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Labour market policy in transition: trends and effectiveness in the Federal Republic of Germany

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LABOUR MARKET POLICY IN TRANSITION

**Trends and effectiveness
in the Federal Republic of Germany**

by

Günther Schmid

assisted by Rita Kempter Günter Wignanek
Wissenschaftszentrum Berlin für Sozialforschung
Research Area Labour Market and Employment
Reichpietschufer 50, D-1000 Berlin 30

EFA - The Delegation for
Labour Market Policy Research
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PREFACE

The Delegation for Labour Market Policy Research (EFA) at the Ministry of Labour has the task of initiating and assisting research into the effects of labour market policy and ensuring that research findings are made known and available to decision-makers and other interested parties. The Delegation also has the important task of continuously monitoring research work in its field. Accordingly, EFA is expected to keep in touch with researchers and research bodies at home as well as abroad in order to exchange research findings. As part of its tasks of facilitating the international interchange of information between different researchers and between researchers and those with a practical interest in research findings the Delegation presents three case-studies on the outcome of labour dynamics and labour market policy in the USA, the Federal Republic of Germany and Sweden.

The US case study, "Labor Market Policies and Employment Patterns in the United States", is authored by prof. Lois Wise, Indiana University, Bloomington, Indiana.

The German case study, "Labour Market Policy in Transition - Trends and Effectiveness in the Federal Republic of Germany", is authored by Dr Günther Schmid, Wissenschaftszentrum Berlin für Sozialforschung, Research Area Labour Market and Employment.

The Swedish case study entitled "Labour Market Policy and Labour Market Dynamics - The Swedish Case" is written by Jan Johannesson, Head Secretary of EFA.

EFA - The Delegation for Labour Market Policy Research
Stockholm, June 1988

Rudolf Meidner
Chairman

Jan Johannesson
Secretary

Abstract

This study is an inventory of labour market policy under the changing labour market conditions in the 1970's and 80's. After a short overview of the historical background and the institutional framework (Chapter 1), the instruments of German labour market policy and the corresponding expenditures are described (Chapter 2). A summary of the most important changes in labour supply and demand follows (Chapter 3). The study will then focus on wages and mobility. However, there is a considerable lack of scientifically confirmed knowledge particularly in this central area of labour market dynamics (Chapter 4). On the other hand, rich empirical evidence is available on the structure and dynamic (and consequently on the distributional impact) of unemployment (Chapter 5). In the following chapter, empirical and theoretical evidence concerning the employment impact and cost-efficiency of labour market programmes is assembled (Chapter 6). The study concludes with reflections on the political and institutional barriers to an offensive use of active labour market policy and ways of overcoming these barriers (Chapter 7). Additional statistical material on the German economy and the labour market during the last 20 years is presented in an appendix.

Zusammenfassung

Diese Studie ist eine Bestandsaufnahme der Arbeitsmarktpolitik und ihrer Wirksamkeit unter den sich verändernden Arbeitsmarktbedingungen der 70er und 80er Jahre. Nach einem kurzen Überblick über den historischen Hintergrund und über die institutionellen Rahmenbedingungen (Kapitel 1) werden die Instrumente der Arbeitsmarktpolitik und die entsprechenden finanziellen Aufwendungen im Konjunkturverlauf dargestellt (Kapitel 2). Anschließend werden die wichtigsten Veränderungen von Arbeitsangebot und -nachfrage zusammengefaßt (Kapitel 3). Die Aufmerksamkeit wendet sich dann den Löhnen und der Mobilität zu. Allerdings mangelt es gerade in diesem zentralen Bereich der Arbeitsmarktdynamik an empirisch gesicherten Erkenntnissen (Kapitel 4). Dagegen gibt es zur Struktur und zur Dynamik (und damit zu den Verteilungswirkungen) der Arbeitslosigkeit umfangreiches empirisches Material (Kapitel 5). Im anschließenden Kapitel werden die empirisch verfügbaren wie theoretisch plausiblen Belege zur Beschäftigungs- und Kostenwirksamkeit arbeitsmarktpolitischer Maßnahmen zusammengestellt (Kapitel 6). Die Studie endet mit Überlegungen zu den politisch-institutionellen Barrieren für einen offensiveren Einsatz aktiver Arbeitsmarktpolitik und den Möglichkeiten ihrer Überwindung (Kapitel 7). Zusätzliches statistisches Material zur Verdeutlichung der Wirtschafts- und Arbeitsmarktentwicklung in den letzten 20 Jahren ist in einem Anhang zusammengestellt.

Sammanfattning

Detta är en studie kring den västtyska arbetsmarknadspolitiken under de förändrade arbetsmarknadsförhållandena på 1970- och 1980-talet. Efter en överblick av den historiska och institutionella utvecklingen (kap 1), redogörs för de arbetsmarknadspolitiska åtgärderna och utgifterna för dessa (kap 2). Sedan följer en uppsummering av de viktigaste förändringarna i arbetskraftsutbud och arbetskraftsefterfrågan (kap 3). Studien inriktas framför allt på löner och rörlighet. Emellertid råder det viss brist på vetenskapligt bekräftad kunskap på detta speciella område (kap 4). Å andra sidan finns det ett rikhaltigt empiriskt material kring arbetslöshetens struktur och dynamik (och därmed om dess fördelningsmässiga effekter) (kap 5). I följande kapitel behandlas empiriska och teoretiska belägg kring de arbetsmarknadspolitiska åtgärdernas sysselsättningsmässiga och kostnads-intäktsmässiga utfall (kap 6). Studien avslutas med ett resonemang kring politiska och institutionella hinder för en offensiv aktiv arbetsmarknadspolitik och förslag till att undanröja dessa hinder (kap 7). Statistiskt material kring den västtyska ekonomin och arbetsmarknaden under de senaste 20 åren presenteras i appendixform.

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List of Abbreviations:

ABM	:	Public Temporary Job Creation Programme (Arbeitsbeschaffungsmaßnahmen)
AFKG	:	Labour Promotion Consolidation Act (Arbeitsförderungskonsolidierungsgesetz)
ANBA	:	Official News of the Federal Employment Institute (Amtliche Nachrichten der Bundesanstalt für Arbeit)
EB	:	Settling-in Allowances (Eingliederungsbeihilfen)
EZ	:	Subsidies for On-the-job Training (Einarbeitungszuschüsse)
FEI	:	Federal Employment Institute (Bundesanstalt für Arbeit)
FuU	:	Further Training and Retraining (Fortbildung und Umschulung)
GDP	:	Gross Domestic Product
GNP	:	Gross National Product
IAB	:	Institute of Labour Market and Vocational Research (Institut für Arbeitsmarkt- und Berufsforschung)
IG-Metall	:	Trade Union of the Metal Workers (Industriegewerkschaft Metall)

- LPA (AFG)** : Labour Promotion Act
(Arbeitsförderungsgesetz)
- MittAB** : Quarterly Journal of IAB
(Mitteilungen des Instituts für Arbeitsmarkt- und
Berufsforschung)
- ÖTV** : Trade Union for Public Services, Transport and
Traffic
(Gewerkschaft Öffentliche Dienste, Transport und
Verkehr)
- WiSta** : Quarterly Journal "Economy and Statistics"
(Wirtschaft und Statistik)

INTRODUCTION

Labour market policy was a marginal topic in West Germany during the full employment era of the late 1950s and 1960s. Aside from placement services and counselling, the operative activity of employment agencies was restricted to seasonal measures and to some additional support for regional and industrial policy. The original idea of the Swedish trade union economists Gösta Rehn and Rudolf Meidner, to use 'active labour market policy' to curb inflation by reducing labour shortages via incentives to regional and vocational mobility, was not an important issue in the German debate (Meidner/Hedborg, 1984; Rehn, 1987). The starting point for the development of active labour market policy was the recession in 1966/67, the entry of the Social Democratic Party (SPD) into the 'Grand Coalition', and finally the enacting of the Labour Promotion Act in 1969. At that time and until the mid-seventies, politicians were more concerned about labour shortages than labour surplus (Bundesanstalt für Arbeit, 1974:30 f.; Bundesminister für Arbeit und Sozialordnung, 1974:5). Consequently the legal and institutional reforms were aimed at promoting mobility and activating labour reserves.

Since the mid seventies, however, labour market conditions have changed radically. The average annual number of unemployed increased from 150,000 (1970) to 1 million (1975), stabilized for some time at the level of 900,000, soared at the beginning of the 1980s to more than 2 million, and has since remained at this level (i.e. at the level of 8 to 10 percent, respectively, depending on the measurement concept). At the same time employment fell from 26.1 to 25 million (1970-85).

Does this development indicate the end of active labour market policy? Or has labour market policy even contributed to these miserable labour market conditions as the subtitle of a recent publication ("In defense of less labour market policy") suggests (Soltwedel 1984)? To what extent is a conception of active labour market policy, which was

formulated for a situation of labour market shortages, still valid for a situation of high and persistent unemployment? Does this labour market policy still fit the altered conditions on the labour market? Who are the winners, who are the losers of labour market policy?

These and other questions give rise to an inventory of labour market policy and its effectiveness under changing labour market conditions. The objective of the present study is modest: First, attention will be drawn to the institutional and historical background of the "German Model" of labour market policy; second, the available knowledge on the structure and dynamics of unemployment and employment will be summarized; third, empirical evidence on the employment and distributional effects, and on the cost-effectiveness of labour market policy will be assembled. The study addresses not primarily the scientific audience but the politically interested reader who wants to get an overview and information to form his own judgement on the subject.

Our own conclusion is: It is not due to a lack of concepts and ideas that millions of people are unemployed. "Work for all" (Arbete åt alla) is possible (Kregel/Matzner/Roncaglia 1987). Rather, it is primarily due to the lack of political will to apply the available full employment strategies, as well as a lack of institutional reforms which are necessary for implementing successful employment policies.

There is, however, not one simple way out of mass unemployment. Several approaches have to be integrated into a consistent framework of full employment policy. Active labour market policy is an essential element of such a framework. Our central hypothesis is: Wage policy, fiscal and monetary policies as well as working time reduction remain the main instruments for reducing or preventing high and persistent mass unemployment. These instruments require more than

ever supporting measures by active labour market policy. Institutional barriers, however, prevent an offensive use of active labour market policy in the Federal Republic of Germany.*)

*) I thank Anders Björklund, Hans-Jörg Herr, Jan Johannesson, Ellen-Ruth Schneider, and especially Bernd Reissert for helpful and critical comments on the first draft of this report. Thanks go also to Brigitte Müller for assuming the burdensome task of repeated typing and correcting of the manuscript. Finally, I am grateful to Andreas Pickel for polishing the English.

1. HISTORICAL BACKGROUND AND INSTITUTIONAL FRAMEWORK OF GERMAN LABOUR MARKET POLICY

In West Germany labour market and employment policy historically rest on three pillars:

- 1) The wage policy in connection with attempts at 'Concerted Action'.
- 2) The Stability and Growth Act of 1967 which serves as a neo-Keynesian tool to regulate the demand side.
- 3) The Labour Promotion Act of 1969 which provides basically the tools for active labour market policy, and diverse social-political and administrative measures to regulate labour supply.

1.1 Wage Policy and the "Concerted Action"

After the Second World War German trade unions were reconstructed along broad industry lines. The principle of "one enterprise - one union" could not always be realized. The applicability of the law governing industrial relations of 1952 was limited to the private sector (Adamy/Steffen, 1985:17 ff.) With the German White Collar Union (DAG), the German Civil Servants Association (DBB) as well as the Christian Trade Union (CGB), corporate professional elements came into the union movement, which are, however, of minor importance. Industry-wide collective bargaining usually takes place at a regional level. Wage demands, industrial actions and wage settlements are firmly controlled by the national union headquarters, and the most powerful unions (IG-Metall, ÖTV) usually take over the wage leadership. The collective agreements concerning wages hold usually for one year and follow a flexible adjustment to economic changes. Although the average degree of unionization with about 40 percent is relatively modest in comparison with other countries (see Streeck, 1987), a further effect of centralization consists in declaring wage settlements as universal, which means (usually but not in all cases) a

nationwide acceptance of wage negotiation results. In contrast to Sweden there are no additional "wage rounds" at the local and enterprise level, which could bring about wage drifts initiated at lower levels and lead to wage competition.

The Concerted Action was brought to life in the late sixties by the Minister of Trade and Commerce Karl Schiller. The aim was to coordinate the actions of state agencies at different levels, the Federal Bank, the important unions and employer's associations. But the high level discussion forum had no power and served only as a means for its members to exchange their views on current and future macroeconomic developments (Kern, 1973). As a result of the employers challenging the constitutionality of the Co-Determination Act of 1976, the unions left the Concerted Action in June 1977. On an informal level, however, there still are occasionally talks between the unions, the federal government, and employers associations, which have, however, not the intensity of the Austrian or Swedish social partnership. Particularly the centralized wage settlements, to a small extent the Concerted Action, and to some degree a partial identity between government officials and trade union members until late 1982 led to self-imposed wage restraints. Furthermore, the independent Federal Bank pursued a restrictive monetary policy (in contrast e.g. to Sweden) during the 1970s giving top priority to the fight against inflation (Scharpf, 1987:190, 253 ff.). On the other hand, the rapid growth of unemployment weakened the bargaining power of the trade unions.

1.2 Neo-Keynesian Demand Regulation

The Stability and Growth Act of 1967, which was passed in response to the first economic recession, is the legal base for countercyclical economic policy. The Stability Act commits the Federal government (Bund) and the Länder to design their economic, fiscal and monetary policy in accordance with the so-called "magic quadrangle" (low inflation, full employment, economic growth and foreign trade equilibrium). The law requires that federal and state governments keep in-

terest free financial reserves in times of demand surplus. In case of economic decline the cyclical reserves should be used as additional expenditures. This was the first time in the history of West Germany that the state was assigned to take an active role in the management of the economy, for example by "deficit spending". Furthermore, the Federal Government is obliged to present annually in January an economic report to the Bundestag and Bundesrat. The Stability and Growth Act also requires the establishment of an Economic Council (Konjunkturrat), in which representatives of the federal state, state governments (Länder) and municipalities are to coordinate their budgets.

The hopes placed in those (neo-Keynesian) tools were disappointed in subsequent years. Monetary and fiscal policy were in part inconsistent with each other. Public expenditures were also contradictory. In the beginning implementation followed the letter of the law: Deficit spending was used in 1966/67 and tax increases were applied during the boom of 1972/73. Since 1974/75 employment policy measures no longer ran in the same direction. On the one hand, deflationary measures were taken (cuts in public expenditures, increases in the VAT rate and other excise taxes, increases in unemployment insurance contributions), on the other hand, demand incentives were created (e.g. measures to promote employment and growth, especially encouragement of construction, future investment programmes to improve the infrastructure as well as tax reliefs and investment subsidies). The Institute of Labour Market and Occupational Research (IAB Nürnberg) estimated that between 1975 and 1979 the total reduction in state revenues was 37.3 billion DM, whereas the volume of additional expenditures was about 20 billion DM. The cuts in expenditure which were brought about by a special Budget Consolidation Law (Haushaltsstrukturgesetz 1975) alone amounted to 21.5 billion DM (which is greater than the total expenditures on cyclical and growth policy measures combined).

The budget measures carried out until 1979 in connection with the tax relief measures led to a dramatic increase in the budget deficit. The second oil price hike and the subsequent demand cuts in view of the high oil price bills, the monetary policy in the United States which

pushed the real interest rate worldwide to a high level and restricted therefore investment, and the (for German standards) large deficit in the balance of payments in 1980/81 limited the options for expansive fiscal policy at the beginning of the 1980s.

Why was the unemployment rate in Germany during the 1970s relatively low in comparison with other industrialized countries despite a restrictive monetary and a partly contradictory fiscal policy? This question can be answered by considering the third pillar of German labour market and employment policy.

1.3 Active Labour Market Policy and Supply Restraints

When one looks "under the surface" of the third pillar, then one has to distinguish between the administrative regulation of (particularly foreign) labour supply, the impact of social policy on labour supply (a) and active labour market policy measures (b).

(a) Supply Reducing Measures

In November 1973 Germany stopped the inflow of foreign workers coming from non-EEC countries and put into effect restrictive administrative practices with respect to work and residence permits. This restrictive policy led to a decrease in foreign workers of about 700,000 between September 1973 and September 1977, which means 2.7 percent of the total active labour force. In addition to that, a further increase of female labour force participation was not encouraged (as was the case, for example, in Sweden and the United States). During the same period the female participation rate (age 15-64) increased only slightly from 48.4 to 48.9 percent. Finally, early retirement was very much favoured both by government social policy and by companies' personnel policies; this led to a noticeable reduction in the participation rate of older people, especially of men (Bruche/Casey, 1982). The combined effect of all three measures of supply restraint was a substantial reduction of the active labour force between 1973-77 of about 1.4 million. In the late seventies, employment increased

by about 700,000, partly due to the "Future Investment Programme" and partly to special labour market policy measures. This employment increase was rapidly offset by the second large recession in 1981/82. In view of the fact that the supply buffer (immigrants, female, elderly) mentioned above was already "exhausted", reduction in labour demand was rapidly expressed in open unemployment in the early 1980s.

(b) Organization and Financial System of Active Labour Market Policy

Opportunities for active labour market measures were created with the passing of the Labour Promotion Act in 1969. This law is very similar to the Swedish model with respect to policy tools, including labour market training and re-training, job creation and subsidized employment. There are, however, some important differences. In contrast to Sweden and the United States, in Germany the system of unemployment compensation is not separated from active labour market policy. Both are financed by the unemployment insurance fund to which employers and employees pay equal contributions (in 1987 the combined rate was 4.6 percent of wages (1987)).

Thus, it is clear that when unemployment increases, so do unemployment benefits, but subsequently unemployment insurance contributions decrease and as a result the financial scope of active labour market policy is reduced. If overspending occurs, the Federal Government has to cover the deficit. Originally, the unemployment insurance fund was conceived as a built-in cyclical stabilizer: reserves would accumulate in boom periods which, in case of a recession, could then be used for counter-cyclical labour market policy. This principle works satisfactorily as long as booms and recessions are balanced; it is not designed for periods of long-term economic decline.¹

Labour market policy is implemented by the Federal Employment Institute (FEI = Bundesanstalt für Arbeit). The FEI is a self-governing body. Since 1969 it is the successor of the "Reichsanstalt für Ar-

¹ For further details of the financing system in an international perspective see Schmid/Reissert/Bruche, 1987.

beitsvermittlung und Arbeitslosenversicherung" (Employment Agency and Unemployment Benefit) established in 1927 as well as the "Bundesanstalt für Arbeitsvermittlung und Arbeitslosenversicherung" set up in 1952. Representatives of employees (trade unions), employers and public authorities, acting as honorary members of the self-administrative organs, exercise a direct influence in shaping the policy of the FEI at all levels: central, regional, local. The FEI is divided into nine "Länder"-employment offices (Landesarbeitsämter) and 146 regional employment offices (Arbeitsämter) with about 600 local branches. The regional employment offices are the core implementation bodies. In 1984, their average size in terms of civilian labour force was 185,500; the total staff of the FEI amounted to 61,566. The ratio of the civilian labour force to FEI-personnel therefore is 440:1. For placement services, however, i.e. for matching demand and supply only a staff of 6,000 placement officers are available. This means, e.g. for 1987, a ratio of 1 placement officer to 600 job searchers, among them 500 unemployed (1978:182) (Grauel/Stöhr, 1987:208).

The main tasks of the FEI are vocational guidance, placement, promotion of vocational training, rehabilitation, payment of unemployment benefits and (since 1972) bankruptcy compensation. The FEI is also engaged in Vocational and Labour Market Research (IAB with a staff of about 100), and is obliged to work out and provide statistics. Since 1975 selective measures such as public works creation, wage subsidies and short-term allowance have increasingly been adopted. On behalf of the Federal Government the FEI administers unemployment assistance and child benefits; it also supervises implementation of the Act on Personnel Leasing (1972) and the Act for the Seriously Disabled (1974).

As in Sweden, the FEI has a monopoly over placement services. However, there is no obligation for employers to report vacancies. Placement officers are organized by professions. A special service takes care of handicapped and severely handicapped persons. The rehabilitation officer is assisted by vocational advisors, doctors, psychologists and technical advisors. Placement agencies for temporary

work (Job-Zeitpersonal-Vermittlung) procure positions for periods of up to three months. In large cities so-called quick-service placement agencies (Servis-Vermittlung) also provide temporary jobs in commercial or technical branches. In university towns temporary jobs for students are offered by special student placement agencies.

As a consequence of these multiple functions, the FEI is a powerful, well organized and highly visible institution in West Germany. The traditional dole image of "welfare agency for unemployment" has substantially diminished, but it has yet not achieved the image of a modern service and management centre. Furthermore, the peculiar financial structure of German labour market policy is seriously restricting the work of the employment agency. The more unemployment rises, the less there is capacity for personnel to administer active labour market policies. In view of the fact that unemployment benefits have highest priority, the activity for planning, organisation, implementation, supervision and control of active work measures are limited. In particular Regional Employment Offices, which are confronted with very high unemployment rates, have been complaining for a long time that they can only "administer unemployment" due to their "thin personnel blanket". Another consequence of this institutional framework of the "German model" is a particular type of "division of labour" in employment policy: The FEI feels only responsible for structural measures such as adaptation, re-training, further training and employment subsidies for hard-to-place people, temporary public work creation and unemployment compensation (benefits). Fiscal and monetary policy is considered to be responsible for the employment level. In view of the pillar structure described above, this attitude is understandable, but it creates an unproductive "tug of war" between "structuralists" and "globalists": Each side is putting the blame for the continuously high unemployment rate on the other side.

This "division of labour" in employment policy and the peculiar financial structure partly explain why in Germany active labour market policy has in the 1970s not been forced to develop as in Sweden, where the average expenditure has reached two percent of GNP, as com-

pared to only 0.7 percent in Germany. The estimated relief effect on the labour market (i.e. the reduction of potential unemployment by labour market measures) was on the average 3.2 percentage points in Sweden and 1.3 in Germany during the same period (Johannesson/Schmid, 1980; Schmid 1982a). Thus the total employment impact of German labour market policy was not overwhelming; it was, however, substantial enough to be considered in more detail.*)

*) For an earlier survey on the German labour market development and on German employment policy cf. Federal Employment Institute 1980.

2. INSTRUMENTS AND EXPENDITURES OF LABOUR MARKET POLICY

First, we will describe the instrumental repertoire of labour market policy in its essential aspects. We then provide a description of expenditure trends, posing the following questions: What is the quantitative significance of these instruments? How are expenditures responding to the business cycle? What kind of shifts are visible and how can they be explained?

2.1 Instruments of Passive Labour Market Policy

German unemployment compensation is a two-stage system: First, unemployment benefits, which are not means tested and only paid for an initial period. Second, unemployment assistance, which differs from unemployment benefits by means testing and by an - in principle - indefinite period of payment. Unemployment benefits are financed by the budget of the FEI, whereas unemployment assistance - since 1981 - comes out of the federal budget.

a) Unemployment Benefit

To qualify for a minimum benefit period of four months, a claimant must have worked for one year (half a year before 1981) during the base period. The maximum initial benefit duration of 12 months requires three years of contributions during the base period (before 1982 only two years). Since 1985 old unemployed persons can get up to two years of benefits if they have had longer contribution periods (Schmid/Reissert/Bruche, 1987:154). Benefits are a function of previous income, family situation, and the existence of dependent persons (i.e. children). The (wage) replacement rate is between 63-68 percent of previous net earnings. Unemployment benefits are not taxable.

b) Unemployment Assistance

The second instrument for protection against the financial effects of unemployment is the unemployment assistance which was introduced in 1956. It is paid to persons who have exhausted their claims to unemployment benefits and remain unemployed. Also entitled to unemployment assistance are people who do not fulfill the necessary work experience for initial unemployment benefits but have been employed at least five months and therefore cannot claim unemployment benefits. Unlike many other countries (Schmid/Reissert/Bruche, 1987:146), unemployment assistance depends on previous income. For the time being, the nominal replacement rate is 56 percent of previous net earnings (58 percent for unemployed persons with children). On the other hand the unemployed have to prove - as in the case of welfare payments - to be needy (means test). Another peculiarity is that unemployment assistance can be claimed in principle for an unlimited period of time as long as the unemployed are registered and "available" for the labour market.

c) Other Payments

In addition to unemployment benefits or unemployment assistance, another kind of passive labour market policy, the bankruptcy allowance, has to be mentioned. Since 1974 bankruptcy allowances are compensating wages for dismissed workers due to employers bankruptcy. These allowances are financed from a special fund to which employers contribute a small amount of the pay-roll.

