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Comparison of German labour costs with other European countries: only a marginal increase. Analysis of current Eurostat statistics for 2008

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Comparison of German labour costs with other European countries: only a marginal increase

Analysis of current Eurostat statistics for 2008

Heike Joebges, Camille Logeay, Simon Sturn, Rudolf Zwiener

Labour costs in Germany rose more sharply in 2008 than in previous years, but the increase was once again less pronounced than in virtually all other European countries. This brought about a further strengthening of Germany's international competitiveness and contributed towards the country's current account surplus. Global trade imbalances contributed significantly towards causing the current crisis and have only declined as it has run its course.

However this marginal overall increase in German labour costs conceals varying levels of costs in the different economic sectors. At EUR 32.50¹ per hour in the manufacturing sector, Germany occupies a mid-way position in the top 50 per cent of countries in the eurozone, while private services sector labour costs correspond to the eurozone average of EUR 26 per hour. German industry is improving its competitive position considerably, thanks to favourable intermediate inputs of the services sector due to comparatively low labour costs of this sector's. In the current crisis, which is characterised by a huge decline in foreign demand, the disadvantages of an export oriented economic model and the limits of an economic policy focussed solely on improved international competitiveness are now becoming clear. If the intention is to correct this in the future and to try to achieve a balanced growth of exports and domestic demand, then higher wage growth is also required.

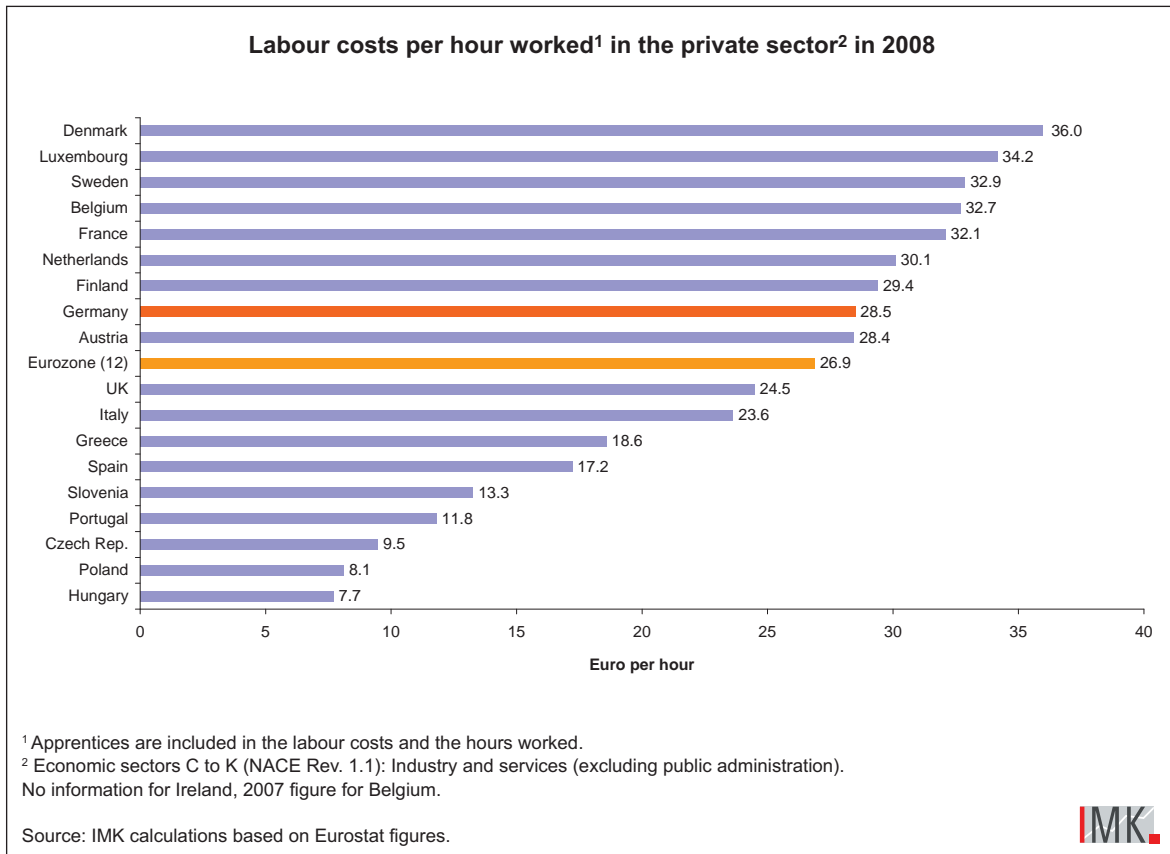
The IMK (Macroeconomic Policy Institute) makes an annual comparison of the development of German labour costs and those of the other major European countries, based on Eurostat Labour costs statistics (Düthmann et al. 2006, Horn et al. 2007, Joebges et al. 2008). Together with productivity and exchange rate trends, labour costs represent key indicators for assessing a country's international competitiveness (see Düthmann et al. 2006 for further details). The comparison made by the IMK offers the general public an opportunity to form a picture of the differences between the official figures and those published by the Institut der Deutschen Wirtschaft (IW, see Schröder 2009) concerning the supposedly excessively high labour

costs in the German industrial sector. This report seeks to analyse current trends and the consequences of the financial crisis. Firstly, therefore, as in the last report on labour cost trends (see Joebges et al. 2008), labour costs in the financial sector will be examined more closely and secondly, the current impact of the financial crisis on the labour market will be discussed, in particular the slump in productivity and the resulting increase in Germany's unit labour costs.

As in previous years, the labour costs per hour worked have been taken from the Eurostat database

¹ All labour cost figures are rounded to the nearest decimal point.

Figure 1



(‘Labour Costs – Annual Data’).² This data represents official annual information reported to Eurostat by the statistical offices of the member states on a comparable basis. At present, however, data is only available for most countries up to and including 2007. Consequently, the IMK has projected the level of labour costs per hour worked on the basis of the growth rates in the Eurostat labour cost index, allowing for exchange rate fluctuations, in order to be in a position to report on labour costs per hour for 2008.³

Only a modest increase in German labour costs in the private sector

As Figure 1 shows, Germany ranks eighth among the EU countries, with a labour cost per hour of EUR 28.50⁴ and thus continues to be ranked, along

with Austria, at the lower end of the group of high-wage countries with labour costs above the eurozone average.⁵ The group also includes Denmark, Luxembourg, Sweden, Belgium, France, the Netherlands and Finland. Overall the eurozone has an average labour cost of EUR 26.90 per hour – only slightly lower than Germany’s.

Germany’s labour costs rose by 2.5% in 2008. Only Malta (1.8 %), Sweden (-1.3 %) and the United Kingdom (-10.0%) recorded lower growth rates, and, in the case of the last two countries, these were solely due to the devaluation of their respective currencies against the euro. (In terms of their respective national currencies, Sweden’s labour costs actually rose by 2.6% and the United Kingdom’s by 4.7%). Overall, labour costs in the eurozone (12 countries) rose by 3.5%. A north-south divide is still apparent – the southern European countries have lower labour costs, but higher increases.

The new EU member states recorded an above-average increase in labour costs, with growth rates of some 16% in 2008. Part of this increase is due to the

² See http://epp.eurostat.ec.europa.eu/portal/page/portal/labour_market/labour_costs.

