IZA COVID-19 Crisis Response Monitoring:

Germany

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(1) How do you assess the current impact of COVID-19 on the labor market in Germany?

Data on the labor market impact of COVID-19 in Germany are still scarce; they become available only with a substantial time lag. However, recent forecasts on the labor market impact of COVID-19 are significantly more negative than earlier assessments released in March (see, e.g., Bauer and Weber 2020a vs. Bauer and Weber 2020b; Gemeinschaftsdiagnose 2020). By the end of April (currently the most recent available data), the number of registered unemployed stood at 2,643,700 persons, an increase by 308,400 workers or 13 percent compared to the previous month (BA 2020a). Taking into account the previous year’s development, the COVID-19 impact on unemployment is estimated slightly higher, corresponding to an increase of 381,000 workers. However, about 40 percent of this immediate increase can be attributed to a statistical artefact: Because active labor market policy measures have virtually ceased (due to the contact ban), individuals who would have otherwise been excluded from official statistics are now counted as registered unemployed. Table 1 displays selected statistics for the labor market impact of COVID-19 in April 2020 (currently the latest available data).

Table 1: Labor Market Impact of COVID-19 in Germany (as of April 2020)

<table>
<thead>
<tr>
<th></th>
<th>April 2019</th>
<th>April 2020</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment (Stock)</td>
<td>2,228,800</td>
<td>2,643,700</td>
<td>+ 18.6%</td>
</tr>
<tr>
<td>Unemployment (Inflow)</td>
<td>586,800</td>
<td>667,500</td>
<td>+ 13.8%</td>
</tr>
<tr>
<td>Unemployment (Outflow)</td>
<td>659,100</td>
<td>359,200</td>
<td>– 45.5%</td>
</tr>
<tr>
<td>Underemployment (Stock; excl. Short-time Work)</td>
<td>3,195,300</td>
<td>3,466,300</td>
<td>+ 8.5%</td>
</tr>
<tr>
<td>Employment (Stock)</td>
<td>44,958,000</td>
<td>45,040,000</td>
<td>+ 0.2%</td>
</tr>
<tr>
<td>Posted Vacancies (Stock)</td>
<td>795,500</td>
<td>626,400</td>
<td>– 21.3%</td>
</tr>
<tr>
<td>Posted Vacancies (Inflow)</td>
<td>185,500</td>
<td>76,200</td>
<td>– 58.9%</td>
</tr>
<tr>
<td>Active Labor Market Policy Measures (Stock)</td>
<td>892,300</td>
<td>818,700</td>
<td>– 8.2%</td>
</tr>
</tbody>
</table>


The current rise in official unemployment statistics may only provide a first snapshot of the imminent deterioration of the German labor market. There are many alarming signals for more severe effects. For example, a record number of about 750,000 firms submitted notifications for short-time work to the Federal Employment Agency, potentially resulting in a maximum number of 10.1 million short-time workers (BA 2020a). While it is clear that not all of these workers included in notifications will actually be in short-time work later on (and not all short-time workers will experience a full reduction in working hours), it can be taken as granted that the number of short-time workers in the current crisis will reach significantly higher levels than during the Great Recession (where the peak was at about 1.5 million short-time workers; Brenke et al. 2013). In the 2008-09 crisis, the number of short-time workers that were included in firms’ notifications stood at 3.3 million. Moreover, business confidence is currently at a historical low (ifo 2020a) and quite a few firms, besides submitting notifications for short-time work, are eating up working time account surpluses and are also starting to dismiss workers. Yet, in this early phase of the recession unemployment figures predominantly increase because of firms’ reduced hiring activities, resulting in fewer exits from unemployment. The demand for new workers has literally collapsed as the number of vacancies declined significantly (BA 2020a).
Unemployment risks are currently particularly high in some sectors, including temporary agency work, hotels and restaurants, retail, the metal industry, and to some extent even logistics (BA 2020a). These sectors are either directly affected by restrictions on economic activities and social contacts, or indirectly via disrupted value chains. However, quite a few sectors in the German economy are still relatively unaffected (e.g., construction, craftsman’s services, or the public sector). In terms of most vulnerable groups, employment losses can be expected to be particularly concentrated among workers with fixed-term contracts, temporary agency workers, marginal part-time workers, self-employed and freelancers. Firms with liquidity problems already before the current crisis are at a high risk of bankruptcy. This risk may be particularly concentrated among SMEs with severely restricted economic activities, such as restaurants, small retail shops, and travel agencies. But it appears too early to assess the precise extent to which these firms will ultimately go out of business.

