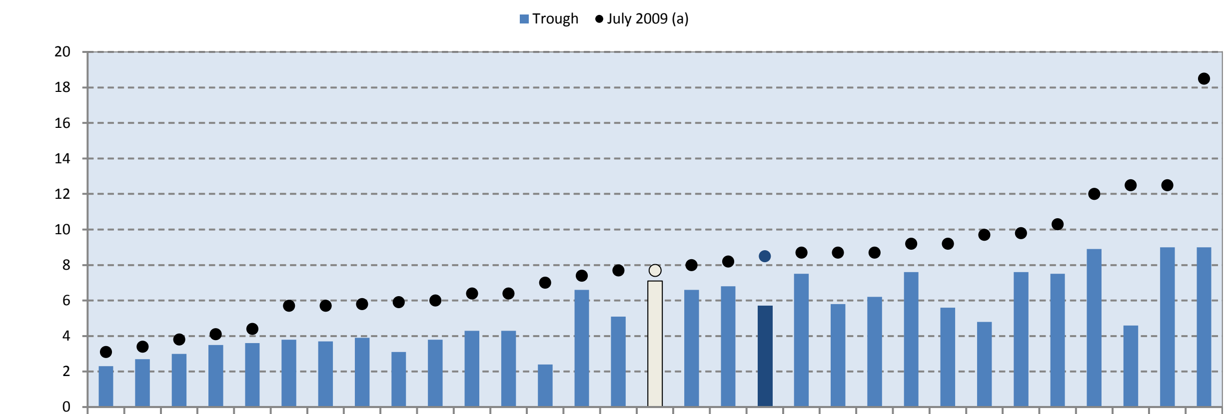
Employment Outlook 2009 – How does GERMANY compare?

In the current economic downturn, unemployment in Germany has risen much less than initially expected and, at 7.7% in July (using the standardised, survey-based measure), is still below the 2007 level of 8.4% and only about half a percentage point above its September 2008 trough**.** By contrast, unemployment in the OECD area reached a post-war high of 8.5% in July 2009, and 9.3% in OECD Europe, after 5.6% and 7.2%, respectively in 2007.

Change in unemployment rate from 2008 trough until July 2009*[a]*

Percentage points



	NOR	NLD	KOR	CHE	AUT	JPN	MEX	AUS	DNK	NZL	CZE	LUX	ISL	ITA	GBR	DEU	BEL	POL	OECD	GRC	CAN	FIN	PRT	SWE	USA	FRA	HUN	SVK	IRL	TUR	ESP
Trough	2.3	2.7	3.0	3.5	3.6	3.8	3.7	3.9	3.1	3.8	4.3	4.3	2.4	6.6	5.1	7.1	6.6	6.8	5.7	7.5	5.8	6.2	7.6	5.6	4.8	7.6	7.5	8.9	4.6	9.0	9.0
July 2009 (a)	3.1	3.4	3.8	4.1	4.4	5.7	5.7	5.8	5.9	6.0	6.4	6.4	7.0	7.4	7.7	7.7	8.0	8.2	8.5	8.7	8.7	8.7	9.2	9.2	9.7	9.8	10.3	12.0	12.5	12.5	18.5

a) Until March 2009 for Greece, Italy and Turkey; May 2009 for Norway and the United Kingdom; and the second quarter 2009 for Iceland, New Zealand and Switzerland

Source: OECD Calculations based on the OECD Main Economic Indicators.

Germany's unemployment rate is now below the OECD average but remains higher than for best OECD performers such as Austria, the Netherlands, Norway, Switzerland and Korea, all of which have remained below the 5% unemployment mark, despite recent job losses. Germany also needs to catch up further to best performers in terms of the employment rate – the proportion of people of working age who are employed – where it only has a mid-field position (70% vs. over 75%, among others, in Switzerland, Denmark and Norway and the United States). Further, Germany continues to perform badly in terms of the proportion of long-term unemployment among total unemployment: in 2008 more than 50% of the unemployed in Germany reported they had been looking for a job for over a year, compared to only 26 % in the OECD area.