³ Systematic details of the adjustment method used and a description of the respective time series are given in particular in IMK Reports No. 11 (Düthmann et al. 2006) and No. 22 (Horn et al. 2007). The difference between the approaches used by the IW and the Federal Statistics Office is also a central theme in these reports.

⁴ Essentially, the EU is considered to include 27 countries. However, some smaller countries, whose labour costs are significantly below the eurozone average, are not shown for reasons of clarity.

⁵ The eurozone is considered to include the original twelve countries, i.e. excluding Malta, Slovakia, Slovenia and Cyprus. These countries do not carry any weight in terms of calculating the average.

appreciation of the national currencies against the euro. Particularly sharp increases were recorded by Latvia (23%), the Czech Republic (20% (8% in local currency)) and Poland (19% (11% in local currency)). However, the labour costs in these countries are still very low at less than EUR 10 an hour.

Labour costs in the manufacturing sector still only ranked fifth in Europe

As in the entire private sector, labour costs in the manufacturing sector in 2008 varied widely from country to country. While they were in excess of EUR 30 per hour in the high-wage countries, in the 'old' southern European countries and the new EU states they were less than EUR 25 per hour. At EUR 32.50 per hour, Germany again falls into the high wage bracket and comes in fifth in the country ranking (Figure 2). Compared with 2007, Germany and France have swapped places. However, differences of less than one euro per hour should be not over-interpreted (see Joebges et al. 2008, Appendix 2 regarding statistical uncertainties).

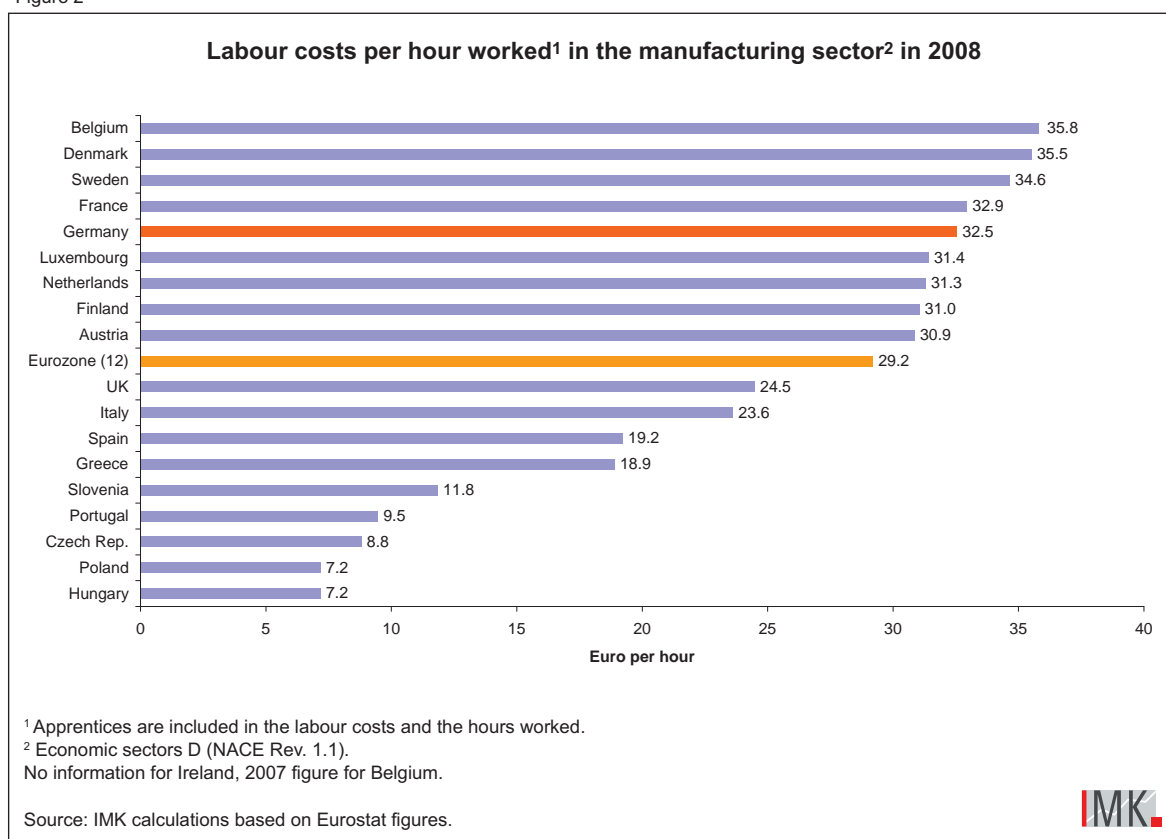
Apart from this, the labour costs in Figure 2 can be compared inasmuch as there are no serious structural differences among the high-wage countries. This can be seen from the Eurostat labour force survey data.

Many of the characteristics of the labour force (gender, age, level of education) and working conditions (fixed term, working times) in the manufacturing sector are similar throughout the high-wage countries. Consequently, taking into account these factors, it is not possible to establish any competitive advantage for Germany's direct rivals solely on the basis of labour costs.

In the manufacturing sector too, Germany registered an increase of 2.7% in labour costs in 2008, one of the lowest in the EU. Only Sweden and the UK had significantly lower growth due to the devaluation of their respective currencies. In the eurozone (excluding Germany) however, labour costs rose by a good 4%. The new EU countries recorded even greater increases of between 6% and 20%, caused in part by exchange rate movements. The only exception here is Malta, with a rise of 2%. Thus 2008 saw the long-term pattern in the manufacturing sector remain, with significantly lower growth in labour costs in Germany than in neighbouring European countries (Figure 3).

If one also takes into consideration the increasing use of production-related services in the manufacturing sector, then industrial goods are produced at significantly lower labour costs on average in Germany

Figure 2



than the figures for the industrial sector alone would lead us to expect. The IW therefore rightly puts its calculation of labour costs in the German industrial sector into perspective by attempting to take into account in an additional calculation the intermediate inputs of the significantly cheaper services sector. One current publication (Schröder 2009, p. 16) estimates the resulting cost advantage for manufacturing industry as being 3.4% or EUR 1.14 an hour. But the simple calculation method used by the IW significantly underestimates the actual cost savings for the industrial sector.

As the input-output calculation by the Institut für Wirtschaftsforschung Halle (IWH) for 2005 shows, the cost savings are actually a good 10%, or more than EUR 3 per hour, if account is taken of the entire intermediate inputs (see Box 2 in Joebges et al. 2008 or Ludwig/Brautzsch 2008 for the methodology used). The effect on reducing labour costs is therefore three times higher than estimated by the IW and in itself significantly improves the competitive position of German industry.

Compared with the rest of Europe, the labour cost differential between the industrial and services sector in Germany is the largest. Other European countries in some cases actually have higher wages in the services sector than in the industrial sector.

For this reason care should be taken when interpreting a comparison between the labour costs in individual sectors between countries.

Average labour costs in the services sector

At EUR 26 an hour, German labour costs in the private services sector are only slightly above the eurozone average of EUR 25.70 an hour (Figure 4). Thus in 2008 Germany was ranked ninth behind the Benelux countries, the Scandinavian countries, Austria and France. Only the United Kingdom was able to improve its position vis a vis Germany in terms of cost thanks to the strong devaluation of the pound sterling.