(2) What is the general orientation and targeting of the measures adopted to tackle the labor market impact of COVID-19 in Germany?

Germany was relatively quick to adopt and, at a later stage, to adjust larger policy packages to mitigate the employment and social impact of the crisis. While the extension of the long-standing short-time work scheme can be viewed as a standard response to economic recessions in Germany, short-time work is in the current situation also being used by firms that were not using it in the 2008-09 crisis or in previous recessions. Preliminary data indicate that, for example, short-time work is again widely used in export-oriented sectors such as the metal industry, but they also point to an intensive use in service sectors (especially by hotels and restaurants; BA 2020a).

Next to the increased generosity of short-time work, there has also been a remarkable (temporary) extension of the contribution-based unemployment insurance benefit duration as part of a social protection package (Deutscher Bundestag 2020a). At the same time, job search requirements have been reduced and activation principles have come to a halt, both for the contribution-based unemployment insurance benefits and the tax-based basic income support.

In addition to these measures, the particular emphasis on direct ad hoc support measures for small businesses and self-employed by way of lump sum payment, credits and guarantees appears remarkable (DB Research 2020). This novel feature of the current crisis response (when compared to previous recessions) could be due to the increased visibility of freelance work in Germany, but it could also relate to the larger extent to which SMEs and self-employed workers are affected by the contact ban and the shutdown (e.g., creative jobs, restaurants).

Women could be one of the “blind spots” receiving less attention in policy responses so far (OECD 2020). For instance, they are overrepresented in the workforce of crisis-related or essential sectors (most notably in the health sector, but also in the food retail sector), and they typically take a major part of the burden resulting from school and child care facility closures. A possibly related issue is that also less attention has been paid to the flexible workforce of marginal part-time workers who are, for example, not included in unemployment insurance and will probably not register as unemployed.

(3) How do you assess the the effectiveness of policies providing immediate liquidity to bussinesses in Germany?

To stabilize businesses, the federal and some regional governments in Germany promptly established different emergency measures. On the one hand, these programs provide support to larger firms that are directly affected by the shutdown by way of loans and credit guarantees; and on the other hand, they provide liquidity and income support to freelance workers and SMEs with up to 10 employees through timely lump sum payments (PwC 2020).

Federal programs grant an operating subsidy for three months (provided as a lump sum payment), ranging from € 9.000 for firms with up to 5 full-time equivalent workers to € 15.000 for firms with up to 10 full-time
equivalent workers. State-level programs come on top, implying regional variation in these emergency measures within Germany. These payments are supposed to allow for the continuation of the business at least for three months and can be combined with short-time work for dependent employees. At the same time, access to basic income support without strict means testing was opened up for the target group of freelance workers as they often do not have access to contribution-based unemployment insurance benefits.

However, observers point to the fact that some funds were exhausted relatively quickly and that some target groups were not reached at all. Despite the quick and significant policy response it is also not yet clear to what extent these measures can effectively stabilize the economic situation of those affected. In addition, there are some concerns that no appropriate screening of applications took place in the early days of implementing the support programs and that information was lacking on the proper use of funds provided. Finally, also cases of fraud behavior were reported (Tagesschau 2020).

(4) How do you assess the effectiveness of policies mainly targeted at dependent workers, i.e., unemployment insurance and short-time work, in stabilizing income and jobs in Germany?

Although currently only preliminary data are available, it is already clear that there has been a massive inflow into short-time work schemes during the initial phase of the COVID-19 crisis in Germany. The well-established instrument of short-time work was one of the main factors contributing to Germany’s resilience to the 2008-09 crisis (Rinne and Zimmermann 2012; Balleer et al. 2016). However, while during the Great Recession a temporary external demand shock almost exclusively affected predominantly larger, export-oriented manufacturing firms and economic activity picked up quite soon again, the situation appears entirely different this time. In the current crisis, a broad range of sectors is affected by the demand slump, many SMEs are at risk, and uncertainty about the speed of economic recovery is large and widespread. In addition, the current recession is accompanied by a structural transformation due to ongoing technological change and digitalization – not limited to, but also in manufacturing and in the automotive industry.

These factors could make the use of short-time work in the current crisis more difficult and potentially also less effective. For example, the management and implementation of short-time work is probably easier within larger firms and with works councils that have already acquired experience in using this instrument. In the current situation, firms in the service sector and many smaller firms that are affected may be confronted with unfamiliar bureaucratic obstacles and practical challenges in applying and implementing short-time work. Furthermore, the temporal scope of using short-time work is limited if the crisis interacts with structural change, e.g., in retail (online vs. offline) or in the automotive industry, a return from short-time work to regular work may not be taken for granted. Scepticism also seems to be justified to what extent the existing subsidies for training and qualification measures during short-time work are actually used, to what extent they can accommodate workplace mobility, and to what extent they are ultimately effective (Eichhorst and Rinne 2019).

Easing the conditions governing the use of short-time work was among the first policy responses to the COVID-19 crisis in Germany (Deutscher Bundestag 2020b). The new rules, which came into force retroactively as of March 1, 2020, made the instrument more accessible for firms as as only 10 percent (previously: one third) of workers need to be affected by a minimum reduction in working hours of 10 percent. In response to trade union complaints about insufficient short-time work allowances, especially during longer periods of short-time work, the generosity of these allowances has been increased (BMAS 2020a): While the compensation will still amount to 60 percent of the missing net remuneration (67 percent for parents) in the first months, it will gradually increase to 70 percent (77 percent for parents) from month 4 onwards and to 80 percent (87 percent for parents) from month 7 onwards. Next to that, some firms already decided to voluntarily top up short-time allowances for their workers.

Unemployment insurance benefits are most accessible for workers with longer employment spells. Despite some relaxation of benefit requirements over the last years, coverage by unemployment insurance benefits will likely be lower for workers with interrupted careers and fixed-term contracts. Unemployment benefit levels are low in absolute terms for those with low hourly wage rates or part-time workers. As a response to the crisis,
the duration of unemployment insurance benefits has been extended temporarily for those whose benefits would expire soon. At the same time, participation in active labor market policy measures and the activation of jobseekers has come to a halt in the lockdown period. The stop of active labor market policy measures, in combination with substantially lower hiring rates by employers, will most likely lead to prolonged unemployment spells. This issue might become more severe if some providers of active labor market policy would have to terminate their business and if the capacity of active labor market policy measures cannot accommodate potentially large and more heterogeneous target groups after the initial crisis phase.

(5) To what extent are working conditions and work organization within firms in Germany changing at the moment?

The shutdown period led to an expansion of work from home in Germany. This concerns both the share of workers who started practicing work from home, at least partially, and the intensity of work from home of those who already had experiences before. The German situation appears very comparable to that in the Netherlands, where the share of employees who work from home at least two hours a day has doubled compared to the pre-crisis situation (von Gaudecker et al. 2020).

Germany used to be a relative laggard in terms of remote and mobile work. This has quite suddenly changed during this crisis as immediate health concerns as well as contact bans put pressure on both employers and employees to encourage and accommodate working from home. Quite often, it has also been the only option to ensure continued business activity in occupations and jobs where (regular) physical presence was not needed. Besides the positive aspects of reduced risk of infection and the ability to continue operations, work from home tends to create stressful situations and entirely new challenges regarding the reconciliation of work, care obligations (especially during school and child care facility closures) and private life in general.

In the current situation, the latent policy debate about which rules should apply to work from home has re-emerged. In particular, the discussion circles around the question if there is need for a binding legal framework, or if this can be left to negotiations between employers and employees or within teams at the workplace. Moreover, in the debate about polarization in the labor market a new a new divide could emerge between those workers that are able to work from home (with differences between workers with or without care obligations) and those working in the service sector, i.e., frontline workers (with higher risk of infection) and those at a high risk of losing their jobs (e.g., in restaurants). In this regard, low-skilled workers could suffer the most in the current crisis as they spend less time working from home and are simultaneously more likely to work reduced hours or lose their jobs (von Gaudecker et al. 2020).

Some observers also fear that working from home might reactivate more traditional gender roles regarding care responsibilities, and thereby creating obstacles for women and especially mothers to focus on paid work (OECD 2020). In some cases, bonus payments in (female-dominated) occupations such as retail trade and nursing have been announced as a compensation for extraordinary workload during the crisis. But regular wages in these occupations continue to be rather low. At the same time, working time regulation in sectors that are regarded as essential, such as logistics, the health sector, energy supply and administration, has been relaxed from April 2020 to June 2020 to ensure business continuity in critical situations (BMAS 2020b).

(6) How do you assess the situation of new labor market entrants in Germany in this year?

It can be expected that new labor market entrants in Germany will face particular difficulties, at least during this summer. Firms’ hiring activities will be reduced, either because of direct demand effects of the crisis or general economic uncertainty (Klöss and Schäfer 2020). However, given persistent skill shortages and continued demographic change with an ageing population in Germany, reduced hiring could only be temporary. This is particularly the case if product demand recovers relatively quickly or expectations become more optimistic soon. But a scenario of a deep and long-lasting recession could result in persistently weak labor demand and hiring, with long-term disadvantages for current graduates (Kahn 2010; Oreopoulos et al. 2012).
Beyond these average effects, the crisis’ impacts are likely to be quite heterogeneous across sectors and firms. First, it is possible that some sectors will be more substantially affected and will thus shrink in the medium or long run (e.g., hotels and restaurants, tourism, local retail). This would also result in very limited hiring in these sectors. Second, other sectors could experience a structural and thus permanent increase in labor demand (e.g., health care). Third, firms that entered the crisis in relatively good shape or follow a longer-term strategic perspective might take advantage of the reduced competition for talents. These companies could even increase their hiring activities, especially focusing on younger workers with sought-after skills. To avoid time-consuming and costly staffing in the near future, it is probably a rationale approach for quite a few firms even when product demand is weak (Sachverständigenrat 2020). Finally, implementing actual hiring does not appear to be a bottleneck in the current situation. Many firms adapt relatively quickly to the new standards, for example, by using digital hiring tools more intensively.

The potential problems of current graduates might be amplified in the German labor market because of the crucial role of the dual apprenticeship system. This core mechanism and structural strength of the German employment model not only effectively provides the labor market with skills and qualifications in demand, but it also acts as an important counterbalance to hiring barriers in school-to-work transitions (Schneider and Rinne 2019). According to recent data, a slowdown of the matching process between applicants and apprenticeship positions can already be observed (BA 2020a). Furthermore, there is a substantial risk that a low willingness or capacity of firms to hire apprentices (and new workers in general) – given economic uncertainty, lack of business activity and high pressure to cut costs – result in a further decline of apprenticeship training, especially in some sectors and occupations. Stakeholders such as trade unions and employer associations such as the Association of German Chambers of Industry and Commerce have therefore asked for governmental support to firms providing training during the crisis via the highly institutionalized German dual apprenticeship system (DIHK 2020). Policy options that are currently discussed include, for example, transferring apprentices from bankrupt to continuing firms, expanding training capacities outside firms, and providing additional financial incentives to firms (e.g., in the form of bonus payments).

(7) