Even if such an effect could be proven, the question remains whether the loss of job security, purchasing power and job satisfaction remains in a limit, which can be justified by the target of creating employment. The following paragraphs shall provide insight into the changing conditions of work under the new labour market regime introduced under the headline of the Agenda 2010 since 2002.

III. Trends in working and employment conditions

1. Employment status/contracts of employment

The economic upturn, as well as the numerous labour market reforms, have shaped the composition of employment with respect to the contractual arrangements in which it is embedded.

1.1 Overall employment development: Decrease in the number of employees contributing to social security

From 1995 to 2006, the rate of workers subject to social security contributions continuously decreased from 74.9 to 67.5 per cent (see Table 2.1). Between 2005 and 2006, however, this rate remained almost constant, and recent figures indicate an end of this downward trend, maybe as a consequence of the *Hartz*-reforms. After the number of workers paying social security contributions had been declining since 2001, it reached a minimum of 26.2 million in 2005. It then increased at a higher rate than the total number of employed persons up to a level of 27.0 million in 2007 (Sachverständigenrat, 2007: 311-313).

Table 2.1: Employed persons by type of employment 1995-2006

| (%) | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|--|------|------|------|------|------|------|------|------|------|------|------|------|
| Employees covered by social security | 74.9 | 74.1 | 73.0 | 71.9 | 71.7 | 71.3 | 70.9 | 70.7 | 69.8 | 68.4 | 67.6 | 67.5 |
| - Full-time | 65.7 | 64.6 | 63.3 | 61.9 | 62.1 | 61.2 | 60.4 | 59.8 | 58.7 | 57.2 | 56.3 | 55.9 |
| - Part-time | 9.2 | 9.5 | 9.7 | 10.0 | 9.6 | 10.1 | 10.5 | 10.9 | 11.1 | 11.1 | 11.3 | 11.6 |
| Employees not covered by social security | 15.1 | 15.9 | 16.8 | 17.9 | 18.3 | 18.7 | 18.9 | 19.0 | 19.7 | 20.7 | 21.2 | 21.2 |
| Self employed | 10.0 | 10.0 | 10.2 | 10.2 | 10.1 | 10.0 | 10.2 | 10.3 | 10.5 | 10.9 | 11.2 | 11.3 |

Source: Statistisches Bundesamt, 2007c.

1.2 Increase in self employment

The share of the self-employed in total employment remained more or less stable at 10 per cent during the second half of the 1990s. In the following time it continuously grew up to a level of 11.3 per cent in 2006. According to Fachinger (2007: 9) and Schulze Buschoff (2007: 388), the increase in self-employment was particularly pronounced in the building and service sector and created new opportunities for freelance professionals in the advising, nursing and the media businesses. Traditionally, self-employment had been most widespread among craftsmen, farmers, artists, publicists etc. The proportion of women in self-employment has been continuously increasing, even before the reunification. In 2004, 28.4 per cent of all self-employed in Germany were women compared to only 22.9 per cent in 1983 (Schulze-Buschoff, 2007: 387).

Table 2.2 reveals that in the most recent economic upswing self-employment has reacted more quickly to the rise of output growth than employment in general. In 2005, through the number of employees still fell, the number of the self-employed increased by 3.2 per cent. In the following year the growth of dependent employment turned positive. It caught up with the growth of self-employment in 2007.

Table 2.2: Development of dependent and self-employment

| | Levels (1000 persons) | | | | Annual growth (%) | | |
|------------------|-----------------------|--------|--------|--------|-------------------|------|------|
| | 2004 | 2005 | 2006 | 2007 | 2005 | 2006 | 2007 |
| Employees | 34,658 | 34,490 | 34,696 | 35,322 | -0.48 | 0.60 | 1.80 |
| Self-employed | 4,222 | 4,356 | 4,392 | 4,447 | 3.17 | 0.83 | 1.25 |
| Employed persons | 38,880 | 38,846 | 39,088 | 39,769 | -0.09 | 0.62 | 1.74 |

Source: Sachverständigenrat, 2007: 313.

The promotion of self-employment has been used as an instrument of active labour market policy since as early as the 1990s. It is perceived as a means to increase employment through increased labour market flexibility and accelerating innovation, thereby promoting output growth (Göggel et al., 2007: 153; Fachinger, 2007: 7). After 2002, the self-employment grant "*Ich-AG*" ('Me-Ltd.') and the Bridging Allowance were implemented as parts of the *Hartz*-reforms to support unemployed persons in setting up their own business. These instruments were reformed and merged into a new one, the Start-up Grant (*Gründungszuschuss*), in 2006 (see box I). Between 1994 and 2004, the number of

unemployed who received the Bridging Benefits quintupled and reached, with around 185,000 persons, its maximum in 2004. 175,000 previously unemployed persons benefited from the *Ich-AG* start-up grant in that year, one third of them lived in eastern Germany. In 2005 restrictions imposed by the Employment Office led to a decline in the number of self-employment subsidies, in particular those paid for *Ich-AGs*, (Caliendo and Steiner, 2007: 25).

According to the Microcensus, in 2005 nearly 248,000 new start-ups run by previously unemployed persons received assistance from the Federal Employment Office. 37 per cent were accounted for by the newly created start-up grant (Existenzsgründungszuschuss or *Ich-AG*). The newly introduced *Ich-AG* scheme did obviously not negatively impact the number of recipients of Bridging Allowance, which continued to rise (BMAS, 2006: 14). The two programmes were used by very different groups of persons. The Bridging Allowance was especially widespread among highly-qualified persons; the *Ich-AGs* were mostly run by women. Additional structural differences were noticed regarding the economic sector: *Ich-AGs* were started mainly in services, construction trade, crafts and IT. Freelance persons and marginal workers were overrepresented among their founders (cf. Bundesagentur für Arbeit, 2006; Leschke et al., 2006; Kritikos and Wießner, 2004; Wießner, 2005; Caliendo and Steiner, 2007: 26-28).

According to an evaluation by Caliendo and Steiner (2007: 214f.), both the *Ich-AG* subsidy and Bridging Allowance show lasting results regarding the promotion of employment. Three quarters of those who opened up an *Ich-AG* in western Germany were still self-employed 16 months after the start of the financing period. In eastern Germany this share amounted to even four fifths. The female and male *Ich-AG* entrepreneurs were almost equally successful. Greater gender differences could be found among the recipients of the Bridging Money. Three quarters of the men but only two thirds of the women who had opened up a business with the support of this subsidy were still self-employed 16 months later. This share was modestly larger in eastern than in western Germany, too. During the receipt period, the number of employed persons contributing to the social insurance system increased, above all among the Bridging Allowance recipients.

The two programs had not only a significant effect on the reduction of unemployment and promotion of employment contributing to the social insurance system, but also on the recipients' income. After 28 months of self-employment, the supported persons earned higher incomes than the unemployed members of the control group who did not participate in these programs. For example, men in western Germany who received Bridging Allowance earned after 28 months on average EUR 900 more per month than a similar unemployed person. The monetary efficiency of these programmes, indicating the relationship between the cost of these measures and the savings by the Employment Office, has also been positively evaluated. The Bridging Allowance was found to be more efficient than the *Ich-AG* programme (Caliendo and Steiner, 2007: 28-31). Bottlenecks have been identified in a lack of experience among Labour Agencies to offer substantial counselling for founders of a new business and in difficult access to loans in the initial phase of the business (BMAS, 2006: 14). All in all, from the point of view of the Council of Economic Experts, the goal of the reform to create sustainable work for the self-employed individual has been reached, as the persons who switched from unemployment into an *Ich-AG* constitute with 0.8 per cent a significant share of the active labour force (Sachverständigenrat, 2006: 125).

Some studies point to the fact that the businesses run by the growing number of self-employed create only a limited number of jobs for others. Since the mid-1990s, only the number of self-employed persons who do not employ any workers (single self-employed) has increased, while the number of self-employed persons with employees has remained almost constant (Fachinger, 2007: 9; Schulze Buschoff, 2007: 388). Among the freelance professionals, who represent 20 percent of the self-employed workforce, the proportion of those employing one or more employees shrank from a quarter in the early 1990s to a fifth in 2004 (Fachinger, 2007: 10). However, a considerable proportion of the businesses set up with the support of the Bridging Allowance, also created employment opportunities for others. 30 per cent of the men and 22 per cent women receiving Bridging Allowance employed at least one worker after 16 months. Among the *Ich-AG* entrepreneurs this share amounted to only a tenth (Caliendo and Steiner, 2007: 28).

Single self-employment is especially often characterized by low and irregular earnings, high mobility in employment status and limited coverage by social protection. The proportion of persons, hopping from one employment status to the next within one year, is higher in Germany than in other European countries which also show a large proportion of self-employed workers, like the UK, Netherlands, Italy and Sweden. Most single self-employed persons in Germany do not have to be covered by the statutory social protection system. Compulsory health insurance, unemployment insurance and retirement provisions do not exist for this category of worker. For this reason, an effort is being made by the German government to introduce statutory social security coverage for the single self-employed in the social protection systems. Since February 2006, they can be insured at a preferable rate against unemployment on ongoing basis, if desired. Furthermore, as a result of the health reform in April 2007, self-employed persons must be covered by health insurance from the 1st January 2009 on (Schulze Buschoff, 2007: 388-390.; Fachinger 2007: 10ff.).

1.3 Temporary work: a small but very dynamic market segment

As of 2007, 2 to 3 per cent of the firms in Germany (2.1 Mio) utilise temporary work. The proportion of temporary workers in total employment subject to social insurance comprises approximately 1.5 per cent (Promberger, 2007: 129). Since the beginning of the 1980s, the number of employees in temporary employment (including those organised by the PSA) has increased and most strongly since the recent reform in 2003 which amended the previous regulations by extending temporary work in the construction sector and extending its allowable duration. From 2003 to 2005, the annual average number of temporary workers rose from 114,000 to 444,000. In the course of 2005, 738,000 employees were recruited by around 16,500 temporary work agencies. In 2007, around 700,000 persons were registered as temporary workers, which is twice as much as in 2003. The industry sector is overrepresented in temporary work and also shows a higher proportion of new recruitments than the average. Fixed-term employment of up to three months continues to be preponderant.

The majority of companies practising temporary employment are applying a collective agreement for temporary workers (see section III.8.2). For the first time in Germany, large parts of the temporary employment industry are covered by collective agreements (BMAS, 2006: 22). This certainly results from the 2002 reform of the Temporary Work Act, which decided to extend the 2003 collective agreement agreed between temporary agency associations and the DGB trade unions to all temporary workers in Germany, in order to ensure them minimum employment conditions and reduce growing wage inequalities (see Bispinck and Schulten, 2005: 470-471). However, trade unions complain that collective agreement provisions are not respected by all leasing companies. In 2007, 12 per cent of the registered temporary workers earned so little that they had to fall back on social benefits in order to ensure their minimum existence (DGB, 2008: 14).

As a consequence of the *Hartz*-reforms, temporary work can also be provided by PSAs (see box I). From the beginning of 2003 on, a PSA was to be found in every Employment Office district. The target of having a stock of 50,000 PSA employees by 2003 has not been achieved, although every Employment Office district already had its own PSA. In 2005 there was an annual average of 17,000 PSA employees. Among the 28,000 persons newly entering PSA employment in 2005, women were underrepresented at less than a third, which is in line with the general pattern of temporary employment. Young persons below the age of 25 were clearly overrepresented at 55 per cent. For PSA employments reviewed, the German Federal Employment Office incurred an average expenditure of approximately EUR 6,939 per participant in the years 2003 and 2004 (ibd.). By the end of 2004, around 29,000 additional employees were estimated in temporary work (including PSA) as a consequence of the reform of temporary work (BMAS, 2006: 22).

Many PSAs employees reported that they were not offered further training in times of unavailable temporary work as had been foreseen by the reform. Only 30 per cent of employees who took up PSA employment in 2003 and 23 per cent of the same group in 2004 reported that they had been offered vocational training, despite the fact that only 3 per cent and 9 per cent respectively had no periods

without temporary work. Additional quantitative analyses found that PSA employees terminate unemployment or PSA employment through integration into employment later than comparable unemployed persons, because of their engagement in PSA employment. Hence, the PSAs have worsened the participants' integration prospects (ibd.).

1.4 Short-term employment

The share of persons working on a fixed-term basis increased between 1994 and 2005 by 750,000 up to 2.7 million (Dietz and Walwei, 2007: 172). Thereby, their share in total employment rose from 5 per cent in 1995 to 10 per cent in 2004 (Giesecke and Groß, 2006: 247). This growth is attributed, among other things, to measures of active labour market policy, in particular to Job Creation Schemes (ABM) (see below) (Dietz and Walwei, 2007: 172). Short-term contracts are increasingly used in practice for extending the probation period. The majority of short-term workers alternate permanently between periods of employment and unemployment (DGB, 2008: 14). Recent quantitative analyses show first evidence for a substitution of unlimited work contracts by fixed-term ones (Giesecke and Groß, 2007: 83-106).

Fixed-term employment in the form of ABM based on subsidies towards wage costs (by the Federal Employment Office) are offered to unemployed persons, who are strongly disadvantaged in the labour market, with the aim of enhancing their employability. This employment must be additional and in the public interest (BMAS, 2006: 18). Over the past years, the number of ABM and average duration of promotion has markedly declined. From 2000 to 2005 the number of such jobs newly taken up diminished by 70 per cent up to 78,000. During the same period, the annual average stock of ABM workers decreased by more than three quarters to 48,000. ABM were concentrated on Employment Office districts handling situations of strongly disadvantaged unemployed persons in the market, in particular in eastern Germany. Among those newly entering ABM employment, East Germans, persons aged 50 years or older and persons below the age of 25 years were considerably overrepresented (BMAS, 2006: 18-19).

Since 2003, employers hiring older workers aged 55 years or older on a short-term basis are permanently exempt from unemployment insurance contributions. Instead, they are granted a Contribution Bonus (*Beitragsbonus*). The number of companies claiming this bonus was very small. In 2003 it amounted to only 9,000 and in 2004 to around 3,600. This instrument seems not be well-known among employers. Quantitative results also show that the contribution bonus was not a determining factor for employers' employment decision (ibd.: 20-21).

Another instrument aimed at promoting employment integration of the elderly is the Income Security for older workers (*Entgeltsicherung*). This consists of a wage subsidy when beneficiaries decide to take up employment which is lower paid than their previous job. This instrument also includes a contribution to statutory pension insurance covered by the Federal Employment Office. The number of persons profiting by income security benefits is very small. In 2005, only around 5,300 new beneficiaries made use of it. Most of them received a wage subsidy of up to EUR 285 per month or EUR 9.50 per day. On the whole, net wages were up to EUR 570 lower than before. According to recent quantitative evaluations, agencies' practice in dealing with this was quite inconsistent, as there is evidence that a high number of applications were wrongly rejected. Recent analyses do not show any effect of the Income Security benefit on beneficiaries' employment prospects (ibd.: 21).

In 2003, as part of the *Hartz-reforms*, the age of workers, entitled to permanent fixed-term employment without material reason and without time limit, was reduced from the age of 58 to 52 years. At the end of the short-term contract, employers were allowed to dismiss the employee regardless of provisions on dismissal protection. In April 2006, this legislation was abolished by the Federal Labour Court after the European Court of Justice decided to reject the exclusivity of this rule for older persons. Data collected before 2003 show that in March 2004 the proportion of persons aged 48 to 65 years working on a short-term contract amounted to 3 per cent and was considerably higher in eastern (5 to 9 per cent) than in western Germany (2 per cent). Only 0.7 to 1.7 per cent of all

employees aged 52 to 65 years were working on a fixed-term basis for more than two years, in particular in eastern Germany. Gender differences could also be found. In March 2004, the new provision on fixed-term employment for workers aged 52 years or older, introduced in 2003, was not used yet in practice. Companies were hardly informed about it and also not interested in it. This confirms the limited effect of this provision on fixed-term employment of newly-hired employees aged 52 years or older (ibid.: 22).

In the beginning of 2007, the government passed an Act on further measures on the employment promotion and integration of older persons into the first labour market. The new programme "*Initiative plus50*" is aimed at enhancing the employability and employment chances of this group of workers. Employers hiring a person older than 50 years, who was unemployed for at least six months during a period of at least one year, are entitled to a subsidy. In this case, employers get at minimum 30 per cent of the wage for at least one year. However, the subsidy should not exceed 50 per cent over three years. Such subsidies also apply to the promotion of vocational training for persons older than 50 years (BMWi, 2008: 17). In case an older person takes up employment which is lower paid than his/her unemployment benefits, the state pays him/her the difference for up to two years in the scope of combined wages measures (wage and transfer income). In the first year half, and in the second year 30 per cent of the difference between the previous and new net salary should be paid. As a precondition, the employer must pay the collectively fixed or usual wage, and the subsidised person must be entitled to a minimum 120 further days of unemployment benefits (BMAS, 2008).

1.5 Informal labour development: exploitive labour and trafficking

According to estimations by the ILO Berlin in 2008, there are presently 15 000 victims of trafficking for labour exploitation in Germany. Cyrus (2006) shows that "deceit, abuse, imposition and duress" are often used as means of pressure against migrant workers employed in exploitive labour activities in order to subordinate them and increase profit margins. The proportion of the population with a migrant background (born abroad or children born as a child of migrants), presently living in Germany and who immigrated to the country after 1945, was currently estimated at 30 per cent. Many recent studies point to a high concentration of migrant workers in some sectors like construction, agriculture, hotel and catering and household services, but also in the international delivery of goods and services.

Cyrus' study shows that exploitive labour is mainly concentrated in the informal economy, which is estimated to account for 16 per cent of the GDP. This share is expected to grow. Exploitive labour is widespread especially in the above mentioned economic sectors among migrant workers, but it is not limited to illegal employment of migrant workers. It also affects regular residents with migrant background. The jobs concerned are typically "labour intensive, often dirty, dangerous and humiliating" (ibid.: 58). An extreme case of exploitive labour and human trafficking is the sex and entertainment industry, where many women from eastern countries (for instance Bulgaria, Rumania, Ukraine), but also from Africa (i.e. Ghana, Nigeria) are victims of exploitive labour or services (ibid.: 22-26). Household services (au pair girls from Morocco, Colombia etc) show a high concentration of girls and women working irregularly and under indecent conditions.

2. Wages

2.1. Trends in Real Wages and Wage Share

As can be inferred from table 1 (see above section II), workers in Germany have lost considerable purchasing power in recent years, especially from 2002 to 2005. During that period of time, the nominal gross wages increased by only 0.4 per cent, while the price level rose by 3.0 per cent. Accordingly, the wage share which had shown its last significant increase in the previous economic upswing (in 1999 and 2000) steadily fell from 71.6 in 2002 to 66.8 per cent in 2005. The year 2006 marked a turning point in so far as the fall of real wages came to an end. They grew by 0.9 per cent in 2006 and 1.1 per cent in 2007. According to the research institutes, this is attributable mainly to overtime payments, bonuses and a rising share of full-time employment (Projektgruppe

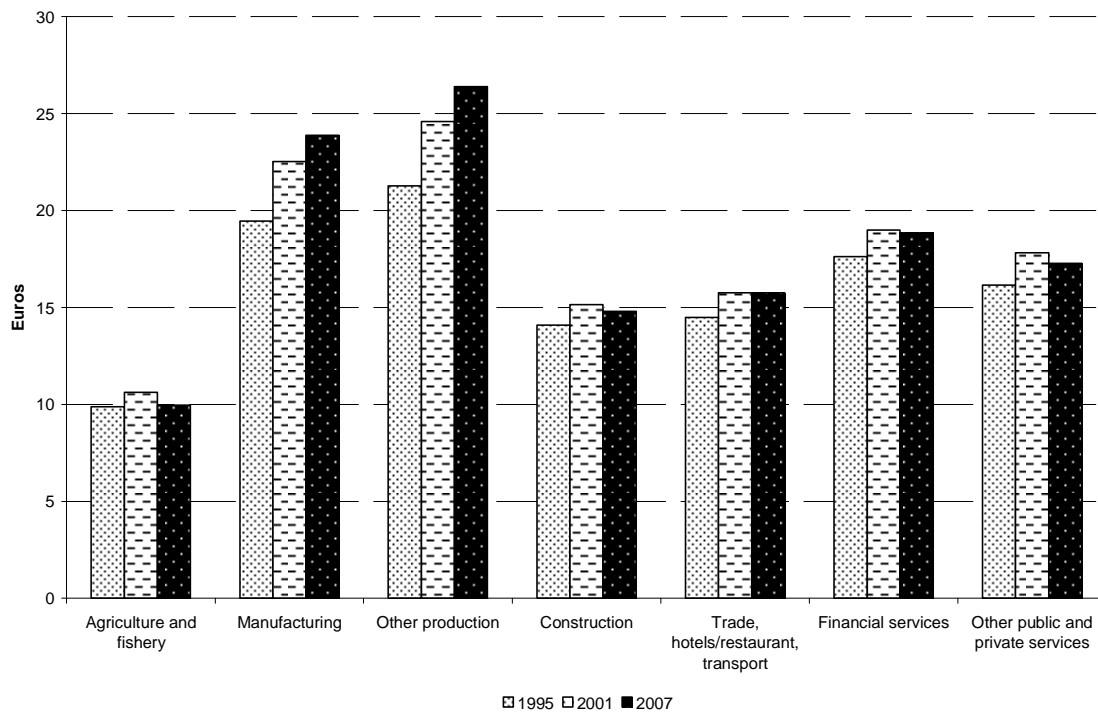
Gemeinschaftsdiagnose, 2007: 46). As the GDP rose by 2.9 per cent and 2.5 per cent respectively, the scope of real income distribution was not exhausted by a long way by the workers even in those years, and correspondingly the wages continued to decline. In 2007, the share of wages in gross national income amounted to only 64.6 per cent.

The year 2007 was marked by a considerably high inflation rate. With 1.9 per cent it reached its highest value since 1995. This was partly caused by the VAT reform and partly by a sudden increase of food prices induced by the situation on the global market (Projektgruppe Gemeinschaftsdiagnose, 2007: 46f.). While the employees' organisations argue that the temporary nature of those price increases would not justify a restrictive monetary policy (DGB, 2008: 6), the employers' organisations call upon the trade unions not to take them into account in their wage bargaining for the same reason: The recent price increases would not lead to an extension of the scope of distribution (BDI and BDA, 2007: 6). The research institutes estimates that wages will not cause pressure on employment and prices if they grow at a rate between 2.5 and 3.0 per cent in 2008 (Projektgruppe Gemeinschaftsdiagnose, 2007: 56). For 2008 a number of wage bargaining rounds are on the agenda in large sectors of the economy. In February, an agreement on wage increase by 5 per cent has been concluded in the west-German steel industry, after the trade union had initially lobbied for 8 per cent (Financial Times Deutschland, 22/2/2008, „Stahlabschluss schreckt Arbeitgeber“.). The trade union of the service sector ver.di announced its claim for 8 per cent and the union of the chemical industry for 7 per cent higher wages (DGB 2008: 6f.).³

Looking at the development of real wages before tax in the different sectors, we observe that both hourly wages and annual wages per employee are highest in production, especially production without manufacturing, and lowest in agriculture and fisheries. In 2007, a worker in the non-manufacturing production sector earned on average 26.36 Euros per hour, a worker in agriculture and fishery only 9.96 Euro (in prices of 2000). This difference had increased over time: Between 2001 and 2007 the hourly wages in production rose, by 5.9 per cent in manufacturing and by 7.3 per cent in other production, while the hourly wages in agriculture reduced by 6.3 per cent. In construction, trade, hotels and restaurants and transport, as well as in financial services and other services they remained on the same level, in real terms. The development of annual wages per employee shows a similar trend (compare figure 3.2).