In terms of their composition, private services are extremely diverse and consequently there are also major differences in wages in the individual sectors (Table 1). The lowest labour costs are to be found in the hotel and restaurant sector, where an average of EUR 12.70 per hour is paid across the whole of the European Union, EUR 15.80 per hour in the eurozone and EUR 14.20 per hour in Germany. The highest wage levels are found in the financial intermediation sector, at EUR 33.50 per hour on average in the European Union, EUR 41.40 in the eurozone and EUR 38.40 in Germany.

Also in the case of services, the 2.1% rise in German labour costs was low compared with other European countries. Only Austria at 1.4% and Malta at 1.6% recorded lower increases. In two countries labour costs also fell due to the devaluation of their local currencies in relation to the euro: in the United Kingdom by -10% (approx. -15 percentage points due to the devaluation of the pound sterling), and in Sweden by -2.3% (of which -4 percentage points were due to devaluation of the Swedish krona). On average, labour costs rose in the private services sectors in the new member states (with the exception of Malta) by between 6.4% (Cyprus) and 23.9 % (Latvia), which is significantly more than in the eurozone where there was a 3% rise. Thus the picture is the same as in the manufacturing

Figure 3

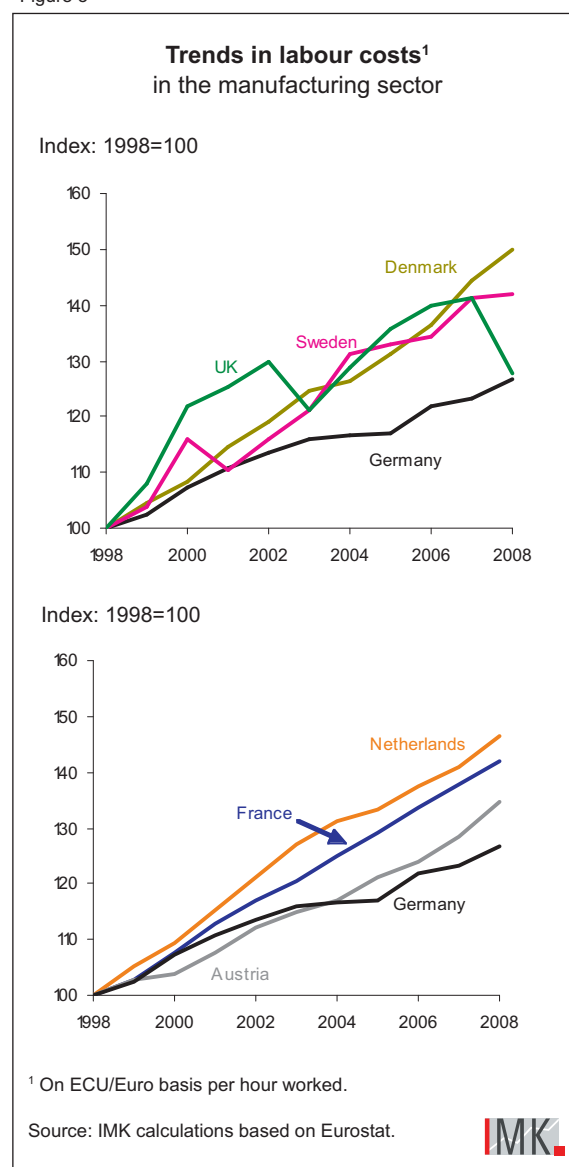
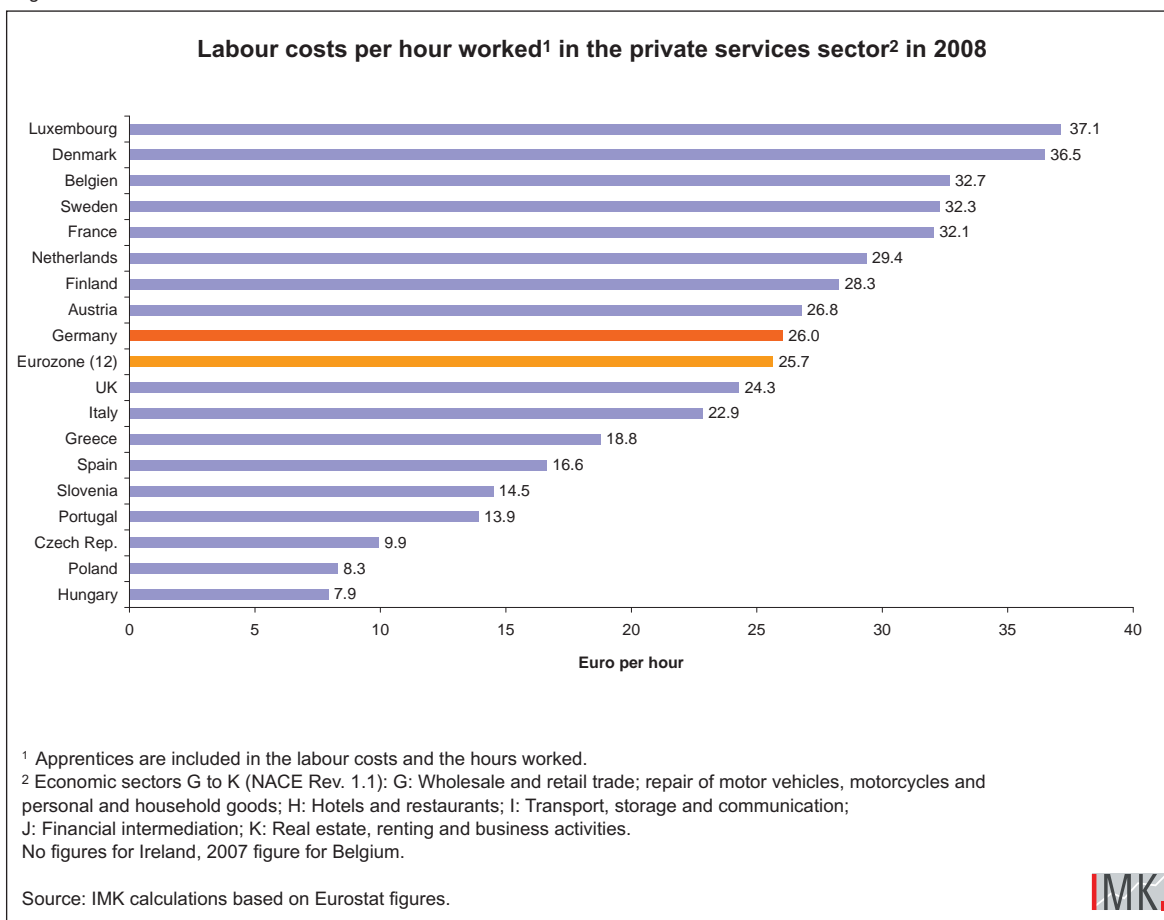


Figure 4



sector, with the countries with the lowest labour cost levels recording the highest increases in 2008.

High wages in Europe's financial sector

The current global financial and economic crisis started in the financial sector. Hence, labour cost trends in this sector are examined in more detail below. In terms of its macroeconomic significance, this sector, with a share of between 3% and 7% of gross value added in the European countries and a share of total employment of between 2% and 4%, is comparable to the construction sector, whereas the importance of the manufacturing sector is approximately three times greater (Joebges et al. 2008, p.5).

