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## 1 Introduction

In the context of the present report the situation of unemployed persons and ageing unemployed persons will be analyzed in relation to the German labor market, particularly using the example of the Ingolstadt Region<sup>1</sup>.

Firstly, a general view of the German economic situation and labor market will be shown. This will result from the analysis of the development of the gross domestic product, of the unemployment data and of expenditures for social security within the last ten years.

In connection with this the labor market policy measures will be examined carefully: In order to do so both the most important actors and the newest developments at the political level will be identified. Special attention is to be paid to continuing vocational training schemes, which attempt to promote the reintegration of ageing unemployed persons into the labor market. Furthermore, the current debate about labor market policy on the part of politics and the social partners will be presented.

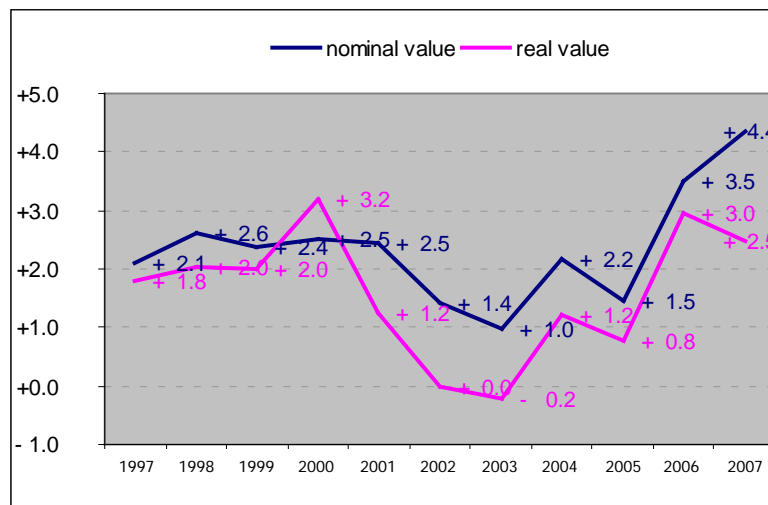
The second part of the study describes on one hand the path out of unemployment in the German system, above all in reference to ageing unemployed persons. On the other hand this section of the report contains an analysis of the program "Perspektive 50plus", which is considered to be an example of good practices.

## 2 Macroeconomic Data on the Economic Situation<sup>2</sup>

### 2.1 Gross Domestic Product (1997-2007)

The German gross domestic product (GDP) increased in absolute numbers from 1997 to 2007 from 1.9 trillion euros to 2.4 trillion euros. This indicates an average yearly growth of 2.4% compared to the previous year. Considering the real values, that is to say adjusted to price, then the average yearly growth for the period 1997-2007 is near 1.5% (see Figure 1).

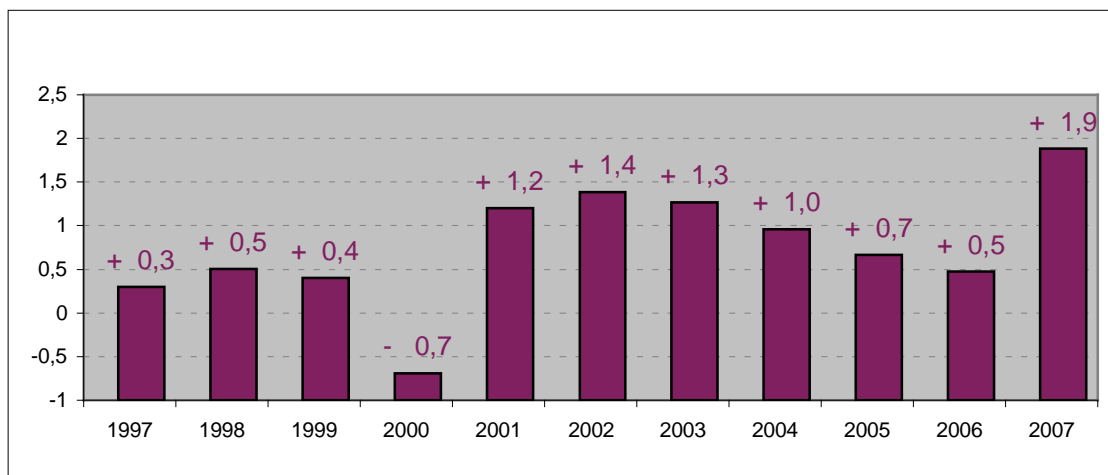
Figure 1: Development of the German Gross Domestic Product 1997-2007  
(% in relation to the previous year)



Source: Federal Ministry for Labor and Social Affairs, June 2008

The real GDP growth shows slightly lower values on average than does the nominal GDP growth; only in the year 2000 was the real GDP growth value, at +3.2%, higher than the nominal GDP growth value (+2.5%). In the years following 2000, a divergence of the two values can be observed, which can be attributed to the price increases that resulted from the introduction of a common European currency. The price increases of the last ten years are illustrated in figure 2.

Figure 2: Price Progression 1997-2007 (%)



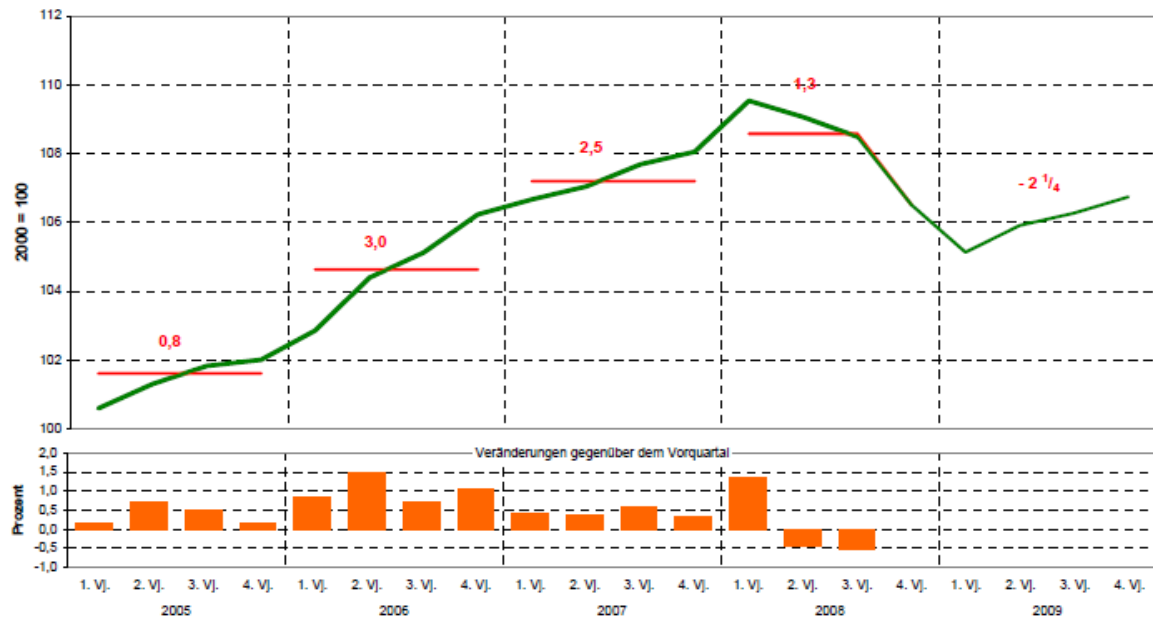
Source: Federal Ministry for Labor and Social Affairs, June 2008

From 2001 to 2004 the annual increase in prices amounted to more than 1% each year. In 2007 the value even increased to 1.9% - these markers were last reached in 1995.

The fact that the economic upturn continued in 2007 can be attributed primarily to the strong exports (these increased in 2007 by 8.3% in comparison with the previous year), which resulted from flourishing world trade, while domestic demand developed rather sluggishly; it grew in 2007 by 1.1% in comparison with the previous year (Bundesministerium für Wirtschaft und Technologie 2008: 9).

According to the initial projections of the Federal Statistical Office, the GDP adjusted for price grew in 2008 only by 1.3% compared to the preceding year<sup>3</sup>. This increase can be attributed primarily to a strong first quarter, while in the past three quarters a decline in the GDP can be observed. This can be ascribed to two factors: On one hand, increased energy prices led to considerable increases in prices which dampened private demand, exports and investments. On the other hand, since mid-September 2008 the international financial crisis has played a role (Bundesagentur für Arbeit 2009: 18).

Figure 3: Development of the GDP in Germany (adjusted for price) - Annual Projection 2009



Source: Bundesministerium für Wirtschaft und Technologie 2009

Initial projections for 2009 are influenced by the current international economic situation, which drastically worsens growth prospects: The Federal Government predicts, as can be seen in Figure 3, a decline in GDP by approximately 2.25% that is adjusted for price (Bundesministerium für Wirtschaft und Technologie 2009: 1).

## 2.2 Employment and Unemployment

On 31.12.2007 the German population was 82.2 million persons, of which 51% were female and 49% were male. The percentage of foreign citizens in the entire population is 8.8%. The population has stagnated since 2003 and has been declining slightly since 2005 (-0.1%) (Bundesministerium für Arbeit und Soziales 2008: 43). As gainful employment as well as unemployment will be considered in this segment it is necessary that the methodology of data collection be illustrated, in order to prevent misunderstandings.

### Statistics Concerning Unemployed Persons (Federal Statistical Office and Federal Employment Agency)

The data sets that are available in Germany are based on two different definitions of unemployment (*Erwerbslosigkeit* and *Arbeitslosigkeit*). The statistics concerning unemployed persons from the Federal Statistical Office, which are based on a concept of the International Labour Organization (ILO), calculates the data by means of a sampling whose results are then projected onto the entire population. The Federal Employment Agency (BA), in contrast, uses its registered data (census), whose survey is based on the Social Security Code. Both concepts are in agreement that unemployment (*Erwerbslosigkeit* and *Arbeitslosigkeit*) is involuntary, that is to say that the

unemployed person must be available to the labor market. „Those persons are considered unemployed who do not have a place of employment during a certain period of time, who are available to the labor market and who are looking for employment. Those that have found employment are considered to be unemployed until the start of employment.“ (Hartmann/Riede 2005: 303-310)

A significant difference between the two methods of data collection exists in the fact that the ILO statistics equate unemployment with the complete lack of employment: with only one hour of work per week the concerned person is assigned the status of being employed; anyone that would like to work for only one hour per week is considered to be unemployed. The BA's statistics, in contrast, consider those that work less than fourteen hours per week and those for whom this is not sufficient as unemployed, while those that would like to work less than fifteen hours per week do not appear in unemployment statistics<sup>4</sup>. These as well as additional differences between the two survey tools are illustrated in Table 1.

Table 1: Differences between the BA and ILO/EU Unemployment Concepts  
Source: Sauer mann 2005

	Registered Unemployed Persons (BA)	Unemployed Persons (ILO/EU)
Current job	Max. 14 hrs/week	No Job
Age	15 to 65 years	Over 15 years
Search strategies	Personal registration with the Federal Employment Agency	Active job search (during the previous four weeks)
Availability	Immediately	Within two weeks
Job being sought	Employment subject to compulsory social insurance with min. 15 hrs/week	(Self-)Employment regardless of duration



Both surveys complement each other, whereupon the ILO statistics receive particular attention in international comparisons, due to the fact that it is not directly affected by the respective social laws (Hartmann/Riede 2005: 303-310).

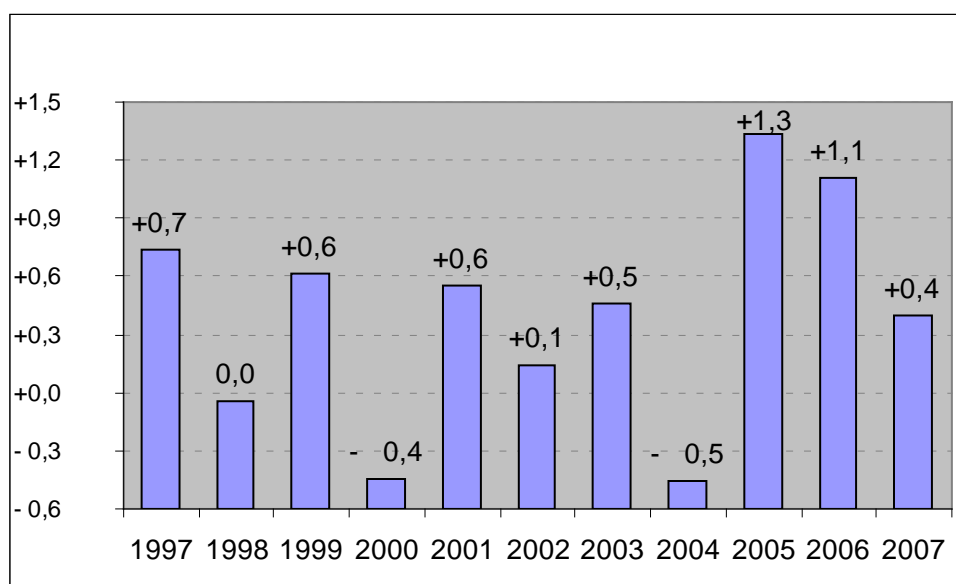
Therefore the data used in this report must be read bearing in mind the respective source.

## Employment

According to the BA, 39.7 million persons were employed in the Federal Republic of Germany in 2007 (Federal Employment Agency 2008b: 27). The indications based on the Federal Statistical Office's samplings<sup>5</sup> add up to 41.8 million employed persons and a percentage of 69.4% of all persons in the age group of 15 to 65 year olds (Puch 2009: 3).

In the years from 1997 to 2007 the number of employed persons developed as can be seen in Figure 4.

Figure 4: Employed Persons in Relation to the Preceding Year 1997-2007 (%)



Source: Federal Ministry for Labor and Social Affairs, June 2008

According to the first projections by the Federal Statistical Office, the number of employed persons (seasonally adjusted) increased from January to September 2008 on average by 44,000. The year's average rate of employment in comparison with the previous year increased by approximately 1.2 % (Bundesagentur für Arbeit 2009: 8).

The labor-force participation rate<sup>6</sup>, which includes both gainfully employed and unemployed persons, differs considerably between men and women. According to indications by the Federal Employment Agency, the labor-force participation rate altogether in 2006 amounted to 74.8%. The male labor-force participation rate of 81.1% was indeed substantially higher than that of women (68.4%). If, however, one considers the chronological progression, a distinct increase in the female labor-force participation rate can be observed that gradually approaches that of the men. In eastern Germany the female labor-force participation rate, at 73.4%, continues to be above that of western Germany (67.1%) (Bundesagentur für Arbeit 2008b).

The employment differences between men and women as regards the sectors are largely unchanged: whereas the latter are primarily employed in the tertiary sector, men still dominate the industrial sector.

In the part-time work sector an increasing demand by men can be observed; nevertheless, women distinctly remain in the majority: 83.7% of all part-time positions subject to compulsory social insurance in 2006 were occupied by women (Bundesagentur für Arbeit 2008b: 88).

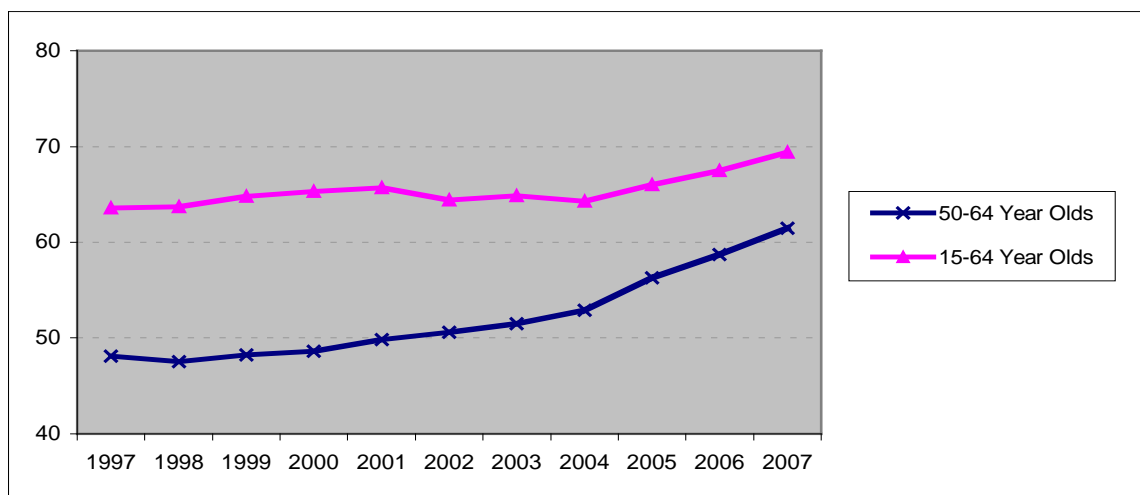
The labor-force participation rates differ considerably according to age group, whereupon the fifteen to under-twenty and the sixty to under-sixty-five age brackets exhibit the lowest labor-force participation rate (Bundesagentur für Arbeit 2008b: 91).

The low labor-force participation rate among those fifteen to twenty years old can be attributed to the educational participation of these groups of persons, which is confirmed by the heavily increasing labor-force participation rate in the twenty to twenty-five year old peer group.

Among elderly people over fifty the labor-force participation rate in 2007 was, at 67.9%, above the European average of 58.9%. The labor-force participation rate among women between the age of fifty and sixty-four rose from 45.1% in 2000 to 60.3% in 2007, which can be ascribed to the increase in the retirement age from sixty to sixty-five (Bundesagentur für Arbeit 2008b: 91)

As evident in Figure 5, the labor-force participation rate rose continuously and to a larger extent among fifty to sixty-four year olds in the last ten years than among the total population.

