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Labour Market Measures in Germany 2008–13: The Crisis and Beyond

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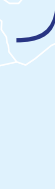
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Abbreviations

	German term	English term/translation
AAW	Arbeitsgruppe Alternative Wirtschaftspolitik	Working Group Alternative Economic Policy
ABM	Arbeitsbeschaffungsmaßnahmen	Job creation scheme
AGH-M	Arbeitsgelegenheiten in der Mehraufwandvariante	Job creation scheme
ALG I	Arbeitslosengeld I	Unemployment insurance benefits
ALG II	Arbeitslosengeld II	Jobseekers' allowance
ALMP		Active Labour Market Policies
AMECO		Annual Macro-Economic database of the European Commission
BA	Bundesagentur für Arbeit	Federal Employment Agency
BDA	Bundesvereinigung der Deutschen Arbeitgeberverbände	German Employers Federation
BiBB	Bundesinstitut für Berufsbildung	Federal Institute for Vocational Education and Training
BMAS	Bundesministerium für Arbeit und Soziales	Ministry of Employment and Social Affairs
BR	Bundesregierung	Federal Government
CVET		Continued Vocational Education and Training
Destatis	Statistisches Bundesamt	Federal Statistical Office
DGB	Deutscher Gewerkschaftsbund	German Trade Union Federation
EU		European Union
EUR		Euro
FSP		Fiscal Stimulus Package
GDP		Gross Domestic Product
IAB	Institut für Arbeitsmarkt- und Berufsforschung	Institute for Employment Research
ILO		International Labour Organization
IMK	Institut für Makroökonomie und Konjunkturforschung	Macroeconomic Policy Institute
KuAG	Konjunkturelles Kurzarbeitergeld	Reduced working hours scheme
LFS		Labour Force Survey
OECD		Organisation for Economic Co-operation and Development
SGB	Socialgesetzbuch	Social Code
SVR	Sachverständigenrat zur Begutachtung der Gesamtwirtschaftlichen Entwicklung	German Council of Economic Experts
TAW		Temporary Agency Work
VET		Vocational Education and Training
WSI	Wirtschafts- und Sozialwissenschaftliches Institut in der Hans-Böckler-Stiftung	Institute of Economic and Social Research

Introduction¹



In 1999, Germany was depicted as the “sick man of Europe” by *The Economist*. The economic trajectory was characterized by low economic growth and job creation, increasing unemployment, and sluggish structural change. It was thus seen as “an example of Eurosclerosis, i.e. a regime with a considerable lack of flexibility” (Walwei, 2014, p. 3). Ten years later, when German employment rates were high and remained surprisingly stable throughout the deepest recession, this attitude had changed to admiration for the “German labour market miracle” (Krugman, 2009).

What are the reasons for Germany’s robust labour market development and what have been the social costs? This report discusses trends in employment, employment protection, wages and active labour market policies in Germany roughly between 2007 and 2014 – hence during the global economic and financial crisis and the following Euro-crisis. It highlights important policy changes and shows how recent developments are embedded in long-term trends.

While it is commonly deemed a success that more people are in jobs today than before the onset of the crises, there are also domestic and international observers who stress that this success has come at a price: a growing share of people with low wages and precarious working conditions, a persistently large base of long-term unemployment, and a high dependency of the German economy on exports that may keep people in jobs at home, but contributes to unemployment abroad. These are the poles of the debates that run through this report. The remaining part of Chapter 1 introduces the crisis and crisis response measures adopted by the Federal Government and presents trends in employment.

In the past five years, Germany has been affected by two economic crises, first the financial crisis after the bankruptcy of Lehman Brothers in September 2009,

and then – up to the present – the Eurozone crisis. While Germany was strongly hit by the first crisis, it was much less affected by the second crisis. However, in both crises, employment developed much better than overall economic performance.

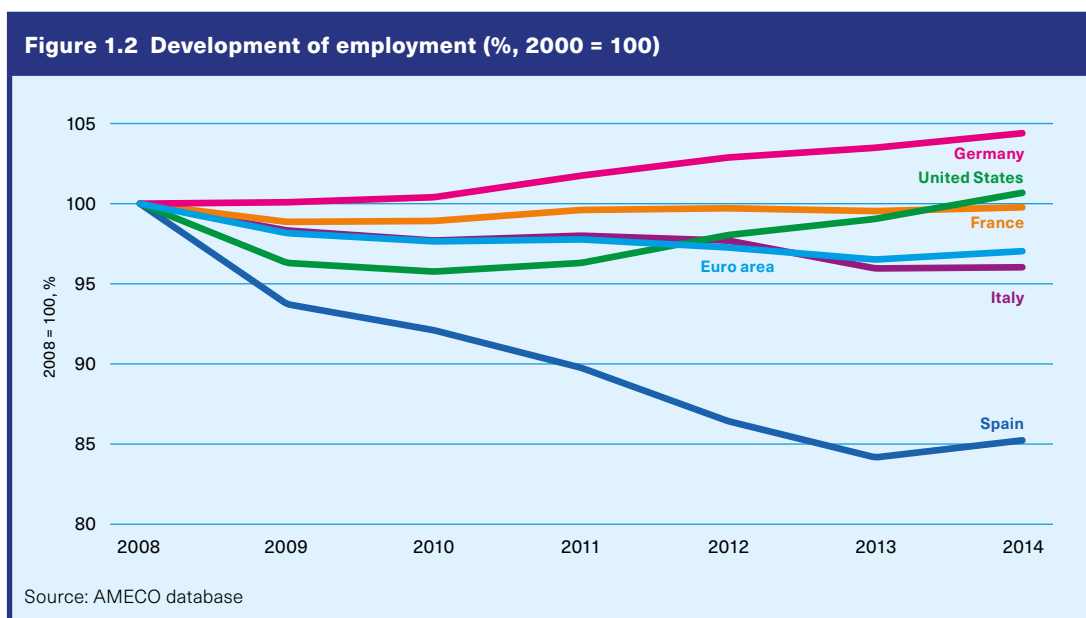
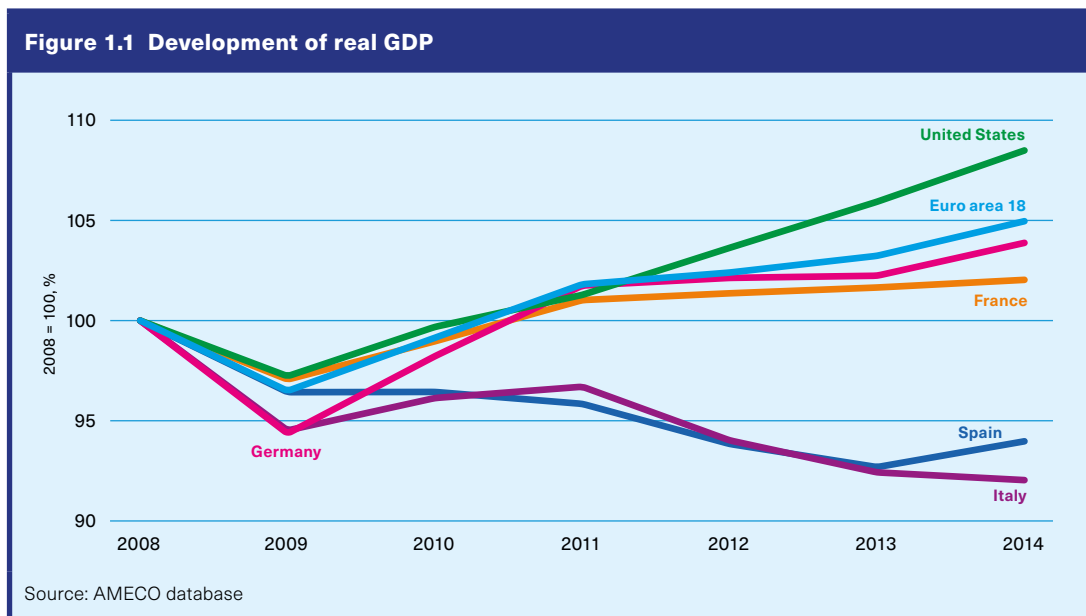
In 2009, German GDP fell by 5.1 per cent – the strongest decrease in GDP since World War II and among the strongest decreases in growth among all countries hit by the crisis. The strong decrease in GDP was mainly due to the sudden cuts in spending by Germany’s trade partners so that German exports declined by 13 per cent in 2009. Yet, despite this enormous fall in growth, employment and unemployment were almost unaffected by the crisis. This has been termed the German “labour market miracle” for instance by (Krugman, 2009); see also figures 1.1 and 1.2.

In the 2009 crisis, the German government reacted in three ways. First, the banking sector was rescued; second, three fiscal stimulus packages were implemented; and third, the labour market was stabilized through a massive decrease in average working time.

The banking rescue packages were implemented because German banks were among the biggest creditors to US financial institutions and thus hard hit by the default of many US counterparts (Lindner, 2013). The banking sector was furthermore rescued to prevent bankruptcy of banks, ensure inter-bank lending and credit availability for German business. At their peak in 2010, government debts due to bank recapitalizations accounted for 12 per cent of GDP; credit guarantees accounted for 3.5 per cent of GDP by 2010 (Eurostat, 2015).

The decrease in growth was countered by three debt-financed fiscal stimulus packages. Those programmes were implemented between November 2008 and December 2009. They combined increases in public investment, tax cuts and cuts in social security contribution rates, as well as the “cash for clunkers” (*Abwrackprämie*) programme in which the car industry was supported by subsidies for new

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car purchases (for an overview see Projektgruppe Gemeinschaftsdiagnose, 2009).

Job losses were prevented through a strong decrease in average working hours. This decrease was possible both because of the government sponsored short-time work (*Kurzarbeit*) and various short-time schemes that had already been negotiated by the social partners before the crisis. Requirements for the governmental short-time scheme were strongly relaxed in 2008 so that more employees could take out benefits that partly compensated for a fall in wages due to the decrease of average working hours. This accounted for roughly one fourth of working-time cuts. The other three quarters were working-time accounts, reductions in collectively agreed working time and overtime

(see figure 2.3 below). Working-time accounts allow employers unpaid overtime in times of boom but also reductions of working time without wage cuts when a crisis hits. The positive working-time credits that had accumulated before the crisis could be used to reduce working time during the crisis. Further, collective agreements negotiated between unions and employers before the crisis allowed departures of regular working time when firm sales decreased. Thus, agreements between the social partners were more important for working-time decreases during the crisis than government programmes.

Both the prevention of job losses and the fiscal stimulus packages stabilized Germany's internal demand and allowed a relatively quick economic recovery after the

crisis. From the beginning of the euro crisis in 2010, Germany's economy grew faster than other euro area countries and its employment increased, while unemployment decreased. However, its growth was lower than US growth in the same period (figure 1.1).

The fiscal expansion of the stimulus packages was directly linked with the commitment to subsequent fiscal consolidation. While most of the changes introduced in the fiscal stimulus packages have been of temporary nature, all of the austerity measures foreseen are permanent. Shortly after the first two packages had been passed, in May 2009, the parliament included a so-called "debt-break" into the constitution. The debt-break forbids federal government deficits higher than 0.35 per cent of GDP on average over the business cycle. The rule is to be applied as of 2015. In the run-up to 2015, debt levels had to be lowered annually to a varying degree, with binding rules starting in 2011. This implied a path of low government expenditure growth, which was enacted in the following years and was a drag on the economy in terms of GDP growth. This was aggravated by the fact that Germany had already been in an investment crisis prior to the euro crisis. Public investments in infrastructure have been negative since 2003: "the resources provided for infrastructure have not been enough to make up for the wear and tear on roads and buildings [...], depreciation is higher than

gross investment, with the result that net investment is negative" (Rietzler, 2014; see also AAW, 2014).

The euro crisis further hampered economic growth. First, exports to other euro area countries strongly declined, although this was compensated by exports to regions outside of the euro area. Second, investment fell due to the insecurity of the euro area's future and possible catastrophic economic consequences if the euro was to fail. The relatively robust private consumption, however, sustained growth, a consequence both of Germany's solid employment performance and a stronger increase in real wages than was the case before the crisis. Although economic growth was not particularly strong – for instance, compared with the United States – Germany's labour market performance was much better.

The factors that contributed to the solid employment performance, notably short-time work, and measures behind the growth in non-standard forms of employment are analysed in Chapter 2. Chapter 3 looks at the unemployment protection of jobseekers, and addresses the issues of unemployment by education and age. Chapter 4 discusses the trajectory of wages during the crisis and beyond, and the role of collective bargaining and the new minimum wage. Chapter 5 analyses the components of active labour market policies and Chapter 6 concludes.

Short-time work and contractual arrangements, including Employment Protection Legislation (EPL)

2

The overall employment trend in Germany during and after the crisis is remarkably positive. With 42.6 million people employed in the second quarter of 2014, Germany now registers the highest employment level in its history. This is astonishing, since economic growth was not very strong. One of the main reasons for Germany's strong employment record is the reduction in working time per employed person.

In 2013, total hours worked were much lower than in 1991, while employment was much higher (figure 2.1). Thus less work is shared among more people, so that average working time has been reduced (figure 2.2). While there is a general long-term trend for average working time to decrease, the sudden and strong reduction of average working time that can be seen in 2009 was also an important reason for the safeguarding of employment during the crisis.

During the crisis, both the government and the social partners allowed for discretionary decreases in average hours worked. The government was responsible for short-time work benefits (*Kurzarbeit*) in which workers are subsidized when they reduce their working hours (AAW, 2014; Bellmann, Upward & Gerner, 2012)². Of particular interest in times of crises is the “economic cycle shortened working hour benefit” (*konjunkturelles Kurzarbeitergeld*, KuAG). In order to benefit from the KuAG, companies have to apply to the Federal Employment Agency (*Bundesagentur für Arbeit*, BA) and prove that they are affected by a significant and inevitable shortage of demand for labour that affects at least a third of their employees and 10 per cent of their working time. Workers without family are compensated for 60 per cent of the lost net wages; workers with family are compensated 67 per cent. During the crisis, KuAG was temporarily (until the end of 2011) expanded by lowering the eligibility criteria (number of workers affected per enterprise may be lower than

a third) and by prolonging the maximum duration of benefits (from 12 to 24 months). Additionally, the KuAG was extended to the hitherto excluded temporary agency workers and the BA reimbursed to the employer upon application 50 per cent of the social security contribution for workers who were on reduced working hours, and even 100 per cent if they underwent training during the shortened working hours. In 2009 more than 1.1 million workers – compared with just above 100,000 in 2008 – worked shortened hours in about 50,000 affected enterprises. According to BA estimates, KuAG saved 300,000 to 400,000 jobs that would have otherwise been lost in the crisis. The costs for the KuAG in 2009 were €4.573 billion, of which €2.975 billion were paid to workers as compensation and €1.598 billion to employers as reimbursement of social security contributions. The total expenditure on KuAG was twice as high as initially expected. In 2010 the number of workers on shortened working hours had already fallen to 500,000, in 2011 it fell to 150,000 and by 2012 it was back to pre-crisis levels.