Labour costs in the banking and insurance sector are the highest among the private service industries. Luxembourg stands out here in particular, at EUR 61.70 per hour (Figure 5). Germany's labour costs of EUR 38.40 per hour put it in tenth place, below the eurozone average of EUR 41.40 per hour. The reasons for the comparatively low German labour

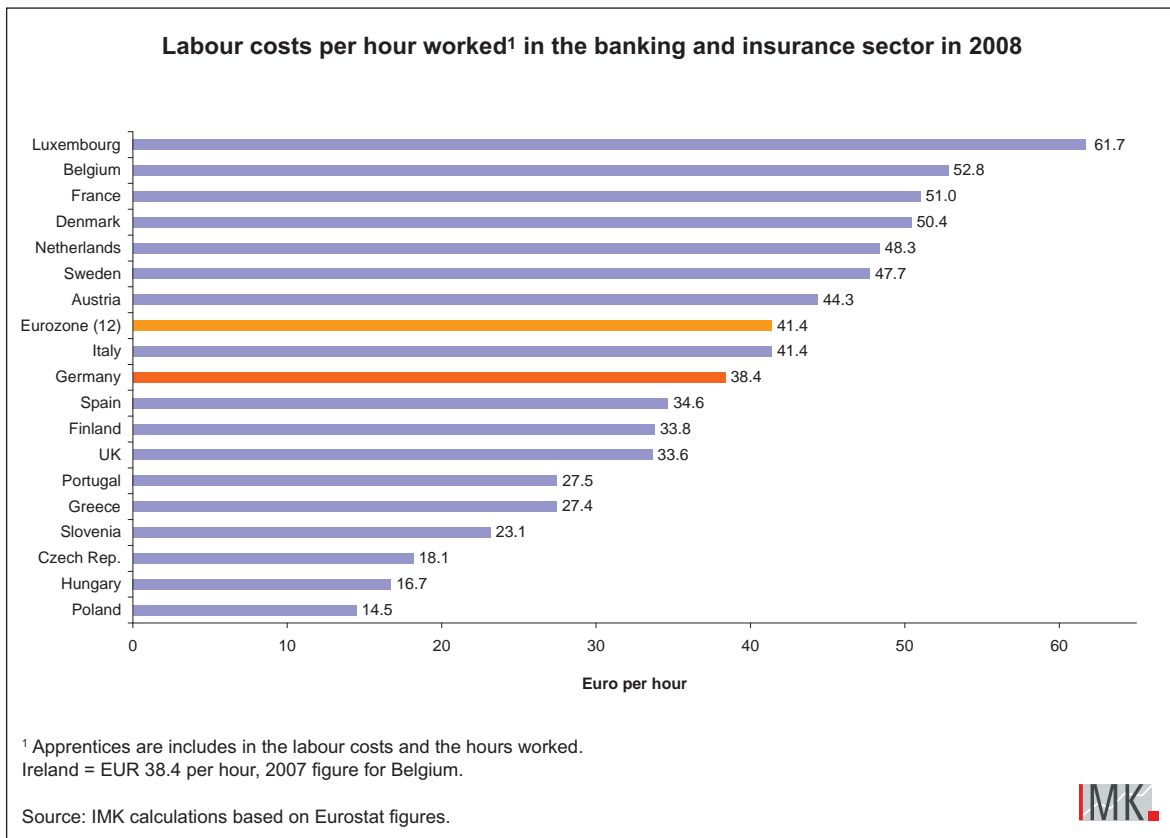
costs in this sector could be the three-tiered structure of the German banking system, with public banks,

cooperative and private banks, together with the relatively low degree of concentration on the German banking market (Joebges et al. 2008, p. 6).

Wages in the financial intermediation sector are high not only in terms of the services sector as a whole, but also compared with the manufacturing sector, despite its relatively generous remuneration levels. The labour cost average for the banking and insurance sector in the EU as a whole exceeds the average for the manufacturing sector by more than 40% (Figure 6). Only the energy and water utilities have slightly higher labour costs in some countries, including Germany.

However, the negative impact of the financial crisis on wages on the banking and insurance sector was already apparent in 2008, with significantly lower growth rates than in the rest of the private sector. In Germany, the increase in labour costs of 0.7% was less than in the eurozone, where the average increase was 2.4%. However German wage increases in this sector were not the lowest. The United Kingdom was particularly affected by the financial crisis and recorded an even smaller increase of 0.4% in local currency; measured in euros, this amounts to a 13.6% reduction

Figure 5



in labour costs due to the devaluation of the pound sterling. The Netherlands (0.8 %) and Austria (-3.1 %) also had extremely moderate and declining labour costs respectively.

In the new EU countries, however, there was a comparatively significant increase in labour costs, as in the private sector as a whole. Only a few countries that were affected very early by the crisis, such as Lithuania, Latvia and Slovakia, did not record such high rates of increase.

No positive correlation between wage restraint and employment

A commonly held theory is that low nominal wage increases, which are not generally matched by correspondingly modest price rises and therefore result in lower real wage increases, have a beneficial effect on employment. One might therefore expect relatively positive employment trends for Germany, given that the modest increase in labour costs compared with the European average has already lasted for over a decade. However, Figure 7 shows that the very opposite can be empirically observed. In spite of extremely low wage increases (Figure 7, employee wages per hour), Germany recorded the lowest levels of growth

in employment (Figure 7, employment per hour) in comparative terms. There is no change in this statistic even if the growth is measured in terms of people rather than hours. Even the relatively sharp increase in job creation in 2007 and 2008 did not come anywhere close to compensating for this shortfall.


For the purpose of comparing Germany's economic performance, those European countries that experienced high labour costs similar to Germany's in recent years have been deliberately selected. Labour costs in the private sector in France, Finland, the United Kingdom, the Netherlands and Austria (Figure 1) are very close to the German level. While growth in wages per hour for the whole economy in Austria was as weak as in Germany, all the other countries have recorded significantly higher increases than Germany since the beginning of currency union and also better employment trends (Figure 7, employment in hours).