Figure 5: Labor-Force Participation Rate among 15-64 Year Olds and 50-64 Year Olds 1997-2007



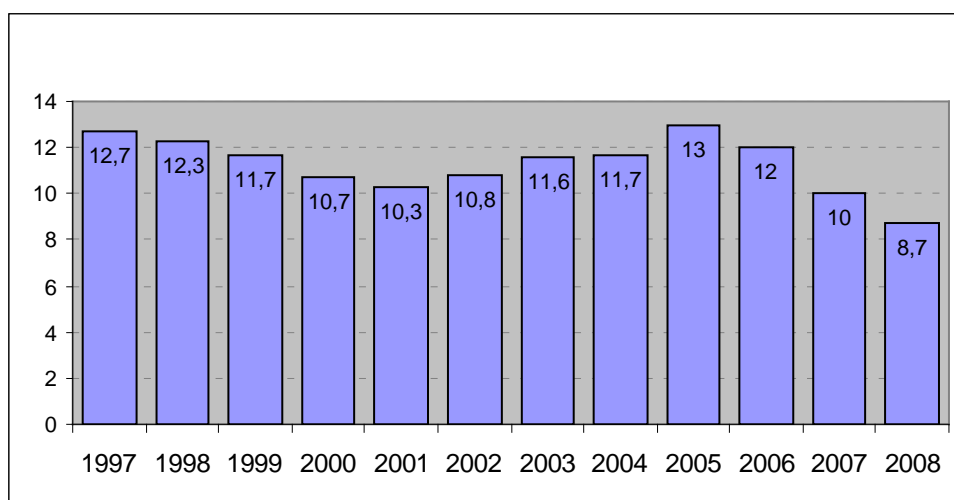
Source: Bundesagentur für Arbeit 2008b

## Unemployment

According to indications by the BA, unemployment sank significantly in 2008 among all groups (men, women, ageing and young unemployed persons) and was therefore below the low level of 2001 (see Figure 6). The percentage of unemployed persons among all employable persons was 7.8%. If one considers only the dependent employable persons, then the rate of unemployment was 8.7% (Statistics from the Federal Employment Agency 2009).

In total, approximately 3.3 million persons were classified as unemployed, which corresponds to a drop of 13% compared with 2007. This drop can be attributed to a “positive economic environment, the labor market reforms and the decline in the supply of labor” (Bundesagentur für Arbeit 2009: 25).

Figure 6: Unemployment Rate (Germany) 1997-2008  
(as % of all dependent civilian employed persons)



Source: Federal Ministry for Labor and Social Affairs 2008<sup>7</sup>

In December 2008, the positive underlying trend of the year, which had already slowed down in the preceding months, could not be sustained. In comparison with November there was a nationwide increase in unemployment by 3.8%, whereupon the absolute and relative increase was significantly stronger than the average of the past three years (Bundesagentur für Arbeit 2009: 13).

Preliminary projections of the Federal Statistical Office expect an increase in the rate of unemployment from 7.8% in 2008 to 8.4% in 2009 (Bundesministerium für Wirtschaft und Technologie 2009).

Female unemployment in 2007 was, according to ILO statistics, above the European average at 8.8%; for men the unemployment rate was 8.7%.

The unemployment rate among seniors (50-64 years old) in 2007 amounted to 9.4%, which is considerably higher than the European average of 5.5% (Bundesagentur für Arbeit 2008b: 49).

### 2.3 The Ingolstadt Region

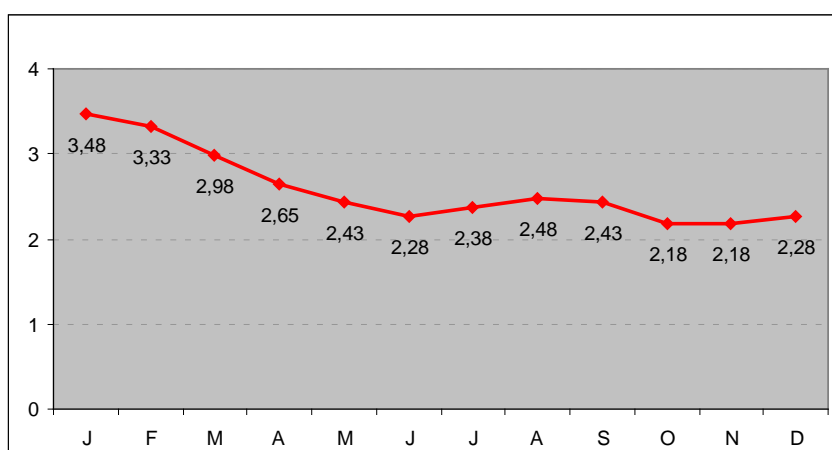
The object of examination in this analysis is the region of Ingolstadt ("Region 10"). This region, which is located of Bavaria, is made up of the city of Ingolstadt as well as the surrounding districts of Eichstätt, Neuburg-Schrobenhausen and Pfaffenhofen.

In 2007 the population of Region 10 was 453,631 inhabitants, which corresponds to an increase of 0.45% in comparison with the previous year (Chamber of Commerce and Industry for Munich and Upper Bavaria 2008: 2).

The number of job-holders subject to compulsory social insurance in Region 10 in 2007 amounted to 157,102; this represents an increase of 2.86% compared to 2006.

In 2008 in Region 10 there were 5,541 unemployed persons; this is consistent with an unemployment rate of 2.6% relating to all civilian employable persons. The development of unemployment in the course of 2008 is illustrated in Figure 7.

Figure 7: Unemployment Rate (2008) in the Ingolstadt Region  
(% in relation to all civilian employed persons)



Source: Statistics from the Federal Employment Agency 2009

The unemployment shows a significant decline over the course of the year; however, it rises again slightly in December.

The women's unemployment rate of 3.6% was significantly higher than the men's (2.4%). Here it is a matter of a structural difference: The automotive industry and its suppliers dominate the labor market in the Ingolstadt region. These sectors offer better employment opportunities for male employees than for female employees.

Furthermore, the high unemployment among ageing workers and the high long-term unemployment, i.e. the percentage of persons that have been unemployed for at least one year, is striking. 30.9% of all unemployed persons are older than fifty; 18.2% of unemployed persons are part of the 55-65 age group. The percentage of long-term unemployed persons is 17%, whereupon it must be kept in mind that long-term unemployment is significantly more

pronounced in the city of Ingolstadt (22%) than in the rural districts; thus the rural district of Eichstätt, for instance, shows a long-term unemployment rate of 12.1% (Statistics from the Federal Employment Agency 2009).

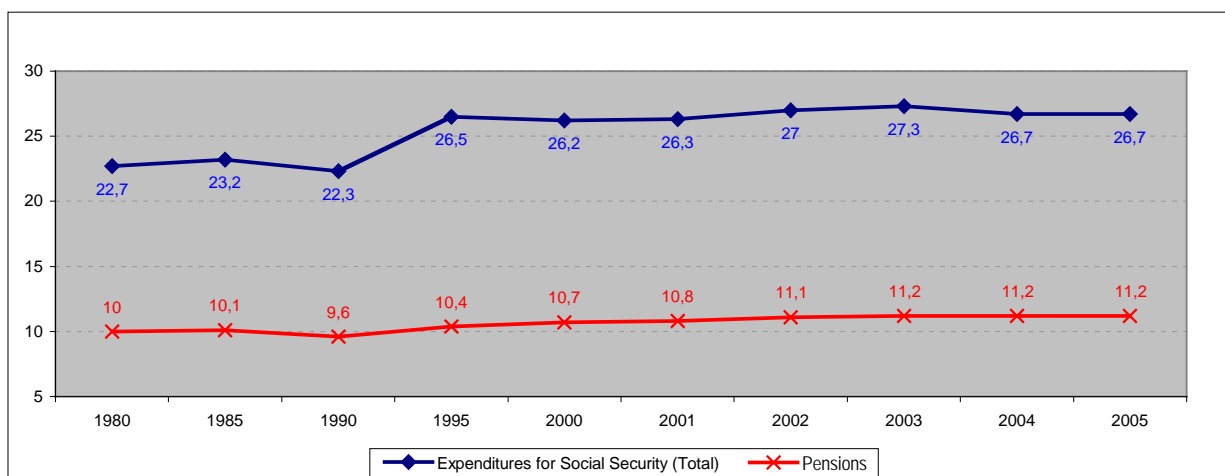
## 2.4 Social Security in Relation to the GDP

According to data from the OECD, Germany's expenditures in the field of social security in relation to the GDP developed during the period 1980-2005 as illustrated in Figure 8 (OECD.StatExtracts 2009). The increase in expenditures from 1990 to 1995 is noteworthy, which is likely attributable to the reunification of Germany.

In 2005 expenditures for pensions amounted to 11.2% of the GDP. This value should increase over next several years in view of the current demographic change (OECD.StatExtracts 2009).

Altogether it must be emphasized that the various social allowances developed very differently. While the GDP rose during the period of 1995-2006 by 25.6%, expenditures for social long-term care insurance (without private long-term care insurance) increased by 241.2%<sup>8</sup> and for children benefits by 243%. On the other hand, expenditures in the area of housing subsidies (-60.4%) and unemployment benefits of the old benefit system (-34.8%) declined as a result of the introduction of the basic security for job-seekers and of the reform of unemployment benefits system (Bundeszentrale für politische Bildung 2008: 35ff.).

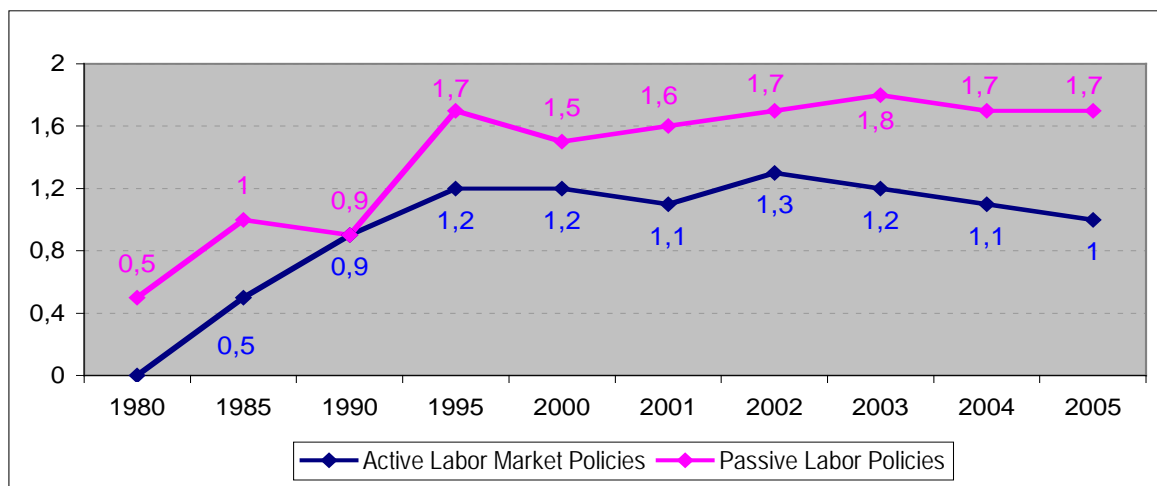
Figure 8: Expenditures for Social Security as % of the GDP 1980-2005



Source: OECD 2009

In 2005 approximately 1% of Germany's GDP was spent on active labor market programs: This is on par with the lowest level since 1990. In the same year, 1.7% of the GDP was spent on passive labor market policy. Both the values concerning the active as well as the passive labor market policy are shown in Figure 9 (OECD.StatExtracts 2009).

Figure 9: Expenditures for Labor Market Policy as % of the GDP 1980-2005



Source: OECD 2009

### 3 Social Security in Unemployment<sup>9</sup>

Unemployment and Unemployment II allowances are the most important social insurance allowances for the unemployed<sup>10</sup>. In 2007, 83% of all unemployed persons received social security allowances (Bundesagentur für Arbeit 2008b: 52f.). The German traditional benefit System for social allowances in case of unemployment was reformed in 2005: The table summarizes the differences between the old and the new system.

Table 2: The Old and the New Benefit System of Unemployment Benefits

Old System (until 2004)	New System (2005 -)
<i>Arbeitslosengeld</i> (unemployment insurance benefit): funded through contributions, earnings-related, limited duration	<i>Arbeitslosengeld</i> I (ALG I): financed through contributions, earnings-related, limited duration
<i>Arbeitslosenhilfe</i> (earnings-related unemployment assistance): tax-funded, earnings-related, means-tested, infinite duration	<p><i>Grundsicherung</i> (Basic income scheme for needy jobseekers/ SGB II):</p> <p>a) <i>Arbeitslosengeld</i> II (ALG II): tax-funded, means-tested, flat rate, after expiry of ALG I (and temporary supplement), infinite duration (for people capable of working -<i>erwerbsfähige</i>- integration of "<i>Arbeitslosenhilfe</i>" and "<i>Sozialhilfe</i>");</p> <p>stronger principle of activation</p> <p>b) <i>Sozialgeld</i> (social allowance) for kids below the working age of 15 living in a household of an ALG II recipient</p>
<i>Sozialhilfe</i> (social assistance): tax-funded, means-tested, flat rate, infinite duration	<p>Social assistance: means-tested, tax-funded, flat rate, infinite duration (SGB XII):</p> <ul style="list-style-type: none"> <li>▪ <i>Grundsicherung für Erwerbsgeminderte und im Alter</i>: for those working age people above 18 years permanently not capable of working and for needy persons above 65 years</li> <li>▪ <i>Hilfe zum Lebensunterhalt</i></li> </ul> <p>Help to overcome special situations in life (illness, care etc)</p>

Source: Adapted from Konle-Seidl/Eichhorst/Grienberger-Ziengerle (2007: 11)

### 3.1 Unemployment Benefit (ALG)

Unemployment Benefit (*Arbeitslosengeld*, ALG) is also called Unemployment Benefits I in practice, in order to distinguish between this allowance and Unemployment Benefits II.

Those entitled to receive Unemployment Benefit I (ALG I) are anyone fulfilling the following conditions: they are unemployed, they are available for placement efforts<sup>11</sup>, they are making an effort to find employment, they have completed the insurance qualifying period necessary for the entitlement, they have registered themselves at the employment agency as being unemployed, and they have submitted an application.

An unemployed person loses his or her entitlement to ALG for a determined period of time for the following reasons: refusing an acceptable job, insufficient efforts on his or her part towards re-integration into the labor market, refusing or withdrawing from a professional integration program (including short training programs and aptitude tests), late registration as job-seeker, and missing job search interviews.

ALG I is financed through contributions to unemployment insurance and, for that reason, only those persons who have previously made contributions are entitled to receive it (cf. Holwe 2008: 251).

The conditions for entitlement to unemployment benefits (qualifying period) depend on the period when the entitled person became unemployed.

If this period is before 31.01.2006, the person must have been employed and subject to compulsory social insurance for at least 12 months within the last 3 years before registering as unemployed. The duration of entitlement to unemployment benefits – normally between 6 and 12 months – was established according to the duration of the employment subject to compulsory social insurance and the age of the entitled person. The following applied for ageing unemployed persons (that fulfilled the previous conditions): upon reaching the age of 45, the maximum duration of entitlement to ALG was 18 months; upon reaching the age of 47 it was 22 months; upon reaching the age of 52 it was 26 months; and upon reaching the age of 57 it was 32 months.

In the case that the entitlement to ALG I began after 31.01.2006, other regulations apply: the qualifying period is only fulfilled if the person has been employed and subject to compulsory social insurance for at least 12 months within the 2 years prior to becoming unemployed. The maximum duration of receipt is normally 12 months.

In January 2008, new regulations for ageing workers entered into force, whose entitlement to ALG I began after 1.1.2008: for unemployed persons that have reached the age of 50 and were employed and subject to compulsory social insurance for at least 30 months within the past 5 years, the maximum duration of entitlement amounts to 15 months. For employees that have reached the age of 55 or 58 at the start of their entitlement to ALG I and were employed with a duration of 36 or 48 months, the maximum duration of entitlement amounts to 18 or 24 months, respectively.

The amount of the benefit is based on the last wage received before unemployment. The ALG I for unemployed persons with a least one child is equal to 67% of the last net wage (this also applies to unemployed people, whose spouse or partner has at least one child). For the remaining unemployed persons it amounts to 60%.

Upon reaching the age of 65 the entitlement to ALG I expires.



The average unemployment benefits for 2007 equaled 765 euros (805 in the western *Bundesländer* and 666 in the eastern *Bundesländer*); the average duration of the benefits for ALG recipients that terminated coverage in 2007 was 21 weeks (Bundesagentur für Arbeit 2008b: 53).

### 3.2 Partial unemployment benefit

In the case that a person loses or terminates one of several employments subject to compulsory social insurance, he or she may file for “Partial Unemployment Benefit” (*Teilarbeitslosengeld*); on the condition that the applicant carried out the terminated employment for at least one year within a two-year timeframe, in addition to continuing to carry out the employment subject to compulsory social insurance. The maximum duration of entitlement to “Partial Unemployment Benefits” amounts to 6 months.

### 3.3 Unemployment Benefit II (ALG II)

Unemployment Benefit II (ALG II, Arbeitslosengeld II; colloquially referred to as “Hartz IV”) is considered as “basic income support for job-seekers” and is a means-tested scheme that ensures the subsistence of job-seekers and persons living in their household (e.g. parents, spouse, partner, children who are minors, etc.).