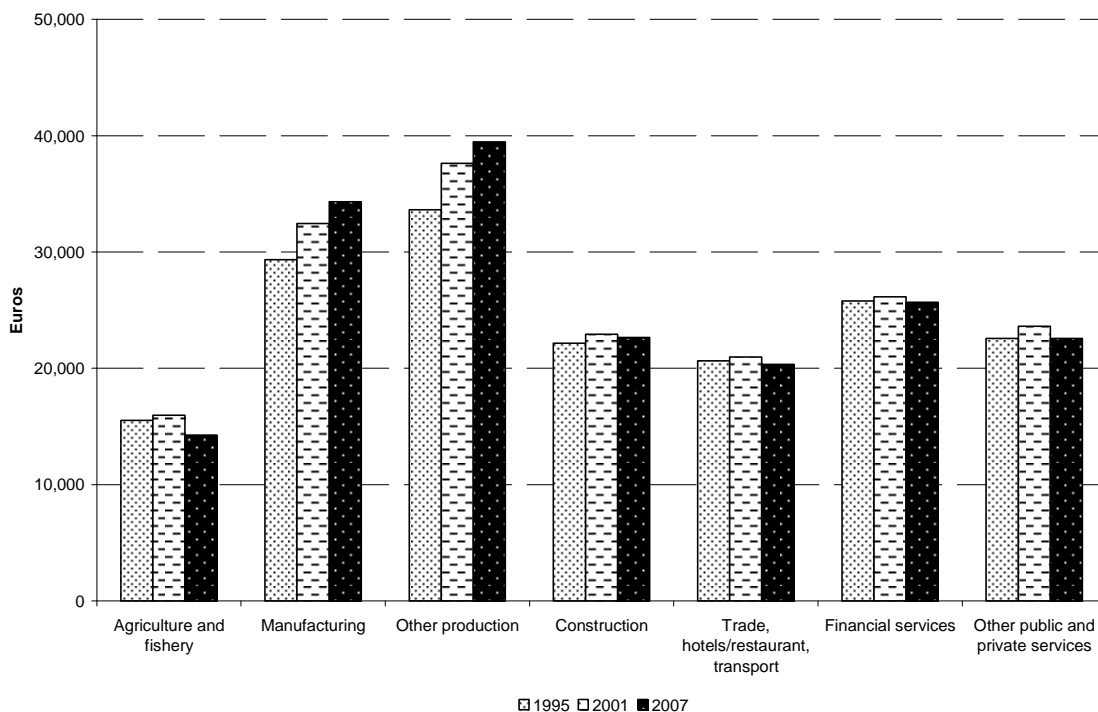
³ In collective bargaining rounds of 2007, the employers' and employees' organisations agreed on wage increases of 3.8 per cent in the iron and steel industry, 2.5 per cent at the German Post AG, 2.0 per cent in the paper and textile and clothing industry 1.8 per cent in the private transport sector, 1.5 per cent in banking and business and 1.4 per cent in hotels and gastronomy (Bispinck et al., 2007: 24).

Figure 3.1: Trends in hourly wages of employees by sector (in prices of 2000)



Source: Statistisches Bundesamt, 2008; own calculations.

Figure 3.2: Trends in annual wages per employee by sector (in prices of 2000)

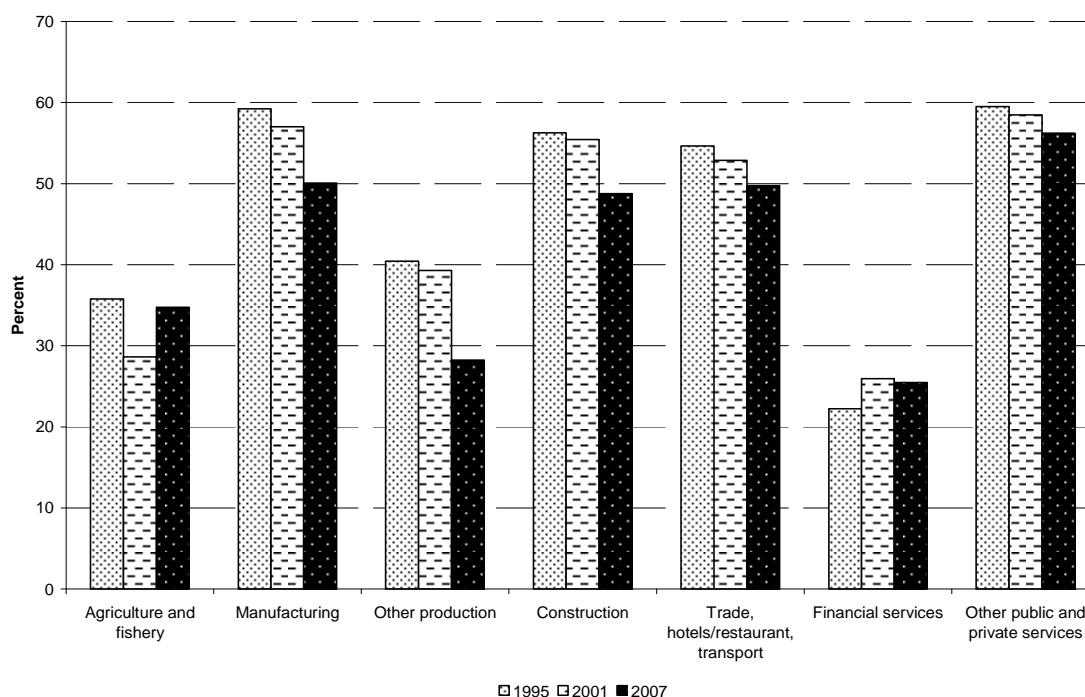


Source: Statistisches Bundesamt, 2008; own calculations.

We can split up the economy into two main parts regarding the extent to which employees participate in the added value of their economic sector. One part is made up by manufacturing, construction, trade, hotels, restaurants, transport and other public and private services, where around half of the

value added was distributed to the employees. The other part consists of non-manufacturing production and financial services, where the wage share amounts to only a quarter (see figure 3.3). In agriculture and fisheries it amounts to one third. In all sectors, except financial services and agriculture and fisheries, the share of wages in added value had steadily decreased from 1995 to 2007. In financial services it slightly increased until 2001 and remained at the same level for the following six years. In fishery, the wage share was almost the same in 2007 as in 1995 after it had been low in 2001. These figures reveal that the wage share leads to a smoothening of the changes in wages as compared to the value added as a whole. In the sectors where profits went up the wage share went down. In other words, if the wage share had remained constant – and added value developed in the same way – we would observe a stronger increase of real wages in manufacturing and at least some increase in construction, trade, hotels, restaurants, transport between 2001 and 2006, while the decrease of wages in agriculture and fisheries would still be much stronger.

Figure 3.3: Wage share¹ by sector



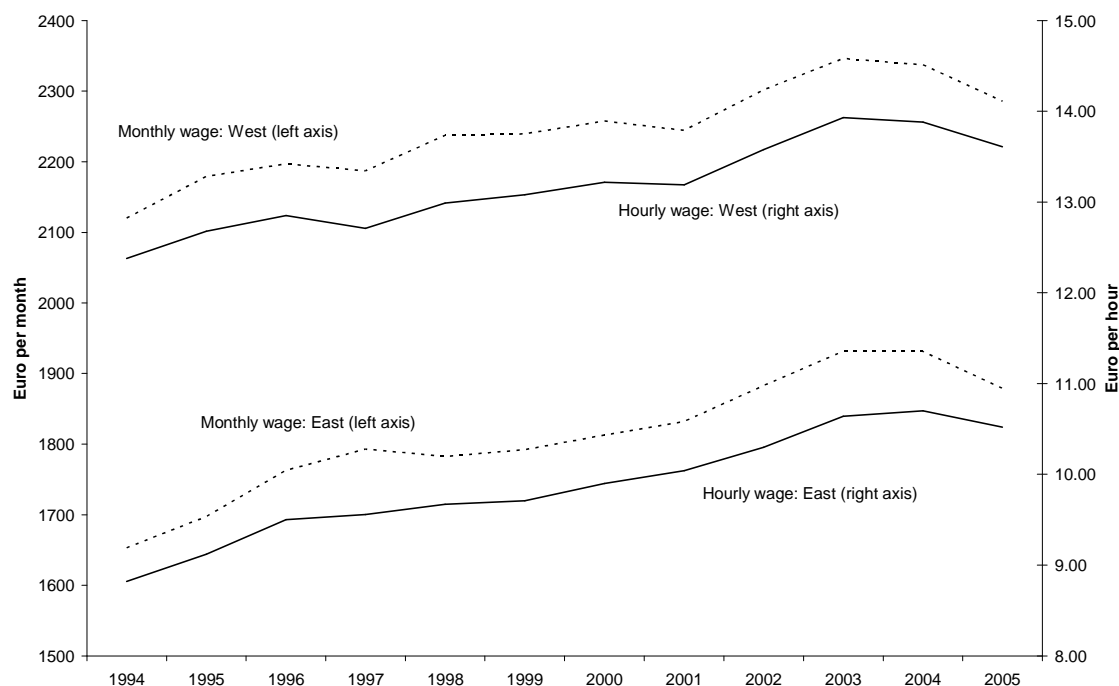
¹) Share of gross wages in gross value added.

Source: Statistisches Bundesamt, 2008; own calculations.

In 2006, female workers earned on average 22 per cent less than male workers (Hans-Böckler-Stiftung, 2008: 1). Large differences in the wage level prevail also between East and West Germany. In 2005, with 16.61 Euros the average gross hourly wage of employed persons exceeded the average for East Germans, which amounted to 10.52 Euro, by 29 per cent (see figure 3.4). However, eleven years before the difference was a bit higher amounting to 40 per cent of the average East German wage. As Eastern Germans work on average longer (see section 3 below), the gap between the employed persons' monthly wages is not as large as the gap in hourly wages. It narrowed modestly, as well, from 28 to 22 per cent of the East German wage. The recent fall of real wages, also documented in table 1.1 can be observed in both parts of Germany.⁴

⁴ According to the figures of the Federal Statistical Office (National Accounts Statistics) the real wage had already begun to decline in 2002. According to Gernardt's and Pfeiffer's analysis, which is based on data from the German Socio-Economic Panel (GSOEP), this decline began two years later.

Figure 3.4: Hourly and monthly gross wages in East and West Germany (in prices of 2000)



Source: Gernandt and Pfeiffer (2007): 25f.

2.2. Wage Inequality

Brenke (2007) finds that in Germany the inequality of gross hourly wages of employees steadily increased from 1996 to 2005. The 90th-to-10th percentile ratio, which measures the factor by which the ninetieth percentile of the wage distribution exceeds the tenth percentile, increased from 3.2 to 3.7 over that period of time. This increase is also documented by the Hoover coefficient which rose from 16.7 to 18.8 per cent. The Hoover coefficient signifies the share of total wages which would have to be re-distributed for achieving equality (ibd.: 76f.).

As Gernandt and Pfeiffer (2007) show, the development of wage inequality measured for Germany as a whole hides large differences between the east and west of the country. In West Germany, the relative gap between the 90th and 10th percentile of employed persons' hourly wages marginally narrowed from 2.59 to 2.47 between 1984 and 1994 and had widened to 3.08 by 2005. This development is attributed primarily to the fluctuation of the hourly wages, in constant prices, earned by the poorest ten per cent of the employed. While the median and the 90th percentile grew almost at the same rate during the entire period from 1984 to 2005, in relation the 10th percentile increased more strongly until 1992. It then flattened, and from 1996 onward the 10th percentile even decreased while the median and 90th percentile continued to grow. In East Germany, the increase of the 90th-to-10th percentile ratio increased from 2.40 in 1994 to 3.20 in 2005. The increase was thus stronger than in the west. It also has a different source: From 1994 to 2003, the 90th percentile rose at a higher rate than the median and the 10th percentile. The median and 10th percentile grew modestly with equal rates until 1999, but after that year the 10th decile decreased and the median continued to grow. In other words, the increase in wage inequality in East Germany is, to a much stronger extent than in West Germany, attributable to rising wages of the high-wage earners. In West Germany, by contrast, wage inequality is more driven by a fall of wages in the low-wage sector relative to the median. In East Germany, this phenomenon has only contributed to the rise in inequality since 1999.

The evidence on the development of wage inequality above corresponds with the assumptions that the income distribution in the east, which had been fairly compressed in socialist times, is stretched

primarily by excess demand for high-skilled workers, whereas in West Germany the shrinking demand for simple qualifications, resulting from increased integration into the global economy, has pushed market wages of low-wage earners downward. Moreover, it is likely that workers with high qualifications and longer job tenure are better protected against wage cuts than new entrants into the labour market or workers with simple qualifications (Franz and Steiner, 2000; Pfeiffer, 2003). Gernandt and Pfeiffer (2007: 10f) highlight particularly the role of job tenure for the development of wage inequality in West Germany. Among all percentiles below the 80th, the wages of employed persons with high tenure increased more strongly than that of others between 1994 and 2005. In the upper three deciles, the growth rates were about the same. The wages of workers with low tenure below the 4th decile even decreased.

The 90th-to-10th percentile ratio applied by Gernandt and Pfeiffer is insensitive to changes in inequality which take place between the boundaries of those two deciles. This is not the case with the Hoover coefficient. In 2005, the Hoover coefficient of employees' hourly wages computed by Brenke (2007) came to 18.0 per cent in West and 18.9 per cent in East Germany. Göbel *et al.* (2005), who analyse the inequality of the annual wages of employees and self-employed workers, find that between 1992 and 2003 the Gini coefficient steadily increased from 0.38 up to 0.42 in West and from 0.31 up to 0.41 in East Germany (*ibid.*: 178).⁵

2.3. From Inequality of Wages to Inequality of Net Household Income

How does the inequality of wages earned by self-employed or dependent workers relate to the inequality of the needs-adjusted net income of households? The development of the inequality of the needs-adjusted market income of households shows a similar trend as the inequality of personal employment income.⁶ In West Germany, the Gini coefficient rose from around 0.41 in 1991 to around 0.49 in 2005. In East Germany, the increase was again steeper, beginning with a level of 0.37 and ending with a level of 0.54. The East-German Gini coefficient has exceeded the West German since 1993 (see table 2.1). According to Göbel *et al.* (2005: 175-178), the rise in the Gini coefficient in West Germany is almost exclusively attributable to the growing inequality of market incomes obtained by the households. By contrast, the increase in East-Germany has been fostered also by a growing share of households which do not receive any market income.

The increase of inequality within the market income can be attributed, firstly, to a changed composition of the market income, and secondly, to an increasing dispersion of wage income itself. In Germany, like in other industrialised countries, the wages of dependent workers are commonly more unequally distributed among households than income from self-employment and capital assets (Becker and Hauser, 2003: 223). The steady shrinkage of the wage share in national domestic income is reflected in a diminishing share of wages also in the private households' budgets. In 1991, wages from dependent employment accounted for 70.7 per cent of needs-adjusted household income. This proportion reduced to 59.1 per cent in 2005. At the same time, the share of income from self-employment increased from 7.5 to 10.1 and the share of returns on capital assets from 1.9 to 2.5 per cent (Sachverständigenrat, 2007: 466, table 61). That the distribution of annual wages itself has become more unequal might be a result of both increasing inequality in hourly wages and increase in the distribution of working hours (see section 3.4 below).

⁵ The Hoover coefficient, unlike the Gini coefficient, does not react to shifts of income limited to persons located only above or only below the mean. By contrast, the value of the Gini coefficient reduces whenever a unit income is transferred from a richer to a poorer person (Principle of Diminishing Transfers).

⁶ Wage is transformed into market income by adding gains from capital or home ownership and private transfers. Summing up the income received by the members of a given household and adjusting it for the differences in needs leads to the needs-adjusted income of the household (Becker and Hauser, 2003: 57f.).

The comparison of the Gini coefficients of market and net incomes⁷ reveals that the public tax and transfer system exerts a considerable redistributive effect. In Germany as a whole, the welfare state cuts down the values of the Gini coefficient by around a third, in East Germany even by a half. That the effect is stronger in the east than in the west can be explained by the fact that inequality is primarily caused by the large distances of the high income earners from the centre of the distribution (see above). As a consequence, the progressivity of the tax system and the regressivity of public transfers paid to households can exert a stronger effect in the east.

Table 3.1: Gini coefficients of needs-adjusted market and net income of households

| | 1991 | 1993 | 1996 | 1999 | 2002 | 2005 |
|----------------------|-------|-------|-------|-------|-------|-------|
| <i>Market income</i> | | | | | | |
| Germany | 0.412 | 0.430 | 0.451 | 0.453 | 0.480 | 0.504 |
| West Germany | 0.408 | 0.422 | 0.444 | 0.441 | 0.468 | 0.492 |
| East Germany | 0.372 | 0.429 | 0.462 | 0.483 | 0.520 | 0.539 |
| <i>Net income</i> | | | | | | |
| Germany | 0.257 | 0.267 | 0.265 | 0.264 | 0.292 | 0.316 |
| West Germany | 0.257 | 0.270 | 0.271 | 0.270 | 0.297 | 0.322 |
| East Germany | 0.203 | 0.217 | 0.221 | 0.213 | 0.242 | 0.257 |

Source: *Sachverständigenrat* (2007): 458.

2.4. The Incomes of the Very Rich

The incomes earned both at the upper and lower tails of the income distribution have been the focus of much public discussion in recent years. In December 2006, Chancellor Angela Merkel criticised the high and dramatically increasing earnings of top managers and chief executive officers, which had been expressed in a more moderate tone before by President Helmut Köhler. She asserted in a keynote speech that incomes surmounting the wage of a simple white-collar worker by 1000 times have “overstepped the mark” and “jeopardise social cohesion” (Financial Times Deutschland, 4/12/2007a). These words spoken by a leader of the Christian Democratic Party (CDU) are all the more remarkable as criticism of high earnings had traditionally been the domain of the Social Democratic Party (SPD). However, when the SPD subsequently convened a workgroup for drafting legal restrictions on the high earnings of top-managers, the CDU was reluctant to get legislative reforms on that issue off the ground (Financial Times Deutschland, 10/12/2007). The president of the German Chamber of Industry and Commerce (DIHK), Ludwig Georg Braun, argues that in a market economy it should be up to the supervisory board to decide how much their companies are willing to pay to attract the best managers. Politicians of the CDU point to the fact, that the ten per cent earning the highest incomes pay more than half of the taxes in Germany (Financial Times Deutschland, 4/12/2007b).

The incomes of the very rich are difficult to investigate on the basis of random population samples due to the small number of cases and high standard error. Bach *et al.* (2007) shed some light on that topic by integrating GSOEP data, a representative sample of the entire population (including both taxpayers and non-taxpayers) with income tax returns data, including a full sample of the 1 per cent richest German taxpayers. The integration with the tax data had an effect on the measured inequality. It made the Gini coefficient of market income earned in 2001 (calculated only for people with positive income) increase from 0.591 to 0.606 (ibd.: 11, 27). The rise in inequality from 1995 to 2001, described above, is well reflected by the evidence of a falling median income while the mean income modestly increased. In other words, although the population became on average richer, those in the middle of the income distribution faced an income loss. Focussing on the richest ten per cent, we observe that the higher we move upward in the income distribution, the stronger the market income increased between 1995 and 2001. To belong to the richest hundredth of the population you needed a market income of roughly EUR 110,000 per year in 2001, which was ten per cent more than six years before.

⁷ Adding public benefits, pensions and other public transfers to market income and subtracting direct taxes and obligatory social security contributions, we obtain the net income, which is meant to represent the income available to people for consumption (ibd.).

The minimum income of the upper 100,000th (roughly 650 persons) increased from EUR 5.3 million to EUR 6.5 million, i.e. by 23 per cent. It is worth noting that the share of wages in the rich persons' market income increased significantly between 1992 and 2001 (among the richest 1 per cent from 36.6 to 42.2 per cent and among the richest 0.01 per cent from 5.8 to 11.6 per cent), while this share diminished modestly in the population as a whole (from 84.2 to 83.1 per cent) (ibid.: 17).

Table 3.2: Distribution of market income¹ in the top decile (Euro in prices of 2000)

| | 1995 | 1998 | 2001 |
|----------------|----------|----------|----------|
| Mean | 19.8 | 19.8 | 20.0 |
| Median | 11.8 | 10.6 | 9.8 |
| Lowest income | | | |
| Top 10% | 47.2 | 48.3 | 49.8 |
| Top 1% | 101.6 | 107.5 | 111.6 |
| Top 0.1 % | 312.3 | 338.8 | 351.9 |
| Top 0.01% | 1,211.3 | 1,385.0 | 1,471.3 |
| Top 0.001 % | 5,257.7 | 6,178.6 | 6,482.0 |
| Top 0.0001 % | 19,696.6 | 25,456.4 | 26,255.5 |
| Average income | | | |
| Top 10% | 77.1 | 80.3 | 83.4 |
| Top 1% | 210.4 | 229.7 | 239.9 |
| Top 0.1 % | 761.7 | 868.1 | 914.1 |
| Top 0.01% | 3,066.6 | 3,617.8 | 3,810.9 |
| Top 0.001 % | 11,721.4 | 14,280.4 | 14,981.1 |
| Top 0.0001 % | 39,051.4 | 47,230.3 | 48,151.9 |

¹) Income from business activity, wage income, capital income, exclusive capital gains and public and private pensions.

Source: Bach *et al.* (2007: 15).

Manager Magazine collated the earnings of the chief executive officers of the 30 enterprises represented in the blue-chip index of the German stock exchange (DAX), as outlined in the companies' business reports. These earnings from 2006 sum up to around 130 Mio. Euros (see table 3.3).