At the third stage, jobless persons who do not qualify for either unemployment benefits or assistance (or whose benefits are below the official poverty level), have the right to claim welfare payment ("social aid") from the local governments if they pass the means test. It is referred to as "the final safety net."

2.2 Instruments of Active Labour Market Policy

a) Seasonal Measures

Unemployment compensation is provided regardless of the reason for unemployment (frictional, seasonal, cyclical etc.). Thus seasonal unemployment is heavily subsidized by the unemployment insurance system. In addition, there are special measures for the construction industry:

(1) **Winter Allowance** tops up wage payments during severe weather conditions and is financed by a special fund to which construction employers contribute payments.

(2) **Bad weather pay** replaces wages roughly equivalent to unemployment benefits for short periods of work interruptions due to bad weather.

(3) **Grants for additional costs or special investments** are intended to compensate increased costs arising from adjustments of production to bad weather conditions.

b) Responding to Business Cycles Measures

As an equivalent to "temporary lay-off schemes" in other countries, Germany established a short-time working scheme for cyclical demand adjustment. Employers can only apply for subsidies (financed from unemployment insurance contributions) if they have to reduce working hours "for economic reasons including structural changes of the plant or unavoidable events" (§ 64, paragraph 1, sentence 1, LPA). A further condition is that the working time must be reduced for at least one third of the employed and by 10 percent of the regular working time. The FEI pays a subsidy equivalent to unemployment benefits for each hour not worked. In contrast to temporary lay-off schemes, workers are not dismissed during a short-time working period. In ad-

dition, the scheme can be handled quite flexibly. The maximum amount of short-time working is usually six months, but it can be extended for exceptional reasons for up to three years.

c) Adult Vocational Training (Labour Market Training)

Adult Vocational Training is the core of German "active labour market policy". It consists of three elements: further training (1), re-training (2) and on-the-job-training (3).

(1) Further Training

Further training (Fortbildung) is intended for skilled workers who either adapt their skills and knowledge to new requirements (usually 6 to 12 months of training, normally not leading to a certificate) or to employees who want to advance their career (usually several years leading to a certificate, e.g. "Industrie- oder Handwerksmeister").

(2) Re-training

While further training measures are based upon the present occupation of the participants, re-training measures (Umschulung) lead to a certificate in a different occupation. Courses usually last one to two years.

(3) On-the-job-training

Whereas further training and re-training are mainly classroom or institutional training (in a number of cases, however, the facilities of firms can be used) and mainly serve skilled workers, the third category - on-the-job-training - (Einarbeitungszuschüsse), is provided in private firms. Unskilled and semi-skilled workers to a large extent use on-the-job-training.

The organization of Adult Vocational Training is based on a voucher system. Vocational schools, training institutions run by unions or employers associations and private institutions offer training courses which have to be certified by the Federal Employment Institute (FEI). Applicants for adult training address themselves to the agency, select a training course of their choice² and if they fulfill all requirements they obtain a voucher. This voucher is handed over to the training institution which then receives a reimbursement for the training costs. If the applicant meets certain criteria, he/she has an entitlement for training and receives not only a reimbursement of the training costs, but also a training allowance. The conditions of eligibility for this allowance as well as its amount have been subjected to many changes. While it was as high as 90 percent of previous net earnings until 1973, it has successively been reduced and now only marginally exceeds unemployment benefits. Eligibility conditions now give only certain groups (persons unemployed or threatened to become unemployed, unskilled workers) the right to receive the full training allowances, whereas other participants can receive a loan.³

(d) Vocational Rehabilitation

During the seventies the FEI has taken over the main responsibility for vocational rehabilitation. However, other agencies are still involved in that area, so that it is difficult to draw the overall picture. Vocational rehabilitation implemented by the FEI consists basically of subsistence allowances to persons undergoing rehabilitation, covering part of the costs of rehabilitation institutions, wage

² In most cases this choice is based on the advice of counselling officers in the placement service or by the previous participation in a shorter motivation course (4 to 6 weeks).

³ In 1983 199,000 person years of training have been provided within the overall program; roughly 100,000 persons have been supported by training allowances.

subsidies to support the reintegration of the rehabilitants into the labour market, allowances for technical aid to enable the employment or reemployment of the handicapped.

As far as the handicapped are concerned, quota regulation has to be mentioned which shifts the costs of employing handicapped persons to some extent to the employers: Every employer with at least 16 places of employment is required to fill 6 percent of these with severely handicapped persons. For each unfilled compulsory position, the employer has to pay an equalization contribution of 100 DM monthly (recently increased to 150 DM).⁴

(e) Wage Subsidies

Apart from some temporary special wage subsidy programmes, the most important employer wage subsidy programme in Germany is the **Settling-in-Allowance** (Eingliederungsbeihilfe). The purpose of this programme is to promote the hiring of unemployed people who are hard to place, that is the long-term unemployed, older persons, young persons without professional skills, and persons with restricted work ability. Although a permanent programme, the rules of application have been adjusted several times to the changing labour market situation and to the financial situation of FEI. At present, the programme provides the employer with a wage cost subsidy of between 50-70 percent for a maximum period of two years, when he employs persons of the above mentioned groups. After six months the payment will be reduced automatically to at least 10 percent.

(f) Temporary Job Creation (ABM)

In contrast to traditional public relief projects (which have been applied both in Germany and other countries) the present temporary job creation programme (ABM) is of rather recent vintage. With the

⁴ For a detailed description of the German system of vocational rehabilitation, as far as the handicapped are concerned, see Klaus Semlinger (1984) and Klaus Semlinger/Günther Schmid (1985).

passing of the Labour Promotion Act in 1969, the older programme, which was oriented toward emergency relief projects, was transformed into an effective instrument of modern labour market policy. ABM is intended to create temporary employment for unemployed persons by providing financial assistance (in the form mostly of grants, sometimes of loans) to sponsors who carry out projects which provide jobs for persons assigned by local employment agencies. These projects must be such that they are carried out in addition to normal activities of the sponsor, because, as a matter of fact, without this financial assistance they would not have been carried out at all, or at least not at this time or to this extent. The projects must also be in the public interest. In principle, any projects meeting these criteria can be assisted. However, in line with the new function of temporary job creation measures, preference is given to those projects which are aimed at creating favourable conditions for the overall employment situation by contributing to the improvement of the economic structure of regions or by providing permanent work for hard-to-employ individuals, especially older workers who have been unemployed for a long time. Depending on the labour market significance of a given project, the financial assistance can range from a minimum of 60 percent to a maximum of 80 percent (in the case of particularly significant projects) of the total wage costs of those workers assigned by the employment agency who have been at least six months unemployed; the grants and loans together should not comprise more than 90 percent of the total costs of the projects, which means that the sponsors always have to contribute at least 10 percent of the costs. In some cases, where the projects were of particular significance for the labour market, the Länder and the Federal Government provide supplemental assistance over and above the aid given by the Federal Employment Institute. Recently, regions with a good labour market performance have been excluded from promotion.

2.3 Expenditures on Labour Market Policy

In the following we examine the development of total expenditures on labour market policy as a share of gross domestic product (GDP), and finally in relationship to economic trends, which are represented by unemployment figures. Are the expenditures increasing with higher unemployment rates simultaneously or with a time lag, faster or slower? What is the pattern of active or passive labour market policy ?

Table 1 shows the development of total expenditures on labour market policy in nominal as well as in real terms together with its share of GDP, and finally the unemployment figures. From 1965 to 1986, total expenditures rose from 0.4 percent to 2.1 percent of GDP. It reached its peak in 1982/83 with 2.4 percent, then it declined, despite further increases in unemployment. The main factors explaining this development are the slight reduction of unemployment benefits and especially the fact that many unemployed exhausted their entitlement to unemployment benefits due to the increasing duration of their unemployment.

Figure 1 shows an interesting pattern: First, the growth rate of real expenditures of labour market policy is positively correlated (0.81) with the dramatic increase of the unemployment rate. Second, the real growth rate of active as well as passive measures is also positively correlated with the unemployment rate (0.71 and 0.70). Nevertheless, one can see great differences between the two patterns over the period - especially when considering the relationships between growth rates (see figures 9 and 10, appendix). First, the passive expenditures reacted faster to a rapid increase in unemployment during both recessions (1974/75, 1980/81/82) in comparison with active expenditures. Second, both expenditure patterns demonstrate a change from pro-cyclical to anti-cyclical reactions: After a parallel increase with unemployment both expenditure types are decreasing in real terms (whereas the decrease of the active labour market policy is stronger and longer) although unemployment is slowly increasing or stabilizing on a high level.

Table 1: Total Expenditures on Labour Market Policy in Absolute Figures (Current and Real) and in Percentage of GDP (1965-1986)

Year	Expenditure of the Federal Employment Institute	Labour Market Policy Measures Financed by Federal Resources	Total Expenditure (in current prices) (a)	Total Expenditure (in constant 1980 prices)	Active (c) Expenditure in constant 1980 prices	Passive (c) Expenditure in constant 1980 prices	Total Expenditure	Unemployment Rate (b)
	bn DM	bn DM	bn DM	bn DM	bn DM	bn DM	in % of GDP	in %
1965	1.58	0.04	1.62	3.26	1.08	0.62	0.4	0.3
1970	3.91	0.02	3.93	6.60	3.41	1.07	0.6	0.8
1973	6.81	0.04	6.85	9.50	5.30	2.16	0.7	0.8
1974	10.35	0.09	10.44	13.52	6.26	5.14	1.1	1.6
1975	17.84	0.21	18.05	22.06	8.57	11.09	1.8	3.6
1976	15.93	0.37	16.30	19.22	6.43	10.30	1.4	3.7
1977	15.08	0.70	15.78	17.94	6.07	9.30	1.3	3.6
1978	17.52	0.85	18.37	20.02	6.80	10.46	1.4	3.5
1979	19.74	0.85	20.59	21.58	8.54	10.14	1.5	3.2
1980	21.67	1.16	22.83	22.83	9.56	10.22	1.5	3.0
1981	28.17	3.51	31.68	30.45	11.42	15.85	2.1	4.4
1982	33.36	5.59	38.95	35.87	11.00	21.70	2.4	6.1
1983	32.64	7.41	40.05	35.72	10.43	21.86	2.4	8.0
1984	29.64	9.02	38.66	33.82	9.82	20.59	2.2	8.5
1985	29.74	9.47	39.21	33.56	9.75	20.16	2.1	8.6
1986	31.86	9.57	41.43	34.22	10.96	19.70	2.1	6.9 (d)

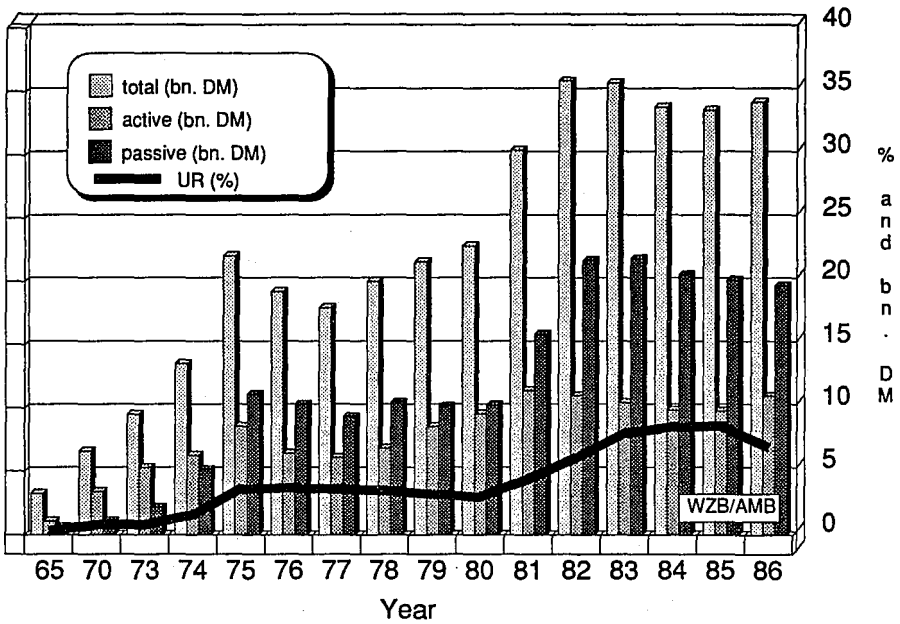
Sources: (a) AMBA, Annual Statistics (various years).

(b) OECD Economic Outlook, No. 28, 1980, No. 40, 1986, No. 41, 1987, and own calculations.

(c) The difference to the real total expenditure is on the one hand due to the exclusion of administrative costs of the Federal Employment Institute. On the other hand the real expenditure for 1965 and 1970 were calculated with the appropriated deflator-index of 1965 and 1970. Therefore there are for methodological reasons also small deviations in 1965 and 1970.

(d) Standardized unemployment rate according to the new OECD-concept which is about 1.4 percentage points below the formerly calculated unemployment rate.

Figure 1: Total, Active, Passive Expenditures on Labour Market Policy (in bn DM and in Constant Prices of 1980) and Unemployment Rate (UR) 1965-1986

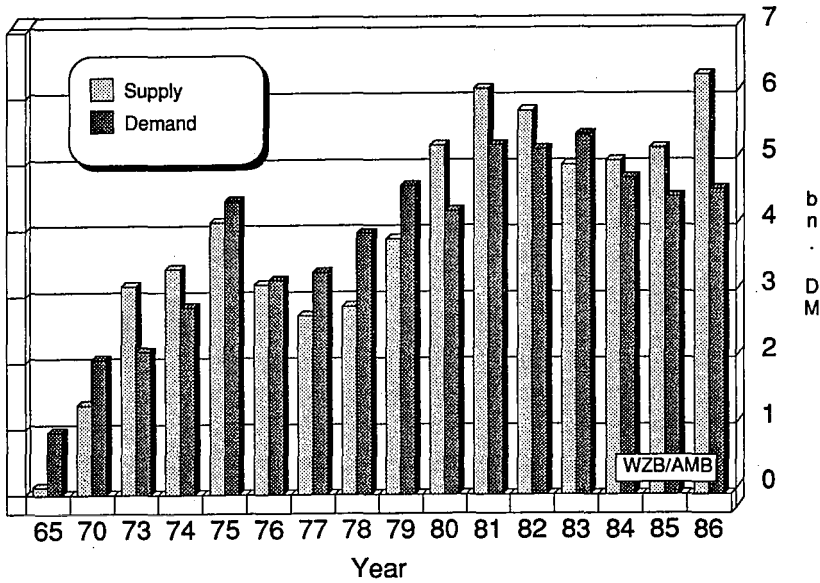


Both phenomena can be explained by the peculiar financing and regulation system of German labour market policy:

1. Due to the entitlement to wage compensation under predetermined conditions, "passive expenditures" are more sensitive to the business cycle than "active expenditures" which are partly discretionary measures (e.g. ABM, wage subsidies).
2. The employees and civil servants of the FEI are responsible for the implementation of both measures; in case of a "rush" of unemployed persons for the employment agencies, implementation of unemployment benefits has absolute priority over other tasks.
3. The initial financial reserves of the FEI are soon exhausted. The deficit which arises has to be compensated by the federal budget. This gives rise to budget cuts according to the rule of thumb that "cuts have to be made where the holes appeared."
4. With increasing duration of unemployment many persons exhaust their entitlement to unemployment benefits and change to the "cheaper" unemployment assistance or even lose eligibility for any wage compensation (for further information see Bruche/Reissert, 1985; Schmid/Reissert/Bruche, 1987).

In Figure 2 (see also Table 21, Appendix) expenditures are categorized according to the type of spending; i.e., whether they affect more strongly the "demand" or the "supply" of the labour market. Two remarkable results can be emphasized: The legal anchoring of "active labour market policy" in 1969 induced an increase in "supply policy". Since the beginning of the seventies the share of "active" supply measures increased to more than 50 percent. The second interesting observation concerns the cyclical development of supply oriented measures: high expenditures before and during recession years are followed by relatively decreasing shares after the recession and with the onset of economic recovery. The pattern can partly be explained by the financing system. Labour market training as well as unemploy-

Figure 2: Supply and Demand Oriented Active Labour Market Policy



ment benefits are financed by the budget of the FEI, so that training (as the main element of supply oriented measures) is regarded as an "insurance benefit". In addition, there is a legal right to participate in adult vocational training programmes. In practice, however, they are mainly used by the core labour force or by the core of the unemployed. As long as the fund disposes of sufficient reserves, non-contributors can also benefit from the system. In times of financial strain, however, benefits are more and more limited to the community of contributors. This is the reason why training programmes in Germany are concentrated more on the core labour force than on the most disadvantaged.

Another clue to the "exclusion tendency" of contributory system of financing labour market policy is provided in Table 2. It shows that with increasing and permanent mass unemployment, more and more people are excluded from the unemployment benefit system. During the early seventies, around 75 percent of all unemployed persons (stock concept) received either unemployment benefits or unemployment assistance. Meanwhile, this proportion has been reduced to 63 percent. Among the types of wage compensation a dramatic deterioration can be observed. Whereas at the beginning of the seventies two-thirds received unemployment benefits, the number is now only slightly more than one third. The share of unemployment assistance, on the other hand, increased to 30 percent. As Table 2 clearly illustrates (last column), women are more affected by exclusion than men.

Table 3 displays expenditures by instruments as explained above. The pattern of expenditures shows in particular the increasing importance of adult vocational training measures for "active" labour market policy: Their role before the labour promotion act in 1969 was practically irrelevant. In 1970 its share was already 34 percent of active labour market policy, and increased to 39 percent in 1986. Seasonal measures, by comparison, decreased steadily from 88 percent (1965), 57 percent (1970), 21 percent (1980) to 10 percent (1986). The expenditures for temporary job creation (ABM), which were until 1975 of minor importance, have since increased to one-fifth (22 per-

cent) of active labour market policy. The cyclical expenditures play an essential role too, showing great variation corresponding to the business cycle, as expected. However, on the average there is a slight increase independent from the cyclical development. Wage subsidies supporting the reintegration of hard-to-place people peaked in the late 1970s. Criticisms and doubts about their effectiveness (see chapter 6.3) caused a reduction of the expenditure level.

Has the "model of active labour market policy" fulfilled the legislator's hopes? Figure 3 (based on Table 22, Appendix) gives reason to damp these expectations. Active labour market policy could not withstand the flood of mass unemployment. The preventive treatment of unemployment using active labour market policy is more limited in Germany compared to Sweden. This can be seen from the "activity rate" (the share of active labour market policy as percentage of total labour market expenditures). During the early 1970s nearly 60 percent of expenditures were channeled into preventive or (demand) compensating measures (compared to 90 percent in Sweden), in the late seventies only about 40 percent. The second recession caused a further decline of the activity rate to 30 percent (compared to 75 percent in Sweden). The reasons for the declining "activity rate" again can partly be explained, in addition to other factors, by the peculiar German financing system (Schmid/Reissert/Bruche 1987).

Table 2: Recipients of Unemployment Benefits and Unemployment Assistance in Thousands and as Percentage of all Unemployed

Year	Total		Men				Women				Persons in Benefit Recipient Rates			
	Number of Unemployed ('000s)	2	Persons in Receipt of Unemployment Benefit ('000s)	3	4	5	Number of Unemployed ('000s)	6	7	8	9	10	11	12
1970	149	96	17	64.4	11.4	56	35	2	62.5	3.6				
1971	185	120	15	64.9	8.1	84	54	3	64.3	3.6				
1972	246	157	20	63.8	8.1	106	66	4	62.3	3.8				
1973	273	154	23	56.4	8.4	124	71	5	57.3	4.0				
1974	582	352	40	60.5	6.9	258	162	9	62.8	3.5				
1975	1 074	707	110	65.8	10.2	452	304	24	67.3	5.3				
1976	1 060	615	164	58.0	15.5	494	301	38	60.9	7.7				
1977	1 030	557	163	54.1	15.8	512	292	43	57.0	8.4				
1978	993	516	157	52.0	15.8	504	279	44	55.4	8.7				
1979	876	448	134	51.1	15.3	459	248	40	54.0	8.7				
1980	889	454	122	51.1	13.7	462	246	38	53.2	8.2				
1981	1 272	598	170	54.9	13.4	619	344	51	55.6	8.2				
1982	1 833	926	291	50.5	15.9	812	402	79	49.5	9.7				
1983	2 258	1 014	485	44.9	21.5	985	441	127	44.8	12.9				
1984	2 266	859	598	37.9	26.4	989	376	157	38.0	15.9				
1985	2 304	836	617	36.3	26.8	1 015	366	162	36.1	16.0				
1986	2 228	800	601	35.9	27.0	1 028	371	164	36.1	16.0				

Source: ANBA, Annual Statistics and our own calculations.

Table 3: Expenditure on Labour Market Policy Measures in the Federal Republic of Germany
1965-1986 (Billions of DM)

	1965	1970	1973	1974	1975	1976	1977	1978
(1) Seasonal Measures /1/	0.60	1.30	1.42	1.41	1.12	1.26	1.37	1.49
(2) Cyclical Measures /2/	-	0.01	0.07	0.68	2.21	1.00	0.59	0.60
(3) Vocational Training /3/	0.04	0.78	1.82	2.13	2.87	2.18	1.49	1.62
(4) Vocational Rehabilitation	-	0.07	0.31	0.39	0.43	0.45	0.48	0.55
(5) Wage Subsidies /4/	0.04	0.13	0.14	0.12	0.19	0.27	0.38	0.60
(6) Job-Creation Measures	-	0.01	0.02	0.04	0.14	0.27	0.67	1.01
(7) Others /5/	-	-	-	-	-	0.02	0.34	0.37
Total "Active Labour Market Policy"	0.68	2.30	3.78	4.77	6.96	5.45	5.32	6.24
(8) Unemployment Benefit	0.39	0.65	1.39	3.55	7.77	6.91	6.28	7.72
(9) Unemployment Assistance	-	0.07	0.15	0.30	0.98	1.55	1.60	1.66
(10) Bankruptcy Wage Payments	-	-	-	0.07	0.26	0.27	0.28	0.22
Total "Passive Labour Market Policy"	0.39	0.72	1.54	3.92	9.01	8.73	8.16	9.60
(11) Administrative Costs	0.51	0.90	1.51	1.74	2.09	2.13	2.29	2.53
TOTAL LABOUR MARKET POLICY	1.62	3.92	6.83	10.43	18.06	16.31	15.77	18.37
Deficit/Surplus Federal Employment Institute (FEI)	+0.46	-0.33	+0.66	-2.37	-8.60	-1.87	+0.29	+0.23

Source: ANBA, Annual Statistics and our own calculations.

/1/ Winter Allowance, Bad-Weather Pay and Promotion of Employment in Construction Industry;

/2/ Short-Time Compensation;

/3/ Retraining, On-the-job Training, Educational Allowances for Unemployed Youth (since 1982);

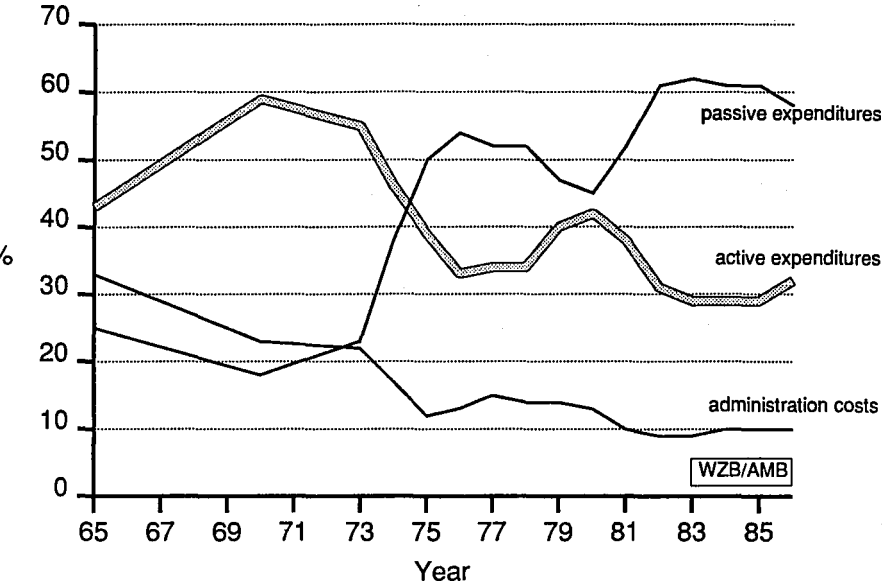
/4/ Settling-in-allowance and Promotion of Entry into Employment;

/5/ Measures to integrate repatriate persons, special programmes (1976-1983).