The higher wage increases and better employment growth in the other countries were accompanied by a bigger increase in private consumption (Figure 7, private consumption). The price for this, however, was a weaker export performance, at least compared with Germany (Figure 7, exports). The Netherlands were an exception: in spite of the overall sharper increase in

Table 1

Labour costs in euro per hour in the private services sector			
	2007	2008 ¹	Growth rate in 2008 compared with 2007
Private services total (excluding public administration)			
Germany	25.50	26.05	2.1%
Eurozone (12)	24.89	25.65	3.0%
European Union (27 countries)	19.93	20.70	3.8%
New member states (10)	7.21	8.37	16.0%
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods			
Germany	22.90	23.53	2.7%
Eurozone (12)	21.89	22.52	2.9%
European Union (27 countries)	17.60	18.22	3.5%
New member states (10)	6.22	7.19	15.6%
Hotels and restaurants			
Germany	13.90	14.20	2.1%
Eurozone (12)	15.23	15.76	3.5%
European Union (27 countries)	12.24	12.66	3.4%
New member states (10)	4.44	5.03	13.4%
Transport, storage and communication			
Germany	26.10	26.72	2.4%
Eurozone (12)	24.88	25.65	3.1%
European Union (27 countries)	19.89	20.61	3.6%
New member states (10)	7.54	8.55	13.4%
Financial intermediation			
Germany	38.10	38.36	0.7%
Eurozone (12)	40.39	41.35	2.4%
European Union (27 countries)	32.73	33.48	2.3%
New member states (10)	12.96	15.08	16.3%
Real estate, renting and business activities			
Germany	25.80	26.36	2.2%
Eurozone (12)	25.98	26.82	3.2%
European Union (27 countries)	20.74	21.72	4.7%
New member states (10)	7.39	8.75	18.4%

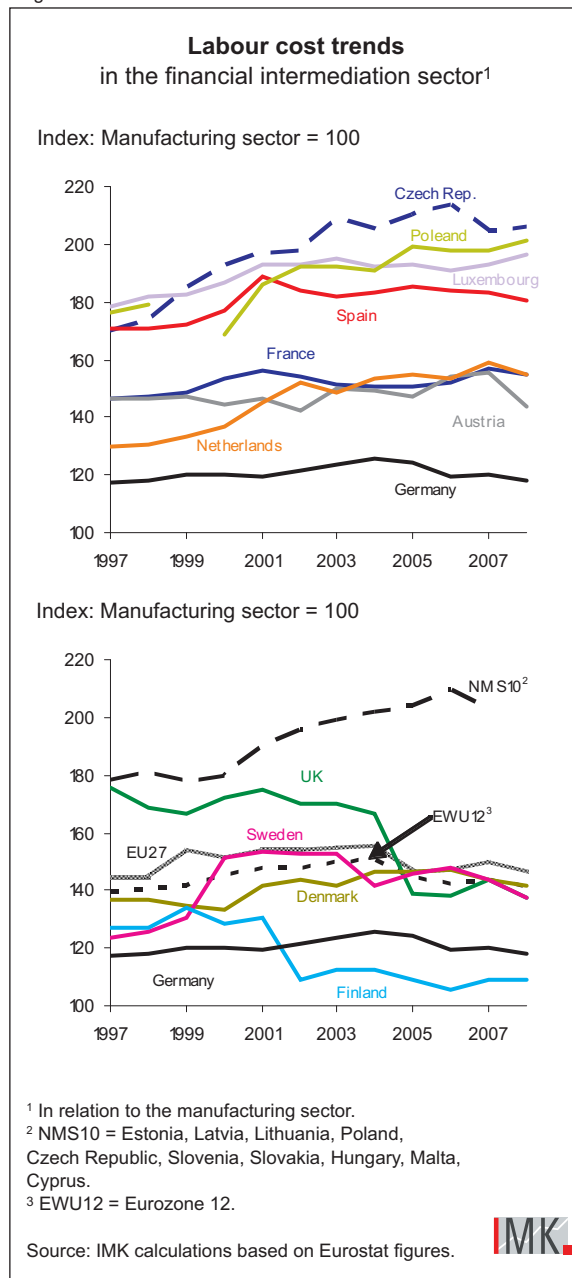
¹ The figures for the new member states were obtained from an individual weighting as the Eurostat statistics aggregate was not available. The corresponding level and growth rates for 2008 should therefore be interpreted with a margin of +/- € 0.20/hour or +/- 2%.

Source: IMK calculations based on Eurostat figures. 

wages, consumption trends were similarly weak as in Germany.

The key reason for the different growth and employment trends is that although competitiveness (which increases as a result of wage restraint) encourages exports, at the same time, domestic demand declines because trends in employee remuneration are weak (Joebges et al. 2009). Nevertheless, for small, open national economies with very high export and import quotas such as the Netherlands and Austria, this can be a successful strategy. Thus only moderate wage increases were agreed in the Netherlands in

Figure 6

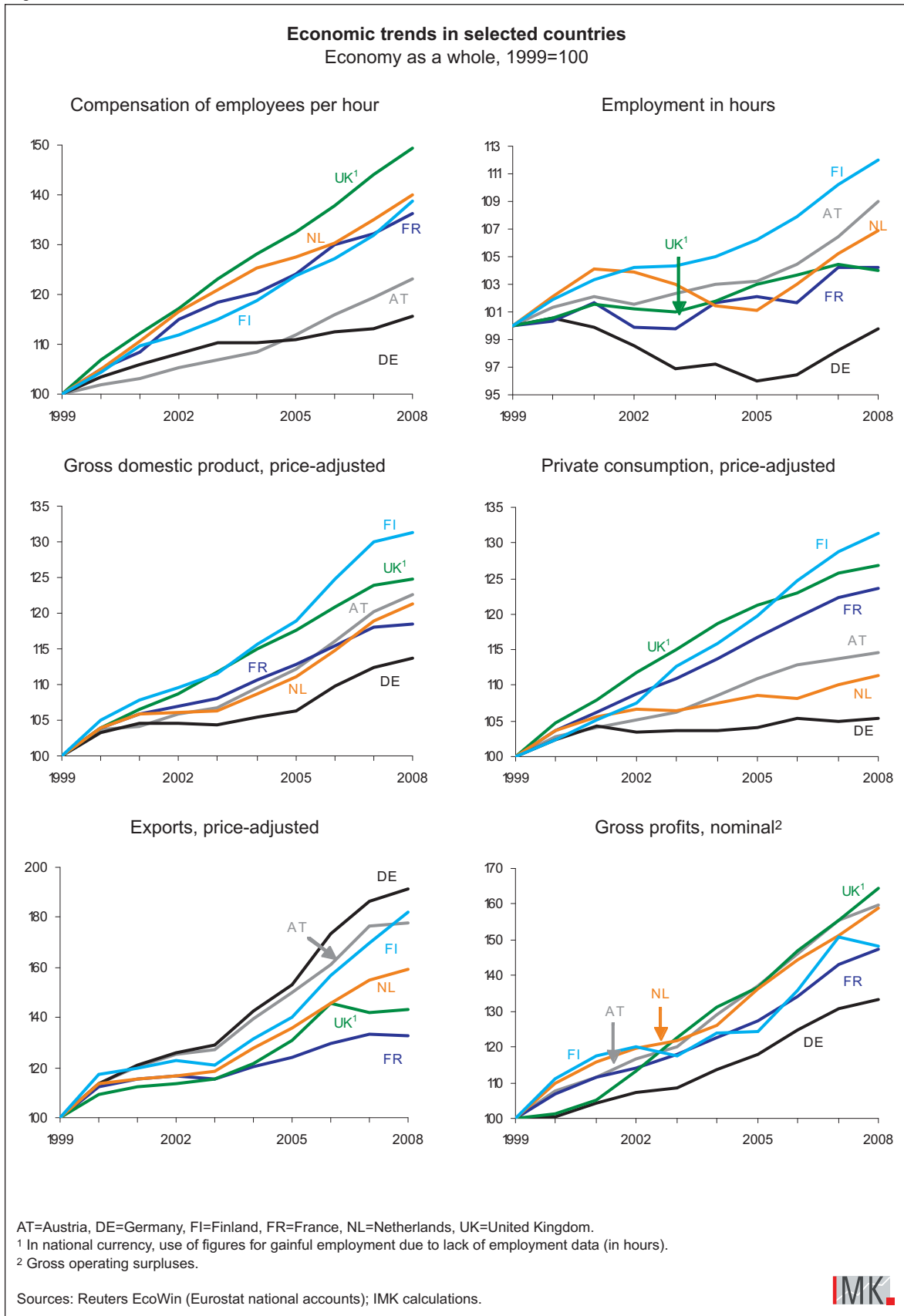


2004 and 2005, which, supported by the single currency within the eurozone, directly increased the country's competitiveness and boosted exports significantly. Although consumption fell in the wake of wage restraint, macroeconomic growth increased considerably.