Table 3.3: Chief executive officers' earnings of companies in the DAX, 2006

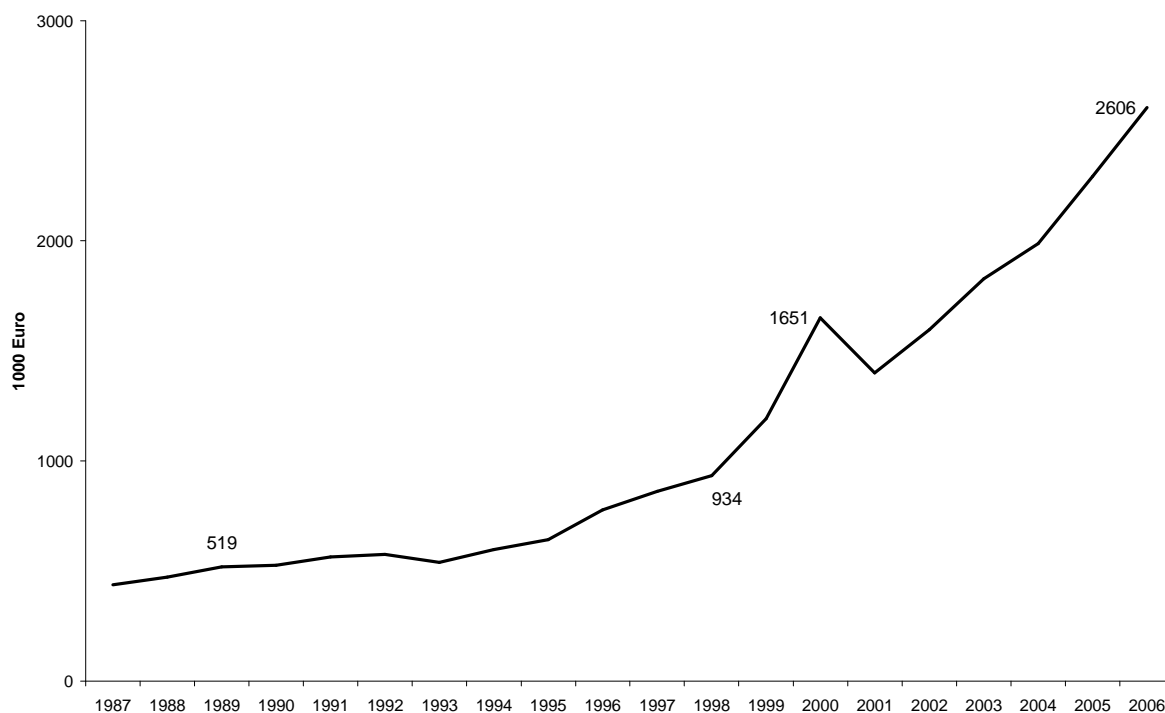
| Company | Earnings ¹ (Mio. Euro) | Company | Earnings (Mio. Euro) |
|-------------------|--------------------------------------|-------------------|-------------------------|
| Deutsche Bank | 13.055 | Continental | 3.499 |
| SAP | 9.013 | Adidas | 3.420 |
| DaimlerChrysler | 7.502 | ThyssenKrupp | 3.344 |
| Linde | 7.352 | MAN | 3.282 |
| RWE | 6.874 | Volkswagen | 3.135 |
| Allianz | 5.260 | Henkel | 3.026 |
| Eon | 4.868 | Hypo Real Estate | 3.014 |
| Metro | 4.664 | Deutsche Börse | 2.877 |
| Fresenius Medical | 4.242 | Bayer | 2.867 |
| Münchener Rück | 4.133 | Deutsche Telekom | 2.677 |
| Deutsche Post | 4.132 | Lufthansa | 2.561 |
| BASF | 3.991 | Altana | 2.490 |
| BMS | 3.778 | Infineon | 2.210 |
| Commerzbank | 3.671 | Deutsche Postbank | 2.095 |
| Siemens | 3.590 | Tui | 1.997 |
| | | Total | 128.619 |

¹) Including options on shares, long-term benefits, excluding old-age pensions.

Source: Palan and Papendick (2007).

In the last 20 years, the earnings of members of executive boards of DAX companies per head increased by five times (see figure 2.5). The average annual growth rate was thus 9.85 per cent. The growth was especially high during the last economic upswing from 1999 to 2000. In the following year, the crash of the new economy made the earnings of the executive boards fall for the only time in the examined period. Between 1987 and 2006, the ratio of earnings per head between the members of executive boards and the employees rose from 14 to 44, according to the authors of the study (Palan and Papendick, 2007). According to the consulting agency Kienbaum, the remuneration of executive managers in Germany is the highest among Western European countries. This result is based on the collation of remunerations of 74,000 executive managers working in 3700 enterprises in eleven countries carried out in 2007. German executive managers earn on average EUR 349,000 per year in companies employing 100 to 1,000 workers and EUR 274,000 in smaller ones. The United Kingdom was second and Ireland came in last. The surveyed managers' remuneration consisted to a considerable extent of performance dependent payments. Such payments are obtained by 93 per cent of the executive managers in Germany, more than in any other European country of the sample. Entitlements to severance-payments and old-age pensions covered by the company are other important components of the earnings of managers (Kienbaum, 2007a). According to another study, which is based on remuneration data of 670 executive managers in 390 companies, 9 per cent of the managers obtain a higher remuneration than EUR 500,000. The remuneration of a third of the firm leaders was higher than EUR 275,000, the remuneration of another third lay between EUR 175,000 and EUR 275,000, and the remuneration of the remaining third was lower. 16 per cent of the surveyed executive managers included held entitlements to "long-term incentives" like stock option plans (Kienbaum 2007b).

Figure 3.5: Earnings per head of executive boards members in DAX companies



¹⁾ Including options on shares, long-term benefits, excluding old-age pensions (in current prices). Source: Palan and Papendick (2007).

Looking for reasons for the exploding remunerations of executive managers, *Manager Magazine* identifies a market failure in this segment of the labour market. The recruitment process of executive managers in large companies is often strongly influenced by a cartel of consultants, supervisory boards and investment companies. The control function of the supervisory boards could be impeded by a web of mutual dependencies. The members of that board would often be involved in personal customer-

supplier arrangements with the managers whom they are meant to control. In many cases, the employees' representatives do not vote against high remunerations of managers, because they expect tolerance in future rationalisation plans in exchange (Palan and Papendick, 2007).

2.5. The Low-Wage Sector

According to the definition of the OECD, which is also applied by the European Union, the low wage sector refers to those workers whose hourly gross wage is lower than two thirds of the median. In Germany, this threshold was EUR 9.13 in 2006. 22.6 per cent of German workers, 19.1 per cent of West German and 41.1 per cent of East German workers, earned hourly wages below that threshold. Due to the considerable wage gap between the east and the west (see figure 3.4), it makes a considerable difference whether a common low-wage threshold is applied or the threshold is calculated for each region separately. The calculation of separate thresholds has the effect of equalising the low-wage shares of both regions. In which case they amount to 22.2 per cent in the west and 22.1 per cent in the east (Kalina and Weinkopf, 2008: 2f.).

Observing the development over time, applying separate thresholds, we find that the shares of low-wage earners in the east and the west both increased and converged during the last eleven years. In 1995, the share amounted to 14.4 per cent in the west and 17.5 per cent in the east (ibid.: 4). According to investigations by Brenke (2006: 198), the all-German low wage share remained stable (between 15 and 16 per cent) from 1994 to 1997 and then elevated to its current level. The share of workers earning an hourly wage below 50 per cent of the median remained stable (around 6 per cent) until 1999 before it swelled to around 9 per cent in 2004. Comparing the mean wage of low-wage earners with the low-wage threshold reveals information about the wage distribution within the low-wage sector. The closer the mean approaches the low-wage threshold the more people earn a wage which is not too distant from a regular wage. In West Germany, the mean wage came closer to the threshold, in relative terms, from 1995 to 2005, but in 2006 the distance widened again. In East Germany it is difficult to observe a trend, but the distance between the mean and the low-wage threshold was much larger in 2005 than in 1995 (see table 3.4).

Table 3.4: Development of the upper threshold and mean of low wages (Euros in current prices)

| | 1995 | 2000 | 2004 | 2005 | 2006 |
|---------------------|------|------|------|------|------|
| <i>West Germany</i> | | | | | |
| Low-wage threshold | 8.19 | 8.89 | 9.71 | 9.77 | 9.61 |
| Average low-wage | 5.73 | 6.26 | 7.14 | 7.22 | 6.81 |
| Ratio | 70.0 | 70.4 | 73.5 | 73.9 | 70.9 |
| <i>East Germany</i> | | | | | |
| Low-wage threshold | 5.93 | 6.75 | 7.25 | 7.16 | 6.89 |
| Average low-wage | 4.63 | 4.95 | 5.48 | 5.38 | 4.86 |
| Ratio | 78.1 | 73.3 | 75.6 | 75.1 | 70.5 |

Source: Kalina and Weinkopf (2008: 5)

Table 3.5 reveals that almost a half of the jobs in the low-wage sector are full-time jobs. This share has indeed decreased over time. This decrease, however, has not been caused by a falling probability of full-time workers earning a low hourly wage but just by the fact that the low-wage sector grew more rapidly than full-time employment. The expansion of the low-wage sector is to a great extent attributable to the growth of the number of persons with a mini-job. Their share almost doubled between 1995 and 2006. Nine out of ten mini-jobbers earned a low wage. The share of part-time workers in the low-wage sector remained relatively stable at around a quarter. Turning to the composition broken down by qualification, we find that the concentration of workers without higher education in the low-wage sector has intensified. The number of those slipping into this sector has increased especially among workers with a professional degree. Their share has grown from 59 to 67 per cent. Furthermore, in 2006, being a low-wage earner was less than before determined by gender, but the share of low wage-earners was still twice as high among female than among male workers. The

low-wage share grew especially strongly also among young workers and foreign workers. Both groups had shown a higher disposition towards the low-wage sector already in 1995.

Table 3.5: Low-wage risk and composition of the low-wage sector¹

| | Share of low-wage earners (per cent) | | Share in low-wage sector (per cent) | |
|---------------------|--------------------------------------|-------------|-------------------------------------|--------------|
| | 1995 | 2006 | 1995 | 2006 |
| Full-time | 11.0 | 14.3 | 57.9 | 46.2 |
| Part-time | 22.2 | 23.4 | 27.2 | 24.0 |
| Mini-job | 86.0 | 91.1 | 14.9 | 29.7 |
| No qualification | 31.0 | 45.6 | 33.5 | 26.4 |
| Vocational training | 13.6 | 23.1 | 58.6 | 67.5 |
| Higher education | 6.3 | 6.1 | 7.9 | 6.1 |
| Male | 7.4 | 14.2 | / | / |
| Female | 25.0 | 30.5 | / | / |
| 24 or younger | 28.8 | 56.3 | / | / |
| 25-34 years | 13.9 | 25.1 | / | / |
| 35-44 years | 12.3 | 19.6 | / | / |
| 45-54 years | 13.5 | 16.5 | / | / |
| 55 or older | 17.7 | 22.0 | / | / |
| German | 14.5 | 20.8 | / | / |
| Foreigner | 20.1 | 38.9 | / | / |
| <i>Total</i> | <i>15.0</i> | <i>22.2</i> | <i>100.0</i> | <i>100.0</i> |

¹) Low-wage thresholds calculated for East and West Germany separately.
Source: Kalina and Weinkopf (2008: 6-8).

The enlargement of the low-wage sector was a primary goal of the *Hartz* reforms. It had evolved from the idea of creating opportunities for firms to employ workers even if their market wage is so low that employment income would fall short of the social assistance level. The most important measures for achieving that goal were the mini-job reform and the introduction of one-Euro jobs. At the same time, the obligation was imposed on the unemployed to take up any job offered (see section III.5.). Employment in the low-wage sector does not necessarily imply poverty. Firstly, low wages might be compensated by long working hours. Secondly, even if the gross wage earned is low, the net income may nevertheless be sufficient to maintain a respectable standard of living if social transfer payments and the household context are taken into account.

Göbel et al. (2005) investigate how size and structure of the low-wage sector change if we look at monthly instead of hourly wages (see table 3.6). In West Germany, the low-wage sector of monthly income is larger than the low-wage sector of hourly income. Obviously, people with a low hourly income compensate this disadvantage by working longer than others. In East Germany the effect is opposite. In both parts of the country, full-time employees are more rarely represented in the low-hourly-wage than in the low-monthly-wage sector, due to their long working times. Correspondingly, the share of the low-paid part-time and marginally employed increases from a half to four fifths if the monthly instead the hourly wage is applied.

Table 3.6: Share of low-wage earners¹⁾ in different employment groups (in per cent)

| | Germany | | | West Germany | | | East Germany | | |
|---|---------|------|------|--------------|------|------|--------------|------|------|
| | 1993 | 1998 | 2003 | 1993 | 1998 | 2003 | 1993 | 1998 | 2003 |
| Hourly wage below 67% of the median | | | | | | | | | |
| Total employed | 21.0 | 20.7 | 23.4 | 15.2 | 16.8 | 20.3 | 46.9 | 37.5 | 38.6 |
| Full-time employees | 12.5 | 10.9 | 12.6 | 5.4 | 6.2 | 8.8 | 41.3 | 30.5 | 29.8 |
| Part-time, marginally employed | 51.6 | 49.2 | 49.4 | 47.9 | 47.1 | 47.3 | 74.0 | 60.7 | 61.2 |
| Self-employed | 29.9 | 32.2 | 25.8 | 24.3 | 27.7 | 21.5 | 57.6 | 48.9 | 45.6 |
| Monthly wage below 67% of the median | | | | | | | | | |
| Total employed | 24.6 | 24.9 | 27.6 | 21.4 | 22.8 | 26.5 | 38.8 | 33.7 | 32.6 |
| Full-time employed | 8.9 | 8.2 | 7.6 | 3.8 | 5.0 | 5.2 | 29.9 | 21.6 | 18.8 |
| Part-time, marginally employed | 81.3 | 80.6 | 77.7 | 80.5 | 80.2 | 78.3 | 86.4 | 82.6 | 74.3 |
| Self-employed | 31.4 | 23.7 | 21.5 | 29.8 | 20.9 | 20.7 | 40.1 | 35.4 | 25.2 |

¹⁾ Common low-wage threshold whole Germany.

Source: Göbel *et al.* 2005: 180.

Turning to the effect of social transfers it is clear that net hourly wages earned in the low-wage sector are commonly higher than gross hourly wages as a consequence of the partial exemption of employment income from the calculation of the Unemployment Benefit 2, the one-Euro jobs and the partial exemption of mini- and midi-jobs from social security benefits (see section [social protection]), provided by the Social Law Code. In order to assess the effect of social transfers on the hourly gross wage in such subsidised jobs, Brenke (2006: 202f.) calculates the so-called wage equivalent of social transfers, signifying the hourly gross wage a person in regular employment needs to earn in order to achieve the same monthly net income as an unemployed person who lives on Unemployment Benefit 2. This wage equivalent amounts to EUR 4.47 for singles, EUR 7.33 for childless couples, EUR 6.51 for a single parent of a child younger than 7 years and EUR 9.08 for a couple with two children under 13. According to calculations by Cichorek *et al.* (2005: 3), the net income of an unemployed person who works 40 hours per week in a one-Euro job is more or less equal to 67 per cent of the median wage of full-time working employees. A low-wage threshold set at 66 per cent of the median net wage would amount to EUR 6 per hour. Based on that threshold, only 15 per cent of employees would belong to the low-wage sector in 2004. In 1994, this share amounted to 12 per cent. Thus, the growth of the low-wage sector would be less evident if net wages instead of gross wages were applied. The share of mini-jobbers, midi-jobbers and other marginally employed in the low-wage sector would reduce from a third to a quarter (Brenke, 2006: 201).

According to Bruckmeier *et al.* (2007: 2), there were 2.1 million employees in 2005 whose wage was so low that they received additional support in the form of Unemployment Benefit 2, at least for a single month. They made up a twentieth of the German workforce, as the total number of employed people amounted to 38.8 million in that year (BA, 2007: 20). Surprisingly at first view, more than a quarter of those subsidised workers were full-time employed. As table 2.7 reveals, 80 per cent of the employees who received Unemployment Benefit 2 in addition to a full-time job for longer than nine months were couples. Most of them had children. They can be assumed to have a low hourly wage and need the subsidy for filling the gap to the subsistence minimum. This is confirmed by the evidence that the average wage of the full-time employed who received the subsidy for more than 9 months amounted to EUR 1,320. Assuming a weekly working time of 40 hours, this implies an hourly wage of EUR 7.60. 10 per cent of those workers earned less than EUR 800. Their hourly wage must have been much lower (*ibid.*: 6).

Childless singles and males were strongly represented among full-time workers who received the unemployment benefit for less than four months. Due to their lower level of needs, it is easier for them to earn sufficient income on the labour market compared to the former group. Among the part-time employed receiving that benefit were many parents and many women. A considerable proportion of

them might belong to male-breadwinner households in which the partner became unemployed. With 54 per cent, the marginally employed make up the largest share in subsidised employment. Bruckmeier *et al.* (2007: 5) find that the marginally employed were concentrated in branches like cleaning services and gastronomy. A quarter of the temporarily subsidised full-time employed were employed as temporary workers.

Table 3.7: Structure of subsidised employment¹ in 2005 (in per cent)

| | Full-time employed | | Part-time employed | Marginally employed |
|--------------------------------------|--------------------|-----------|--------------------|---------------------|
| | Long-term | Temporary | | |
| Share in total subsidised employment | 7 | 20 | 20 | 54 |
| Male | 56 | 72 | 31 | 47 |
| Female | 44 | 28 | 69 | 53 |
| Childless singles | 11 | 55 | 31 | 39 |
| Singles with children | 9 | 6 | 16 | 14 |
| Childless couples | 29 | 17 | 23 | 19 |
| Couples with children | 51 | 22 | 30 | 28 |
| Total | 100 | 100 | 100 | 100 |

¹) Employees receiving for less than 4 (temporary) or more than 9 months (long-term) Unemployment Benefit 2 in addition to their wage.

Source: Bruckmeier *et al.* (2007: 6).

Low wages earned in one job can also be compensated by taking up an additional job. Between 2004 and 2006, the number of those using a low-paid job as a second job increased from 1.6 to 2.0 million, while the number of single low-paid jobs has remained almost unchanged at around 4.7 Mio. (Sachverständigenrat, 2007: 313). Hirschenauer and Wießner, (2006: 2) report 101,000 persons (0.3 per cent of total employment) who combined more than one mini-job in 2004.

Taking into account the composition of their households, people earning low hourly (gross) wages are much more often poor in the sense that their net needs-adjusted household income is less than 60 per cent of the median, than other categories of workers. The poverty risk of low-wage earners, in contrast to the other employed persons, has considerably increased since 1993 (see table 3.7).⁸ More detailed investigations by Göbel *et al.* (2005: 180-183) based on GSOEP data reveal that poverty is almost exclusively limited to the 47 per cent of low-wage earners who do not share their household with at least one employed person earning more than a low wage. Every third person of that group lives in poverty. The other low-wage earners, for whom the low-wage jobs serve as an additional rather than the major source of income, face a poverty risk of less than one per cent. The data reveal the alarming trend that not only the proportion of persons with low-wage jobs in the total labour force but also their likelihood of being poor has increased since 1993.

Table 3.8: Poverty rates of different employment groups (in per cent)

| | 1993 | 1998 | 2003 |
|--------------------------------|------|------|------|
| Full-time employed | 3.9 | 3.6 | 4.4 |
| Part-time, marginally employed | 12.1 | 15.8 | 17.2 |
| Self-employed | 6.1 | 4.8 | 4.3 |
| Wage < 2/3 of the mean | 12.9 | 17.5 | 20.4 |
| Wage > 2/3 of the mean | 2.7 | 2.2 | 2.9 |
| Unemployed | 28.7 | 31.7 | 39.1 |

Source: Göbel *et al.* 2005.

In the light of the growing low-wage sector since the mid 1990s calls for a statutory minimum wage have become increasingly acknowledged in the public debate. Trade unions point also to the declining coverage of collective agreements and decentralisation of collective bargaining, which would

⁸ This trend was observable both in East and West Germany, even though the poverty rates in the East part of the country were higher.

increasingly undermine the protection of workers, especially in particular branches, from intolerably low wages (DGB, 2008: 8). Recently, the topic has also been brought up at the level of the European Union. In May 2006, the then president-in-office of the European Council, Jean-Claude Juncker, expressed support for “the creation of a European minimum wage” adding that “every working person should be entitled to a decent wage” (quoted in Schulten and Watt, 2007: 1). In the same year, the former President of the European Commission took up the idea and demanded the introduction of an “EU target for the minimum wage in terms of GNP per capita” (quoted *ibid.*).

Germany is among the seven countries of the EU without a legally set minimum wage. In the other six countries of this group, the wage is prevented from falling short of a certain level either by high coverage rates of collective agreements (Denmark, Sweden, Finland, Austria and Cyprus) or by a clause in the constitution which forbids unfair wages (Italy) (*ibid.*: 3). In Germany, the only law which provides for minimum wages, notably in sectors linked with construction, the Postal Act, which was passed in 1996 with the aim of protecting construction workers’ wages against competition from migrant workers who accept a much lower wage due to the lower level of social protection and standard of living in their home countries. Moreover, the government is allowed to declare collective agreements as commonly applicable under specific circumstances (see section III.8.1.). A minimum standard is set in practice of the Federal Court, according to which, wages lower than two thirds of the local collectively agreed wage level, are immoral.

Different proposals for legal reform have been discussed among trade unions and left-wing politicians in the past. Today the German Federation of Trade Unions calls for a system in which a common statutory minimum wage, not lower than EUR 7.50, would be set by law for all branches of the economy. The unions and employers’ associations would have the opportunity to agree upon higher minimum wages for their particular branches. The majority of the SPD supports the proposal of a step-wise strategy drafted by the former party leader, Franz Münterfehring: In the first step, the unions and employers’ associations would agree upon minimum wages for their particular branch; in the second step, these are extended to all workers of the branch by making use of the Postal Act. Only if these two steps do not lead to a sufficient coverage, politicians should take measures to introduce a common minimum wage by law. The CDU is divided into a large group of opponents and a smaller group of proponents of minimum wages. The party has elaborated two proposals on this issue: one foresees an identification of the immorality of low wages, the other a ban on subsidised wages where the gross wage falls short of a specified level (Schäfer and Schulten, 2007: 39f.). The majority of independent research institutes and the German Council of Economic Experts recommend the continuation of the policy of subsidised wages, which has been begun with the Agenda 2010.