Following the expiration of the base period of ALG I, only ALG II will be granted. Furthermore, in the case of non-fulfillment of the qualifying period for ALG I entitlement, ALG II will be granted (pursuant to the Social Security Code II, SGB II).

Those who are entitled are needy, employable persons between the age of 15 and 65 with permanent residence in the Federal Republic of Germany. Employable is anyone that can work at least three hours per day; needy is anyone that cannot ensure his or her subsistence and that of his or her dependents.<sup>12</sup> Unlike with the ALG I, a previous employment subject to compulsory social insurance is not required for entitlement to ALG II. ALG II is not financed through contributions to unemployment insurance, but through general taxation.

The dependents of an employable, needy person are also considered to be needy: employable dependents are entitled to ALG II; their non-employable dependents receive a social allowance (*Sozialgeld*). ALG II and the social allowance, the so-called “basic security benefits”, are not limited to a certain amount time provided that the need for help continues to exist.

Single adults and single parents may receive the complete ALG II standard benefits, which is federally standardized at 351 euros per month<sup>13</sup>. In addition, costs for accommodation and heating, as far as appropriate, will be born for the recipient of ALG II. Former recipients of ALG I also receive an additional supplement (*Zuschlag*) 24 months following the termination of their claim for benefits.

ALG II can also be drawn by low-income employed persons as well as unemployed persons whose ALG I or partial unemployment benefits do not suffice to ensure a minimum living wage. A lower wage (e.g. with part-time employment or minor employment) and/or ALG can, therefore, be supplemented with ALG II.

54% of recipients of ALG II received it without having the status of being unemployed. This can be ascribed to the fact that, inter alia, the benefit can also be received in these cases: attendance of measures for the promotion of employment and of training, holding a job that does not ensure subsistence, temporary inability to work, sickness, childrearing, school attendance, care for a dependent (Bundesagentur für Arbeit 2008b: 53ff.).

The recipient of benefits must comply with his or her obligation to terminate or reduce his or her need for help; otherwise, the benefits can be lowered or canceled. In the case of a rejection of acceptable employment, ALG II is reduced by 30% of the standard benefit for three months and the eventual, temporary additional supplement, to which some are entitled (*Zuschlag*), is canceled. An additional three-month reduction of 60% of the standard benefit results if the unemployed person rejects a second acceptable employment within one year. Following the third rejection within one year, both ALG II and allowances for accommodation and heating are canceled.

In 2007, 9.7% of the employable German population between the ages of 15 and 65 received benefits of the basic security; in 2006 this rate was 0.2% higher. The rate for Western Germany amounted to 9.1%; the rate for Eastern Germany, however, 18.6%. An average “household in need of benefits” (a *Bedarfsgemeinschaft*, receiving basic security benefits) of 1.9 persons received on average 819 euros of cash benefits from basic security (Bundesagentur für Arbeit 2008b: 56f.). For an exemplification of the benefit receipt in relation to different categories of ALG II-recipients see Konle-Seidl/Eichhorst/Grienberger-Zingerle (2007: 54).

### **3.4 Pension for the unemployed**

(Old-age) pension for the unemployed could be claimed upon reaching the age of 60. Since 1.1.2006 the age qualification for insured persons from the birth cohorts 1946 to 1948 is being raised incrementally to the age of 63. Insured persons from the birth cohorts 1949 through 1951 may claim “pension for the unemployed” only upon reaching the age of 63; all of those born since 1952 cannot claim this benefit any longer.

### **3.5 Social security in flexible or atypical employment contracts**

In order to analyze the situation of persons under flexible or atypical employment contracts, there needs to be more precise descriptions of the terms used by the involved institutions.

According to the Federal Statistical Office (2008: 6ff.), one can distinguish between normal employment contracts and atypical employment<sup>14</sup>. Among the former are forms of employment that exhibit the following characteristics: full- and part-time employments having at least half of the full-time standard working hours; permanent contract; integration in the social security systems; and identity of work and employment.

Atypical employment is every dependent employment contract that has one or more of the following features: fixed-term contract, part-time employment of twenty hours or less per week, temporary employment (employment agencies), and minor employment (above all mini jobs, which are tax-free and are not subject to social insurance contributions)<sup>15</sup>.

Entitlement to other social security allowances on the part of employees in atypical employments is dependent upon the category in which they fall. The atypical employment category in itself does not have any legal significance concerning the employee’s social security. It depends on whether or not the employment is subject to social insurance contributions. The proportion of employed persons subject to social insurance contributions to all people in gainful employment sank between 1991 and 2004 from 77.7% to 68.5%<sup>16</sup>.

An employment that is subject to social insurance contributions can ensure entitlement to ALG I, the unemployment benefit, through unemployment insurance, one of the branches of social insurance<sup>17</sup>. According to Keller and Seifert (2006: 4), the effects of atypical employment on the branch of social insurance are varied according to the form and duration of the employment contract.

In itself, fixed-term employment contracts can allow for entitlement to social security allowances in unemployment, because one can legally attain protection against unemployment paying social contributions. However, a higher social risk exists, owing to the fact that it is more difficult to fulfill the social insurance conditions with fixed-term employment contracts.

Mini jobs (minor employment) do not provide entitlement to ALG I in the case of unemployment<sup>18</sup>.

Legally, temporary employment is not worse protected against the risk of unemployment (or against social risks) than is normal employment. Nevertheless, the low employment stability that characterizes temporary employment often have a negative effect on the person's social security (Keller/Seifert 2006: 4).

The payment of contributions to unemployment insurance is not a requirement in order to receive the "basic support of job-seekers" (ALG II). That is to say that entitlement to ALG II is provided in spite of precarious forms of employment.

#### **4 General Features of Vocational Training in Germany<sup>19</sup>**

In view of continuing vocational training systems, one can distinguish between states with a cooperative system and those with a segmented system. In the first category the areas of continuing vocational training are institutionally connected; whereas in the second, to which Germany belongs, they are rather separate (Moraal 2007: 8). The continuing vocational training areas are in-company training, individual continuing vocational training and training for unemployed persons and job-holders that are in danger of becoming unemployed. In Germany there is no institutional system that coordinates responsibilities among the actors, i.e. between businesses, unions, individuals and training institutions. The state is concerned with the third area of vocational training and does not play a particular role in the coordination of the first and second areas, whose responsibilities lie each with businesses and individuals.

##### **4.1 Key Points on Training in the German System**

The German system can be defined as selective with respect to training participation (Moraal 2007: 6ff.). The variable "participation in training" depends on numerous factors: the level of qualification, the type of employment, the characteristics of the employer (size, sector) and the age of the person (Bizer 2007: 11).

In this regard, the situation of low-skilled persons is particularly problematic, owing to this group's low participation in training as compared to skilled employees; the same holds true for category of ageing workers (Eichhorst 2008: 29-31; Winkelmann 2008: 121; Beicht/Schiel/Timmermann 2004: 7). In general, it can be observed that participation in training decreases with increasing age (Lott/Spitznagel 2007: 1; Eichhorst 2008: 31; Bellmann/Kistler/Wahse 2007: 3f.; Kuwan/Thebis 2005: 25; Wuttke 2004: 87).

Furthermore, the size of the company constitutes a decisive variable. Training activity on the part of the company and participation in training each increase with the number of employees (Bizer 2007: 14; Sehrbrock/Heidemann 2007: 7, 11). Small and medium-sized enterprises (SME) are confronted with the problems of high fixed costs and additionally carry out a large part of their training as "on-the-job training" and not as formalized vocational training (Bizer 2007: 11). Nevertheless, higher participation in training attendance rates within large companies do not automatically include increased commitment to ageing workers (Bellmann/Leber/Stegmaier 2007: 89; Siebenhueter 2008: 17).

Several authors advise that the opportunities for continuing training, above all for low-skilled employees, should be further enhanced (Aust/Schröder 2006: 96, 127; Bellmann/Dietz/Walwei 2006: 82; Jakob/Kolf 2007: 126; Geschonke 2008: 39f). This is particularly important for ageing employees, due to the fact that the combination of age and insufficient qualifications considerably complicates reintegration into work (Aust/Schröder 2006: 126f).

#### **4.2 The Scope of Vocational Training in Germany**

In connection with the difficult conceptual classification of vocational training, some explanatory notes are necessary (Kuwan/Thebis 2005: 7).

To begin, when analyzing data on training participation in Germany one must distinguish between formalized vocational training (e.g. in the form of classical training courses) and more flexible forms of learning (von Rosenblatt/Bilger 2008: 69f.). Within the generic category of training, it can be differentiated between general and (job-related) continuing training. These definitions are also used in studies commissioned by the Federal Ministry for Education and Research (Kuwan/Thebis 2005: 11f.; von Rosenblatt/Bilger 2008: 71f.). General and specifically job-related continuing training are in practice often interlocked, which should be considered in an interpretation that do not focus only on statistical data<sup>20</sup>.

In quantitative analyses of continuing training attendance, the following indicators can be useful: The scope of continuing training as number of participants and the attendance rate among all employees, the number of attendances and the time spent for continuing training, which measures the intensity rather than the scope of vocational training<sup>21</sup>. The number of attendances is higher than the number of participants as some persons participate more than once (Kuwan/Thebis 2005: 8).

The number of training hours per year can serve as an indicator for the time spent for continuing training. To ascertain the volume of vocational training in Germany, Zickert (2007: 20f.) uses the number of attendance hours per participant<sup>22</sup>. However, it must be noted that the results of several studies concerning attendance hours are not consistent with each other. According to the European study "Continuing Vocational Training Survey", which is based on surveys held in companies, the number of hours per participant in 2005 was equal to 30 (3 more than in 2000); according to the study carried out by the German most important private economic research institute, *Institut der deutschen Wirtschaft Köln*, this was 19 hours per participant in 2005 (3 more than in 2001). In contrast, if reference is made to overall training (including general continuing training), the time spent by each participant is then considerably higher, that is to say 100 hours (ibid: 21). If, however, training attendance for 2005 is recorded according to each employed person instead of according each participant, one arrives at a lower result of 9 hours per year<sup>23</sup> (Behringer/Moraal/Schönfeld 2008: 3).

In order to analyze training attendance, the attendance rate is often used instead of the number of hours. Concerning continuing training, the attendance rate in 2003 was, for example, 26% (Kuwan/Thebis 2005: 21). According to a recent study commissioned by the Federal Ministry for Education and Research, this rate was 26% also in 2007 (von Rosenblatt/Bilger 2008: 4). The latter proportion indicates how many persons have participated in at least one training scheme in the last 12 months; in 2007 39% indicated having taken part in at least one scheme in the previous 3 years and 54% of all employees had taken part in continuing training schemes at least once during their career.

### **4.3 Training and Collective Agreements: Examples**

Collective agreements should also be mentioned in this general note on vocational training in Germany. Nevertheless, it must be emphasized that sector-organized collective agreements on continuing training have until now not been usual in Germany (Moraal 2007: 9).

In addition to public programs that promote continuing vocational training, there also exist collective agreements, which target attendance in vocational training. This has particular significance in the following collective agreements: the collective agreement of the IG Metall Western Germany/Textile and Clothing industry, the sheet metal packaging industry's "qualification contract" for the associated businesses (Sehrbrock/Heidemann 2007: 14), and the 2001 IG Metall Baden-Württemberg "collective qualification agreement" (*Qualifizierungsvertrag*), which has also been adopted in North Rhine-Westphalia (Zickert 2007: 21f).

In the first collective agreement are anchored the right to continuing training and the right to continued payment. Annually, businesses pay a sum of 12.50 euros per employee into an account (or half of this sum for each employee with a work schedule of less than 19 hours per week). Through financing provided by this account, each year 2% of each company's employees are eligible for a maximum of one week of training (Zickert 2007: 70).

In the second collective agreement, that of the sheet metal packaging industry for associated businesses, companies establish in-company qualification accounts for the continuing training of employees. The costs of these training schemes for employees can be financed through these accounts.

The "qualification contract" stipulates that each employee has the opportunity, following a minimum employment period of 5 years, to take part in training schemes for a maximum of 3 years (Zickert 2007: 21f., 70). Employees have the right to return following the training scheme; however, they do not have the right to continued payment.

The anchoring in the collective agreements of the right to vocational training, to time for training and to leaves of absence for training purposes could spread and develop further in the future (Zickert 2007: 14; Siebenhueter 2008: 17).

In the debate over the anchoring of continuing vocational training in collective agreements, the introduction of time accounts – i.e. an accumulation of time for participation in training schemes – plays an important role. These hours could also be applied during downturn phases, which are characterized by a low contract volume. Moreover, they could be designed similarly to working-time accounts that are already common in many businesses. Until now this form of vocational training has existed in only 2.5% of German businesses, which corresponds to 5% of all employed people and 7% of large companies (Zickert 2007: 23f., 28, 48; Sehrbrock/Heidemann 2007: 10)

The coalition agreement among the parties of the grand coalition has pursued a comprehensive establishment of time accounts for training; the bargaining partners are called on to conclude agreements concerning the establishment of time accounts, for which the state must provide appropriate general conditions (CDU, CSU, SPD 2005: 36).

The social partners can be the motor for the further development of new legal instruments and regulations also in the area of continuing training (Moraal 2007: 9).

#### **4.4 Promotion of Continuing Vocational Training**

The third area of continuing vocational training is training for unemployed persons and employed persons in danger of becoming unemployed (Moraal 2007: 8).

The “Promotion of Continuing Vocational Training” in Germany is an integral part of the active labor market policy and since 1998 replaces the category of “Advanced Training and Retraining Schemes”.

Continuing vocational training is financed when the scheme is recognized as necessary; this is the case, above all, when continuing training schemes serve to reduce deficits in qualification and in so doing allow for the avoidance of imminent unemployment or for the termination of unemployment.

The financing of the schemes is geared, however, not only to individual qualification deficits, but also to the demands of the labor market. The promotion of continuing training is based on a training voucher system: The BA assigns training vouchers for schemes that are provided by accredited institutions<sup>24</sup>. This voucher system, which presents some market-oriented mechanisms, aims to increase the quality of the provided schemes (Bernhard et al. 2008: 27).

According to Bernhard et al. (2008: 26ff.), these measures for the financing of continuing vocational training can be divided into two categories, namely continuing vocational training with a certificate in a recognized job<sup>25</sup> and other measures to expand qualifications. The latter refers, for example, to overall training, continuing vocational advancement training and qualifications in practice firms and practice workshops.

#### **4.5 Training for the Prevention of Unemployment**

As aforementioned, ageing workers and low-skilled persons are typical risk groups in relation to unemployment and show moreover a lower attendance of training. The training of these groups of people is therefore purposely promoted as a way to prevent unemployment.

The Job-AQTIV Law that came into effect in 2002 was already an important step in the direction of activating preventative measures in the area of continuing training. Since then the policy-makers have taken up this topic quite often. The prevention of unemployment through the training promotion, however, does not constitute a primary, but rather a subsidiary function of the Federal Employment Agency (Lott/Spitznagel 2007: 2).

In the following, several relevant examples for the prevention of unemployment are illustrated that focus on continuing training: training unskilled workers, the continuing vocational training of ageing workers in small and medium sized enterprises, the federal program “WeGebAU” and the „qualification initiative” enacted in 2008.

##### **4.5.1 Training for Unskilled Workers**

The training of unskilled workers can be promoted through financing without restrictions concerning age limits or company size<sup>26</sup>. If the training is recognized as necessary, unskilled workers can obtain a generally accepted training qualification or a partial qualification, without having to give up their employment during the activity. The employers can receive subsidies but they must release the employees from work for the period of the training as well as pay their wages for that period.

#### 4.5.2 Promotion of Continuing Vocational Training for Ageing Workers in SMEs

There is the possibility to finance the continuing training of ageing workers (over 45) in small and medium sized enterprises (SME) (fewer than 250 employees)<sup>27</sup>. Receipt of this financing of continuing vocational training for ageing workers in SMEs is on the condition that the employment continues during the activity, the employer releases the employee for the duration of the training and the employer continues to pay the employee's wages. The continuing training schemes must take place outside of the company and be provided by accredited institutions. Moreover, they must impart knowledge and skills that are not classified as strictly related the employee's job. The ageing workers that are to be trained can hold any kind of qualification<sup>28</sup>.

The Federal Employment Agency makes the decision concerning the financing of continuing vocational training and, as with the funding of vocational training for unemployed persons, the system is based on training vouchers.

#### 4.5.3 The Federal Program "WeGebAU"

The federal program WeGebAU ("*Weiterbildung Geringqualifizierter und beschäftigter Älterer in Unternehmen*") was launched in 2006 with a total amount of 200 million euros. In 2006, in terms of the use of public financing, the training of workers at risk of unemployment was particularly low when compared with the public financing of training for unemployed persons. Therefore, a separate program for unemployed persons was introduced in 2007 and the focus of WeGebAU was placed on ageing and low-skilled workers<sup>29</sup> (Lott/Spitznagel 2007: 3). The fact that training for unemployed persons was financed much more than for persons in danger of becoming unemployed can be observed in the table created by Lott/Spitznagel on the basis of the BA's funding statistics (2007: 3).

Table 3: Vocational Training (SGB III Instruments) of Unemployed and Employed Persons in Comparison

	2002	2003	2004	2005	2006
Unemployed Persons	382,123	219,883	160,814	114,785	206,038
Employed Persons					
Seniors (according to § 417 para. 1 of the SGB III)	225	79	56	100	873
Low-skilled Persons (according to § 235c of the SGB III)	593	1,062	1,036	360	1,593
Dismissed Persons (according to § 147 para. 2 of the SGB III)	600	585	150	55	129

Source: Lott/Spitznagel 2007: 3

The qualification of ageing and low-skilled employees is aimed for through the financing of training schemes, which should prevent dismissals and thus unemployment<sup>30</sup>. Employers can participate in the WeGebAU program by making available their ageing and low-skilled employees that are to be trained. However, at the same time they must pay the employees' wages. Employers can receive subsidies for the employees that have been released from work



and these subsidies can equal the amount of the wages, including the contributions that are to be paid into social security.

