



German labour market policy

Much remains to be done!

November 13, 2017

Authors

Dieter Bräuninger
+49 69 910-31708
dieter.braeuninger@db.com

Marc Schattenberg
+49 69 910-31875
marc.schattenberg@db.com

Franziska Winkler

Editor

Stefan Schneider

Deutsche Bank AG
Deutsche Bank Research
Frankfurt am Main
Germany
E-Mail: marketing.dbr@db.com
Fax: +49 69 910-31877

www.dbresearch.com

DB Research Management
Stefan Schneider

Original in German: October 30, 2017

Cyclical tailwinds increasingly hide structural problems, such as tighter regulation and demographic developments. Employment has been rising for years now. In September 2017, 44.4 million people were gainfully employed in Germany, and there were c. 750,000 job vacancies. Nevertheless, roughly 2.4 million people are registered as unemployed. While the cyclical situation is favourable, German labour market policy will be faced with major challenges in the future, such as digitalisation and demographic developments and, in particular, a lack of qualified labour. If the labour market is not to become a major obstacle to German growth, the future government will need to take quick and decisive action to counteract existing and imminent imbalances on this key market.

Reducing long-term unemployment will require a mix of policy measures. Despite the economic upswing, it remains difficult to reduce entrenched long-term unemployment. The number of long-term unemployed has stagnated at around one million for some time now. Reducing it will require even more intensive and efficient advice to and support for individual unemployed persons.

Even though the rise in employment in the last few years was driven mainly by an increase in the number of “regular jobs”, which are subject to social security contributions (+2.66 million in 2016 vs 2008), attention focuses largely on the low-wage sector. The trade unions in particular have heavily criticised the existence of this sector. However, it may provide those who have to overcome numerous obstacles in finding work with an important stepping stone towards the regular labour market. If there was no low-wage sector, the total number of jobs would probably be significantly lower.

Integrating refugees is a major challenge in terms of labour market policy. Newcomers not only need to prove or acquire relevant qualifications, but must also learn German. Integration in general needs to be promoted.

Labour market imbalances require particular attention. The good economic situation showcases a “mismatch” between the qualifications desired by employers and the qualifications which unemployed people actually possess. In order to prevent a widening of the gap, particularly since digitalisation will require the workforce to become more highly qualified and flexible, it will be necessary to maintain high standards at university and in vocational training and to intertwine the two better.

The election result points to a Jamaica coalition and thus to more flexible labour market policies, but not to far-reaching deregulation. As CDU/CSU, FDP and the Greens pursue different approaches in terms of labour market policy, this looks set to be one of the more contentious issues during the coalition negotiations. We expect somewhat more flexible rules in a number of areas, particularly concerning working hours, but it seems unlikely that the tighter rules passed by the grand coalition, for example on temp work, are abolished.

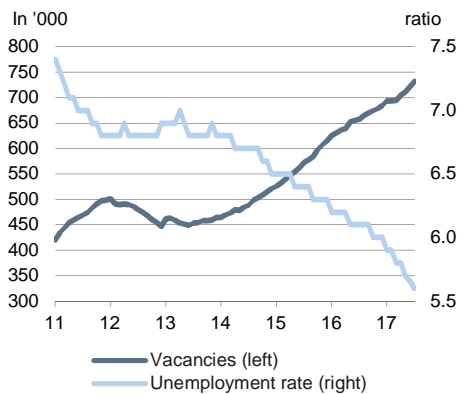


German labour market policy

Labour market: Approaching full-employment

1

Challenges for German labour market policy



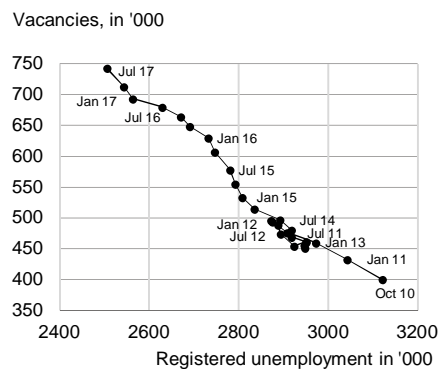
Source: Deutsche Bundesbank

Economic sentiment is buoyant thanks to the good cyclical situation and the favourable economic outlook. This is particularly evident on the German labour market. Every month, employment is reaching new highs – clearly in response to the good cyclical situation. However, a look beyond the immediate future shows that German labour market policy will need to deal with major challenges in the medium term, such as entrenched long-term unemployment, the development of the low-wage sector, the integration of refugees and the general discrepancy between the qualifications needed to get one of the vacant jobs and the qualifications which the (long-term) unemployed actually possess.

