

# G20

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## Reinforced public employment services

Germany's labour market performance during the recession stands out among the advanced G20 countries. At the peak of the crisis, the unemployment rate increased by only half a percentage point, compared to 3 percentage points on average in the OECD, and has now fallen significantly below pre-crisis lows. Moreover, youth unemployment – which was under 10 per cent in early 2011 – remains among the lowest in advanced economies. Long-term unemployment, however, is high by international standards, highlighting the importance of helping disadvantaged workers during the recovery phase to ensure that growth is inclusive.

To provide additional job-search support to disadvantaged unemployed workers, Germany has reinforced its public employment services (PES)<sup>1</sup> since the crisis. Measures have centred on improving labour market intermediation through reinforced assistance to job-seekers, additional funding for retraining, including incentives for employers, and ensuring adequate financing for the PES.

These measures complement the series of Hartz reforms that began in 2003 with the aim of strengthening the effectiveness of active labour market measures and improving employment outcomes for unemployed workers.

### Enhanced PES delivery for jobseekers

Germany's set of active labour market policies seeks to ensure that disadvantaged jobseekers and long-term unemployed receive the right placement services and other support to avoid the risks posed by extended durations of joblessness.

In 2008, in an effort to bolster the PES, the federal Government recruited 4,200 additional case managers.<sup>2</sup> At the time, this was announced as a temporary measure to cope with a rise in unemployment. In January 2009, however, as part of the second phase of the fiscal stimulus package, the federal Government needed to recruit an additional 5,000<sup>3</sup> staff to reduce the ratio of unemployed individuals to caseworkers

as required by a law introduced in 2005 under the Hartz reforms (box 1).<sup>4</sup>

As a result, the PES unemployed-to-staff ratio in Germany is now quite low. The increase in caseworkers coupled with an overall decline in unemployment has brought the ratio in the reporting month of April 2011 down to 1:86 for young persons and 1:158 for adults, which is close to the target set out in the 2011 legislation.

### Increased spending on training initiatives

In an effort to address challenges associated with skills erosion, €3.4 billion were spent for further vocational training in 2009 and €2.9 billion in 2010 (including unemployment benefits). Eligibility for further training support was also temporarily extended to certain vulnerable groups, such as low-skilled or older workers employed by small and medium-sized companies or re-employed temporary workers, as part of Germany's fiscal stimulus package II. In addition, workers receiving short-time work allowance had the possibility of participating in further training with funding from the European Social Fund (ESF).

The "Upskilling for Low-skilled and Older Workers Employed in Companies" programme run by the PES (known as WeGeBAU) was also extended to skilled employees and funding was increased to €400 million in both 2009 and 2010. As a result, approximately 620,000 participants in PES-funded further training were registered in 2009 and roughly 490,000 in 2010. Of those, about 10,000 participants received funding under the WeGeBAU programme in both 2009 and 2010. About 110,000 workers received ESF-funded training during short-time work in 2009 (in 2010 the corresponding figure was about 50,000).

### Stable financing arrangements

The federal Government has put in place a mechanism in the form of grants and guarantees to ensure the financial stability of the PES. This means the

PES can function as an automatic stabilizer, with no disruption in benefits and programmes or increases in contribution rates during downturns. For example, in 2010 the deficit amounted to €8.14 billion, of which approximately €5.26 billion was covered by a one-time government grant due to the financial and economic crisis.<sup>5</sup> As of 2011, any deficit incurred will be financed through loan provisions from the federal Government.

## Long-term unemployment, skills mismatch

Since 2007, long-term unemployment (12 months or longer) has fallen as a share of total unemployment in Germany by more than 8 percentage points (figure 1). Among EU-15 countries, this is the largest decline over the past three years. At nearly 49 per cent, however, Germany's share of long-term unem-