Besides the general goal to protect workers from unacceptably low wages, minimum wages are also defended for the reason that they provide equal conditions of competition for all companies of a given branch, irrespective of its coverage by a collective agreement. Contrary to subsidised wages, they would prevent substitution of regular employment by low-wage jobs. Moreover, experience from the United Kingdom shows that companies compensate higher labour costs by strengthened efforts to increase productivity and reduce profit margins (Low Pay Commission, 2003: vii-ix). From the point of view of economic theory, a minimum wage which is set below the market wage is supposed to reduce the companies demand for low-skilled labour. It would therefore countervail the main target of the Hartz reforms which aims at the reduction of the gross wage for workers with simple qualifications, while maintaining a respectable net wage, in order to promote employment (cf. Ragnitz and Thum, 2007; Schöb and Weimann, 2006). Firms are likely to react to high labour costs relative to productivity by increasing prices or relocating their production facilities abroad. A number of empirical studies also provide support for this argument (cf. Neumark and Wachter, 2006). Generally, there is a considerable dichotomy observable in Germany between the discussion currently carried out in the public and economic research: Politicians, pressure groups and interest associations debate about the minimum wage, while most research institutes and the Council of Economic Experts recommend the continuation of the strategy of subsidised wages (Projektgruppe Gemeinschaftsdiagnose, 2007: 62; Sachverständigenrat, 2007: 10). They develop a variety of proposals for subsidising employment in the low-wage sector (cf. Sachverständigenrat, 2006: 385-401;

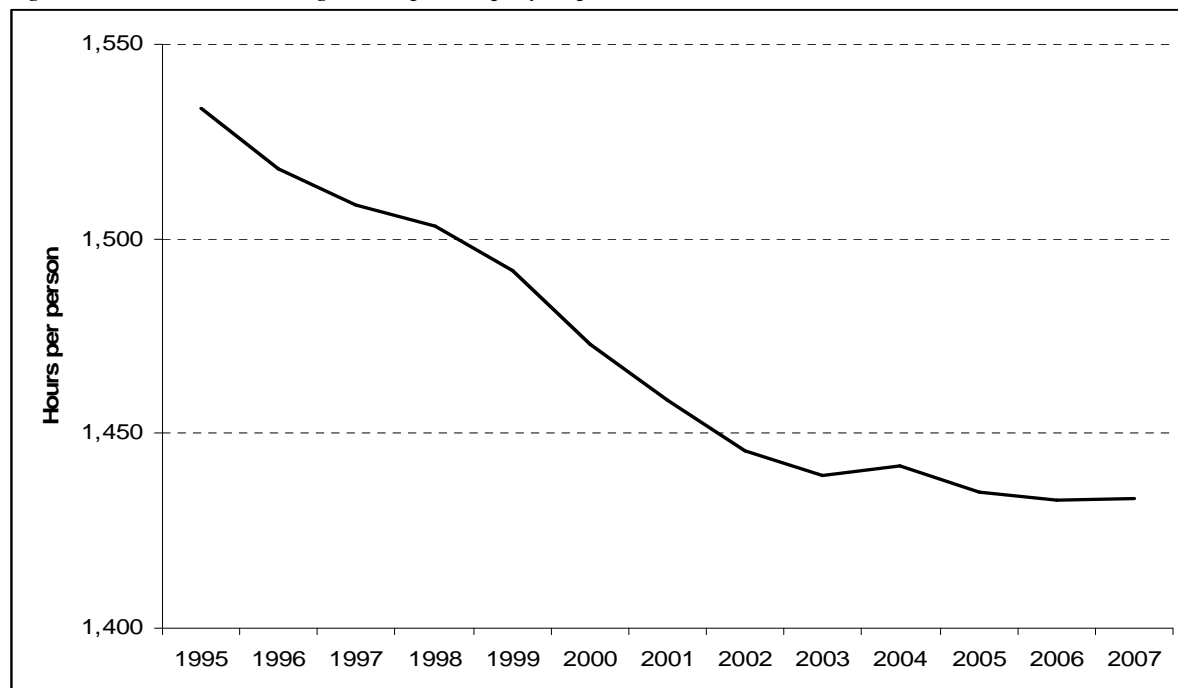
Sinn *et al.*, 2006; Fuest and Peichel, 2007) and simulate their effects (cf. Haan and Steiner, 2007; Franz *et al.*, 2007).

3. Working time and work intensity

3.1 Trends in working hours

The number of usual yearly working hours per worker decreased from around 1530 to 1440 between 1995 and 2003. Since then it has remained almost unchanged at that level (see figure 4.1).

Figure 4.1: Annual working hours per employed person 1995 to 2007



Source: Statistisches Bundesamt, 2008.

East Germans work on average longer than West Germans, although this difference modestly diminished between 1994 and 2005 (see table 3.1). In that period of time, the average weekly working time has been reduced from 38.8 to 37.4 hours in the west and from 43.5 to 41.3 hours in the east (see also Holst, 2007b: 212). In both parts of the country, the reduction of working hours was accompanied by a growing diversity of individual working times, especially until 2000. This may mirror the strong efforts undertaken at the end of the 1990s to deregulate weekly working times and introduce flexible working time arrangements, embedded for instance in working time accounts and staggered hours. Also, groups whose working times are commonly less regulated, like self-employed and part-time workers, made up a growing proportion in the workforce (see section III.1). Seifert (2007: 17f.) points to a growing polarisation of the working hours of full-time and part-time employed. On the one hand, more and more people work part-time (see next section) or have a mini- or midi-job. The number of mini- and midi-jobs rose between June 2003 and March 2006 by a half million up to a level of 5 million. On the other hand, against the background of a worsening economic situation after 2002, increased international competition and the threatening relocation of workplaces, full-time workers had to accept extensions in working times in collective agreements – such as in the construction industry from 39 up to 40 hours a week – in order to retain employment or limit cuts in jobs. As a result of these developments, in western Germany, where weekly working time had been more dispersed than in the east even in 1994, the standard deviation of the weekly working time rose from 10.7 to 12.4 hours by 2000 and then further to 12.8 hours by 2005. In eastern Germany, this standard deviation increased from 8.6 hours in 1994 to 10.1 hours in 2000 and then remained at that level until 2005 (see Table 4.1).

Table 4.1: Weekly working times of workers¹ in East and West Germany (in hours)

| | West Germany | | East Germany | |
|------|--------------|-----------|--------------|-----------|
| | Average | Std. dev. | Average | Std. dev. |
| 1994 | 38.8 | 10.7 | 43.5 | 8.6 |
| 1995 | 39.0 | 11.0 | 43.4 | 9.6 |
| 1996 | 38.7 | 11.0 | 43.2 | 9.3 |
| 1997 | 39.0 | 11.4 | 43.6 | 9.3 |
| 1998 | 39.0 | 11.4 | 43.0 | 9.4 |
| 1999 | 38.5 | 11.8 | 42.8 | 9.5 |
| 2000 | 38.3 | 12.4 | 42.5 | 10.1 |
| 2001 | 38.1 | 12.6 | 42.3 | 10.1 |
| 2002 | 37.8 | 12.7 | 42.2 | 9.8 |
| 2003 | 37.5 | 12.6 | 41.8 | 9.8 |
| 2004 | 37.6 | 12.7 | 41.5 | 10.2 |
| 2005 | 37.4 | 12.8 | 41.3 | 10.1 |

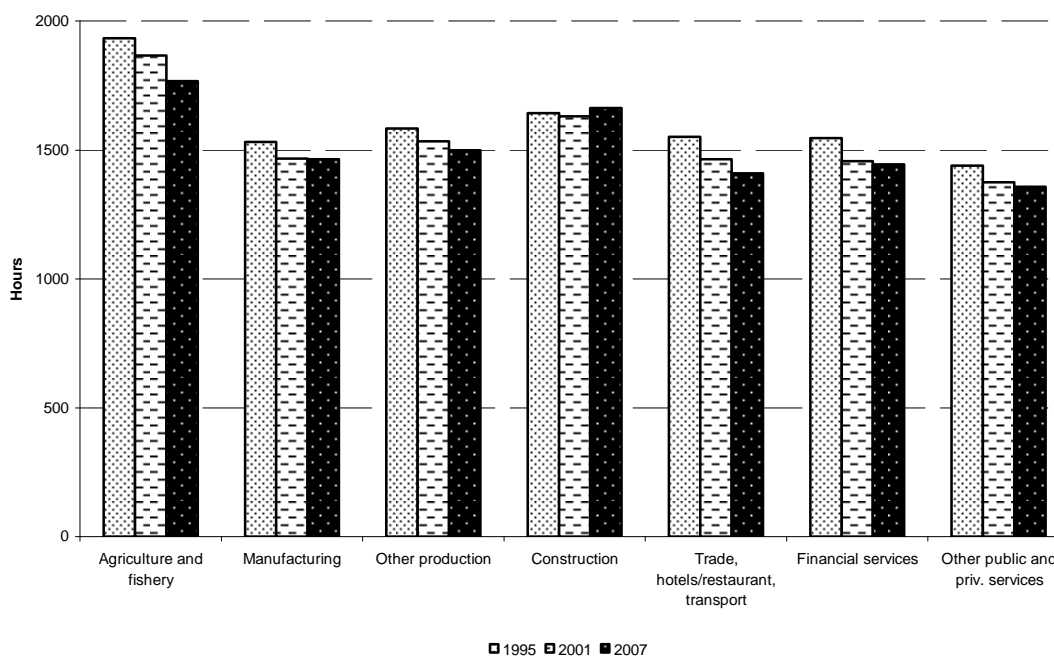
¹) Employees and self-employed.

Source: Gernandt and Pfeiffer (2007: 25f.).

According to Holst (2007b, 211f.), among dependent workers, only the working hours of women, not of men reduced. Between 1993 and 2005 the usual working time of male employees remained stable at 42.4 hours per week, while that of females decreased from 34.1 to 31.6 hours per week. Accordingly, the gender gap in the usual hours of work widened from 8.3 to 10.6 hours. The reduction of working hours has been accompanied by an increase of overtime, most often non-paid overtime work (see also Anger 2006).

Figure 4.2 shows that annual working time has reduced in all sectors of the economy except construction. Workers in that sector, in which annual working time had been comparatively high even in 1995, were not only given a smaller share of the total value added in 2006 than in 2005 (compare section III.2.1), they also gave up a growing proportion of their leisure time. Apart from agriculture and fishery, we can observe that annual working time has become modestly more dispersed throughout all economic sectors.

Figure 4.2: Annual working time per employed person by sector

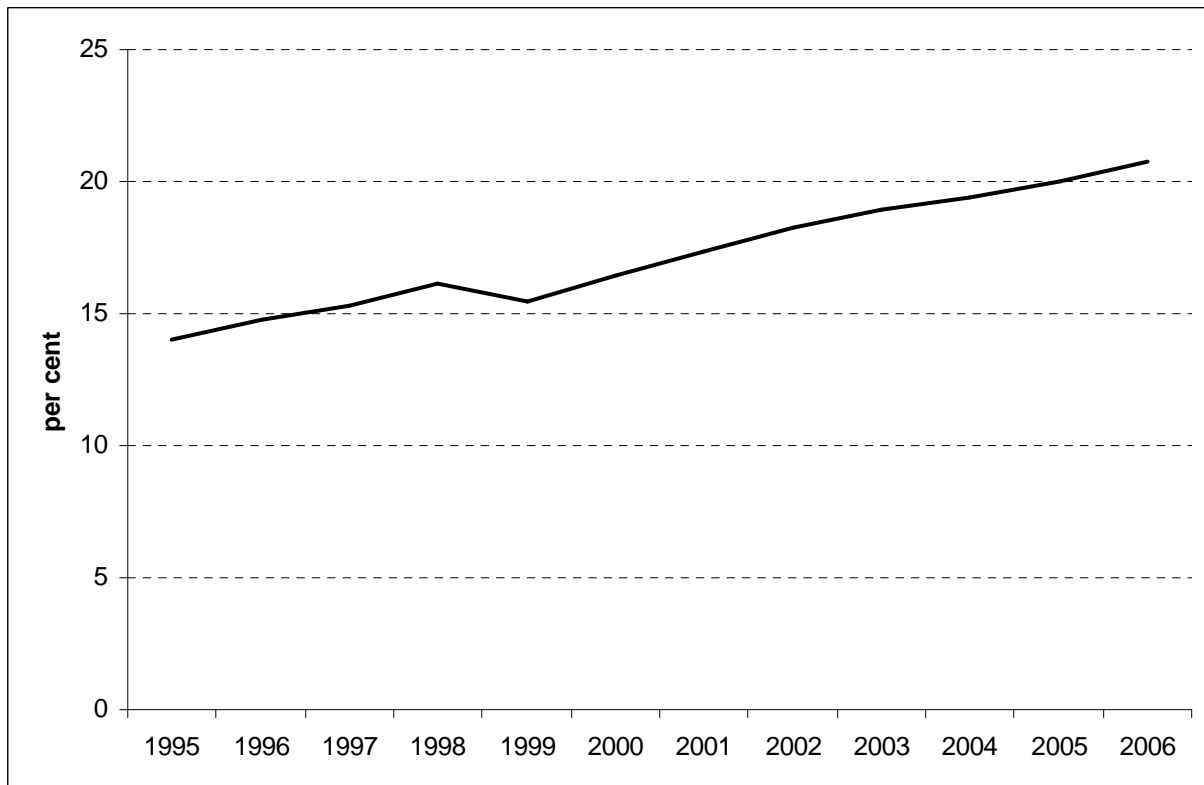


Source: Statistisches Bundesamt, 2008; own calculations.

3.2 Part-time work

The part-time rate, expressed as the share of part-time workers in the total number of employees paying social insurance contributions, considerably increased from 14.0 per cent in 1995 to 20.8 per cent in 2006 (see figure 4.3). The increase of the part-time rate was especially strong during the previous economic upswing in 2000 and 2001, when it amounted to one percentage-point per year. The majority of the newly created jobs at this time were part-time. 54% of part-time workers are exclusively in marginal employment, i.e. with relatively low hours of work and low pay. The most recent economic upturn was more driven by the creation of full-time jobs (Wanger 2006: 15f.; Sachverständigenrat, 2007: 329).

Figure 4.3: Share of part-time in total number of employees contributing to social insurance



Source: Statistisches Bundesamt, 2007c.

In 2005, three quarters of the part-time workers were women. The female part-time rate amounted to 44.3 per cent compared to a part-time rate of 7.4 per cent among male (Statistisches Bundesamt, 2006). However, part-time work has become increasingly popular also for men (Wanger, 2006: 15). The frequent use of part-time work in Germany is primarily attributable to the strong participation of western German women in this employment segment. Women in the former GDR are more likely to work full-time, as they used to do before the reunification, due to the widespread childcare utilities. In 2004 the female part-time rate was in western Germany with 51.1 per cent a third greater than in eastern Germany, where it amounted to only 38.1 per cent. The male part-time rate was, with 15.0 per cent in the west and 17.5 per cent in the east, more equal (Wanger, 2006: 7).

Women and men do not only show a different tendency to part-time work, they use part-time work also in different ways. In 2004, three quarters of the male part-timers but only half of the female part-timers were marginally employed (see Wanger 2006: 16). Within the segment of regular part-time jobs, female workers worked longer than males. As a result, in 2004 the average yearly usual working time of female part-timers was 30 per cent higher than that of men (Wanger, 2006: 17f.).

3.3 Inconvenient working hours

According to Seifert (2007: 18f.), between 1991 and 2005 the share of employees working at non-standard working times, including shift-, night- and weekend work, rose by a half of its initial amount from 38 up to 56 per cent. A particularly strong increase was reported for weekend work, which now affects two fifth of workers. The extension in opening hours in many *Bundesländer* in Germany in 2006 contributed to this development. These changes affected almost all economic sectors. In the credit and insurance sector, where such working times used to be an exception in the past, almost one third of workers are now usually working at non-standard hours. Men are more often affected by this development than women.

Recent survey research, based on data from the European Foundation for the Improvement of Living and Working Conditions, show that almost half of all European firms with at least 10 employees occupy their workers at night, on the weekend or at rotating and varying hours. In 9 per cent of all European firms, the workforce usually works late in the evening or at night. Germany is slightly above the European average. Almost every third firm in Germany usually operates on Saturday. Which can be seen in that, the diffusion of Saturday work is around 4 percentage points greater than the European average of 29 per cent. Regarding Sunday work, 18 per cent of firms occupy workers on Sunday compared to around 15 per cent in Europe on average. Shift work and varying hours of work are practiced in almost 22 per cent of firms compared to the European average of around 16 per cent. Such working times usually cause a detachment of individual working from operating and opening hours and thereby extend the latter. Varying working times are practiced quite often in Germany which occupies the fourth rank in the European average behind Sweden, the UK and Finland. Spain and the Netherlands are situated at the lower end (Kümmerling, 2007: 1-6).

The aforementioned differences between the countries can be explained by two major factors. Firstly, different branch composition in the observed economies results in different needs for working time flexibility. This is the reason why night work, weekend work, and varying hours of work are mainly concentrated on services. Secondly, the distribution of non-standard and irregular working hours also depends on firm size. The larger the firm is the more often non-standard working hours are applied. Firms with at least 300 employees occupy workers at non-standard hours particularly often. However, besides the (structural) effect of the branch and firm size, country-specific working time patterns apparently play an even more important role. These include the diffusion of informal hours of work, the importance of flexibility instruments used in practice, as well as legal and collective provisions (socio-economic cultural effects) (Kümmerling, 2007: 6).

Unusual working hours may affect workers both positively and negatively. Positive effects consist for instance in the individual worker's possibility to better combine professional and family duties. Negative effects result especially from strong daily variation in working hours and from night work. These might cause workers' health impairment. Persistent physical and mental burn-out, interruption of sleep and problems with digestion are well-known consequences. A quantitative analysis shows that in firms which commonly use non-standard working hours, managers are more often confronted with problems related to sickness and absenteeism from work. This is particularly the case in firms employing a large proportion of workers in night work or on the basis of non-standard working time schedules (night, weekend work, varying and rotating hours of work etc.) (ibid.: 8-9). A seldom discussed problem is the clash of interests between night, shift and weekend work and family duties. Educating and caring for children is still mainly left down to women (Seifert, 2007: 23).

The negative consequences of unusual working hours on workers' health and motivation may also cause problems for managers, as they have to cope with higher fluctuations in personnel and low worker performance. This can be observed especially in the case of night work or other patterns of inconvenient working hours (overtime, long hours, shift-work). Health-oriented measures, like increased control for the individual on working time, may help solving these problems. They commonly enable workers to better consider their individual time needs and, at the same time, help firms better cope with fluctuations in the workload (ibid.: 8-10).

3.4 Flexible working hours

The working times of employed persons increasingly fluctuate over time, which is often enabled through time account systems set in collective agreements. Nowadays almost two thirds of firms allow employees to voluntarily decrease or increase their working time. Compensation times for varying working hours and minimum as well as upper limits for additional time accumulation are progressively being extended. Fixed-term time account systems limited to a duration of one year are most strongly represented. Only 5 per cent of long-term time account systems have been registered, although their relevance is already on the increase (already set in chemistry and metal industry collective agreements). At the same time, the forms of variable working time used in practice are changing. Flexible working times organized on a confidence basis, which constitute an extreme form of regulatory design, already apply to some 8 per cent of workers, mainly employees with highly skilled tasks. According to this model, working times are neither reported nor controlled, and workers are responsible for the results of their activities (Seifert, 2007, 19f.).

The firms' advantages from flexible working times are obvious. They consist primarily in cost reduction and productivity increase. Longer working hours without overtime payment reduce hourly wages. Shorter working hours set in employment pacts in order to retain workers are often not bound to wage compensation. Firms can thereby avoid lay-off costs. The increase of non-standard working times favours the extension of operating running times and enables a reduction of unit labour costs (see Bauer et al., 2007: 95ff.). Variable working times enhance firms' adjustment flexibility, which leads to reductions in stock, short-time work, higher overtime pay, while the customers' needs orientation and firms' competition position can be improved (Seifert, 2007: 21).

For workers, the flexibilisation of working times bears advantages but also risks. On the one hand, it may provide opportunities for workers to adjust the work rhythm to their personal preferences and, in particular, enable a better reconciliation of work and family life. On the other hand, practical experience has shown that the flexibilisation of working times goes hand in hand with an increase in non-paid working hours. Workers work on average 0.9 unpaid hours per week in addition to their regular working time. Often, time account systems indeed replace the higher payment of overtime, but in each third firm a significant part of the accumulated time credits expires. Firms also increasingly relocate vocational further training, required by the company, into the workers' free time. One quarter of the entire training time required can be accumulated in this way. Confidence-based flexible working times are not always a source of liberty for the workers, because their responsibility for the performance of the task may force them to work even longer and at more inconvenient hours than they would under a regular working time schedule. Finally, the hours accumulated as assets on a working time account often get lost when the firm goes bankrupt. In 2005, only one quarter of the firms (with works councils) had set provisions to protect workers from financial loss in case of bankruptcy. In the case of long-term time account systems, this proportion amounted to 44 per cent (Seifert, 2007: 19-21; see also Schietinger, 2007).

Risks for women and older workers

Far from achieving working time sovereignty, the unions claim, flexible working hours increase problems and risks already existing in reconciling work and family. Time account systems are not always family-friendly. Self-regulation of working hours is more often offered in activities with higher professional status than in others. As women are underrepresented in higher hierarchical positions, they often have less scope for self-governed working hours (see also Holst, 2007a). Shorter working hours and marginal employment worsen female career development and impede the access to workplaces with a high degree of working time autonomy (ibid.: 23). Women with care duties often need particular working hours to better combine work and care activities.

Old-age friendly working hours, often implemented with the aim of achieving greater employability of older workers and longer employment until retirement, also require adequate organisation, including health measures and maintaining of competencies. Long-term time account systems set in collective

agreements could be suitable for older workers by offering time credits for paid breaks, further training and early retirement. By contrast, long hours of work, night and shift work are associated with many problems in practice: higher work burden, higher work intensity, increase in usual working hours and restricted possibility of obtaining long breaks.

3.5 Gap between working time preferences and usual hours of work

As in many European countries, in 2005 the average preferred working time of dependent workers in Germany per week was about 30 hours for women and 40 hours for men. A remarkable difference can be observed between working women in the east and west of the country. While female employees in the west preferred to work 29 hours, those in the east preferred to work five hours more. These preferences have remained stable since 1993, with the exception that the preferred weekly working time of female employees in the east reduced from 35 to 34 hours. If we contrast these figures with the actual usual working time (see above, section 3.1), we note that the women's working time came closer in line with their preference. In 2005 they worked on average only one and a half hours longer than they would have liked, whereas in 1993 this deviation amounted to around four hours. Male employees worked around two and half hours more than they wished both in 1993 and in 2005 (Holst, 2007b: 212f.).

Very long working hours are rather unattractive for both men and women. However, the working time preferences and the usual hours of work diverge particularly strongly among employees who need to work long hours: of the 52 per cent of men (and 16 per cent of women) used to working 41 hours per week or more, only 16 per cent of them (4 per cent of the women) want this. 54 per cent of the employed women and 12 per cent of the employed men would like to work less than 35 hours a week, but only 45 per cent of the employed women and 8 per cent of the employed men actually work that few hours (Holst, 2007b: 212f.).

4. Health and Safety

4.1 Conduction of risk evaluation insufficient

The Work Councils and Employees Committee Survey of the WSI (*Wirtschafts- and Sozialinstitut der Hans-Böckler-Stiftung*), which was conducted in 2004 among work councils and staff committees of 3.573 firms with at least 20 employees, showed that health burdens were increasing. Mental burdens such as agitation due to delivery dates, work intensity and responsibility pressures within firms were particularly on the increase. Since the mid of the 1990s, these had grown in 90 per cent of all surveyed firms. Measures against this situation in firms were scarcely found (Schäfer, 2004: 2).

