



NEW REPORT: The German Labor Market, 2000–2016: Germany has found an effective combination of flexibility and rigidity in its labor market

A [new IZA World of Labor report](#) looking at the development of the German labor market finds steadily decreasing unemployment rates, increasing participation rates, and moderately increasing labor compensation. This is due to a number of reforms successfully combining rigid labor market institutions with flexibility instruments.

A new IZA World of Labor report by the German economists Ulf Rinne und Hilmar Schneider of the IZA (Institute of Labor Economics) finds the German labor market in good shape: Unemployment is low, participation rates are high, and wages are increasing moderately. The labor market has also been remarkably robust during the Great Recession. Rinne and Schneider show how Germany made it from the “sick man in Europe” in the early 2000s to an “economic superstar” as the country managed to transform its traditionally notoriously rigid labor market into a role model of its own style, combining institutions that typically characterize rigid labor markets with flexibility instruments.

For many years, the key challenge for Germany was to reduce high and persistent unemployment. The continuous rise in unemployment until the mid-2000s has often been linked to high levels of employment protection, high labor costs, and strict regulation of labor markets. Since 2005 unemployment numbers almost halved to less than 2.7 million unemployed persons. The labor market reforms (“Hartz”) played an important role in this turnaround. The Hartz Reforms mainly comprised the following changes: Employment services and related activities became fundamentally restructured, flexible forms of employment such as fixed-term contracts, temporary agency work and marginal employment were made more attractive, unemployment benefit duration for the elderly was lowered and all welfare recipients considered able to work were included in activation schemes. In total, these changes led to a significant reduction of long-term unemployment benefits and stricter monitoring activities for the unemployed.

Beyond that, additional elements gradually contributed to a strong labor market: One example is the country’s vocational education and training system. The dual apprenticeship system not only provides skills and qualifications in demand and “on the job”, but it provides employers with very reliable and authentic signal about a worker’s productivity. Employers would otherwise be very reluctant to hire unexperienced young workers because of the strict employment regulations. As a result of the successful apprenticeship system youth unemployment rates in Germany have been constantly lower than adult unemployment rates since 2000. Furthermore, during the period covered in the report unions and employers increasingly used the collective bargaining process to arrive at more flexible labor arrangements. This internal flexibility was a very important factor in explaining Germany’s resilience to the Great Recession, which hit the country mainly through declining exports.

However, while the German labor market is currently in excellent shape, this certainly does not imply that this situation will last forever: Future risks are on the European and global level, including issues such as Brexit, the stability of the European Union and the Eurozone, and the return of protectionism. Additionally, the country appears relatively unprepared for the likely impacts of demographic and technological change.

Please credit IZA World of Labor should you refer to or cite from the report.



BLOOMSBURY PUBLISHING
LONDON · NEW DELHI · NEW YORK · SYDNEY

I Z A
World of Labor
Evidence-based policy making

This is the second in a series of 27 articles, each entitled “The Labor Market in...” Labor and macroeconomists from each of these countries have agreed to write an article summarize the current state of the central issues in the country’s labor market: Unemployment and labor-force participation, overall and by demographic group; changes in real wages and wage inequality; and other central country-specific labor-market topics.

Media Contact:

Please contact Anna von Hahn for more information or for author interviews:
anna.vonhahn@bloomsbury.com or +44 7852 882 770

Notes for editors:

IZA World of Labor (<http://wol.iza.org>) is a global, freely available online resource that provides policy makers, academics, journalists, and researchers, with clear, concise and evidence-based knowledge on labor economics issues worldwide.

The site offers relevant and succinct information on topics including diversity, migration, minimum wage, youth unemployment, employment protection, development, education, gender balance, labor mobility and flexibility among others.

Established in 1998, the Institute of Labor Economics (www.iza.org) is an independent economic research institute focused on the analysis of global labour markets. Based in Bonn, it operates an international network of about 1,300 economists and researchers spanning more than 45 countries.