Table 3 continuation

	1979	1980	1981	1982	1983	1984	1985	1986
(1) Seasonal Measures /1/	2.21	1.97	2.53	2.22	1.56	1.61	1.44	1.35
(2) Cyclical Measures /2/	0.33	0.47	1.28	2.22	3.07	1.79	1.23	0.88
(3) Vocational Training /3/	2.23	2.92	3.82	3.79	3.56	3.74	4.09	5.15
(4) Vocational Rehabilitation	1.05	1.65	1.96	1.91	1.88	1.89	1.90	2.13
(5) Wage Subsidies /4/	0.76	0.73	0.59	0.30	0.26	0.33	0.36	0.52
(6) Job-Creation Measures	1.17	1.08	1.09	0.99	1.25	1.80	2.27	2.86
(7) Others /5/	0.38	0.74	0.63	0.54	0.20	0.19	0.21	0.23
Total "Active Labour Market Policy"	8.13	9.56	11.90	11.97	11.78	11.35	11.50	13.12
(8) Unemployment Benefit	7.47	8.11	13.29	18.03	17.10	14.14	14.09	14.05
(9) Unemployment Assistance	1.98	1.90	2.85	5.02	7.13	8.72	9.13	9.16
(10) Bankruptcy Wage Payments	0.21	0.21	0.37	0.55	0.46	0.53	0.56	0.53
Total "Passive Labour Market Policy"	9.66	10.22	16.51	23.60	24.69	23.39	23.78	23.74
(11) Administrative Costs	2.80	3.05	3.26	3.39	3.57	3.91	3.84	4.27
TOTAL LABOUR MARKET POLICY	20.59	22.83	31.67	38.96	40.04	38.65	39.12	41.13
Deficit/Surplus Federal Employment Institute (FEI)	-2.24	-2.62	-8.29	-7.05	-1.60	+3.16	+2.31	-0.21

Figure 3: Expenditure on Active and Passive Labour Market Policy
as Percentage of Total Expenditures



3. CHANGING TRENDS IN LABOUR SUPPLY AND DEMAND

We start by summarizing the highlights of this chapter. The composition of labour supply has changed substantially:

- 1) By increasing supply of married women,
- 2) by decreasing supply of youth due to the expansion of the education system and prolongation of mandatory schooling,
- 3) by decreasing supply of the old due to disability, flexible retirement age (since 1973) and early retirement pensions,
- 4) by increasing voluntary part-time employment combined, however, with increasing mismatch between voluntary and involuntary part-time work,
- 5) by an increase of the working age population,
- 6) by an increase of the second generation foreign work force with permanent resident entitlement.

The changes in the composition of labour demand are no less important and can be characterized as follows:

- 1) By a decline of demand in the primary sector, although the speed of decline has substantially reduced,
- 2) by a decline of demand in the secondary sector, which in comparison with other countries, however, still maintains great importance for the German economy,
- 3) by an increase of demand in the tertiary sector; in particular in social services (health and education) and producer-oriented services and a simultaneous decline or stagnation in trade, transportation, and consumer-orientated services,

- 4) by a tertiarization of the manufacturing industry, i.e. increasing share of white-collar workers with high skill requirements for research, development and marketing,
- 5) by stopping the rapid expansion in public sector employment,
- 6) by a drastic decrease of demand for unskilled labour and a simultaneous increase in academic labour as well as a slight increase of skilled workers (Facharbeiter),
- 7) by increasing demand for flexible working time and a decoupling of working time (for people) and operation time (for production),
- 8) by increasing demand for flexible skills ("mixed qualification") analogous to decreasing mass production and increasing "flexible specialization" of production.

3.1 Development of Labour Supply

Since 1973, i.e. since the first oil price shock, the working age population increased by more than 3 million (see Table 24, Appendix). This furnishes the background for a widespread opinion that two-thirds of present unemployment can be explained by demographic factors; the other third by a lack of global demand or inflexibilities in the labour market. However, as Table 24 (Appendix) indicates, at least the increase of unemployment in the middle of the seventies cannot be explained by demographic factors: During this period, the level of working age population was relatively constant. In addition, as the examples of the USA and Sweden during the 1980's show, a growing working age population does not directly lead to higher unemployment. In connection with an overall declining (and therefore demand restricting) population (between 1973-1985 about one million), such changes in the demographic structure are, however, a serious challenge to labour market adjustment.

The recent increase of labour supply is mainly caused by higher female labour force participation. From April 1982 until June 1985 alone the number of women in the labour force increased by 520,000 or 4.8 percent (men = 0.7 percent) (WiSta, No. 12, Dec. 1986). Despite this growth, the female participation rate over the last twenty years increased only slowly by a total of 5.8 percentage points, whereas the rate of men decreased by 8 percent (see Figure 4 and Table 26, Appendix). The overall female labour force participation rate of 52.7 percent is clearly still far below the rate of men with 81.9 percent (1985). As one can see from Figure 4 (for details see Tables 26 and 27, Appendix) the participation rate varies according to age and sex. An interesting observation concerns the difference in the participation rates of men and women in the core age groups of 40-44 years: Whereas the male participation rate remained almost constant, the female participation rate increased by 13.3 percentage points. The rate of married women - in this age group - with 16.1 points increased disproportionately. This result confirms the trend that married women return earlier after a "family period" back to the labour market and/or that they remain continuously on the labour market.

3.2 The Development of Labour Demand

The development of employment in the various economic sectors can be regarded as an indicator of changing labour demand (Table 4). Shifts in the sectoral composition of labour demand always take place. To draw any conclusions for labour markets dynamics, two additional pieces of information are necessary: Has the speed of structural change increased or decreased? How far does the sectoral change involve shifts in occupation and qualification as well as a need for regional mobility? As far as qualification is concerned, Table 5 supplies some information from a forecast of future labour demand according to broad qualification levels: In 1976 37 percent of the active labour force was without any formal vocational training; in the year 2000, this category is expected to account for only 20 percent. Another strong shift results from the demand for academics: Their share of civilian employment is expected to be 14 percent in

Figure 4: Participation Rate by Age Groups and Sex 1965-1985

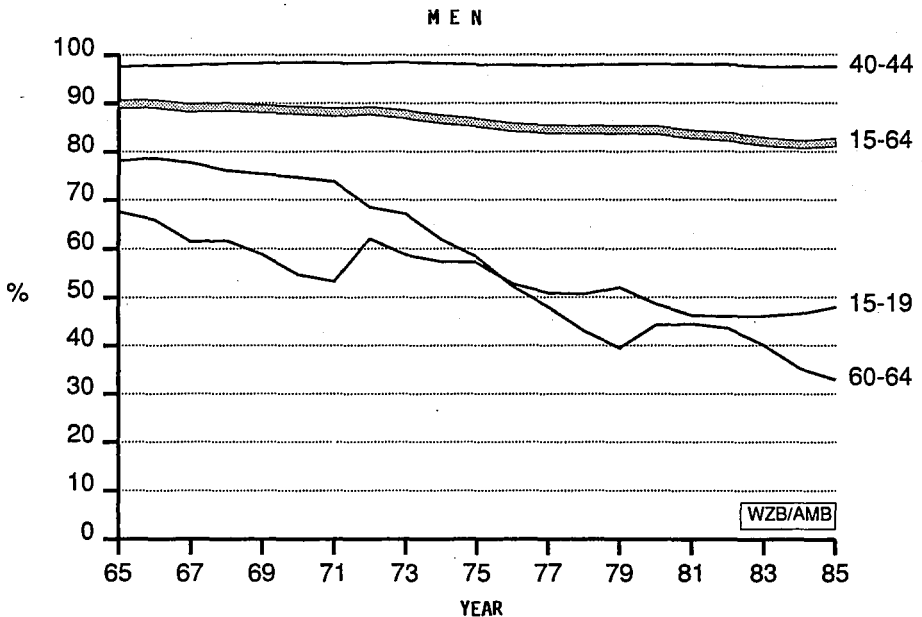
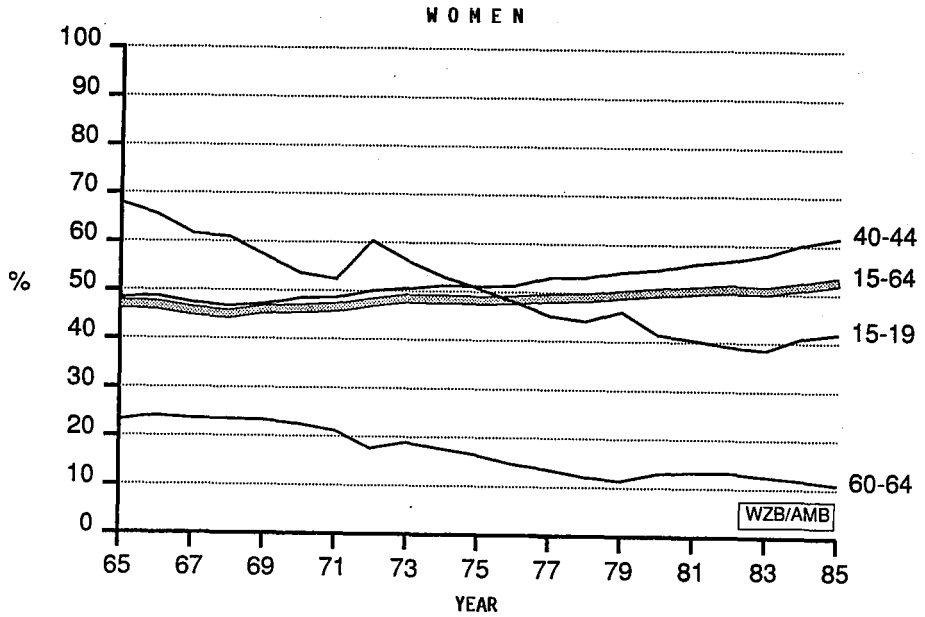


Table 4: Persons in Employment by Sector (Number of Persons in Thousand and as Percentage of all Employed Persons)

	1964	1974	1980	1984
Primary Sector thereof	3,784 (14.4)	2,322 (8.6)	1,967 (7.3)	1,903 (7.1)
- Agriculture, Forestry, Fishing	3,042	1,792	1,437	1,376
- Energy, Water Supply	215	231	254	269
- Mining	527	299	275	257
Secondary Sector thereof	11,992 (45.4)	12,151 (45.3)	11,644 (43.3)	10,604 (39.9)
- Manufacturing	9,845	10,157	9,674	8,562
- Construction	2,147	1,994	1,970	2,042
Tertiary Sector thereof	10,615 (40.2)	12,378 (45.1)	13,262 (49.4)	14,102 (53.0)
- Trade	3,128	3,218	3,207	3,296
- Communication and Transport	1,570	1,535	1,515	1,544
- Banking and In- surance	540	770	861	926
- Public Services (1)	1,588	2,442	2,666	2,674
- Consumer Oriented Services (2)	1,546	1,391	1,417	1,745
- Social Services (3)	1,547	2,207	2,803	2,998
- Producer Oriented Services (4)	538	659	795	919
- Others	158	156	-	-
Total Economy	26,390 (100)	26,853 (100)	26,874 (100)	26,608 (100)

Source: Statistisches Bundesamt, Fachserie 1, Reihe 4.1.1 Stand und Entwicklung der Erwerbstätigkeit.

- 1) Government agencies, social insurance, public security, armed forces.
- 2) Catering and accommodation, janitorial, personal hygiene, garbage, contract trade, private households.
- 3) Education, science, art, sports, entertainment, health and veterinary services, church, parties, trade unions.
- 4) Legal, tax and economic advice, services for enterprises, other services.

Note: Numbers of 1964 and later are not completely compatible, since 1972 also soldiers are included; in 1980 and 1984 a new definition was established: janitorial services and garbage disposal were added to consumer oriented services (171.000).

**Table 5: Qualification Structure of Civilian Employees in FR-Germany
1976-2000**

	1976	1982	1990 ¹⁾	2000 ¹⁾
Without Vocational Training	37.2	32.0	26.2	19.6
With Vocational Training	49.9	52.9	56.5	59.9
With Higher Vocational Training	6.4	6.6	6.6	6.5
With University or Corresponding Degree	6.5	8.5	10.7	14.0

1) Trend extrapolation

Source: C. von Rothkirch, M. Tessaring: Projektionen des Arbeitskräftebedarfs nach Qualifikationsebenen bis zum Jahre 2000, in: Mitteilungen aus der Arbeitsmarkt- und Berufsforschung 1/1986.

the year 2000. In 1976, over 50 percent of all civilian employees had an apprenticeship with completed vocational training. For the year 2000 an increase to 60 percent is expected. Demand and supply of qualifications, however, are interacting: If more qualified labour is offered on the market than necessary, the demand will partly adjust to this opportunity. The "over-qualification" of the labour force will probably speed up structural change which improves competitive conditions. Whether continuous competitive advantage is reached (with corresponding employment gains), however, depends on international developments.

As far as regional mobility is concerned, one interesting observation can be mentioned. For Germany a strong positive correlation was found between the increase of new service employment and regional stabilization or even growth in manufacturing employment (Albrecht/Schmid, 1985). In other words: new services (such as financing, marketing, counselling, technical service, etc.) locate primarily around profitable manufacturing industries. That means: Displaced workers of steel or other declining industries have to be mobile not only in occupational but also in regional terms.

4. CHANGES IN LABOUR MARKET DYNAMICS

Three aspects of labour market dynamics, i.e. the adjustment mechanism which matches demand and supply, will be discussed in the following. In the first section, the relationship between unemployment and vacancies is illustrated with the "Beveridge Curve" which serves as an indicator for structural or frictional unemployment and potential wage push inflation. In the second section, the issue of wage flexibility on an aggregate level as well as in structural terms is taken up to consider the extent of unemployment which might have been induced by wage rigidity; in the third section the mobility of the labour force as a further indicator of rigidity induced unemployment is discussed.

4.1 The Beveridge Curve

The Beveridge Curve⁵ relates the vacancy rate to the unemployment rate under the following assumption. An outward shift of this curve gives rise to the suspicion that imbalances in the labour market have increased. All positions on the Beveridge Curve at which the number of unemployed exceeds the number of vacancies (i.e. all positions to the right of the 45°-ray) indicate that there is either a demand deficiency or that (inflexible) wages are too high (so-called Keynesian or classical unemployment). All positions on the Beveridge Curve at which the number of vacancies exceeds the number of unemployed indicate serious labour bottlenecks, overheated demand and inflationary pressure.⁶

⁵ Named according to William H. Lord Beveridge (1879-1963) a British economist and statistician, who served also as an advisor to the British government. In Germany he became more famous for his "Beveridge Plan" and for "Full Employment in a Free Society" (1949).

⁶ To avoid misinterpretation, we have to draw the readers attention to the fact that all combinations of unemployment and vacancies on the 45°-ray are not necessarily optimal. An optimal combination is given if the marginal costs of unemployment (i.e. in form of output losses) are equal to the marginal costs of vacancies (i.e. a possible additional inflationary pressure) (Abraham, 1983).

Figure 5 shows the relationship of vacancy and unemployment rates in the period from 1961 to 1983.

Following Wolfgang Franz, we used first official data from the Federal Employment Institute, and then corrected the data. In view of the fact that the share of registered vacancies and unemployed (of the total) is not constant over the sample period, a correction is necessary to obtain consistent time series. The problem with these corrections, however, is the lack or incompleteness of the data. The corrections, therefore, are not completely reliable (e.g. the inclusion of the hidden labour force into the number of unemployed), so that the following conclusions must be read with caution. (Further information on the method of data corrections can be found in Franz, 1987a and 1987b). Furthermore, the validity of Franz's correction in part has to be questioned. This holds true in particular for the inclusion of participants in full-time labour market training programmes into unemployment figures because this category of workers is not available to the labour market (which is a definitional element of unemployment). In addition, vocational training aims at avoiding imbalances on the labour market. The outward shift of the Beveridge-Curve in the corrected version therefore seems to be overestimated.

With the help of Figure 5 three conclusions can be drawn:

- In the period from 1961 to 1973 the German economy was (with the exceptions of 1967 and 1974) always under labour market induced inflationary pressure because labour demand exceeded labour supply. This was, among others, one of the reasons to open the door for a huge inflow of foreign workers during the late sixties and early seventies which to some extent reduced inflationary pressure.
- Since 1974 unemployment increasingly exceeds vacancies, so that the mismatch between demand and supply since that time plays only a marginal role in explaining the high unemployment rate. Most of the present unemployment can only be explained either in terms of demand deficit or "classical unemployment" (or both).

- The slightly outward shift of the curve can be interpreted as a slight deceleration of labour market matching processes. In other words: Assuming that an efficient global demand strategy would reduce unemployment to a two percent level, the resulting labour force bottleneck would be higher than in the first half of the 1970s. The remaining unemployment would be "frictional" or "structural" apart from the probability that such a policy would shift the curve further outwards.
- The causes for the outward shift of the Beveridge-Curve - irrespective of the limitations of these results mentioned above - have not yet been explained. Empirical evidence leads us to the following preliminary conclusion: The labour market mismatch seems to be mainly "qualificational" in the sense that the exorbitant increase in long-term unemployment represents one group of unemployed who cannot be placed in a moderate cyclical upturn. A strong increase of labour demand would be necessary for these unemployed to fill vacancies which then become available in large numbers because only in such a situation would employers reduce qualification requirements for job applicants (Franz, 1987b:514).

All in all, the Beveridge Curve for Germany indicates a considerable latitude for global demand and/or income or wage policy. As the following section will show, the inflexibility of wages on an aggregate level or narrowing and inflexible wage differentials probably contribute only little toward explaining the present mass unemployment.

4.2 Wage Flexibility

Flexibility of nominal wages on an aggregate level (tied to the development of productivity) might be a necessary, but certainly not a sufficient condition for the accommodation of the labour market to (shock-like) shifts in the economy by prices and/or demand. In comparison with other countries, West Germany has a good record concerning nominal wage flexibility (Bruno/Sachs, 1985:232 ff.). This result

Figure 5: UV/Relation by Using Official Data 1961-1983

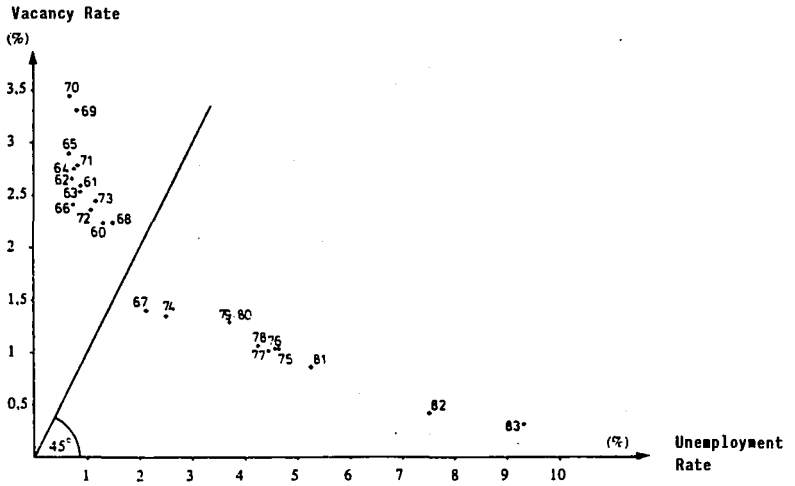
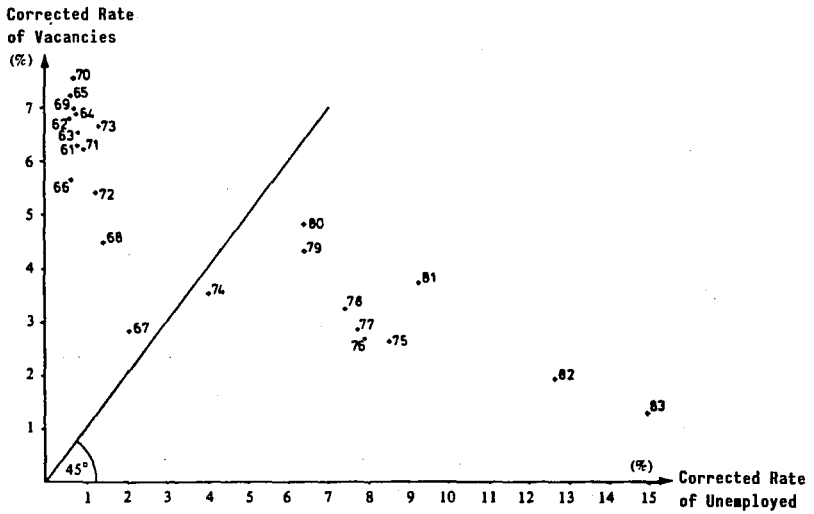


Figure 5 continuation: U/V Relation by Using Corrected Data 1961-1983



Source: Franz 1987b: 513.

is - in contrast to what is widely assumed - due to the relatively centralized wage negotiation system and moderate wage policy on the part of trade unions (c.f. Scharpf, 1987:151 ff., 248 ff.).

The flexibility of the labour market is also determined by the extent and the flexibility of wage differentials. In this respect the results for the period 1970 to 1984 can be summarized in the following way (see Table 6 and Figure 6):

1. On the whole some levelling out of wage differentials can be found. This is mainly due to a decrease of wage differentials between men and women. Among white-collar workers, however, gender wage differentials are still considerably larger than among blue-collar workers.
2. Inter-sectoral wage differentials are larger among white-collar workers than among blue-collar workers. Wage differentials among white-collar workers remained constant (with an increase in the early 1970s and a decrease in the late 1970s and early 1980s), whereas among blue-collar workers they increased.
3. Among white-collar workers sectoral wage differentials explain little of the overall wage differentials; they are primarily accounted for by qualification. The latter differentials decreased during the 1970s, but increased with the deterioration of the labour market in the 1980s.
4. In comparison with the USA the sectoral wage differences are smaller but still have to be regarded as high. A comparison of effective gross hourly earnings shows that the hourly pay of an unskilled worker in the mineral oil manufacturing sector was higher than the effective earnings of a skilled worker (Facharbeiter) in the lowest-paying branch - the clothing sector (see Figure 6).

5. The variation of wages, however, is only half of the variation in productivity change. In this respect there is no difference between the USA and the FRG (Vogler-Ludwig, 1985:26).
6. There is a positive correspondence between wage and productivity changes ($R^2 = 0.26$). As far as the difference with USA is concerned, it is only marginal ($R^2 = 0.29$ for the USA) (Vogler-Ludwig, 1985:25 f.).
7. Regional wage differentials are still large. There is, however, a lack of information about regional wage differentials by occupations (which would be the most relevant factor for regional mobility). In 1984 the average yearly income per employee within 142 employment office districts, ranged between 23,200 and 34,400 DM (average 29,200). The main explanatory factors are the sectorial structure and agglomeration or centrality of region (Koller, 1987: 31 f.). Contrary to the widespread impression, however, regional wage differentials have slightly increased in the period from 1976 to 1984 (Koller, 1987: 40). Models in the tradition of human capital theory explain only part of regional wage differentials (about 20 percent - up to 50 percent) (e.g. Gerlach/Kehlbeck 1987, mimeo). This implies that (given high regional wage differentials) incentives for regional mobility exist.