Since 1996, the modified Labour Protection Law obliged firms in Germany to conduct risk evaluations to better measure physical and mental burdens at the workplace and keep them at a low level. According to this WSI analysis, since the mid-1990s only half of the interviewed firms, a third of SMEs with up to 50 employees, had conducted such risk evaluations. Mental burdens were poorly taken into consideration in 23 per cent of the risk evaluations. Only a third of the firms had implemented the measures recommended by the law and only around 16 per cent of firms undertook a preventive firm-wide health policy. Only 14 per cent of all interviewed firms had concluded agreements on labour and health protection, in particular bigger firms. 46 per cent of interviewed firms reported that they had introduced suitable measures for protecting the employees' health and implemented health-friendly working times. In 42 per cent of the firms, workers had been consulted with regard to the work organisation. In one third of the firms, sport and other behaviour-preventive measures⁹, such as dependency prevention, price reductions for the use of private fitness studios and communication training were offered (Schäfer, 2004: 2).

⁹ See below section 4.3 for the explanation of this term.

Schäfer (2004: 5-6) point to two main reasons for the insufficient implementation of legal provisions: Firstly, other firms' needs were more important for both employers and employees than health protection, leading to massive cuts in personnel for instance; secondly, the employers were often concerned by the costs resulting from health prevention measures; they were not convinced of the usefulness of such measures, and lacked awareness of the health risks arising for the firm. The author concludes that health promotion at the firm level should not be just left to the willingness of firms.

4.2 Older workers not as frequently sick but for longer

Based on WSI survey of works councils from 2004, Brussig and Ahlers (2007) showed a strong correlation between the absenteeism at the firm level and the firm-specific sick ratio for older employees. In addition, this study has pointed out a strong relationship between the sickness rate of older workers and working conditions. Older workers react more sensitively to demanding working conditions than younger ones. Sickness rates differ considerably across economic sectors. The highest sickness rate could be observed in public energy and water supply, where it amounted to 16.9 per cent for workers older than 50. The sickness rate was lowest in construction and public administration (6.5 and 6.9 per cent). The sickness rate in public companies is on average higher than in private ones (8.3 vs. 7.4 per cent), in particular for older workers (10.1 vs. 7.4 per cent), which also corresponds with the above-average proportion of disabled persons employed in this sector (Brussig and Ahlers, 2007: 357ff.).

Older workers are more rarely sick than younger ones, but for longer. This can be explained by their higher vulnerability to higher work burdens. Only a few firms (3 per cent) make use of age-specific equipment at the workplace and foresee a performance decrease for older persons (2 per cent) (Brussig and Ahlers, 2007: 357-364). Apart from in the economic sector, the sickness rate correlates to the proportion of women in the workforce as well as the share of unqualified personnel. This might be due to the relatively hard conditions of work or low pay among these groups of workers. Efforts made by workers representatives regarding conditions of work appear to significantly contribute to lowering the sickness rate (ibid.: 365).

The work burden differs a lot among economic sectors, firm size and proportion of older workers in the workforce. The work burden is larger in the private than in the public sector and also more in bigger than in smaller firms. However, some types of burden such as "fear of job loss" and "irritating environmental factors" are stronger in smaller firms. In firms showing a high concentration of older workers, less work burdens are communicated than in firms where they are underrepresented or not at all.

4.3 Measures to be taken to increase workers' health: Durable preventive strategies

According to Brussig and Ahlers (2007: 367-376), the sickness rate is lower than average among firms in which workers' representatives attend trainings on health and among firms in which a company medical officer or a qualified person for work safety is available. The awareness of the importance of promotion of workers' health is an important precondition for the implementation of related measures. This awareness differs considerably between firms. It is higher than average in the private sector, in larger firms, firms with a small share of highly qualified workers, firms with a high work burden, and in firms where the workers representatives attend trainings on health. The relationships between workers' representatives and management, as well as the atmosphere among the staff also play an important role. Higher burdens at work and less health promotion measures were found in firms where these relationships were bad. Health promotion measures are less widespread in the private than the public sector and occurred more where the share of older workers is larger (ibid.: 365-66).

Health-related problems are the main reason for work absenteeism and incapacity for work. According to conservative firms' estimations, these result in costs of EUR 5.6 billion caused by interruptions to the production process (Gerlmaier, 2007a: 109-110). According to estimations from the Federal

Occupational Safety and Health Office (*Bundesanstalt für Arbeitsschutz*), 30 to 40 per cent of illness could be avoided by means of prevention. Firms and health insurance funds could therefore avoid high costs related to absenteeism. Positive effects from preventive measures on health, motivation and worker performance are often underestimated (ibd.: 117-18). These measures also contribute both to retaining workers and enhancing economic performance and innovative capacity. Firms with a high consideration of workers show a productivity per worker almost twice as high as in other firms. The return on investment generated by health measures is estimated at 10 to 20 per cent for firms which have conducted old-age mindful organisation changes (ibd.: 117-20).

Firm policies targeting protection of workers' health become particularly important in the light of the increase of retirement age. The general rise in the average age of workers as well as the resulting widespread use of early retirement measures by organizational restructuring might lead in the close future to an important loss of know-how within firms. For workers, later retirement generates new risks, in particular for persons with a high health risk (ibd.: 105-111). Despite these challenges, according to health funds and statutory accident insurance providers, a continuous decrease in firms' efforts towards health and safety and a lack of systematic integrated health management could be observed in recent years. Among firms which set criteria and objectives towards more health promotion, only 15 per cent reported that they had fulfilled them. The low motivation of firms to invest more in workers' health and employability can be explained by a higher labour supply of young, qualified personnel as well as the legal provisions enabling firms to outsource older workers. In time of high cost pressures, firms cut above all investment in further training, preventive work and work design (ibd.: 111-12).

In general, there are two ways to promote health: the relationship-oriented approach, which deals with conditions of work and focuses in particular on the design of the work and its organisation, and the behaviour-preventive approach which is aimed at changing individual attitudes as well as health and coping activities (stress management, training against back problems, nutrition courses, etc.). Durable, preventive health policy at the workplace is most successfully achieved by integrative prevention concepts which meaningfully combine relationship- and behaviour-oriented concepts (ibd.: 117f.). There is no standard concept for long-term employment and health promotion of workers. Solutions depend on the firms' structure, situation and needs. A durable old-age suitable work organisation might be organized at four levels: work and technique design, firm health policy (strengthening individual health competency, increase in well-being, easing psychological burdens etc.), management (mentoring programmes) and human-resource allocation (e.g. rotation concepts, groups of workers with different age). An alternative is the organisation of the professional career path which should lead to early health prevention and enhance workers' motivation and performance (horizontal job rotation). The success of such organizational measures highly depends on the implication of important firms' actors and of a professional project management. Furthermore, workers should be involved at an early stage in old-age suitable work organisation projects (ibd.: 121-130; see also Gerlmaier, 2007b).

In recent years the Bund, the *Länder* and various associations have put forward many initiatives in order to stimulate necessary adjustment processes and diffuse concepts for a durable work and health policy. Many instruments and concepts have already been developed for the prevention of work-related health impairment and for health- and old age-friendly work organisation. Yet, in most firms these were lost in the midst of the economic downturn and restructuring (Gerlmaier, 2007a: 105-111).

4.4 Effects of new employment forms on health

Friedrichs and Schröder (2006) reviewed 16 studies to investigate the implications of new forms of employment, such as part-time work, short-term work, telework, temporary work and new forms of self-employment on workers' health. Table 5.1 gives an overview of the main positive and negative effects which they found:

Table 5.1: Implications of new employment forms on workers' health

| Employment Type | Positive effects | Negative effects |
|----------------------------|---|---|
| Part-time | <ul style="list-style-type: none"> - Greater workforce motivation; - Extension of leisure time; - Means to maintain older or less resilient workers in employment; - Means to increase female employment participation; - Means to combine work, family and care duties. | <ul style="list-style-type: none"> - Marginal part-time leads to limited social protection. - Part-time work with longer hours of work worsens the mental and physical condition of working mothers (double burden). |
| Short-term work | – | <ul style="list-style-type: none"> - Repetitive short-term work might cause job insecurity, job dissatisfaction and mental problems. |
| Telework | Better reconciliation between work and private life; Stress reduction and health promotion. | <ul style="list-style-type: none"> - Lack of social contacts; - Interruptions in the recovery phase. |
| Temporary work | – | <ul style="list-style-type: none"> - Permanent change in working place and hours of work; - Higher job insecurity; - Mainly easy, monotone and/or particularly irksome activities; - Higher physical and mental burdens than dependent workers. |
| New self employment | – | <ul style="list-style-type: none"> - Lack of social and economic guarantee is not health-friendly; - Negative effect on workers' well-being. |

Source: Friedrichs and Schröder (2006).

In the above overview, disadvantages resulting from new forms of employment are predominant. For the categories of short-term work and “new” self-employment, there is no information on possible advantages for workers. Furthermore, part-time and telework are associated with the most positive effects for workers' health.

Erlinghagen (2007) investigated individuals' perception of job insecurity by analysing representative data from 17 European countries. His study showed that job insecurity has far reaching negative effects on workers' health and the productivity of firms. Furthermore, this correlation is not only due to socio-structural or institutional differences, but is also explained by different cultural backgrounds.

5. Social Protection

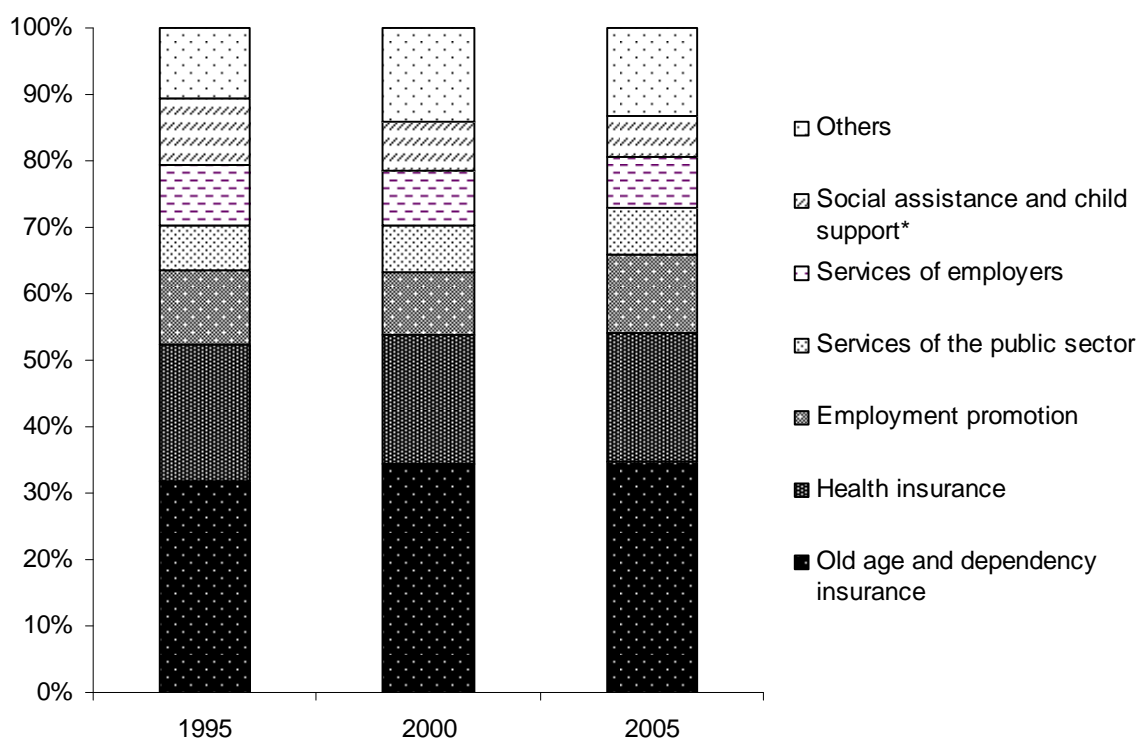
5.1 Development of social protection expenditure

In 2005, social benefits accounted for 31.2 per cent of the GDP. This rate had been steadily increasing from 30.8 per cent in 1998 to 32.0 per cent in 2002 and 32.3 per cent in 2003. After these years featured by economic slowdown, it went down to 31.6 per cent in 2004 and 31.2 per cent in 2005. It was estimated that it would further decrease to 30.3 per cent in 2006 (BMAS, 2007: 6).

The changes in the composition of the social budget, outlined in figure 6.1, reflect the challenges which the socio-demographic and economic development has imposed on the social protection systems in the past. On the one hand, as a consequence of the aging of the population, the share of old-

age and dependency insurance, which constitutes the greatest share in the social budget, has increased from 31.9 to 34.8 per cent. On the other hand, the proportion of services to be provided by private employers, such as continued payment of wage during sick-leave, company funded pension scheme, other payments from the employer, has reduced from 9.0 to 7.6 per cent, and also the share of expenditure on social assistance (from 5.1 to 3.1 per cent), child support (from 5.0 to 3.0 per cent) and health insurance (from 20.5 to 19.2 per cent) have been cut. The share of expenditure on employment promotion indeed decreased from 1995 to 2000, from 11.0 to 9.5 per cent, but then rose again to 11.5 per cent in 2005. This recent increase combined with the cuts in social assistance expenditure can be attributed to the reforms brought in with the adoption of the Laws on Modern Services in the Labour Market, commonly referred to as the *Hartz-Laws*, which combined support to the unemployed with an extended application of measures of active labour market policy. An overview of these reforms is given in Box I in the Introduction. The effects of the introduced Start-up Subsidies and Staff Service Agencies have been described in sections 1.2 and 1.3. The following sections will focus on the effects of the transformation of the unemployment benefit scheme, the Mini-jobs reform and the introduction of 'One-Euro jobs'.

Table 6.1: Structure of the social budget (in per cent)



¹⁾ Including housing benefits, support for children and youths, child benefits and childcare allowance.
Source: *Bundesministerium für Arbeit und Soziales* (2007: 8, 12).

5.2 Effects of the modified calculation rules for unemployment benefit

The direct consequences of replacing the old schemes of Unemployment and Social Assistance with the Unemployment Benefit 2 on the unemployed persons' income, have been evaluated by Bruckmeier and Schnitzlein (2007) on the basis of a survey among previous Social Assistance recipients interviewed in 2004 and 2005 by the IAB. They find that around 8 per cent of the recipients of employment assistance in 2004 lost their entitlement to that benefit in 2005 as a result of the modified rules of eligibility. Among those remaining under the coverage of unemployment assistance, the average monthly needs-adjusted net income fell from EUR 640 to EUR 612. Göbel and Richter (2007:

758-761) analyse the effects of the reform on the basis of the GSOEP. According to their results, 51 per cent of the persons, who would have received unemployment or social assistance in 2004 and 2005 if the old system had remained in force, lost more than 5 per cent of their needs-adjusted household income (in constant prices) as a result of the reform. Only 34 per cent of them experienced an increase of income higher than 5 per cent. The income reduction of those, who lost, amounted to EUR 3,248 per year on average and the income gain of those, who won, to only EUR 2,623. Among all types of household except single parents the number of 'losers' exceeded the number of 'winners'. This is attributable to the fact that, contrary to the time before the reform, now the income of all household members is taken into account in the test for eligibility. The average annual income of those receiving either unemployment or social assistance in 2004 reduced from EUR 10,071 in 2004 to EUR 9,558 in 2005. The average income in the population as a whole increased modestly from 18,226 to 18,394 during the same period of time. It is of particular concern from the perspective of poverty prevention that the fall in income was especially strong among the poorest recipients of unemployment or social assistance: In the first income decile of that group, the average income diminished from EUR 5,708 to EUR 4,793. The poverty rate, measured as the percentage of recipients whose income fell short of 60 per cent of the median income of Germany, rose from 52 to 67 per cent (ibid. 754-758).

5.3 Effects of the reforms of wage subsidies

Schmitz and Steiner (2007) simulate the effect of the modified rules for exemption of employment income from the calculation of unemployment benefit, on the likelihood of getting out of being unemployed. A significant effect can be confirmed only among older unemployed persons and among those who have already been unemployed for a longer time. The simulated share of men in eastern Germany older than 45, who remain unemployed for 24 months or more, falls by a half as a consequence of the reform. It decreases by a third among the other unemployed in that age group. However, a significant reduction of the median unemployment duration cannot be acknowledged for the population as a whole.

Steiner and Wrohlich (2005) assess the effect of the mini-job reform on the volume of hours worked by means of an ex-ante micro-simulation. They find a modest participation effect, signifying the increase of hours worked caused by new entrants into the workforce. However, this effect is over-compensated by a reduction of working hours among those who had been employed already before the reform and seek to benefit from the wage subsidy. Freier and Steiner (2007) investigate whether the reform has helped unemployed persons to progress into regular employment in the long run, for example as a result of enhanced employability. Their simulations cannot prove that the reform had a significant effect on the number of days which persons, who had been unemployed at a certain point in time, were employed in jobs covered by the social insurance system three years later. However, the number of days spent in marginal employment increased significantly by 90 days in western and 70 days in eastern Germany. This effect was stronger among unemployed persons who were older than 50. Their duration of work in marginal jobs rose by 166 days in the west and 142 days in the east.

Bruckmeier *et al.* (2007: 4f) investigate the development of the labour market status of persons who were employed and recipients of the Unemployment Benefit 2 in 2005 at the same time. During the first half month of such subsidised employment, the affected persons faced equal probability that the job or the unemployment benefit would terminate. Later on, the development was considerably different for the subsidised full-time and marginally employed workers: For the full-time workers, the chance of not having to rely on the benefit anymore increased at a much higher rate over time than the chance of losing the employment. After ten months, 63 per cent of them did not live on unemployment assistance anymore, 23 per cent had to give up their employment and 14 per cent continued to combine the two sources of income. For the marginally employed, the chance of becoming independent from the subsidy was lower than the risk of losing the job during the entire ten month period. At the end of this period, only 20 per cent of the marginally employed managed not to rely on unemployment assistance anymore. For 50 per cent, employment had terminated, and the remaining 30 per cent continued to be subsidised workers.

5.4 Effects of the One-Euro jobs

The One-Euro jobs appeared to be the most frequently used instrument of active labour market policy introduced in the scope of the Hartz-reforms. In 2005, the first year after the reform, 600,000 persons had already taken up a One-Euro job. Their number increased to 750,000 in 2006 and 2007 (Wolff and Hohmeier, 2008: 1). As we can see from table 5.2, in line with the target of the reform, young people are more strongly represented than others among the One-Euro-jobbers. However, they apparently failed to attract people with an immigration background. Based on IAB data, Wolff and Hohmeier analyse (ex-post) whether One-Euro jobs have increased the chances of entering regular employment, as a result of acquired work experience and avoidance of loss of qualification. They find that during the first one and a half years after the take up of a One-Euro job, the chances of regular employment are even lower than were the chances of a control group the members of which did not attend that kind work. The difference in probability amounts to up to 3 percentage points. This effect, which is sometimes referred to as the ‘imprisoning effect’, is also known from other instruments of active labour market policy. It arises from the reduced opportunities of the unemployed to search for regular jobs when they participate in these schemes. However, after half a year, the effect of growing employability obtained from each additional day of work in a One-Euro job seems to outweigh the imprisoning effect and after about a year and a half the One-Euro jobbers already have an equal chance of a regular job as members of the control group. The chances of becoming regularly employed increase especially strongly among women. 20 months after the take-up of the One-Euro job, the probability of finding employment has already increased by 3 percentage points among women in western Germany and by one percentage point among women in eastern Germany. Among males a significant effect could not be seen after the same period of time. It is remarkable that the identified effect on the likelihood not to rely on Unemployment Benefit 2 anymore is negative. Taking up a one-euro job increases the probability of still relying on that benefit 20 months later by around 2 and a half per cent, both among women and men (ibd.: 3-7).¹⁰

Table 6.2: Demographic characteristics of people on One-Euro jobs 2005 (per cent)

| | One-Euro jobbers | | | | Unemployed | | | |
|----------------------|------------------|--------|------|--------|------------|--------|------|--------|
| | West | | East | | West | | East | |
| | Male | Female | Male | Female | Male | Female | Male | Female |
| Composition | 65.8 | 34.2 | 55.1 | 44.9 | 56.3 | 43.7 | 54.8 | 45.2 |
| <i>Age</i> | | | | | | | | |
| Younger than 25 | 25.1 | 25.2 | 26.5 | 21.0 | 10.4 | 10.8 | 11.3 | 10.8 |
| 25-49 years | 59.6 | 60.4 | 25.6 | 57.6 | 68.2 | 67.7 | 67.5 | 66.9 |
| 50 years or older | 15.3 | 14.5 | 20.8 | 21.5 | 21.4 | 21.5 | 21.2 | 22.4 |
| <i>Nationality</i> | | | | | | | | |
| German | 86.3 | 88.1 | 96.1 | 96.1 | 76.5 | 76.7 | 91.0 | 91.8 |
| Forgeign | 13.5 | 11.7 | 3.8 | 3.8 | 23.1 | 22.5 | 8.7 | 7.9 |
| Not applicable | 0.2 | 0.2 | 0.1 | 0.1 | 0.4 | 0.8 | 0.3 | 0.2 |
| <i>Qualification</i> | | | | | | | | |
| Vocational training | 38.5 | 41.2 | 64.0 | 71.1 | 43.6 | 36.8 | 67.1 | 67.8 |
| No voc. training | 61.5 | 58.8 | 36.0 | 28.9 | 56.4 | 63.2 | 32.9 | 32.2 |

Source: Wolff and Hohmeier (2008: 3).

6. Work and family: a difficult balance

Over the past years, the issue of the reconciliation of work and family has been discussed against the background of far-reaching demographic changes in Germany, in particular the falling birth rate and the ageing population. In addition, political reforms have aimed at encouraging the participation of men in education and family duties.

¹⁰ For the evaluation of *Ich-AGs* see section III.1.2

6.1 Positive effects of the Parent Allowance Act

Labour force participation of mothers with very young children is low in Germany, especially in comparison with other western European countries. The employment rate of mothers with children under three years of age amounts to 48 per cent in Germany compared to 77 per cent in Sweden. The increase in the labour force participation of mothers with young children and to this end, the rise of their return-to-work rates have become a main political objective. Also the fertility rate in Germany is much lower than in other European countries. In 2004 it amounted to 1.34 compared to 1.76 in Sweden and 1.92 in France. Following the example of Scandinavian family policies, which provide a high supply of public-financed day care for children and a generous parental leave system, the German parliament voted in September 2006 a new Parent Allowance Act (*Elterngeldgesetz*) which became effective on 1 January 2007 and instituted a one-year age-dependent benefit (see Spiess and Wrohlich, 2006: 2).