At the same time, digitalisation is causing a major structural shift on the labour market.¹ In the long run, demographic developments will be an important factor, too. In the medium to long term, the German workforce is set to shrink, while, at the same time, demand for highly-qualified labour will remain high on the back of technological change and continued globalisation. This development might, in fact, halve the German trend growth rate to only ¾%. Measures to further raise the participation rate and initiatives to improve education and raise the level of professional and vocational training might help, not least because they would improve productivity. We have already explained this in the first article of this series.²

Beveridge curve Germany, 2010 - 2017

2



Sources: Deutsche Bundesbank, Deutsche Bank Research

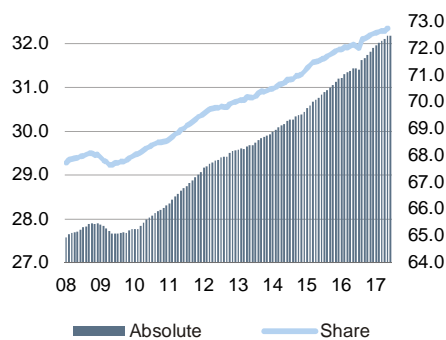
In order to prevent the labour market from becoming a major obstacle to German growth, these challenges will need to be dealt with quickly. At the moment, the discussion focuses on how to best distribute wealth. However, this will not help to counteract the rising structural obstacles. The coalition negotiations and the agenda of the new government had better focus on ways to make the German labour market and the workforce fit for the future – and this includes education.

Strong growth in employment s.t. social security

3

Favourable labour market situation hides challenges

millions (s.a.) (left),
% in overall employment (right)



Sources: Federal Employment Agency, Federal Statistical Office, Deutsche Bank Research

For years now, employment has been steadily rising in seasonally adjusted terms and reached new highs (Q3 2017: 44.36 million; September: 44.4 million). During the past legislative period alone, two million people found new jobs (Q3 2013 vs Q3 2017). And the number of employees in regular jobs, which are subject to social security contributions, has risen disproportionately, by 2½ million. As a result, their share in the total workforce has risen from 70.2% to 72.8%. At the same time, unemployment has declined markedly, despite the increasing number of refugees who are entering the labour market. Unemployment is very low in both a historical and an international comparison.

As a final brush to the favourable picture, participation rates are rising as well. The willingness to work has increased palpably, particularly among women and those aged 55 – 64. Since the beginning of the century, labour market participation in Germany has risen from the lower third to the top of the EU ranking.

At the same time, however, 1.954 million young people aged 20 - 35 had not completed vocational training in 2015; this is equivalent to 13.4% of this age

¹ Auer, Josef (2017). Robotics and automation outperform, backed by "Industry 4.0". Deutsche Bank Research. Talking Point, July 10.

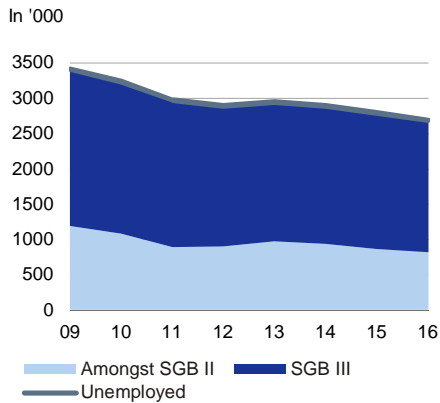
² Schattenberg, Marc (2017). Slowing German trend growth does not seem to be a major issue in the electoral campaign, Deutsche Bank Research Germany Monitor, Bundestag elections 2017, July 3.



German labour market policy

Unemployed pursuant to SGB II and SGB III

4



Sources: Institute for Employment Research, Deutsche Bank Research

group. Long-term unemployment has stagnated at a level around one million for years now.

Different aspects of labour market policy

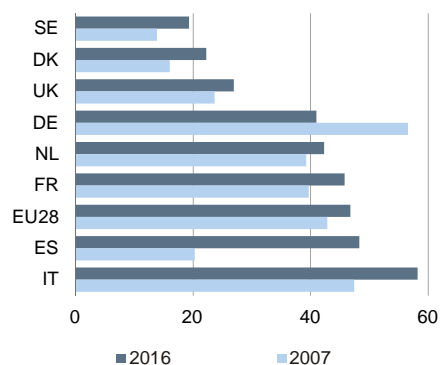
The term “labour market policy” covers all measures which aim to influence labour supply and demand. In Germany, the legal framework for labour market policy is set out in Books II and III of the Social Code (SGB II and SGB III, respectively). Put simply, the provisions of the SGB II deal with basic social security benefits. This includes benefits for the long-term unemployed, provided that the beneficiaries do not meet the requirements for touching regular unemployment benefits (so-called “unemployment benefits I”) for a longer period of time than usual (max. one year for those aged below 50). The SGB III covers active labour market policies. Among other things, it defines measures to promote employment in order to counteract unemployment or reduce the period of unemployment.