A tentative summary conclusion is: Wage differentials are in the short run quite stable in West Germany while in the long run they adjust to productivity change. Hence it remains doubtful whether this creates incentives for structural change. In principle wage flexibility means low incentives for structural change: On the one hand, a quick wage adjustment to profitability reduces monopoly rents of innovative enterprises; on the other hand, it reduces cost pressure on less profitable enterprises. For labour supply, wage flexibility in principle means incentives to move; whether higher wages resulting from mobility compensate the (probably increasing) mobility costs - in other words: whether regional wage differentials lead to regional mobility - is an open question. More thinking and research on this

point is necessary. Data on mobility between regions, sectors, enterprises explicitly related to the wage structure are at present not available.

Table 6: Components of Wage Variation

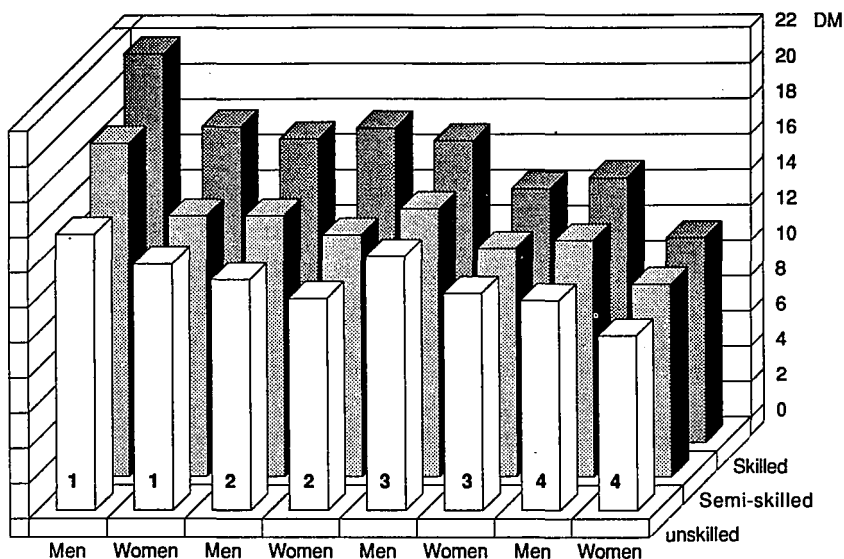
Year	Total Variance (a)	Variance Contribution by			Sum of Covarian- ces
		Sector	Qualification	Sex	
Blue-collar Worker (b)					
1970	4.70	0.85	1.19	2.28	0.38
1975	3.89	0.92	1.20	1.54	0.23
1980	3.74	0.95	1.08	1.53	0.18
1984	3.67	1.06	1.06	1.39	0.16
White-collar Worker (c)					
1970	29.44	1.59	22.37	4.40	1.08
1975	25.59	1.68	20.14	3.01	0.76
1980	24.35	1.62	18.88	2.97	0.88
1984	24.07	1.61	19.33	2.51	0.62

- a) Variance is related to the total average of all standardized wages.
b) Effective gross hourly earnings of blue-collar workers by 28 sectors, 3 wage échelons, and by sex.
c) Effective gross monthly wages of full-time white-collar workers by 32 sectors, 4 wage échelons, and by sex.

Source: Kurt Vogler-Ludwig, Flexibilisierung der Lohnstrukturen. Ein Patentrezept der Beschäftigungspolitik?, in: ifo-schnelldienst 16/85, p. 18-31.

**Figure 6: Wage Differentials By Sector and Qualification:
Effective Gross Hourly Wages**

Blue-Collar Workers

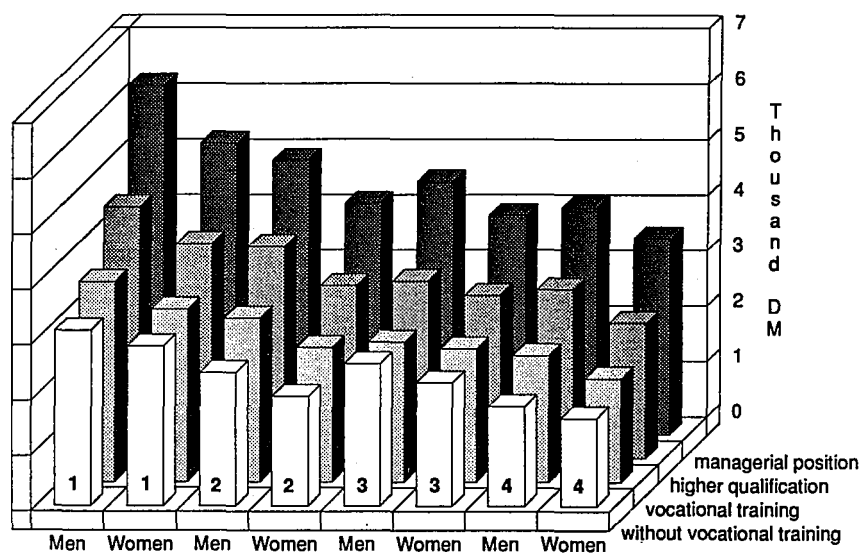


Industry	Skilled		Semi-Skilled		Unskilled	
	Men	Women	Men	Women	Men	Women
1 = Mineral Oil	22.0	17.9	18.9	14.8	15.7	14.0
2 = Office Machines and Data Processing	17.2	17.8	14.8	13.7	13.1	12.0
3 = Engineering	17.1	14.4	15.2	12.9	14.4	12.3
4 = Clothing	15.0	11.6	13.4	10.9	11.9	9.9

Source: IFO-Institute for Economic Research, 277/85, Munich.

**Figure 6 (continuation): Wage Differentials By Sector and Qualification:
Effective Gross Monthly Salaries**

White-Collar Workers



	Managerial Position		Higher Qualification		Vocational Training		Without Vocational Training	
	Men	Women	Men	Women	Men	Women	Men	Women
1	6,280	5,260	4,538	3,863	3,614	3,115	3,165	2,881
2	4,952	4,167	3,816	3,112	2,954	2,423	2,405	1,980
3	4,561	3,950	3,194	2,937	2,625	2,399	2,560	2,225
4	4,089	3,535	3,041	2,437	2,284	1,869	1,801	1,584

1 = Mineral Oil Industry
2 = Engineering Industry
3 = Banking
4 = Retail Trade

Source: IFO-Institute for Economic Research,
277/85, Munich.

5. STRUCTURE AND DYNAMICS OF UNEMPLOYMENT

Apart from its size, the main characteristics of German unemployment are the long duration of individual unemployment and the unequal distribution of the risk to become unemployed.

5.1 The Increasing Duration of Unemployment

Tables 7 and 8 provide information about the duration of unemployment. Table 7 shows that the average number of unemployed (the stock) increased more than twofold between 1975-1986, but the total number of those becoming unemployed per year (the flow) only slightly increased. Thus, the increasing unemployment is mainly characterized by longer duration of unemployment. The average duration of unemployment spells increased from 16 to 32 weeks (calculated under steady state conditions).

Table 7 shows the yearly inflow of registered unemployment, the yearly inflow of registered vacancies and average duration of vacancies. Apart from the fact that (to varying degrees) only about one third of all vacancies are registered by the employment agency, an essential decrease of vacancies is visible since 1975. Through a decreasing inflow of vacancies and simultaneously a constant inflow of unemployed, the average duration of vacancies decreased from six (1975) to four weeks (1985). Accordingly the relationship of unemployed per vacancy⁷ increased from 1.6 to its highest level of 4.1 (1983). As a result, competition among the unemployed increased considerably. Since 1982 the inflow of vacancies increased again, and this improved the relationship of unemployed/vacancies to 3.0 (1986).

Table 8 provides a differentiated picture of unemployment duration. In 1977 the lion's share of unemployed (66 percent) were unemployed for less than six months (at the time of the sample analysis in September). Only 14 percent were unemployed for more than one year. The

⁷ Defined as: $(\text{Unemployment stock}_{t-1} + \text{Unemployment flow}_t) \text{ divided by } (\text{Vacancies stock}_{t-1} + \text{Vacancies flow}_t)$.

Table 7: Number of Vacancies and Number of Unemployed in Thousand, Average Duration of Unemployment Periods and Average Vacancy Duration

Year	Total Number Vacancies During a Year Reported (Inflow = F) ('000s)	Average Number Vacancies Remaining at the End of a Month (Stock = S) ('000s)	Average Reg. Periods for Vacancies (Number of Weeks = D) ^{a)}	Total Number of Unemployed During a Year (Inflow = F) ('000s)	Average Number of Unemployed (U) ('000s)	Average Dura- tion of Un- employment (Number of Weeks = D) ^{b)}	Number Job- Seekers per Vacancy c)
1965	3 011.8	649.0	11.2	1 422.2	147.4	5.4	-
1970	3 037.7	794.8	13.6	1 295.7	148.9	6.0	-
1973	2 695.3	572.0	11.0	1 877.1	273.5	7.6	-
1974	2 255.2	315.4	7.3	2 795.2	582.5	10.8	1.1
1975	2 188.5	236.2	5.6	3 450.3	1 074.2	16.2	1.6
1976	2 312.0	235.0	5.3	3 255.5	1 060.3	16.9	1.7
1977	2 187.3	231.2	5.5	3 315.0	1 030.0	16.2	1.8
1978	2 054.9	245.6	6.2	3 080.6	993.0	16.8	1.8
1979	1 980.3	304.0	8.0	2 843.7	876.1	16.0	1.7
1980	1 709.2	308.3	9.4	3 084.1	888.9	15.0	2.0
1981	1 354.6	207.9	8.0	3 531.0	1 271.6	18.7	2.7
1982	1 124.5	104.9	4.9	3 706.7	1 833.2	25.7	3.7
1983	1 248.4	75.8	3.2	3 704.2	2 258.2	31.7	4.1
1984	1 403.3	87.9	3.3	3 672.8	2 265.6	32.1	4.0
1985	1 552.8	110.0	3.7	3 750.2	2 304.0	31.9	3.7
1986	1 840.9	153.9	4.3	3 637.3	2 228.0	31.9	3.0

Source: ANBA, Annual Statistics 1984 und 1985 and our own calculations.

a) Vacancy registration periods have been calculated using the formula:
Registration period (D) = $52 \times \frac{\text{Vacancy stock (S)}}{\text{Vacancy Inflow (F)}}$

b) The duration of unemployment has been similarly calculated: $D = \frac{52 \times U}{F}$

c) The number of jobseekers per vacancy has been calculated:

Average Number Unemployed in the Year (Stock) T_{-1} + Total Number Unemployed Inflow in the Year T

Average Number Vacancies (Stock) T_{-1} + Total Number Vacancies Inflow in the Year T

Table 8: Unemployed in Thousands by Duration of Unemployment 1977-1986, Absolute and in % (End of September)

Duration Year	Total Unemployed in 1000 in %	thereof unemployed						1-2 Years in 1000 in %	2 Years and more in 1000 in %	Average Duration Month					
		less than 1 Month	1-3 Months	3-6 Months	6-12 Months	1-2 Years	2 Years and more in 1000 in %								
Sept. 1977	911	100	182	20	256	28	168	18	174	19	90	10	40	4	6.5
1978	864	100	165	19	254	29	157	18	161	19	84	10	42	5	6.7
1979	737	100	148	20	208	28	137	19	129	18	72	10	42	6	7.0
1980	823	100	174	21	250	30	154	19	137	17	64	8	42	5	6.4
1981	1 256	100	230	18	361	29	245	20	258	21	114	9	49	4	6.5
1982	1 819	100	271	15	448	25	333	18	440	24	246	14	81	4	7.6
1983	2 134	100	245	11	471	22	363	17	524	25	377	18	155	7	9.2
1984	2 143	100	249	12	464	22	348	16	464	22	371	17	247	12	10.5
1985	2 151	100	265	12	434	20	341	16	446	21	363	17	303	14	11.6
1986	2 046	100	249	12	409	20	320	16	414	20	334	16	320	16	12.5

Duration of unemployment = duration of registered unemployment (in months) on a qualifying date (end of September), i.e. uncompleted spells of unemployment.

Source: ANBA Jahreszahlen 1986

figures for 1986 show a clear deterioration: only about half the unemployed were out of work for less than six months, whereas the share of long-time unemployed (more than one year) increased to 32 percent. Correspondingly, the average duration of unemployment doubled from six to twelve months (following the measurement concept of uncompleted spells of unemployment).

The Tables presented do not indicate who becomes unemployed. From other sources we know that between 1974 and 1984 about one third of the labour force was affected by unemployment (many of them became several times unemployed), whereas two-thirds remained employed (Karr, 1985). For this phenomenon, the notion of Germany being a "two-thirds society" emerged.

5.2 Socio-demographic Distribution of Unemployment

In Table 9 unemployment is differentiated by sex and foreign workers of different ages. Further information is given on the distribution of unemployment in 1985 (with an average unemployment rate of 8.6 percent) and 1973 (the last year with a low unemployment rate) and 1975 (the starting year of mass unemployment with 3.6 percent). A comparison of group relationships was made. In other words: the unemployment rate of the respective age group was related to the unemployment rate of men aged 35 to 44. The result is that particularly the male group of 55 to 64 years was suffering from unemployment in 1973, whereas this age group relation was brought into line in times of increasing unemployment. The relative decrease of unemployment among men aged 60 to 64 can partly be explained by the introduction of various early retirement schemes. On the other hand, the unemployment of the male youth group improved relatively compared with 1975.

Women of all age groups are clearly more affected by unemployment compared to the reference male age group (35-44 years). Particularly in 1973 (with an average unemployment rate of 0.8 percent) women between 35-44 years accounted for twice as much unemployment as their male counterparts; younger and older age groups had three to four

Table 9: Comparison of the Demographic Distribution of Unemployment in 1985 with its Distribution in 1973 and 1975

	Unemployment Rate in % (a)	Group Ratios	Group Ratios	Group Ratios
	1985	1985 (b)	1973 (b)	1975 (b)
Men				
15 - 19	6.6	1.3	1.5	1.8
20 - 24	9.1	1.8	1.5	2.1
25 - 34	7.0	1.4	1.3	1.4
35 - 44	5.1	1.0	1.0	1.0
45 - 54	5.3	1.0	1.3	1.0
55 - 59	11.0	2.2	2.5	1.1
60 - 64	7.8	1.5	5.5	2.0
Women				
15 - 19	9.8	1.9	3.0	2.2
20 - 24	12.1	2.4	3.5	2.4
25 - 34	11.7	2.3	3.3	2.2
35 - 44	6.8	1.3	2.3	1.6
45 - 54	7.3	1.4	2.5	1.4
55 - 59	12.0	2.4	3.3	1.8
60 - 64	7.4	1.5	3.8	1.6
For- eigners				
Men				
15 - 19	15.1	3.0	n.a.	3.0
20 - 34	10.7	2.1	n.a.	2.8
35 - 54	7.5	1.5	n.a.	2.6
55 - 64	14.4	2.8	n.a.	2.8
Women				
15 - 19	20.1	3.9	n.a.	2.6
20 - 34	12.9	2.5	n.a.	3.6
35 - 54	10.4	2.0	n.a.	3.4
55 - 64	13.4	2.6	n.a.	n.a.

n.a. = not available

a) Number of unemployed in each age group (at the end of September)
All employed persons (including military) of same age group

b) Unemployment rates for each group, divided by the unemployment rate for men aged 35-44.

Source: OECD 1986, Labour Force Statistics 1964-84, Part III, Paris, p. 480 f.; ANBA, various years; Statistisches Bundesamt (ed.), Fachserie 1, Reihe 4.1.1 Stand und Entwicklung der Erwerbstätigkeit, Table 3, Wiesbaden 1985, p. 51.

times higher unemployment rates. Prior to the economic stagnation women were more affected than men. With the beginning of the era of mass unemployment the ratio improved; but still women, in particular younger women, are the losers in the intensified competition for jobs. Among the losers are also foreigners, especially the young under 20. Although the ratio of the middle-aged group of unemployed foreigners has improved compared to the reference group since 1975, unemployment among the other age groups is still 2 to 4 times higher than it is for the male "core group". In addition, the numbers do not reflect the directly or indirectly enforced - and sometimes financially promoted - re-emigration of unemployed foreigners.

5.3 Background of Unemployment

Tables 10 and 11 provide some information on the reasons for unemployment. (Table 10 includes the numbers of short-time workers for the sake of international comparison, although short-time working does not mean unemployment in a narrower sense). The share of those who were never employed before becoming unemployed increased continuously from 3.9 percent in 1975 to over 12 percent in 1986. At the same time the share of unemployed with interrupted employment careers increased from 5.5 percent to 16.4 percent. In total, the share of both groups increased from 0.14 percent to 2.4 percent compared to the overall unemployment rate which doubled "only" from 4.6 percent (1975) to 8.5 percent (1986). But also persons with vocational training, or former participants in ABM are not any longer secure from unemployment: In 1983, 5.3 percent of unemployed came out of these employment policy measures; since 1983, however, the trend is reversing (see column 6, Table 10). However, for those employees who have to work short-time the situation is different. Their unemployment share varies depending upon the business cycle between 12.7 percent (1975) and 2.8 percent (1986). The major portion of unemployment is accounted for by those persons who reported to have had a job before becoming unemployed. Their share in unemployment statistics, however,

Table 10: Background of Unemployment 1975-1985 (End of September), Absolute and in Percent

Year	(1)		(2)		(3)		(4)		(5)		(6)		(7)		(8)	
	New Entrants in the Labour Market (No Unemployment Before Unemployment)	in thousand	Re-entrants (Employment Interruption)	in %	Short-time working in Personnel Equivalents (Relief Factor) a)	in %	Unemployment by Reason of Dismissals	no data available	End of Temporary Work Contract		Vocational/Other Training Circumstances/ABM b)	in thousand	Other Employment d)	in %	Total	in %
1975	45	3.9	-	-	147	12.7	-	-	-	-	-	962	83.4	83.4	1 154	100
1976	53	5.5	53	5.5	63	6.6	-	-	-	-	5	787	81.9	81.9	961	100
1977	79	8.3	75	7.9	36	3.8	-	-	-	-	39	718	75.9	75.9	947	100
1978	66	7.4	109	12.1	33	3.7	-	-	-	-	38	651	72.6	72.6	897	100
1979	52	6.9	90	11.9	19	2.5	-	-	-	-	22	573	75.8	75.8	756	100
1980	59	6.9	105	12.3	30	3.5	-	-	-	-	26	633	74.2	74.2	853	100
1981	104	7.8	140	10.5	72	5.4	-	-	-	-	46	966	72.5	72.5	1 328	100
1982	151	7.7	211	10.8	141	7.2	-	-	-	-	89	1 389	69.8	69.8	1 960	100
1983	244	10.7	261	11.4	151	6.6	-	-	-	-	120	1 509	66.0	66.0	2 285	100
1984	238	10.6	282	12.6	92	4.1	-	-	-	-	95	1 528	68.4	68.4	2 235	100
1985	251	11.3	339	15.3	63	2.8	-	-	-	-	73	1 488	67.2	67.2	2 214	100
1986	255	12.1	345	16.4	59 (c)	2.8	-	-	-	-	69	1 377	65.4	65.4	2 105	100

Sources: ANBA 3/1986, 3/1984, 3/1982;

Autorenangabe 1983, Der Arbeitsmarkt in der Bundesrepublik Deutschland in den Jahren 1983-1984 - insgesamt und regional, in: Mitteilungen aus der Arbeitsmarkt- und Berufsforschung, No. 4, pp. 325-344.

Autorenangabe 1985, Der Arbeitsmarkt in der Bundesrepublik Deutschland 1985 und 1986, in: Mitteilungen aus der Arbeitsmarkt- und Berufsforschung, No. 4, pp. 409-415.

a) Potential reduction of unemployment by short-time working.

b) Until 1983 including ABM, from 1984 ABM is no longer a separate category.

c) Estimate

d) i.e. self-employed, assisting family members, soldiers

e) According to the microcensus 1980, the share of unemployed by reasons of dismissals was 34.6 %; see ANBA 4/82, p. 618,

**Table 11: Unemployment Rates for 1975, 1980, 1983 and 1985
Subdivided by Structural Characteristics in %
(End of September)**

	1975	1980	1983	1985
Not gainfully employed before unemployment/or interrupted employment	0.14 ^{a)}	0.63	2.04	2.35
Unemployment due to short-time work	0.58	0.12	0.61	0.25
Unemployment due to dismissals		n.a.		
Unemployment due to termination of contract		n.a.		
Other reasons	3.84	2.56	6.57	5.91
Total Unemployment Rate ^{b)}	4.56	3.31	9.22	8.51

Source: Our own calculations based on Table 10.

a) Without interrupted employment.

b) Unemployment rate refers to unemployed plus relief effect of short-time work related to civilian employment.

n.a. = not available

Table 12: Inflow of Unemployed Previously Employed By Termination of their Last Employment in Percent

Kind of Termination of Last Employment	Sample Period May/June					
	1981	1982	1983	1984	1985	1986
M E N						
Quits		16.1	13.9	14.0	12.8	15.1
Dismissals	91.9	71.5	68.6	67.3	64.2	62.6
By mutual agreement		3.1	4.6	4.3	3.3	3.2
Employment/vocational training contract was limited thereof	8.1	9.3	12.8	14.4	19.8	19.2
Employment relationship (without ABM)	4.2	4.2	6.0	6.8	6.2	8.2
Public temporary job creation	1.3	1.4	1.1	2.4	3.5	4.1
Vocational training ¹⁾	2.6	3.6	5.7	5.1	10.2	6.8
Total	100	100	100	100	100	100

W O M E N						
Quits		26.1	24.3	25.4	21.1	23.7
Dismissals	86.3	56.1	53.1	49.1	46.3	48.0
By mutual agreement		3.4	3.7	4.0	3.3	3.4
Employment/vocational training contract was limited thereof	13.7	14.4	18.8	21.5	29.3	24.9
Employment relationship (without ABM)	8.9	8.3	10.0	12.1	10.2	12.4
Public temporary job creation	0.7	1.0	0.6	1.0	1.7	1.9
Vocational training ¹⁾	4.1	5.2	8.3	8.4	17.4	10.6
Total	100	100	100	100	100	100

1) The unemployment entries after public temporary job creation programmes and after vocational training, which are by nature limited, to a small extent also include other kinds of terminations.

Source: ANBA 5/1987:640.

has declined from 83.4 (1975) to 65.4 percent (1986); quits, dismissals, but also former soldiers or unpaid family workers or those formerly self-employed are included in this group.

An alternative procedure for classifying the unemployment statistics is suggested by the question: Who terminated previous employment? This statistic has been offered by the Federal Employment Institute only since 1981 (always in May/June). It includes all newly unemployed. The most important results (compare Table 12) can be summarized in the following way:

- 1) Two-thirds of newly unemployed males were dismissed by their employer as compared to only half the women.
- 2) Women quit more frequently than men (in 1986: 24 percent to 15 percent, respectively).
- 3) As far as temporary working contracts are concerned, unemployment affects more women than men (1986: 25 percent to 19 percent). The importance of temporary contracts for unemployment is steadily increasing.

5.4 Unemployment and Qualification

In addition to age and sex, the individual risk of becoming unemployed is evidently dependent on the respective vocational qualification. In Figure 7 and Table 13 the unemployment rate is classified by sex and educational level. Persons without vocational training degree are clearly more affected by unemployment. Their average unemployment rate was 7.7 percent from 1975 to 1985 and therefore (with increasing tendency) about 60 percent above the average unemployment rate (4.8) for all education/training levels. It is remarkable that women were mainly affected until 1981, but since then the tendency has changed to the disadvantage of men. Persons who either received (internal) company training or attended a training college, are less affected by unemployment than the average of all education/training levels. The

increase of unemployment, which was caused by the second recession, is disproportionately borne by women, who were twice as much affected by unemployment as men. The safest protection against unemployment seems to be attendance of a professional, foreman (Meister) and technician school. The data speak a clear language. The unemployment rate of graduates of such schools with 1.5 percent is about 50 percent below the average unemployment rate (3.2 percent) for all education/training levels between 1975 to 1980. Women, who have statistically only a low share of all graduates in technical job branches and who have to fight there against prejudices, are six times more affected by unemployment than men. The technical intelligence - so far it is dominated by men - seems to be less dependent on labour market developments. The data indicate that discrimination against women in this area is still widespread.