The training costs can be born completely through the federal program's funding for the aforementioned categories of employees, independent of the size of the business.

The financed training, however, cannot be classified as strictly related the employee's job and must be oriented towards the labor market; that is to say that the acquired knowledge and skills should be usable in the primary labor market.

The level of awareness and participation in the federal program WeGebAU were rather low in the first phase (Siebenhueter 2008: 20); the economic upturn in 2006 could have also played a part in that businesses did not have any leeway to release their employees from work (Lott/Spitznagel 2007: 3). According to analyses that have been conducted so far, the approach was overall positively evaluated (ibid: 1).

#### **4.5.4 The Qualification Initiative**

In January 2008 the federal government enacted the so-called "Qualification Initiative", a package of measures for more training and continuing vocational training. This concept forms the basis of a continuing training pact of Bundesländer, municipalities and social partners (Bundesinstitut für Berufsbildung 2008: 3). An increase in the vocational training opportunities for low-skilled persons is part of the initiative's measures. In order to achieve this, there is an additional tool to fund continuing vocational training, the so-called *Weiterbildungssparen*, which should be particularly effective for low and middle-income groups. It enables to receive a training bonus that is partly financed by resources from the European Social Funds and that can amount to a maximum of 154 euros per year; low interest loans for continuing training are granted, too (Federal Ministry for Labor and Social Affairs 2008: 35f.; Federal Ministry for Education and Research 2008: 27).

## **5 Main policy guidelines: passive and active labor market policies; debate over unemployment and reintegration of unemployed; approaches of the Federal Government and social partners<sup>31</sup>**

### **5.1 Active and passive labor policy**

The general features of the "Agenda 2010" laws (above all with reference to the period 2002-2005) and of the reforms regarding labor market questions will be illustrated.

#### **5.1.1 General features of the "Agenda 2010" reforms**

The labor market policy of the past several years has been characterised by extensive reforms (Bernhard et al. 2008: 6). The most important reforms were implemented during the second red-green coalition (2002-2005)<sup>32</sup>.

The reforms aiming at economic revival, growth and employment, as well as at the sustainability of the social security system is understood to be a noteworthy change in economic and social policy<sup>33</sup> (Brenke/Zimmermann 2008: 118ff.; Breig/Leuther 2007: 75; Konle-Seidl/Eichhorst/Grienberger-Zingerle: 14f., 57ff.). The governmental program "Agenda 2010" – encompassing many single reforms – developed out of initiatives in the field of tax reform, pension insurance



and of proposals made on the part of the parliamentary expert commission for modern services in the labor market (“Hartz Commission”<sup>34</sup>), which was established by the Federal Government.

The guiding concept of the reforms in the area of social and labor market policy is the concept of activation, whose key points since 2003 were the strengthening the incentives for taking up work, the re-structuring of work placement (from the *Bundesanstalt für Arbeit*, Federal Employment Office, to the *Bundesagentur für Arbeit*, Federal Employment Agency) and the creation of new jobs in order to reduce unemployment. The “laws for modern services in the labor market” created a new balance of active and passive labor market policies and increased the role of the active<sup>35</sup>.

The expansion of the promotion of vocational training (“*Förderung der beruflichen Weiterbildung*”, FbW) and the strengthening of the rules on the reasonableness of jobs (to be accepted by unemployed persons) came into effect with the first law for modern services in the labor market (so-called „Hartz I”). The allocation of workers through temporary employment was liberalized and through personal service agencies (PSA) temporary employment was extended to increase employment opportunities.

The “second law for modern services in the labor market” introduced grants for business start-ups<sup>36</sup> and the “mini job” (tax free and not subject to compulsory social insurance) and “midi job” (low tax) forms of employment<sup>37</sup>. With the third “Hartz Law” the administrative structure of the public employment services was changed and the norms on the entitlement to benefits were simplified in order to organize the action of the public employment services more efficiently and as a customer-oriented service provider<sup>38</sup>. The fourth “Hartz Law” merged the allowances “unemployment benefits” (*Arbeitslosenhilfe*) and “social benefit” (*Sozialhilfe*) into a „basic support for job-seekers” (*Arbeitslosengeld II*, Unemployment Benefits II), from which a reduction of social security during long-term unemployment resulted. Recipients of basic security benefits have since been supported by *Arbeitsgemeinschaften* (ARGE), institutions formed together by the municipalities and the offices of the Federal Employment Agency or, in 69 cases in Germany, by municipalities<sup>39</sup>.

### 5.1.2 Characteristics of labor market policy in recent years

The reforms of recent years and the labor market policy have been oriented towards the principle of “promote and require” (*Fördern und Fordern*) as well as oriented towards demand in the labor market; this accompanied a decline in public spending for labor market policy programs between 2002 and 2004 (Hipp/Warner 2008: 82).

Based on the principle of “promote and require”, those in need of help must assume personal responsibility and actively collaborate in the measures for their reintegration in order to overcome the situation of unemployment, also through increased professional mobility (Federal Ministry for Labor and Social Affairs 2008: 8f.; Bundesagentur für Arbeit 2008b: 42; Heinisch et al. 2007: 132; Heise 2008: 157f.; Lehner 2005: 142; Breig/Leuther 2007: 76f.). “Require” means that the recipient of benefits must be available for the labor market: every “suitable”<sup>40</sup> employment, which the unemployed person is capable of carrying out, must be accepted. In the case of refusal of an acceptable employment, an off-time and eventual sanctions begin (temporary suspension of payment and reduction of the entitlement period). The central point of the active labor market policy is not the goal of the benefits recipient’s social security, but rather their reintegration into the labor market.

In the seniors category the active labor market policy plays only a small role, according to, for example, Eichhorst (2008: 28). Primarily the passive instruments of labor market policy, e.g. allowances and part-time retirement<sup>41</sup>, are applied to this age group.

One can discern three types of instruments in the field of active labor market policy: incentives to increase employment by way of subsidization of employers and employees, the promotion of continuing vocational training and employment-creating public schemes (Eichhorst 2008: 28).

Unemployed persons without or with only a marginal chance of reintegration in the primary labor market are often put in public “employment-creating schemes” and continue to receive ALG II. Thus, a (“second”) labor market with employment for persons with placement obstacles is created and publicly financed (Bernhard et al 2008: 8; Sadowski 2005: 61ff.; Lehner 2005: 294f.). There are three forms of employment-creating schemes: employment creation schemes (*Arbeitsbeschaffungsmaßnahmen*), “public employment opportunities” in the extra cost model (*Arbeitsgelegenheiten in the Mehraufwandsvariante*) and “public employment opportunities” in the wage model (*Arbeitsgelegenheiten in the Entgeltvariante*). These forms are utilized primarily in economically underdeveloped regions.

Bernhard et al. (2008: 52) analyzed the results of evaluations of schemes in the active labor market policies. Schemes, which target taking up employment in the primary labor market, actually increase the chances of employment of the participating persons. These effects illustrate wage subsidies, subsidies for business start-ups, professional training schemes and, in part, also the promotion of continuing vocational training – both with unemployed persons (according to the SGB III) as well as with those in need of help under SGB II who present difficulties for placement in the labor market. Employment creation schemes and public employment opportunities under SGB II demonstrated, in contrast, almost no positive effects on reintegration.

## **5.2 Approaches of the Government and of the social partners**

The approaches of the federal government (since 2005) as well as those of the social partners should be illustrated, as they pertain to active and passive labor market policy and the reintegration of unemployed and ageing unemployed persons.

### **5.2.1 Approaches of the Federal Government since 2005**

The federal government, which consists of Germany’s largest political parties (the Grand Coalition of CDU/CSU and SPD), did not give up the “Agenda 2010” approaches; however, it partly applied them (Brenke/Zimmermann 2008: 119f.). Some legislative elements tend to be similar, for example the reduction of non-wage labor costs through reduced contributions to unemployment insurance (since 1.1.2008 from 4.2% to 3.3%) and the increase of the legal retirement age to sixty-seven<sup>42</sup> (“Law on Pension Insurance and the Adjustment of the Retirement Age”). A strategy is striven for that includes the activation, qualification and balance between appropriate social security and financial carrying capacity. Included in this is the aim of maintaining the contribution payments to social insurance (formally divided in equal manner between employers and employees) at a level under 40%.

The period for seniors to receive ALG I, whose previous reduction had been welcomed by businesses but criticized by labor unions, was extended again on 1.1.2008.

The economic and social inclusion of persons with multiple placement obstacles is targeted through initiatives at both the federal as well as the regional levels, with particular attention to the disadvantaged regions (Federal Ministry for Labor and Social Affairs 2008: 32f.).

The federal government has attached a large degree of relevance in the political agenda to the topic of employability and employment of ageing workers (CDU, CSU, SPD 2005: 22; Federal Ministry for Labor and Social Affairs 2008: 17ff., 65f.; Geschonke 2008a: 39f.). According to the guidelines, societal and economic actors in addition to the states and municipalities alongside politics should commit themselves to the topic of the employment of seniors. The pillars of the federal government's approach are partnerships, pacts and cooperation with societal groups, organizations and with businesses (Geschonke 2008b: 41)

The increase in the employment rate of 55-64 year olds to 55% forms part of the federal government's quantitative goals (Federal Ministry for Labor and Social Affairs 2008: 12f., 34, 55).

The reduction in obstacles for hiring ageing unemployed persons should be reached through subsidizations on both sides of the labor market, namely through subsidies for employers who hire ageing workers and through wage subsidies for ageing workers.

The federal government of the Grand Coalition also started publicly financed employment offerings: 30,000 jobs, which consist of public employment opportunities with compensation of 1 euro per hour, were created for unemployed persons over the age of 58. This measure covers the period from 31.12.2006 to 31.12.2009.

Vocational training is also considered in the Grand Coalition's program to be an important field<sup>43</sup> (Geschonke 2008b: 41, 46; Sehrbrock/Heidemann 2007: 8; Zickert 2007: 71f.). The program deals with the aim of expanding lifelong learning, increasing participation in continuing professional training and utilizing it as potential for growth (CDU, CSU, SPD 2005: 23. 36f.). Such goals also encompass the "Qualification Initiative" that was decided upon by the federal government in January of 2008 (Federal Ministry for Labor and Social Affairs 2008: 35f.).

The continuation of the already existing "Initiative for New Work Quality" (INQA) anchored in the coalition agreement (CDU, CSU, SPD 2005: 23) forms part of the institutional impulses for demographically aware improvement in work conditions. The supporting organizations of this initiative are the federal government, the *Länder*, social insurances, foundations and businesses; this in the light of the above-mentioned perspectives on societal partnership. The focus of the initiative is on improving working conditions, primarily relating to the promotion of competencies, health and the ability to work of those employed. A senior-friendly workplace design, for example, is to be mentioned among the good working conditions, which should be taken into consideration by policies aware of the demographical change and which consistently gain importance due to an extended working life. Possible concepts are developed and examples of good practices are illustrated. Moreover, effective public relations are promoted through events and cross-company exchange of experiences. Unlike in the program "Perspektive 50plus" (see below), the focus of INQA is not on the overcoming of unemployment.

The so-called "Initiative 50plus", the "Law for the Improvement of Employment Opportunities of Ageing People" (01.05.2007), is particularly worth mentioning for schemes to promote the employment of seniors and to reduce unemployment.

The "Initiative 50plus" is a package of measures that accompany the increase in the retirement age and the longer period of employment. An expansion on the already existing wage subsidies for employees was undertaken with the

so-called “*Kombilohn*” (wage subsidy). The diffusion of this wage subsidy (“*Entgeltsicherung*”) as a main point of the “Initiative 50plus” was promoted in particular by the former federal Labor Minister Franz Münterfering (SPD)<sup>44</sup> and is part of the intended reorganization of the low wage sector, which is part of the Grand Coalition’s governing program. The government wage subsidies in the low wage area strengthen the incentives to take up employment and should get approximately 100,000 ageing unemployed persons employed again.

### 5.2.2 Courses of Action Recommended by the Labor Unions<sup>45</sup>

The policy-orientation towards a strongly activating labor market policy is criticized by the labor unions and is a reason of the weakening relations between the Social Democratic Party (SPD) and the labor unions. Unions participated very actively in the debate on social allowances during unemployment and the employment situation of ageing workers.

According to unions, the circumstances of many unemployed persons have worsened, particularly since the introduction of ALG II: social security, above all with increasing age, is not being provided anymore and the living conditions of many recipients of “Hartz IV” are below the poverty line (IG Metall Vorstand 2008: 3).

The acceptance of limitations on fixed-term employment contracts for ageing workers without “objective justification” is criticized in terms of a decreased protection against dismissal and a downgrading to “second-class employee” (Jakob/Kolf 2007: 126).

The form of employment for publicly financed “supplementary jobs” is sharply criticized: their effects are a displacing of regular employment and wage dumping (Geschonke 2008b: 53; Holwe 2008: 257).

On the side of the unions both the measures of the package “Initiative 50plus” (Jakob/Kolf 2007; Kerschbaumer/Räder 2008) as well as the increase in the retirement age to 67 (IG Metall Vorstand 2008: 3) are not evaluated favorably.

The wage subsidies<sup>46</sup> for ageing unemployed persons and for employees that are threatened by unemployment (“*Kombilohn*”) are criticized. Unions claim that combined wages produce so-called “revolving door effects” (the displacing of non-subsidized, pay scale or customarily remunerated employees by subsidized employees) and wage dumping (Vereinte Dienstleistungsgesellschaft Bundesvorstand 2006; Hans-Boeckler Stiftung 2006; Institut für Makroökonomie und Konjunkturforschung 2006). According to unions’ opinion, combined wages as well as subsidies for employers that hire seniors (*Eingliederungzuschüsse*) represent an employer-oriented policy, which smoothes the way for a reduction in wages and/or labor costs. The results are socially selective and do not envision the participation of employers in the costs of unemployment (Kerschbaumer/Räder 2008). The labor unions also point out critically that the low wage sector in Germany has increased permanently since 1997 (Institut für Makroökonomie und Konjunkturforschung 2006: 2f.; IG Metall Vorstand 2008: 3).

The precarious working methods are considered to be very problematic, in particular with regard to the risk of unemployment. Especially since the adoption of the “Agenda 2010”, there has been an expansion of fixed-term contracts, mini jobs, temporary employment and these thus represent a threat primarily to low-skilled persons (DGB Bezirk Bayern 2008: 4ff.). Not only the unemployment risk for employees in atypical working conditions, but also the problem of the displacing of normal employees is emphasized. In particular the increase in employment subject to compulsory social insurance is required.

The current objective of the Federation of German Labor Unions (DGB) is foremost the introduction of statutory minimum wages or rather a statutory nationwide minimum wage<sup>47</sup> (Vereinte Dienstleistungsgesellschaft Bundesvorstand 2007: 4, 11; Institut für Makroökonomie und Konjunkturforschung 2006: 11; DGB Bezirk Bayern 2008: 3).

Instead of combined wages, public investments and a demand- instead of supply-oriented economic policy are required as instruments for promoting the employment of seniors, which would increase the purchasing power of low-income earners and consequently consumption.

More attention to continuing vocational training should be necessary on the part of politics and businesses (Sehrbrock/Heidemann 2007: 8ff.; Jakob/Kolf 2007: 130). Training is seen as being a very important tool, also if considering the chances for external financing (e.g. through the European Social Fund). However, further leave of absence in order to take part in continuing vocational training is necessary, also without the need for the agreement on the part of the employer. Job rotation could be particularly useful with the development of operational training schemes. In addition, the Federation of German Labor Unions is demanding a federal law providing guidelines in this field (Jakob/Kolf 2007: 127).

### **5.2.3 Courses of Action Recommended by the Confederation of German Employers**

The Confederation of German Employers (*Bundesvereinigung der Deutschen Arbeitgeberverbände*, BDA) already argued years ago for comprehensive structural reforms in the social security system. The reforms should, inter alia, lead to an increase in employment, particularly among low-skilled and long-term unemployed persons (cf. BDA 2007; IAB 2002).

In view of the competitive pressure, the BDA additionally requires the transition to a more flexible labor market, the reduction of social security contributions and measures for the activation of unemployed persons. Through an active policy for the reduction of unemployment it should be avoided that manpower remains idle, which would create macroeconomic costs (Eekhoff/Roth 2002: 24).

The federation of employers has commented in public statements on the creation of employment schemes for problem groups and on possible strategies for reducing unemployment.

The employment problems in the labor market primarily concern long-term unemployed persons and the low-skilled (*ibid*: 20). Both categories are characterized by low productivity, which should be taken into consideration when developing reintegration strategies in the labor market. A political contribution to the reduction of non-wage labor costs for these categories is therefore welcomed particularly on the side of the employers. Before the Hartz reforms the generosity of support during unemployment was criticized by employers and by a large portion of the employed population (*ibid*: 23). The positive role of the “require” (*Fordern*), a basic principle of the Agenda 2010 labor market policy, is emphasized as well as the necessity of individual efforts to potentially reduce or end the dependence on social security allowances. The reduction of social security allowances during unemployment increases employment, because work incentives are created.