These include measures to support unemployed persons during their search for a job, training and qualification measures, wage subsidies or employment in the public sector. All these provisions tend to apply to people who have recently lost their jobs. They aim to prevent long-term unemployment by boosting the individual’s employability.

Long-term unemployment remains a key problem in numerous EU countries

5

% share of unemployment



Source: Eurostat

Entrenched long-term unemployment

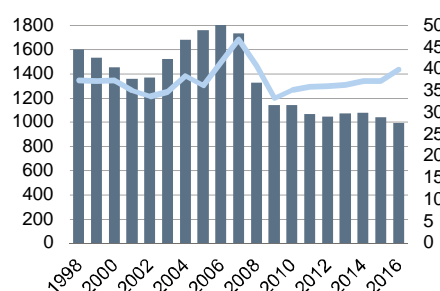
Long-term unemployment is defined as unemployment which lasts for more than one year. Despite the cyclical upswing, the numbers of long-term unemployed are slow to decline. In many cases, a combination of (increasingly) unfavourable factors prevents long-term unemployed from finding a new job. These include the sheer length of unemployment, relatively high age, low professional qualifications, health problems or language problems. Long-term unemployed have often been out of work for more than two years. About 25% of them are older than 55.

However, the biggest issue is their lack of qualification. Companies are largely looking for skilled workers. Recently, 16% of all vacancies required a university degree or a degree from a university of applied sciences and 64% required at least a completed apprenticeship. Only 20% of all vacancies were suitable for applicants who had not completed professional training. In contrast, almost half of the unemployed (1.26 million) did not have a formal professional qualification in 2016; 54% of the long-term unemployed (which number almost 1 million in total) lacked professional qualifications. According to the Institute for Employment Research (“Institut für Arbeitsmarkt und Berufsforschung”, IAB) in Nuremberg, 36% of the companies found it difficult to hire new employees in 2016. Almost one-fifth of them (18%) said that applicants were not sufficiently qualified, 12% claimed that wage demands were excessive or that applicants were not willing to meet the working conditions, and 24% said that not enough people had applied.

Long-term unemployment is slow to decline

6

Long-term unemployed in '000 (left),
% share in the total number of unemployed (right)



Source: Federal Employment Agency

In addition, there are considerable regional differences. While there is almost full employment in Bavaria (in July 2017, the unemployment rate was 3%), unemployment rates in Mecklenburg-Western Pomerania (7.9%) or Saxony-Anhalt (8.3%) as well as in the city states Berlin (8.8%) and Bremen (10.3%) are considerably above the national average of 5.6%.

Long-term unemployment in particular remains stubbornly high. While unemployment as a whole has dropped by 8.8% in the past four years, the number of those who have been unemployed for more than a year has declined only by 7.2%. Still, in 2016 long-term unemployment was reduced more strongly



than unemployment as a whole. Due to this development, the share of long-term unemployed in the total number of unemployed persons has risen (2016: 39.9%; 2013: 36.3%; 2010: 35.3%). In addition, on average only 1.5 - 1.6% of the long-term unemployed found a regular job (which is subject to social security contributions) each month in the last few years.

All this shows that the situation for long-term unemployed is not favourable. On top of this, they are faced with increasing competition on the labour market as the “hidden reserve” declines and immigrants enter the labour market. The term “hidden reserve” denotes persons who are able to work, but have stopped looking for a job. However, now that numerous jobs are offered, they feel encouraged to try again.

Ultimately, a mix of several measures will be necessary to counteract long-term unemployment. In many cases, tailored measures to increase people’s employability, for example by improving their qualification, will be key. However, this will require improving the ratio between job centre employees and unemployed from currently 1:250 to c. 1:100.

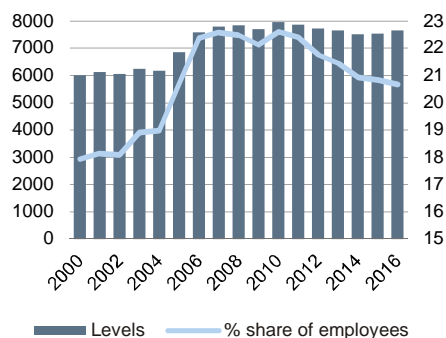
The current rule which limits exemptions from the minimum wage to six months should be overhauled, too. The “Hartz IV” package has shown that, in spite of all measures to promote employment, there are certain groups of unemployed persons who simply do not have access to the regular labour market for a host of reasons. A state-supported “social labour market” would be one way to offer them a chance of employment. Still, a general expansion of the intermediate labour market should remain a last resort, even if such a measure would reduce registered unemployment further.