Graduates of professional colleges (Fachhochschulen) on average (35 percent) run a lower risk of becoming unemployed than the average of all education/training levels. However, the relative position of this group has been deteriorating since 1982. In view of the fact that not many women - in comparison to men - receive a professional college degree and often cannot enter technical jobs which are a male domain, it is no wonder that they account for 2.5 times more unemployment than the average rate. University graduates, who have an average unemployment rate of 2.6, have about a 40 percent lower risk of becoming unemployed than the average. Women, however, suffer twice as much unemployment as their male academic counterparts. This is often explained by the strong concentration of women graduates in subjects with less favourable job prospects - i.e. teaching profession, art subjects and social sciences.

Figure 7: Unemployment Rate by Education/Vocational Level

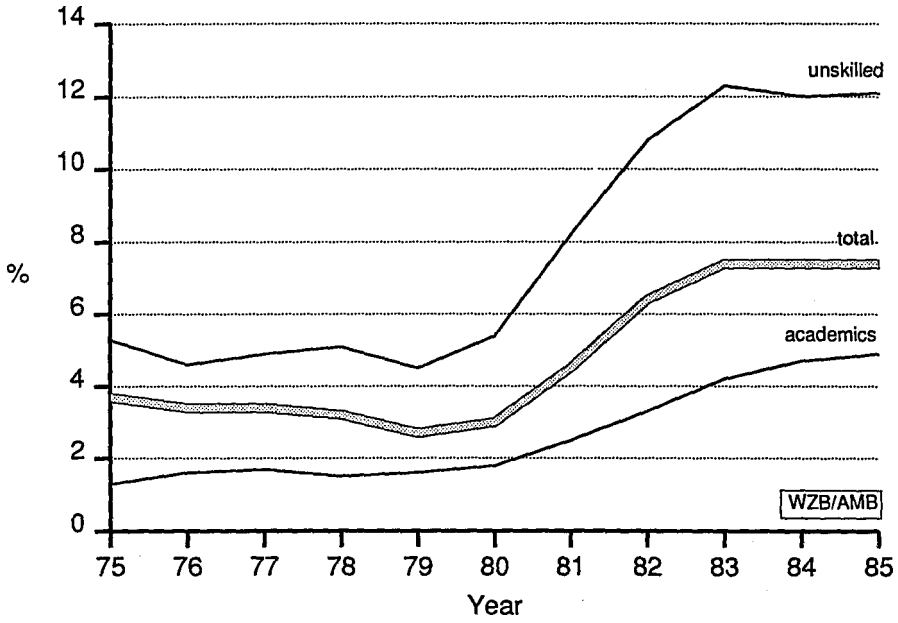


Table 13: Qualification Specific Unemployment Rates 1975 to 1980 (End of September)

Qualification Level	Total Unemployment Rate						Male						Female					
	1975	1976	1977	1978	1979	1980	1975	1976	1977	1978	1979	1980	1975	1976	1977	1978	1979	1980
Without Vocational Degree ¹⁾	5.3	4.6	4.9	5.1	4.5	5.4	5.1	3.9	4.2	4.3	3.6	4.5	5.6	5.3	5.7	5.9	5.4	6.0
Internal Company Training } Training College	2.9	2.8	2.7	2.4	2.0	2.1	2.6	2.2	2.0	1.7	1.4	1.5	3.6	4.1	4.1	3.7	3.1	3.1
Technical College, Master School	1.4	1.8	1.7	1.6	1.3	1.4	1.1	1.2	1.0	0.7	0.5	0.6	3.4	5.0	5.7	6.0	5.0	4.9
Professional College	2.7	2.8	2.6	2.0	1.9	1.9	2.5	2.5	2.2	1.6	1.4	1.5	4.0	4.6	4.6	3.7	3.7	3.7
University	1.3	1.6	1.7	1.5	1.6	1.8	1.3	1.6	1.7	1.4	1.4	1.4	1.2	1.5	1.8	1.9	2.0	2.4
Total	3.7	3.4	3.4	3.2	2.7	3.0	3.2	2.6	2.5	2.3	1.9	2.1	4.6	4.6	4.8	4.7	4.1	4.3

Table 13 (continuation)

Qualification Level	Total			Male			Female		
	Unemployment Rate			1981	1982	1983	1981	1982	1983
Without Vocational Degree ¹⁾	8.2	10.8	12.3	12.0	12.1	7.8	11.2	12.7	12.6
Internal Company Training									
Training College	3.1	4.6	5.5	5.6	5.6	2.3	3.9	4.6	4.7
Technical College. Master School									
Professional College	2.6	3.7	4.6	4.7	4.7	2.0	2.8	3.6	3.6
University	2.5	3.3	4.2	4.7	4.9	2.0	2.7	3.4	3.8
Total	4.5	6.4	7.4	7.4	7.4	3.7	5.6	6.5	6.5

1) Including semi-skilled and students who failed to complete program.

Source: ANBA (various years); microcensus 1976 and 1978, and own calculations.

5.5 Dynamic of Unemployment in Different Age Groups

In the following we make an effort to trace the dynamic structure of unemployment according to age groups (Table 14). Indicators of analysis are the three components: unemployment rate (a), risk of unemployment (b), and the average duration per completed spell of unemployment (c).

(a) Unemployment Rate

The labour force under 25 or between 55-64 years, accounts for a disproportionally large share of unemployment: with decreasing unemployment rates for young persons since 1983 (before increasing), with continuously increasing unemployment rates for old persons. The middle age group (25-44) has consistently had unemployment rates below the average.

(b) Risk of Unemployment

The risk of unemployment can be described as a three stage "probability step".⁸ On the lowest stage is surprisingly the 55-65 age group. Its risk of becoming unemployed is relatively stable and lies between 0.11 (1985) and 0.14 (1981, 1983). Persons, who are between 25-54 years old, follow at the second stage. Their probability of becoming unemployed is even more stable and moves between 0.20 and 0.21. At the third stage we find the young people (under 25). Their entrance probability (to enter the unemployment statistics) varies between 0.43 and 0.48.

(c) The Average Duration of Unemployment

The labour force between 55-64 is mainly affected by long-term unemployment: 93.6 weeks was the average unemployment duration in 1985. Four years ago the figure was "only" 40.7 weeks. The proportion jump-

⁸ It might be represented very well as a step function in a probability diagram.

Table 14: Dynamic Structure of Unemployment in Various Age Groups, 1981-85¹⁾

Year	under 25 years				25- under 55 years				55- under 65 years			
	u	f ³⁾	D	Long-term unempl. 1 year and more	u	f	D	Long-term unempl. 1 year and more	u	f	D	Long-term unempl. 1 year and more
1981	6.5	0.43	15.1	6 (22)	3.9	0.20	19.5	18 (41)	5.7	0.14	40.7	33 (62)
1982	9.5	0.45	21.1	10 (30)	5.6	0.21	26.7	24 (51)	6.9	0.13	53.1	37 (69)
1983	11.1	0.47	23.6	16 (37)	7.0	0.20	35.0	32 (60)	8.7	0.14	62.1	42 (69)
1984	10.1	0.45	22.4	16 (35)	7.0	0.21	33.3	37 (60)	9.6	0.12	80.0	48 (73)
1985	9.8	0.48	20.4	13 (30)	7.1	0.20	35.5	34 (56)	10.3	0.11	93.6	53 (75)

1) The relative unemployment rate (u) has been divided into the components of inflow in unemployment (f) and average duration of unemployment (weeks) per concluded period of unemployment (D), using the formula:

$$u = f \times D; \quad u = \frac{U}{L} \times 100 \quad \text{and} \quad f = \frac{F}{L} \times 100$$

U = Number of unemployed, L = People in the labour force, F = Inflow into unemployment (number of persons per week).

2) Percentage of unemployed who had been out of work for more than one year (more than 1/2 year) at the end of September related to all unemployed in the corresponding age group.

3) Due to the assumption that individuals can only suffer one spell of unemployment per year, f is underestimated (and D correspondingly overestimated) for the young who often have several spells of unemployment per year.

ed from 33 percent (1981) to 53 percent (1985) for those unemployed for one year or longer. For those persons unemployed for half a year or longer, this figure even increased from 62 percent to 75 percent. In other words: If somebody - who is between 55-64 years old - becomes unemployed, his or her probability to find a new job will decline drastically.

The picture is slightly more favourable for 25-54 year old persons, although for this group long-term-unemployment is also increasing. In 1981 the average duration was 19.5 weeks, but in 1985 it climbed to 35.5 weeks. Simultaneously the proportion of those who unemployed were for one year or longer increased from 18 percent to 34 percent; the number of those unemployed for half a year or longer jumped from 41 percent to 56 percent.

Among all three groups considered, the situation of the youth is manifestely the most positive one. The maximum impact of long-term unemployment on this age groups seems to have passed its climax, because:

- The average duration of completed spells of unemployment has declined from 23.6 weeks (peak) in 1983 to 20.4 weeks in 1985 (consider, however, footnote 3 in Table 14).
- The rate of those who were unemployed for one year or longer decreased from 16 percent in 1983 to 13 percent in 1985.
- The rate of those unemployed for half a year or longer decreased from 37 percent in 1983 to 30 percent in 1985.

5.6 Effects of Unemployment on the Pension System

The pension reforms, carried out before the first recession in 1974/75, have on the one hand moderated the effects of the economic crisis on older employees; on the other hand, the lengthy employment

crisis has caused further reforms to be undertaken and thereby put a greater burden on the pension fund. A summary of the main regulations concerning retirement follows, while Table 15 provides evidence on the extent to which the pension system has reduced supply pressure on the labour market.

With the pension reform of 1972, since January 1973 early retirement is possible under the following conditions: persons must have completed their 63rd year and contributed to the pension fund for 35 years. Since 1978 the flexible retirement age for handicapped has been gradually reduced to the age of 60.

If flexible retirement pension is received (with 63 or for handicapped with 60 years), it is not accompanied as in Sweden by an insurance-mathematical deduction. An insurance-mathematical deduction in the case of early pension retirement was not adopted because it was thought that pension reduction would have excessively limited the desired freedom of choice (c.f. Brück, 1981:177).

Early pension retirement is also provided if after the completion of the 60th year, a waiting period of 180 months (15 years), as well as at least 52 weeks of unemployment in the previous 1 1/2 years have occurred before the pension application. This regulation, which is similar to the Swedish "Labour Market Cases", aims at easing social hardship cases as well; in West Germany it is well known as the "59-Rule", because employers used this option (in addition to social compensation plans) to get rid of employees when they turned 59 years old (see Kühlewind, 1985b; Friedmann/Weimar, 1980).

Already in 1969 the Federal Social Court had stipulated that decisions on occupational and employment disability pension should take into account the labour market situation. This caused a rapid increase of entries into the pension insurance. Mainly those people who did not fulfill the condition for retirement pension used the option of early retirement by taking up occupational and employment disability pensions. This was admittedly not the intention of the legis-

lator. Stricter regulations were therefore stipulated in 1984: Employment disability pension can now only be claimed if the insured person has worked in the last five years for a period of at least 3 years and lost his job because of invalidity (Eidenmüller, 1985).

In 1984 an additional early retirement scheme was introduced (limited until 1988), which offers the option of retiring at age 58. Until workers have reached the age of 63 at which time they are eligible for the regular early retirement scheme, they receive a pension of at least 65 percent of their previous gross earnings. During this time contributions are to be paid to the health and pension insurance. This early retirement scheme was conceived by the federal government as an alternative model to the policy of reducing the weekly working time suggested by the trade unions (IG-Metall and IG-Druck). However, until 1985 the use of this early retirement pension was very low: only 22 percent of those eligible chose this option (c.f. Kühlewind, 1985). An important reason for this weak response was due to its financial regulation; a large share of costs have to be carried by the employers unless they hire a young unemployed for the same position; in this case they receive a grant of 35 percent from the Federal Employment Institute.

Table 15 shows that the share of unemployed from the "59-rule" among those becoming eligible for pension insurance has continuously increased. At present its share is almost 7 percent of all new recipients. Table 15 indicates at the same time the considerable and increasing weight of employment disability pensions (1973: 35 percent, 1982: 46 percent) as well as the decrease of these pensions in reaction to restrictive regulations since 1985.

Table 15: Distribution of Pension Entries by Type of Pension in Absolute Figures and in Percent of Contributory Insurance Scheme

	1973		1975		1980		1982		1985	
	absolute	in %	absolute	in %	absolute	in %	absolute	in %	absolute	in %
Compulsory Pension Insurance	498 993	100	454 653	100	635 306	100	627 437	100	609 916	100
thereof										
- Occup. Disability	30 881	6.2	26 743	5.9	23 156	3.6	28 547	4.5	27 994	4.6
- Inability to Work	173 720	34.8	183 679	40.4	285 528	45.0	287 286	45.8	195 308	32.0
thereof										
- Unemployment (Over 60 Years of Age)	11 053	2.2	10 095	2.2	30 779	4.8	39 654	6.3	41 779	6.8
- Severely Handicapped Persons or Occupational Disability or Inability to Work	88 059	17.6	78 880	17.3	50 005	7.9	55 646	8.9	42 936	7.0

Source: Verband Deutscher Rentenversicherungsträger (ed.): VDR Statistik Rentenzugang, Frankfurt, various years.

6. THE OUTCOME OF ACTIVE LABOUR MARKET POLICY

Continuing from chapter 2 where we presented a general picture of active labour market policy and its development, we will now describe the outcome of active labour market policy. The center pieces of our analysis are: the quantitative impact of active labour market policy in terms of expenditures and number of participants, the outcome of labour market training, subsidies for hard-to-place people and temporary public job creation. We intend to answer the following questions: How are the expenditures for active labour market policy structured according to specific measures? How many persons are involved in the different labour market measures? How, for example, is labour market training designed and implemented? Is it cost-effective? To what extent are wage subsidies for hard-to-place people effective? What kind of problems are caused by the "second labour market" brought about by temporary public job creation?

6.1 Expenditures on and Participants in Active Labour Market Policy

The total expenditures of active labour market policy have increased (in current prices) from 2.3 to 13.4 billion between 1970-1986; this means in effect that its share as a percentage of GDP increased from 0.3 percent to 0.7 percent. Another reference variable is the central federal budget. In 1970 active labour market policy as a share of the central federal budget was 2.6 percent, whereas in 1980 it amounted to 5 percent, i.e., it doubled its share. Which components of active labour market policy are mainly responsible for this development?

In Table 16 the total expenditures are classified by the instruments which nowadays represent the "new philosophy" of active labour market policy. These are: labour market training, on-the-job-training, short-time working, and temporary public job creation measures. This Table indicates that these four instruments are mainly responsible

Table 16: Expenditures on Active Labour Market Policy for Selected Instruments 1970-1986,
in Mill. DM and in Percent

Measure	Expenditure on Further Training, Re-training and On-the-job Train- ing		Expenditure on Settling-in-allow- ances		Expenditure on Short-time working		Expenditure on Public Temporary Job Creation	
	(\$ 41-50 LPA)		(\$ 54 LPA)		(\$ 63-73 LPA)		(\$ 91-96 LPA) (1)	
Year	absolute	in %	absolute	in %	absolute	in %	absolute	in %
1970	590	25.6	10	0.4	12	0.5	14	0.6
1973	1 582	41.7	9	0.2	74	1.9	24	0.6
1975	2 588	37.2	100	1.4	2 207	31.8	137	2.0
1976	1 918	35.2	186	3.4	990	18.2	268	4.9
1977	1 188	22.3	266	4.9	594	11.2	669	12.6
1978	1 292	20.7	459	7.4	596	9.6	1 006	16.1
1979	1 904	23.4	616	7.6	334	4.1	1 171	14.4
1980	2 483	26.0	574	6.0	471	4.9	1 084	11.3
1981	3 306	27.8	454	3.8	1 285	10.8	1 088	9.1
1982	3 353	28.0	199	1.7	2 216	18.5	987	8.2
1983	3 062	26.0	158	1.3	3 075	26.1	1 252	10.6
1984	3 187	28.0	203	1.8	1 792	15.8	1 801	15.9
1985	3 462	29.9	210	1.8	1 228	10.6	2 267	19.5
1986	4 462	33.2	306	2.3	880	6.6	2 863	21.3

1) Including federal funds.

2) Under this category all other expenditure were subsumed concerning vocational training, measures to promote job starts (excluding settling-in-allowance), rehabilitation, bad weather and winter payments, other measures to promote the construction industry and measures to integrate foreigners.

3) From 1976 to 1983 including special programmes of the federal government (especially the programmes of 10.11.1976 and 16.5.1979).

4) All expenditure of the Federal Employment Institute (incl. federal funds) with the exception of: unemployment benefits, unemployment assistance, bankruptcy allowances (since 1974), administrative costs and other expenditure of the FEI.

Source: ANBA, Annual Statistics (various years), and own calculations.

Table 16 (continuation)

Measure	Expenditure on Early Retirement		Other Expenditure (2)		Total Expenditure on Active Labour Policy in Current Prices (4)	
Year	absolute	in %	absolute	in %	absolute	in %
1970			1 679	72.9	2 305	100
1973			2 106	55.6	3 795	100
1975			1 918	27.6	6 950	100
1976			2 080	38.3	5 442	100
1977			2 607	49.0	5 324	100
1978			2 886	46.2	6 239	100
1979			4 105	50.5	8 130	100
1980			4 953	51.8	9 565	100
1981			5 766	48.5	11 899	100
1982			5 209	43.6	11 964	100
1983			4 239	36.0	11 786	100
1984	0.2	0.0	4 372	38.5	11 355	100
1985	95	0.8	4 335	37.4	11 597	100
1986	289	2.2	4 620	34.4	13 420	100

for the expansion of active labour market policy: Their share in total spending was 75 percent in the mid-eighties compared to only 25 percent in 1970.

The doubling of the weight of active labour market policy is also reflected in the number of participants. Their share in total employment increased from 0.8 percent to 2 percent. Table 17 illustrates the quantitative impact of individual instruments which in general follows the pattern of total expenditures. In the last paragraph of this chapter, we will focus our attention on the cost-effectiveness of the expenditures with respect to employment impact.

If one divides the set of measures into general measures for employment promotion and into specific measures for labour market training, a shift in favour of general measures of employment promotion can be observed. In 1970 the ratio was about 1:3, whereas in 1985 the number of participants was nearly 1:1. This was mainly due to the increasing number of temporary public job creation programmes and measures in vocational rehabilitation; the latter category, however, only represents in part a real increase of activities in this area; partly it reflects a shift of responsibility from different social insurance agencies to the Federal Employment Institute.

In comparison with other OECD countries where training programmes are concentrated on youth, in Germany they are carried out mainly for the adult working population. The share of young persons (under 25) in those measures even fell from 34 percent in 1973 to 29 percent in 1985.

In the sphere of general employment promotion a trend in favour of the young can be found. On the one hand, the number of participants in job training programmes tripled (mainly persons without compulsory school degree or apprenticeship are concerned, i.e. in a wider sense educationally handicapped persons with difficulties in becoming inte-

Table 17: Number of Participants in Different Labour Market Policy Measures under the LPA in Thousand

Measure	1970	1973	1974	1975	1976	1977	1978
On-the job training (a)	-	1.5	2.1	3.6	3.3	4.5	6.6
Temporary public job creation (b)	1.6	1.5	3.2	15.8	28.8	37.7	37.3
Disability workshops (c)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Handicapped in vocational preparation and promotion measures (d)	19.2	30.6	37.4	40.7	40.0	41.8	41.3
Settling-in-allowance (e)	n.a.	6.6	10.1	37.9	57.9	103.2	96.5
Youth (under 25) in completing vocational preparation courses (f)	n.a.	10.4	13.0	18.2	27.7	28.0	26.6
Youth (under 25) in ABM measures	-	-	-	-	-	-	13.9
Employment Promotion thereof		50.6	65.8	116.2	157.7	215.2	222.2
Vocational rehabilitation		30.6	37.4	40.7	40.0	41.8	41.3
Further training and vocational training (g)		180.0	186.9	187.9	122.1	104.8	121.5
thereof youth under 25		61.0	64.7	63.1	22.2	27.5	33.8
Total		230.6	262.7	304.1	279.8	389.3	343.7
in % of total employment		0.8	1.0	1.1	1.1	1.5	1.3
Unemployment rate	0.8	0.8	1.6	3.6	3.7	3.6	3.5

Notes:

- (a) Stock at the end of December.
- (b) Yearly average number, concerning all participants under 25 regardless of whether from full-time or part-time measures; about 10 % of all participants are part-time employed.
- (c) Stock at the end of the year.
- (d) Until 1981 sum of completed rehabilitations; from 1981 onwards (due to changes in statistics: stock of rehabilitants in vocational rehabilitation at the end of the year (without disability workshops), therefore time series not fully consistent).
- (e) Total number for the year.
- (f) Participants in vocational training measures (basic vocational courses, promotion courses, measures for vocational preparation of young foreigners (until 1974/75 including measures for handicapped in disability workshops)); the numbers always refer to the sample period from October 1st to September 30th, and were registered in the second year mentioned, for example the participants in 1980/81 were registered under 1981.
- (g) All participants (full-time and part-time) at the end of December (excl. on-the-job training).

n.a. = not available

Source: BA, Sonderheft Berufsberatung, various years.
 BA, Sonderheft Förderung der beruflichen Bildung, various years.
 OECD 1986 Labour Force Statistics 1964-1984, Paris, p. 232
 OECD 1987 " " " Quarterly, No. 4, p. 36

Table 17 (continuation)

Measure	1979	1980	1981	1982	1983	1984	1985
On-the job training (a)	9.9	10.4	3.1	3.9	6.9	5.8	9.7
Temporary public job creation (b)	37.9	30.7	28.3	21.3	29.4	46.1	57.0
Disability workshops (c)	n.a.	n.a.	11.0	8.2	9.5	10.0	12.3
Handicapped in vocational preparation and promotion measures (d)	49.8	54.0	60.4	64.7	68.2	68.7	71.2
Settling-in-allowance (e)	84.1	64.7	26.0	23.7	31.2	35.9	42.2
Youth (under 25) in completing vocational preparation courses (f)	22.5	25.3	29.9	29.0	26.4	30.3	29.2
Youth (under 25) in ABM measures	13.3	10.6	10.2	7.9	15.3	24.8	30.0
Employment Promotion thereof	217.5	195.7	168.9	158.7	186.9	221.6	251.6
Vocational rehabilitation	49.8	54.0	71.4	72.9	77.7	78.7	83.5
Further training and vocational training (g)	142.4	166.7	195.6	197.6	202.3	215.8	236.0
thereof youth under 25	40.7	48.5	57.5	58.1	42.9	64.5	68.0
Total	359.9	362.4	364.5	356.3	389.2	437.4	487.6
in % of total employment	1.3	1.3	1.3	1.3	1.4	1.6	2.0
Unemployment rate	3.2	3.0	4.4	6.1	8.0	8.5	8.6

Figures in row (d) (until 1981), (e) and (f) do not count stocks at a specific time or on the average of the year but accumulated cases per year; sums of participants, therefore, are methodologically not consistent; under the assumption, however, that the time period of individual measures does not deviate radically from the average of one year, the summation of participants represents fairly the rough size of all measures. Furthermore, not all items (e.g. item (b) and (g)) always represent full-time equivalents; caution should be taken, therefore, in interpreting of Table 17.

grated into the labour market); on the other hand, the share of the youths (under 25 years) in temporary public job creation (ABM) increased from 27 percent in 1983 to 34 percent in 1985.

In contrast to Sweden, the share of sheltered working places for handicapped persons (disability workshops) as a part of employment promotion is marginal. The main target groups are mentally handicapped persons. The emphasis of employment promotion for handicapped is on measures to integrate them into the regular labour market. They include vocational rehabilitation, settling-in-allowance in the form of wage subsidies, and quota regulation for enterprises with at least 16 employees (for details see Semlinger/Schmid, 1985).

Apart from the instrument of short-time working (see Flechsenhar, 1979; Schmid/Semlinger, 1980), the following chapters provide scattered information on the outcome of active labour market policy measures. What evidence of their efficiency can be found? In particular we will focus our attention on labour market training, an area in which evaluation research supplies relatively good information. Impact evidence for the other instruments is scarce, especially related to most recent developments.