It should be noted, however, that this strategy was at the expense of other countries. The strategy only works if they accept the competitive advantages of the smaller ones.

Having said that, this kind of strategy does not work for a large country like Germany because the benefits

Figure 7



of export growth cannot compensate for losses in the domestic economy, not even in the case of the export world champion. The percentage of private consumption in the total gross domestic product is simply too high. Furthermore, within a currency union, lower wage increases and accompanying lower price rises also lead to above-average real interest rates, which have a dampening effect on economic growth. Consequently Germany brings up the rear in terms of growth in the countries with comparable labour costs under consideration. (Figure 7, gross domestic product). The negative impact of lower wage rises on employment and domestic demand also explains what has recently been described as a 'new quality' of economic recovery - recovery, which, measured in terms of income trends, has not reached the majority of the population (Horn et al. 2008).

Neither have low wage agreements ultimately paid off for companies in general, because the induced low growth automatically also reduces nominal profit growth. Individual export-oriented sectors have, however, benefited greatly from wage restraint and have generated record profits in recent years. But weak domestic demand places all the more pressure on the profits of companies that are dependent on domestic sales. In macroeconomic terms, gross profit trends in all the other countries considered are significantly better, and Germany again brings up the rear in this respect (Figure 7, gross profits).

The fact that wage restraint has not paid off macroeconomically in Germany is shown by a ranking of the real gross domestic product per capita, a standard measure of prosperity. Germany has been unable to make any improvement in comparison with the other EU countries over the past decade in spite of the fact that there has been below-average growth in labour costs over the entire period. As Figure 8 shows, Germany has fallen from fourth to eighth place in the labour costs per hour ranking. In contrast, it has not advanced in the ranking for gross domestic product per capita – indeed quite the opposite is the case. Only in 2007 was it able to record above-average per capita growth, partly because it is the only large and comparatively prosperous EU country whose population has declined in recent years. In 2008, it was only just able to maintain its position in spite of the previous upturn.

It is, of course, not just a country's wage trends that dictate growth and prosperity. Economic policy, pricing effects, external shocks and how they are handled, demographic and many other factors also affect economic growth. Nevertheless, the relatively close correlation between high wage increases, economic growth and rising employment in other European high-

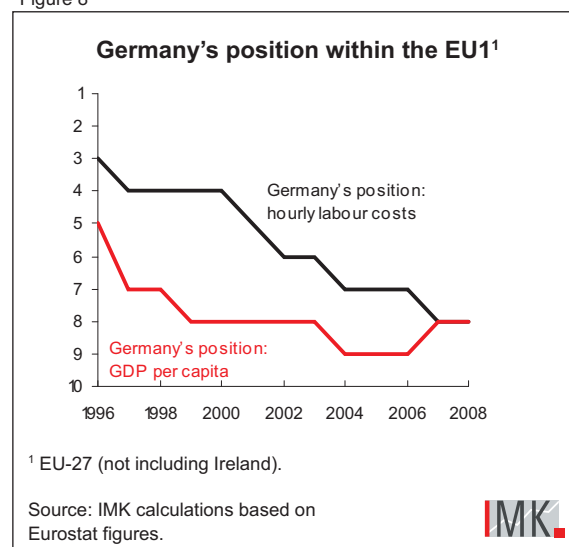
wage countries is striking (Figure 7). Consequently, the argument which says that wage restraint virtually automatically ensures employment and growth is implausible.

Further improvement in price competitiveness

An analysis of labour costs is too limited an approach for assessing the competitiveness of the German economy. These costs actually need to be compared with productivity as an indicator of an economy's performance. The Federal Statistics Office came to the conclusion on the basis of the 2004 labour costs survey that high labour costs in Germany are an expression of correspondingly high labour productivity. "The measured costs of one hour's work ultimately reflect the added value behind it. High labour costs in Germany reflect a qualified labour force and modern production technology. 'Good work' is rewarded with a 'good salary'" (Statistisches Bundesamt 2006, p. 7). An appropriate benchmark for comparing countries would therefore be the development of unit labour costs, which correlate rates of pay and labour productivity. Because of their close link with pricing, unit labour costs are a better indicator of competitiveness than labour cost levels.

As the considerably lower labour costs in the German services sector significantly reduce overall industrial production costs, aggregate unit labour costs are a better benchmark for comparisons of international competitiveness than industrial labour costs, as preferred by the IW (Schröder 2008). The latter clearly overestimates the significance of labour costs for German industrial production costs, and if these were to

Figure 8



be used, significant downward adjustments would have to be made.

An examination of unit labour cost trends in Germany prior to the crisis reveals a familiar picture becoming increasingly clear. Apart from a slight increase in 2008, aggregate unit labour costs in Germany have remained static since 1998 (Figure 9). The slight growth last year was also significantly less than in the other European countries. Given that countries in the eurozone are not able to boost exports by devaluing their currency, Germany has again improved its competitiveness in terms of price compared with these countries.

Germany also improved its competitive position in relation to the other EU countries, almost all of which recorded a more significant increase in unit labour costs in 2008. Some European countries outside the eurozone, such as the United Kingdom and Sweden (not shown), were able to reduce their unit labour costs in 2008 by devaluing their national currencies, but even the significant devaluation of the pound sterling has to date merely reduced, not eliminated the differences in unit labour costs that have built up over the past decade (Figure 9).

The improvement in Germany's price competitiveness not only applies to the economy as a whole, but also to the industrial sector. Here unit labour costs were actually falling until 2007 due to above-average productivity growth. The slight increase in 2008 was not able to offset this drop, and unit labour costs are still below the level recorded at the start of currency union (Figure 9). In the eurozone, Austria and Ireland (not shown) recorded weak trends in unit labour costs similar to Germany. Only Finland's costs (not shown) have fallen more sharply since the start of the currency union.

Compared with the other countries in the eurozone, and in particular with the remaining EU countries, Germany continues to stand out on account of its high price competitiveness.⁶ This applies above all to the new member states in Central and Eastern Europe. Even Poland's unit labour cost growth, which had temporarily fallen below that of Germany because of the weak zloty, has, since 2007 (driven by the revaluation of the zloty), overtaken German unit labour costs again, both in respect of the economy as a whole and the industrial sector.

⁶ Data relating to 2008 is still not available for all countries. However, unit labour costs in the other EU countries registered significantly stronger growth than in Germany and therefore, even if there were a drop in some countries in 2008, this would not jeopardise Germany's price competitiveness.

High unit labour costs as a result of the crisis?