Development of the low-wage sector

Atypical employment

7

Levels, in '000 (left),
% share of employees* (right)



* Excluding persons in training, education or voluntary service

Source: Federal Statistical Office

The low-wage sector is thought to play an important role when it comes to the re-integration of long-term unemployed into the regular labour market. All those whose hourly wages are below two-thirds of the median wage are defined as low-wage earners.³ The low-wage sector is regarded as a “springboard” which enables unemployed who find it difficult to get a regular job to enter the labour market. Whether they are actually successful in this endeavour will ultimately depend on their being able to acquire specific knowledge or capabilities which allow them to find a better job. Overall, the low-wage sector has considerably increased the number of available jobs in Germany.

The trade unions in particular criticise the low-wage sector and claim that numerous employees remain stuck in atypical or precarious employment situations.⁴ In fact, however, the number of atypical jobs (most recently: 7.655 million) has risen only slightly during the legislative period (+0.2% from 2013 until 2016). It has even declined slightly from its high in 2009, namely by 45,000 or 2.4%. At the same time the number of “mini jobs” (i.e. jobs with a small remuneration of max. EUR 450 per month) has dropped disproportionately, by c. 16%. The increase in employment is largely due to a higher number of regular jobs (+2.66 million or +11.6% between 2008 and 2016). However, almost half of these (45.7% or 1.215 million) are part-time jobs that include more than 20 working hours per week.

The low-wage sector warrants a differentiated analysis. It may enable those who find it difficult to get a regular job for several reasons to obtain a regular job in time. For example, numerous immigrants have recently found their first jobs in this sector. In addition, numerous women have got a part-time job. The key

³ This is not a general, scientific definition, but rather a convention adopted by international organisations such as ILO or the OECD.

⁴ German Trade Union Confederation (Deutscher Gewerkschaftsbund) (ed.) (2017). “Prekäre Beschäftigung: Das ist zu tun.” DGB diskurs. Available on the internet: <http://www.dgb.de/themen/++co++eff03c7a-51b0-11e7-b826-525400e5a74a>

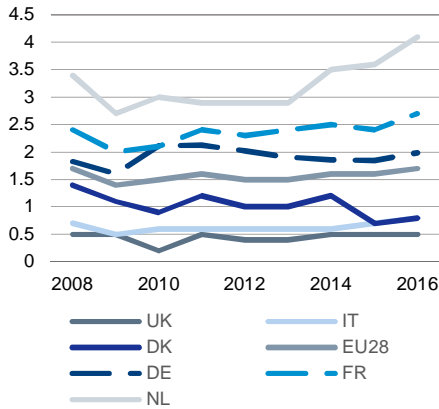


German labour market policy

Temp workers

8

In % of all employees



Sources: Eurostat, Federal Statistical Office

issue is whether people can indeed get a more demanding and rewarding job in time if they want to. Policymakers should take care not to tighten regulation further and thus make it more difficult for people to move upwards the employment ladder. After all, having a job – even if it is in the low-wage sector – suggests that a worker has labour market-relevant abilities or qualifications and may make people more willing to work than continued unemployment.⁵

Integration of refugees

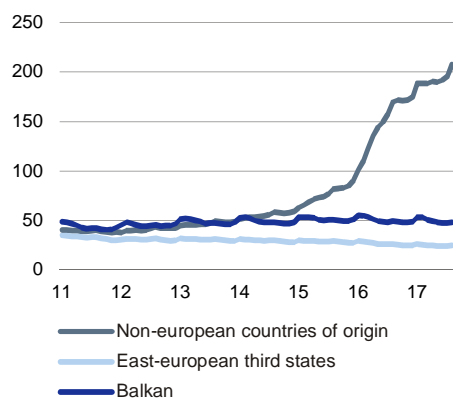
Refugee integration is a particular challenge for labour market policy. During the past two and a half years, 1.265 million first-time asylum applications were filed with the Federal Office for Migration and Refugees. However, there was a clear downtrend in the number of applications (H1 2016: 362,000; H1 2017: 91,200). 703,000 applicants were recognised as refugees or granted subsidiary protection during this period. The recognition ratio has dropped palpably, from 48.5% in 2015 to 20.1% in H1 2017. At the same time, the ratio of those who were granted subsidiary protection rose from 0.6% in 2015 to 22.1% in 2016, but declined again to 17.1% in H1 2017. At the end of September 2017, just below 100,000 cases were still open. In 2016, more than two-thirds of the applicants were aged between 16 and 60 and just above 70% were male. This means that about 0.5 million people will enter the labour market in the foreseeable future. Of course, many refugees will need to attend language and integration courses first. In June 2017, 213,000 employees came from war and crisis countries, i.e. double the number registered two years before.