The introduction of combined wages in the low wage market as a bridge to gainful employment was one of the BDA's “five points of the program for more employment for low-skilled unemployed persons” in 2002 (IAB 2002). At the

beginning of 2006, the chairman of the BDA, Dieter Hundt, defined combined wages as no “silver bullet for the elimination of unemployment, but an important element for its reduction” (*Wirtschaftswoche* on 04.01.2006).

Subsidies for employers (*Eingliederungszuschüsse*) are more effective than wage subsidies for employees (such as in the form of combined wages-*Kombilöhne*), because more work would thereby be demanded and thus would unemployment be reduced (Eekhoff/Roth 2002: 53).

Subsidies for employers are among the positively valued economic-political tools; nevertheless, they are criticized by some economists for potentially having a windfall effect on the labor market. The so-called windfall effects take place when the result of the labor market would have been the same without the support (i.e. without the subsidies of the state), for example if a hire would have resulted also without the subsidy (Bernhard et al. 2008: 14). This represents a waste of resources and a welfare loss.

The representatives of German employers criticize the union demand for statutory minimum wages. The consequences of minimum wages would be, according to the BDA, the elimination of jobs in the low wage sector and the formation of obstacles to employment for low-skilled and long-term unemployed persons.

The increase in the employment of ageing workers is a clear imperative from the point of view of the representatives of employers (Emmerich et al. 2006: 241). Basic political conditions as well as incentives for companies to reach this goal and to carry out the paradigm shift to longer employment biographies are considered to be indispensable.

In the debate about demographic change, an adaptation to the changed economic conditions is required: solutions should be found that take into the consideration the flexibility and variability of labor conditions (Voelpel/Leibold/Fruchtenicht 2007: 53, 64f.; Wuttke 2004: 86). The increase in the retirement age was strongly advocated for by the federation of employers.

In order to maintain the competitiveness of German businesses and to reduce unemployment, the federation of employers demands market-oriented economic and social policies.

Recommended economic courses of action by the *Sachverständigenrat*, the expert advisory board on the assessment of the economic situation<sup>48</sup> (or, more precisely, by the majority of its members<sup>49</sup>) are also geared to these approaches (Heise 2008: 168).

### 5.3 Outlook

All political, economic and societal actors agree today that the improvement of the employment situation of ageing workers is a current and particularly important issue (Bispinck 2006: 134; Adamy 2004: 79; Wuttke 2004: 87; Bellmann/Dietz/Walwei 2006: 78, 81). Continuing vocational training should also be promoted, because all of the involved parties have an interest in it, the employees, the employers and the state (Bizer 2007: 9; Zickert 2007: 8f.). Furthermore, the demographic change argues for increasing participation in continuing vocational training (Bizer 2007: 17; Lott/Spitznagel 2007: 1; Bellmann/Dietz/Walwei 2006: 72f.; Sehrbrock/Heidemann 2007: 7f.; Winkelmann 2008: 121; Rump/Eilers 2007: 48).

This consensus also concerns the lifelong learning (Aust/Schröder 2007: 96), with whose support the improvement of the employment situation of ageing workers should be linked.



The actual situation of ageing workers in the labor market contributes to the perception of a still larger need for action; in fact, ageing workers exhibit a larger risk of long-term unemployment than do younger employees (Eichhorst 2008: 26; Gottwald/Franke 2008: 83f.; Bizer 2007: 10; Bellmann/Dietz/Walwei 2006: 70; Geschonke 2008b: 43; Bundesagentur für Arbeit 2008b: 92; Ebert/Kistler/Staudinger 2007; Walwei 2006: 15; Sadowski 2005: 44f.; Koller/Bach/Brixy 2003: 19; Emmerich et al. 2006: 237; Geldermann 2008: 59).

In recent years the consensus has grown that the practice of early retirement, which has been supported since the 1980s both politically as well as by social partners, cannot solve the problems of the labor market nor can it improve the employment opportunities for younger persons. Furthermore, this practice can no longer be practiced due to the demographic change that is at hand (Breig/Leuther 2007: 93; Hirschenauer 2007: 2; Heinz/Naegele 2008: 25; Koller/Bach/Brixy 2003: 5; Brenke/Zimmermann 2008: 118f., 124; Federal Ministry for Labor and Social Affairs 2008: 65f.; Schaich-Walch 2004: 15; Spidla 2006: 9; Brandner 2004: 71; Mainz 2004: 41; Wuttke 2004: 83.)

These political demands are in line with the guidelines of the European Union (Spidla 2006; Federal Ministry for Labor and Social Affairs 2008: 6f.; Elsholz/Freiling/Gottwald 2008: 247; Heinisch et al 2007: 12, 137; Kistler 2005: 147; Kistler 2006: 85; Voelpel/Leibold/Fruchtenicht 2007: 65f.; Lehner 2005: 142; Heinz/Naegele 2008: 20; Friedrich/Hein-Kremel/Rückel 2008: 13).

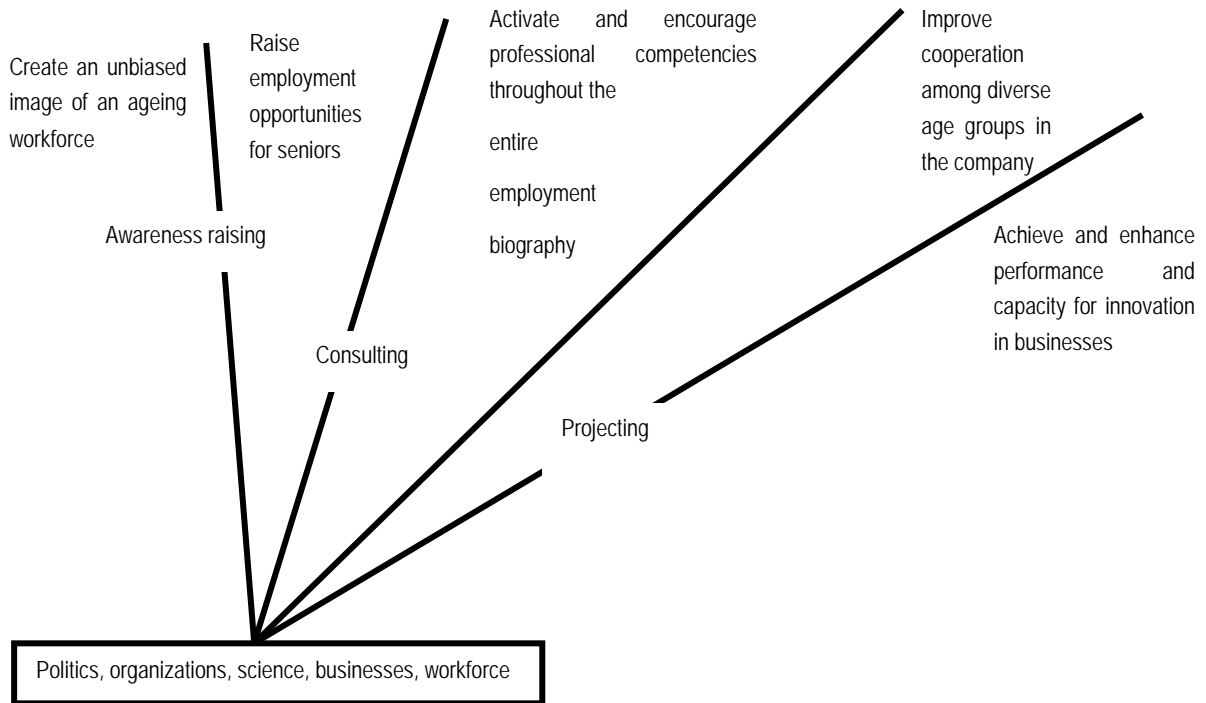
The impression that ageing workers perform at a much lower level is still very widespread, particularly among employers, and contributes to the fact that the employment opportunities of this group of persons is constricted considerably. Overcoming this impression as well as overcoming the focus on recruiting young personnel is essential (Böhme/Ebert/Kistler 2007: 28; Heinz/Naegele 2008: 14; Kistler/Huber 2002: 24; Schaich-Walch 2004: 17f.; Promberger 2004: 33ff.; Sedlatschek/INQA 2005: 9, 17, 21; Brandner 2004: 71; Adamy 2004: 75f.; Brenke 2007: 345; Winkelmann 2008: 121; Rohde 2007: 6, 59; Rump/Eilers 2007: 46f.; Helmer et al. 2006: 5; Emmerich et al. 2006: 241; Voelpel/Leibold/Fruchtenicht 2007: 56f.).

Nonetheless, a paradigm shift to placing larger relevance on the employability concept and increasing employment opportunities for ageing workers is identifiable and is on Germany's political agenda.

Measures of labor market policy that deal with demographic change concern not only politics, but also other actors such as labor unions and employer federations (Koller/Bach/Brixy 2003: 5; Huber/Kistler 2002: 25f.). A rethinking on the part of all societal actors is therefore necessary in order to cope with the change in the age distribution and with its effects on labor market and employment.

The following diagram represents the possibilities for action synergies (Huber/Kistler 2002: 25).

Figure 10: Action synergies for the Employment of Ageing Workers



## 6 The reintegration of an unemployed person back into the labor market<sup>50</sup>

Many new legal provisions have been introduced in recent years that affect the lives of job-seekers from the beginning of unemployment until their departure from it and until a return to the labor market.

The efforts of policy- and lawmakers to accelerate the termination of unemployment, as well as an increased flexibilization in forms of employment, have led to a differentiation among the employment biographies of job-seekers and of ageing job-seekers. Therefore, one can refer in only a very limited sense to a "typical" path from unemployment back to the labor market.

In the analysis of personal paths to unemployment mention should also be made of the influence of increasingly atypical employment (Gottwald/Franke 2008: 79f.). The transitions from employment to unemployment and vice versa have become much more frequent in for some years. Persons, for whom these transitions have become a repeated or a perpetual life experience, form a particular risk group (Hans-Böckler-Stiftung 2008). In particular, temporary employment represents a form of employment that exhibits high fluctuation, i.e. job change and job loss (DGB Vorstand 2008). As a result of the diffusion of these forms of employment, reintegration into the labor market is often a perpetual process.

Differences between unemployed persons under the law family of the SGB III (ALG I-recipients) and under the law family of the SGB II (recipients of ALG II, the so-called "minimum living threshold") must be considered with respect



to the analysis of paths of life. Employable, needy long-term unemployed persons (under the law family of the SGB II) are discussed more often in both research and in public discourse than are unemployed persons under the law family of the SGB III. Also, the following pages will refer primarily to unemployed persons under the law family of the SGB II: as a result of their distance from the labor market, their reintegration takes place over several phases and shows a larger need for action.

### **6.1 The pathway of (ageing) unemployed persons**

The regulations, which have been introduced in recent years, concern not only job-seekers in general, but also the target group of ageing unemployed persons, to which some provisions are addressed.

The incentives to withdraw early from the labor market have been reduced and canceled bit by bit during the last ten years. This has contributed to reemployment and new employment beyond the age of 55 becoming constantly more frequent (Eichhorst 2008: 27).

Some studies on the program „Perspektive 50plus“<sup>51</sup> for the reintegration of ageing long-term unemployed persons have examined the biographies of the concerned persons: The category of ageing unemployed persons and their biographies are, except for age and level of need, in many respects heterogeneous (Helmer et al.<sup>52</sup> 2006: 9; Büttner et al. 2008: 3; Gottwald/Franke 2008: 73, 85; Elsholz/Freiling/Gottwald 2008: 248f.; Seligmann/Mäder 2008: 30). The profile of the people that are difficult to place is often characterized by low qualifications or poor state of health (Büttner et al. 2008: 3). According to Gottwald and Franke (2008: 83ff.), typical elements are also a long phase of unemployment and forms of precarious employment. Frequently several obstacles to placement exist simultaneously among these groups of job-seekers, which makes their reintegration considerably more difficult.

The description of one single typical pathway to reintegration for this group of unemployed persons is quite difficult. For the majority of those who are unemployed for the long-term, integration into the primary labor market cannot be a realistic short-term goal, but rather it is only attainable as a process that is planned in the long-term (Cimpean/Gottwald/Keck 2008: 233).

Breig and Leuther (2007: 94ff.) emphasize that ageing unemployed persons as a “problem group” are not really considered in research, as concerns the individual effects of the unemployment dimensions. The research on older unemployed persons often focuses on demographic change and questions about fiscal and macroeconomic aspects.

### **6.2 Social security and tools for reintegration**

For the description of the stages for the return to the working world, the various instruments that target labor market integration should be discussed in more detail.

All job-seekers must register at the local Federal Employment Agency, that is the “BA”, which is a corporation under public law (Konle-Seidl/Eichhorst/Grienberger-Zingerle 2007: 37). The job-seeker’s personal registration at the agency must take place no later than 3 months before the end of an employment contract subject to compulsory social insurance<sup>53</sup>. An early registration should enable the BA to find another job quickly for the concerned person (Holwe 2008: 229f.). The BA accompanies the unemployed persons during the return to the labor market, in that it performs its placement and advisory function. As mentioned above, the unemployed persons must be available for the Agency’s placement efforts and they must take up the acceptable employments that are offered to them.

The exact institution responsible for the unemployed persons depends on the law family to which the unemployed persons belong. Unemployed persons under the law family of the SGB III, which receive ALG I, are supported by the branch offices of the BA. If the necessary requirements for entitlement<sup>54</sup> are fulfilled, an unemployed person receives ALG I in the first year of his or her unemployment. Anyone that remains unemployed longer and is not entitled to ALG I can claim basic security for job-seekers (ALG II). The table represents the institutional responsibilities for the unemployed and needy persons.

Table 4: Institutional Responsibilities for ALG I- and ALG II-recipients

<i>Regime</i>	<b>Unemployment Insurance</b>	<b>Basic Income Support</b>
<i>Regulation</i>	Third Book of the Social Security Code (SGB III)	Second Book of the Social Security Code (SGB II)
<i>Target groups</i>	Short-term unemployed	Needy persons capable of working; partners and dependants
<i>Benefits</i>	Unemployment Insurance Benefit (ALG I)	Basic Income Support (ALG II and <i>Sozialgeld</i> )
<i>Financing</i>	Compulsory social insurance contributions and deficit coverage by Federal government	General taxes at Federal level (income support and activation measures and part of housing and heating costs) and municipalities (2/3 of housing and heating costs)
<i>Administration</i>	Bundesagentur für Arbeit (BA); regional and local employment offices	ARGE jobcentres (joint bodies by BA and municipalities), municipalities ( <i>Optionskommunen</i> ) or divided structures

Source: Konle-Seidl/Eichhorst/Grienberger-Ziengerle (2007: 45)

For the long-term unemployed persons that receive ALG II, the responsible institutions are formed together by the municipalities and the Federal Employment Agency (so-called "ARGE", *Arbeitsgemeinschaften*) or by single municipalities, not sharing their responsibility with the Federal Employment Agency ("*Optionskommunen*")<sup>55</sup>. In the ARGE, the BA and the local authorities (a rural district or a city) share the responsibility. In again other cases both the BA and the local authorities operate, however with separate responsibilities. The shared responsibility by the BA and the local authorities normally consists in the two institutions being responsible for different functions. As a rule, the BA is the supporting organization for labor market policy instruments, ensuring subsistence through financial allowances, and for the payment of contributions to compulsory health, long-term care and pension insurance. As a general rule, the local authorities assume the payments for accommodation and heating, childcare, basic equipment with clothing and residence, debt and addiction counseling and any psychosocial support as needed (Friedrich/Hein-Kremel/Rückel 2008: 17).

An integration agreement between the needy employable person (job-seekers under the law family of the SGB II) and the competent public authority is drawn up for a duration of 6 months at a time, in which the obligations and rights of the job-seeker are specified. The contact person with the public authority should control whether the integration agreement is adhered to by the person. In the case that the recipient of ALG II refuses to sign or adhere to the integration agreement, the allowances are reduced, similar to when the recipient refuses an acceptable employment (Konle-Seidl/Eichhorst/Grienberger-Zingerle 2007: 28).

Unemployed persons cannot always end their unemployment directly through job placement, but certain integration instruments have to be utilized beforehand. Although a quick reintegration into the labor market is always considered the primary goal, unemployed persons therefore frequently undergo other measures before returning to the primary labor market.

When describing the paths of reintegration of ageing job-seekers that are often long-term unemployed, one can differentiate between labor market policy measures, publicly financed employment and reintegration into the labor market through specific instruments. Some examples for the above-mentioned measures are the aptitude test, training measures and continuing vocational training measures. Instruments for the reintegration into the labor market are, for instance, subsidies for the employer and wage subsidies for the employee.

### **6.2.1 Aptitude tests and short training measures**

These measures exist in their current form since 1998 and have been implemented since 2005 both for ALG I recipients as well as for ALG II recipients. If the unemployed person refuses to participate in a measure, the social security allowances are reduced.

When the necessary requirements are fulfilled, the BA<sup>56</sup> finances these measures, whose aim is improving the unemployed person's chances of integration. Aptitude tests and short training measures can be attended together or separately and last altogether up to twelve weeks. These measures can be broken down into three categories, whose duration amounts to a maximum of four, two or eight weeks. Social security allowances are paid during attendance and additional costs are covered by the BA<sup>57</sup>.

In the aptitude test the personal aptitudes and skills are proofed as well as the availability of the unemployed person (or of the job-seeker that is in danger of unemployment<sup>58</sup>). Additionally, potential alternative areas of occupation for the job-seeker can come into consideration and be tried out.