6.2 Adult Vocational Labour Market Training⁹

Before considering labour market training in Germany, some comments on the vocational training system are necessary. The "core" of the German labour force are "Facharbeiter" (skilled workers) who play a central role in the management of structural and technical change and in coping with challenges of international competition. "Facharbeiter" are trained in the so-called "dual system". Apprentices who are recruited at the age of 16 or 17 are trained on-the-job in firms for two or three years, at the same time attending vocational schools on a part-time basis (8-12 hours per week) or alternatively on a full-time basis for a couple of months. Apprentices receive a training

⁹ This section relies partly on Bruche/Reissert 1984.

grant in the order of one third to one half of the regular wage for skilled workers in the respective industry. At the end of the training period the apprentice has to pass an examination conducted by an external commission and receives an official certificate of qualification. In 1983 about 680,000 new apprentices were recruited, which corresponds to about 2.5 percent of the labour force. Above 70 percent of all young people between the age of 15-17 years join the dual system.

In view of the increase of this age group (due to demographic trends) employers and trade unions have increased their commitment to apprenticeship. In addition, the Federal Government has repeatedly appealed to employers to fulfill their duty to train young people. Furthermore, state (Länder) governments supported additional apprenticeship places with subsidies. The result was a significant increase of apprenticeship opportunities. By international comparison, West Germany has relatively low youth unemployment. Although the reasons for this fact are complex, it can be essentially explained by the "dual system". As a consequence, West Germany's labour training programmes have not developed into "compensatory training" for youth to the same extent as in Sweden, Great Britain or the United States.

The central role of the "Facharbeiter" in the manpower planning of German companies has been shown in a number of studies (e.g. Windolf/Hohn, 1984). It has been observed, for example, that very often not the functional skills per se make "Facharbeiter" so attractive for German firms, but rather extrafunctional qualifications such as responsibility, exactness, reliability and flexibility. Large companies - which can offer attractive wages - often employ skilled workers at semi-skilled jobs; for instance bakers often find such jobs in the chemical industry. At the same time enterprises with this strategy pursue the aim to implement changes in production by internal manpower adjustment. Therefore cost-intensive "hiring and firing" is avoided. In exchange for the flexibility and/or readiness to work

in unskilled or semi-skilled jobs, firms tend to offer their skilled workers a comparatively stable employment perspective and a high degree of employment security.

Only against this background of a well-established and largely successful primary vocational training system, the role of adult labour market training can be understood. Problems like poverty, the existence of particularly disadvantaged groups with serious employment handicaps, literacy problems, school drop-outs are much more marginal in Germany than in the United States, where they were responsible for the introduction of public manpower programmes in the late 1960s. Following the concepts of "recurrent education" and "life-long learning", training was viewed as a means to facilitate structural change and as a way of promoting the occupational mobility or raising the overall qualification level of an already well-trained workforce. Only as a consequence of the rapid increase of unemployment, in the mid-seventies, occupational further training was partly reoriented to become an instrument for the placement of the unemployed and, to a certain extent, for disadvantaged groups. During this period the concept of recurrent education was complemented with the notion of "stockpile training" (Bildung auf Vorrat) in times of economic slackness.

The development in the number of entries into labour market training in the short-term shows an counter-cyclical use of training programmes (see Table 18), in the medium-term, however, a pro-cyclical tendency (see Figure 8)).¹⁰ Although further training has maintained its dominant share as a percentage of all entries into labour market training (70-80 percent), a major shift has taken place within this category. In the early seventies more than two-thirds of all entries into "further training" were aimed at training for career advancement, whereas the share decreased to one third in 1983. This development can be interpreted as a result of changed eligibility criteria, which have increasingly favoured unemployed workers and discouraged

¹⁰ For an explanation of this pattern, see the remarks on the financing structure on page 8 ff.

Table 18: Entries into Public Training Programmes under the Employment Promotion Act by Type of Programme

Year	Entries into Training Measures (Thousands)							
	Further Training		Retraining		On-the-Job Training		Total	
	abs.	in %	abs.	in %	abs.	in %	abs.	in %
1970	117	69	23	13	30	17	170	100
1973	185	82	31	14	10	4	226	100
1975	216	80	37	14	17	6	270	100
1977	101	74	20	15	15	11	136	100
1979	150	71	31	15	29	14	210	100
1981	215	77	47	17	17	6	279	100
1983	244	80	42	14	20	6	309	100
1985	337	82	45	11	28	7	409	100

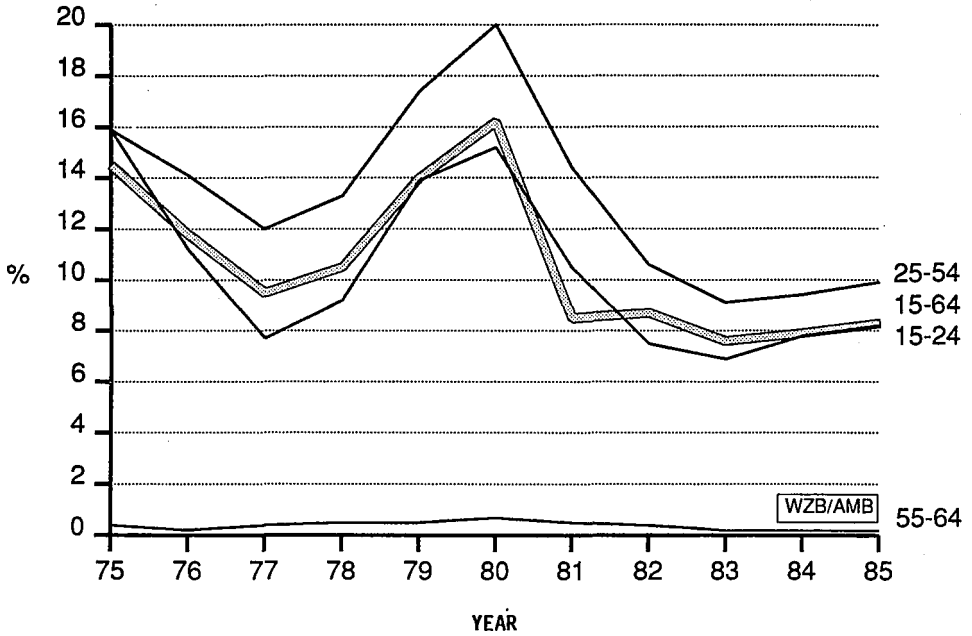
Source: ANBA, No. 3, various years.

Table 19: Entries into Public Training Programmes under the Employment Promotion Act, by Characteristics of Participants

Year	In % of All Entries	
	Previously Unemployed	Without Vocational Qualification
1970	11	20
1973	6	14
1975	31	20
1977	39	18
1979	43	20
1981	47	34
1983	64	28
1985	66	29

Source: FuU

**Figure 8: Participants in Measures of Labour Market Training
(Without Internal Company Training) in % of Unemployed
1975-1985 (End of September)**



potential participants who are still employed (Table 19). Moreover, Table 19 shows that the explicit aim to involve more unqualified employees in these measures, could only in part be realized. In the mid-eighties the share of entrants into labour market training who had no vocational training was about 30 percent, whereas in 1975 it was only 20 percent. These numbers have to be seen against the background that about half of all unemployed have no vocational training.

6.2.1 Is Labour Market Training (Cost-)Effective?

Before presenting an evaluation of training programmes, it should be pointed out that the approach of measuring pre- and post-programme earnings of programme participants compared to non-participants as an indicator for the success or failure of a programme have never played a central role in German evaluation studies. Apart from the fact that evaluation research is underdeveloped in Germany, the limited availability of longitudinal data would certainly make such measurements very difficult. Another reason for the reluctance to use this approach, however, seems to lie in the different objectives of German training programmes in comparison with US training programmes. The primary objective (in Germany) is not to raise the productivity and income of disadvantaged persons, but rather to facilitate structural change and to avoid structural unemployment. If the trainees are later employed in the occupation for which they have been trained, this is considered a success regardless of whether they earn more or less than before. In addition, one should not forget that the German wage system is much more collectively regulated and allows much smaller wage differentials than the American system, so that a different "human-capital" endowment is less likely to be reflected in a different wage in Germany than would be the case in the United States. This holds true to an even greater extent for Sweden which is characterized by a solidaristic wage policy. This remark does not mean that earnings should not be used as criterion of success for training programmes. On the contrary, the ideal measure would be yearly earnings which include all essential components for indicating success: weeks employed x hours per week x wage rate per hour (Björklund 1986).

Evaluation studies on the impact of training programmes are mainly based in Germany on administrative data from various sources: rather detailed statistics on the participants in training programmes, statistics of unemployment benefit recipients, yearly statistical surveys by the Federal Employment Institute on all registered persons, unemployed as well as dependent employees. During the seventies special sample surveys were also conducted, but this approach was abandoned in favour of a system connecting selected sample surveys and panel data with the sources indicated above.

The available empirical data as well as a number of earlier evaluation studies (Hofbauer, 1981; Hofbauer/Dadzio, 1984) have to be interpreted carefully in view of methodological deficits. Some essential results of these studies are:

- In 1980, 18 percent of all participants (23 percent in 1983) dropped out of the programmes or did not pass the examination. The share of drop-outs was particularly high among the least qualified persons. This result has led the Federal Employment Institute to stress on pre-training measures such as intensive counselling and motivation courses for this category of potential training participants.
- Several studies indicate that training increases the job prospects of the unemployed. This is reflected, above all, in a shorter duration of unemployment in comparison with non-participants. By using various data from administrative statistics which allow controlling the impact of other social-structural variables, Hofbauer proves the effectiveness of vocational further training for old (i.e. above 45 years) as well as for the least qualified unemployed. The positive impact of labour market training on the reintegration chances of older and long-term unemployed has also been shown in a panel study of unemployment between 1978-1982 (Büchtemann/Infra-test, 1983).

- Studies demonstrate that one or two years after graduating from the training programme, about 70 percent of all participants were employed in the occupation for which they had been trained. This share tends to increase with the time which has elapsed since completion of the training (Hofbauer, 1981).

Can these relatively positive results, which were valid for the late seventies and early eighties, be confirmed for the present time, i.e. in a situation of higher unemployment? The latest study by Hofbauer and Dadzio (1987) follows the vocational path of those persons who had completed a vocational training course promoted by the FEI in 1982 compared to those persons ("control group") who had started such a training course but dropped out within one month for other reasons than incompetence for training. The basic result of their analysis is that two years after completion of the training course 56 percent of all participants who were unemployed prior to taking part in the programme were employed (and covered by social security) as compared to 41 percent of those who early dropped out of the training course.

In view of the fact that this result alone does not tell much, the researcher observed the vocational situation after completing a training programme in relation to the type of training (a), sex (b), age (c), nationality (d), education (e), vocational training (f), occupational status prior to training (g), duration of unemployment (h), duration of training (i), organisation of training (j), and the unemployment rate at the place of residence (k).

(a) Type of Training

On-the-job-training grants, which are provided by the FEI, amount to a 78 percent guarantee for the unemployed to be employed within two years. A higher success rate (84 percent) applies to participants who were employed before training.¹¹ Further training has a lower rate of

¹¹ Admittedly this "success rate" does not provide any information on dead weights, i.e., how often employers would have hired and
(Fortsetzung Fußnote)

success. In a training firm or a training workshop the success rate of 43 percent or 29 percent for the unemployed, and 55 percent or 43 percent for the employed, is evidently lower. With regard to professions, the training to become a technician or a business administrator is the best "protection" against unemployment after training. Retraining has a 59 percent success rate for the unemployed and about 75 percent for the employed.

(b) Sex

Between both sexes there is no significant difference in "success rates".

(c) Age

The older the unemployed, the more difficult it is for them to find a job after labour market training. Among participants who were not unemployed before training, age makes no difference.

(d) Nationality

Unemployed emigrants profit most from further training (62 percent), whereas Germans show the highest "success rate" among the employed (81 percent).

(e) Education

The higher their school degree the better are the chances for the unemployed to find work after training. Persons employed before training and with a secondary school degree have the best chance of finding work after training.

(Fortsetzung Fußnote von vorangegangener Seite)
trained on-the-job without grants. Furthermore the "success indicator" does not supply any information on the quality of on-the-job training.

(f) Vocational Education

Vocational training in a firm and the attendance of a technical college or university seem to be the best condition to be re-integrated into the working life after training. For employees intending to improve their job situation, the attendance of a training college (84 percent) or a master and technician school (85 percent) is the most important precondition for being re-integrated. Without any vocational training only one in two persons is able to re-enter working life.

(g) Occupational Status Before Training

Facharbeiter (skilled workers) and white-collar workers (if they were unemployed before) have the least reason to fear unemployment after completing training.

(h) Duration of Unemployment

The longer the duration of unemployment before training, the more difficult it is to find a job after training.

(i) Duration of Training

The longer the training programme, the sooner the formerly unemployed find a job within two years after training. The differences, however, are not relevant. There is also no significant difference among persons who were employed before training. Long training, however, increases the chances of upward mobility when persons are getting a job after training.

(j) Organisation of Training

Training for the unemployed, which is carried out in enterprises, is more successful than external training (67 percent and 54 percent, respectively). Among participants who were formerly employed there is no difference.

(k) Unemployment Rate at the Place of Residence

The higher the unemployment rate at the place of residence, the more difficult it is for the unemployed to find a job after training. There is no difference between formerly employed persons.

In sum, the effectiveness of labour market training measured by the criterion of labour market integration has declined as a result of the deterioration of labour market conditions. It is, however, by and large, still impressive. The "success rate" for the unemployed, who account for an increasing share in labour market training according to the Labour Promotion Act, on the other hand, is considerably lower in comparison with participants who were employed before training. Among the unemployed, those who are long-term unemployed and are living in regions with high unemployment rates are clearly less successful. This would suggest that labour market training should (as much as possible) occur before people become unemployed. In practice, this could be realized - in case of advanced notice - with training measures using, for instance, idle capacities of enterprises and with additional support by external training personnel.

It is also obvious that the "success rate" of particular target groups of labour market policy (these are persons with deficits in primary training, unskilled workers, elderly unemployed, long-term unemployed) is below average. The same study shows, however, that the job prospects of persons with comparable characteristics but without training are considerably more unfavourable (Hofbauer/Dadzio, 1987:133). Thus, labour market training for these target groups makes

sense, too. Among these target groups, re-training seems to be more effective than further training for persons who already have some qualifications.

The question of whether training led to adequate employment was tested by the example of re-trained skilled workers (Facharbeiter). The result was that one fourth of these persons were employed as unskilled or semi-skilled workers after re-training. This is an indicator that the qualification provided is fairly adequate but still needs to be improved.

6.2.2 What Can We Learn From Past Experience?

What lessons can be learned from experiences with advanced training as a key element of active labour market policy? There is no doubt that more further training is necessary; this holds true not so much as a direct measure but as an indirect measure to reduce unemployment or to make the duration of unemployment at least "productive" (increasing the efficiency of the search process or opening opportunities for self-employment). There are two ways to do this: either by increasing the investment in the capacities of public training institutions, or by subsidizing in-plant training and by maintaining control over the transferability of skills. In West Germany the second type of policy might be more realistic in the short and medium term, because the public infrastructure for further training is not as developed as in Sweden. The results mentioned above support this argument and further reasons can be adduced.

All that we know from learning theory and from previous experience with vocational training supports the thesis that the acquisition of productive skills heavily depends on job experience. The demand for labour is not only demand for specific amounts of working hours but also demand for specific qualifications including important extra-functional qualifications such as reliability, responsibility, auto-

nomy and flexibility. Training on the job or under joblike conditions is especially suitable for those most affected by unemployment, namely those without any formal job qualification.

More than half of the unemployed compared to only one third of the employed have no vocational training. Usually, unskilled workers rarely find themselves in situations where they can learn or demonstrate such extra-functional qualifications. In practice, large companies are skimming off the market of skilled blue-collar workers. This is quite common in Germany, because most "Facharbeiter" have acquired the forementioned extra-functional qualifications. The preference for "Facharbeiter" applies even to semi-skilled jobs. This explains in part the imbalance between demand and supply of skilled workers which still plays a substantial role in labour market debates, despite high mass unemployment.

On the other hand, it is known that low wage earners are less motivated with respect to further training and re-training, in particular when the prospects of getting a job are uncertain. On-the-job training and/or training with a job guarantee raises their motivation substantially. How far pecuniary rewards after training (in form of higher wages) stimulate motivation, is a desideratum of research; however, it seems to be evident that there is at least no negative correlation between financial incentives and motivation.

Finally, the theoretical and empirical literature supports the thesis of a systematic underinvestment in "human capital" in view of the uncertainty of obtaining returns on long-term investments in "human capital". Employers react to this "dilemma" by adjusting work organisation requiring as few skills as possible for the mass of employees. Apart from the negative effects of this work organisation with respect to job satisfaction or work intensity, the increasing international competition between countries raises the need for a highly skilled and flexible labour force to cope with the challenge of quality competition induced by increasing markets of non-standardized goods ("flexible specialization") and highly qualified services.

6.3 Wage Subsidies for Hard-to-Place Unemployed

The most important programme for the hard-to-place unemployed is the settling-in allowance ("Eingliederungsbeihilfe"). The quantitative impact of this programme is low compared to labour market training or temporary public job creation programmes. The development of participants (see Table 17) shows two patterns which need to be explained. On the one hand, the periodical increase of participants after the two large recessions, which can be characterized as a "response effect" (Nachhalleffekt); on the other hand, the short boom of this programme in the late seventies and its "depression" in the early eighties.

The response effect can be explained with the theory of "structuring of unemployment" (Schmid, 1980). After the two recessions - i.e. in the phases of upturn - a negative selection of the unemployed takes place during the process of new and re-recruitments. The "good workers" quickly get a new job, whereas the "bad ones" join the stock of "hard-to-place people". The classification into "good" and "bad" unemployed does not have much to do with individual characteristics and nothing with moral judgements. It is the result of an unpredictable interplay of coincidences and self-reinforcing effects.

Indeed, one can find characteristic syndroms, which increase the probability for the unemployed to end up in the "good" or "bad" pot. (These are, for instance, the combination of a lack of qualification, impairments, advanced age). For an individual's fate, however, much depends on good luck, chance contacts and other circumstances (e.g. regional or sectoral labour market conditions). The misfortune of having missed their connection then sticks with these unemployed, the "hard-to-place people". The validity of this theory is proved by the fact that a large part of these people have no problems finding a job and maintaining it - like their lucky competitors in bad times - in periods of economic boom. The policy response to this "structuring process" is the periodical use of wage subsidies with which the Pub-

lic Employment Service hopes to compensate the real and alleged disadvantages of hard-to-place people. With what effect, we will see later.

The second observation, the extreme "go and stop" of the late 1970s and early 1980s, can be explained mainly by politics and implementation. The rapid expansion of the programme in 1977 and 1978 led partly to misuses, especially, however, to large windfall effects. Scientific and public criticisms (e.g. by the Federal Audit Office) gave reason for a political about-turn, which - in retrospect - has to be judged an over-reaction.

Evaluations of settling-in allowances show a contradictory picture. Aggregated impact analyses (for the late seventies) found hardly any positive employment effects and some positive distribution effects for the older long-term unemployed (Schmid, 1980:230-242). These results are confirmed by enterprise case studies and interviews with placement officers (Schmid/Semlinger, 1980:79-89). The reasons for this disappointing result were deadweights (employment of unemployed who would have been hired anyway without wage subsidies); but also rotation and displacement effects (systematic exchange of non-subsidized against subsidized employees).

New evaluations, which concentrate on the individuals remaining in jobs as the success criterion (thereby not taking into account deadweights and displacement effects), show indeed relatively good rates of employment integration with wage subsidies. But they also confirm that many persons can be permanently integrated only if they are funded several times. For instance, one impact study indicates that half the persons affected by wage subsidies were unemployed more than once in the last five years; for 40 percent of them further measures were carried out. This observation gave rise to the notion of "promotion chains" (Förderungsketten) (Kühl, 1987:373; Brinkmann, 1985).

Interesting information came also from the evaluation of the special programme for regions with particular employment difficulties in 1979/80. Apart from experiments with other instruments, this programme tested variations in the regulation of settling-in allowances (Eingliederungsbeihilfen): to be mentioned are in particular the expansion of the eligible group of persons and a slight increase of financial incentives. On the other hand, the programme demanded among others a reinforced administrative control of minimum employment time in enterprises claiming wage subsidies. The control elements turned out to be stronger than the additional incentives. The delicate balance between incentive and control was disturbed. The intention to avoid unjustified use and large windfalls constructed a regulatory pattern which caused many enterprises to avoid the programme. The financial means provided in this part of the programme were not completely exhausted (Scharpf et al., 1982; Semlinger/Lücker, 1983; Peters/Schmid, 1982; Schmid/Peters, 1982).

What general conclusions can we draw from the German experiences with wage subsidies?

The often expressed view that a substantial reduction of unemployment in favour of disadvantaged persons can be reached by wage subsidies - of say about 50 percent (see for instance Solow, 1980:139; Thurow, 1980:108) - is too optimistic, at least as far as the really hard-to-place unemployed are concerned. This holds especially true in times of high unemployment. As several studies show, even with relative generous subsidies, the ability to influence employers' hiring decisions is strongly limited.

Employers are often reluctant to hire persons with a high drop-out risk. These risks cannot be compensated by wage subsidies alone, because they consist of complex and interrelated social phenomena. They are a mixture of skill deficits, lack of self-confidence, unstable work habits and attitudes, which is often related to some kind of minority stigma (e.g. for ethnic or religious reasons, a criminal record) or gender specific prejudices. Job protection is relatively

highly developed in Germany by law and collective agreements. This is usually reinforced by programme conditions which require that jobs induced by subsidies must be held for at least nine months after the end of the subsidized period; this clause is to prevent firms from a quick hiring and firing of subsidized persons. Wage subsidies are thus at best a necessary but not a sufficient condition to solve the problem of hard-to-place people. Employers' risk aversion in face of uncertain demand can probably be counteracted, on the one hand, by regulation of future demand (e.g. through normative standards in the area of environmental protection or energy saving) to guarantee future sales in particular demand areas (Scharpf, 1980); on the other hand, uncertainties associated with "hard-to-place people" could probably be reduced by additional psychological care, intensive counselling, and simulated work experience in training or in industrial workshops (Semlinger, 1982).

A further argument supports this view. It is strange to see how the institutional set up of wage formation is neglected in the discussion of how wage subsidies may work. The assumption is that wages reflect individual marginal productivity, and that wage subsidies should compensate for a lack of individual productivity. This cannot be the case if wages are a function of average group performance, and if the organisation of production requires cooperation within and between groups. For such groups, the entry of persons with real or alleged low productivity and lack of cooperative experience means a reduction in average performance and causes a wage reduction for all other group members. An implementation study (Scharpf et al., 1982) reports several cases where resistance to hiring disadvantaged workers was higher among the employees than among the employers or personnel managers. This resistance can only be overcome if positive expectations and confidence among "insiders" with respect to work performance, cooperation and reliability of the "outsiders" can be raised and reinforced.

6.4 Temporary Public Job Creation (ABM)

ABM played a marginal role during the recession in 1974/75. Then it was extended rapidly and reached its maximum level of 51,000 participants in 1978/79. In the following years ABM was considerably reduced for several reasons; on the one hand for fiscal reasons (the Federal Government tried to reduce its budget deficit by decreasing the grants to the FEI), on the other hand due to increasing fears of substitutional effects. Particularly the trade unions criticized the replacement of regular civil service positions, and the handicraft sector was complaining about reductions of public orders due to ABM projects which took over e.g. the tasks of cleaning public gardens and parks.

This policy turn occurred just at the time when unemployment figures doubled within a very short period (1980/81), i.e. instead of being anti-cyclical, labour market policy reacted again pro-cyclical. After a time lag, ABM were again intensified and considered to be one of the few effective instruments to provide jobs for the long-term unemployed. There is also a very pragmatic reason behind this policy change: The increase of long-term unemployed who exhausted their regular unemployment benefits induced an increase of unemployment assistance which is paid out of the Federal Government's budget. Through increasing unemployment assistance, the Federal Government thus came more and more under financial pressure. This again caused a financial incentive for the Federal Government to get rid of these costs by implementing ABM-measures. The intention was to pass on the costs to the FEI; this strategy is possibly due to the fact that participants in ABM-measures are paid mainly by the FEI and are entitled - after finishing ABM - to unemployment benefits which again is financed by the FEI. Therefore, the number of participants in ABM rose rapidly since 1983, and a figure of 120,000 participants in 1987 is to be expected.

The employment impact of ABM was - at least until 1980 - modest: the unemployment figure was reduced by 0.3 percent. Job prospects of ABM-participants were not too bad in the seventies, but also not overwhelming. Figures on the re-integration into the regular job market vary over time between one third and one half; the share of ABM-participants who were again unemployed after the measure fluctuated approximately between 25 and 50 percent, and the percentage of participants who entered another ABM project was roughly between 5 and 20 percent (Spitznagel, 1979; 1980). The intended distributional effect to provide work mainly for hard-to-place people was partially met: persons with several disadvantages were overrepresented while women and long-term unemployed were underrepresented. The composition of participants in ABM since 1980 may have changed more in favour of these target groups. Strangely enough no comprehensive evaluation of this scheme is available for the 1980s.

An indication for an improved distributional effect is given by the structure of ABM work places. It shifted gradually in favour of social services and administration, which are mainly suitable for young women who are especially affected by unemployment.

Temporary public work creation was intensified in connection with the special programme for targeted regions with particular employment problems 1979/80 (Scharpf et al., 1982). In this programme strong emphasis was given to providing jobs in areas of social services and social infrastructure. The wage subsidies were raised to 100 percent and the subsidy period was increased to two years (possibly to three years by an additional support in Northrhine-Westfalia). Evaluation studies indicate that this programme was presumably more successful than its permanent legal counterpart. However, it must also be pointed out that with this experimental programme about 40 to 50 percent of regular public ABM were replaced. The programme was successful in finding new sponsors, especially among non-profit organisations. The most promising projects are found within the area of social services, an area which is especially suitable for women seeking part-time work and for young unskilled workers. The substitution of regular employ-

ment was estimated to have been low, basically due to the strict criterion of "additional" work and to the control exerted by works councils and trade unions (Hellmich, 1982; Maier, 1982).

A rough assessment of ABM in the 80s is offered by Spitznagel (1985a). Following his information one can conclude that after completing ABM (May, June 1984) 56 percent of all participants after the measure were again unemployed, among them more men than women. 44 percent got regular jobs by their sponsors, were placed in other jobs, started a training course, or went into the "silent labour reserve". One third of those who were again unemployed, found a job after an average six months of unemployment either by placement or on their own initiative.

Unemployment, thus, could be avoided by the majority of participants of ABM during or after some time of the programme. Only one fourth of all participants is - after a longer intermediate stage of unemployment - again in an ABM project. Under the assumption that ABM participants - who after finishing the programme are not registered as unemployed - end up to 60 percent in regular employment, one can conclude that half of all ABM participants are sooner or later reintegrated into regular employment.

As far as the cost efficiency of ABM is concerned, to which we turn later in more detail, the following can already be stated here: Even under restricted assumptions, ABM are self-financing measures at least up to two third, due to savings of unemployment benefits and social assistance as well as revenues from direct and indirect taxes and social security contributions (Reissert/Scharpf/Schettkat, 1986:19 f.).

Ernst and Soltwedel (1985) call in question the realism of such cost comparisons between ABM and unemployment. Referring to deadweights and substitution effects, they also maintain that the linking of ABM-wages to collective agreements obstruct the necessary downward adjustment of wages, and they have doubts about the marketability of

qualifications acquired by ABM-participants. Finally, they bemoan the waste of capital, the role of the state as "permanent repairman", and therefore demand a radical reconsideration of ABM.

These and other criticisms are also not based on a complete evaluation analysis. Their demand for lower and more flexible wages overlooks the fact that ABM participants in fact earn 20 percent less than the average employee and even 30 percent less than an average industrial worker, even though they are paid according to collective agreements. The empirically proved cost-equivalence of ABM compared to the costs of unemployment (i.e. the at least two-thirds self-financing) does not even take into account the intangible costs of unemployment such as detrimental psycho-social and health consequences, dequalification, "system dangers" (crime, riots), as well as the value of produced goods and services for its argument in favour of ABM. Deadweights and substitution effects have been largely brought under control by the involvement of works councils and administrative checks. The desired coupling of ABM jobs with labour market training (to some extent already realized) would in addition be useful to avoid deadweights and displacement effects, and to provide long-term permanent employment (Bolle, 1986; Kühl, 1987; Reisert/Scharpf/Schettkat, 1986).

6.5 Cost-Efficiency of Active Labour Market Policy

Unemployment places a substantial financial burden on public budgets and parafisci (FEI, social insurance). An effective labour market policy, which reduces the numbers of unemployed, therefore leads to a substantial financial relief of the respective institutions, too. The real public costs ("net costs") of active labour market policy thus can only be recognized if one subtracts from the programme costs ("gross costs") the costs of unemployment which otherwise would have occurred. Apart from the assessment of programme costs (direct as well as indirect) an estimate of unemployment reduction by labour market policy is necessary. By this procedure we obtain a measure of cost-efficiency which is only the first step for a complete cost-benefit-analysis. Such an efficiency analysis, however, is not feasible for various reasons: a large part of costs (intangible costs of a social-psychological kind, indirect micro- and macroeconomic effects) and benefits (social-psychological benefits, allocational and distributional effects, indirect macro-effects) are not measurable.

Therefore we will restrict our analysis in the following to answer three questions:

- (a) How large is the labour market "relief effect" through active labour market policy? In other words: How many people would have been unemployed without any measures?
- (b) What are the gross costs per avoided unemployed?
- (c) What are the net costs per avoided unemployed? In other words: What is - taking the measurable costs and benefits into account - the additional financial burden on public budgets and parafisci?

We will also not deal with a further question which one could ask in view of available data, namely the institutional distribution of monetary costs and benefits between Federal Government, states (Länder), municipalities, and parafisci. Such information would provide clues with respect to fiscal incentives for promoting active labour market policy (information on this question is provided in Bruche/Reissert, 1985 and Schmid/Reissert/Bruche, 1987). However, in the final chapter we will come back to this point in the context of institutional barriers of active labour market policy.

(a) Reduction of unemployment by active labour market policy

The reduction of unemployment by active labour market policy ("relief effect") as the number of persons (in full-time equivalents) who would probably become or remain unemployed in the absence of any measure of active labour market policy. Table 20 includes an estimate of relief effects for the main instruments of active labour market policy between 1974 and 1985.¹² The main results can be summarized as follows:

- 1) The total estimated reduction of unemployment increased from 136,000 (1974) to 322,000 (1985), measured as percentage of civilian employment from 0.5 to 1.2 percent.
- 2) The dynamic of "labour market relief" by active labour market policy corresponds to the above described cyclical effect of the respective policy instruments: strong pro-cyclical movements (measured by the unemployment figure) with respect to short-time working; a mixture of pro- and anti-cyclical movements (Stop-and-Go policy) with respect to labour market training; anti-cyclical reactions with respect to settling-in allowances and ABM.

¹² The method for the estimates, which are partly similar to those of the IAB, can be found in Schmid, 1982b.

Table 20: Cost-Efficiency of Selected Labour Market Policy Measures 1974-1985

	1974	1975	1976	1977	1978	1979
Estimated Reduction of Unemployment in 1000 (1) by						
- Labour Market Training (Full-Time Equivalent) (2)	79	93	75	54	52	60
- Settling-in Allowances (3)	3	10	15	26	24	22
- Short-time Work (4)	48	147	63	36	33	19
- Temporary Public Job Creation (ABM) (5)	6	30	58	61	77	75
- Early Retirement (6)	-	-	-	-	-	-
Total Red. of Unemployment	136	280	212	177	186	176
Costs per increased or Protected Work Place in DM and Current Prices (7)						
- Labour Market Training	31.559	33.714	29.122	23.993	25.477	31.213
- Settling-in Allowance	7.416	12.361	14.609	11.624	20.828	29.402
- Short-time Working	18.522	18.484	18.538	18.829	19.701	18.459
- Temporary Public Job Creation (ABM)	7.076	5.200	3.468	10.857	11.263	14.446
- Early Retirement	-	-	-	-	-	-

Source: ANBA Jahreszahlen, various years; IAB (Autorengemeinschaft) in MittAB 3/86:372, 4/83:344, 4/85:409; own calculations.

- (1) Estimated as the impact of reducing registered unemployment by the respective policy instrument.
- (2) According to IAB-calculation: Sum of participants who have been unemployed before training plus 2/3 of participants who have been employed before training, assuming they are replaced by unemployed to the respective amount (or prevent impending unemployment).
- (3) Own estimate assuming (according to earlier results) 25 % of participants as net employment effect; 75 % would have been hired anyway.
- (4) Equals 2/3 of full-time equivalent, assuming 2/3 of otherwise dismissed persons would have been registered as unemployed, 1/3 leaving for the "silent reserve".
- (5) Calculated according to IAB: Sum of participants plus 2/3 of indirect employment effect (via multiplier).
- (6) According to IAB number of early retirements subsidized by FEI.
- (7) Yearly expenditures by FEI for respective measure divided by estimated reduction of unemployment. Figures are related to gross costs and do not take into account indirect costs or benefits (e.g. payments for unemployment benefits which would have been paid for otherwise unemployed, direct or indirect tax effects).

Table 20 forthcoming

	1980	1981	1982	1983	1984	1985
Estimated Reduction of Unemployment in 1000 (1) by						
- Labour Market Training (Full-Time Equivalent) (2)	74	92	103	105	114	120
- Settling-in Allowances (3)	16	7	6	8	9	11
- Short-time Work (4)	30	72	141	151	92	63
- Temporary Public Job Creation (ABM) (5)	59	55	40	60	95	116
- Early Retirement (6)	-	-	-	-	-	12
Total Red. of Unemployment	179	226	290	324	310	322
Costs per increased or Protected Work Place in DM and Current Prices (7)						
- Labour Market Training	31.034	32.803	29.296	24.861	23.273	23.296
- Settling-in Allowance	35.864	62.242	30.529	17.440	19.563	16.198
- Short-time Working	15.708	17.122	14.449	18.033	16.867	16.532
- Temporary Public Job Creation (ABM)	17.380	18.389	22.167	18.136	16.078	16.213
- Early Retirement						6.713

3) Some shift in the weight of each instrument took place: While short-time working carried about one half of all relief effects in 1975 as well as in 1982, the share of instruments which affect long-term unemployed - namely settling-in allowances and ABM - increased (response effect) to 54 percent (1978) three years after the first recession; after the second recession - with a substantial higher share of ABM - it was only 40 percent (1985). Correspondingly the share of training measures increased from 28 percent (1978) to 37 percent (1985). This shift also corresponds to the diagnosed increasing importance of qualification-mismatches (see chapter 4).

(b) The Development of Direct Gross Costs

Under "direct gross costs" we understand the direct expenditures by the FEI (e.g. payments for training stipends and fees for labour market training, wage subsidies for hard-to-place people or for ABM) per avoided unemployed (full-time equivalent). On the assumption that the "relief effect" per promoted employee is constant over time, these gross costs are a rough indicator for whether the labour market measures became cheaper or more expensive; in other words: whether they have been more or less cost-effective over time. The assumption of constant employment effects is to a large extent correct for measures such as labour market training, settling-in allowances and short-time working. In contrast, the "relief effect" of ABM has certainly diminished over time due to the increasing concentration of ABM on labour intensive social services and administrative tasks with little indirect employment impact (additional services and/or investments). With respect to ABM, therefore, cost increases corresponding to the decreasing employment impact are to be expected.¹³ Other possible factors responsible for the change of direct gross costs are especially the changing structure of participants (e.g. the increasing share of youth unemployed) and changing regulations (e.g. the reduction of training stipends or wage subsidies).

¹³ Corresponding adjustments of the direct gross costs displayed in Table 20 could be made.

Table 20 displays the estimate of direct gross costs for the respective individual instruments from 1974 to 1985. The main results can be summarized in the following way:

1. There is surprisingly a tendency toward cost equalization: While labour market training was about four times as expensive (for the FEI) as ABM and twice as expensive as the short-time allowances in 1974, it only cost about 40 percent more than the two other mentioned instruments in 1985.
2. The cost-efficiency of labour market training displays a curious pattern: Direct gross costs have their peak in recession years (1975, 1981) and their low in economic upturns (1977, 1984), whereas the average cost level is constant over the time. The causes for this pattern can be related to the following factors: changes in the participation structure and implementation. When the crisis in the labour market reaches its peak, employment agencies supply the better off and more qualified unemployed with training measures; in addition, self-selection processes probably reinforce this tendency. After recessions, cost pressures require financial restrictions of all kinds, and the deteriorating structure of unemployed (with low qualification and income) lead to cheaper qualification measures. As long as these structural factors cannot be controlled statistically, increasing or decreasing gross costs cannot be interpreted as a measure of decreasing or increasing cost-efficiency of labour market training.
3. Settling-in allowances costs exploded in the late 1970s and early 1980s. It could be that the assumption concerning constant "relief effects" distorts costs calculations; i.e., when the reduction of unemployment per promoted participant was considerably higher between 1979-1981 than during the previous years. There are, however, no strong arguments for such a change in employment impact. Also no important shifts in the structure of participants, which could explain the cost jump, are visible. The figures speak rather

for a clear deterioration of cost-efficiency. This was probably one of the reasons for using this instrument more carefully in the 1980s. Evidently this led to an improvement of cost-efficiency.

4. Direct gross costs of short-time allowance do not show big jumps. On the whole there seems to be even a slight improvement of cost-efficiency considering the decreasing tendency of gross costs for which no plausible structural factors exist.
5. Direct gross costs for ABM increased gradually from 1976 to 1982. After that, they fell slightly. Responsible for the strong increase of costs partly was the decreasing "relief effect" per promoted participant due to the reasons mentioned above. Whether the remaining part of the increase in direct gross costs can be explained either by structural factors or by real cost increases needs further analysis.
6. The total direct gross costs - of all instruments displayed in Table 20 - were 3.7 bn DM in 1974 and 6.4 bn DM in 1985 (both in constant 1980 prices). Related to the respective sum of "relief effects", the direct gross costs per avoided unemployed amounted to about 25,000 DM for 1974 and to about 19,000 DM (both in constant 1980 prices) in 1985. With all reservations that have to be applied to these estimates, the following conclusion nonetheless seems to be justified: the cost-efficiency of active labour market policy has improved rather than deteriorated.

(c) Net Costs of Active Labour Market Policy

A cost-efficiency analysis of active labour market policy cannot be restricted to an estimate of direct gross costs. It has to consider also indirect costs (mainly the effects on taxes and social insurance) which then have to be compared with the alternative costs of unemployment. Only then do we get the net costs and can come to the decisive question: To what extent are the measures of active labour market policy self-financing?

Net calculations of the aforementioned kind are currently presented by the IAB (see for instance Spitznagel, 1985b) and slightly modified by the Wissenschaftszentrum Berlin für Sozialforschung (Science Center Berlin) (see for instance Bruche/Reissert, 1985). We can restrict our remarks, therefore, to a summary of the most important results. We quote mainly the calculations by Bernd Reissert (Bruche/Reissert, 1985:98 ff.). These calculations refer to the years 1981, 1982. In principle they are still valid for recent developments.

1. There are practically no net costs (additional costs) of ABM for the total of public budgets in general; the measures are self-financing through savings and additional revenues (mainly unemployment benefits for otherwise unemployed and additional income taxes). Only when the programmes are extended largely for those unemployed who are not entitled to benefit, some net costs in the size of about one third of the programme costs would arise (Reissert/Scharpf/Schettkat, 1986).
2. Public programme costs for labour market training are balanced by two-thirds through the reduction of costs which otherwise would occur. The net costs (additional costs of labour market training) thus are one third of gross programme costs.
3. Public gross costs of short-time working are lower than costs which would arise in public budgets without short-time working. Consequently short-time working does not result in net costs but rather in a financial relief of public budgets.

These summary of net costs with respect to the three main instruments of active labour market policy are based on calculations which include substantial uncertainties. This holds true, for instance, for the estimate of employment and labour market "relief effects" of active policy measures which are incomplete and uncertain in the present state of evaluation research. Furthermore, the calculations of budget reliefs and burdens by different labour market policy mea-

asures are difficult to compare assuming even correct estimates of their employment impact. This is due to the different time horizon of the measures' effectiveness (some are short-term, others are long-term); the underlying cost calculations, however, cover only short-time periods (here one year). The results presented above should therefore be interpreted with caution. Yet they provide grounds for concluding that an effective active labour market policy does not only charge the public budgets, but also leads to substantial budget reliefs by avoiding unemployment costs and by increasing tax revenues. In some cases active labour market policy can - apart from intangible costs and benefits - even be cheaper than unemployment.

7. INSTITUTIONAL AND POLITICAL BARRIERS FOR ACTIVE LABOUR MARKET POLICY

The evidence presented on the effectiveness and cost-efficiency of active labour market policy has brought to light many positive and encouraging results but also enormous deficits. The latter holds true particularly with respect to distributional effects. Labour market policy has not been able to guarantee the losers in recent labour market history - women, guestworkers, inadequately trained or educated youth, handicapped - adequate support to compensate their disadvantages. Often the programmes even favour the strongest among the affected persons instead of concentrating on the weak. Even if such a strategy might seem preferable for efficiency reasons, a corresponding strategy, namely the compensation of the losers e.g. by generous transfer payments, does not exist. Claims for unemployment benefits expire first for the losers, or they are not sufficient or even non-existent. The quantitative employment effect of active labour market policy is also marginal in the face of persistent high unemployment. Of course, there are other strategies on the agenda to solve the problem of mass unemployment: an employment oriented fiscal and monetary policy as well as a faster reduction of working time.

Nevertheless labour market policy is better than its reputation. Placement services and counseling activities by employment agencies help to speed up labour market balancing processes. Training measures support occupational adjustments to new job requirements, thereby inducing a higher productivity level for the national economy. The re-employment rates of labour market trainees are not bad. Temporary public job creation programmes spare many people the fate of long-term unemployment. Furthermore, they improve the economic and social infrastructure of many municipalities. Vocational rehabilitation measures for many guarantee the re-integration into the labour market. Short-time working distributes the costs of labour market adjustment on numerous shoulders (instead of on a smaller number of laid-off or dismissed workers) and preserves vocational and firm specific human capital. The modest, yet respectable increase of active labour market

policy led neither to a visible reduction of effectiveness nor to a deterioration of cost-efficiency. The scope for action of German active labour market policy seems to be by and large not yet exhausted.

The question which arises now from the analysis is: Why did the responsible politicians in West Germany not decide on a more consistent full-employment strategy with a much stronger expansion of active labour market policy? This difficult question cannot be answered definitively given the present state of research. Nevertheless, we are not only dependent on "informed speculation." The analysis of the financing system of labour market policy as well as a look at the political decision making and interest structure offer some clues with respect to the argument that institutional structures and power relationships prevented an expansive use of active labour market policy in West Germany. These indications can be summarized in two hypotheses: (1) the thesis of institutional incongruity in the German financial constitution, and (2) the thesis of decision-making blockades by antagonized policy interests.

(1) The thesis of fiscal incongruity includes two interrelated facets: on the one hand, the incongruity between the overwhelming financing of active labour market policy by contributions and the external effects of active labour market policy which go beyond the narrow circle of contributors; on the other hand, the horizontal as well as vertical incongruity between the burden and the relief of public budgets through labour market policy.

The Swedish model (Meidner/Hedborg, 1984) supplies us with illustrative material on the institutional conditions for an offensive use of active labour market policy. In a comparative analysis of financing systems of other countries these conditions were theoretically and empirically confirmed (Schmid/Reissert/Bruche, 1987). The result of this analysis is: The Swedish labour market policy would not have been able to fulfill its assigned role if it had been financed mainly by contributions and not by the state budget. Contribution systems

always presuppose an equal relationship between contributions and claims (entitlements). The principle of equivalence is not given if labour market policy takes over functions of full employment policy; in such a case, the benefits of labour market policy go far beyond the circle of contributors to unemployment insurance: the whole society is profiting.

A counter-example to the Swedish case is provided by the Austrian labour market policy: Here, expenditures for labour market policy ("active" as well as "passive") are financed from a fund into which employers and employees' contributions to unemployment insurance flow and which - with certain exceptions - may only have short-term deficits or surpluses. Reserve funds may not be accumulated beyond a fixed limit and any deficits incurred are covered only temporarily by loans from the federal budget. A sudden increase of expenditures (for the sake of anti-cyclical full employment policy) would have led to drastic increases of contributions and to resistance on the part of contributors.

In the Federal Republic of Germany all activities connected with labour market policy are financed by contributions to the FEI as well. However, the accumulation of larger reserve-funds is possible, and any deficits incurred (after reserves have been exhausted) must be covered by a grant from the federal budget that does not have to be repaid (see chapter 1). This system therefore allows to a certain extent the "instrumentalization" of contributions for anti-cyclical full employment policy. In the long run, however, the massive use of the contributory fund for aims of full employment policy would lead to the same reaction as in Austria: drastic increases of contributions and contributors' resistance.

More evident than the effects on the expenditure volume, are the effects of different financing systems on the dynamic of expenditures. In the United Kingdom, Sweden and the United States of America, political priorities can easily be converted into expenditures due to the (nearly) exclusive financing of active measures out of the state

budget. The expenditure dynamic expresses therefore different political priorities: In Great Britain expenditures for active labour market policy (mainly in favour of unemployed youth) were steadily extended according to political prerogatives. In Sweden expenditures varied anti-cyclically in accordance with their full employment policy function. In the United States expenditures followed - corresponding to the changing political priorities of government and Congress - first an expansionary path, then in the 1980s turned to a drastic cut. The flexible spending pattern in the USA is furthermore supported by sunset legislation and by the fact - in contrast partly to the FRG and Sweden - that labour market programmes are not connected with legal entitlements of individuals or firms to participate. Finally, there is no special labour administration implementing the programmes. Organizational rigidities and vested interests which prevent rapid changes and guarantee relative stable spending patterns (as in Sweden or West Germany) are thus of minor importance in the USA.

International comparative analysis has also provided evidence for the influence of the financing system on the spending pattern of labour market measures in those countries in which the state budget is not the main source of financing: For example the FEI in the Federal Republic of Germany disposed of considerable reserves at the beginning of the recessions which could be used for covering the increasing costs of unemployment benefits and expenditures for active labour market policy. These reserves are, however, rapidly exhausted in the course of deep and long lasting recessions; the Federal Government which has to cover the arising deficit then takes the "budget axe" and cuts especially measures of active labour market policy which are more at discretionary disposal than measures of passive labour market policy. In other words: An integrated labour market budget funded by contributions provides greater property rights for unemployment benefits than for benefits related to training, wage subsidies, etc. If the labour market situation is improving, surpluses and reserves again are accumulated in such a system which induce an increase in spending. The consequence of such a financing system is a peculiar spending pattern of active labour market policy: anti-cyclical reac-

tions in times of falling growth rates (and increasing unemployment), then a turn to pro-cyclical reactions, i.e. reduction of expenditures when unemployment is still rising or high, and finally again an expansion of expenditures even with falling unemployment. This explains at least partially the paradox that spending for active labour market policy has been cut under the Social-Democratic-Liberal coalition but extended under the Conservative-Liberal coalition - although the respective political ideologies would lead to contrary expectations.

If one observes the development of expenditures on the assumption that expenditures on active labour market policy should adapt over time to the labour market situation (i.e. to increase during a bad labour market situation and decrease during good labour market performance), one gets the following picture: Systems of active labour market policy which are financed by the general state budget can easily carry out a flexible anti-cyclical policy if the political will is there existing. If, however, the political will is lacking, such a system allows also expenditure variations which are completely at odds with the "problem pressure". An example for drastic cuts in active labour market policy even during increasing unemployment was the Reagan government in the early 1980s.

In comparison with such systems, contributory systems - if they can accumulate substantial reserves as in the FRG - have a built-in cyclical stabilization effect which provides to a certain extent a good basis for anti-cyclical spending reactions. During deep and long-term recessions and corresponding financial pressure, however, contributory systems connected with integrated labour market budgets open up "localizable deficits" inducing arbitrary cuts of active labour market policy measures which do not correspond to the "problem pressure".