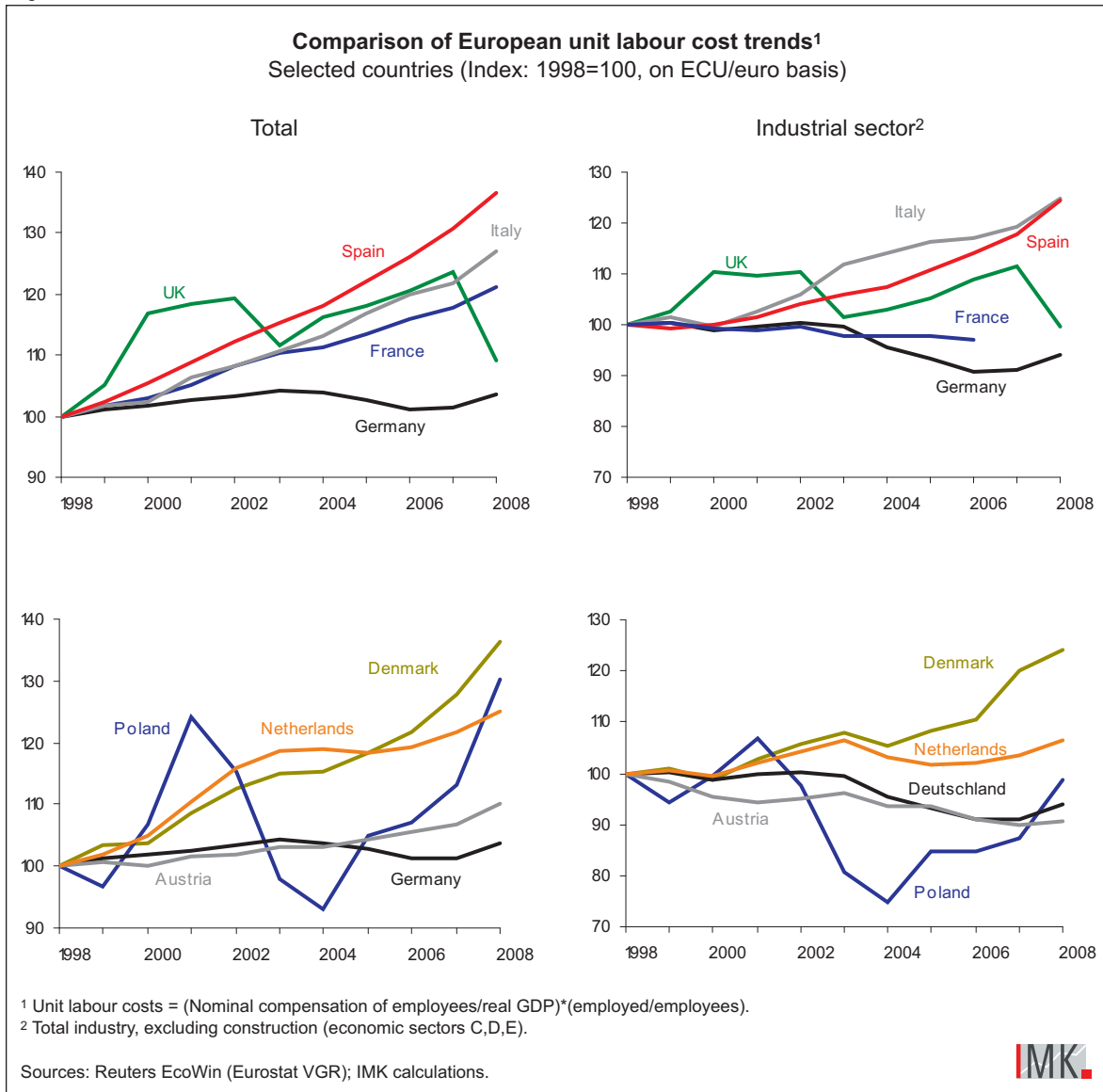
When considering recent trends in unit labour costs, what stands out most of all at the current end is their marked increase in Germany (Figure 10, unit labour costs). Unit labour costs grew sharply mainly in the fourth quarter of 2008 and in the first quarter of 2009. However, in the second quarter of 2009, growth had levelled off again. Concerns about Germany's price competitiveness are completely unwarranted as the comparison of labour cost growth with other large eurozone countries such as France, Spain and Italy shows⁷. In the quarters referred to above, these countries, with the exception of Spain, also recorded significant unit labour cost growth. Furthermore, in view of the weak trends seen in the past, Germany has a more than adequate margin.

The cause of the significant growth in unit labour costs, not only in Germany, is the huge drop in gross domestic product in the fourth quarter of 2008 and the first quarter of 2009 (Figure 10, gross domestic product). Given that unit labour costs (apart from a correction factor for the change in the proportion of self-employed persons) measure the ratio between compensation of employees and actual gross domestic product, a fall in gross domestic product that is not accompanied by a corresponding drop in employee wages leads to an increase in this ratio. The high level of growth in Germany can therefore be explained by the above-average sharp slump in growth accompanied by stable employment trends in the quarters since the crisis (Figure 10, employment (in persons)). According to Eurostat, wages for the whole of the economy in Germany since the beginning of the year have therefore shown higher rates of increase than in France, Italy and Spain.

The comparatively stable trends in German employment figures are due primarily to the extensive use of internal flexibility instruments, such as the reduction of overtime working and credit balances on working time accounts, the creation of negative balances, the use of special collectively agreed working time provisions for periods of crisis and short-time working. In addition some workers were kept on due to fears of a lack of specialist personnel (Herzog-Stein/Logeay 2009). As Figure 10 shows, employment calculated in hours has fallen more sharply than in terms of people. In other words, fewer hours were worked per person in employment and consequently, unemployment in Germany has risen more slowly to date than in other

⁷ The different selection of countries from the previous figures is due to the fact that quarterly data for calculating the 2009 unit labour costs is not yet available from Eurostat for most countries.