According to the available data, it is not only insufficient knowledge of German, but also a lack of professional qualifications which makes the integration of refugees into the labour market difficult. In 2016, a survey was conducted among refugees who had come to Germany before. It showed that, while 20% of those aged over 18 had completed a course of study at a university or university of applied science or finished an apprenticeship, 72% had not received any vocational training at all. It is therefore urgently necessary to train these people. And as the study showed, they are quite willing to learn. 42% of the participants plan to start vocational training or enrol at university in Germany, 25% are thinking about doing so.

Number of unemployed asylum seekers by country of origin

9

In '000



Sources: Federal Employment Agency, Deutsche Bank

Policymakers should build on this interest, as labour market integration is a key step towards social integration. Consequently, the German Council of Economic Experts has pointed out that politics should not make it more difficult for refugees to find employment.⁶ The focus should be on general initiatives to facilitate and promote employment, not on specific exemptions. While there is still considerable uncertainty about the certain aspects of refugees' integration into the labour market, it seems that several pieces of experience from former immigration waves hold true. The Institute for Employment Research, the Federal Office for Migration and Refugees and the Socio-Economic Panel have conducted a joint survey on these issues. At the moment, 6% of the working-age refugees who have come to Germany since the beginning of 2016 are gainfully employed. This share rises to 31% for those who entered Germany in 2013 (2015: 10%; 2014: 22%). However, this figure should be taken with a grain of salt, as it also includes interns and mini jobbers. Moreover, c. 50% of those who came in 2015 are still stuck in the asylum procedure. These figures and the employment statistics of the Federal Employment Agency (BA) suggest that c. 10% of non-European refugees who entered Germany in 2015 were gainfully employed by mid-2016. Based on the experience from the labour market

⁵ Beste, Jonas, Kerstin Bruckmeier, Isabell Klingert, Peter Kupka, Torsten Lietzmann, Andreas Moczall, Christopher Osiander, Philipp vom Berge and Joachim Wolff (2017). IAB Stellungnahme: Verringerung der Langzeitarbeitslosigkeit, p. 17.

⁶ German Council of Economic Experts (2016). Annual Report 2016/17, p. 358 et seq.

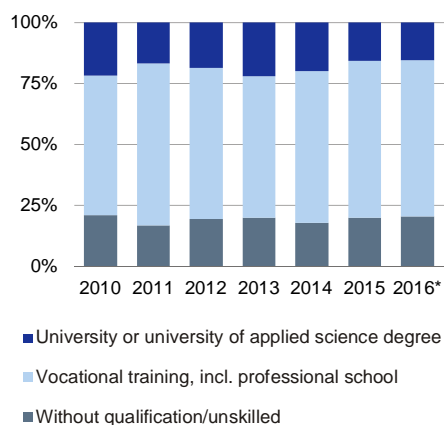


German labour market policy

integration of earlier immigrants, the share of those who are gainfully employed should amount to c. 50% after five and c. 70% after 15 years. However, the large number of recent immigrants makes a major difference. It is impossible to simply extrapolate former developments in the area of integration. One thing is certain, however: integration will take time and effort, both by the immigrants and by labour market policy.

Persistent imbalances on the labour market

Job vacancies by qualification level 10



* Preliminary figures

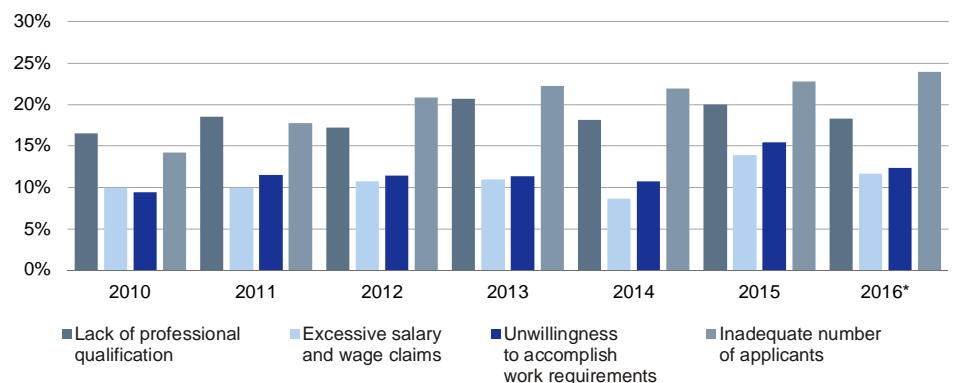
Sources: Institute for Employment Research, Deutsche Bank Research

