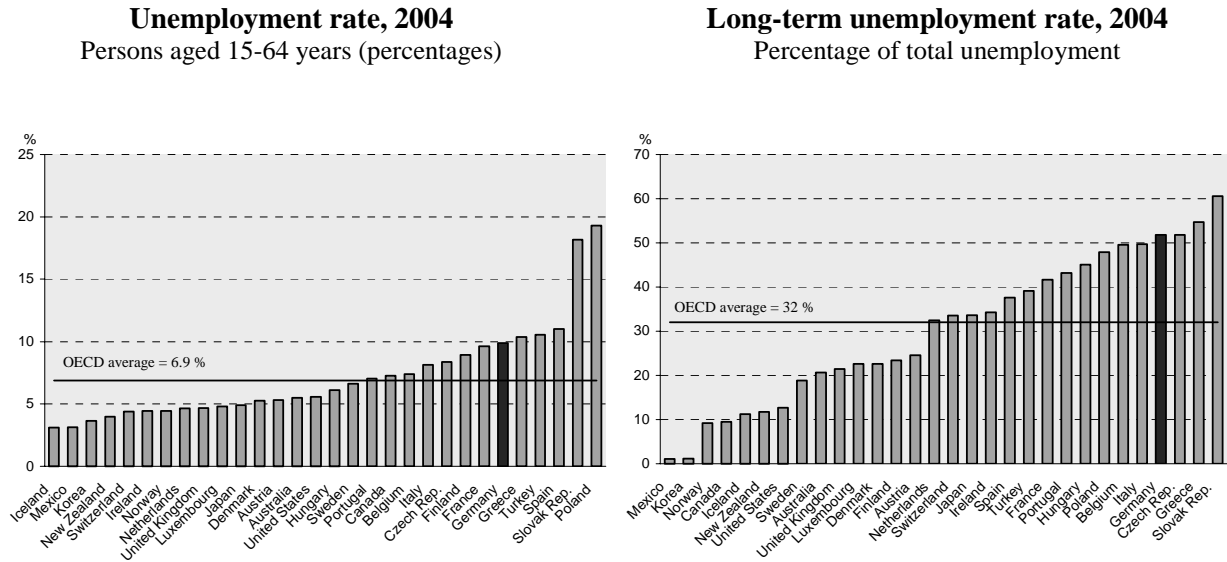


Employment Outlook 2005

How does Germany compare?

In 2004, the unemployment rate in Germany, at 9.9%, remained high by OECD standards. More than half of the unemployed had been looking for a job for more than 1 year – compared with less than one third, on average, in the OECD area.



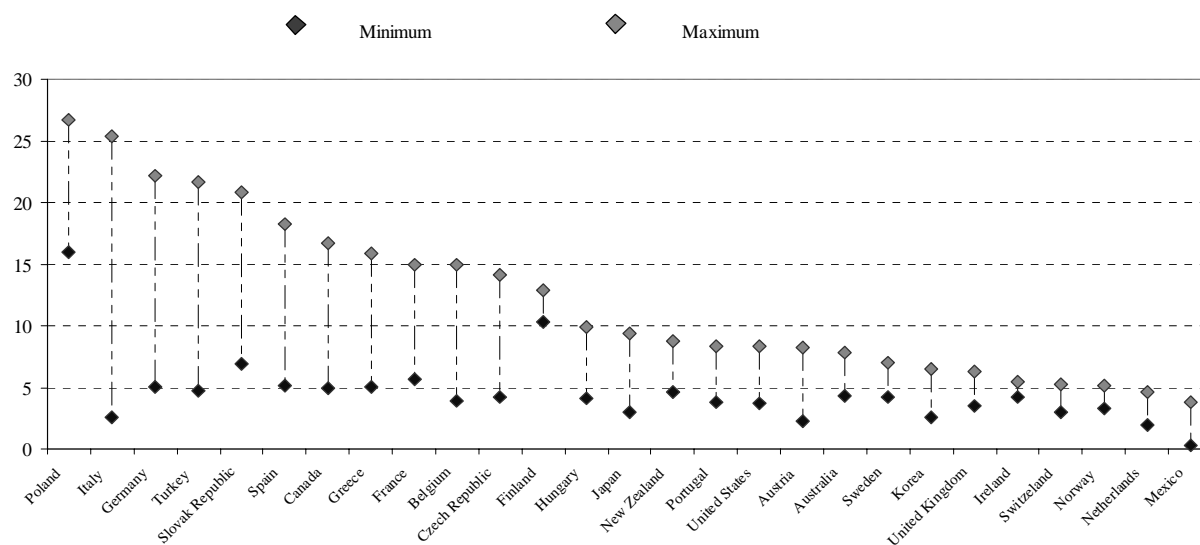
Source: OECD (2005), *Employment Outlook*, OECD, Paris