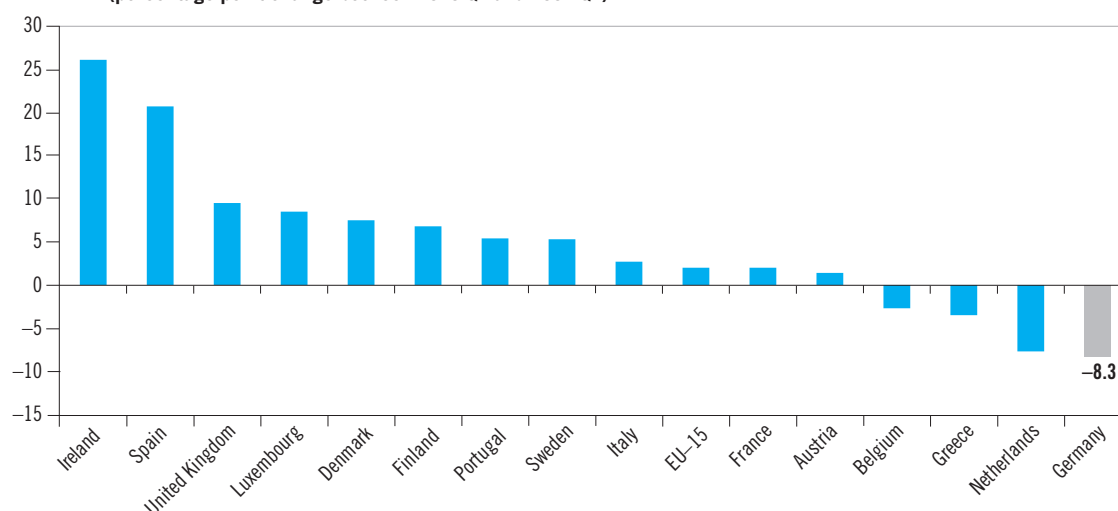
### Box 1. The Hartz reforms of the German labour market

A series of labour market reforms (the Hartz reforms) were undertaken between 2003 and 2005 with the aim of making active labour market policies more effective, notably to enhance assistance for unemployed persons to find a job quickly. Many of the reforms included efforts to improve the management and delivery of the public employment service, including:

- introduction of public temporary work agencies (Personnel Service Agencies);
- increased emphasis on individually tailored labour market assistance;
- reorganization of public employment services into Job Centres with a view to integrating benefits and employment assistance;
- restructuring and the reorganization of the public employment services, the *Bundesanstalt für Arbeit* (renamed the *Bundesagentur für Arbeit*), including refocusing activities more clearly on reintegration of the unemployed;
- a new unemployment benefit (known as UB II) for those no longer entitled to basic unemployment pay. The new benefit combines previously existing unemployment and social assistance. In addition, the reform introduced laws governing the staff-to-client ratios for UB II recipients. The ratio of PES staff for UB II recipients should be 1:75 for people under 25 years of age and 1:150 for those aged 25 and over.<sup>1</sup>

<sup>1</sup> BMAS (2010), p. 76.

**Figure 1. Change in the share of long-term unemployment in total unemployment among EU-15 countries, 2007–10**  
(percentage point change between 2010 Q4 and 2007 Q4)



Note: Long-term unemployment refers to individuals unemployed for 12 months or longer.  
Source: EUROSTAT.

ployed in total unemployment is among the highest, trailing only Ireland, Belgium and Portugal, and is well above the EU average of about 42 per cent. Moreover, two-thirds of the 1.38 million long-term unemployed in 2010 in Germany were without a job for more than two years.

As a result, the issue of long-term unemployment is of particular concern as the German economy recovers and labour shortages re-emerge. A long period of unemployment reduces the chances of finding work again and increases the likelihood that jobseekers' skills will not match those sought by employers. Being detached from the labour market also increases the risk of exclusion and stigma. In addition, the combination of changing skills requirements and the erosion of human capital associated with longer-term unemployment hampers the efficient functioning of the labour market in terms of matching skills to needs. Prior to the onset of the crisis and despite a relatively high level of unemployment, there were already skills shortages that constrained economic growth.<sup>6</sup>

## Focus on training

Building upon previous reform efforts, the increase in PES staffing and drive to improve the effectiveness of

service delivery to unemployed persons help to explain the strong performance of the German labour market.

Given that skills shortages have begun to re-emerge and long-term unemployment remains high by international standards, it is necessary to ensure a high take-up of training support for unemployed workers. With an ageing population, the need to secure the supply of skilled labour is gaining importance. Continued vocational training will therefore remain a core element of German labour market policy. It will be equally crucial to ensure that support to the PES is maintained. Training and active labour market programmes have a greater likelihood of success if administered via an effective and efficient PES.

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<sup>1</sup> Under the *Bundesagentur für Arbeit* (Federal Employment Agency).

<sup>2</sup> Refers only to Social Code II, i.e. legal provisions that govern social welfare and manages the financial and non-financial support to people who do not have sufficient employment incomes.

<sup>3</sup> Refers only to Social Code II and III. The latter refers to benefits and services provided by the federal agency *Bundesagentur für Arbeit*.

<sup>4</sup> ILO (2010). See also ILO and World Bank (forthcoming).

<sup>5</sup> ILS (2011).

<sup>6</sup> Brunello (2009).

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