Apart from a rise in the employment rate of mothers with young children in Germany and an increase in the German fertility rate, the reform also had the following major goals: to increase the income of families with small children in a crucial phase of bonding between new parents and child by providing a compensation to middle and high income parents, who experience a relatively high income loss due to a birth-related employment break. The law particularly supports employed parents who interrupt their career or reduce their working hours by maximum 30 hours per week in the first months after childbirth. According to this reform, employed parents are entitled to twelve months parental leave. During this period they receive 67 per cent of their former net pay, up to a maximum EUR 1,800. In contrast, unemployed persons, persons attending training or low-paid workers get only EUR 300 per month during a two-year period plus social assistance. A striking provision which was discussed at length among the government coalition is the introduction of two partners' months (BMFSFJ, 2007a). In the case where both partners have to care for the child and in this time are not able to be employed, parental leave is paid for up to 14 months. This provision also applies for single parents (BMFSFJ, 2007a; Martinek, 2007).

Furthermore, the reform is intended to increase the percentage of fathers who assume care responsibilities and should thus promote equality of opportunity between women and men (introduction of "father months"). In combination with various efforts at federal and state level to increase the supply of publicly funded day care, this reform should help parents generally in combining family duties and employment (ibid.: 3).

Since the introduction of the Parental Allowance Act, the Ministry for families has conducted evaluations on the effects of the reform. Looking at the distribution of parental leave entitlements among the first registered applicants in 2007, 52 per cent of them received between EUR 301 and EUR 999 parental leave entitlements, 33 per cent got EUR 300 and only 15 per cent had a parental allowance of EUR 1,000 or more (BMFSFJ, 2007a, Sheet 9). The share of fathers who applied for it varied from 3.5 per cent during the first quarter 2006 to 9.60 per cent during the third quarter 2007. Expectations for the entire year 2008 amount to 24 per cent (BMFSFJ, 2007a, Sheet 11).

One year after the introduction of the new Parental Allowance Act, positive results were registered: From January to the end of September 2007, there were 394,018 requests, which were almost all supported. As a result, more and more men are deciding to work less for a while in order to take more time for their child. Whereas in recent years, only 3.5 per cent of fathers applied for paternity leave, by the end of September 2007 this proportion had reached almost 10 per cent. 88 per cent of the German population thinks *Elterngeld* is good legislation and 67 per cent consider it as a big help. The parents concerned are also happy with the request processing: 68 per cent appreciate the rapidity of the process up to the request approval, which lasted on average four to six weeks (BMFSFJ, 2007a).

According to the Ministry for families, the reactions of firms and of the population in general were in accordance with the aim of the reform. A slight increase in birth rates since 2007, after having constantly declined between 1996 and 2006, can be attributed to the new act (BMFSFJ, 2007b: Sheet 14-15). Although, there is little evidence about the effect of the parental leave benefits on women's

employment. Families with relatively low incomes have been affected by the reform in the following ways (BMFSFJ, 2007b, Sheet 4-5, 10):

- Many households could reach more than 90 per cent of their former household income, in particular families with low incomes taking into account the extra pay for low incomes plus child benefits, possibly changes in tax class or housing allowance.
- Single parents with all-inclusive rent of EUR 350 and a net pay of EUR 1,385 before childbirth no longer have to receive social allowance (ALG II).
- Women who previously were working and then received parental leave entitlements, have more perspective to conduct an independent life and are less likely to fall into poverty in the future course of life (international comparison).

The Ministry for families also emphasized the need in future for stronger political debate about the goals of family policy, like for instance reconciliation between work and family, evaluation of women's employment, and possible effects on children and families (Dobritz and Fiedler, 2007: 21).

6.2 Childcare utilities: Lack of infrastructure

In the current political debate, childcare facilities are increasingly considered as educational institutions. Local governments have already begun to transform primary schools into all-day schools, allowing the better coordination of education and nursery care. However, some structural problems continue to exist in this area. In particular the shortage of childcare infrastructures has not been resolved yet.

Public childcare enjoys a much higher attendance in eastern than in western Germany: In 2006 the proportion of children attending some childcare facility amounted to 92.6 per cent in the east compared to 88.6 per cent in the west (Statistisches Bundesamt, 2007a). Childcare utilities for children under the age of 3 and education facilities for primary school children remain inappropriate and unsatisfactory. Only ten per cent of children below 3 attend a childcare facility. In western Germany, only 5 per cent of children in primary school attend some kind of childcare, whereas in eastern Germany this proportion amounts to 41 per cent. Childcare facilities for children of pre-school age – between three and six years – vary a lot throughout Germany.

These differences in childcare infrastructure described above result from different institutional settings. While in western Germany, the majority (80 per cent) of the existing childcare facilities are only half-day nurseries, the overwhelming majority (90 per cent) of eastern German facilities are all-day institutions. All-day schools are therefore not particularly common in Germany and cover only 5 per cent (see Henry-Hutmacher and Hoffmann 2006: 8; Kröhnert et al., 2005: 15). In eastern Germany the situation partly results from the family policy of the former GDR, according to which all women were supposed to have access to the labour market. This explains the former extended public all-day childcare infrastructure, as well as education facilities which were built up in order to help women combine work and family duties. Although childcare utilities have been severely cut back in the wake of reunification the basic structure remains. By contrast, childcare utilities in western Germany have always been scarce, except in large agglomerations.

In recent years, many efforts were made to improve the lack of childcare utilities. As a result, parents are entitled to get an all-day childcare place for children from the age of 3 until school age. In 2013, this right should also become effective for one-year-olds.¹¹ The number of childcare places for one-year-olds should be increased up to 750,000 by 2013.

¹¹ In this context, the Christian Democratic parties (CDU/CSU) have proposed to introduce a lump-sum of EUR 150 for women and housewives staying at home and taking care of the children. The Social Democrats (SPD) and the Green Party strictly criticize that position and call it the "kitchen compensation" (*Herdpauschale*).

6.3 Discussion on the Work-Life Balance

In European comparison, the employment rate and working time of women differ the most between those with and those without children in Germany. The presence or absence and the age of children shape the working time preferences of women a lot. By contrast, this aspect does not influence the employment behaviour of men (Holst, 2007: 214). Flexible working time models have often been seen as a way to better combine work and family duties for women (Klenner, 2005). Meanwhile, it is recognized that flexible working hours play a major role by helping the different family members to live through the different phases of family life. Furthermore, specific conditions are required for a family-friendly working time organization. Socio-cultural aspects as well as strategies to face the shortage of time underline the importance of time for a successful work-life balance (Lange and Heitkötter, 2007).

Women in eastern Germany are more likely to be employed full-time and have children at the same time than women in western Germany. The ideal for women from eastern Germany is to be employed full-time and have a child. In western Germany women show a greater tendency to interrupt their professions when the children are still very young. Only a few women see having a full-time job without a child as the ideal. This opinion is more widespread in western than in eastern Germany. In general, most of the population appreciate women's employment. This acceptance, however, is influenced by the presence and age of children. Other demands Women are still made moreso on women than men. For this reason, family policy has the objective to assure the reconciliation between work and family, in particular by the implementation of part-time provisions (Dobritz and Fiedler, 2007: 22-24.).

To mark the European year of equal opportunity, a community of authors from the Christian Democratic Party (CDU/CSU) and the Social Democrats (SPD) filed a petition urging the federal government "to consider equal treatment of women and men in the labour market as a central topic and to take it into account more strongly in future labour market policy" (Autorengemeinschaft, 2007: 9). The concrete goals formulated by the community were: a female employment rate of 60 per cent, the suppression of wage discrimination to the disadvantage of women, agreements and quotas to increase the number of women in management positions in the whole economy, the promotion of technical training for girls in the scientific sector, stronger support of the "networks for the family" (*Bündnisse für Familie*), an initiative launched by strategic economic and political partners for the promotion of family and the enthusiastic promotion of flexible working times by firms (ibd.: 9f.).

Empirical evidence also shows that longer training periods and higher qualification of the population has affected the age of women having their first child, ultimately leading to women typically starting at a family at a later time point. Many young people are worried that to reach a secure professional situation which ensures family maintenance in the long-term is increasingly occurring at a later time in one's life (Schmitt, 2007: 4-5; Bertram et al., 2005). Schmitt (2007) criticizes German family policy for mainly focusing on the increase in the birth rate keeping in mind the paradigm of the traditional family model and gender roles. Considering this background, the revised parental leave entitlements within the new Parental Allowance Act was part of a transformation process of family policy. The mention of "father months" for the parental leave allowance in the law was an important mark for a new family model, in which both mothers and fathers share the education work (Schmitt, 2007: 6-8; Walter and Schaeffer-Hegel, 2007: 15). This is confirmed empirically by Bernhard und Kurz (2007), who analyse the decision for or against a second child on the basis of the GSOEP. On the one hand, the male breadwinner model seems to continue to be prevalent, on the other hand breakup tendencies can be found. The importance of the professional situation of women is being considered more in the planning of a second than of a first child.

6.4 Networks to support families

In general, there is little empirical evidence for the relevance of family support structures. Apparently, initiatives like social networks at the local or national level as promoted by unions over the last years

have had little noticeable effect. Although reconciliation of work and family was a central item in former union claims, recently the focus of union politics was put on other themes (unemployment, in-firm training, firm health policy for older workers, wages etc. (see section 8). According to a recent study on further training commissioned by the German Unions Foundation (*Hans-Böckler-Stiftung*), the establishment of family-friendly further training in practice requires “initiatives from different socio-political partners in order to improve the work climate regarding care duties”. Further necessary efforts should also be made in the formulation of “common directives and a clear definition of reconciliation” as well as the introduction of this topic as a cross-sectional issue in all educational institutions (Pfahl and Reuyß, 2008: 1). Although these ideas were repeatedly communicated in the last year, no consequences can be measured.

In this area, the Bertelsmann Foundation (*Bertelsmann-Stiftung*) represents a driving force, promoting the constitution of networks to support families. However, its activities in the field of training and administration reform have been criticised. Commissioned by the Bertelsmann-Foundation, Lukoschat und Walther (2007) developed an action plan which is meant to promote family-friendly policies within firms and facilitate the access of women to management positions. Their results underline the necessity of restructuring the whole society towards a more family-friendly one and provoke heavily discussed political debates on the following issues (ibd.: 18-20):

- Dismantling of traditional gender roles and the promotion of a family-friendly society;
- Guarantee of all-day childcare infrastructures;
- Easier Access to public childcare infrastructures;
- Increase in quality and variety of public childcare institutions;
- Provision of information on private childcare institutions;
- Introduction of family-friendly tax law
- Adaptation of state financial support schemes to children and not couples

6.5 The reconciliation of home care duties and employment

The reconciliation of work and family is not only a problem of childcare. In 2006, 2.1 million persons were reported to be needing care. 68 per cent of them obtained care at home. The most widespread form of care is that provided by family members. Women still have the main responsibility for care duties (73 per cent). Care duties require on average 36.7 hours a week. In 2002, only 23 per cent of persons carrying out care duties had a full-time or part-time employment. In 1991, their proportion was only 18 per cent. In 2006, among the main home carers, 11 per cent had to limit their activities, 26 per cent continued their activities and 51 per cent were not employed at the beginning of the care period. Semi-home care assistance was applied in only 1 per cent of the cases. Care duties are often associated with physical and psychological burdens. Home carers of working age face many disadvantages: income loss, problems to reintegrate into the labour market, loss of qualifications and additional consequences for old-age insurance. Reconciling care duties and employment requires changes at least in three fields: work organisation, availability and adaptation of care supplied at home and partly at home and respect of the individual and household situation of employed persons carrying out care duties. An analysis based on GSOEP data found that the presence of persons requiring care in the household increased the likelihood of career interruption among married women aged between 40 and 65 by 146 per cent. Women in eastern Germany were less inclined to interrupt their employment. Employment interruption disadvantages women especially in the long run (Au and Sowarka, 2007: 1-5).

Referring to Meyer (2006), the authors suggested the following measures which should help in reducing the care burden of employed persons: extension of legal provisions, permitted time off from work, further training in care, equal work opportunities for men and women, encouraging men to carry out care duties, further training and employment reintegration measures after familial care periods. Working times should be better adjusted to the group of workers who give care. These workers have a particular need for the possibility of reducing daily working hours and to have a regular working rhythm instead of varying working hours. The authors underline the need for new regulation laying

down conditions like time off in law, in order to compensate for the weaker bargaining power of workers who give care. The public sector, as the most important employer should be the initiator and driving force of these changes. The involvement of managers is of particular importance as it might shape formal and informal solutions to problems and improve the work atmosphere. Tax releases for SMEs which introduce such worker-friendly measures should be agreed. In the light of the greater flexibility required, the authors criticise most employers' lacking awareness of such perspectives. (ibid.: 6-7).

Demographical changes suggest an increase in the number of persons needing care in the near future, and informal care duties seem to be on the decrease as women are increasingly working. However, the increased care needs for older people by family members has been scarcely discussed. There is little empirical evidence of such discussion or for campaigns which highlight this issue (BMFSFJ, 2007c).

7. Access to training

A good professional qualification is a key determinant for successful integration into the labour market. Those without a qualification are significantly overrepresented among the 5 per cent of people, aged between 25 and 50 years, who are the most strongly affected by unemployment during their lives. 7.4 per cent of persons who have neither a professional qualification nor A-Levels and 6.7 per cent of the persons who have A-Levels but no qualification belong to that group. All persons with a professional qualification face a lower than average probability of belonging to the 5 per cent most strongly affected by unemployment, even if they complete only a school or college diploma. The probability is lowest among persons with a university (3.1 per cent) or technical college (3.6 per cent) degree (Möller and Schmillen, 2008: 5f.). These figures underline the importance of education and training in avoiding unemployment and promoting employment.

In 2007, we can observe an improvement in the supply of training measures and a growing number of applications thanks to state subsidies. Yet, deficits in the education system might in the long-term threaten the equilibrium between labour supply and demand on the labour market. In addition, education is an important determinant for employment.

7.1 Recent developments in the supply of training positions

By the end of 2006/2007, according to the German Council of Economic Experts (Sachverständigenrat, 2006: 311), the situation with vocational training within firms has already improved thanks to the better economic conditions: Whereas the number of offered training positions had increased by more than 57,200, the number of persons looking for a training place had decreased by 28,800 persons compared to 2005/2006. As a result, at the end of September 2007, 10,700 adequate vocational training positions were missing. At the same time, 28,400 new training contracts were agreed within industry and trade associations by the end of September 2007, which is 9.3 per cent more than the year before (increase of 10.3 per cent in western Germany and 5.6 per cent in eastern Germany).

Compared to 2003, a year before the three-year National Pact on Training and Specialized Apprenticeships (*Nationaler Pakt für Ausbildung und Qualifizierung*) expired, the number of training places offered by industry and trade associations has increased by 17 per cent (Sachverständigenrat, 2006: 322). The three-year National Pact on Training and Specialized Apprenticeships (*Nationaler Pakt für Ausbildung und Qualifizierung*), agreed in July 2004 between the government and the umbrella organisations of the German economy, was extended in March 2007 until 2010. According to which, the economic partners aim to create 60,000 new training places on average per year and yearly 40,000 places for access to firms' technical training (increase of 15,000 training places) (Sachverständigenrat, 2006: 322). In addition, the government fixed the share of training places to be installed in the federal government administration to at least 7 per cent of the number of workers covered by social security (Sachverständigenrat, 2006: 322). Over the past years, the government and the German Federal Employment Office have also played an active role in improving the training

situation in Germany by financing school or firm oriented training measures in order to redress the lack of training places offered by companies and the insufficiency of qualification among young people looking for an in-firm apprenticeship (Brenke, 2007b: 439).

Recently, the government introduced an integration and qualification subsidy (*Eingliederungs- and Qualifizierungszuschuss*) for young persons in problematic situations, unemployed young persons or those looking for a training position, in order to improve their career prospects (BMW, 2008:17). The integration subsidy concerns young workers with a completed vocational training, whereas the qualification subsidy focused on those without vocational training. The integration subsidy amounts to 25 to 50 per cent and the qualification subsidy 50 per cent of the gross salary. The monthly gross wage to be taken into account is a maximum of EUR 1,000. In the case of the qualification subsidy, at least 15 per cent of the wage (or alternatively a minimum of 30 per cent of the subsidy) should be spent on the qualification in order to attain a vocational qualification. Both measures are valid only for a fixed period of time until the 31st of Dezember 2010. The National Pact on Training also foresees socio-pedagogical assistance, organisational support and preparation for the vocational training in the case of vocational training in a firm.

On the 20th of February 2008, the Federal Government adopted a *draft law* for the improvement of training opportunities for young people in problematic situations. The goal is to create 100,000 more training positions by 2010 for unemployed young persons or those looking for a training position. A training bonus of EUR 4,000 to EUR 6,000 is meant to be an incentive for employers to offer young people training positions, particularly those who have already been searching for them for a long time. Another goal of this Act is to help young people's transition from school into vocational training. The Act (*Gesetz zur Verbesserung der Ausbildungschancen förderungsbedürftiger junger Menschen*) became effective on the 30th of September 2008 (BMAS, 2008).

As a result of the lack in training positions and the resulting inadequate matching between demand for and supply of jobs, we can observe a shift in the age structure of young people in apprenticeships. The average age is tending to become higher (Brenke, 2007b: 439). Because of the particularly high demand for in-firm training places between 2001 and 2006, companies took on in apprenticeships young people with A-level education or those with a *Fachoberschulabschluss*. Candidates with a basic secondary school qualification (*Hauptschulabschluss*) or without any, had even less chance than before of getting such a training position in 2005 (Brenke, 2007b: 439).

7.2 Participation in further education

According to the Adult Education Survey 2007 based on representative interviews of more than 10,000 persons aged between 19 and 64 in Germany, between 2003 and 2006 the participation in further training measures increased from 41 to 43 per cent. This is a positive sign in view of the governmental target of 50 per cent to be reached by 2015. In 2006, the participation in life-long learning had increased by four percentage points compared to 2003. Vocational further training, which is seen as a means to enhance employability and diminish shortage in qualified labour, was quite considerable. The development of vocational further training has recently shown positive results and amounts to 26 per cent within western Germany. In eastern Germany, it has even increased from 26 to 29 per cent. The government intends to introduce an education premium in order to increase the participation in vocational further training of persons in lower and middle income groups (TNS Infratest Sozialforschung, 2008: 4ff).

At the same time, since 2000 the number of unemployed persons participating in subsidised vocational further training has declined by 75 per cent to 132,000 in 2005. Half of the participants in 2005 were long-term unemployed and recipients of social assistance (BMAS, 2006: 11-12). In that year, training measures, which had been existing since 1998, were extended to this group of unemployed persons (long-term unemployed persons and recipients of social assistance) in order to enhance their employability or employment transition in particular. These measures were aimed at helping them to better apply for a job, testing their willingness to work and their job appropriateness, sharing knowledge and informing them about the creation process of start-ups. Such training takes place

within firms or at school. School training was more frequent than in-firm training. The average duration was three to four weeks (Jozwiak and Wolff, 2007: 1-2).

In 2005, 400,000 persons participated in such training incentives. In 2006, there were 450,000. A large share, compared to the whole group of unemployed in general, consisted of persons younger than 25 years old (30 per cent). By contrast, unemployed persons older than 50 years, disabled persons and low-qualified people scarcely took part. Similarly, those unemployed without a school qualification (*Schulabschluss*) as well as those with a migration background were underrepresented, especially in in-firm training (Jozwiak and Wolff, 2007: 2).

Basically, participation in further training enhances the probability of transition into the labour market. Though, an imprisonment effect occurs at the beginning, it disappears after a few months for training participants, contrary to their counterparts who are not in training. Also persons in training can benefit from their managers contacts within firms which improves their transition into employment. In-firm training shows a higher employment transition probability than school training. Employment transition achieved by in-firm training is quicker and more long-lasting than that of school training. It also helps quitting dependency on social benefits compared to school training. Both types of training (in-firm and school training) show better employment effects among persons younger than 25 years than among those from 25 to 49s. Furthermore, the shorter the unemployment duration is, the better the chances for employment transition for the participants (Jozwiak and Wolff, 2007: 3-6).

7.3 Labour shortage of qualified workers

Since 2006, in the context of an economic upturn, a discussion on the possible shortage of qualified labour was raised in Germany. On the one hand, many companies complained about a lack of qualified personnel, which prevented them from an extension of production capacity activities. On the other hand, some economic researchers pointed out that the German growth and productivity increases were mainly reached through technical advances. They argue that the number of qualified and high-skilled workers is sufficient and reflects the high and growing human capital supply, which is playing a major role in the growth of German welfare growth (Sachverständigenrat, 2007: 354ff.).

Matching problem in the labour market

The recent labour deficit can be seen as a matching problem in the labour market. Its size is determined by the number of open job positions and the duration of recruiting processes. Information deficits on available positions or qualified manpower, a mobility mismatch and different conceptions of general conditions of work (like remuneration, paid holidays, working time), which prevent companies and employees from concluding a work contract, are commonly acknowledged reasons. Higher market transparency and increased mobility would help resolving those market deficiencies. For companies, this then implies a race for the best qualified workers (Dietz and Walwei, 2007b: 1-2).

According to the IAB Open Positions Survey conducted in autumn 2006, labour demand in Germany has increased because of the cyclical economic upturn and does therefore not come from a structural labour deficit. The growing demand is primarily reflected in an increase in the need for full-time workers and vacancy rates in firms with less than 50 employees, particularly in eastern Germany. The lack of personnel was concentrated in services, above all in the credit and insurance sectors as well as services for companies, like for instance temporary employment agencies operating in all branches. Although state placement initiatives were intensified, the informal search for candidates gained importance. The labour shortage did not detract at all from economic activity. Moreover, the lack of orders seemed to be more problematic (Dietz and Walwei, 2007b: 1f.; Sachverständigenrat, 2007: 354ff.).

By contrast, the term “qualification mismatch” refers to a long-term problem caused by the fact that skills acquisition needs time. It can become an overall economic problem if economic activities are slowed down or avoided because of staffing problems. The discussion on the lack of engineers is quite recent and concentrated in particular regions and economic branches. In 2007, mechanical and

electrical engineers and for vehicle manufacturing were particularly sought after in Hamburg, Bremen, Baden-Württemberg. Labour shortage is not a uniquely German problem but a general one which results from the heterogeneity of labour supply and demand. Therefore, the qualification level of workers is an important factor in international and regional location determination (Dietz and Walwei, 2007b: 1-2).

In the long-run, greater labour shortages of highly qualified workers can be expected. Yet, there is no certainty about its extent (Sachverständigenrat, 2007: 356). In the future, demographical trends and the increasing need for qualified labour associated to structural economic changes will lead to difficulties concerning qualified personnel coverage. The need for academics will be higher, whereas the need for qualified persons from the dual training system will remain stable. That for low-qualified manpower will decrease. The qualified skills shortage is partly explained by the fact that the number of qualified persons leaving the labour market is higher than the number of qualified persons entering it. In the mid-term, this results in a deficit of academics (Dietz and Walwei, 2007b: 3).