A further aim of the measures is to provide help during the job search. The job search and the integration into the primary labor market are promoted not only through counseling, but also through job application training (Bernhard et al. 2008: 8). The job application courses, which can last from a few days up to two weeks, provide information about the job application process, writing cover letters and preparing for job interviews. This proves to be very important for ageing unemployed persons, owing to the fact that many of them have submitted numerous unsuccessful applications and have built a frustration with applications (Helmer et al. 2006: 19f.; Gottwald/Franke 2008: 86). The feeling of hopelessness should be eliminated and the opportunities in the job search should increase through job application training (Seligmann/Mäder 2008: 18f.).

The third category of measures consists in the transmitting of knowledge and of abilities that should facilitate a work placement or the successful completion of a vocational training<sup>59</sup>. According to Cimpean/Gottwald/Keck (2008: 244), these measures number among the standard tools on the way to the reintegration of ageing long-term unemployed persons.

### **6.2.2 Vocational training schemes**

During unemployment, vocational training schemes can also form part of the pathway back into the labor market<sup>60</sup>. In this case, various costs for vocational training schemes are covered, namely training course and travel costs, costs

for outside room and board, if necessary, and child care costs. As long as the person is entitled to social security allowances during unemployment, he or she will continue to receive them during the training scheme.

For both ALG I recipients as well as for ALG II-recipients there are continuing vocational training schemes; however, they are regulated through different, albeit similar, provisions<sup>61</sup>. The person can take part in a training scheme after a counsel of the BA and when it states that the requirements are met. Unemployed persons are only allowed to participate in these schemes if a realistic improvement in the chances of reintegration is expected. Normally, the continuing vocational training is recognized as necessary when a training qualification is lacking.

The financing of continuing vocational training occurs through training vouchers, which include the qualification target, the contents of the qualification and the duration. The unemployed person can receive support from the BA when beginning the continuing vocational training scheme. The BA makes available a training databank (KURSNET) in order to search for training courses and training opportunities in the training market. The voucher can then be used within the period of validity in the regional area of application for approved measures that are carried out by accredited centers.

### 6.2.3 The assignment to publicly financed employment

Unemployed persons under the law family of both SGB III and SGB II are also assigned to publicly financed employment. Three forms of publicly financed employment exist: employment creation schemes (*Arbeitbeschaffungsmaßnahmen*, ABM), “public employment opportunities”<sup>62</sup> in the extra cost model and “public employment opportunities” in the wage model.

Those jobs that are carried out within the framework of the employment creation schemes must be of general interest and have a limited duration: one year, or, as the case may be, up to 36 months for seniors over the age of 55. The employment agencies or the institutions, that are locally competent for the unemployed persons, grant a subsidy for the labor costs (of the ALG I and/or the ALG II-recipient) to the job providers.

Since 2005 there are “public employment opportunities” (*Arbeitsgelegenheiten*, AGH) for unemployed persons under the law family of the SGB II (ALG II recipients), who are more difficult to place. These “public employment opportunities” fall under one of two models: the extra cost model and the wage model. In the first a compensation of 1 to 1.50 euro per hour is paid<sup>63</sup> in addition to the monthly ALG II. This form of “opportunity” is not subject to social insurance contributions and normally extends up to half a year. The standard allowance of ALG II, which the person in need receives, is reduced by 30% if he or she does not perform the job. In the case of repeated non-performances, a reduction of 60% and the cancellation of the standard allowance take place at any one time.

Public employment opportunities in the wage model do not need (in contrast to the extra cost model) to be of general interest and are subject to social insurance contributions. The participants receive a normal wage that is subsidized by the BA.

Public employment opportunities are defined by Cimpean/Gottwald/Keck (2008: 234, 244) and by Konle-Seidl/Eichhorst/Grienberger-Zingerle (2007: 47) as instruments that constitute a typical component of the pathway to reintegration of an ageing long-term unemployed person. With public employment opportunities one can hardly mention a reintegration in the (primary) labor market (Cimpean/Gottwald/Keck 2008: 244; Konle-Seidl/Eichhorst/Grienberger-Zingerle 2007: 47). These forms of publicly financed employment serve rather to test

overall employability and to adjust and lead the unemployed persons back to job processes (Elsholz/Freiling/Gottwald 2008: 250).

### **6.3 Reintegration of ageing unemployed persons into the primary labor market**

Some instruments for the reintegration of ageing unemployed persons into the primary labor market should be illustrated: the time limitation of a new employment contract, subsidies for employers and the wage subsidies for employees.

#### **6.3.1 Employment with a fixed-term employment contract**

In order to promote the reemployment of ageing unemployed persons that are difficult to place, new provisions were introduced for the time limitation of employment contracts of persons over the age of 52. The latter can be employed for five years without an objective justification for the limitation of the employment contract<sup>64</sup>. This limited employment is however only allowed if the employee has been unemployed for at least four months<sup>65</sup>, has received the benefit *Kurzarbeitergeld*<sup>66</sup> (received when companies reduce their working time, without laying off employees) or has taken part in publicly financed employment creation scheme. An "objective justification" for the time limitation of the employment contract is, however, necessary for the other age categories<sup>67</sup>.

#### **6.3.2 Employment through the subsidization of labor costs for employers**

Two labor market policy instruments should promote the hiring of ageing unemployed persons through incentives for employers. The contribution incentive (*Beitragsbonus*), which was introduced as part of the Hartz-laws, exempts employers that hire an unemployed person over the age of 55 from having to pay the contributions to unemployment insurance. Employers that hire employees over 50 for at least one year can receive a so-called integration subsidy (*Eingliederungszuschuss*)<sup>68</sup>. This subsidy can be paid over a period from 12 to 36 months in the amount of 30% to 50% of the labor costs. The condition is that the employee has been unemployed for at least six months, has received *Kurzarbeitergeld*<sup>69</sup> (received when companies reduce their working time, without laying off employees) or has taken part in a publicly financed employment measure. The employer is not obligated to pay back the subsidy after this period or to continue to employ the employee.

#### **6.3.3 Employment with wage subsidies for employees**

The wage subsidies for employees should, primarily in the low wage labor market, make taking up a lower-paid employment (subject to compulsory social insurance) more attractive and thus promote entry into employment<sup>70</sup>. This wage subsidy addresses ageing unemployed persons (over 50) or ageing employees that are in danger of unemployment.

The wage subsidy (*"Entgeltsicherung"*) for employees was introduced with the Hartz Reforms. The wage subsidy referred to as *"Kombilohn"* (wage subsidy) is the term being used in the most recent discourse on the wage subsidies introduced in the course of the so-called *"Initiative 50plus"*<sup>71</sup>. In this context, the wage subsidy was more generously developed than had been specified in the Hartz Reforms. For the duration of two years, 50% and 30%<sup>72</sup> of the monthly difference in remuneration between the former and the new employment are granted; the additional contribution to the statutory pension insurance can be drawn, too.

#### **6.4 Strengths and Weaknesses of Labor Market Policy in the Reintegration of Ageing Unemployed Persons**<sup>73</sup>

The statistical evaluation of the successes or problems of the various labor market policy measures is confined in most cases to short-term analyses, due to the recent implementation of the Hartz-laws. Continuing training schemes, in particular, first show their impact in the long-term and therefore cannot be adequately evaluated at this time (Eichhorst/Schneider/Zimmermann 2006: 386).

At the beginning of the placement process is the so-called profile creation. This consists of a client differentiation, which is to say that the staff at the BA and the ARGEs assigns the job-seeker a category that corresponds to the assumed need for support and is based on an estimation of motivation, mobility, qualification, specific labor market conditions and personal constraints pursuant to the SGB II (Behncke/Frölich/Lechner 2006: 17f). The BA divides its clients into the following categories: "market client" (*Marktkunde*), "client for counselling and activation" (*zu aktivierender Beratungskunde*), "client for counseling and qualification" (*zu fördernder Beratungskunde*) or "intensive assistance client" (*Betreuungskunde*) (s. Konle-Seidl/Eichhorst/Grienberger-Zingerle 2007: 40). In contrast, the ARGEs use the following "support levels": IF (remote from integration), IG (need for stabilization), IK (need for assistance), IN (close to integration), and I (integrated but in need of assistance). The ARGEs also use case management in addition to the classification in "support levels". This approach has the advantage that each job-seeker can be supported according to his or her requirements. Nevertheless, there are objections concerning the notion of fairness and the potential misjudgement on the part of the BA or ARGE staff, which can lead to the discrimination of the unemployed person.

The measures of active labor market policy have, above all, the positive effect of reducing the distance of the unemployed person from the labor market (most notably among long-term unemployed persons) and thus contribute to the creation and persistence of human capital.

Furthermore, a better matching<sup>74</sup> between the needs of the job-seeker and the employer is established through these measures: Employees signal their readiness to return to the labor market through their participation in labor market policy measures, employers can select their employees more precisely as a result of the program (Behncke/Frölich/Lechner 2006: 8).

With unemployed persons of the SGB II law family, (technical-based) matching is usually not applied, because these persons often cannot demonstrate proficiencies or previously acquired qualifications, on the basis of which the matching is carried out. Thus with clients from the SGB II one pays more attention to other possibilities or the opportunity to learn something in addition. The placement is therefore dependent not on a matching, but rather on personal abilities and motivation<sup>75</sup>.

Admittedly, labor market policy also has negative effects on employment. On one hand, it amounts to a decline in the intensity in which unemployed persons look for work during participation in the measure. On the other, the measures make sure in the short term that the demands of the participants increase; that is to say that reservation wages rise, jobs with lower wages are not accepted anymore and thus the chance for work diminishes in the short term. If these two effects accumulate, it can come to a so-called lock-in effect: The unemployed persons are so hemmed in by the measures that they are excluded from the labor market (Behncke/Frölich/Lechner 2006: 8).

Ms. Zimmermann, in charge of public relations and controlling at the Jobcenter in Ingolstadt, does not consider the critique of a decline in the intensity of the job search to be reasonable, because an intensive job application training

is included with each training scheme, in which participants update their documents, search through job opportunities and are also supported in the application process. That is to say that many first begin to apply consistently while here.

In regards to reservation wages, Ms. Zimmermann agrees with the aforementioned arguments; however, she emphasizes that this only applies to continuing training schemes that target a qualification and that a demand for higher wages is the logical result of improved qualifications. At the same time it must be noted that taking part in vocational training scheme is also a sign of the unemployed person's motivation and can therefore be positively evaluated<sup>76</sup>.

No significant data are yet available for all of the other measures. In this regard, one also refers to effect heterogeneity, i.e. job-seekers form a heterogeneous group, so that the BA and ARGE measures affect each of their clients differently.

In the long term it appears, however, that an overall positive trend is emerging, even if this cannot yet be empirically substantiated.

## **7 Innovation and examples of good practices on the typical path from unemployment to reintegration in the labor market<sup>77</sup>**

Examples of good practices for the reintegration of ageing workers can be found in the concept of the program „*Perspektive 50plus*“, whose target group consists of ageing long-term unemployed persons in the SGB II<sup>78</sup> law family.

Since 2006 the Federal Government has supported the local development of employment pacts that promote the professional reintegration of ageing long-term employed persons. This is strived for through the program “*Perspektive 50plus*”. The local employment pacts are initiated with the participation of businesses, unions, administration, associations, whereby a general shift in awareness should be brought about.

The program is directed towards long-term unemployed persons, because this group of persons is, on the one hand, more difficult to place than unemployed who are recipients of ALG I and, on the other hand, the affected persons have often lost their competencies through their absence from the labor market. Here it is not only a matter of the devaluation of knowledge specific to a particular profession (e.g. because of the technological advancements), but also of the withdrawal from professional life and the loss of self-confidence. The possibilities of reintegration into conventional employment continue to decrease with an increasing duration of unemployment (Eekhoff/Roth 2002: 19).

### **7.1 Federal program “*Perspektive 50plus* – employment pacts for seniors in the regions”**

The implementation of this federal program shows a particular innovation: the program funds were allocated in a conceptual contest between (voluntarily participating) institutions competent for ALG II (cf. Büttner et al. 2008: 1, 4).

Of the applicants, sixty-two regions were selected by an independent selection committee in the framework of a nationwide contest. The selection was based on the submitted concepts' potential for innovation. Each of these regions received up to five million euros as financing for the period of 2006-2008, which was allocated to the bodies



supporting long-term unemployed (that is, competent for basic security allowances), typically an *Arbeitsgemeinschaft* (ARGE) or a municipality (93 bodies participated in the first phase<sup>79</sup>).

The first phase of the program ran from 2006 to 2008. In the second phase (2008-2010), the scope at the regional level was expanded through forty-three new employment pacts and 101 new bodies supporting long-term unemployed. The aims consist of the activation of overall more than 200,000 ageing unemployed persons by 2010 and the reintegration of 50,000 people in the primary labor market.

The plans for the reintegration of ageing unemployed persons are professionally supported and evaluated with the goal of supra-regional exchange and learning processes.

Examples of the strategies that have been formulated and implemented thus far are the encouragement of mixed-age workforce in companies, the support of companies in the selection of personnel, and age-specific consulting services for the preparation of business start-ups (Federal Ministry for Labor and Social Affairs 2008: 80f.).

## **7.2 Employment pacts for seniors in the Ingolstadt Region<sup>80</sup>**

The Ingolstadt Region has been participating as a partner with the city of Erlangen<sup>81</sup> since January 2008 in the program "*Perspektive 50plus* – Employment pacts for seniors in the regions". The city of Erlangen was already involved in the first phase of the programs and can therefore pass its cumulative experiences to Ingolstadt. Both cities have similar goals and a common plan that is adapted to the respective regional labor market, which is very beneficial for cooperation.

In Ingolstadt the program is conducted by the (public) "Jobcenter", whose tasks focus on the reintegration of ageing long-term unemployed persons (unemployed persons in the SGB II law family) into the primary labor market. Seven staff members in various spheres of activity are active in the program.

As is apparent in the term „pact“, it is assumed that it is a social collaboration with the aim of obtaining a common goal. The overriding goal is the reintegration of ageing unemployed persons in employments subject to compulsory social insurance and the improvement of the employment situation for ageing workers. The key points of the program are: the creation of measures that are directed towards seniors and labor market-oriented; personal (and occasionally group) coaching, and application of expanded support opportunities for employers. Furthermore, regional interest should be aroused in the set of problems relating to the integration of unemployed persons and ageing workers.

In the framework of the program "*Perspektive 50plus*" in the Ingolstadt region both employees and employers are involved and attended to. The Jobcenter considers itself to be a modern service-based institution vis-à-vis the employers and the job-seekers.



Table 5: The Ingolstadt Jobcenter and the Program “Perspektive 50plus”

<u>Range of Services Offered</u>	
<u>Employer-oriented</u>	<u>Client-oriented</u>
Individual consulting and support	Individual consulting and support through a contact person
Quick and custom-fit selection of personnel	Targeted individual coaching
Upgrading related to job	Qualifications corresponding to need: <ul style="list-style-type: none"> <li>▪ Training measures with health promotion and accompanying instruction</li> <li>▪ External and internal qualifications</li> <li>▪ Everyday and work-oriented language coaching</li> </ul>
Operational aptitude test and training measures	
Consulting on capabilities	
Labor market-based qualifications	In-house project “Job Workshop”, including applicant office

Source: Created from the materials of the national workshop held in the framework of the EU project “Active Ageing” on 06.06.2008 in Ingolstadt.<sup>82</sup>

Directly addressing and consulting of employers serves to raise awareness for the set of problems and to deconstruct potential prejudices against seniors. This is very significant, because many employers fear considerable difficulties in the integration of ageing unemployed persons, who could put the competitiveness of the company in danger. The staff at the Ingolstadt Jobcenter who is directly involved in the program “*Perspektive 50plus*”, actively approach companies: they find companies where something can be undertaken, advise them, and collect information on the demanded qualifications and labor. The employers can utilize advice from the Jobcenter regarding opportunities for support as well as the pre-selection of applicants.

The direct contact between the staff involved in the program and the companies is very helpful in order to formulate and implement the approaches to working reintegration.

The possibilities to offer employers financial support for the working reintegration of ageing workers facilitate the task.

Ageing job-seekers are actively accompanied in their return to the primary labor market. For the project “*Perspektive 50plus*” ageing unemployed persons may personally contact the Jobcenter; however, most are also contacted by the Jobcenter staff and advised about the offers.

Coaches attend to each individual intensively. An important step on the way to reintegration in the labor market is to convince the persons that the possibility of being hired again exists in spite of the long period of unemployment. This is to say that a change in the mindset of the job-seeker and overcoming his or her frustration is endeavored: Self-confidence should be achieved in spite of previous disappointment. Sometimes the unemployed person is not aware of the soft skills obtained throughout his or her life experience: the (eventual) presence of these skills has to be highlighted.

The support does not only take place on an individual basis through the personal contact person, but also through the formation of homogenous groups of unemployed persons (small groups of around ten persons). This should encourage the ageing unemployed persons to motivate each other and to provide each other feedback. The *empowerment* approach plays an important role in this. The groups are created homogeneously according to the problem: e.g. the persons come from similar social surroundings. An example for this would be a group of women with a migration background and with insufficient language abilities.

Qualifications play a fundamental role<sup>83</sup> when dealing with the reintegration in the labor market. The unemployed persons who receive the most support are those with no or few qualifications, as a low level of qualification generally increases the need for action. In these circumstances the acquirement of "simple" qualifications, such as attaining a license to drive a forklift, can also be very useful.

The choice of measures for each ageing unemployed person takes place following a profiling and assessment process. The paths to the reintegration of ageing long-term unemployed persons, that are observed in the project, can be represented by a mosaic of four possibilities for unemployed persons:

- The qualification of the unemployed person through the Jobcenter,
- The qualification of the unemployed person through an employer,
- Measures of qualification through other certified training institutions,
- Traineeship in a business.

