



## Is the German Labor market really performing that well?

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Germany was for a lot of years considered the sick man of Europe with chronic low growth, high unemployment, a substantial public deficit and rising debt. But the German economy has taken a turn for the better the last decade. By improving their competitiveness, and thereby promoting exports, Germany has obtained strong growth rates, lowered unemployment and increased employment.

Part of the explanation lies in the labor market reforms known as the “Hartz reforms” which made stricter disposal obligations, activation for transfer recipients,

supported the employment through the “mini jobs” settlement, reduced government transfers, created more flexibility in employment and streamlined the employment services.

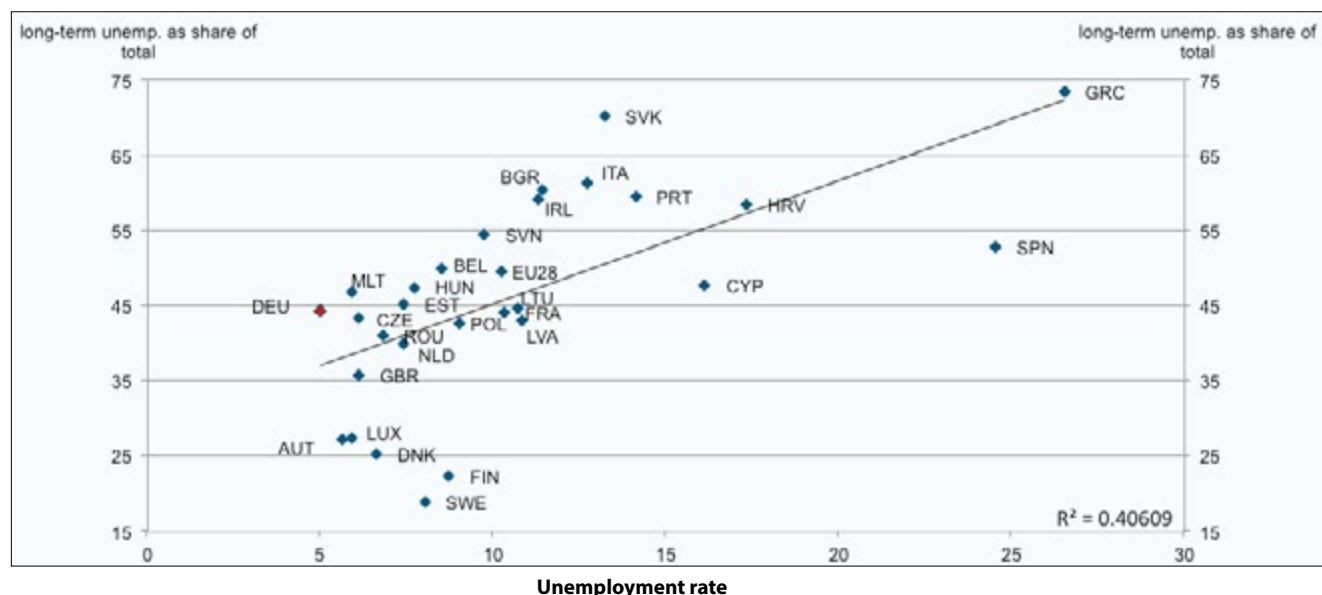
At a glance the German economy looks healthy and the labor market reform seems successful. But a more thorough look reveals a different story.

Germany still has problems with high long-term unemployment. In 2014, 43 percent of the German unemployed were long-term unemployed, meaning they had been in unemployment for 12 months or more. Compared to

other European countries this is relatively high. In Austria and the United Kingdom only 24 percent and 30 percent of the unemployed are long-term unemployed. This is apparent in figure 1 that shows the unemployment and long-term unemployment as a share of total unemployment in 2014 for the members of the European Union.

While for other indicators Germany would fit within the Scandinavian group of countries, in terms of unemployment patterns, the country fits more with eastern European countries.