Redressing deficits in qualified labour force: Responsibility of firms and social partners

The successful recruitment of qualified workers is primarily the task of firms and social partners. It depends on their ability to enhance the attractiveness of high-skilled jobs within firms. There are many ways for achieving this objective. One is to influence endogenous market processes like firm measures for a better reconciliation of work and family and wage increases. These increase individual incentives for training because higher income or better employment conditions can be achieved. At the moment, firms focus on the choice between training and external recruitment. In-firm further training is increasingly practiced as a way to fill open positions. This strategy bears more potential for the long-term development of the firm. The employment of older workers and women generates also additional personal reserves. However, most firm personnel policies do not integrate this group of workers in further training activities much (see Lott and Spitznagel, 2007). The employment of women could be increased through an increase in work volume, as three quarters of part-time work is still done by women. The state could also play an active role by identifying bottlenecks in the labour market and better supporting endogenous market processes, for example, by extending childcare and introducing more all-day schools (Dietz and Walwei, 2007b: 4; Sachverständigenrat, 2007: 357).

Necessary improvement of the education system

A sufficient supply of qualified labour also depends on the improvement of the education and training systems and the mobility between them. In an international comparison, carried out by the OECD, Germany had lower levels of knowledge among pupils in reading, writing, mathematics and the ability to solve problems than many other industrialised countries. Social background has a comparatively strong impact on pupils' school performance. Additional deficits are, a below average share of pupils qualifying for university and a considerable spread of performance between schools. In successful countries, the spread of performance is higher within the schools, but lower between them. A central problem in Germany is still the high share of school-leavers without a basic secondary school qualification (*Hauptschulabschluss*), although this share has decreased in the last years. It is particularly high in eastern Germany. In the region of *Sachsen-Anhalt* for instance, 12 per cent of school-leavers do not attain a basic secondary school qualification. In western Germany, only the city of Hamburg shows an equally high rate (Brenke, 2007b: 437).¹² Germany also has a lower share of higher education qualification. Education returns, seen as the criteria for the attractiveness of degree programmes in the country, are lower in natural sciences related and technical professions than in medicine or state sciences programmes (Sachverständigenrat, 2007: 357).

¹² Because of the difficult situation in the labour market, since the mid-1990s the employment participation of young people and young adults has decreased, and at the same time their participation in education increased. This concerns particularly those aged between 25 and 29. In this context, some authors (see Bienke, 2007: 437, 441) call for a reduction of higher education duration and a higher engagement of companies in in-firm training.

The share of state education expenditure in the GDP in Germany is still lower than in the EU on average. In 2004, the public expenditure on research and development amounted to less than one per cent of the GDP, and the overall expenditure for research and development of 2.5 per cent (2004) was obviously insufficient to achieve the Lisbon target of 3 per cent by the end of 2010. In the last 15 years, education expenditure has not been increased in relation to the GDP, in spite of all the deficits which international organisations pointed out in the German education system (DIW, 2007: 284). With a view to reaching the Lisbon strategy, the government therefore decided in 2008 to raise the budget of the Ministry for Education and Research by 8 per cent (EUR 670 million) up to around EUR 9.2 billion. Additional increases are planned after 2008. Particular importance was given to expenditure on education and research, which was increased by EUR 580 million compared to 2007. In the mid-term, the government intends to spend an additional 300 million per year on student grants (BMBF, 2008; BMWi, 2008: 18). The governmental Pact for Higher Education 2020 (*Hochschulpakt 2020*) also provides for an increase in the number of university places by more than 90,000 by 2010 in order to avoid admission restrictions, and thereby enable young people earlier access to higher education (BMBF, 2007).

The German Council of Economic Experts strongly recommends maintaining the former school system, but securing the introduction of uniform education standards and ensuring a better mobility between the schools' structures. As a school's success considerably depends on the social background of its pupils, they should not leave school before having completed primary and secondary education. Resulting expenses should be fully borne by the state as high social returns from education efforts are expected. The last pre-school year should become compulsory and help to prepare children for primary education and identify and rectify development deficits. This needs little additional financial means, but more autonomy for schools, in particular in the personnel department. Standardized and regularly controlled educational policy targets should be established (Sachverständigenrat, 2007: 357).

According to the German Council of Economic Experts (Sachverständigenrat, 2007: 359), an adequate framework for more equality of educational chances and a strengthening of lifelong learning are missing. To combat the lack of academics, a change of mentality is required in order to increase the value of education in society. The state, and also firms, could contribute to an increase in the skill level of the labour force. Firms' investment in training and further education should gain in importance. The education system should also become more flexible and better react to the changing needs of companies. Internal labour and organisational flexibility constitutes an alternative response to personnel shortages. Professional further training could be promoted (Dietz and Walwei, 2007b: 4). State further training subsidies should be extended only if they are advantageous for the whole society and not only for firms or individuals.

The objective of the German government is that as many persons as possible successfully complete their secondary education, and that each one gets access to an apprenticeship training position (BmWi, 2008: 21).

Recruitment of immigrant qualified workforce

A shortage of qualified labour can also be redressed by immigration of qualified workers. The state should set up a framework for the immigration policy suited to enhance the labour attractiveness of the German labour market and enable the social integration of immigrant workers. A targeted migration policy for particular professional groups or parts of the labour market is difficult to be successfully implemented because it is complicated to forecast in which professions the deficit of qualified labour will occur (Dietz and Walwei, 2007b: 5).

The government has already relaxed restrictions for the immigration of engineers in mechanical and electrical engineering from middle and eastern European accession countries and has issued residence and employment permits for migrants who have graduated from German universities. A monitoring system is also being developed to better forecast the extent to which additional qualified persons are needed, in order to establish a concept for the immigration of migrant qualified workers and their integration into the labour market (BmWi, 2008: 17 and 21). The long-lasting strong restrictions on

labour mobility concerning workers from middle and eastern European accession countries has prevented Germany from benefiting from the immigration of qualified manpower from accession countries compared to other European countries. Therefore the German Council of Economic experts (Sachverständigenrat, 2007: 359) recommends modernising the Immigration Act (*Zuwanderungsgesetz*) as the former “Independent Immigration Commission” (Süssmuth-Commission) already suggested in 2001.

Based on data panel on migrant qualification attributes in OECD countries conducted by Docquier and Marfouk (2007) for the World Bank and Defoort and Docquier (2006), the authors show that in Germany the qualification characteristics of the migrant population can be strongly shaped by immigration policies. This is done in classical immigration countries (Australia, Canada, New Zealand and the USA), where the long-lasting tradition of immigration governance by setting human capital criteria has led to much higher skills among migrants. However, as a result of the German immigration policy of the last decades, the immigrants in Germany have a comparatively low qualification level and therefore face difficulties to integrate into the German labour market (Drever and Hoffmeister, 2008: 430-433). According to a study by the IAB, 10.4 per cent of foreign nationals compared to only 4.1 per cent of Germans belong to the group of people with the highest unemployment risk (Möller and Schmillen, 2008: 5f.).

The attributes of the immigrant population have a long-term influence on the qualification level of the population with migrant background. Skills of second and third generation immigrants depend also on the education and training systems in the target countries. In Germany, education and training chances are strongly determined by the parents’ educational background. This is particularly the case for persons with migrant background who came from the recruitment of migrant workers in the 60s and 70s (Turkey, Greece, Italy and Spain). Instruments for the immigration of high-qualified migrant persons have hardly been practised. The authors suggest that in order to attract highly qualified migrants in the future, Germany should specify human capital criteria based on a point system for educational diploma, work experience and age. Furthermore, a strong reform of immigration policy and better support for immigrants and their children by the education and training systems should improve in the middle and long-term the qualification structure of the population with migrant background (Brücker and Ringer, 2008: 7). Another condition for this change is to increase the extent of immigration in the country as classical migration countries did.

For enhancing the immigrants’ qualification level Germany has followed the example of classical migration countries by defining exact human capital criteria. In 2004, special rules for the immigration of high-skilled labour were introduced in the German Immigration Act (*Zuwanderungsgesetz*). However, compared to classical migration countries the number of employment and residence permits issued was quite low due to high income limits. Compared to other developed countries, the average skill level of the foreign population in Germany is situated in the middle. 25 per cent of the immigrant population who have lived longer than 25 years in Germany have a higher diploma. In classical immigration countries this applies to 40 to 60 per cent (ibid.: 2). By contrast, in Germany around 60 per cent of the immigrant population have no secondary school or further educational diploma, whereas this proportion amounts to only one fifth in classical immigration countries.

In the future, persons from countries with low human capital will be more likely to emigrate. For this reason, the authors argue that the composition of the future immigrant population in Germany will strongly depend on the ability of immigration policies to attract immigrants with higher or medium educational skills from these countries (Brücker and Ringer, 2008: 4). The skills of the immigrants are not only shaped by immigration regulations, but also by economic and social revenues and migration costs.

Economic factors like income distribution in the target country and country of origin as well as institutional factors influence immigrants’ qualification attributes. In Germany, as in France, but contrary to in classical immigration countries, the proportion of the migrant population with higher education is lower than the proportion with intermediate or basic education. These differences are explained by economic and institutional factors. Survey results show that immigration policy is the

most important factor in shaping the skills structure of the migrant population: The qualification attributes of migrants are much higher than the average of the country of origin or the target country if immigration is controlled by human capital criteria. However, economic factors are also important: the higher skilled immigrants are, compared to those in their country of origin, the higher income inequality exists in the target country. Furthermore, the lower immigrants' skills are, the higher income disparities exist between target country and country of origin, but also the higher the income level in the country of origin is. The geographic distance also plays a certain role: the greater the distance between the target country and the country of origin is, the higher the skill level of immigrant compared to the population in the country of origin (Brücker and Ringer, 2008: 5f.).

8. Social dialogue and workers' participation

8.1 The German framework of collective bargaining

Collective bargaining has a long tradition in Germany. For a long time trade unions and employers' associations have negotiated autonomously without state intervention and have played a major role in the development of the industrial relations system, in particular regarding provisions on conditions of work, such as wage and working time. The existence of a large number of acts passed in the post-war period has enabled the social partners to rely on an institutional cooperation and bargaining framework by constraining them to respect some primary rules. These laws comprise the Collective Agreements Act of 1949 (*Tarifvertragsgesetz*); the Act on Minimum Conditions of Work of 1952 (*Mindestarbeitsbedingungsgesetz*); the Work Constitution Act (*Betriebsverfassungsgesetz* or BetrVG) of 1952 modified in 1972; the Co-determination Act (*Mitbestimmungsgesetz*) for the firm level of 1952 and the Co-determination Act of 1976 modified in 2001 (for details see Hamandia, 2005: 56-68).

At the board-level, the main institution for co-determination is the supervisory board which controls the management within incorporated companies. In the supervisory board of firms with at least 500 workers, share-holders are represented with two thirds and labour representatives with one third. In larger firms, with at least 2,000 workers, both parties are represented by a half. Workers' representatives have an approbation right for some items. The size of the supervisory board depends on the volume of equity capital and comprises 9 to 21 members. Since the amendment of the Co-determination Act in 2001, work councils can also be introduced at the subsidiary or at company level. In this case, agreements at the branch level are required prior to firms' agreements. Furthermore, the Co-Determination Act for the Coal and Steel Industry of 1951 (*Mitbestimmungsgesetz für die Montanindustrie*) applies to firms from coal, steel, iron and similar industries with at least 1.000 workers. At the board level, the number of share-holders' representatives is the same as the workers' representatives plus a neutral person, who mediates between both parties (ibd.: 56-73).

According to the aforementioned Acts, workers' interest representative institutions like works councils could be established within firms with at least ten employees. Works councils have important co-determination rights by the negotiation and regulation of central items such as wage and working time. As a compensation for this, workers and works councils have to respect the so-called "peace obligation" (*Friedenspflicht*, see below). Both employers and workers representatives have to be "politically neutral" and "cooperate trustfully" with each other (BetrVG 81 § 74, Abs. 2). In case they cannot reach agreement, they have the possibility to set up an arbitration committee constituting of an equal number of employers' and workers' representatives and a neutral chairman. The final decision can be made by this impartial chairman (ibd.: 57).

The same bargaining conditions apply to trade unions and employers' associations. Sector-specific unions and employers can negotiate at branch and regional level. The running period of collective agreements varies. For wage agreements they mostly last between one and two years. Strikes are not allowed during the negotiation process of collective agreements (peace obligation). They can only be called after all negotiation margins have been exhausted. Failing a consensus, a neutral mediation committee can be set up and commissioned with the final decision. The Collective Agreements Act provides the state with the opportunity to extend a collective agreement to the concerned sector in the

whole country under certain conditions. However, until the 1990s, this opportunity was seldom used (see Traxler, 1998: 253).

8.2 Recent pressures to adjust the regulation framework

Process of “organized decentralisation” of collective bargaining

Since the mid 1990s, we can observe a diminishing importance of collective agreements as a regulatory framework for the conditions of work for many reasons. Firstly, the coverage of collective agreements has decreased as a result of declining trade union density and a declining number of employers in employers’ associations, in particular after German reunification. Eastern Germany lacked the tradition of employers’ associations, and firms in that part of the country were reluctant to become members of those associations, so they could maintain their freedom not to pay the bargained wages. However, many firms refer to the local and regional collective agreements even if they do not belong to any employers’ association (Hans-Böckler-Stiftung, 2008b). Secondly, the number of opt-out clauses (*Öffnungsklauseln*), which entitle workers’ representatives and employers to introduce different conditions at the firm level than those laid down in the collective agreement, has grown. Thirdly, increasingly independent unions have been founded and compete with the well-established ones. A recent decision of the Federal Labour Court on collective bargaining in the railway sector has made clear that this competition is legitimate (see Box 8.1) (cf. Seifert, 2006: 5-6).

Box 8.1: The labour conflict in the German railway industry

The recent strikes organized by the union of engine drivers GDL (*Gewerkschaft der Deutschen Lokomotivführer*) were the biggest in German history. The GDL decided to disrupt commercial transport in order to reach a wage increase. The GDL and the German railway company, *Deutsche Bahn AG*, had been arguing for months about basic wages and working time. The chairman of the GDL, Manfred Schell, called for a 31 per cent wage increase and a separate collective agreement for the 12,000 engine drivers and train guards represented by his trade union. The other unions of the railway sector, GDBA (*Gewerkschaft Deutscher Bundesbahnbeamten und Anwärter*) and Transnet (*Gewerkschaft Transport, Service, Netze*), had already agreed a 4.5 per cent wage increase for most employees of *Deutsche Bahn AG*. The chief executive of *Deutsche Bahn AG*, Hartmut Mehdorn, first refused a specific collective agreement for the engine drivers. Yet, in recent negotiations, he offered a wage increase for all engine drivers by 8 per cent as well as new working time rules, so on the whole they will get 13 per cent more salary. This came in for criticism from the competing unions Transnet and GDBA.

The bargaining between the German railway *Deutsche Bahn AG* and the GDL culminated in a dispute about the legal principles of the German collective bargaining system, namely about tariff unity (*Tarifeinheit*) versus tariff plurality (*Tarifpluralität*). Tariff unity implies that in the same company only one collective agreement is valid. The employer *Deutsche Bahn AG* defended this principle together with the competing unions Transnet and GDBA. It refused to sign an individual collective agreement with the GDL and said that their strikes would be illegal (Sachverständigenrat, 2007: 361f.).

Finally, the Federal Labour Court decided, with reference to the German Constitution, that this decision infringes the basic coalition right which protects representative rival unions. The employer *Deutsche Bahn AG* is not allowed to exclude an undesirable union like the GDL, whose union density amounts to more than 75 per cent, from the collective bargaining by signing collective agreements with its competing unions. The strikes of the GDL therefore have been granted legitimacy by the Court (Sachverständigenrat, 2007: 362).

Between 1995 and 2005 the number of workers covered by collective agreements fell from 69 to 59 per cent in western and from 56 to 42 per cent in eastern Germany. The trade union organisation density among the unions belonging to the umbrella organisation DGB declined by 15 per cent between 2002 and 2006 (ibd.). The proportion of women who left the union over this period amounted to 14.4 per cent. According to estimations of the Foundation of the German Trade Unions (*Hans-Böckler-Stiftung*), the trade union density amounted to between 20 and 29 per cent (Hans-Böckler-

Stiftung, 2007, 2008b) in 2006. Schlese *et al.* (2005: 571) estimate this rate at 22 per cent in 2005, compared to 34 per cent in the early 1990s. In 2001, 15 per cent of temporary workers were unionized (*ibid.*). 75 per cent of firms with works councils apply opt-out clauses on wages (Hans-Böckler-Stiftung, 2008b).

Discussion on the introduction of a minimum wage

The erosion of collective agreements as a central instrument for regulation of work conditions has raised a big discussion about alternative provisions. In recent months, a discussion has arisen between the governing parties and employers and trade unions representatives on the introduction of a statutory minimum wage. Some economic experts call for a gradual statutory extension of collective agreements as is widespread practise for instance in France. Unions are struggling for the idea of a statutory minimum wage (see section 2.5) associated with additional provisions at the sector level in collective agreements (DGB, 2008: 8) because the number of wage earners needing social benefits is on the increase. A sector-specific minimum wage system would consolidate wage provisions above this norm (Seifert, 2006: 7). Haucap and Wey (2008) suggest the establishment of a competition control organ which could help both workers and firms to be better protected from wild competition, particularly from wage dumping, and therefore compensate for the diminishing regulatory power of collective agreements.

The first minimum wage was introduced in the construction industry on the basis of the Workers' Posting Act (*Entsendegesetz*) signed in March 1996, as it extended minimum wages laid down in collective agreements to the whole national construction sector, independent of the nationality of workers and companies (painter and decorators, scrapping industry, roofing workers, electricians). This Act was extended by the government to cleaning services on the 23th of August 2006 and lastly in 2007 to the postal services.

As a consequence of the 2002 reform of the Temporary Work Act, the collective agreement of 11th June 2003, agreed between the Temporary Agencies Association (*Bundesverband Zeitarbeit Personal-Dienstleistungen e.V.*, BZA) and the DGB trade unions, governing employment and wage conditions of temporary workers in Germany, was extended to all temporary workers. The collective agreement fixes hourly wages at between EUR 6.85 and EUR 15.50 (see Bothfeld and Kaiser 2003: 486). Through this, 99 per cent of temporary work agencies have been covered by collective agreements since 2004. Trade unions maintain that a stronger centralisation grade would help to reduce growing wage inequalities. In addition, the promotion of the vocational training through collective agreements has also been an important issue in collective bargaining since the mid 1990s (see Bispinck and Schulten 2005: 470-471).

Up til the end of March 2008, branches, in which the collective agreement coverage is higher than 50 per cent can be covered by the Workers' Posting Act conditional on a common request by the representative collective parties (BMWi, 2008: 21). This procedure has been applied to the collective agreement on temporary work, which was signed at the end of May 2006 on the basis of the Workers' Posting Act and which sets minimum wages and conditions of work for temporary workers. This collective agreement shall definitely be included in this act by the end of March 2008. Also, in the branch of industrial textile services, a collective agreement has been signed which, in order to be implemented, requires the extension of the Workers' Posting Act to this sector (DGB, 2008: 8). Another prominent example is seen in the case of the recently liberalised sector of postal services (see box 8.2). The government also envisages the amendment of the Act on Minimum Conditions of Work (*Mindestarbeitsbedingungsgesetz*) of 1952, with the aim to introduce minimum wages for employees working in economic branches, in which the coverage of collective agreements is lower than 50 per cent (Bundesministerium für Wirtschaft und Technologie, 2008: 21).

Box 8.2: The labour conflict in postal services

In mid August 2007, the leaders of the parties in power, after consultations with unions and employers associations, decided to examine whether a minimum wage could be introduced in the postal services. This could be realised by applying the Workers' Posting Act. At the beginning of September 2007, the newly created postal employers' association Postdienste e.V. and the services union ver.di (*Vereinte Dienstleistungsgewerkschaft*) concluded a collective agreement on a minimum wage for workers in letter services, which came into effect on the 1st October 2007 and can at the earliest be abrogated on the 30th April 2010. In December 2007, the governing grand coalition decided to introduce a minimum wage for postal workers of EUR 8.00 per hour in eastern and EUR 9.80 per hour in western Germany. Employees in the main sorting offices and other back staff should receive EUR 8.00 in the east and EUR 8.40 in the west of the country (Sachverständigenrat, 2007: 367).

This decision has been sharply criticized by many economic experts. They denounced the *Deutsche Post AG* for using the minimum wage in order to protect its businesses, including its subsidiaries and subcontractors, from competitive pressures on the recently liberalised market (Verständigenrat, 2007: 367f.; Brenke and Eichhorst, 2007: 121ff.). The main competitors of the German Post, the PIN AG and TNT, which employed 5,000 workers each and which intended to quadruple their workforce in the next years, had to cut many jobs and finally declared bankruptcy.

The federal government still discuss procedures, by which a minimum wage could be introduced. Up til now, the legal extension of a collective agreement by the Social and Labour Ministry has constituted the only opportunity for introducing a statutory minimum wage. This right is embedded in different laws: the 1949 Collective Bargaining Law (*Tarifvertragsgesetz*), the 1996 Workers' Posting Act (*Arbeitnehmer Entsendegesetz*), the 1952 Law on Minimal Conditions of Work (*Gesetz über die Festsetzung von Mindestarbeitsbedingungen*). An alternative way would be to pass a new bill on a uniform minimum wage for all sectors (Sachverständigenrat, 2007: 364f.). In June 2007, the parties in power, the CDU/CSU and SPD, agreed on a concept for a minimum based on two actions: 1) the extension of a collective agreement with a coverage rate of at least 50 per cent to the whole branch; 2) the renewal of the 1952 Law on minimal conditions of work (*Gesetz über die Festsetzung von Mindestarbeitsbedingungen*) in order to compensate the lack of collective agreements in some sectors or weak coverage rates of collective agreements (Sachverständigenrat, 2007: 366).

8.3 The German co-determination in the European context

Over the last ten years, three main European directives were introduced at European level which for many reasons raised the question of the adjustment of the German system of industrial relations: the European directive on European Works Council in transnational companies 1994 (EU-Richtlinie 94/45/EG); the European directive on the status of European stock corporations 2002 (*Societas Europaea, SE*) (2002/14/EG); the European directive regarding the participation of labour in management committees 2003 (2003/72/EG; 1435/2003). These European directives aimed at defining a general framework for the institutionalization of a European labour relations system by setting standards for social dialogue and the participation, information and consultation of workers.

Effect of European directives

The aforementioned European directives have an impact for the German national framework of industrial relations. The directive on European work councils in transnational companies does not prescribe any provisions regarding decision-making procedures and the process of collective bargaining. It assigns workers' representatives only consultation rights. The introduction of European work councils in German firms therefore contrasts with the strongly institutionalized co-determination rights in Germany. The implementation of the directive raised the question of how to avoid already existing co-determination rights losing efficiency or even disappearing, and conflict potential (see Streeck, 1998a: 18). The implementation directive on the status of European stock corporations is also problematic as it considers co-determination as a "negotiation item" between labour representatives

and management. Up til now, there is little evidence about the impact of these directives in practice. But it is expected that they will shape national practices in the future (Kluge, 2006: 10-12; Stettes, 2007: 8-10).

