

The labor market in Germany, 2000–2018

The transformation of a notoriously rigid labor market into a role model of its own style is essentially complete

Keywords: wages, unemployment, Germany, vocational training, regulation

ELEVATOR PITCH

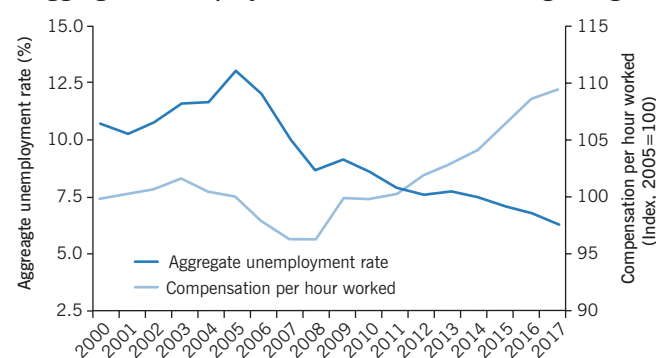
The EU’s largest economy, Germany, has managed to find an effective and unique combination of flexibility and rigidity in its labor market. Institutions that typically characterize rigid labor markets are effectively balanced by flexibility instruments. Important developments since 2000 include steadily decreasing unemployment rates (since 2005), increasing participation rates, and (since 2011) moderately increasing labor compensation. The German labor market was remarkably robust to the impacts of the Great Recession, thus providing a useful case study for other developed countries.

KEY FINDINGS

Pros

- + Unemployment is generally low, but especially youth unemployment is very low by international comparison, which appears related to the dual apprenticeship system.
- + While participation rates have been basically increasing across the board since the mid-2000s, the increase has been particularly strong among older workers.
- + Considering aggregate figures, Germany’s labor market was hardly affected by the Great Recession—especially in terms of aggregate employment.
- + The labor market remains rather rigid by international comparison, but the country manages to avoid many negative side effects that are typically associated with rigidity.

Aggregate unemployment rate and real average wages



Source: Unemployment rate: Federal Employment Agency. Online at: <https://statistik.arbeitsagentur.de/>; compensation: OECD Compendium of Productivity Indicators 2019. Online at: <https://doi.org/10.1787/6573d3c3-en>

Cons

- The trend toward favoring academic education over vocational training threatens the important role of the dual apprenticeship system.
- Given comparatively high labor costs it is important that Germany remains productive and innovative.
- The return of protectionism is a threat to the German model, which continues to rely to a substantial extent on exports and imports.
- The reduction of unemployment during the last decade is mostly driven by demographic factors in East Germany; the unemployed do not proportionally benefit from the increase in employment.
- Demographic change jeopardizes the sustainability of the country’s success, especially when taking structural disadvantages in immigration policy into account.

AUTHOR’S MAIN MESSAGE

The German labor market is in good shape: unemployment is low, participation rates are high, and wages are increasing moderately. The labor market has also been remarkably robust to policy experiments, such as the introduction of a statutory minimum wage, and to demand side shocks, such as the Great Recession. However, future risks are on the European and global level, including issues such as Brexit, the stability of the EU and the Eurozone, and the return of protectionism. Additionally, the country appears relatively unprepared for the likely impacts of demographic and technological change.