Besides the government short-time work, there were also privately negotiated instruments of working-time reduction. These were reductions in overtime, temporary reductions in collectively agreed/regular weekly working hours per employee, and working-time accounts (Herzog-Stein et al., 2013, p. 15; Knuth, 2014, p. 55).

Working-time accounts are an instrument to organize and regulate hours worked over a certain period of time in an establishment. Deviations from regular or collectively agreed working hours lead to surpluses or deficits in these accounts. They are implemented within the framework of collective and company agreements (Herzog-Stein et al., 2013, p. 19). Especially in companies with export orientation, many workers had built up large working-time account surpluses during the prior boom cycle (2005-2008), which they could reduce during the crisis and sometimes even run into the negative. Such negative working-time accounts – paid now and to be worked later – were de facto an employment

2. *Kurzarbeit* is not a new instrument, but has been among labour market instruments in Germany since 1957; similar instruments were used as early as the 1920s (Herzog-Stein, Lindner, & Sturn, 2013, p. 15).

Figure 2.1 Employment and total hours worked

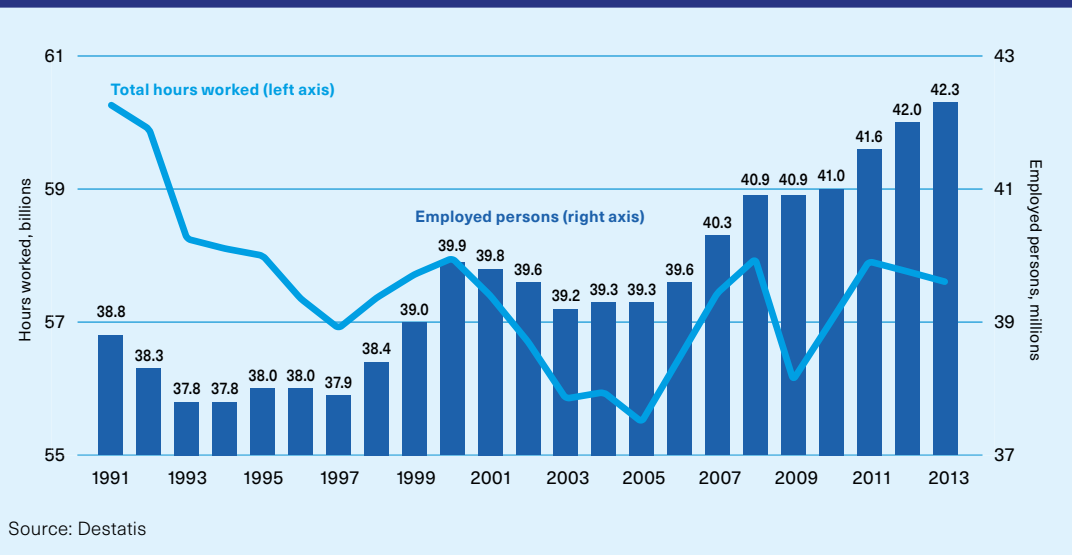


Figure 2.2 Hours worked per employed person

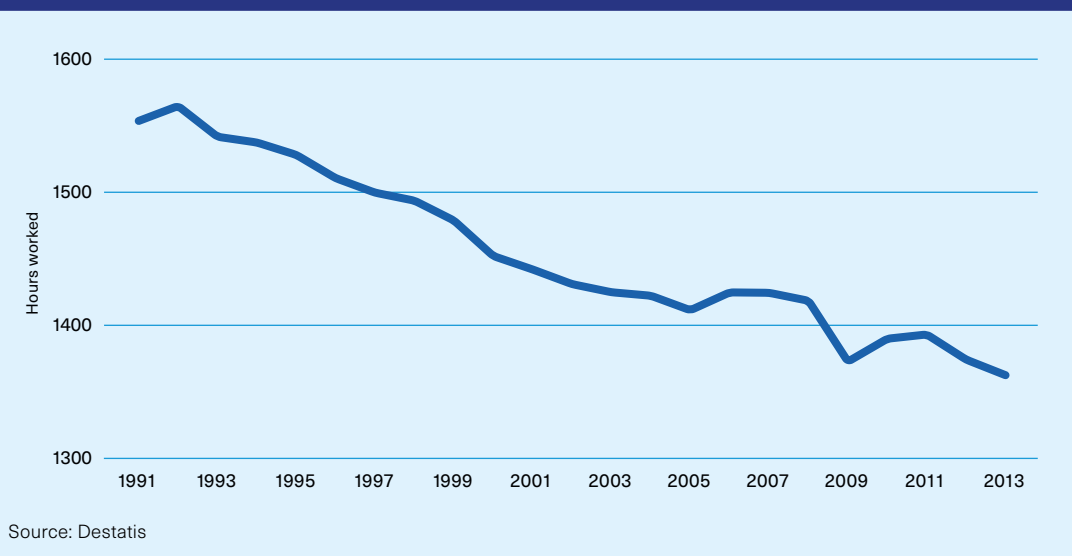
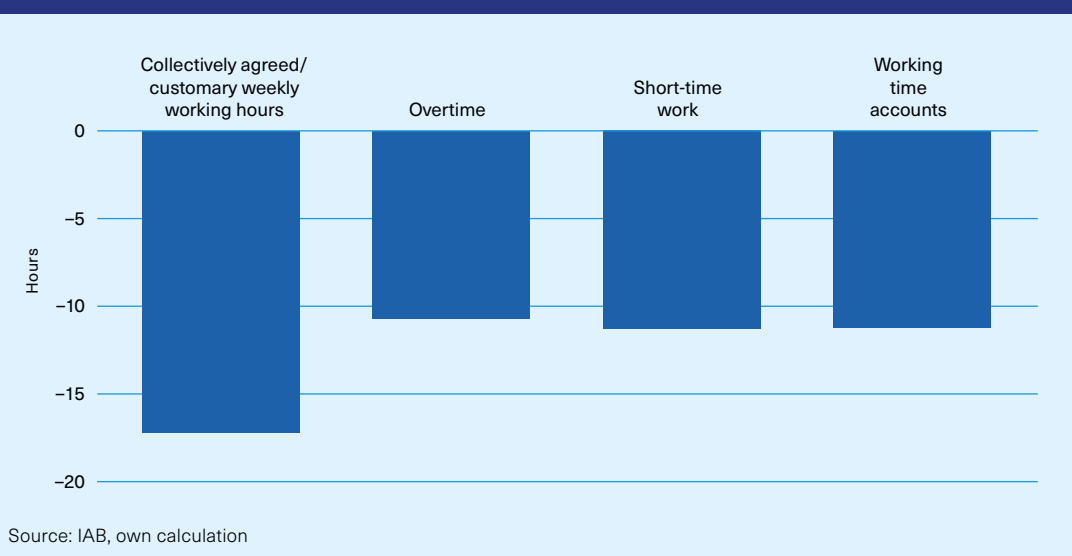


Figure 2.3 Reduction in annual working time per employee by instrument



guarantee (Knuth, 2014, p. 55). This regulation also helped companies in the following economic upswing. They could draw on high labour availability without additional costs, which increased their competitiveness (Herzog-Stein & Horn, 2013).

Moreover, deviations from collectively agreed or regular weekly working hours have been used during the crisis. Nowadays such deviations – within given limits – are also part of many collective agreements in Germany (ibid.). All instruments for the adjustment of working hours available in Germany, and which were central during the crisis, became possible only within the framework of corporatist industrial relations. Hence, this type of crisis response was embedded in the specific setting of industrial relations in Germany. Additionally, this response was possible because the crisis hit sectors (manufacturing mainly) where employer and worker organizations are particularly strong and present.³

Figure 2.3 shows the quantitative effect of the different working-time instruments. One can see that the privately enacted working-time reduction schemes made up the majority of the working-time reduction. Government short-time work accounted for only a quarter of overall working-time reduction and thus the safeguarding of employment during the crisis.

2.1 Working-time reduction trend

However, apart from the discretionary working-time reduction during the 2009 crisis, there is also a trend of reductions in average working time. This reduction trend is, however, hardly discretionary, as were the sudden reductions of working time in the crisis. Discretionary reductions in working time – for instance, the 35-hour week in the German metal sector – were only pursued until the mid-1990s. The main contribution to the trend of working-time reductions is the strong increase in part-time employment, from a share of 18 per cent in total employment in 1991 to a share of 39 per cent in 2013 (figure 2.4).

The higher part-time share is due to a higher female employment rate and a higher employment rate of the elderly. Female employment increased from 56 per cent in 1991 to 68 per cent in 2012 (figure 2.5). In Germany, most women work part time, while most men work full

time (Brenke, 2011). In 2012, 81 per cent of part-time employed persons were women, while 65 per cent of full-time employed persons were men.

Since 2003, there has also been a strong increase in the employment rate for persons aged between 55 and 65, from below 40 per cent in 2003 to 61 per cent in 2012 (figure 2.6). As with women, older employees also tend to work part time more often than younger employees (Brenke, 2011). The increase in the employment of older persons can mainly be explained by a tightening of pension requirements. Before the 2000s, much of the structural change from the industry economy to the service economy had been buffered by generous early retirement provisions in which employees could already receive their pensions after their sixtieth birthday and could use the unemployment system to leave employment early. Those generous provisions were increasingly tightened from the mid-1990s, and in 2006 early retirement was entirely abolished (Knuth, 2014). Also, the pension replacement rate of life-time income was strongly curtailed, especially in 2001, so that employees now have to work longer in order to increase their life-time income and thus pension.

In principle, part-time work might be involuntary and therefore have a detrimental impact on living standards and access to social benefits. According to the Federal Office of Statistics (*Destatis*) in 2012, 15.7 per cent of all part-time employees would have liked to work longer hours, 22 per cent of part-time employed men and 14 per cent of women.⁴ The current level of involuntary part-time employed workers is similar to that of 2003.

2.2 Atypical employment

The increase in part-time work is also due to the increase in atypical and precarious work since 1991. The definition of “atypical employment” assumes some form of “typical” employment. The German statistical office defines such “typical” jobs as open-ended employment contracts subject to social security contributions in which employees work at least 21 hours per week, but do not work in agency work. While atypical employment is not always and necessarily precarious employment,⁵ the two are often linked, especially for persons of prime age who are not in any education. Precarious forms of

3. The German labour market was affected by the crisis primarily through trade channels, and thus the impact was highest in the export-oriented sectors, and the strongly export-oriented manufacturing sector was most severely hit by the crisis (Destatis 2013). In 2009 exports fell by 18.2 per cent for the whole economy and even more in certain subsectors, such as manufacturing (ibid.).

4. Federal Statistical Office. Quality of Work. Involuntary part-time employment. Available from https://www.destatis.de/DE/ZahlenFakten/Indikatoren/QualitaetArbeit/Dimension3/3_5_UnfreiwilligTeilzeitbeschaefigte.html. Last accessed 1 July 2014.

5. For a discussion on atypical and precarious employment see Keller, Seifert, Schulz, & Zimmer (2011, p. 10f); for more details on structural characteristics of the atypically employed see Keller, Schulz, & Seifert (2012).

Figure 2.4 Full-time and part-time employment (million persons)

