



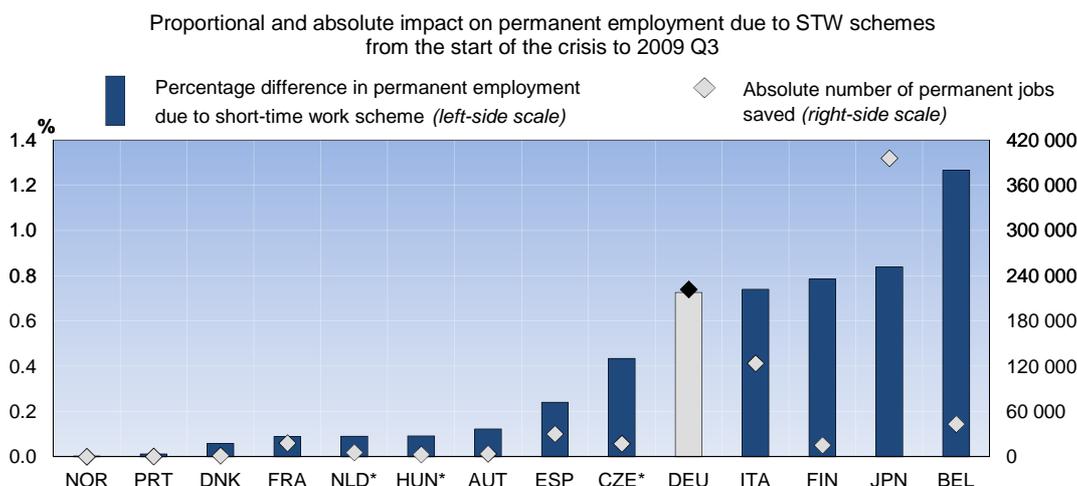
Employment Outlook 2010 – How does GERMANY compare?

Despite a large output contraction in Germany, unemployment has barely budged. During the recession real GDP declined by -6.7%, substantially more than the average decline in the OECD area of -4.8%. But in spite of the sharp decline in output, employment and unemployment were relatively stable in Germany: the unemployment rate even declined by 0.9 percentage points from 7.9% at the start of the recession to 7.0% in May 2010. By contrast, the OECD unemployment rate increased by 3 percentage points from a 28-year low of 5.7% at the start of the recession to 8.6% in May 2010. As a result of these divergent trends, the German unemployment rate is currently well below the OECD average. However, despite a steady decline in long-term unemployment in recent years, almost one in two jobseekers are unemployed for more than a year in Germany (45%). This suggests that, **while the impact of the crisis on cyclical unemployment has been limited, structural unemployment remains high by OECD standards.**

Large reductions in working time explain much of the muted impact of the crisis on unemployment. While employment increased slightly during the recessionary period, average hours worked fell by -3.4% and hourly labour productivity by -3.9%. The importance of hours adjustment in Germany reflects a number of factors, including pressing skill shortages and the extensive use of overtime before the downturn, the concentration of the decline in demand in the exporting sector, as well as relatively strict employment protection regulations, but also flexible hours adjustments (*e.g.* hours averaging schemes, individual time banks and short-time work). This pattern of so-called “labour hoarding” by firms has largely avoided the social costs associated with a recessionary upsurge in unemployment.

The important role played by short-time work (*Kurzarbeit*) in preserving jobs during the crisis is well known. **New OECD estimates indicate that by 2009 Q3 over 200 000 jobs may have been saved as a result of *Kurzarbeit*** (see Figure 1). These estimates are somewhat smaller than the full-time equivalent of participation in short-time work (350 000), suggesting that *Kurzarbeit* ends up supporting some jobs that would have been maintained even in the absence of the subsidy. Yet, the implied rate of “deadweight” appears to be modest in comparison with that for other types of job subsidies.

Figure 1. **Short-time work schemes helped to preserve permanent jobs in the 2008-09 recession**



* Indicates countries that introduced a new short-time work scheme in response to the crisis.

Source: OECD Employment Outlook 2010.

The specific crisis measures that were taken to increase the attractiveness of Kurzarbeit are likely to have contributed to its positive role in preserving jobs in the short-term mainly by increasing take-up, but it is still too early to assess their full impact. The most important reforms to Kurzarbeit include the temporary extension of the maximum duration of short-time working from 6 to 24 months (now reduced to 18 months); the introduction of subsidised training and the extension of coverage to temporary agency workers. Early indications suggest that the role of the last two may have been modest.

For example, preliminary figures suggest that **less than 10% of persons on Kurzarbeit participated in training, despite efforts to make training more attractive**. This low take-up rate may partly be due to the requirement that training be provided externally. This requirement reflects the desire to promote job mobility, while avoiding subsidising firm-specific on-the-job training. However, in practice, it may not be straightforward to combine external training courses with variable work schedules in the context of short-time working schemes.

The impact of the extension of Kurzarbeit to temporary agency workers is likely to have been limited. Even if temporary agency workers are now eligible, the incentives for firms to place them on short-time work are likely to be considerably weaker than for their core workforce. Participation in Kurzarbeit is costly for employers, while hiring and firing costs tend to be low for temporary workers. **Indeed, OECD-wide evidence suggests that the positive impact of short-time work schemes was limited to permanent workers**. This implies that short-time work has tended to further increase labour market segmentation between workers in regular jobs and workers in temporary jobs.

It is still too early to assess how the intensive use of short-time work will affect the vigour of employment growth in the recovery and economic restructuring in the longer run. However, in order **to prevent short-time work from becoming an obstacle to the recovery, it is important for crisis measures to be phased out as the recovery gains momentum**. This is particularly relevant in Germany as the labour market is already relatively rigid by OECD standards.

Intense labour hoarding also raises concerns about the risk of a jobless recovery. Indeed, GDP in Germany can expand by more than 7% without any increase in employment, if hours worked per employee and hourly productivity were to rise back to their pre-crisis levels. Achieving GDP growth on this scale is expected to take several years, and thus it is unlikely that the steady decline in the harmonised unemployment rate during recent months will continue through the second half of 2010.

Promoting an effective labour supply in the recovery should also include removing barriers to full-time work. The share of part-time work in total employment amounted to 22% in 2009 compared with 16% in the OECD. With a part-time share of over 38%, German women are in the top group of OECD countries, behind the Netherlands and Switzerland. Although this mainly reflects the role of voluntary part-time work, involuntary part-time work is also substantial, and above the OECD average. The high incidence of part-time work in Germany reflects to an important extent poor incentives in Germany's tax and benefit system for part-time workers to take up full-time work: for every additional euro earned, a low-wage worker moving from part-time to full-time employment will lose almost 68 cents in taxes or lost benefits.

OECD Employment Outlook 2010 is available to journalists on the **password-protected** website or on request from the **Media Relations Division**. For further comment on Germany, journalists are invited to contact Stefano Scarpetta (tel: +33 1 45 24 19 88 or e-mail: stefano.scarpetta@oecd.org), Alexander Hijzen (tel: +33 1 45 24 92 61 or e-mail: alexander.hijzen@oecd.org) or Peter Tergeist (tel: +33 1 45 24 92 57 or e-mail: peter.tergeist@oecd.org) from the OECD Employment Analysis and Policy Division. For further information: www.oecd.org/els/employment/outlook.