**FIGURE 1: UNEMPLOYMENT AND LONG-TERM UNEMPLOYMENT AS A SHARE OF TOTAL UNEMPLOYMENT IN 2014 FOR THE MEMBERS OF THE EUROPEAN UNION**



Remarks: Unemployment rate is for the age group 15-64, long-term unemployment is defined as being unemployed for 12 months or more  
Source: Eurostat



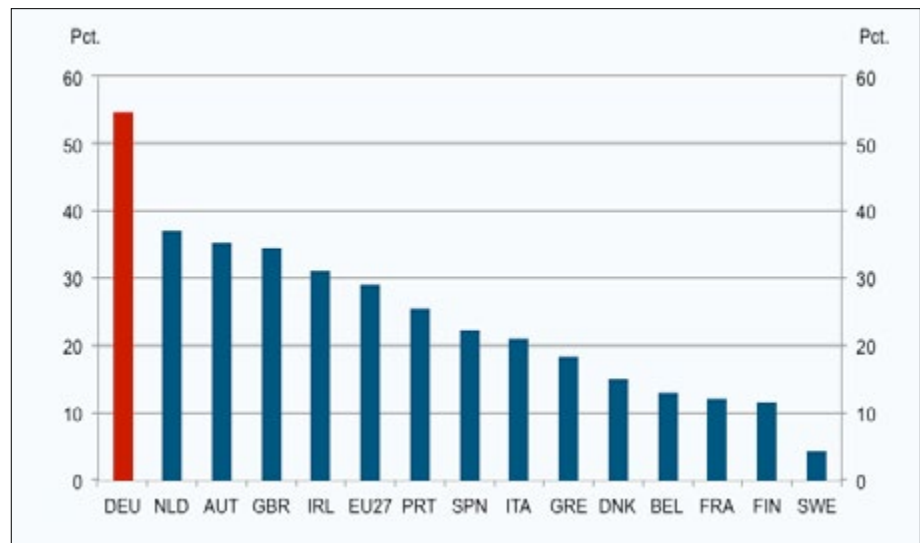
Even though unemployment has declined, the long-term unemployed have not. Further, wages tend to remain very low for unskilled workers. This is apparent in figure 2 that shows the share of pre-primary, primary and lower secondary education with a low salary (defined as being 2/3 of the median wage) for selected European countries in 2010.

The reason for this is that even though the economic situation has improved in Germany, not all workers have taken part to the growth. As a result over 50 percent of the low-skilled workers have a low-wage - compared to the European average around 30 percent, a ratio that has not changed since 2006. The real wage has remained almost constant the last decade, and the country is experiencing rising inequality. This is also the reason why the German economy lacks domestic demand, and thereby relies on export for future growth.

Another warning light comes from the expected change in employment rates. Figure 3 shows the expected change in the employment rate from 2013 to 2030. The employment rate is expected to fall.

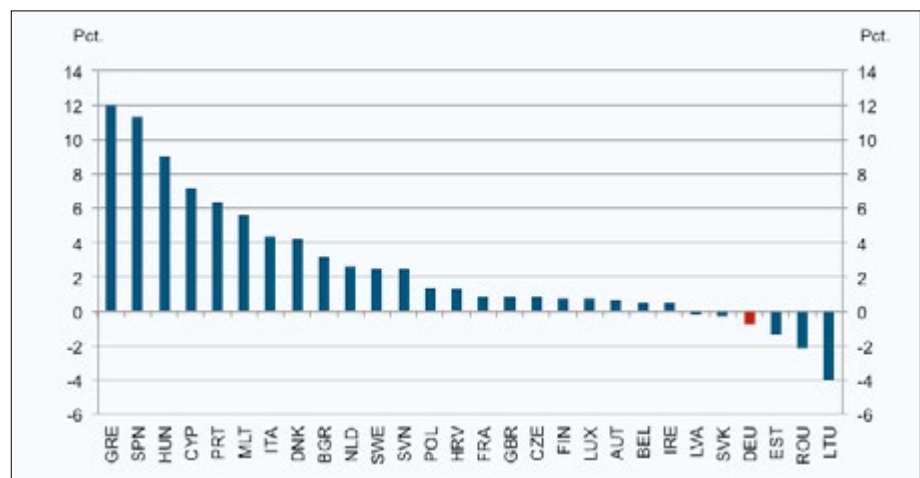
Combined with the fact that Germany's growth rates are projected to remain low, the German labor market may not be performing that well after all.

FIGURE 2: SHARE OF LOW-SKILLED WORKERS WITH LOW-WAGE



Remarks: low wage is 2/3 of the median wage: lower educated covers Pre-primary, primary and lower secondary education. Latest data is from 2010

FIGURE 3: EXPECTED CHANGE IN THE EMPLOYMENT RATES FROM 2013 TO 2030



Source: ECLM based on Eurostat