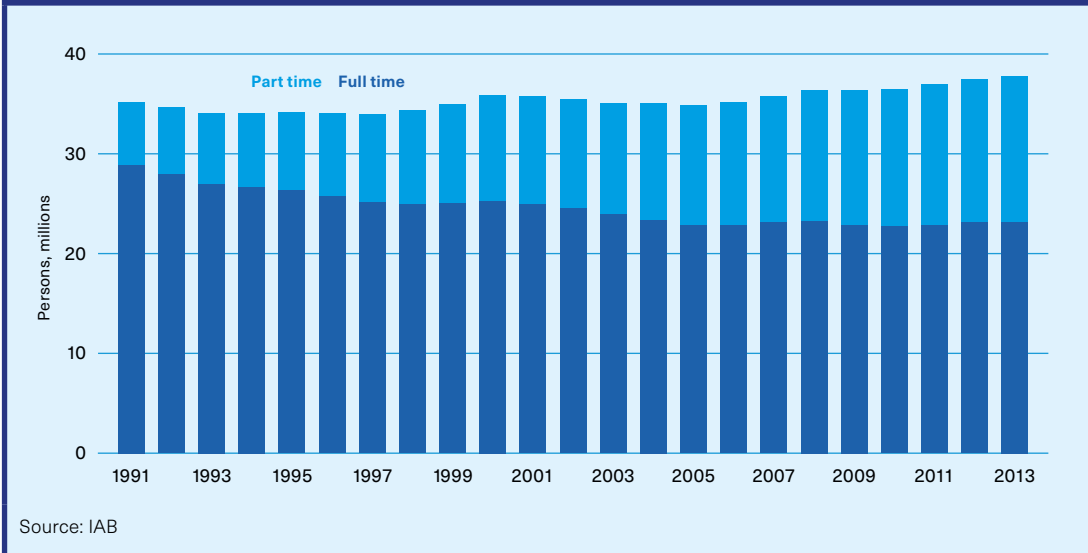


Figure 2.5 Employment rate by gender

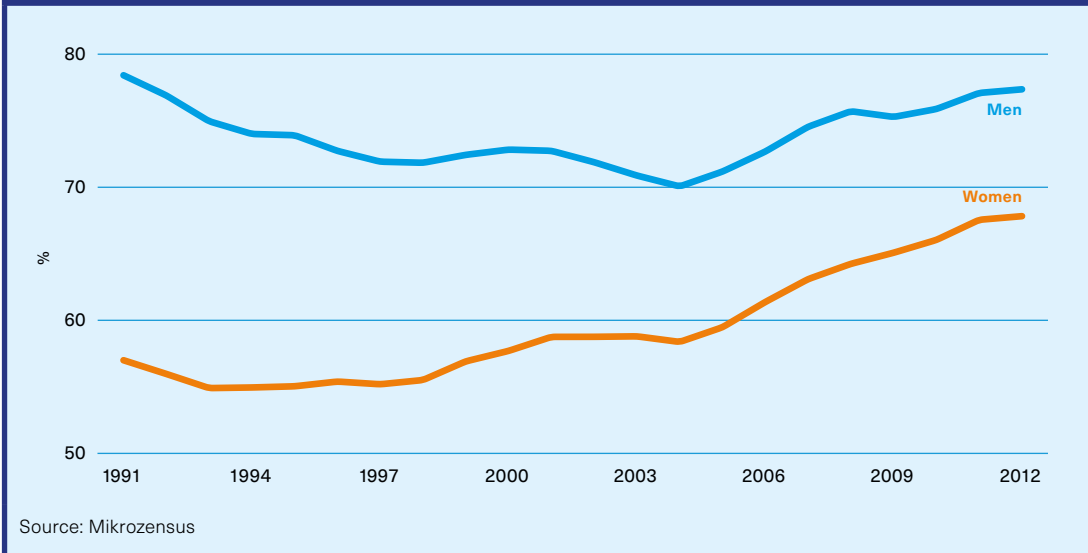
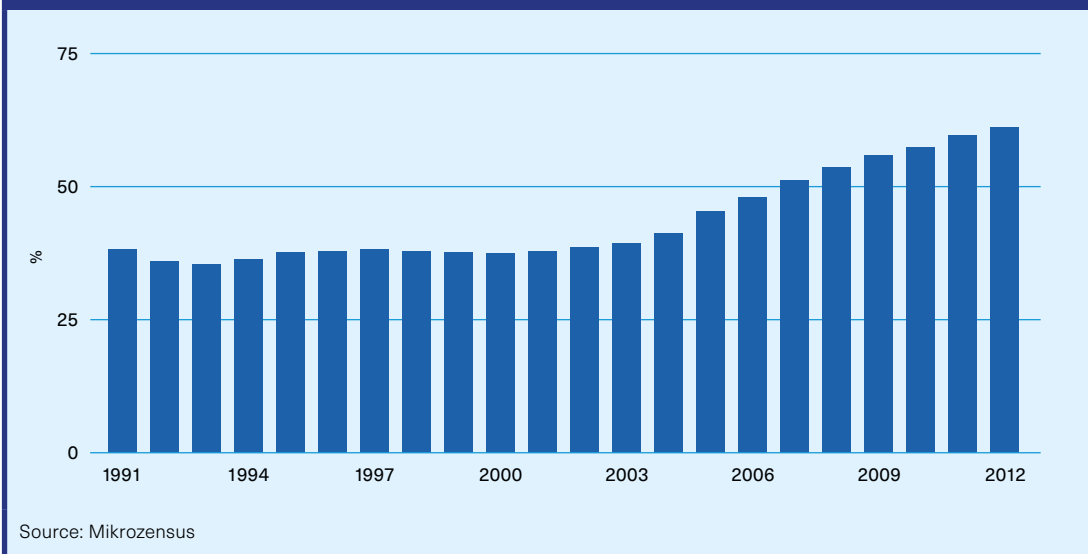
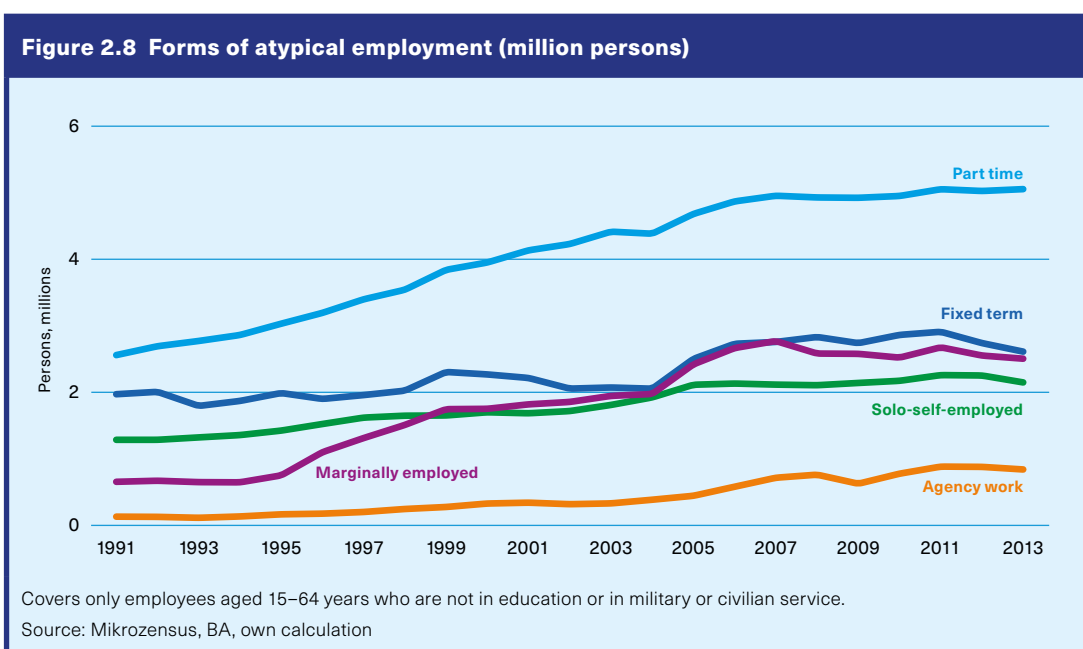
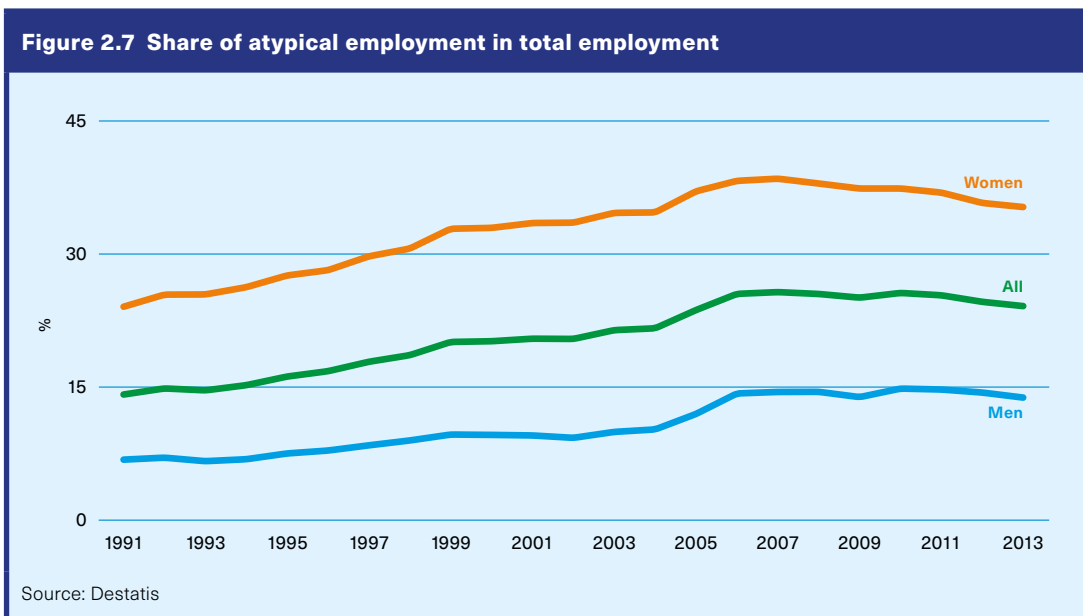


Figure 2.6 Employment rate, 55–65-year-olds





employment typically imply disadvantages and negative effects compared to regular employment in terms of wages, contributions and access to social insurance, access to training or statutory representation. Basically, all forms of atypical employment mean a trade-off between security and flexibility that is typically to the disadvantage of the worker.⁶

6. Whether the terms ‘precarious’ or ‘atypical employment’ are used, often is an indicator as to whether the author(s) are open to an expansion of non-regular forms of employment or deem this to be a negative development. One example of the former is the SVR, which considers the share of atypically employed to be constant since 2006 – at around 22 per cent (SVR, 2013 p. 287). What has changed according to SVR is the increase in socially insured jobs (including socially insured part-time work), in sum it does not see any major “aberrations” (SVR, 2013 p. 283).

Figure 2.7 shows the share of atypical employees (excluding solo-self-employment, see section 2.2.4) as a percentage of overall employees, separated by gender. One can clearly see that the share of atypical employment rose steadily from 1991, jumped between 2004 and 2006 but afterwards stabilized and even slightly decreased from 2011. In 2013, roughly a quarter of employees worked in atypical employment. One can also see a strong dichotomy between men and women, the latter being much more often atypically employed. While only 14 per cent of men are atypically employed, 35 per cent of women are. Atypical employment is thus mostly female.

Atypical forms of employment comprise part-time employment with less than 20 hours a week, temporary

or fixed-term employment, marginal employment, and temporary agency work (Wingterter, 2012). This report also discusses solo-self-employment (section 2.2.4) as a further form of precarious employment.

Figure 2.8 shows these different forms of atypical employment. Note that the data cannot be added since one person can be part of different types of employment. For instance, marginally employed persons are mostly employed part-time. As one can see in the figure, part-time employment with less than 21 hours per week rose strongest among all types of atypical employment. The overwhelming majority – about 90 per cent – of this form of part-time employment is female. The different forms of atypical employment will be discussed in turn.

2.2.1 Marginal employment – mini-jobs

Marginal employment has existed since 1971, but has recently strongly expanded because it was deregulated by the Hartz reforms in 2003.⁷ Nowadays marginal employment is called “Mini-jobs”. Mini-jobs are a form of part-time employment in which employees can earn up to €450 per month without paying taxes or social security contributions. Their net income is thus equal to their gross income. However, they are not covered by unemployment or health insurance. Mini-jobs, by definition, do not secure an income at the existence level (Dingeldey, Sopp, & Wagner, 2012, p. 32; Voss & Weinkopf, 2012).

As with all forms of part-time employment, mini-jobs are dominated by women. Women work in 77 per cent of all mini-jobs, although the share of men working in mini-jobs has increased somewhat since 2003 when mini-jobs were deregulated. Mini-jobbers mainly work in the service sector, especially in catering and in retail (Hohendanner & Stegmaier, 2012). Among all atypical employees, they receive the lowest hourly wages. For instance, in 2006 the average hourly gross wage for mini-jobbers was €8.98, while on average it was €11.98 for all forms of atypical employment and €18.04 for all employees (Wingterter, 2009).

Many mini-jobbers are likely to use mini-jobs to add to household income. This is mostly the case for married

women or for pupils and students who finance their studies and for older workers who add to their pensions. The problem with mini-jobbers in their prime age – mainly women – is that they are locked in a low-pay trap and are not able to build up their own pensions, so that they stay either highly dependent on other household members or are in a highly precarious situation if other household members do not provide for them.

Mini-jobs are also criticized for possibly facilitating the substitution of normal employment subject to social security contributions. Hohendanner and Stegmaier (2012) found that this is likely to be the case, especially in small establishments in the service sector. The higher flexibility, the low costs and the low administrative hurdles made mini-jobs especially interesting in this sector.

2.2.2 Fixed-term employment

Fixed-term employment is most common in the public service, the education sector and other branches dependent on public funding (IAB, 2013). Therefore this is the form of atypical employment in which academics are more often found. The share of fixed-term contracts increased markedly with the policies of austerity that began in 2003 when there was also a strong reduction in public employment.

While the share of temporary employment in overall employment is still relatively small (7.6 per cent in 2012, without apprentices), the share of temporary employment in new employment has strongly increased since 2001. At that time, the share of fixed-term contracts in newly concluded contracts was 32 per cent. At its peak in 2009, almost half (47 per cent) were fixed term; in 2012 it was still 44 per cent (IAB, 2013). Yet, only between 30 per cent (in 2009) and 39 per cent (in 2012) of fixed-term contracts led to a permanent job within a company. About a third led to another fixed-term contract in the company and between 37 per cent (in 2009) and 28 per cent (in 2012) of the persons with fixed-term contracts left the company.

2.2.3 Temporary agency work

Temporary agency work (TAW) was largely deregulated in 2002 as part of the first Hartz reform package and the new rules took effect in January 2003 (*Arbeitnehmerüberlassungsgesetz*). The maximum duration of lease to an employer was scrapped, together with the ban on temporary employment of temporary

7. Between 2002–04 a coalition government of the social-democrat and green party initiated a massive welfare state and labour market reform process called ‘Agenda 2010’. Most policy changes concerning the labour market had been proposed by an expert commission led by the former Volkswagen manager Peter Hartz. The labour market reforms are therefore commonly referred to as the Hartz reforms. See section 3.1 for more information.

agency workers, the ban on re-employment with the same employer, and the ban on “synchronisation”.⁸ To counter the potentially harmful effect of these new rules on workers, the principle of equal treatment concerning wages, vacation and working-time was added to the law. Nonetheless, collective agreements for temporary agency workers were concluded with wages more than a third lower than wages for regular workers in the first years after the reform. In 2010, these were found to be unlawful by the highest German labour court because the union that had entered into them had insufficient bargaining capacity (Bispinck & WSI-Tarifarchiv, 2011, p. 26).

The disputes around the inadequate payment of TAW in the end convinced the government to institute a minimum wage for TAW using the posted workers act (*Arbeitnehmer-Entsendegesetz*). In TAW minimum wages have to be paid since January 2012.

In the years following the liberalization until the onset of the crisis, the number of workers in TAW rose steeply. Between 2004 and 2008 the annual average of TAW doubled from around 385,000 to 761,000 persons. During the economic crisis TAW was the form of employment most affected by job losses. Their numbers dropped from above 823,000 in July 2008 to 580,000 in April 2009; thereafter the numbers started stabilizing and reached pre-crisis levels in July 2010.⁹

2.2.4 Solo-self-employment

Solo-self-employment characterizes workers that are neither self-employed with employees nor an employee themselves. Furthermore, the solo-self-employed are often only working for one employer (Koch, Rosemann & Späth, 2011, p. 9), as bogus self-employed or disguised employees. In this case, the employer does not pay social insurance contributions and taxes for the worker, but these have to be borne by the self-employed person alone.

Since 2009 it has been mandatory for all self-employed persons to have health insurance (Gerner & Wießner, 2012, p. 5), however there are gaps in the coverage of old-age benefits. Also, despite the fact that since 2006 all self-employed persons have been able to voluntarily contribute to unemployment insurance, in 2009 only 7.4 per cent were insured (Koch et al., 2011, p. 44). Solo-self-employment is typically further characterized by lack of integration at a workplace and lack of opportunities to participate in co-determination structures.

The number of the self-employed in general, and of the solo-self-employed in particular, has risen considerably since the mid 1990s (Brenke, 2013). While the number of self-employed with employees stagnated at about the same level, solo-self-employment increased strongly between 2002 and 2006 – it was heavily promoted as an active labour market policy at the time – when it reached its current level of about 2.2 million persons. Between 2000 and 2012, employment growth for self-employment (14 per cent) was much stronger than that of employed workers (5 per cent) and partly resulted from substitution effects between the two (Brenke, 2013).

Overall, employment strongly increased because of a reduction in average working hours. This is mainly due to the increased participation of women and the elderly in the labour market. However, many new employees are now atypically employed, which often means precarious employment. Currently a quarter of employees work in atypical employment, mostly women.

8. The ban on synchronisation entailed the prohibition to synchronise the contract with a temporary employment agency with the contract of the hirer of the temporarily employed worker.

9. Unions from various branches report that TAW are increasingly being replaced by workers with service contracts (*Werkverträge*) to circumvent employment protection legislation and rules on statutory co-determination, etc. (NGG, 2012). Service contracts are booked as non-personnel-costs, which make it difficult to establish the exact number of workers on such contracts; and they are also not captured by employment statistics from establishment survey data. Estimations by trade unions show that 22.5 per cent of the 1.1 million workers in the car industry were in service contracts, whereas only 9 per cent were in TAW in 2012 (IGM, 2012, available from <http://www.fokus-werkvertraege.de/werkvertraege/#hl267158>, last accessed 16 June 2014).