The favourable cyclical situation and the good outlook for the German economy have pushed employment to its highest level in years. However, the mismatch between the requirements for jobs and the qualifications of the unemployed is increasing. This applies in particular to those with low professional qualifications. According to figures from the Federal Employment Agency, in August 2017 only 144,000 unqualified jobs were offered, whereas 1.16 million unemployed have no professional qualifications to speak of. The ratio was somewhat better for skilled workers: 956,000 of them were unemployed, but there were c. 500,000 vacancies. Most of these unemployed had worked in the services sector before. At the same time, the number of vacancies in the mechatronics, energy and electrical sectors exceeded that of unemployed with suitable qualifications by c. 15,000.

This mismatch is also visible if we take a look at the distribution of

Reasons for difficulties in filling vacancies 11

Share in the total number of new hires

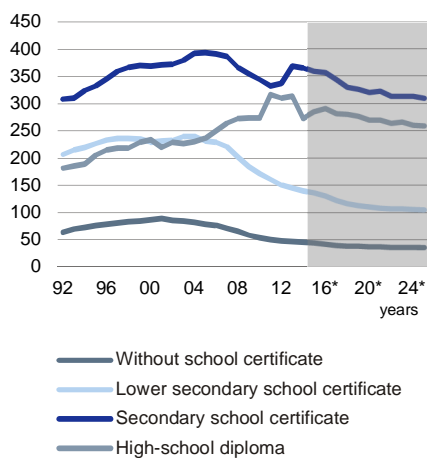


Sources: Institute for Employment Research, Deutsche Bank Research

* Preliminary figures for 2016

School leavers and graduates in Germany 12

In '000 * Forecasts from 2014 onwards



Sources: Standing Conference of Education Ministers, Federal Statistical Office, Federal Institute for Vocational Education

apprenticeships. 8% of all apprenticeship vacancies were not filled in 2016 (2014: 7.6%; 2015: 7.6%). At the same time, 13% of the applicants (2015: 13.4%; 2014: 13.5%) did not find an apprenticeship place in 2016. This translates into 80,600 young people who were still looking for an apprenticeship place, whereas 43,500 apprenticeships remained on the shelf. The number of companies that train apprentices has declined further. Their share dropped from 24.1% in 2007 to 20% in 2015.

According to the Institute for Employment Research, the share of difficult-to-fill vacancies rose from 29% in 2010 to 36% in 2016. Difficulties arose mainly from the fact that applicants' qualifications were insufficient or altogether lacking. On average, it took 82 days to fill a vacancy in 2016. According to the Federal Employment Agency, this period has increased further this year, to c. 100 days.

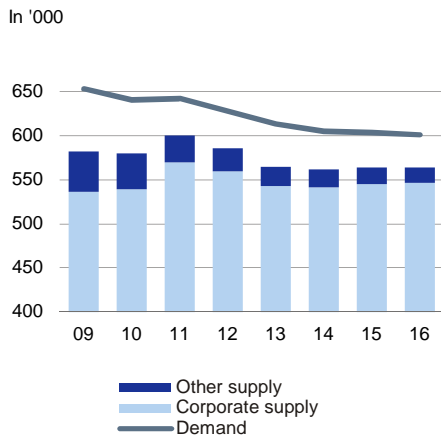
In addition to the mismatch between required and actual qualifications of unemployed persons, the trend towards achieving higher degrees of education makes it difficult to fill vacancies for qualified workers. Since 2011, the number



German labour market policy

Supply and demand of apprenticeship places, 2009 - 2016

13



Source: Federal Institute for Vocational Education and Training

of new university students has been above that of new apprentices.⁷ This means that fewer workers qualified in the traditional German vocational training system will be available to fill the relevant vacancies in the future. At the same time, however, the number of apprenticeships offered was below the number of applicants in the last few years.

The Federal Employment Agency's most recent analysis of bottlenecks explains the lack of qualified labour in detail at both the regional and sectoral level.⁸ The figures for "vacancy fillings", "ratio between unemployed and job vacancies" and "profession-specific unemployment rates" help to get an idea of the lack of qualified labour in the specific segments of the labour market. In particular, there is a lack of skilled labour in numerous technical professions and in the healthcare sector.