In the case of the traineeship, the business itself – and not the Jobcenter – trains the unemployed person. The objective is that following the traineeship the ageing unemployed person is hired in the business, although there does not exist any legal obligation to do so. The results in this field are positive and show that this form of placement can also be successful.

In the framework of "*Perspektive 50plus*" measures are organized by the Jobcenter that focus on skills and competencies concerning the process of applying for a job and about the labor market with its job opportunities. Visits to companies and surveying positions put job-seekers in touch with the working environment.

The approach on which the support of the unemployed persons is based is the principle of "promote and require" ("*Fördern und Fordern*", s. Konle-Seidl/Eichhorst/Grienberger-Zingerle 2007: 18f.). Measures are organized for the testing of aptitude, help to self-help is provided, and it is attempted to increase the individual efforts of those participating. Both the personal as well as the professional strengths of the person are cultivated and health problems are also taken into account, e.g. with obesity, due to the fact that health constraints of ageing unemployed persons can cause difficult placement obstacles.

In this program, the task of placing recipients of ALG II in jobs is accomplished with a different approach than that of the Federal Employment Agency (BA). The Federal Employment Agency (BA) supports the recipients of ALG I and places them by matching the qualifications of the job-seekers with the requirements of employers, which is generated by particular data processing techniques and software programs. In the project, however, the placement of ALG II-recipients (long-term unemployed persons) is based on personal contact. Through conversations the supporting person obtains a better impression of the job-seeker's personality and background and can thus refer him or her more precisely to suitable job opportunities. This approach has positive effects for both the job-seeker as well as for

the employer, because the individual qualities and potential of the job-seeker are recognized and the long-term unemployment is no longer interpreted solely as an indicator of the job-seeker's assumed low productivity and low readiness to work (Sadowski 2005: 49; Eekhoff/Roth 2002: 19).

In 2008 the targets set by the office of the Federal Employment Agency (600 activations, 150 reintegrations) were fulfilled: 622 persons became active and 188 were placed in jobs, whereupon also people were counted that received a "mini job" (with a wage of up to 400 euros per month). The distinction between activation and reintegration is very meaningful for the program, as it refers to two different instruments. Activation instruments target the orientation, motivation and self-confidence of unemployed persons and thus work towards a change in attitude. Integration instruments seek to construct a bridge between supply and demand in the labor market (Büttner et al. 2008: 5).

Merely 39% of those placed were women<sup>84</sup>. In order to explain this, it is important to note that the economic structure of the Ingolstadt region substantially depends on the automobile industry.

Approximately 48% of the placements take place through temporary employment agencies; there are no considerable differences among the frequencies of placements of the distinct sectors. As far as the age structure of those who have been placed is concerned, the so-called "young aged" (50-54 years old) are preferred.

The willingness of the companies to hire ageing workers and to familiarize them with the company has, in general, increased.

A fixed component of the federal program "*Perspektive 50plus*" is also a company contest for the employment of ageing workers, which is carried out in each "pact region" (e.g. Ingolstadt) participating in the federal program. The contest is called "Businesses with Vision" and can be identified as an example for the spreading of good practices and for the exchange of experience. The contest awards businesses that through exemplary engagement attach importance to the employment and hiring of ageing workers. The businesses can apply for the contest themselves.

This business awareness of demographic change can be expressed, for example, by striving for the integration of ageing workers in the labor market through well-balanced team mixes and by introducing ageing workers to the company. In fact, it is a good practice of some companies to hire seniors and integrate them into mixed-age work groups where the soft skills and reliability of the ageing workers can serve as a model for the younger co-workers.

Although large companies are often more aware of the set of problems associated with demographic change, small and medium sized companies play an important role in the search for strategies and good practices and they have been awarded prizes within the scope of the contest.

<sup>1</sup> The present report was written within the framework of the Grundtvig-Project “RE-START”, in which the Catholic University of Eichstätt-Ingolstadt takes part through the Professorship for Economic and Organization Sociology. The report does not claim to be exhaustive with regard to the legislation and the legal basis of its topics.

<sup>2</sup> Author: Gertraud Aschbacher.

<sup>3</sup> Status as of 14.01.09. Statistisches Bundesamt Deutschland: Pressemitteilung Nr. 06 vom 14.01.2009 ([http://www.destatis.de/jetspeed/portal/cms/Sites/destatis/Internet/DE/Presse/pm/2009/01/PD09\\_016\\_811,templateId=renderPrint.psm](http://www.destatis.de/jetspeed/portal/cms/Sites/destatis/Internet/DE/Presse/pm/2009/01/PD09_016_811,templateId=renderPrint.psm)) (Zugriff 04.03.09).

<sup>4</sup> Recipients of allowances according to the SGB II are unemployed when they:

- are not employed or work less than fifteen hours per week,
- are looking for an acceptable employment that is subject to compulsory social insurance and are available for placement efforts, and
- have registered themselves as being unemployed.

Participants in active labor market policy measures are not considered to be unemployed. Additional persons that are not considered to be unemployed are particularly those that

- are temporally marginally employed (at least fifteen hours per week),
- are not allowed to or cannot work,
- limit their availability,
- have reached the age of sixty-five,
- have not registered themselves as non-recipients of benefits for more than three months,
- are sick to the extent that they are incapable of working,
- are secondary school students, college/university students and high school graduates that are only looking for an apprenticeship training position, and
- are foreigners with a work visa, including their dependents, as well as persons applying for asylum that are not covered and that do not have chances in the labor market, for various reasons (Federal Employment Agency 2008).

<sup>5</sup> Microcensus: 1% random sample of the population and the labor market.

<sup>6</sup> Share of employable persons (employed persons and unemployed persons) in the total population.

<sup>7</sup> Unemployment rate for 2008: Federal Employment Agency 2009.

<sup>8</sup> This increase can be explained through the exclusion of this sector from the general social insurance and through the heavy increase in persons in need of long-term care.

<sup>9</sup> Author: Marta Tosini.

<sup>10</sup> The receipt of both ALG I and ALG II entitles one to be insured through the state health and pension insurance and social long term care insurance.

<sup>11</sup> Unemployed persons who have reached the age of 58 before 1.1.2008 and whose entitlement to unemployment benefits commenced before 1.1.2008 are not obligated to be available for the labor market and do not lose their entitlement to ALG I.

<sup>12</sup> When assessing the need for help according to the 2nd Social Security Code (SGB II) all utilizable assets of the person concerned and his or her partner are taken into consideration.

<sup>13</sup> Data refer to January 2009.

<sup>14</sup> The explanation of the Federal Statistical Office for the relationship between atypical and precarious employment: „Atypical employment can often accompany precarious employment; however, it should not be put on the same level. Precarious employment contracts are not able to ensure the subsistence of a person in the long run and/or to provide his or her social security.“ (2008: 7). Keller and Seifert (2006: 1) argue for a similar distinction between the two terms.

<sup>15</sup> The characteristics of atypical forms of employment are not mutually exclusive, but rather appear often parallel (Federal Statistical Office 2008: 10f.; Keller/Seifert 2006: 2).

<sup>16</sup> Indications by the IAB (Institute for Labor Market and Employment Research) shown by the Hans-Böckler Foundation (<http://www.boeckler-boxen.de/1992.htm>) (Accessed 12.01.2009).

<sup>17</sup> Employment subject to social insurance contributions refers in Germany to legal regulations that are anchored in the Social Security Code.

<sup>18</sup> Minor employment can be carried out alongside another employment that is not minor, but subject to social insurance contributions. In 2005, 14% of dependent employed persons carried out exclusively a minor employment; altogether it was 19% (Keller/Seifert 2006: 2).

<sup>19</sup> Author: Marta Tosini.

<sup>20</sup> Additionally, it must be taken into consideration that informal training activities have increased in recent years (von Rosenblatt/Bilger 2008: 4).

<sup>21</sup> Behringer/Moraal/Schönfeld 2008: 3.

<sup>22</sup> The data regarding the number of hours per participant differs from the hours of continuing training per employee (Reinle 2008).

<sup>23</sup> This result is an average of 6 hours in small businesses, 8 in medium sized and 10 in large businesses (Behringer/Moraal/Schönfeld 2008: 3).

<sup>24</sup> This type of training voucher was introduced with the entry into force of the First Law for Modern Services in the Labor Market (*Erstes Gesetz für Moderne Dienstleistungen am Arbeitsmarkt*) (Hipp/Warner 2008: 77). Prior to this, a certain training measure was assigned to the job-seeker.

<sup>25</sup> Heinisch et al. (2007: 134f.) refer to the results of an evaluation of the Law for Modern Services in the Labor Market that were presented in a report by the Federal Ministry for Labor and Social Affairs. In particular, participants in relatively long training measures, which led to a certificate in a recognized job, were employed considerably more often than were comparable unemployed persons without continuing training.

<sup>26</sup> Legal basis is § 235 SGB III.

<sup>27</sup> Legal basis is § 417 SGB III. Until the aforementioned law “Initiative 50plus”, a minimum age of 50 and a company size of a maximum of 100 employees were requested for the funding.

<sup>28</sup> Funding is not limited to only low-skilled persons.

<sup>29</sup> Approximately 19,500 employees were financed in the first half of 2008, of which 4,200 were ageing employees (see Siebenhueter 2008: 20).

<sup>30</sup> Measures for ageing workers with training qualification(s) are financed. Measures for low-skilled persons can be promoted without any age restrictions, if a training qualification or a partial qualification can be obtained. These measures are financed for employees without training qualifications (unskilled workers) or for employees with training qualification(s) that have been carrying out a semi-skilled or unskilled job for more than four years (not in their old job any more).

<sup>31</sup> Author: Marta Tosini.

<sup>32</sup> Nevertheless, the governing parties, the German Social Democratic Party (SPD) and the Green Party (Bündnis 90/die Grünen) did not attain a majority in the Bundesrat (the second parliamentary House). Parts of the reform concept were also supported by the opposition parties, the Christian-Democratic Union (CDU)/Christian-Social Union (CSU) and the Free Democratic Party (FDP).

<sup>33</sup> Former Federal Chancellor Gerhard Schröder made the following statement on this topic: "Should our country provide its citizens also in the future a prosperous life and social security, we must change it. Change requires courage and determination." (Press and Information Office of the Federal Government 2003: 6).

<sup>34</sup> Peter Hartz, former board member and former Director of Human Resources of Volkswagen AG, was the chairman of the commission. The first "Hartz Laws" came into effect in the beginning of 2003, the third in the beginning of 2004 and the fourth one year later.

<sup>35</sup> These laws continue the concept of "Job AQTIV Law" (law on the reform of instruments of labor market policy), which came into effect on 1.1.2002 (Breig/Leuther 2007: 75f.)

<sup>36</sup> The program in which jobless people were helped to start-up their own business and become self-employed was called "Ich-AG".

<sup>37</sup> The wage for mini jobs is equal to less than 400 euros per month, for midi jobs is between 400 and 800 euros per month.

<sup>38</sup> Presse- und Informationsamt der Bundesregierung (Press and Information Office of the Federal Government) 2003: 53.

<sup>39</sup> So-called "*Optionskommunen*", that is to say municipalities with their own responsibility without the co-responsibility of the Federal Employment Agency.

<sup>40</sup> These criteria of "reasonableness" are established in the Social Security Code.

<sup>41</sup> In the so-called "Block Model", which is used by most, it is similar, due to the leave in the second phase, to an early retirement.

<sup>42</sup> The reductions amount to 0.3% per month for an earlier exit.

<sup>43</sup> Some analyses (Jakob/Kolf 2007: 129) criticize the fact that, in the Grand Coalition's governing program, the proposals concerning the topic of continuing training should be budget neutral (CDU, CSU, SPD 2005: 35). According to this critique, present particularly in unions, the funding requires larger participation also on the part of the state.

<sup>44</sup> Franz Müntefering (SPD) resigned from his posts (Federal Minister for Labor and Social Affairs and Vice Chancellor) in November 2007 due to family reasons. Olaf Scholz (SPD) became Federal Minister for Labor and Social Affairs.

<sup>45</sup> Authors: Gertraud Aschbacher and Marta Tosini. The contents of this section on the position of the labor unions concerning economic and social policy topics are based on the sources listed in the bibliography and also on an interview with a representative of a labor union in the region. He merits special thanks for his valuable support.

<sup>46</sup> See part about employment and wage subsidies for employees regarding the reintegration of an unemployed person back into the labor market of the present report.

<sup>47</sup> The Federation of German Labor Unions is demanding a statutory minimum wage of 7.50 euros per hour.

<sup>48</sup> This board (colloquially referred to as „the five wise men“) consists of five members who are nominated for five years upon the recommendation of the federal government by the Federal President.

<sup>49</sup> An exception is Prof. Bofinger, who, along with Dietz/Genders/Walwei (2006), proposed a minimum wage plan of 4.50 euros per hour ([http://www.smwa.sachsen.de/set/431/gutachten\\_niedriglohnbereich.pdf](http://www.smwa.sachsen.de/set/431/gutachten_niedriglohnbereich.pdf)) (Accessed on: 10.01.2009).

<sup>50</sup> Authors: Marta Tosini (from 6 to 6.3) and Gertraud Aschbacher (6.4).

<sup>51</sup> See below.

<sup>52</sup> Helmer et al. (2006: 9) indicate that some biographies of ageing unemployed persons exhibit characteristics of continuity while others are discontinuous. The reasons for this could be, for example, health limitations, private care duties, gender-specific disadvantages (in relation to births, family commitments, and discrimination), fixed-term employment contracts, several in-company reorganizations and the contingent personnel reductions, and bankruptcy.

<sup>53</sup> In the case that there is less than three months between the knowledge of the termination date and the termination of the employment contract, the concerned person must report within three days of receiving notice of the termination date. If the deadlines are not observed, the start date for entitlement to Unemployment Benefits I (ALG I) is postponed by one week.

<sup>54</sup> See the section on social security allowances during unemployment.

<sup>55</sup> S. Konle-Seidl/Eichhorst/Grienberger-Zingerle 2007: 43f. Nationwide there were in the beginning of 2008 344 ARGE's and 69 Optionskommunen (Bavaria: 89 ARGE's, 4 municipal supporting organizations and 3 cases of separate responsibility). Through the shared responsibility it was intended that the employable persons in need could be overseen by a single institution instead of two different offices („social welfare office“ and „employment office“) (Friedrich/Hein-Kremel/Rückel 2008: 13ff).

<sup>56</sup> Source: Federal Employment Agency 2008b: 75f; legal basis: SGB III §§ 48-52.

<sup>57</sup> For example, travel costs, costs for work clothes, child care and outside room and board. For unemployed persons without entitlement to ALG, the BA assumes only the costs of the measures.

<sup>58</sup> These measures also address job-seekers in danger of unemployment.

<sup>59</sup> Data processing, fundamentals and up-skilling courses are some examples.

<sup>60</sup> Despite this possibility for the unemployed person, he or she is not automatically entitled to it.

<sup>61</sup> See § 77ff. SGB III and § 16 SGB II in connection with § 77 SGB III.

<sup>62</sup> „Arbeitsgelegenheiten“ is being translated with „public employment opportunities“ as also in the Discussion Paper of the Institute for Employment Research of the Federal Employment Agency (IAB) by Konle-Seidl/Eichhorst/Grienberger-Zingerle (2007).

<sup>63</sup> For this reason they are colloquially referred to as „one euro jobs“. No entitlement to remuneration is obtained with these jobs. The amount of 1 euro per hour is not a wage, but rather just an „adequate compensation“ for additional expenditures.

<sup>64</sup> Regarding the limitation, within the five years there is no prohibition against repeating. This is particularly criticized by the labor unions.

<sup>65</sup> The category of those who are “beschäftigungslos” (without employment) is in German law broader than those who are “arbeitslos” (without a job).

<sup>66</sup> See the appendix to the present report.

<sup>67</sup> Objective justification for the acceptability of a time limitation is anchored in the Part-time and Limitation Law (“Teilzeit- und Befristungsgesetz”, version of 20.12.2000).

<sup>68</sup> Out of quantitative analyses from 2003 it resulted that the integration subsidies had significant positive integration effects, in contrast to other measures for the reintegration of ageing unemployed persons (Breig/Leuther 2007: 89).

<sup>69</sup> See the appendix to the present report.

<sup>70</sup> The person must have a period of entitlement to ALG of at least 120 days and the new wage must correspond to the collectively agreed upon and the usual local working conditions.

<sup>71</sup> See part about “Main Policy Guidelines”.

<sup>72</sup> Each in the first and in the second year, respectively.

<sup>73</sup> Author: Gertraud Aschbacher.

<sup>74</sup> Matching, in this regard, is a practice supported by a technical process, by means of which employers’ requirements can be matched up with the qualifications of job-seekers, so that the placement can occur with more precision.

<sup>75</sup> Indications by Ms. Sibylle Zimmermann. Ms Zimmermann is the representative for public relations and controlling of the Ingolstadt Jobcenter. Her contribution is based on a written exchange via email in January 2009. She merits special thanks for her valuable support.

<sup>76</sup> Indications by Ms. Zimmermann.

<sup>77</sup> Author: Marta Tosini (from 7 to 7.2).

<sup>78</sup> See: Section on social security allowances and recipients of “Basic Security for Job-Seekers”.

<sup>79</sup> “Grundsicherungsstellen” refers to the support given to recipients of “Basic Support for Job-Seekers” (ALG II).

<sup>80</sup> Authors: Marta Tosini and Gertraud Aschbacher. The following segment about the program “*Perspektive 50plus*” in the region of Ingolstadt was written based not only the sources stated in the part containing the references, but is also the result of a meeting and some conversations with the contact people for the program “*Perspektive 50plus*” in the Ingolstadt region. They merit special thanks for their valuable support.