Recently, the employers associations (BDA/BDI) vehemently criticized board-level co-determination, especially the composition and the size of the boards. Employers call for a reduction in the number of labour representatives by up to one third, the replacement of existing co-determination provisions by consultative ones and the withdrawal of the amendment of the Work Constitution Act of 2001, due to recent developments at the European level. The adoption of the long-standing controversial European Directive on the European stock corporations' status (2002/14/EG) in autumn 2001 enabled transnational consortiums to create a single European legal firm which is permitted high flexibility and mobility within Europe. A European Directive regarding the participation of labour in management committees has complemented this directive (2003/72/EG; 1435/2003). Previously, the possibility of founding a European stock corporation had been used by opponents of co-determination in Germany in order to justify their claim for abolishing it. Co-determination would disadvantage German firms in their location decisions and slow down the decision-making process (Keller, 2006: 46; Thumann, 2006: 3-9).

In response to the employers' criticisms that co-determination would be too cost-intensive, because of the higher wages and job security, unions have emphasized that co-determination bears two important advantages for employers: Firstly it would encourage employers to invest in the training and further training of workers. Higher costs would therefore be compensated by lower staff fluctuation and higher worker motivation. Secondly, a higher qualification of workers and stronger performance willingness would provide an incentive for employers to invest in cost-intensive plants and equipment which, in return, would enhance the productivity, market shares and profit margins of the firms (Abelshausen, 1997: 7; Sachverständigenrat, 2007: 368). "Its economic value is not only due to its irenic and socio-political function, but also in its contribution to the stabilization and decrease in production and transaction costs within complex market and production processes" (ibid.: 10). An increasing number of studies emphasise the positive economic effects of co-determination, in particular on firms economic performance (see Vitols, 2006; Jirjahn, 2006: 215ff.; Thannisch, 2007).

Many studies also underline that industrial democracy and social cooperation cannot just be reduced to a cost-benefit-analysis of stakeholders (see Keller, 2006: 46). The long-standing social peace in Germany was the merit of a system representing workers' interests. Co-determination at the board-level has contributed to peace, consensus and cooperation. It promotes the workers' confidence in the corporate culture of the firms and an understanding among the staff of the needs and decisions of the firms. The Co-determination Act has therefore protected rational decisions from pressures coming from short-term market fluctuations, cyclical economic changes and opportunistic competition (Streeck, 1992: 324; Streeck 1998b: 16).

Recently, much discussion was raised in the country regarding workers' partaking in the economic success and capital of firms, after quantitative analyses had shown that the prevalence of such participation models in Germany is below the European average. According to the 2005 IAB Survey of Firms, in only 9 per cent of all German firms, workers share in the firms revenues, and in only 2 per cent of them workers share in the capital. This rate increases with the size of firm. 34 per cent of firms with at least 500 workers partake in revenues. The highest participation could be found in the credit and insurance businesses, as well as in mining, energy and water supply. The rate of participation in capital is more widespread in firms owned by foreign investors than in others. At the beginning of January 2007, 3,750 firms with capital participation employing in total 2.06 million workers were registered (Sachverständigenrat, 2007: 376). Among European countries, Germany ranks in the middle with regard to the participation of the workforce in revenues and capital (Sachverständigenrat, 2007: 376).

Following the publication of these results, a political and economic discussion was raised on whether workers' partaking in firms' success and capital (*Mitarbeiterbeteiligung*) is the adequate instrument to reach a more equal distribution of income and capital assets and a higher employment level (ibid.: 368-

369). In June 2007, both government parties in power announced up-coming programmes aimed at promoting workers' participation in their firms' assets. The "firms' pact on social capital partnerships" was proposed by the right-wing CDU/CSU parties and the "Germany fund for workers" by the left-wing SPD party. Both programmes differ considerably. The SPD conception on labour participation in capital relies on the idea of a fund which is meant to enable firms in Germany to provide their workers with, additionally to the agreed wage, a voluntary share in the firm. The pact proposed by the CDU and CSU comprises some contractual fundamentals which should govern the relationship between management and workers as well as the form and amount of the participation, the acquisition of a capital share, the share in case of loss, information and participation rights of workers and purchases or lay-offs. These parties also advocate an improved state incentives system, according to which workers could get a maximum amount of EUR 1,000 tax relief per year as capital participation in the firms they are working in. Despite the differences in their proposals, both coalition partners want to agree on a common resolution which should legally fix the forms of labour participation in capital (ibid.: 368-378).

The German Council of Economic Experts regards both political programmes as unconvincing and strongly recommends leaving it up to the social partners to agree about rules for worker participation in firms' capital as part of collective bargaining at the firm and branch level. The Council sees a number of problems in existing empirical research on effects of labour participation on income distribution, employment and productivity. Although positive effects might be found, the empirical evidence is limited. The Council criticises the state intervention in this area and puts the low worker participation in capital in Germany, compared to other European countries, down to the different state financial and tax incentives systems in those countries. Furthermore, the Council argues that tax breaks for some capital investments would have a negative effect on decision neutrality, lead to inefficient capital allocations and thereby reduce welfare (ibid.: 378-381).

Flexible forms of employment: new challenges for works councils' daily work schedule

The increase of flexible forms of employment and the decrease in regular employment subject to social insurance, described in the previous chapters (in particular chapters 1, 2 and 3), raise the question of the effects of these developments on the work schedule of labour representatives. What are the problems they are confronted with, and what kind of strategies have they developed to cope with the new situation?

In 2006, almost 13 per cent of the firms in Germany employing 51 per cent of the workers had a works council. In 2002 the proportion of firms with a works council amounted to around 16 per cent and the covered workers to 56 per cent. The likelihood of the presence of a works council strongly depends on the economic sector. Besides the construction sector, services are acknowledged as a "co-determination free zone". In the trade sector, including the retail trade and gastronomy, two out of three workers are not represented by a works council. Generally, in labour-cost intensive sectors, which commonly have a lower union density, labour representatives are especially scarce. The firm size is another determinant for the existence of a works council (Ellguth, 2006: 74). Most SMEs do not have a works council, in contrary to the big companies in the industrial sector. Up til now, there has been little evidence for the impact of the spread of flexible forms of employment on the work schedule of labour representatives.

In a recent survey of firms financed by the Foundation of the German Trade Unions, 80 work councils in firms with a particularly high concentration of temporary workers were interviewed. In 30 per cent of the interviewed works councils, the employers agreed with the workers' representatives that the voices of temporary workers have to be considered in works council elections. In 70 per cent of cases they did not. One out of four works council chairmen was for the abolition of temporary work arguing that this constituted "slave labour". The majority of the interviewed persons expressed their aim to better control and organise temporary work. 43 per cent considered temporary work as a useful "flexibility cushion" only in order for case works councils to be able to avoid "wild expansion". 32 per cent intended to reach equal treatment and equal pay for temporary workers. Such an answer was given most often in firms with a high concentration of temporary workers. Only approximately 30 per

cent of the interviewed works councils had allocated on a person responsible for temporary work matters. 20 per cent had set up a committee or work group. In many cases, works councils intervene only in response to pressure by the core workers. The most frequent reason for these interventions was the manipulation of the temporary workers' disposition to work overtime by the management. In these cases works councils had to mediate between both. Intervention is more successful in firms in which works councils regularly take care of temporary workers interests. Contact with temporary workers is mainly instigated by walks through the premises (in 47 per cent of the firms) and talking sessions (24 per cent).

By exercising their duties, works councils face three particular difficulties: the great extent of temporary workers' problems, missing information on temporary work, and the continuous expansion of temporary work. The works councils can neither solve all problems of temporary workers, like for instance that they receive lower wages for the same kind of work, their limited employment perspectives and missing overtime payments, neither unequal treatment with regard to the hours of work and social benefits. Only about half of the works councils are regularly informed about the extent and form of temporary work applied in their firm. 30 percent are irregularly informed about this, and 20 percent not informed at all. Works councils are especially involved in temporary work decisions in firms where they make their responsibility for temporary matters clear. This applies to 73 per cent. In one fifth of the surveyed firms, a firm-level agreement had already been concluded in which the rules for the organisation of temporary work are laid down. These include, most of the time, the defining of the maximum extent of temporary work in the firm, training rules and rules for transition into the core workforce. In 16 per cent of the firms, remuneration of temporary workers had not been written down. A particular problem regarding the duties which the works councils have towards temporary workers is the continuous expansion of this employment form. The number of employees who need to be protected is increasing while the resources remain the same. The researchers, who presented the aforementioned results, recommend increasing the works councils' resources in the form of a "temporary workers' bonus" in order to enable temporary workers to be protected by the co-determination legislation of the firm (Wassermann and Rudolph, 2007: 4-5).

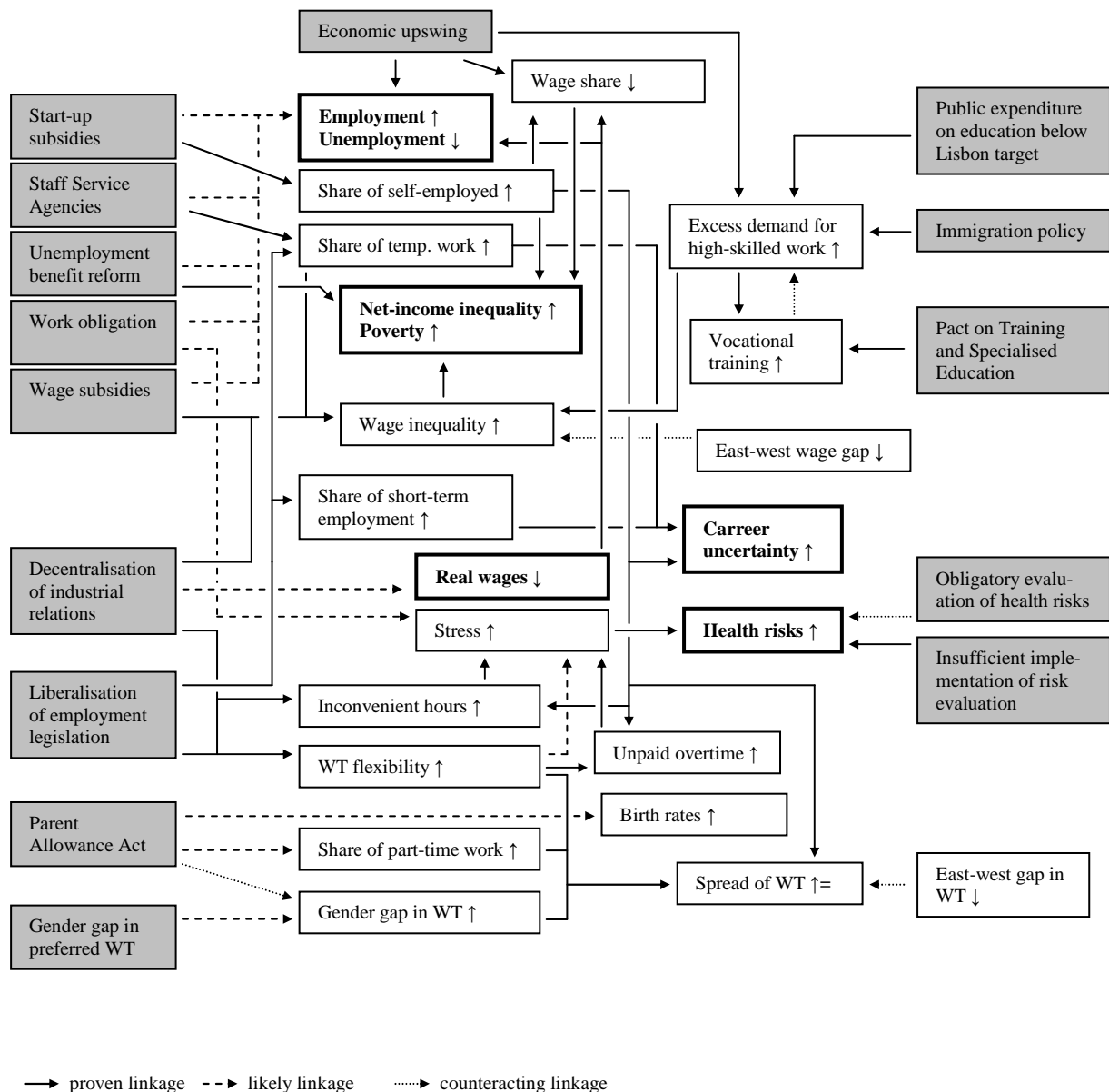
Recently, unions have developed new strategies to better represent the interests and special needs of the growing number of self-employed. Single self-employed persons are neither employers nor employees and are therefore not covered by classical corporate interest representation structures. With a view to influencing their conditions of work and increasing their social protection, efforts have been made by trade unions in the form of insurance payments, legal advice and assistance for contractual settlements (Schulze Buschoff, 2007: 392).

IV. Conclusions

1. Main Trends and Linkages

Figure IV.1 shows an attempt to map the main developments revealed by the review of studies in the previous chapters and the linkages between them. Important factors which have shaped these developments include, in the economic sphere, the high GDP growth of recent years and, in the institutional sphere, far-reaching legislative reforms as well as an ongoing transition process in the industrial relations system. The main outcomes, which have been found consist, on the one hand, of (1) high employment growth and reduction of unemployment and, on the other hand, (2) a modest development of real wages on average, (3) rising inequality of net incomes and poverty, (4) rising career uncertainty, (5) growing health risks. The main factors and interrelationships which have apparently contributed to those developments will be outlined in the following.

Figure IV.1: Main trends and linkages in employment conditions



1.1 High employment growth and reduction of unemployment

Employment grew at a rate of 0.6 per cent in 2006 and 1.7 per cent in 2007; the unemployment rate fell from 9.1 to 8.1 per cent in 2006 and was expected to reduce further in the year 2007. Different researchers assume that this recovery in the labour market was not only due to the favourable economic conditions, notably the growth of GDP in these years, but also to legislative changes and a moderate wage policy. It is likely that the recently introduced instruments of active labour market policy: notably the promotion of self-employment through start-up subsidies, the promotion of temporary work through the creation of Staff Service Agencies, the reform of the rules for entitlement to unemployment benefits, their linkage with the obligation to take up offered employment, and the provision of wage subsidies (for mini-jobs, midi-jobs, one-Euro jobs); have contributed to the reduction of unemployment, in addition to the effect of economic growth. However, this contribution has not yet been confirmed empirically. Not enough time has passed since the implementation of these reforms to be able to notice a definite effect on structural unemployment (see section II.2). Evaluations of the different instruments of active labour market policy introduced in the scope of the Hartz reforms even showed a negative influence on labour market integration in the short run, resulting from the so-called imprisonment effect. Participation in those programmes prevents the unemployed from

searching for a job, at least in the beginning. The positive effects, commonly expected from growing employability, only begin working after a certain period of time. A positive net-effect on labour market integration of the unemployed has yet to be ascertained so far (see sections III.5.2, III.5.3, and III.5.4).

1.2 Modest development of real wages

Since 2001, real wages have grown at a smaller rate than the GDP. From 2002 to 2005, the growth of nominal wages did not even offset the increase of the cost of living. This moderate wage policy may be attributable to both, the concern of trade unions to enhance the competitiveness of the German economy, as well as their diminishing bargaining power and decentralisation of the industrial relations systems. As a consequence, workers shared less than ever before in the added value generated in Germany (see sections II.2 and III.2.1). However, the modest wage growth, combined with a reduction of social security contributions, has led to a reduction of labour costs and thereby most likely contributed to the recent expansion of employment and reduction of unemployment.

1.3 Rising inequality of net incomes and poverty

In recent years, gross wages did not only increase less than other sources of income, they also became more unequally distributed across workers. This has various reasons. The growth in output has led to a rising demand especially for higher-skilled labour, for which employers are commonly willing to pay a greater wage than for lower-skilled labour, due to their greater productivity. Accordingly, the wages of the higher skilled workers increase even further, while those of the lower-skilled remain more or less unchanged. The analysis of the development of executive wages in section III.2.4 has shown, that beyond qualification level also other factors, related with market deficiency, may play a role in lifting the incomes of the very rich. Deregulation of the system of industrial relations, notably the decreasing coverage of collective agreements, decentralisation of wage bargaining and a growing use of opt-out clauses (see section III.8.2), have created the scope for a greater spread of wages throughout economic sectors and occupation groups. Moreover, the *Hartz* reforms apparently achieved their goal to extend employment in the low-wage sector by creating new jobs with remarkably low gross wages (as low as one Euro per hour), subsidised by the state. As a consequence the distribution of gross wages has become much more unequal than in the past, while the income gap between the east and west of the country has modestly narrowed (see section III.2.2).

The rising inequality of gross wages, combined with a growing proportion of income from self-employment and capital income, has contributed to a growing inequality in the distribution of market incomes. As people pay taxes and social security contributions, obtain social transfers, and pool their resources and expenditure with members of their household, the inequality of net disposable incomes becomes much smaller than that of market incomes. Social transfers include also the wage subsidies paid to persons working on a Mini-, Midi- or One-Euro job. However, the social safety-net has apparently become weaker. The overall amount of social protection expenditure has been cut and those persons without employment face an increasing risk of living in poverty (see sections III.5.1 and III.5.2). Persons earning a low gross wage are more likely to be poor than in the past (section III. 2.5). To substantiate this, the Gini coefficient of net disposable income has risen from 0.26 in 1999 to 0.32 in 2005, which marks a considerable increase of the inequality of standard of living (see section III.2.3).

1.4 Rising career uncertainty

The previous economic upswing from 1998 to 2000, was accompanied by a remarkable extension of non-regular employment, such as self-employment, primarily single self-employment, temporary work, short-term and part-time work, as well as by an extension of working time flexibility. This development had been made possible by a relaxation of the employment protection legislation in the

years before. An important objective of the labour market reforms implemented after 2002 was to promote the transition from unemployment into those non-regular types of employment. As a consequence, in particular the growth of self-employment and temporary work, which had been supported by the start-up subsidies and the establishment of Staff Service Agencies, obtained a new impetus (see section III.1). Short-term, temporary work and self-employment are linked with much greater uncertainty about employment possibilities in the future than employment based on an unlimited work contract. This means that for a growing share of workers it is difficult to develop longer-term life plans, as they do not know whether and under which conditions they will be working.

1.5 Growing risks for health

The expansion of self-employment and the growing flexibility of employees' working times have been accompanied by an increase in work at inconvenient hours (night, weekend and shift work) and unpaid overtime (see section III.3.3). This has been reflected in a growing spread of working times across employed persons since 2000 (see section III.3.1). In many cases, the flexibility of working time is not controlled by the workers but by the employers, be it as a result of corresponding clauses in the work contract or increased worker responsibility for the achievement of tasks. Disruptions of work rhythm, lack of working time sovereignty and growing responsibility generate stress, which has a negative impact on the workers' health.

One would assume that stress is also an important characteristic of jobs in the low-wage sector, subsidised by the state, which previously unemployed persons are forced to take up, so as not to lose their entitlement to unemployment benefits, under the *Hartz* reforms. It is also likely, that these workers show a particularly low identification with their tasks. Moreover, as their gross wages are much lower than those of the regularly employed, often they may be less respected than their colleagues. This may open the door for harassment, unfair treatment or discrimination at the workplace.

According to an amendment of the Labour Protection Law of 1996, employers are obliged to have in place measures for monitoring their employees' health. This would be expected to have limited the health risk of workers. However, many companies have not yet implemented the measures laid down in this law. Self-employed and temporary workers are scarcely covered by related activities.

2. Implications for the decency of work

Do the aforementioned developments give rise for concern about the decency of work in Germany? This report has shown that working conditions have clearly worsened for the average worker with regard to their income (in terms of wage and net income), prospects for development in their future and protection from health risks. Employer control over the timing of hours worked has increased. The fact that under certain conditions unemployed persons are obliged to work constitutes another remarkable intervention in workers' sovereignty. A "fair income", "security in the work place", good "prospects for personal development" and the "freedom (...) to participate in decisions that affect their [the workers'] lives", are important aspects of decency of work, as the ILO (2008a) describes the term.¹³

At the same time, the risk of becoming unemployed has diminished in recent years. To be protected from unemployment constitutes an important dimension of security at the workplace and social

¹³ According to the ILO (2008a), the term decent work "sums up the aspirations of people in their working lives. It involves opportunities for work that is productive and delivers a fair income, security in the workplace and social protection for families, better prospects for personal development and social integration, freedom for people to express their concerns, organize and participate in the decisions that affect their lives and equality of opportunity and treatment for all women and men."

protection for families, also highlighted in the description of decency of work by the ILO. The question arises whether this reduction of the unemployment risk justifies the described worsening of the conditions of work. In the public discussion, the question is often raised: "Isn't any work preferable to the state of being unemployed, even if the work is not decent?". To answer this question, value judgements are required about "what constitutes decent work?" and "under which conditions should indecent work be valued as inferior to unemployment?". The authors of this study will not provide any answers to these normative questions at this juncture.

The meaning of "decent" can be glossed over with "satisfactory, of an acceptable standard" or "sufficient in quality and quantity" (ILO 2008b). It can be argued that the judgement of what is acceptable and sufficient depends on the circumstances of the particular country and on the standards achieved by society on average. For this reason, in poverty research, it has become common practice to define the poverty in line with reference to the median or mean standard of living of the country (cf. Sen, 1983, 1985, Townsend, 1985). The same concept could be applied for the determination of thresholds for the decency of work. In general, the application of this approach would imply that a rising polarisation of work conditions corresponds with a growth of indecent labour. For example, the fact that a growing proportion of workers in Germany earn a low income, can be regarded as even less acceptable than the average income of more well paid workers rising. At the same time, a wage earned by a person on a low-wage job in Germany might be regarded as a lot of money in the eyes of an average worker in Bulgaria or Romania.¹⁴

As long as nobody is obliged to take up employment, the level of unemployment benefits automatically provides a minimum threshold for indecent employment. If the conditions of work become unacceptable in the eyes of the worker he then has the choice to quit his job and live on unemployment assistance, which is commonly far from comfortable. This situation has changed with the reform of the unemployment assistance in the scope of the Hartz reforms. Now, the reception of this support is conditional on the unemployed person agreeing to take up any job offered which is considered as acceptable by the Employment Office. However, the Employment Office does usually not have the means to fully forecast the decency of the conditions of work in the offered job. Indecent conditions of work are often associated with social conflicts at the workplace, informal practices conducted by employers and others. As, after the Hartz reforms, the previously unemployed has lost the option to quit the offered job, the question about the decency of work has become much more relevant than ever before.

¹⁴ See Hoffmeister, 2006, for a related discussion in the area of income poverty.

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