Qualified workers are the backbone of the German employment structure, and the specific vocational training system ensures that young workers are highly qualified. That is why labour market policy should place much importance on counteracting the imminent threats to the system. However, this does not require even more regulatory interventions in a system which is strongly segmented anyway (by the degree of education and training needed for individual professions). Rather, the efforts should focus on intertwining university and vocational training and on making the training schedules more flexible. However, this is rendered difficult by the co-existence of different institutional structures.

In the medium to long term in particular, immigration should help to counteract the lack of skilled labour. Even today, staff shortages, for example in the healthcare sector, would be considerably more serious if it were not for workers from abroad. In fact, more than 10% of the healthcare professionals are immigrants (as of mid-2015), and the share has risen significantly, above all in the last few years. The most recent hike in the sector-specific minimum wage to EUR 10.55 (west Germany incl. Berlin) and EUR 10.05 (east Germany) from 2018 should reinforce this trend. More than 11% of the 380,000 doctors in Germany are foreign nationals (as of end-2016). These figures underline that a rational regulation of immigration (of skilled workers) is necessary. In addition, other measures should be taken to prop up Germany's potential workforce (see the study referenced in footnote 2).

Plans of a potential "Jamaica" government: More flexibility, but no far-reaching labour market deregulation

Labour market policy is one of the difficult issues in the negotiations about a "Jamaica" coalition between the CDU/CSU, the FDP and the Greens. This is largely due to the fact that these three parties, owing to their fundamental political stance, understand the government's tasks in this area differently. While the Greens tend to rely on government direction in several areas of labour market regulation and labour market policy, the CDU/CSU tend to allow the employers and trade unions more leeway and thus give them more responsibility. In fact, the CDU/CSU want to strengthen and encourage employers' and trade unions' autonomy in wage negotiations and the partnership between employers and trade unions. The FDP, in turn, puts more emphasis on employers' and employees' freedom to enter into a contract and point out that project-related contracts will play a larger role in the future.

⁷ Authoring Group Educational Reporting (2016). Education in Germany 2016, p.121. Bertelsmann Verlag.

⁸ Federal Employment Agency (2017). Fachkräfteengpassanalyse.



Give and take: different fundamental approaches ...

Despite these fundamentally different stances, labour market policy is unlikely to be the issue on which any coalition negotiations break down. After all, there is no major controversy in this area, despite the fact that a working, flexible labour market is key to Germany's economic momentum. Labour market policy is not a core issue for any of the parties. Moreover, voters do not regard unfavourable labour market developments, such as (long-term) unemployment, as one of Germany's key problems. And finally, the CDU/CSU and the Greens also include factions who prefer decentralised, market-oriented solutions to government, interventionist measures.

... require a three-way compromise ...

Nevertheless, it may be difficult and take time until the potential partners arrive at an agreement on controversial issues. These include, for example, different proposals concerning amendments to labour protection laws. The FDP tends to support deregulation and flexibilisation, whereas the CDU/CSU want to expand the leeway for more flexible collective wage agreements. In contrast, the Greens want to keep or even expand the existing rules. For example, the Greens hope to abolish the rule that (new) employment contracts may be signed only for a limited time of up to two years without a material reason for this limit. In addition, they want to complement employees' legal right to apply for part-time work by a right to demand that they can return to their former number of working hours. And they have called for a right to work at home in addition to work at the office. While the Greens have said that these rights shall be exercised subject to material operational requirements of the employer, the right to a return to full working hours is unlikely to make it into a coalition agreement with the FDP and the CDU/CSU. The same applies to the abolishment of time-limited employment contracts, even though several CDU/CSU members sympathise with this demand. The CDU/CSU and the FDP agree on cutting red tape for minimum wages and reducing the documentation obligations, which have resulted in extensive administrative efforts for small and medium-sized companies in particular.

... between more regulation, ...

The Greens plan to regulate temp work more strictly. In particular, they are calling for paying temp workers "at least the same wage as regular workers from the first day, plus a flexibility premium". However, this demand is unlikely to be implemented. The FDP's call for deregulation and less red tape is not likely to be realised either, which means that the legal restrictions on temp work (at most 18 months, or up to 4 years if both employers and trade unions agree) and wages for temp workers (equivalent wage after 9 months at the latest) introduced by the grand coalition will probably not be abolished.