Figure 9



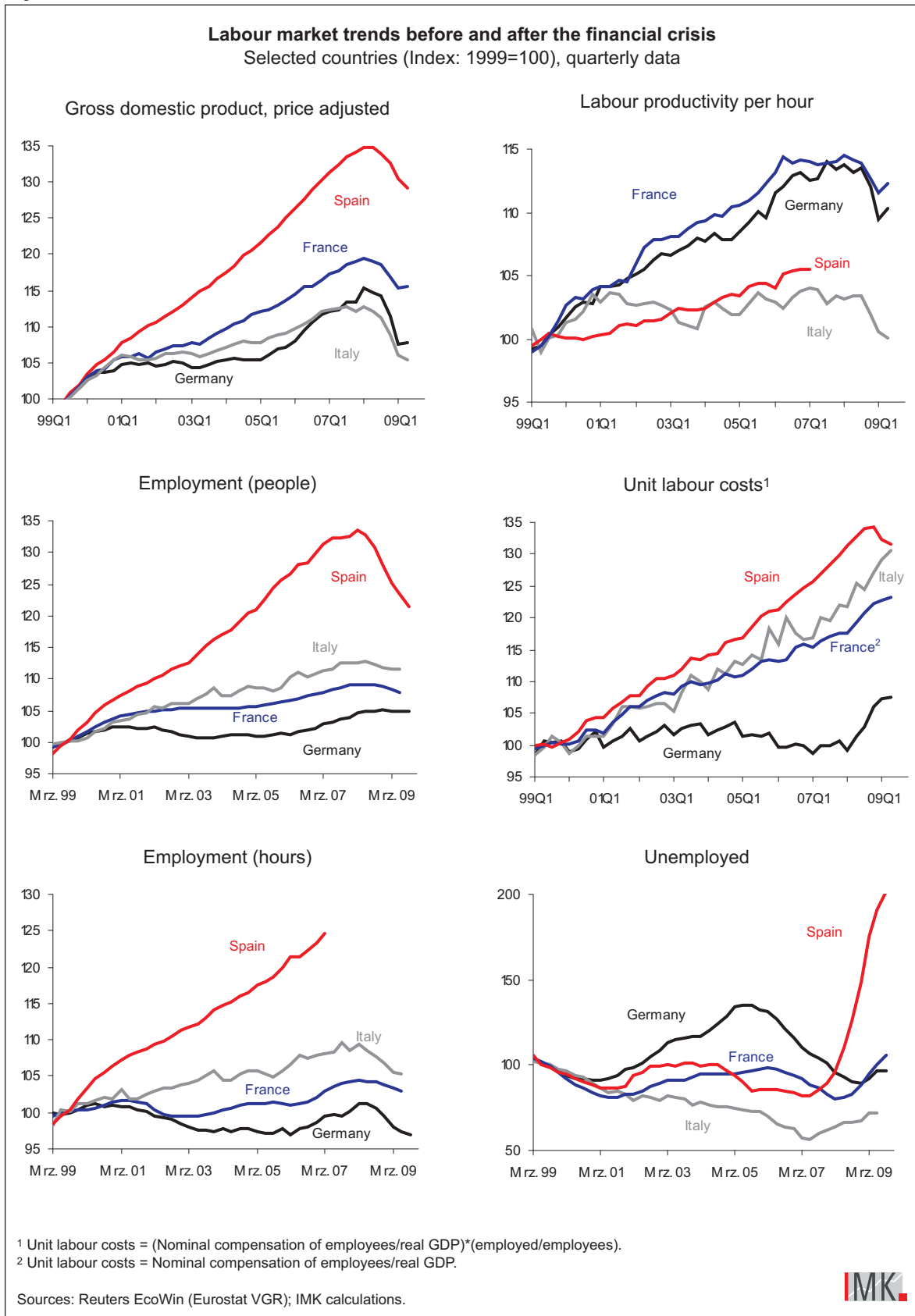
countries, underpinned also by the decline in the number of persons of employable age. The stable development of employment figures, combined with a sharp decline in the number of hours and a drastic slump in growth, also explain the significant decrease in labour productivity. Employment levels have also been kept steady in France through short-time working arrangements, but to a lesser extent than in Germany. Overall, it appears that jobs cuts occur more quickly in crisis periods in countries with less protection against dismissal and a higher percentage of temporary employment and agency workers (Konle-Seidl/Rhein 2009).

The comparison between countries also shows that the structure of the economy, labour market institutions and labour market policy reactions are relevant to the

impact that the crisis has had on labour market indicators. Given that the crisis has mainly affected exports, Germany's dependence on exports and the significance of the manufacturing sector in terms of growth have led to Germany suffering from a particularly sharp slump in growth compared with other industrial countries (Horn et al. 2009). Conversely, in less export-oriented countries, gross domestic product fell less sharply – even in Spain, despite the country being also forced to contend with a slowdown in its previously booming property market.

However, the impact on the labour market has been devastating for Spain. Given that the construction industry is labour intensive and workers in Spain are to a greater extent employed only on the basis of tempo-

Figure 10



rary contracts (Konle-Seidl/Rhein 2009), the unemployment figures have risen sharply in the wake of the slump in growth in the construction industry; levels of employment have fallen much more sharply than in Germany, France and Italy. As a result of such redundancies, Spain's labour productivity per employee has increased significantly of late (not shown). No figures are available yet for labour productivity per hour; however a comparable increase is expected here. Only this would explain why Spain, unlike the other countries in the eurozone, has been able to improve its unit labour costs in recent quarters, i.e. with the help of productivity increases as a result of mass redundancies in a labour-intensive sector.

So far Germany's labour market adjustment mechanisms appear to be superior to those of other European countries. Reduction of overtime credits on flexitime working accounts that had been built up in previous years, the introduction of collectively agreed pacts on flexibilisation of working time and employment security, together with a sharp increase in short-time working, were sensible reactions in terms of both economic and labour market policy, that enabled a temporary decoupling of production and employment. The price of this was an upward distortion of hourly labour costs in the first six months of 2009.

Consequently, the latest increase in unit labour costs presents no problems from an international competitiveness perspective, given the previous low increases. Since most of the rise is due to the massive reduction in growth combined with employment stabilisation measures based on internal flexibility instruments within companies, it will to some extent correct itself automatically over the next few quarters. The leading economic research institutions (Projektgruppe Gemeinschaftsdiagnose 2009) therefore expect to see a stabilisation of hourly labour costs next year.

Conclusion

In spite of the marked increase in labour costs in Germany in 2008 compared with the previous year, its growth has again remained below the trends observed in most other European countries. As a result Germany occupies eighth place in the ranking of labour costs in the private sector and is now towards the bottom of the high-wage countries group, only just above the eurozone average. In terms of labour costs in the manufacturing sector, Germany is in the middle of the group of high-wage countries, but as far as the services sector is concerned, it brings up the rear amongst the high-wage countries. The banking and insurance sector is one of the sectors paying the highest wages in Europe, but here Germany is only near the top of the low-wage

countries in terms of labour costs.

In terms of unit labour costs – an indicator of price competitiveness – Germany has again improved its position compared with most countries in the EU. Although German unit labour costs rose slightly in 2008, Finland is the only country in the eurozone that has been able to improve its competitiveness more than Germany over the last 10 years since the introduction of the euro. Compared with the other EU countries too, Germany stands out because of its extremely good price competitiveness. The most recent increase in unit labour costs is the result of a sharp fall in growth combined with relatively stable employment trends. The modest increase in Germany's unemployment rate compared with the rest of Europe is the result of flexibilisation measures within companies and short-time working. This temporary increase in labour costs does not, however, represent a threat to Germany's price competitiveness. On the contrary, the fear is that, in the event of a significant deterioration in employment trends, weak internal demand will slow down growth, as was the case during the last recession.

However, Germany's extremely good competitive position is not really helping the country at the moment. Although it has successfully defended its title of export world champion against an up-and-coming China, the cost of winning this 'championship' was high. The current global financial crisis and recession has hit Germany's economy particularly hard in spite of its strong competitiveness. Its unilateral focus on export success, which is based to a large extent on low wage growth, means that Germany has not only dispensed with greater prosperity and higher employment and has encouraged a redistribution of wealth from the workforce to the shareholders: Its structural trade surpluses have also meant that Germany has contributed towards global instability and thus laid itself wide open to the risks of the global economy. An undesirable development of this kind cannot be corrected in one fell swoop.

Further weak growth in wages and unit labour costs compared with the rest of the world would only serve to compound the imbalances in foreign trade and destabilise the global economy once again. However, an export-oriented country such as Germany is particularly dependent on the health of the global economy. Against this backdrop, current trends should certainly not be interpreted as a reason to put wages under further pressure.

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