Vertical and horizontal fragmentation of the financial institutions can also be barriers to an offensive labour market policy if expenditure responsibilities and positive financial backflows do not coincide. Active labour market policy instead of accepting unemployment

presupposes that labour market policy programmes can essentially be financed by those means which otherwise would have been utilized for the payment of unemployment benefits. This precondition in each considered country is fulfilled in different ways. In all countries, the expenditures of labour market policy measures are at least partly compensated by costs which otherwise would have occurred (expenditures for unemployment benefits and/or social assistance, loss of revenues from taxes and social security contributions). "Net costs" (additional costs) of successful policy measures, thus, are considerably lower than gross costs (see chapter 6.5). The relief of public budgets due to reduced unemployment (through labour market policy), however, does not in all countries benefit the institutions responsible for the expenditures of active labour market policy. Often institutions benefit (financially) which have (financially) not participated in the policy programme. Incentives and options to apply "net cost calculations" and with few additional costs replace wasteful spending on idle manpower resources with spending on productive labour market policy differ from country to country. Sweden is characterized by fiscal congruity and has therefore built-in institutional incentives to substitute unemployment benefits by active labour market policy. The contrary is the case for Austria and the United States which are characterized by fiscal incongruity; the same holds true to a lesser extent for Germany (for more details, see Schmid/Reissert/Bruche, 1987).

(2) Conversely, the above mentioned institutional barriers for an offensive active labour market policy are not only barriers for a politically motivated sudden freezing of programme spending as was the case in the USA; they are - paradoxically - also a lever for a certain extension of labour promotion measures if the financial situation (e.g. for the FEI) is more favourable due to savings of unemployment benefits (brought about, for example, by restrictive regulations of wage replacement claims, or by an unexpectedly positive development of the labour market). This was the situation, for example, when the Labour Promotion Act (Arbeitsförderungsgesetz) was passed; the same situation occurred at the "political turning point"

in 1982/83 when the Conservative-Liberal government succeeded the Social-Democratic-Liberal government. It was not accompanied by a structural policy change. On the contrary: The new government supported a reinforcement of active labour market policy, in particular to finance the so-called "qualification offensive".

The common features between Christian-Liberal and Social-Liberal labour market policy are not only limited to the instruments of the Labour Promotion Act. The early retirement regulation (1984) and the financial promotion of foreign workers to return to their home countries (which the Social-Liberal coalition had already considered) continue the Social-Liberal efforts to gain control over unemployment by measures to reduce labour supply (Webber, 1987:80).

The great structural break in policy did not occur in the financing area of active labour market policy but in the area of labour market regulation. The Christian-Liberal labour market policy can partly be characterized as "favourable to the middle class". The regulatory framework of the new Early Retirement Act, the Employment Promotion Act, the Severely Handicapped Act and the deregulation of youth employment protection were much in favour of the "middle class" and reduced the regulatory burdens for small and medium-sized firms. Not all demands of the organized "Mittelstand" (small and medium-sized business), however, were fulfilled. The "Mittelstand", for instance, would have preferred a much stronger reduction of contributions to the FEI; it would not have extended public job creation programmes, and it was especially unhappy about the job guarantee in the law on parental leave. The political reversal was most effective and visible where the "Mittelstand" and big industry went together, namely in the deregulation of the labour market following the American example. The center piece of this policy was the introduction of the "Employment Promotion Act" (Beschäftigungsförderungsgesetz) which allows employers to make temporary contracts without giving any reason (up to 18 months). This regulation, which will be effective until 1989, was going beyond the prevailing administration of justice and indeed led to a drastic increase in the frequency of limited work contracts

(Webber, 1987:87; Arbeitsmarktchronik, 1987: No. 28, 10-12). Whether this will result in positive employment effects is at present hotly debated and the subject of ongoing research.

Apart from minority opinions in the leading political parties, the core of active labour market instruments on the whole is not controversial in West Germany. The crucial political differences concern the labour market "constitution". From the Conservative-Liberal side no efforts are to be expected toward extending active labour market policy according to (but not copying) the Swedish model. Could such a move come from the Social-Democrats, if they were in power without being controlled by a small but effective Liberal partner? Scharpf e.g. (1987) is convinced that the above mentioned institutional barriers are not so important as to ultimately prevent a majority government to extend labour market policy if only they were willing to. That this path was not chosen, "has surely something to do with the fixation of all employment policy reflections on the instruments of economic and fiscal policy. Labour market politicians held the Stability and Growth Act of 1967 rather than the Labour Promotion Act of 1969 'responsible' for fighting unemployment. Even Social Democrats and trade unionists who were particularly committed to employment policy considered labour market policy as an instrument of social relief rather than an instrument for fighting unemployment" (Scharpf, 1987:289). According to Scharpf, there was no political will due to a lack of consensus on an alternative such as the Swedish model. This is certainly true. But would persuasion be enough to bring about the necessary political will?

We take the institutional barriers more seriously than the above mentioned quotation suggests. As long as the establishment of an active labour market policy with full employment policy functions would have to be financed by contributions to the Federal Employment Institute (FEI) (to which for instance self-employed and civil servants do not contribute), it would be difficult to get the necessary broad support from trade unions and dependent employees since they would be the main payers but not the only beneficiaries. For an

offensive turn of active labour market policy, a financial reform (among other changes) would be necessary to eliminate the above mentioned financial incongruities. Elements of such a reform could be, for instance, regular federal grants to the Federal Employment Institute (Schmid, 1986a), specifically targeted fund systems (Bosch, 1986; Bosch, 1986; Schmid/Reissert/Bruche, 1987) and the introduction of a municipal right to change income tax levels in order to provide financial incentives for a decentralized labour market and employment policy (Scharpf, 1984; Reissert, 1986). A greater financial share of the general state budget (following certain rules) would also be required to improve the distributional impact of labour market policy. This would help to guarantee adequate financial security for all unemployed as well as target active labour market policy instruments more effectively towards disadvantaged groups and regions (Schmid, 1986a; Schmid/Reissert/Bruche, 1987:275 f.).

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APPENDIX

Table 21: Active Labour Market Policy Measures 1965-1986 according to Type of Expenditures

Measures	Year	1965	1970	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
a) Supply oriented ¹⁾ in %		11.1	40.1	59.3	54.7	48.1	49.5	44.6	41.9	45.3	55.2	53.7	52.6	47.8	51.3	53.8	57.9
b) Demand oriented ²⁾ in %		88.9	59.9	40.7	45.3	51.9	50.5	55.4	58.1	54.7	44.8	46.3	47.4	52.2	48.7	46.2	42.1
Total in %		100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Active labour market policy (in prices of 1980 and billion DM), Total		1.09	3.42	5.32	6.26	8.56	6.43	6.07	6.80	8.54	9.56	11.43	11.04	10.44	9.84	9.75	10.96
Supply oriented measures (in prices of 1980 and billion DM)		0.12	1.37	3.16	3.42	4.12	3.18	2.71	2.85	3.87	5.28	6.14	5.81	4.99	5.05	5.24	6.35
Demand oriented measures (in prices of 1980 and billion DM)		0.96	2.05	2.17	2.84	4.44	3.24	3.36	3.95	4.67	4.29	5.29	5.23	5.45	4.79	4.50	4.61

1) Supply oriented measures include: Labour Market Training, measures to promote take-up of work (excluding settling-in allowances); vocational rehabilitation; special measures for repatriate people and unemployed youth (since 1982); other special measures.

2) Demand oriented measures include: Temporary public job creation, on-the-job training, settling-in allowances, bad weather pay and winter pay, short-time working; special subsidies for the construction industry; special ABM-measures financed by the Federal Government (since 1969).

3) Administrative costs excluded.

**Table 22: Development of Activity Rates of Labour Market Policy
1965-86: Share of "Active" and "Passive" Expenditures in
Percent of Total Expenditures for Labour Market Policy**

Year	Active Labour Market Policy	Passive Labour Market Policy	Administrative Costs
1965	43	25	33
1970	59	18	23
1973	55	23	22
1974	46	38	17
1975	39	50	12
1976	33	54	13
1977	34	52	15
1978	34	52	14
1979	40	47	14
1980	42	45	13
1981	38	52	10
1982	31	61	9
1983	29	62	9
1984	29	61	10
1985	29	61	10
1986	32	58	10

Table 23: Basic Data on the Economic and Labour Market Situation in West Germany I

Year	GDP nominal	GDP Real in Prices of 1980	GDP Deflator/ Index	GDP real per Capita	GDP Real per Employee	GDP real per Working Hour	Gross Wages and Salary Income	Growth Rate of Real GDP	Growth Rate of GDP per Employee	Growth Rate of GDP per Working Hour	Inflation Rate
(Mill. DM)	(Mill. DM)	(DM)	(DM)	(DM)	(DM)	(DM)	(Mill. DM)	in %	in %	in %	in %
1965	459 170	923 700	201	15 758	34 965	16.8	234 130	-	-	-	-
1966	488 230	950 870	195	16 076	36 127	17.5	252 060	+ 2.9	+ 3.3	+ 4.2	+ 3.5
1967	494 350	949 740	192	16 020	37 302	18.5	251 840	- 0.1	+ 3.3	+ 5.7	+ 1.6
1968	533 280	1 002 540	188	16 849	39 329	19.6	270 380	+ 5.6	+ 5.4	+ 5.9	+ 1.6
1969	696 950	1 077 350	180	17 936	41 643	20.9	304 070	+ 7.5	+ 5.9	+ 6.6	+ 1.9
1970	675 300	1 132 820	168	18 678	43 289	21.9	360 640	+ 5.1	+ 4.0	+ 4.8	+ 3.6
1971	750 560	1 165 600	155	19 014	44 291	22.7	409 110	+ 2.9	+ 2.3	+ 3.7	+ 5.1
1972	823 740	1 214 700	147	19 696	46 337	24.0	450 260	+ 4.2	+ 4.6	+ 5.7	+ 5.6
1973	917 270	1 271 650	139	20 518	48 148	25.4	510 930	+ 4.7	+ 3.9	+ 5.8	+ 6.9
1974	984 580	1 275 100	130	20 548	48 971	26.3	563 120	+ 0.3	+ 1.7	+ 3.5	+ 6.9
1975	1 026 900	1 254 830	122	20 295	49 627	27.1	587 200	- 1.6	+ 1.3	+ 3.0	+ 5.9
1976	1 121 720	1 322 740	118	21 437	52 785	28.3	631 290	+ 5.4	+ 6.4	+ 4.4	+ 4.4
1977	1 197 820	1 361 790	114	22 179	54 441	29.7	676 030	+ 3.0	+ 3.1	+ 4.9	+ 3.6
1978	1 285 320	1 400 900	109	22 843	55 660	30.6	721 640	+ 2.9	+ 2.2	+ 3.0	+ 2.7
1979	1 392 300	1 459 040	105	23 779	57 181	31.9	777 850	+ 4.2	+ 2.7	+ 4.2	+ 4.2
1980	1 478 940	1 478 940	100	24 022	57 330	32.3	844 410	+ 1.4	+ 0.3	+ 1.3	+ 5.4
1981	1 540 930	1 481 390	96	24 017	57 844	32.8	882 950	+ 0.2	+ 0.9	+ 1.5	+ 6.3
1982	1 597 920 ²⁾	1 471 830	92	23 879	58 459	33.0	902 520 ²⁾	- 0.6 ²⁾	+ 1.1	+ 0.6	+ 5.3
1983	1 674 840 ²⁾	1 493 920 ²⁾	89	24 322	60 256	34.1	920 730 ²⁾	+ 1.5 ²⁾	+ 3.1	+ 3.3	+ 3.3
1984	1 754 310 ²⁾	1 534 870 ²⁾	87	25 090	61 835	35.2	952 850 ²⁾	+ 2.7 ²⁾	+ 2.6	+ 3.2	+ 2.4
1985	1 839 910 ²⁾	1 574 840 ²⁾	86	25 807	62 966	36.3	989 430 ²⁾	+ 2.6 ²⁾	+ 1.8	+ 3.1	+ 2.2

1) = Growth rate of consumer prices 1980 = 100.

2) preliminary figures

Source: Statistisches Taschenbuch 1986, Arbeits- und Sozialstatistik,
Der Bundesminister für Arbeit und Sozialordnung (Hg.), Bonn and own calculation

Table 24: Basic Data on the Economic and Labour Market Situation in West-Germany II

Year	Total Resident Population ^{a)} (^{000s})	Resident Population ^{b)} 15 - 64 (^{000s})	Civilian Employment ^{c)} (^{000s})	Persons in Dependent Employment (^{000s})	Unemployed ^{c)} (^{000s})	Unemployment Rate (in %)		Volume of Work Total Civilian Employment No. Hours Worked	Average Annual Hours of Work Civilian Employment Hours
						(1)	(2)		
1965	58 619	38 350	26 418	21 289	147	0.6	0.3	54 962.0	2 080.5
1966	59 148	38 410	26 320	21 284	161	0.6	0.3	54 262.4	2 061.6
1967	59 286	38 141	25 461	20 565	459	1.8	1.3	51 422.2	2 019.6
1968	59 500	37 987	25 491	20 706	323	1.3	1.5	51 197.5	2 008.5
1969	60 068	38 219	25 871	21 267	179	0.7	0.9	51 480.3	1 989.9
1970	60 551	38 601	26 169	21 747	149	0.6	0.8	51 685.8	1 975.1
1971	61 302	38 966	26 317	22 106	185	0.7	0.9	51 405.9	1 953.3
1972	61 672	39 223	26 214	22 103	247	0.9	0.8	50 626.6	1 931.3
1973	61 976	39 509	26 411	22 395	273	1.0	0.8	50 102.9	1 897.0
1974	62 054	39 655	26 038	22 113	582	2.2	1.6	48 571.7	1 865.4
1975	61 829	39 606	25 285	21 489	1 074	4.2	3.6	46 322.2	1 832.0
1976	61 531	39 592	25 059	21 407	1 060	4.2	3.7	46 788.8	1 867.1
1977	61 400	39 732	25 014	21 496	1 030	4.1	3.6	45 861.6	1 833.4
1978	61 327	39 945	25 169	21 734	993	3.9	3.5	45 718.1	1 816.4
1979	61 359	40 287	25 516	22 132	876	3.4	3.2	45 790.2	1 794.6
1980	61 566	40 829	25 797	22 478	889	3.4	3.0	45 915.5	1 779.9
1981	61 682	41 427	25 610	22 335	1 272	5.0	4.4	45 147.0	1 762.9
1982	61 638	41 973	25 177	21 904	1 833	7.3	6.1	44 558.4	1 769.8
1983	61 423	42 390	24 793	21 519	2 258	9.1	8.0	43 773.6	1 765.6
1984	61 175	42 655	24 822	21 540	2 266	9.1	8.5	43 651.5	1 758.6
1985	61 024 ¹⁾	42 743 ¹⁾	25 011	21 717	2 304	9.2	8.6	43 389.8 ¹⁾	1 734.8

1) Provisional figure

Source: a) Statistisches Taschenbuch 1986, Arbeits- und Sozialstatistik, Der Bundesminister für Arbeit und Sozialordnung (ed.), Bonn.

b) IAB, Mitteilungen aus der Arbeitsmarkt- und Berufsforschung No. 3/1986, p. 377.

c) OECD 1986, Labour Force Statistics 1964-1984, Part II, Tab. II und Tab. III A, Paris.

d) OECD 1980 und 1986, Economic Outlook, No. 28, Dez. 1980, p. 136 and No. 40, Dec. 1986, p. 167, Paris and our own calculations; (1) official registered unemployment rate (ANBA-Jahreszahlen), (2) OECD-definition.

Table 25: Basic Data on the Economic and Labour Market Situation in West Germany III

Year	Budget ^{a)} Expenditure Federal Government (Billion DM)	Budget ^{a)} Balance (Billion DM)	Budget Expenditure in % of GDP	Total Budget Expend. ^{b)} Federal and Local Govern- ment (incl. social in- surance (Billion DM)	Total ^{c)} Budget Expenditure in % of GDP
1965	64.2	- 1.0	14.0	154.5	36.6
1966	66.9	- 1.2	13.7	166.7	36.7
1967	74.6	- 7.6	15.1	176.5	38.6
1968	75.8	- 4.9	14.2	188.8	39.1
1969	82.3	+ 1.2	13.8	207.2	38.6
1970	88.0	+ 0.4	13.0	235.4	38.6
1971	98.5	- 1.4	13.1	268.5	40.1
1972	111.1	- 4.8	13.5	336.1	40.8
1973	122.6	- 3.2	13.4	381.1	41.5
1974	134.0	- 10.3	13.6	438.8	44.6
1975	156.9	- 33.1	15.3	501.9	48.9
1976	162.5	- 25.9	14.5	537.5	47.9
1977	172.0	- 22.2	14.4	575.2	48.0
1978	189.5	- 26.3	14.7	613.8	47.8
1979	203.4	- 26.1	14.6	662.5	47.6
1980	215.7	- 27.6	14.6	714.1	48.3
1981	233.0	- 37.9	15.1	758.1	49.2
1982	244.6	- 37.7	15.3	786.7	49.4
1983	246.7	- 31.9	14.7	809.0	48.3
1984	251.8	- 28.6	14.4	842.2	48.0
1985	257.1	- 22.7	14.0	n.a.	47.2

n.a. = not available

Source: a) Finanzbericht 1987, Bundesministerium der Finanzen (ed.), Table 1, p. 133 f.

b) Our own calculations based on OECD definition in Economic Outlook (current disbursement plus gross capital formation), sum of lines 28,9,10,13,14 and 15 minus lines 2 and 3 in Table 6 (Capital accumulation account); OECD National Accounts, Vol. II, Detailed Tables 1972-1984, Paris 1985; for 1965-1971 the sum of lines 23,28,29 minus line 26 in Table 9 (Income and Outlay, Transaction of General Government) in OECD National Accounts, Vol. II, Detailed Tables 1963-1980, Paris 1982; the numbers can only partly be compared.

c) OECD 1986, Economic Outlook, No. 40, Dec. 1986, Table R. 8, p. 163 for sample period 1965-1982; OECD 1987, Economic Outlook, No. 41, June 1987, Table R. 8, p. 163 for sample period 1983-1985.

Table 26: Participation Rates by Age-Groups 1965-1985 in the Federal Republic of Germany: Men, Women, Total*

Year/Month	Per 100 Men and Women aged...to...years 1)											
	Total	15-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	15-64
M E N ²⁾												
1965/Mai	61.2	67.7	84.0	93.8	98.3	98.5	97.7	96.8	94.6	90.5	78.1	89.9
1970/April	58.3	54.7	82.9	92.6	98.4	98.8	98.5	96.8	95.1	89.1	74.7	88.5
1975/Mai(3)	57.1	57.2	79.9	90.6	97.3	98.2	98.0	96.8	93.1	85.7	58.3	86.0
1980/April	58.4	48.5	82.0	90.2	97.3	98.3	98.1	96.8	93.3	82.3	44.2	84.4
1985/Juni	60.3	47.9	80.1	87.9	96.4	97.7	97.6	96.6	93.2	79.1	33.0	81.9
W O M E N ²⁾												
1965/Mai	31.9	68.0	70.4	51.4	43.3	45.4	48.3	46.3	41.1	36.3	23.3	46.9
1970/April	30.2	53.6	69.8	51.1	45.4	46.2	48.4	48.9	44.8	37.2	22.5	46.2
1975/Mai(3)	30.9	50.6	68.4	56.7	51.4	50.0	51.0	51.6	47.4	38.4	16.4	48.2
1980/April	32.6	41.4	71.1	62.5	56.2	55.4	54.9	52.2	47.1	38.7	13.0	50.2
1985/Juni	35.9	41.9	73.8	67.0	61.6	61.9	61.6	57.1	50.2	37.8	10.9	52.7

Source: Microcensus

* The total rates show the participation rate of the total resident population by sex and marital status.

1) Including persons under the age of 15.

2) Corresponding to the year of birth before April 1972; since April 1972 according to the real age at the time of the inquiry; since 1972 members of the armed forces are included.

3) Results from the EEC-statistics with a sample of 0,5 % (1975) and 0,4 % (1983 and 1984).

Table 27: Participation Rates by Age-Groups 1965-1985 in the Federal Republic of Germany: Single Women, Married Women, Total*

Year/Month	Total	Per 100 Men and Women aged...to...years 1)										
		15-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	15-64
S I N G L E W O M E N ²⁾												
1965/Mai	33.1	68.0	86.5	90.8	90.0	91.5	89.7	86.4	83.0	76.8	49.4	78.2
1970/Apr 11	27.0	53.4	84.2	86.4	88.5	89.0	90.5	88.9	84.8	76.5	46.7	69.9
1975/Mai(3)	24.7	50.1	75.3	82.1	86.7	90.6	89.1	89.5	85.1	77.7	35.6	64.4
1980/Apr 11	28.2	40.9	76.9	84.8	88.5	90.9	88.6	88.1	86.8	77.2	26.3	60.7
1985/Juni	34.6	41.7	77.6	84.5	90.4	91.7	89.7	85.7	84.1	75.7	19.4	63.5
M A R R I E D W O M E N ²⁾												
1965/Mai	33.7	53.7	51.7	40.8	36.5	38.3	40.6	38.6	34.5	28.9	19.3	36.5
1970/Apr 11	35.6	58.1	55.1	43.5	39.8	41.1	42.3	41.7	37.5	31.1	18.8	39.1
1975/Mai(3)	39.1	57.9	62.1	51.2	47.1	45.9	46.5	45.6	40.3	31.8	14.1	43.6
1980/Apr 11	40.6	55.3	62.3	55.3	51.2	50.8	50.7	47.5	41.4	31.8	11.2	46.1
1985/Juni	42.5	51.4	64.7	58.2	54.9	56.6	56.7	52.4	45.3	31.7	9.4	47.8

Source: Microcensus

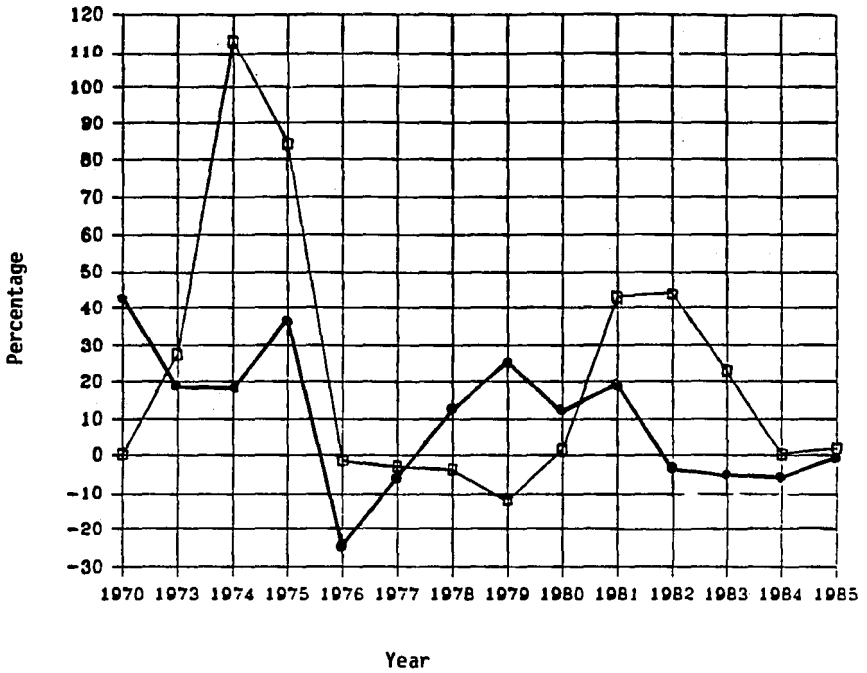
* The total rates show the participation rate of the total resident population by sex and marital status.

1) Including persons under the age of 15.

2) Corresponding to the year of birth before April 1972; since April 1972 according to the real age at the time of the inquiry; since 1972 members of the armed forces are included.

3) Results from the EEC-statistics with a sample of 0,5 % (1975) and 0,4 % (1983 and 1984).

Figure 9: Changes in Real Expenditures on Active Labour Market Policy Compared to Changes in Unemployment



- Unemployment
- Active Labour Market Policy

Figure 10: Changes in Real Expenditures on Passive Labour Market Policy Compared to Changes in Unemployment