Unemployment protection

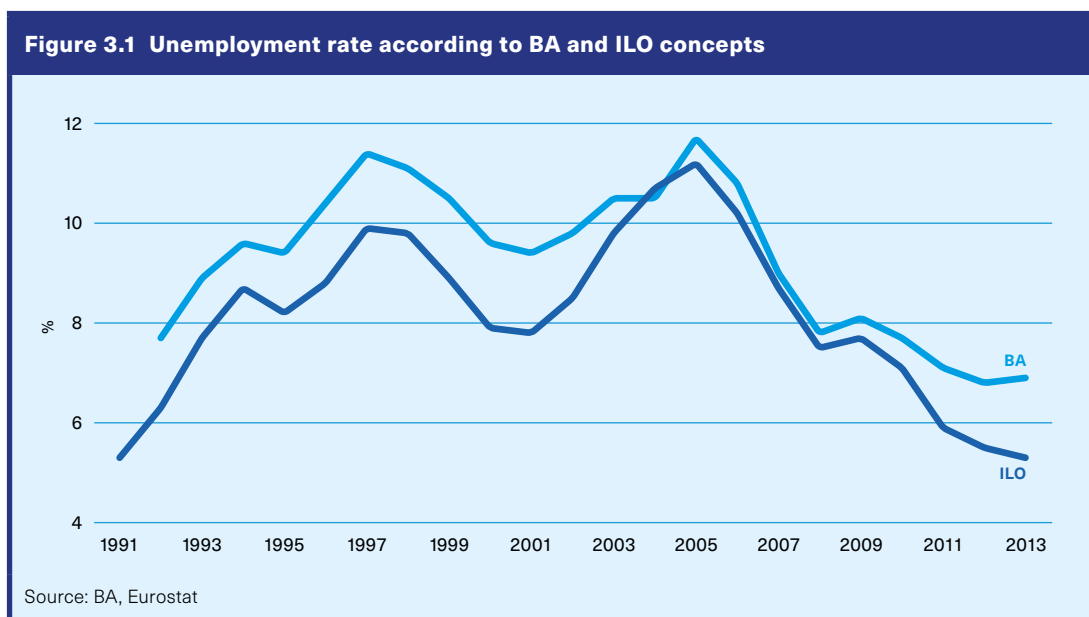
3

With rising employment rates, unemployment has also strongly decreased (figure 3.1). The unemployment rate as defined by the ILO and reported in the Labour Force Survey (LFS) reached its peak in 2005 at 10.4 per cent and fell strongly to 5.1 per cent in 2013. According to the German definition of unemployment used by the Federal Employment Agency (*Bundesagentur für Arbeit*, BA) to compute the unemployment rate, it had reached 11.8 per cent in 2005 and fallen to 6.9 per cent in 2013. Using both concepts of the unemployment rate, one can see that unemployment increased only slightly in the 2009 financial crisis, mirroring the constancy of employment that has already been discussed.

One can see in figure 3.1 that the BA unemployment rate is regularly above the ILO rate. This is mainly the case because the BA definition of unemployment allows registered jobseekers to work for up to 15 hours per week and still be counted as unemployed, whereas in the ILO concept a person who works for 15 hours per week would be counted as employed, no matter if they registered as job seekers with the labour agency or not (Destatis, 2014).

While the BA concept is widely reported in Germany, in the remainder of this report, data based on the ILO concept will be used. This is done for three reasons: first, since unemployment rates according to the ILO concept are also available for other countries, the ILO rate is internationally comparable; second, many data for the composition of unemployment by sex, age or qualification are available only for the ILO and not for the BA concept (via Eurostat's data on the LFS); third, the BA concept is also often politically changed so that some groups enter the definition and others leave it. This is why this time series on unemployment is not closely comparable over time.

The increase in employment discussed in the previous section is mirrored by decreased unemployment. While the number of employed persons increased by 3 million, since 2005, the number of unemployed persons decreased by 2.3 million. The fact that there was a stronger increase in employment than a decrease in unemployment is due to the long-term trend of increased labour market activity of the formerly economically inactive population. As will be shown in the next section, the welfare state and labor market reforms of 2003–05



also increased incentives to take up employment and curtailed the eligibility criteria for unemployment. However, the reduction in unemployment since 2005 is not primarily due to increased labour market participation of the formerly unemployed. In 2005 the share of unemployed joining the regular labour market was 43.1 per cent; in 2014 their share had fallen to 32.9 per cent.¹⁰

3.1 Labour market reforms and the social benefit system

The labour market reforms were enacted in four legislative packages, Hartz I to IV, between 2003 and 2005. The reforms pertaining to unemployment and social security were mainly contained in the fourth legislative package, Hartz IV. The reforms massively tightened access to unemployment insurance. Before the reforms, workers received a maximum of 32 months of unemployment insurance (depending on their years of contribution). Afterwards they would fall into unemployment assistance at a replacement rate of 53 per cent. Only those workers who did not contribute to the social security system before their unemployment would receive social assistance.

The Hartz reforms abolished unemployment assistance altogether and shortened the maximum time that insurance (now called *Arbeitslosengeld I* (ALG I)) could be received to only one year. After that year, workers would fall into social assistance (now called *Arbeitslosengeld II* (ALG II)). Additionally, the conditions under which the unemployed would get social assistance were tightened so that they had to accept any job at almost any wage. Both the shortening of the unemployment insurance coverage and the tightening of conditions for social assistance put massive pressure on the unemployed to leave unemployment. This pressure was intended to make unemployment even less attractive than before the reforms. Its effect was not limited to the unemployed alone, but has also impacted on workers still employed: the Hartz reforms made the already employed more willing to accept concessions because of the implicit possibility of losing income and status in passing from ALG I to ALG II.

Both ALG I and II are only available to registered jobseekers who prove readiness and willingness to work (with exceptions for persons with care responsibilities, especially for small children), and sanctions are imposed

if they decline jobs offered or do not comply with other duties (see also table 3.1).¹¹

Unemployment (insurance) benefits (ALG I) are conditional on former employment and proportional to former earnings, not means-tested and limited in the duration of payment. Social assistance (ALG II) has a fixed maximum amount, is means-tested at a household level and has no maximum duration. It is also paid to non-working members of the household of an eligible registered jobseeker including children (about 28 per cent of those entitled to ALG II benefits are unable to work; among them 96 per cent are children below the age of 15). Additionally, if people work but do not earn sufficiently, or if their ALG I benefit levels are below the level of ALG II, they are eligible for an ALG II top-up grant. This group of workers is commonly called *Aufstocker*.

Figure 3.2 shows the number of unemployed persons (according to the BA concept) and their composition into the ALG I and ALG II schemes, as well as the number of persons working but still receiving ALG II – the *Aufstocker*.

After 2006, on average only about one-third of the officially registered unemployed received benefits from the unemployment insurance, i.e. ALG I and two-thirds received social insurance, i.e. ALG II. In eastern Germany the share of those in ALG II is even higher, at 72 per cent in 2013. About 2.5 million persons, however, receive ALG II although they work – there are regularly more persons who work and receive ALG II than those who receive ALG II and are unemployed. The number of these *Aufstocker* has also remained stable during times of declining unemployment rates (Bruckmeier & Wiemers, 2014). This group, together with the long-term unemployed, belong to the most vulnerable section of the labour force. The average wage for *Aufstocker* was €6.20 per hour in 2013, and as low as €5 per hour for single parents in eastern Germany (Bruckmeier & Wiemers, 2014). Wages are particularly

10. See http://www.sozialpolitik-aktuell.de/tl_files/sozialpolitik-aktuell/_Politikfelder/Arbeitsmarkt/Datensammlung/PDF-Dateien/abbIV79.pdf for details. Last accessed 15 April 2015.

11. In 2013, on average 3.3 per cent of all ready-to-work beneficiaries of ALG II were sanctioned. The rates are particularly high for younger unemployed below the age of 25 (4.9 per cent) and particularly low for older unemployed above the age of 50 (1.1 per cent). Between 2007 and 2013 the rate of those sanctioned increased from 2.3 per cent to 3.3 per cent. On average, sanctions meant a loss of benefit entitlements of around 20 per cent in 2013, for young unemployed around 30 per cent; 0.2 per cent of all entitled ready-to work ALG II beneficiaries have lost all their benefit entitlements due to sanctions. The most frequent cause of sanctions is delayed notifications of unemployment (37%) See BA (2014) for more information.

Table 3.1 Different types of support to jobseekers

	Unemployment (insurance) benefit, ALG I	Jobseekers' allowance (unemployment assistance), ALG II*
Eligibility criteria	Ready and able to work Previous employment of minimum 12 months within a reference period of 24 months	Ready, able to work and in need, private assets may not exceed a defined maximum No relatives, members of household that could and do support them financially (Means-tested)
Benefit level	67 per cent of the previous net income for unemployed with children, without children 60 per cent, + Pension contributions equal to 80 per cent of former wage + Membership in public health insurance (If the unemployment insurance benefit entitlements are below the level of jobseeker allowance benefits complementary ALG II will be paid if the applicant meets ALG II eligibility criteria)	Max. € 391 per month per adult (2014) + Housing and heating benefits + Membership in public health insurance + Until end of 2010, small contributions to public pension insurance
Maximum duration	12 months. For older workers benefit periods are longer. Before 2006, those aged <57 got up to 32 months. In 2006 and 2007 the maximum duration was 18 months for all workers above 55. Since January 2008 those older than 50 maximum 15 months, and max 24 months for those aged 58 and above	No maximum duration, paid as long as households are in need Between 2006 and 2010 former ALG I beneficiaries received a top-up on the benefit for maximum 24 months to cushion the decline in income

* The following are detailed criteria for eligible unemployed persons for ALG II (for more details see e.g. BA, 2014): persons working for no more than 15 hours per week, persons in search of socially insured employment and open to placement activities, and persons registered as unemployed with the employment agency. Persons are not counted as unemployed if they are participants in training or other activities offered through the employment agency, persons who work more than 15 hours a week, persons who cannot or may not work, persons above 65 years of age, and young persons looking for apprenticeships or studies.

Source: own table based on BA (2013)

Figure 3.2 Unemployed persons and Aufstocker by benefit type

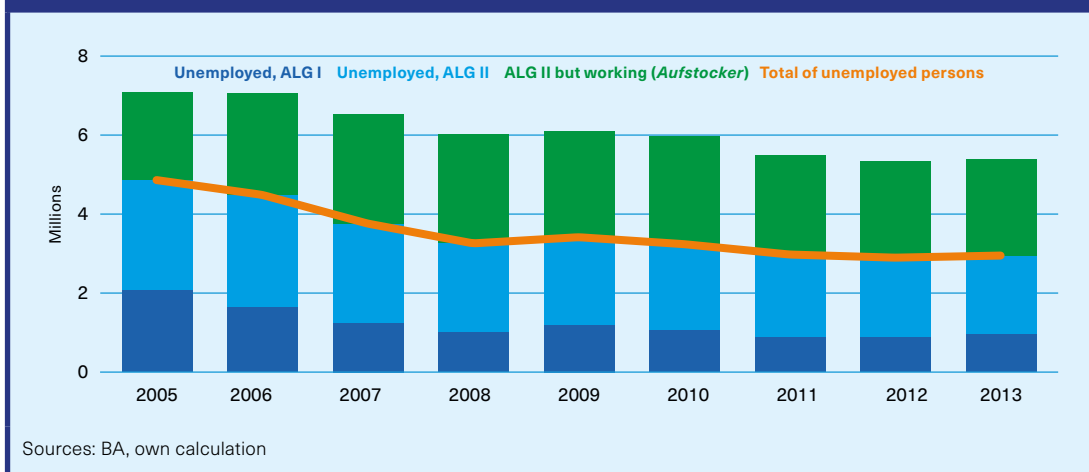
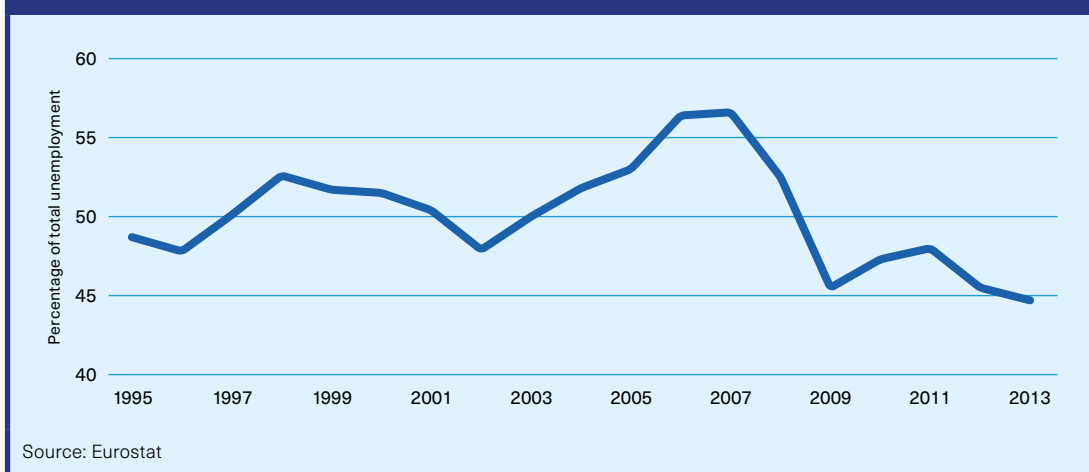
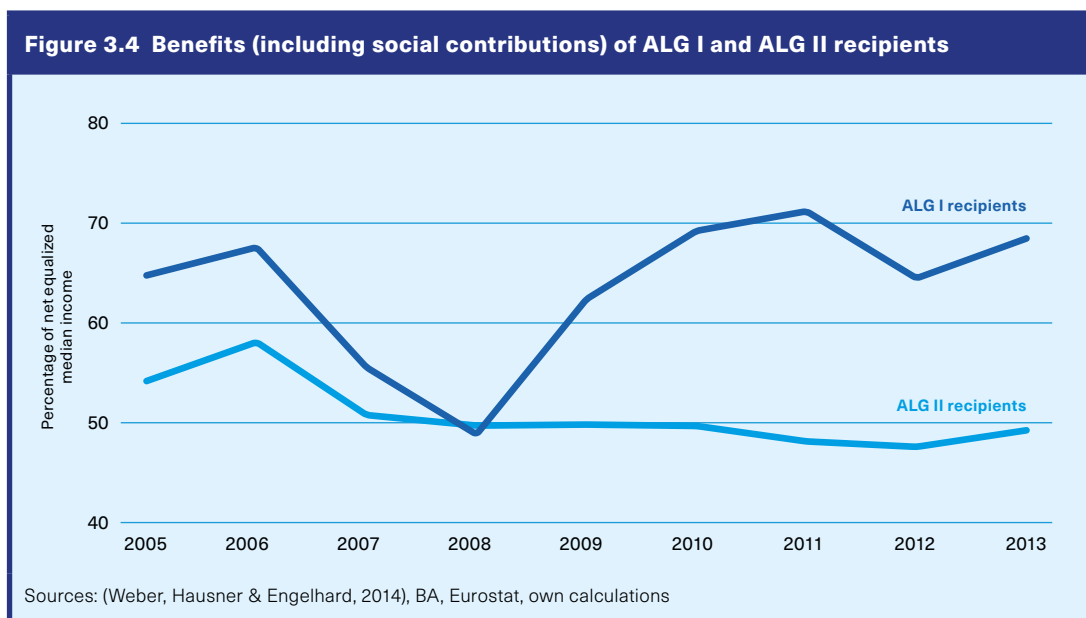


Figure 3.3 Long-term (> 1 year) unemployment





low for mini-jobbers among the *Aufstocker* (Dingeldey et al., 2012).