This picture hides important disparities in labour market performance between the Eastern and Western regions. While the region of Oberbayern has an unemployment rate of around 5%, the region of Dessau experiences mass joblessness, with an unemployment rate exceeding 22%. *Employment Outlook 2005* shows that regional disparities in employment outcomes are mostly driven by the capacity of regional labour markets to generate new jobs, which can be explained to some extent by the sectoral specialisation of regional economies. In addition, a relatively small proportion of the working age population changes region of residence every year, and these migration flows are in large part mutually offsetting. Thus, the effective redistribution of workers from depressed towards booming regions is quite limited and geographical mobility contributes little to reducing regional labour market imbalances. Relatively centralised wage-setting, in which wages are influenced by the economic conditions prevailing in leading sectors and regions, may also play a role – though this is not assessed in the publication.

The overriding policy goal is to promote transitions from unemployment to work in general. *Employment Outlook 2005* shows that providing jobseekers with intensive counselling, job-search support and participation in re-employment programmes after a certain period of unemployment can be very effective. Germany has started to put in place such a strategy, including through the restructuring of the German employment services. “Activation” policies have to be seen as the counterpart for the payment of benefits – i.e. this is a “mutual obligations” approach. Indeed, such a strategy lies at the heart of the success in reducing unemployment and in particular long-term unemployment in countries like Denmark, the United Kingdom and (until recently) the Netherlands. In the presence of effective activation programmes, benefit schemes for the long-term unemployed can become sustainable while also meeting social objectives.

Regional disparities in labour market performance, 2003^a

Regional unemployment rate in percentage



a) 2000 for Japan, Korea, New Zealand and Switzerland.

Source: OECD (2005), *Employment Outlook*, OECD, Paris

It is also important to ensure that jobseekers have a financial incentive to go back to work. Generous welfare benefits tend to reduce these financial incentives, almost by definition, but it is possible to counteract this through tax-benefit reform (rather than cutting benefit levels). In particular, the study finds that the provision of re-employment bonuses or benefits conditional on accepting a job can be effective. These in-work supplements have to be sufficiently large, however –i.e. small supplements do not change work incentives, while still entailing a budget cost. They also have to be targeted on the neediest families. Well-designed targeting, as well as conditions on the number of hours-worked to become eligible are effective responses to reduce deadweight losses, arising from the fact that some beneficiaries would have found a job (or increased work effort), even in the absence of the scheme.

OECD Employment Outlook 2005 is available to journalists on the **password protected** web site or on request from the **Media Relations Division**. For further comment on Germany, journalists are invited to contact Glenda Quintini (tel: +33 1 45 24 91 94 or e-mail: glenda.quintini@oecd.org) or Peter Tergeist (tel: +33 1 45 24 9257 or e-mail: peter.tergeist@oecd.org) or Raymond Torres (tel: + 33 1 45 24 9153 or e-mail: raymond.torres@oecd.org) from the OECD Employment Analysis and Policy Division.