<sup>81</sup> Erlangen is a city in Middle Franconia (Bavaria) and has approximately 105,000 inhabitants.

<sup>82</sup> „Active Ageing – The Good Practices for the Information and Vocational Guidance for Workers over 55 at their Workplace” (<http://www.ku-eichstaett.de/Fakultaeten/GGF/fachgebiete/Soziologie/lehrstuehle/Soziologie3/Projekte/Active%20Ageing/nationaler%20Workshop>) Accessed on: 11.01.2009)

<sup>83</sup> In many regional pacts of the nation-wide program “*Perspektive 50plus*”, the acquirement of qualifications for the ageing job-seekers is a component of the portfolio of measures (Büttner et al. 2008: 7).

<sup>84</sup> Another examination of the program “*Perspektive 50plus*” mentions the problem of the low participation of women and in fact concerning their activation (Büttner et al. 2008: 4). Their activation is considerably lower than the segment of the target group





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that they represent. Furthermore, the probability of the integration of women is significantly lower among those who are activated and after taking into account other available socio-demographic attributes.

## 8 APPENDIX: Measures by the Federal Government Against the Economic Crisis<sup>85</sup>

The German federal government has taken measures against the economic crisis<sup>86</sup>. Impulses for growth and employment should be created.

### Law promoting families and services, reduction of Social Insurance Contributions, Modification of the Law on Housing Subsidies

In October of 2008 a package was passed by the federal government, whose focus is on relieving citizens.

The package of measures focuses mainly on reducing social security contributions to less than 40%: for this the contribution to the statutory health insurance, which is to be financed in equal parts by the employer and the employees, is fixed at 14.6%, to which is added a 0.9% contribution by the insured person. The contribution rate for the unemployment insurance has temporarily sunk since 1.1.2009 to 2.8% (previously 3.3%). This relieves employees and employers in 2009 by approximately 4 bn. euros. Furthermore, the tax deductions of care expenditures for health and long-term care insurance have been substantially improved.

In order to better support families, the tax exemption for dependent children is being raised by 200 euros to 6000 euros. The family allowance increases for each by 10 euros to 164 euros, after the third child by 16 euros. Disadvantaged children (students from families that receive allowances through ALG II or social benefits) receive 100 euros for the start of school.

A maximum of 4,000 euros of can be refunded of expenditures for domestic help (expenditures for employed persons subject to compulsory social insurance in the household, service providing businesses, and expenditures for family members care).

The housing subsidy is increased and an additional one-off payment will occur in the fourth quarter of 2009 (100 euros for a one-member household), in order to balance out increased energy prices.

Through these measures relief in the amount of approximately 20 bn. euros should take place in 2009 and 2010.

### Law for the Stabilization of the Financial Market

The Law for the Stabilization of the Financial Market created a “protective shield” for the finance sector. This consists of a fund in the amount of 100 bn. euros. The law has the aim of safe-guarding the solvency of financial institutions based in Germany and of avoiding a general credit crunch. That is to say that not only should the financial sector be supported, but credits for businesses should also be secured. The law should prevent competitive companies with a good international market potential from being victims of the crisis in the banking sector.

### The first economic package (package of measures “Securing Jobs by Strengthening Growth”)

The package of measures “Securing Jobs by Strengthening Growth” was decided upon on 05.11.2008 by the federal cabinet.

The provided funds in the amount of 50 bn. euros for 2009 and 2010 should promote investments and contracts by companies, private households and municipalities. 20 bn. euros is going towards securing the financing and liquidity of companies.

The individual measures of the economic package are noted in the following:

- **Energy modernization of buildings/promotion of energy-efficient construction**

In order to initiate additional investments in the energy efficiency of buildings, approximately 3 bn. euros for the years 2009 to 2011 have been added. A credit volume of 2.5 bn. euros is being made available to the *Kreditanstalt für Wiederaufbau* (Reconstruction Loan Corporation)-KfW, for 2009. Public buildings will also be renovated.

In addition, the loan program "Special Funds for Energy Efficiency in SMEs" (*Sonderfonds Energieeffizienz in KMU*) is being financially supported. A further KfW credit volume of 300 m. euros should promote energy-saving investments in small and medium-sized enterprises through low-interest loans.

- **Increase of Loans for Municipal Infrastructure Programs**

The economic package creates incentives for the implementation of municipal investments and for a quick solution to the investment backlog of planned public projects. The infrastructure programs of the Reconstruction Loan Corporation (KfW) for economically underdeveloped municipalities are being increased by 3 bn. euros. The interest terms are particularly favorable for a limited period.

- **Increased Deductibility of Craftsmen Services<sup>87</sup>**

The deductibility of craftsmen services for maintenance and modernization measures is being expanded (20% of a total of 6,000 euros with outputs in craftspeople's calculations) and the tax bonus is being doubled from 600 euros to 1,200 euros. Illegal employment should be reduced through an increased deductibility, which should increase the revenue in small trades by 10 m. euros and should relieve private households by 1.5 bn. euros per year.

- **Special Deductions for SMEs**

Limited for two years, the possibility of special deductions for SMEs is being expanded: The upper limits of business assets and profits that are relevant for this are being increased. This serves to support the liquidity and equity capital formation. In so doing, businesses should be relieved of approximately 100 m. euros per year.

- **An additional Financing of the Reconstruction Loan Corporation with a Volume of 15 bn. euros**

Businesses should thereby receive credits for investments despite the shortages in the banking sector, in that an additional financing instrument at the Reconstruction Loan Corporation with a volume of 15 bn. euros supplements the private bank management's credit offer until the end of 2009. In this way more investments are made possible.

- **Deductions for Fixed-Asset Mobile Commodities in the Amount of 25%**

Businesses' possibilities for deductions, limited to two years, are being improved and declining deductions are being introduced again. SMEs can profit from special deductions. The businesses should be relieved through approximately 2.5 bn. euros per year.

- **Vehicle Tax Exemption for New Automobiles**

A vehicle tax exemption is being introduced for one year (two years for Euro5 and Euro6 vehicles).

- **Extension of the Duration of Receipt of *Kurzarbeitergeld* (Compensation for reduced working hours)**

Limited to one year, the duration of receipt of compensation for reduced working hours is being extended. With reduced hours the normal working time in the company is temporarily reduced and the employee receives his or her remuneration from the employer only for the actual time worked. For the down-time a portion of the remuneration is covered by the Federal Employment Agency through the reduced-hours compensation allowance. Reduced working hours should avoid layoffs, and should enable the continued employment of employees during a temporary lack of work<sup>88</sup>. As a basic principle, reduced hours compensation is equal to 60% of the net remuneration that has been canceled due to a reduction in working hours (67% if a child lives in the household). Reduced hours compensation is

requested by the employer or by the employees' representation and the local Federal Employment Agency decides whether the necessary requirements are met for the payment of reduced hours compensation<sup>89</sup>.

From 1.1.2009 the period for the reduced-hours compensation for macroeconomic reasons is extended from 6 to 18 months. The new regulation concerns all employed persons, whose entitlement to reduced-hours compensation begins by 31.12.2009 and also those who already began receiving reduced hours compensation in 2008. Reduced-hours compensation can and moreover should be utilized for the continued training of employees.

While until now only qualification schemes for recipients of the *Transferkurzarbeitergeld* (compensation in case of reduced working hours during company re-structuring) were financed (and not the two other types of *Kurzarbeitergeld*), this possibility now exists for recipients of reduced working hours-compensation due to macroeconomic reasons and seasonally reduced hours compensation. This scheme is supported by the European Social Fund (ESF), co-financed by the federal government and carried out by the Federal Employment Agency.

According to preliminary indications by the BA, 10,600 companies nationwide applied in January of 2009 for reduced hours due to economic reasons for a total of 290,600 employees.

With this, reduced hours compensation was requested for just as many persons in January as in December (+5,000); however, for significantly more than a year ago (+274,000). Since October 2008, the time when the financial crisis reached the real economy, there have been 23,300 applications nationwide for reduced hours compensation from employers for a total of 774,600 employees. Differentiated by industry, employees in the automobile industry, in the manufacture of metal products and in mechanical engineering were particularly affected.

- **Agreement on Regional Economic Structures (GRW)**

By increasing the funds for the Agreement for the "Improvement of Regional Economic Structures" (*Gemeinschaftsaufgabe für die Verbesserung der regionalen Wirtschaftsstruktur*), the federal government is aiming to initiate additional investments in economically underdeveloped regions. To accomplish this 200 m. euros (one-off) are being made available. In so doing, industrial investments as well as investments in municipal infrastructures that are linked to economic interests are being promoted. The measure is financed one half each by the federal government and the federal state.

- **Acceleration of Investments in the Transportation Sector**

A "Transportation Innovation and Investment Program" (*Innovations- und Investitionsprogramm Verkehr*) is being launched with a volume of one billion euros per year for 2009 and 2010.

The investments primarily concern the railways (620 m. euros, of which 170 m. euros in 2009) and the federal highways (950 m. euros, of which 550 m. euros in 2009); however, also the federal waterways (430 m. euros, of which 280 m. euros in 2009). Thus, the contracts for the construction industry and the SMEs in the sector should be increased.

- **Further Development of the Special Program for Low-Skilled and Ageing Employees in Businesses (*Weiterbildung geringqualifizierter und beschäftigter älterer Arbeitnehmer in Unternehmen*) (WeGebAU)**

The already existing program "Continuing Training of Low-Skilled and Employed Seniors in Companies" (WeGebAU) by the Federal Employment Agency is being intensified<sup>90</sup>. The federal government will develop nationwide the special program for ageing and low-skilled employees (WeGebAU), in order to prevent dismissals through continuing in-service training and thus simultaneously counteract the lack of qualified employees.

- **Promotion of Innovation (ERP Innovation Program; ERP *Startfonds*; Special Fund for Energy Efficiency)**

A promotional program, which has already started, to increase energy efficiency in SMEs is being strengthened, particularly in relation to energy consulting and the provision of low-interest loans for measures for the rational use of energy. With the above-mentioned programs it is a matter of expanding existing programs.

### Second Economic Package

On 20 February 2009 the *Bundesrat* (the second parliamentary House) approved the “second economic package” with a total volume of 50 bn. euros, which had already been passed by the Bundestag (first parliamentary House). A second economic package was necessary, because the measures from the first economic package were not sufficient in light of the worsening national and international conditions for growth and employment (Federal Ministry of Finance 2009).

The measures of the second economic package are:

- **Credit and Loan Guarantee Program; Promotion of Investments, Innovation, and Demand in the Economy**

As long as the banks' possibility of lending is limited, the state will be active in a supportive capacity in order to assist companies through governmental credits. To do this the following measures are being applied:

Credit and Loan Guarantee Program: the law for the stabilization of the financial market is being supplemented with new measures. In order to accomplish this, the application of the special program 2009 of the Reconstruction Loan Corporation (KfW), which is oriented towards SMEs, is being made more flexible; a credit program for larger companies is being introduced, the set of domestic instruments for guaranteeing loans is being developed, and new tools for guaranteeing loans are being introduced. Altogether these measures add up to a loan guarantee volume of 100 bn. euros

Increase in federally covered export financing;

Federal promotion of innovation: the Central Small and Medium-Sized Business Innovation Program (*Zentrales Innovationsprogramm Mittelstand*) (ZIM), which promotes the research and development projects of SMEs of up to 250 employees, should be developed in order not to lose the competitive position in the global markets;

The federal government's broadband strategy: The federal government will massively push the development of broadband in Germany;

“Environment Award”: funds totalling 1.5 bn. euros are being made available for the scrapping of old passenger cars and the sale of new ones. It is possible to request a subsidy in the amount of 2,500 euros for each purchase of a new vehicle. Purchase and registration of the vehicle should take place between 14 January 2009 and 31 December 2009;

Revision of the motor vehicle tax: The current motor vehicle tax is being changed to an emissions-oriented motor vehicle tax;

The promotion of application-oriented research in the area of mobility: In 2009 and 2010, 500 m. euros should be invested.

- **The Relieving of Citizens, Private Households and SMEs**

Policy-makers are attempting to relieve taxpayers, in order to increase domestic demand and to generate a basic optimism among the people.

The lowering of the income tax should create relief to the amount of 2.9 bn. euros in 2009 and 6.05 bn. euros in 2010;

The federal government increases its contributions to the statutory health insurance overall by 9 bn. euros in 2009-2010, which leads to a reduction of 0.6% in the contributions equally paid by employers and employees; Family and children-related allowances are being raised.

- **Employment and Training**

The principle of avoiding dismissals and developing skills is essential for the labor market policies. In order to make employment more secure, allowances for reduced working hours should be shaped more attractively and the procedure for avoiding terminations should be simplified. To accomplish this, the BA assumes half of the contributions to social security during reduced working hours. With qualification during the reduced hours, all contributions to social security can be substituted for the employer. The application and the procedure are being simplified and the statutory contribution payment towards the promotion of employment is being stabilized at 2.8%.

Activation, support and qualification should be developed. For this reason, 1.2 bn. euros are being made available in 2009 and 2010 for activation and qualification schemes on the part of supporting organizations for the basic security of unemployed persons, and 770 m. euros for the BA. The WeGeBau program is being opened for the qualification of employed people and increased by 200 m. euros. The funding from the European Social Fund for the promotion of qualification during reduced working hours is also being increased by 200 m. euros. Qualification subsidies on the part of the BA are intended for the re-hiring of contract workers.

The employment agencies and ARGEs receive 5,000 additional posts for placement, support and the granting of allowances.

- **Sustainable Financial Policy for Future Generations**

In view of demographic change, an increasing public expenditure for interest burden would be a large burden for future generations. Therefore, a balanced budget remains an objective of the Federal Government. Nevertheless, it must be temporarily postponed on account of the dramatic economic situation. As soon as the next upturn begins, a „debt brake“ at the federal and Länder- levels will be fixed under constitutional law: the structural deficit should be a maximum of 0.5% of the GDP, in which cyclical fluctuations are indeed taken into account. A special provision is intended for special situations (natural disasters, international financial crisis).

- **Municipal Investment Program; Public Investments in the Future**

At the federal, *Länder* and municipal levels it is being attempted to create a basis for new jobs, innovations and a better social infrastructure through an education and qualification push against the downturn. The investments are focused on education (nursery school, schools, university) and infrastructure (transport sector, hospitals, urban development, information technology) and are therefore set up so that significant impulses go towards climate protection and energy efficiency. In order to accomplish this, the federal government makes funding available to the municipalities in a quick way.

Sources for the appendix (Federal government measures against the economic crisis):

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<sup>85</sup> Author: Gertraud Aschbacher.

<sup>86</sup> Source: Federal Ministry for Economics and Technology (<http://www.bmwi.de/BMWi/Navigation/Wirtschaft/Konjunkturpakete/konjunkturpaket-1.html>) (Accessed on: 05.02.2009).

<sup>87</sup> This is valid indefinitely; however, beginning in 2011 the effectiveness of the improved marketability will be evaluated.

<sup>88</sup> Besides the reduced hours compensation “due to macroeconomic reasons” (*konjunkturell bedingtes Kurzarbeitergeld*) there is also *Seasonkurzarbeitergeld*, “seasonally” reduced hours compensation (during seasonal non-productive times in the building and construction industry) and the *Transferkurzarbeitergeld*, the reduced-hours compensation during in-company re-structuring measures. Those employed in the temporary employment sector can also be entitled to reduced hours compensation.

<sup>89</sup> Conditions that must be met: A reduction in the work schedule pursuant to labor-law must be agreed upon; in a calendar month at least one-third of the employees is hit with a loss in wages of more than 10% in each case; the lack of work is temporary and unavoidable and it is related to legally recognized causes (e.g. economic reasons or inevitable events); the company has done everything to minimize or eliminate the non-productive time (e.g. the use of vacation time or work time bonuses). The employee continues his or her employment, which is subject to compulsory social insurance, following the start of the non-productive time and is not terminated. While reduced hours compensation is being paid, the employer alone must cover health, long-term care and pension insurance.

<sup>90</sup> See the section on vocational training for further information on this program.



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### **Index of Abbreviations Used in the Report**

ABM Arbeitsbeschaffungsmaßnahmen (Employment creation scheme)

AGH Arbeitsgelegenheiten ("Public employment opportunities")

ALG Arbeitslosengeld (also Arbeitslosengeld I) (Unemployment benefit – also Unemployment Benefit I)

ALG II Arbeitslosengeld II (Grundsicherung für Arbeitsuchende) (Unemployment Benefit II – Basic Support for Job-Seekers)

ARGE Arbeitsgemeinschaft

BA Bundesagentur für Arbeit (Federal Employment Agency)

BDA Bundesvereinigung der deutschen Arbeitgeberverbände (Confederation of German Employers)

CDU Christlich-demokratische Union (Christian-Democratic Union)

CSU Christlich-soziale Union (Christian-Social Union)

DGB Deutscher Gewerkschaftsbund (Confederation of German Labor Unions)

FDP Freie Demokratische Partei (Free Democratic Party)

IAB Institut für Arbeitsmarkt- und Berufsforschung (Institute for Labor Market and Employment Research)

IG Metall Industriegewerkschaft Metall (Industrial Union of Metalworkers)

PSA Personal-Service-Agentur (Personnel Service Agency)

SGB II Zweites Sozialgesetzbuch (Second Social Security Code)

SGB III Drittes Sozialgesetzbuch (Third Social Security Code)

SPD Sozialdemokratische Partei Deutschlands (Social Democratic Party of Germany)