The high share of ALG II beneficiaries reflects the persistently high share of long-term unemployed persons (see figure 3.3). Even though the share of the long-term unemployed has decreased since 1995 from 48 per cent to 44.7 per cent in 2013, this is still a very high figure in international comparison. This is despite the fact that the aim of the Hartz reforms was to increase the pressure specifically on this group of unemployed persons.

Figure 3.4 shows the benefits of unemployed persons in ALG I and ALG II as a percentage of the share of median income. Those benefits also contain social contributions so that the figure is not the net income the unemployed receive. One can see that persons receiving ALG I tend to receive higher benefits than persons in ALG II. This is due to the dependence of ALG I benefits on earlier earnings.

One can also see that there is a declining trend in ALG II benefits relative to median income (figure 3.4). While persons in ALG II still received 54 per cent of median income in 2006, they only received 49 per cent in 2013. Both are below the poverty line of 60 per cent of median income.

Overall, unemployment has strongly decreased since the labour market reforms. However, long-term unemployment has hardly fallen. The share of the

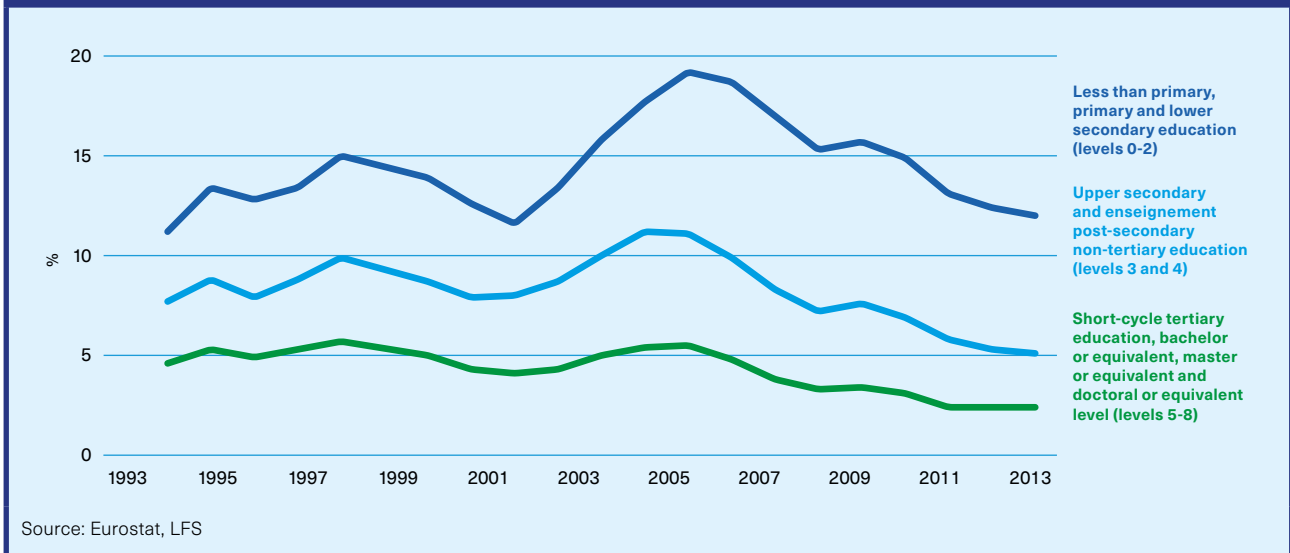
long-term unemployed is still very high in overall unemployment. Additionally, many employees receive wages so low that they depend on social assistance. In the remainder of this section, unemployment for different groups will be discussed along with the likely effects of the reform on those groups.

3.2 Unemployment by level of education

Education is one of the most important factors for unemployment. Persons without any education or training belong to the most vulnerable group in the labour market. Among persons without any professional education, the unemployment rate stood at 12 per cent in 2013, (Eurostat LFS) while unemployment for persons with a university education was at 2.4 per cent, almost at full employment. As one can see in figure 3.5, the unemployment rate for the least trained is much more variable than for higher-educated persons. The least trained are thus more vulnerable to the business cycle.

In western Germany, persons without any professional training represent about half of all unemployed persons in 2012, in the East it is around 28 per cent (Sachverständigenrat zur Begutachtung der Gesamtwirtschaftlichen Entwicklung, 2012, p. 306). In international comparison, both the rates of long-term unemployment and of the low-qualified among the unemployed are very high in Germany (Kohns, 2010).

Figure 3.5 Unemployment rate of different educational groups



3.3 Unemployment by age

Unemployment also varies by age. The following subsection will look specifically at the unemployment of the young and the old. Both groups' unemployment is likely to be affected by institutions, for the young by the education system and for the old by the pension system. As one can see in figure 3.6, there is almost a reverse in the pattern of unemployment of the young and the old: while the unemployment rate of the old was much higher than overall unemployment (of persons between 15 and 65) until 2004 and the unemployment rate for the young remained at the same level as overall unemployment, it is now the reverse. Between 2001 and 2005 the youth unemployment rate strongly increased relative to overall unemployment while it decreased for the old.

The decrease in unemployed older persons is the mirror-image of their higher employment, discussed in more detail in section 2.1 above. The increase in employment of older persons and decrease in those unemployed is partly due to changes in the pension and social security systems.¹² Previously, many persons

could use the unemployment insurance system without conditions to actively seek work and then enter early retirement. Both of those possibilities were strongly curtailed or entirely abolished. Thus, the labour market reforms – through tightened conditions for unemployment and social assistance benefits – contributed to an increase in the employment of older persons.

For the employment and unemployment of younger workers the education system is key, and youth unemployment is mainly affected by the education system (Kohlrausch, 2012). Persons who are studying at a university are not counted as belonging to the active population so that they hardly play a role in unemployment. However, youths in apprenticeship programmes or who are searching for an apprenticeship belong to the economically active population.

In the most common form of vocational education and training in Germany, the *duale Ausbildung*, students go to professional schools half of the time and half of the time they work at a firm. This is why they are counted as employed. The increase in youth unemployment from

12. In 2004 the statutory pension age in the pay-as-you-go system was increased from 60 to 63. In 2007 it was further raised from 65 to 67. Exceptions were made for disabled workers and workers with 45 years of contributions, for whom retirement would still be possible at the age of 65 with full pension. Contribution rates were increased from 19.5 per cent to 19.9 per cent. In 2012 they were further lowered from 19.9 per cent to 19.6 per cent, and in 2013 from 19.6 per cent to 18.9 per cent of the monthly gross income. In this latter reform the opportunities for continuation of work during retirement and combination of income from work were increased. In 2014 the decisions of 2007 were partially reversed. Full pension is available again to workers at the age of 63 with 45 years of contributions (for details see Deutsche Rentenversicherung, 2011; Joebges, Meinhardt, Rietzler, & Zwiener, 2012, p. 2). The pension

reforms of the first decade of this millennium have been seen to deprioritize living standard security, gradually decrease the pension level (OECD, 2014, pp. 10, 17) and introduce an optional funded pension scheme with the foreseeable problematic effect of increasing old-age poverty (Joebges et al., 2012). Additionally, the latest pension reforms increased reliance on previous work and contribution periods, while periods of non-contribution (except child care) are devalued (Joebges et al., 2012). Yet, at the same time, more workers have broken employment histories and shorter contribution periods. This has been reinforced through the Hartz reforms and the extension of atypical employment. In particular, women, who are atypically employed more often than men, face low pensions now and in the future, but also many men in Eastern Germany are affected (Joebges et al., 2012).

Figure 3.6 Unemployment rate of different age groups

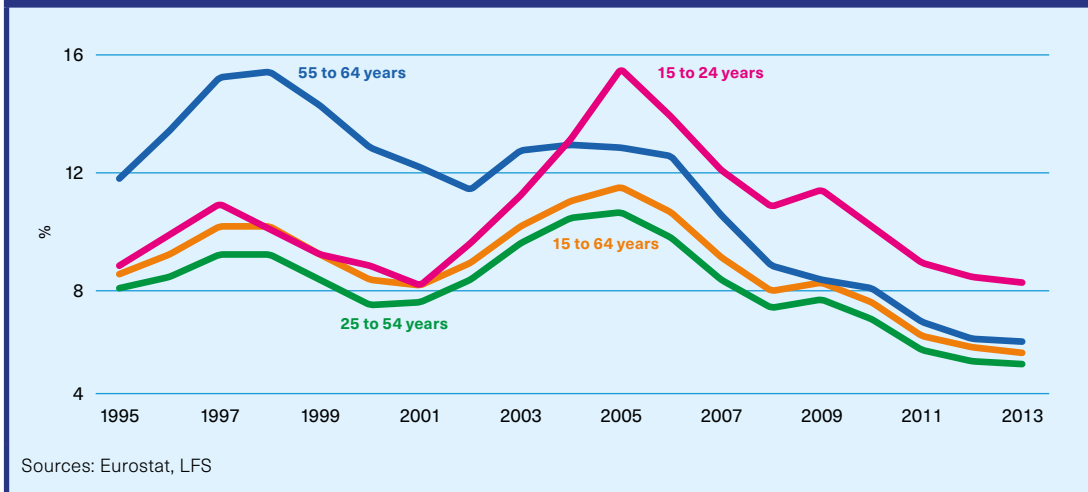
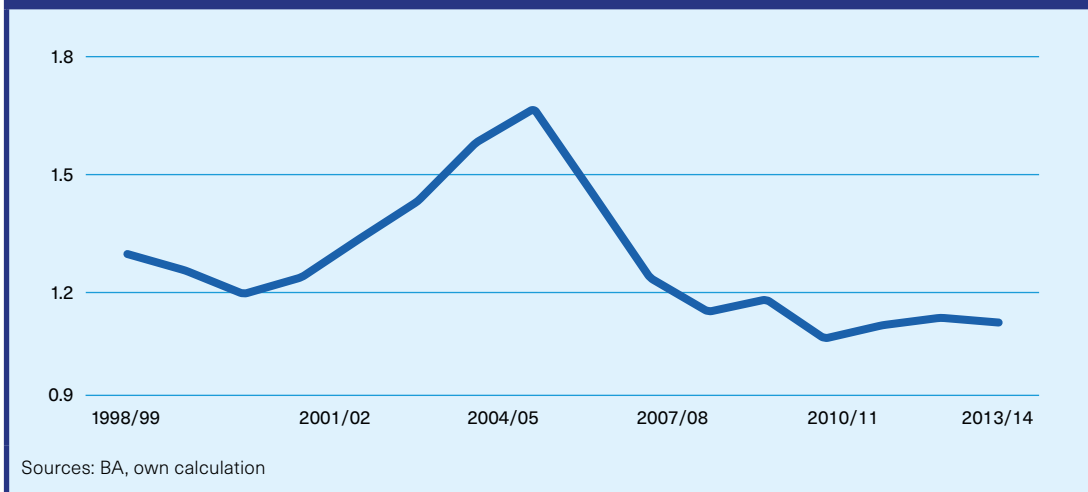


Figure 3.7 Ratio of officially registered apprenticeship applications and offers



2001 onwards is thus mainly due to the situation in the market for apprenticeships (Kohlrausch, 2012). During this time, there were far fewer offers for apprenticeships by firms than there was demand by the young. This can be seen in figure 3.7, which shows the ratio of apprenticeship applications to offers. A value higher than one indicates that there is more demand than supply for apprenticeships so that young people cannot take up an apprenticeship and stay unemployed. This phenomenon is likely due to the economic crisis that began in 2001 and in which firms reduced their staff. When there is a general decline in staff, firms are not likely to teach new potential workers who they are not likely to employ afterwards.

It is interesting to note that although unemployment for the young significantly declined after 2005 and until 2013 (figure 3.7), it more or less remained at the same level as in 2001, unlike the level of the rest of unemployment. While unemployment for the young is

not especially attractive, since they have normally not worked sufficiently to receive ALG I and thus fall directly into social assistance with its tightened conditions, the fact that this is not appealing has not led to lower youth unemployment. Hence, for youth unemployment the education and apprenticeship system is more important than the system of social assistance.

Overall, the reforms increased pressure on the unemployed to take up jobs and thus contributed to the decrease in unemployment. However, for very vulnerable groups such as the least educated and the long-term unemployed, the reforms did not ease their employment situation. Further, the reforms are likely to have decreased the unemployment for the old; they could previously use the unemployment system to leave their work early, which now comes at a much higher price. Youth unemployment is, however, not likely to be affected by the reforms but mainly reflects the market for apprenticeships.

Wages, collective bargaining and inequality



As outlined above, the main adjustment mechanism during the crisis was the flexibility of working time. The next most popular measure to counter the crisis was internal relocation of workers, and only at the bottom of the list are adjustments in pay (Reinhard Bispinck & WSI-Tarifarchiv, 2010, p. 12). Since the crisis, wages have increased somewhat faster than they did in the previous decade in which real wages had decreased. This has led to an increase in the wage share, which had previously fallen. While income inequality strongly increased between 1999 and 2005, it has stabilized since then. This strong increase is due to the growing differences in wages between the top and the bottom deciles of wage earners, especially the growing number of workers who are to be found in low-paid jobs. Additionally, wage differentials according to sector, gender, region and form of employment have also increased in Germany.

4.1 Wages in the crisis and beyond

Wage developments in Germany were characterized by moderate nominal increases for most of this millennium (see e.g. Knuth, 2014, p. 58) and workers even

faced real wage losses in several years, in sharp contrast to wage developments many other OECD countries (see e.g. Dribbusch & Birke, 2012, p. 8; SVR, 2012, pp. 343f, minority opinion) (figure 4.1).

Table 4.1 shows data on both effective and negotiated gross wages since 2007. Since that year, the rise in effective gross wages was often lower than the margin of distribution for wage growth that would not increase company's costs (consumer price inflation plus productivity). In many years, there was also a negative wage drift, i.e. a difference between negotiated and effective gross wages.

As table 4.1 also shows, in 2009, the year during which the crisis had its biggest impact on the German economy, unions negotiated increases in collectively agreed wages of 2.6 per cent and effective hourly wages increased even by 3.4 per cent which was significantly higher than the cost-neutral margin. This is mainly due to the decrease in hours worked while monthly wages stayed constant. One explanation for this favourable development in 2009 can be explained by the fact that wage agreements had been concluded before the crisis hit. This wage development contributed to stabilizing the domestic economy.

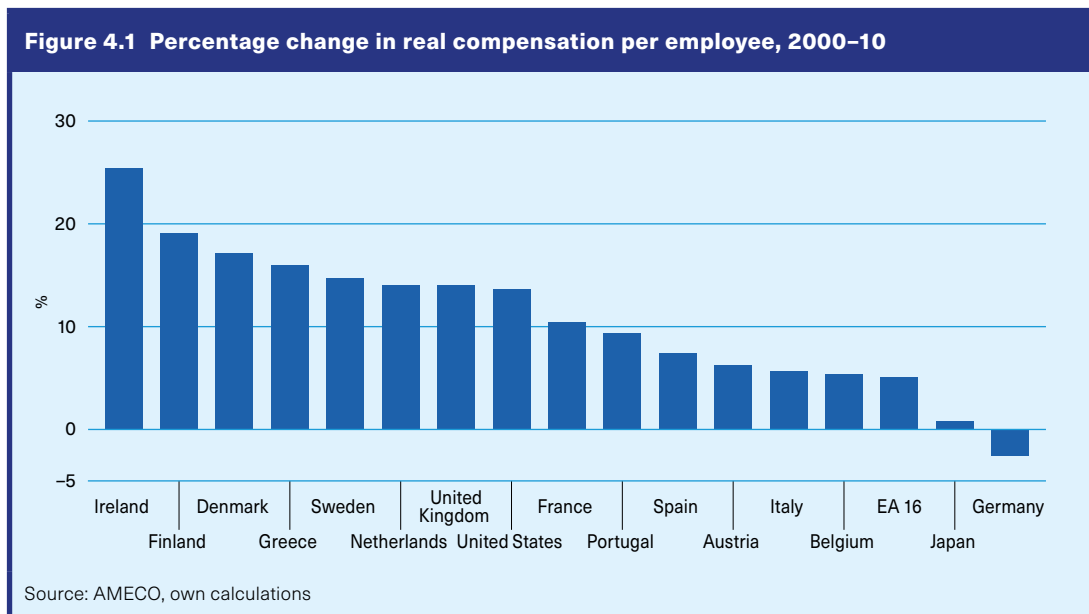


Table 4.1 Wage trends, consumer prices and productivity (year-to-year changes)

Change year-to-year	2007	2008	2009	2010	2011	2012	2013
(1) Consumer prices	2.3	2.6	0.4	1.1	2.3	2.0	1.5
(2) Hourly labour productivity	1.7	-0.1	-2.5	1.8	1.8	0.5	0.2
(3) Cost-neutral margin of distribution, (1) + (2)	4.0	2.5	-2.1	2.9	4.1	2.5	1.7
(4) Negotiated gross wages per hour	2.2	2.9	2.6	1.8	2.0	2.7	2.7
(5) Effective gross wages per hour	1.3	2.3	3.4	0.2	3.0	3.5	2.5
(6) Wage drift, (5)-(4)	-0.9	-0.6	0.8	-1.6	1.0	0.8	-0.2
(7) Exhaustion of cost-neutral margin	-2.6	-0.2	5.5	-2.7	-1.1	1.0	0.8

Source: (Bispinck & WSI-Tarifarchiv, 2014), own calculations

In 2010, bargaining was much more influenced by the crisis than the previous year and focused on securing jobs (Reinhard Bispinck & WSI-Tarifarchiv, 2011). Many agreements only entailed one-time payments rather than continuous rises. In 2011, the focus shifted again to pay (Reinhard Bispinck & WSI-Tarifarchiv, 2012, p. 1). Germany experienced a favourable economic situation, which allowed trade unions to make higher demands than in previous bargaining rounds. Settlements achieved were considerably above those of the previous year and also overexhausted the cost-neutral margin. In 2012, unions could achieve real wage gains despite a bleak economic outlook at the beginning of the bargaining period.

The moderate wage developments before 2009 have been regarded by the Federal Government and government agencies (BR (2013), IAB (2014b, p. 4) and SVR (2013, p. 283)) as beneficial for the export-oriented manufacturing sector and as an important factor contributing to the success of the labour market in the past decade. However, other observers have called for higher wages to increase domestic demand and help overcome the problems associated with high export surpluses (see e.g. Herr & Horn, 2012). More recently the German Bundesbank and the European Central Bank have also shared this opinion.¹³

Why were wage developments so weak in Germany and are now only moderate? This is due both to the changing structure of the wage-setting mechanism and the labour market reforms.

4.2 Wage-setting mechanism

The German wage-setting mechanism is characterized by a high degree of bargaining autonomy of the social partners. Only workers' unions and employers' associations can legally conclude binding collective agreements with practically no intervention on the part of the state.¹⁴ Other characteristics of the system of collective bargaining and industrial relations are the "duality of company-level and supra-company (trade union) interest representation; [...] and co-determination as a legally guaranteed right of influence on the part of works councils – and sometimes also of trade unions – on conditions at company level" (Schäfer, Lecher & Bispinck, 2003).¹⁵

Whereas regulation did not significantly change (Eironline, 2013), the substance of the agreements concluded changed very much. The share of workers covered by (sectoral) collective bargaining agreements eroded drastically over the last decade and more. Their share fell from 70 per cent in western Germany and 56 per cent in the East in 1996 to 53 per cent in the West and 35 per cent in the East in 2013 (Dribbusch & Birke, 2012).¹⁶

14. Basic information on collective bargaining in Germany, the central law, the Collective Bargaining Act (*Tarifvertragsgesetz*, TVG), and the system of industrial relations is provided by (Eironline, 2013). An overview on worker unions in Germany can be found in Dribbusch & Birke (2012). This system is largely the same for both the private and the public sector, including some restrictions and differences in terminology.

15. Co-determination largely concerns the company level, where workers were granted more rights through a re-regulation of the Works Constitution Act (*Betriebsverfassungsgesetz*) in 2001. New areas of involvement of the worker council include employee qualification, gender issues, and environmental protection within the company (for a comprehensive review on co-determination see Greifenstein & Kießler, 2012).

16. The level of coverage varies significantly between branches. For example, in 2008 the average rate across all branches for the whole of Germany was 61 per cent. But 98 per cent of all employees in the public sector were covered by collective agreements, and only 43 per cent in agriculture, forestry and fishery (Bispinck & WSI-Tarifarchiv, 2010).

13. Tagesschau.de. ECB also calls for higher wages. 27 July 2014. Available from <http://www.tagesschau.de/wirtschaft/ezb-loehne-in-deutschland-100.html>. Last accessed 30 July 2014.

Box 4.1 Minimum wages

A significant change in the German wage-setting mechanism is the introduction of branch-specific minimum wages, and now a general minimum wage.

Branch-specific minimum wages were expanded using the Posted Workers' Act (*Arbeitnehmer-Entsendegesetz*), which allows minimum employment conditions for specified branches to be defined and declared generally binding. Adopted in 1996, the Act was originally designed "to provide [...] minimum conditions for employees posted to Germany by employers located abroad, [...] in the construction and associated industries" (Bispinck & WSI-Tarifarchiv, 2012, p. 2). Since 2007 an increasing number of sectors have been brought under the scope of the law. In May 2014 the 13 branches and temporary agency workers^a were covered by specified minimum wages through the Posted Workers Act and paid wages between €7.50 in laundry services and €13.95 in certain parts of the construction industry. Overall nearly 4.5 million workers were covered under the various agreements (data WSI-Tarifarchiv, data for May 2014, own calculations).

The introduction of a general minimum wage in July 2014 (*Gesetz zur Regelung eines allgemeinen Mindestlohns*) can be deemed one of the largest social reforms in the

post-war era in Germany (Bosch & Weinkopf, 2014, p. 5), because the government now regulates wage-setting outside the traditional bargaining structure between the social partners.^b A general minimum wage of €8.50 per hour has to be paid with effect from January 2015. Exceptions apply to young workers without training (including internships of up to six weeks), apprentices, volunteers and former long-term unemployed during the first six months of employment. The general minimum wage will not replace sectoral minimum wages as long as they are higher than the general minimum wage. During a transitional period of two years (end of 2016) lower branch-specific wages may be agreed upon. Starting in 2016 the level of the minimum wage will be set bi-annually by a commission in which the social partners are represented. In April 2015, 100 days after the introduction of the general minimum wage, 3.7 million workers have benefited from the Act, according to federal government.^c It is too early to evaluate the effects of the introduction of the general minimum on employment and wages. While the possibility of negative employment effects for certain branches and regions cannot be excluded, the general employment trend and outlook for 2015 has been positive (IAB 2015).

^a Temporary agency work is covered by the Posted Workers Act since a change in the relevant Employment Agency Act (*Arbeitnehmer-überlassungsgesetz*) in 2011 (see Bispinck & WSI-Tarifarchiv, 2012, pp. 2, 13). ^b The introduction of a general minimum wage was preceded by many years of intense political and academic debate. Worker unions, welfare associations, left and centre-left parties – including the social-democrats for some time – have called for the introduction of a general minimum wage, and received support from a large number of economic think tanks and academics (Bosch & Weinkopf, 2014; IAB, 2014b; OECD, 2014, p. 34; Projektgruppe Gemeinschaftsdiagnose, 2014; SVR, 2013 p. 291f). For a long time, this call has been met with resistance by the employer unions, liberal and christian democrat parties, which could equally rely on academic support (SVR, 2013 pp. 285, 249ff). ^c See a press release by the Ministry for Labour and Social Affairs for details <http://www.bundesregierung.de/Content/DE/Artikel/2015/04/2015-04-09-mindestlohn-100-tage.html>, last accessed on 10 April 2015.

IAB, 2014a). The other level on which agreements can be formed is on company or plant level, where workers are typically organized in company-based worker councils. However, only an additional 8 per cent of workers in western Germany and 12 per cent of workers in the East were covered by company-level agreements in 2013 (IAB, 2014a). For 40 per cent of workers in the West and 53 per cent in the East there were no collective agreements in 2013 (IAB, 2014a). This erosion of collective bargaining is due to both the increasing retreat of employers from their collective representation, whereby they are no longer bound to collective sectoral agreements (Schäfer et al., 2003; Schroeder, 2013), and the significant declines in membership in the large sectoral unions, which are challenged by smaller professional unions.

Thus worker organizations have criticized "extensive gaps in co-determination at shop-floor level [...] as well as 'black holes' where there are no collective agreements at all".¹⁷ These increasingly coexist alongside the classical model of German collective bargaining, which has thus come under pressure. The relative loss of relevance

of the collective bargaining system is more important for the stagnation of real wages and increasing wage differentials between industry and services, discussed below, than the Hartz labour market reforms (see also Knuth, 2014, pp. 7,25).

Another important change in collective bargaining is the steady erosion of the uniformity of collective agreements (*Tarifeinheit*) in which only one union represents all workers at a company. This erosion was caused by a ruling of the highest German labour court (*Bundesarbeitsgericht*) in June 2010. Henceforth, inside one company there can be several collective agreements even for the same type of employment. Whereas the employers (*Bundesvereinigung der Deutschen Arbeitgeberverbände*, BDA) and the major unions organized in the German Trade Union Federation (*Deutscher Gewerkschaftsbund*, DGB) reproved this move, smaller professional and service sector unions welcomed this step. In late 2014 the government introduced a draft law for the reregulation of the uniformity of collective bargaining. The proposed regulation is controversial and scheduled for discussion in parliament in the first half of 2015.

Before the onset of the crisis, wage development had been moderate, whereas during the crisis it has been

17. Hans Böckler Stiftung, Online release of WSI Mitteilungen. Available from http://www.boeckler.de/wsi-mitteilungen_43103_43110.htm. Last accessed 13 July 2014.

stronger. Mechanisms of internal flexibility in enterprises have played a significant role in the maintenance of employment levels. Herein the workers' unions played a central role (Schroeder, 2013; Wendel, 2012); they used their strategic position, which strengthened their reputation and in politics and society – despite their continued weaknesses in membership, gaps of representation, etc. (critically, see Dörre, 2013). A significant change in wage-setting in Germany is the introduction of a general minimum wage starting in 2015. Its effect, particularly on employment, remains to be seen.

4.3 Increasing income inequality

A worrying trend is the increasing income inequality.¹⁸ Since 1991, household incomes tended to rise for higher-income groups and fall or stagnate for lower-income groups (Knuth, 2014; Rhein, 2013; Schmid & Stein, 2013). Between 1991 and 2000 there was a trend towards higher market – before taxes – income inequality. This was supported by a trend towards the reduction of average hours worked, which also meant lower average labour income, and by the rise of atypical employment (Schmid & Stein, 2013). But during most of this period, state redistribution was effective in preventing an increase in net – after taxes and transfers – income inequality (Schmid & Stein, 2013, p. 31). In the following years, between 2000 and 2006, inequality increased both before and after taxes. The increase in inequality before taxes can be explained by the fact that incomes around the lowest income decile have fallen even more than median income. However, in the ninth income decile, incomes have sharply increased (Schmid & Stein, 2013, p. 12). The increase of after-tax income inequality is caused by a decline in government redistribution, particularly since 2003 (Schmid & Stein, 2013, p. 31). However, since 2006 the rise in inequality has slowed down (Schmid & Stein, 2013, p. 15).

Additionally, between 1991 and 2010 households in the highest income decile gained both before and after taxes, whereas the shares of the eighth- and ninth-decile groups increased their market-equalized income, but these decreased after taxes and transfers (Schmid &

Stein, 2013, p. 31f). This indicates that “redistribution works well for a certain income range but the highest income decile is not contributing equally to redistribution” (Schmid & Stein, 2013, p. 31f). Key explanatory factors for this flaw in redistribution are the reduction of top income tax, the abandonment of the wealth tax in 1997, and the flat-rate taxation of capital gains since 2009 (Schmid & Stein, 2013, p. 32ff).

Inequality as measured by the Gini coefficient rose from 0.26 in 2000 to 0.29 in 2004, where it still stood in 2010 (OECD, 2014). At the same time, the share of households living in relative poverty in Germany increased from 6.4 per cent in 1999 to 9.5 per cent in 2009, a peak during the crisis, and then fell to 8.8 per cent in 2010 (ibid.). Given that the at-risk-of-poverty rate is calculated with respect to median incomes, and median incomes did not change between 1999 and 2004 while the poverty risk increased by more than 27 per cent, this implies “that people lost in absolute terms” (Schmid & Stein, 2013, p. 39).