Despite signs that economic growth may be slowly resuming in Germany as in other OECD countries, **the 2009 OECD Employment Outlook indicates that the early stages of economic recovery will be too muted to result in strong job creation.** In addition, employment indicators traditionally lag an economic recovery by a considerable amount of time. As a result, and despite prolonged employer benefits under the short-time scheme up to end 2010, total employment in Germany is expected to continue to fall and the unemployment rate is expected to rise significantly and could reach double digits in 2010 if the recovery fails to quickly gain momentum.

Germany’s **fiscal stimulus package**, which was of average size in international comparison (3.1% of 2008 GDP), has and will continue to have a positive effect in stemming job losses. According to calculations from the Employment Outlook, employment will fall by 0.6 to 1 percentage points less in 2010 than if there had been no stimulus package.

In addition, the massive use of the short-time work scheme has cushioned the impact of the economic downturn on unemployment. With more than 1.4 million workers participating in the scheme and with an average reduction in working hours by one third, current unemployment is close to half a million persons lower than it would be without the scheme. This corresponds to more than 1% of the labour force. Germany has taken a number of measures to make its short-time work scheme more attractive for employers. Although many other OECD countries took steps in the same direction, the German programme is generous by OECD standards in particular with regards to its maximum duration of 24 month.

The report warns, however, that despite their positive effects so far in preserving jobs, short-time schemes could become an obstacle to sustained recovery by propping up declining firms and making it harder for expanding ones to hire new workers. To prevent such effects short-time work schemes should be temporary and well-targeted. Some OECD countries try to avoid supporting jobs that are no longer competitive by imposing certain conditions on firms that apply for short-time subsidies. The Netherlands, for example, requires employers in the new short-time work scheme to return half of the benefit paid to the employee if the employee loses his/her job during or in the three months following short-time work.

A more general concern is that many low-paid workers, including those taking up a new low-wage or part-time job, do not benefit from generous short-time work schemes. Many OECD countries operate broader in-work benefit programmes that are not tied to an existing employment contract. By providing support to both existing and new workers such in-work benefits could contribute to a better balance between compensating earnings losses and facilitating the labour-market dynamism that is needed to make the most of a subsequent recovery.

Like other OECD countries, **Germany has taken a number of measures to reinforce the assistance available to job losers or other workers whose well-being is threatened by the economic downturn.** In particular (and apart from the expanded short-time work scheme mentioned above), Germany has added new employment service staff, has temporarily lowered some social insurance contributions and has expanded subsidies for vocational training for workers threatened by unemployment, older workers in SMEs and temporary agency workers.

In addition to a stronger focus on skill formation and training during the economic crisis, the OECD recommends to **maintain "activation" policies** that have been introduced with labour market reforms over the past decade. In particular, core elements of activation regimes, such as drawing up of a personal reintegration plan, regular meetings with case managers, and strong requirements to search actively for jobs, should not be allowed to lapse. However, some of these measures might have to be adjusted due to excess case loads or lower availability of job offers.

Adverse labour market conditions not only result in higher unemployment rates, but can also push more workers into **disability schemes** as job seekers become discouraged or long-term unemployment affects their health. Around 40% of German beneficiaries have previously been unemployed, for over a year on average.

Over the past two decades, the number of disability recipients has increased considerably in a number of OECD countries. By contrast, in Germany the rate of disability recipients has remained relatively stable at around 4.5 % of the working-age population. While most disability recipients are aged 50 and above, large increases have occurred in recent years among younger workers between 20-34 years. Germany is also among the OECD countries where disability for mental health problems has increased the most over the past two decades, constituting now one-third of all inflows.

Once a worker is on disability benefits a return to the labour market becomes very unlikely. The overwhelming majority of those who do exit disability benefits transit into retirement or other inactivity. With its increasing share of younger workers entering disability Germany should further strengthen its rehabilitation and return-to-work programmes for people with disability.

OECD Employment Outlook 2009 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 Peter Tergeist (tel: +33 1 45 24 92 57 or e-mail: peter.tergeist@oecd.org) from the OECD Employment Analysis and Policy Division.