More flexible working hours are another controversial issue. The Greens want more leeway for employees who care for children or other relatives or want to pursue professional training. According to the Greens' proposal, such employees should be able to reduce and increase their working hours by up to 10 hours per week, subject to material operational requirements by the employer. Small and medium-sized companies in particular would probably find it impossible to implement this concept, which is why the FDP above all will probably put up resistance. At the same time the FDP and the CDU/CSU want more flexibility in terms of daily working hours. For example, the FDP wants to fix only a maximum limit per week (48 hours) in line with the EU Working Time Directive. At the same time the current limits on daily working hours (8 and 10



hours) and the obligation to respect an eleven-hour break shall be lifted in non-security-relevant areas. The CDU wants to give employers and trade unions additional leeway to agree on such rules in the collective wage agreements. In fact, involving employers and trade unions might be a compromise on which all three parties can agree. The Greens have only said that labour protection laws should be adapted to the digital world.

... more flexibility and ...

It should be possible to reach a consensus about the FDP's call for a more flexible transition from working life to retirement, even though any new provisions are unlikely to fully implement the far-reaching FDP proposal of allowing people to decide freely about the date of their retirement at any age between 60 and 70 (subject to top-ups on or deductions from pensions).

The provisions concerning basic benefits and support for long-term unemployed are to be improved as well. All parties aim at a more or less far-reaching reform of the basic social-security benefits (unemployment benefits II and supplementary benefits) in order to strengthen incentives to take up work. One goal is to reduce high burdens by reducing transfer withdrawals (implicit tax or transfer withdrawal rates can reach up to 100% or more) if people switch from mini to midi jobs or touch benefits for children. It is less likely that the CDU/CSU agree to the Green's proposal that sanctions under the Hartz IV framework should be abolished (e.g. if beneficiaries violate notification obligations or refuse to take a job without a good reason). In any case, it makes sense to cut red tape in the basic benefits system and focus more strongly on promoting employment, in line with demands by the Greens and the FDP.

The FDP wants to use the cash freed up by a reform of the basic benefits system to subsidise wages for long-term unemployed. Under the new system, the errors of former models of wage subsidies should be avoided. In contrast, the Greens and the CDU/CSU (as a last resort) plan to introduce additional public-sector employment programmes in order to reduce long-term unemployment.

One proposal by the Greens, however, runs counter to the tasks of a state-sponsored system. This is the demand that the unemployment insurance should be reworked into an employment insurance which supports all workers even before they become unemployed. Professional qualification and regular professional training are key to securing Germany's future as an economic hub. However, we believe matters such as these are better left to the private sector, i.e. employees and employers, and the government should limit itself to creating favourable framework conditions. Promoting (or subsidising) working-hour accounts, a solution proposed by the FDP, appears like an adequate approach.

... safeguarding existing rules

Overall, a "Jamaica" coalition may work towards more flexibility on the labour market, but is unlikely to implement major deregulation. This means that the grand coalition's obstacles to a more dynamic labour market development during cyclical downswings will continue to exist. These include, for example, interventions in wage autonomy or incentives to retire early.



German labour market policy

However, there is a chance that policymakers pay more attention to flexibility, for example in terms of (daily) working hours, particularly since digitalisation makes more flexibility a necessity.

Dieter Bräuninger (+49 69 910-31708, dieter.braeuninger@db.com)

Marc Schattenberg (+49 69 910-31875, marc.schattenberg@db.com)

Franziska Winkler

© Copyright 2017. Deutsche Bank AG, Deutsche Bank Research, 60262 Frankfurt am Main, Germany. All rights reserved. When quoting please cite "Deutsche Bank Research".

The above information does not constitute the provision of investment, legal or tax advice. Any views expressed reflect the current views of the author, which do not necessarily correspond to the opinions of Deutsche Bank AG or its affiliates. Opinions expressed may change without notice. Opinions expressed may differ from views set out in other documents, including research, published by Deutsche Bank. The above information is provided for informational purposes only and without any obligation, whether contractual or otherwise. No warranty or representation is made as to the correctness, completeness and accuracy of the information given or the assessments made.

In Germany this information is approved and/or communicated by Deutsche Bank AG Frankfurt, licensed to carry on banking business and to provide financial services under the supervision of the European Central Bank (ECB) and the German Federal Financial Supervisory Authority (BaFin). In the United Kingdom this information is approved and/or communicated by Deutsche Bank AG, London Branch, a member of the London Stock Exchange, authorized by UK's Prudential Regulation Authority (PRA) and subject to limited regulation by the UK's Financial Conduct Authority (FCA) (under number 150018) and by the PRA. This information is distributed in Hong Kong by Deutsche Bank AG, Hong Kong Branch, in Korea by Deutsche Securities Korea Co. and in Singapore by Deutsche Bank AG, Singapore Branch. In Japan this information is approved and/or distributed by Deutsche Securities Inc. In Australia, retail clients should obtain a copy of a Product Disclosure Statement (PDS) relating to any financial product referred to in this report and consider the PDS before making any decision about whether to acquire the product.