4.3.1 Growing low-pay sector

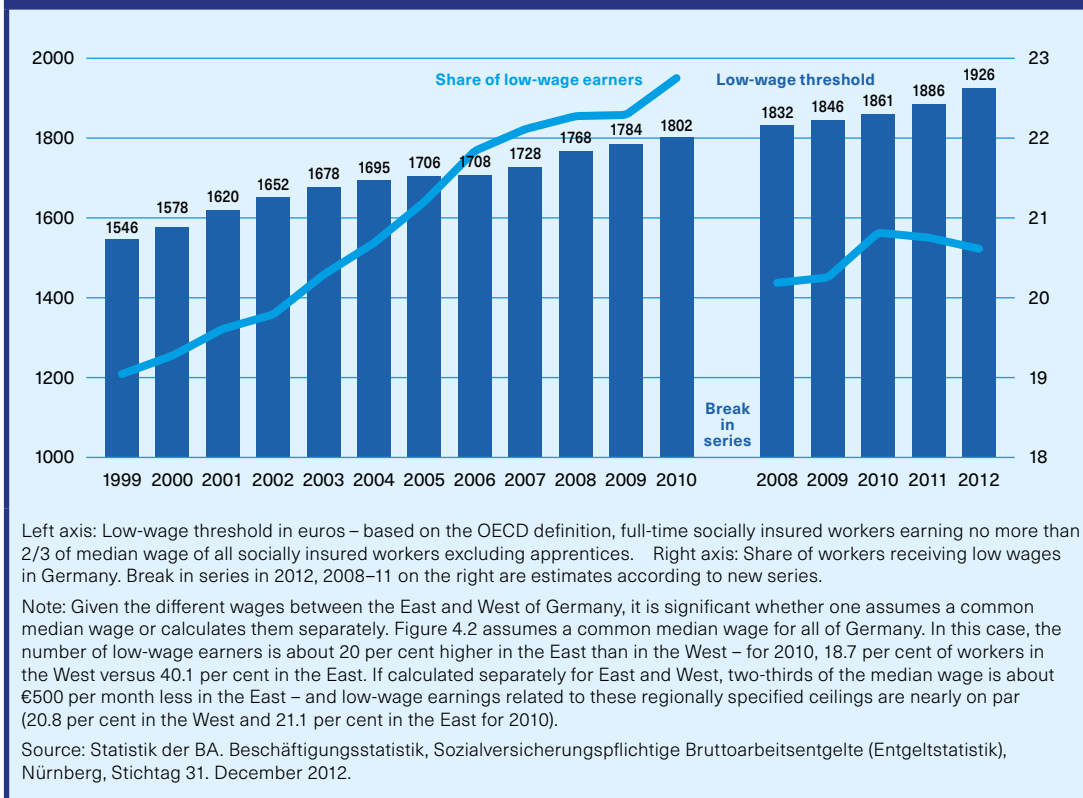
In the past, Germany belonged to the group of European countries with the highest share of low wage earners – defined as those who earn less than two-thirds of median wages (IAB, 2014b, p. 8; Rhein, 2013; SVR, 2013 p. 283f). The share of low wage earners continuously grew and peaked in 2010, before falling slightly (see figure 4.2).

Low wages are more common among part-time employed persons and in branches with less collective agreements or decentralized bargaining (Institut für Arbeitsmarkt- und Berufsforschung, 2014b, p. 8). However, low wages do not only exist in unregulated sectors, as bargained wages can also contribute to the low-pay sector. In early 2010, of 4,700 agreed pay scales, around 16 per cent lay below the hourly minimum wage of the current general minimum wage of €8.50 (Bispinck & WSI-Tarifarchiv, 2012, p. 13). By September 2011 this had improved to 13 per cent (ibid.).

In 2012, 5.2 million workers, or 15 per cent of all employed persons in Germany, earned less than €8.50 per hour; among them 36 per cent worked full-time (representing 8 per cent of all full-time employees) (Brenke, 2014). Among the marginally employed, 58 per cent received less than €8.50 per hour; 43 per cent were students, pensioners or unemployed, and 64 per cent were women (Brenke, 2014). A major factor contributing to the risk of low income is the level of qualifications. For persons with completed vocational

18. Not only income, but also wealth in Germany is less evenly distributed across households than in other European economies: 37 per cent of households do not hold any property or income (Bundesbank, 2013; also see OECD, 2014, p. 88f). In 2008, the bottom half of the population hold only 1 per cent of wealth, the top 10 per cent hold more than half of net wealth, and the share of wealth held by the top has grown continuously (BMAS, 2013, p. XII; also see SVR, 2012, p. 343, minority opinion).

Figure 4.2 Low-wage threshold and share of low-wage earners



training, “the chance of earning a gross hourly wage above the low wage threshold is three times higher ... than for those without formal qualifications” (BIBB, 2014, p. 25). Nonetheless, employees with completed vocational education and training form the majority of workers in the low-wage sector (ibid.).

The OECD cautions that “low-income households suffer particularly from low upward income mobility as it raises the likelihood of long-lasting or repeated spells of poverty and prevents them from benefiting from and contributing to more economic growth”(OECD, 2014, p. 88). Poverty and the risk thereof are not limited to the unemployed, it “has increasingly affected employees with relatively low employment protection or limited access to unemployment insurance, as well as many part-time and self-employed workers” (OECD, 2014, p. 10).

4.3.2 Wage differentials

Another factor contributing to inequality is the large wage differentials in Germany. These are high in several respects: across sectors, between men and women, between qualifications, between eastern and western Germany, between part-time and full-time work and between regions (see tables 4.2 and 4.3 below).

Among all EU member states, Germany has the highest industry/services wage differential. During the period 1996-2006, industry workers earned around 40 per cent more than workers in domestic services (trade, hotels and restaurants, transportation) and 20 per cent more than workers in the service sector (also including financial services, real estate, and services to other firms) (Logeay, Stephan & Zwiener, 2011, p. 12). In 2013 average hourly wages were €36.20 in manufacturing, compared to €28.70 in services (Herzog-Stein, Stein, & Zwiener, 2014).

At the individual level, gender is the most significant factor explaining wage differentials (Logeay et al., 2011, p. 27). The “gender pay gap” is significantly higher in Germany than in other European countries. The EU average is 16.4 per cent, and only Estonia (30 per cent) and Austria (23 per cent) fare worse than Germany in this regard.¹⁹ The gender pay gap in full-time earnings is also among the largest in the OECD, and visible across income quintiles (OECD, 2014, p. 91). In Germany there are also significant differences in the gender pay gap between eastern and western Germany (table 4.2).

19. See http://ec.europa.eu/deutschland/press/pr_releases/12132_de.htm last accessed 10 April 2015.

Year	2007			2008			2009			2010			2011			2012			2013		
	All	W	E	All	W	E	All	W	E	All	W	E	All	W	E	All	W	E	All	W	E
Public services	9	10	0	8	9	-2	7	9	-2	7	9	-2	7	8	-1	6	8	-1	6	8	-2
Private sector	25	26	12	25	26	12	25	26	13	25	26	13	25	26	13	24	25	13	24	25	13
Total	22	23	4	21	23	4	21	23	4	21	22	5	21	22	5	21	22	6	20	22	6

Gender pay gap (unadjusted) is the difference in the gross hourly earnings of men and women in ratio to the gross hourly earnings of men. All: Germany; W: western Germany; E: eastern Germany. Source: Destatis Income Survey 2006 and 2010 continued through quarterly income surveys. Public Sector includes public administration, defence, social insurance, education, training and nursing. https://www.destatis.de/DE/ZahlenFakten/GesamtwirtschaftUmwelt/VerdiensteArbeitskosten/VerdiensteVerdienstunterschiede/Tabellen/Abstand_OEDPrivat.html, accessed 2 June 2014.

Gender pay differentials are significantly lower in eastern Germany. Regional labour markets in the East and West are quite different (Granados, 2013). In the West, the larger difference can partially be explained by labour market characteristics, such as work experience, level of education or weekly working time. In the East, where differences in labour market characteristics of men and women are much lower, the gap is harder to explain (ibid.). In part-time work, wage differences between men and women are much lower (see table 4.3 below).

The pay gap between eastern and western Germany continues to be significant, not only with respect to women. Gross hourly wages were still about 25 per cent lower in the East in 2013. Table 4.3 also highlights the differences in hourly wages between full-time and part-time work. Part-time work is paid around 22 per cent less per hour. Differences are also high between skill levels;

about 70 per cent between the group with the highest and the lowest skill level. Moreover, median wages are higher in the South than in the North, and higher in urban than in rural areas (IAB, 2014b). Additionally, regions that are characterized by high unemployment also show lower wages; where the unemployment rate is twice the average, wages are around 6 per cent lower (ibid.).

Overall rising inequality is driven by a number of factors, one being the growing differences in wages between the top and the bottom deciles of wage earners. In particular, the growing number of workers in low-paid jobs is worrying. Large wage differentials across sectors, between men and women, between qualifications, between eastern and western Germany, between part-time and full-time work and between regions also contribute to inequality.

Table 4.3 Wage differentials among categories of jobs

	2008			2009			2010			2011			2012		
	All	West	East	All	West	East	All	West	East	All	West	East	All	West	East
Full time and part time (excluding marginal employment)															
All	19.75	20.66	14.30	20.02	20.83	15.31	20.30	21.12	15.53	20.81	21.67	15.80	21.30	22.23	16.00
Men	21.68	22.70	14.88	21.81	22.71	15.77	22.11	23.02	16.00	22.69	23.65	16.33	23.28	24.31	16.63
Women	16.45	17.04	13.53	17.21	17.72	14.76	17.46	17.97	14.96	17.86	18.42	15.16	18.23	18.86	15.25
Full time (all qualification groups)															
All	20.49	21.44	14.63	20.70	21.54	15.56	21.00	21.85	15.88	21.56	22.45	16.21	22.1	23.07	16.42
Men	21.89	22.91	14.96	21.99	22.9	15.85	22.3	23.22	16.09	22.90	23.86	16.44	23.51	24.54	16.76
Women	17.07	17.67	14.01	17.73	18.24	15.31	18.00	18.52	15.52	18.46	19.01	15.81	18.86	19.50	15.85
Part time (all qualification groups)															
All	15.29	15.83	12.66	16.27	16.97	13.71	16.5	17.02	13.91	16.83	17.41	13.93	17.19	17.82	14.09
Men	15.83	16.31	12.94	16.78	17.30	13.92	17.00	17.54	14.11	17.40	18.02	13.98	17.83	18.54	13.95
Women	15.19	15.74	12.63	16.19	16.70	13.68	16.41	16.93	13.88	16.73	17.30	13.92	17.08	17.69	14.11
Differentials according to qualification (full time only, both sexes)															
1	39.67	41.14	28.76	37.89	38.92	29.94	38.56	39.6	30.59	39.87	40.98	31.34	41.05	42.21	32.10
2	25.08	25.98	18.22	24.48	25.21	19.21	24.89	25.61	19.72	25.52	26.29	20.03	26.24	27.06	20.46
3	17.24	18.14	12.60	17.24	18.01	13.34	17.46	18.25	13.46	17.93	18.76	13.75	18.23	19.09	13.96
4	14.11	14.66	10.76	14.10	14.63	10.96	14.27	14.83	10.89	14.62	15.21	11.08	14.83	15.50	11.21
5	11.68	11.96	9.20	11.80	12.03	9.62	11.95	12.22	9.74	12.29	12.55	10.01	12.44	12.75	10.03
Difference between men and women in full-time employment	22	23	6	19	20	3	19	20	4	19	20	4	20	21	5
Difference between men and women in part-time employment	4	3	2	4	3	2	3	3	2	4	4	0	4	5	-1
Difference between full-time and part-time employed	25	26	13	21	21	12	21	22	12	22	22	14	22	23	14
Difference between highest and lowest qualification group	71	71	68	69	69	68	69	69	68	69	69	68	70	70	69
Difference between wages in East and West	28			24			23			24			25		

Gross hourly wages including bonus and other additional payments in euros. Group 1: Employees in management positions, mostly requiring academic training. Group 2: Employees with complex tasks, mostly requiring vocational training and additional work experience. Group 3: Employees with skilled tasks, mostly requiring vocational training. Group 4: Employees with mainly simple tasks that require at least on-the-job training of up to two years. Group 5: Unskilled workers with simple tasks that require little informal training.

Source: Destatis, *Statistisches Jahrbuch* various years. Own calculations.

Active labour market policies (ALMPs)

5

Turning lastly to active labour market policies (ALMP) in Germany, it can be said that they were not a focus of policy change during or after the crisis.²⁰ Larger changes had been initiated through the Hartz reforms between 2003 and 2005. Since then, the core objectives of ALMP have been the activation and employability of the unemployed and the employed alike (Kluve, 2013, p. 8; Matysik, Rosenthal & Sommer, 2011, p. 8).

An overview of the different categories of ALMP and the participant numbers since 2004 can be found in

table 5.1. It shows that the weight of different policies with regard to the annual average stock of participants varied considerably.

As can be seen above, recruitment incentives played a larger role during the crisis, but are returning to previous levels. Direct job creation was promoted after 2005, but participation numbers had already started to decline during the crisis. Start-up initiatives were also emphasized as part of the Hartz reforms, but participation rates have fallen since 2007. By far the

Table 5.1 Participant stocks in ALMPs as a percentage of the labour force

Year	2004	2005	2006	2007	2008	2009	2010	2011
Training (total)	2.03	1.74	1.79	1.84	1.76	1.89	1.85	1.56
Institutional training	1.56	1.30	1.34	1.38	1.33	1.42	1.28	1.11
Workplace training	0.15	0.13	0.12	0.11	0.11	0.13	0.14	0.14
Integrated training	0.01	0	0	0	0	0	0	0
Special support for apprenticeship	0.30	0.31	0.33	0.35	0.35	0.36	0.36	0.33
Job rotation and job sharing (total)	0	0	0	0	0	0	0	0
Employment incentives (total)	0.43	0.22	0.31	0.39	0.45	0.62	0.63	0.46
Recruitment incentives	0.43	0.22	0.31	0.39	0.45	0.62	0.63	0.46
Employment maintenance incentives	0	0	0	0	0	0	0	0
Supported employment and rehabilitation (total)	0.40	0.37	0.06	0.04	0.11	0.10	0.10	0.09
Supported employment	0.05	0.05	0.04	0.04	0.04	0.03	0.03	0.03
Rehabilitation	0.35	0.32	0	0	0.07	0.07	0.06	0.06
Direct job creation	0.48	0.69	0.89	0.85	0.79	0.71	0.63	0.42
Start-up incentives	0.59	0.79	0.72	0.57	0.43	0.35	0.38	0.33
Total participant stocks as a percentage of the labour force	3.94	3.81	3.76	3.69	3.54	3.67	3.59	2.85

Note: For details on the classification of the various German labour market instruments into the OECD system see Eurostat (2014, pp. 30ff, 120ff). Germany does not have ALMPs that are listed in the categories "employment maintenance" and "job rotation and job sharing" in the OECD classification.

Source: OECD <http://stats.oecd.org/Index.aspx?DataSetCode=LMPEXP> accessed on 24.06.2014.

20. Relevant legal changes since 2007 were made through the "Law on reorientation of labour market instruments" (*Gesetz zur Neuausrichtung der arbeitsmarktpolitischen Instrumente*) of January 2009 and the "Law on improving chances for integration in the labour market" (*Gesetz zur Verbesserung der Eingliederungschancen am Arbeitsmarkt*) of April 2012. Both affect a number of instruments (for details see Kluve, 2013).

largest share of workers in ALMP is in various forms of training. The most important forms of ALMP in Germany – labour market services, training, employment incentives and direct job creation – are discussed below.

A general assessment of all ALMP is difficult. Differentiated evaluations are necessary, because many ALMP and their sub-schemes have significantly different effects depending on the group of participants (Heyer, Koch, Stephan & Wolff, 2011, p. 29). However, they “positively affect the labour market prospects of at least particular groups of participants” (Heyer et al., 2011, p. 4). A criticism of ALMP is that they are not particularly inclusive; there is a tendency to benefit “mostly those with a comparatively strong socio-economic background within their respective target groups” (AAW 2012; see also AAW, 2014; Heyer et al., 2011; OECD, 2014, p. 100). According to AAW (2014), the long-term unemployed, who are often low-qualified workers, actually have less of a chance of returning to the labour market as a result of the labour market reforms of the past decade. Overall, the ALMP are not particularly successful at helping the long-term unemployed remain active in their job-seeking efforts instead of dropping out of the labour force. Additionally, ALMP appear to be less effective and successful for younger unemployed persons (Kluve, 2013; SVR, 2013 p. 256).

As far as general conclusions to be drawn from the analysis of a wide range of studies on ALMP in Germany, Heyer et al. (2011, p. 4) sum up that “wage subsidies, training within firms, and start-up subsidies improve the subsequent employment prospects of participants substantially. But, for these latter instruments there is a substantial risk of deadweight loss, substitution and crowding-out effects.”

5.1 Labour market services

Overall, matching and placement through the public employment service has supposedly been improved since 2007, but exact data are scarce (Knuth, 2014, p. 30). Support to the unemployed in seeking employment is particularly successful and of comparatively low cost (SVR, 2013 p. 273). However, placement is normally quicker for those who still receive the higher unemployment insurance benefits under ALG I and who want to prevent the decline to ALG II (Knuth, 2014, p. 8). Labour market services are primarily geared towards and successful among those who have only been unemployed for a short time and who are closer

to the labour market (AAW, 2014).²¹ This is also one reason why the effectiveness of ALMP is positively correlated with unemployment levels: during cyclically high unemployment, there are more qualified workers among the unemployed who can be supported in their quick return to the labour market (SVR, 2013, p. 275).

5.2 Training and life-long learning

Training provided for by the Federal Employment Agency (mainly) to the unemployed is part of regulated continuing education and one pillar of the system of continuing vocational education and training (CVET).²² Providing training “is a key instrument in improving employment opportunities through upskilling and skills development measures” (BIBB, 2014). In the case of publicly financed CVET the employment agency makes decisions as to eligibility, i.e. “participation in continuing vocational education and training must be necessary for the occupational integration of workers who have become unemployed, for averting pending unemployment, or because the need for advanced training and education is recognised as the candidate does not have a vocational qualification” (BIBB, 2014). Training is overall the most important type of ALMP in Germany with regard to both its share among all ALMP participants (between 18.6 per cent in 2004 and 22.3 per cent in 2011) and spending (44.7 per cent of all spending on ALMP in 2004 and 57.8 per cent in 2011).²³

Roughly, two main types of training can be distinguished – short term and long term (for details see BA, 2013, p. 47f). Compared to the pre-reform period

21. This is also true for the opportunity for jobseekers to engage a private rather than the public employment agency in their search for a new job (introduced in 2002). Several evaluations find that placements through private providers are just a little more successful in helping jobseekers into regular employment than through the public employment service. However, vouchers were given to jobseekers with a priori better employment prospects (Heyer et al., 2011, p. 9). Overall, there is no significant difference in the effectiveness of private over public placement activities in terms of finding long-term socially insured employment (Heyer et al., 2011).

22. Other pillars are in company training, as well as the continued individual training such as general and political education, also called “adult education”. Together with initial education and training, they contribute to life-long learning. Overall, the “CVET in Germany is characterised by a pluralism of providers, a largely market character, and a comparatively minimal degree of regulation” (BIBB, 2014). When CVET is provided as an upskilling during employment, the company typically pays for provision of training and it may take place during regular working hours. Continuous training is also part of collective agreements (Hippach-Schneider & Hensen, 2012, p. 26).

23. Data from <http://stats.oecd.org/Index.aspx?DataSetCode=LMPEXP#>. 28 July 2014 and <http://stats.oecd.org/Index.aspx?DataSetCode=LMPEXP> accessed on 24.06.2014

(2002–04), the effectiveness of training is said to have increased, which is mainly attributed to shorter training periods that prove to be more effective (Heyer et al., 2011, p. 16). At the same time, a study shows that better-educated jobseekers receive more training vouchers. Less-qualified jobseekers not only received fewer vouchers, they were also less likely to make use of the voucher, partially because they were overburdened with the selection of a provider (ibid.). Hence, “self-selection effects within target groups may persist, in part because better educated individuals are often better informed and less discouraged” (OECD, 2014, p. 100).

During the crisis, the training programme *WeGebAU* – promoting lifelong learning in small and medium-sized companies, and supporting the training of older and low-qualified workers – was expanded as part of the second financial stimulus package (FSP II). *WeGebAU* should “assist in covering the requirement for skilled workers and to act as an incentive for companies to use continuing vocational training as a means of improving competitiveness” (Hippach-Schneider & Hensen, 2012, p. 24). The additional target groups are unskilled unemployed persons above 25 years of age and youth without vocational training. The funding grew from €167 million in 2008 to €332.3 million in 2009 (Hippach-Schneider & Hensen, 2012, p. 26); in 2009, 95,402 persons were supported through this programme (included in training in table 5.1). Of these, 10,551 were older workers in enterprises with less than 250 employees. In 2010, the expenditure on the scheme was reduced to €274 million.

During the crisis, additional incentives and opportunities for training of employed workers were created for low-qualified workers and temporary agency workers in partial unemployment (*Qualifizierung während Kurzarbeit*). However, demand for these schemes was low. Of the €150 million provided for the training of low-skilled workers in 2009, only €35 million was used. Similarly, for reskilling of temporary agency workers in partial unemployment, only €0.1 million of €200 million provided was used. Between 2010 and 2011 the number of unemployed participants in training provided for by the Federal Employment Agency declined significantly from 188,700 in 2010 to about 161,500 in 2011 (BIBB, 2014, p. 30f). Generally, the participation in continuing education in Germany “is low by international comparison. In particular, people with low qualifications are underrepresented in continuing education”.²⁴

24. Federal Ministry of Education and Research. Lifelong Learning Strategy. Available from <http://www.bmbf.de/en/lebenslangeslernen.php>. Last accessed 22 July 2014.

5.3 Employment incentives

During the crisis the number of participants in the various forms of employment incentives (*Eingliederungszuschüsse*) increased, but participant numbers have already returned to pre-crisis levels (see table 5.1). These incentives may be paid to employers who employ jobseekers facing recruitment and employment obstacles (Bundesagentur für Arbeit, 2013, p. 48). The maximum subsidy is 50 per cent of the wage for a maximum of 12 months.

Some schemes are for specific target groups, e.g. vouchers for youth and older workers (*Eingliederungsgutschein*), and special incentives for beneficiaries of jobseeker assistance who start a socially insured employment (*Einstiegs geld*). Among all employment incentives, the scheme *Arbeitsgelegenheiten in der Entgeltvariante* is deemed particularly successful with regard to integration in the regular labour market (Heyer et al., 2011, p. 28), whereas the *Beschäftigungszuschuss* was discontinued in March 2012 (for details see BA, 2013, p. 48). Generally, the effectiveness of employment incentives, measured as the chances of being in regular employment after three years, is 20 to 40 per cent higher for beneficiaries of these schemes compared to other jobseekers with a comparable profile. Yet, substitution and crowding-out effects may not have been sufficiently understood (Heyer et al., 2011, p. 17). Additionally, the participation in such schemes provides stability and social contacts to the unemployed (IAB, 2014b, p. 11).

5.4 Direct job creation and start-up incentives

Both participation in direct job creation and start-up incentive schemes peaked in 2005–06 and declined throughout the crisis (see table 5.1). There are different types of direct job creation schemes, all aiming at enhancing jobseekers’ employment capabilities through temporary employment. These temporary jobs must serve the public interest and must be neutral in terms of their effect on competition in order to minimize crowding out (BA, 2013). The current schemes are *Arbeitsbeschaffungsmaßnahmen* (ABM), *Arbeitsgelegenheiten in der Mehraufwandvariante* (AGH-M) – “*Ein-Euro-Job*” and *Bürgerarbeit*. Eligible beneficiaries of this scheme are jobseeker allowance beneficiaries above 25 years of age who have been unemployed for two years or more; this is around 550,000 potential beneficiaries (Matysik et al., 2011, p. 17).

The effectiveness of this type of ALMP during the crisis has not been evaluated. In general, in areas where

many jobs have been created through these schemes, the rate of unemployment does not decline, and the unemployed do not move into employment more easily (Heyer et al., 2011, p. 26). This is not deemed to be problematic, as the return to regular employment is not the primary objective (Matysik et al., 2011). However, for some groups of participants, the likelihood of returning to the labour market is actually even reduced (Heyer et al., 2011, p. 29), particularly for younger participants (Matysik et al., 2011, p. 15). With regard to social integration, direct job creation also fares less well than other ALMP that are closer to the regular labour market (Matysik et al., 2011, p. 15). Despite the reservations (such as substitution and crowding-out effects) pertaining to direct job creation, there is a growing consensus that some of the unemployed have no real chance of integrating into regular employment (Matysik et al., 2011, p. 9).²⁵ Also, current instruments of direct job creation are only partially useful due to their strict temporary limitations (IAB, 2014b, p. 11). Where no viable job prospects for the unemployed exist, the support through ALMP is thus limited.

Therefore, a recent suggestion is the creation of a “social labour market” for the long-term unemployed who have little chance of reintegration in non-publicly supported employment (IAB, 2014b, p. 11): such an institution could provide employment, stability and social contacts to the unemployed. Depending on the eligibility criteria, about 100,000–200,000 persons could benefit from it.

Start-up subsidies are paid in the form of the *Gründungszuschuss*. The benefit is paid for up to six months at the level of the respective benefit entitlement plus an additional €300 per month for social insurance. The benefit may be prolonged for an additional 9 months but during that period will be limited to €300 monthly. Temporarily, the start-up subsidy was a statutory entitlement available to all registered unemployed persons. Since 28 December 2011 it has become a discretionary measure for which only unemployment insurance beneficiaries are eligible; they are entitled to a minimum of 150 additional days of benefits. Hence, the number of eligible jobseekers has been reduced drastically.

Jobseeker allowance beneficiaries can henceforth only receive start-up grants through *Einstiegs geld* (it can also be used as an employment incentive, see above). This grant can be paid for 6–24 months and supports the beneficiaries in finding self-employment that is suitable to permanently reduce the likelihood of future unemployment. Additionally, credits and subsidies for investments are possible. This ALMP is deemed to be rather successful. Beneficiaries are less often unemployed than a comparable group of non-beneficiaries (Heyer et al., 2011, p. 23). Overall, start-up grants are regarded to be rather effective in bringing jobseekers into regular employment or self-employment (ibid.). Nonetheless, the effect of these start-up grants may be positive in the short term, but little is known about their medium- to long-term effects (SVR, 2013, p. 274).

25. For another opinion see SVR, 2013 p. 274, which states that direct job creation does not sustainably contribute to human capital development and is therefore successful mainly in the sense that the jobseeker is in employment during their participation in the programme.

Conclusion

As this report shows, a variety of factors contributed to the remarkably robust German labour market performance during the 2008–09 financial and economic crisis and afterwards. It is not a miracle, but a combination of measures taken by the government and the social partners during the crisis, as well as before the crisis, and it has also been influenced by long-term demographic, economic and cyclical trends.

There is broad consensus across different economic schools that mechanisms of internal flexibility for safeguarding jobs during the 2009 crisis have been more important than external ones; the most important being working-time reductions. These internal mechanisms were embedded in the context of corporatist negotiations between employers and employees, which are particularly strong in the sector most affected by the crisis – the manufacturing sector. Additionally, the government supported the agreements between the social partners through the use of reduced working time schemes, and further instruments for the preservation and stimulation of domestic demand. Since the 2009 crisis, employment has steadily increased and now stands at historically high levels. This is mainly due to a decrease in average working time, brought forward mainly by the increased labour market participation of women and the elderly.

While the increase in part-time jobs and female participation is a long-time trend, the 2000 Hartz reforms also facilitated the increase in employment. First, forms of atypical employment have been introduced or liberalised, which allow companies more flexibility at lower costs; and second, the pressure on the employed and unemployed alike has been increased through tightened conditions for unemployment assistance. However, this has come at a high social cost, as many people are now trapped in low-paying jobs with little social protection. The low pay and precarious sector of the labour market has grown significantly. Additionally, the initial goal of the reforms to significantly reduce long-term unemployment has not been achieved.

Moreover, the Hartz labour market reforms were not central in safeguarding employment in the 2009 crisis.

First, during the crisis, the greatest effects were felt in the manufacturing sector, where the main form of employment is still the socially protected full-time job (dominated by males). Second, during the crisis, employment losses were prevented specifically because the newly introduced forms of higher external flexibility were not applied. On the contrary, measures to preserve employment – reductions of working time – were used instead of measures to fire employees. It is thus the least “flexible” segment of the labour market which has brought about the safeguarding of employment in the 2009 crisis.

Ten years after the Hartz reforms, the long-term unemployed, and those in precarious employment who have few prospects of upward social mobility, still have little chance of finding and staying in jobs. The Hartz reforms increased the efficiency of employment services, but they have not significantly altered the mismatch between the core of the unemployed and the positions open. A central challenge thus is the reduction of long-term unemployment, by opening sustainable opportunities to upward mobility and quality employment. There is an urgent need to ensure material, social and cultural participation of the long-term unemployed without stigmatization, and without relentless calls for activation where there are no jobs.

To prevent unemployment for future generations of workers, better education is advocated as a solution by many observers (OECD, 2014; Walwei, 2014), because low skill levels are a major risk factor for long-term unemployment. However, currently the German education system is not deemed to be good at facilitating social mobility and at leading children of low-qualified parents to higher educational achievements (BMAS, 2013, p. xv).

Another core challenge in the German labour market is the high share of low-paid jobs. This problem has recently been tackled through the introduction of a general minimum wage, which also means that the state assumes a larger role in wage setting than it traditionally held in the German system of industrial

relations. Besides the immediate effect for those that will receive higher wages, it would be desirable for the minimum wage to contribute to higher wage agreements across sectors. Wage developments in Germany have been very moderate over the past years and there are many good reasons, both domestic – such as the strengthening of domestic demand, the rebalancing of the wage and the profit income share – as well as international – to reduce current account surpluses – to

conclude higher wage agreements in the coming years. The call for higher wages has lately even been made by the European Central Bank.

A further unresolved challenge is the persistently large wage differentials between men and women, between East and West, and between industry and services. In addition, tax policies need to be reoriented in order to reverse the trend of growing income inequality.

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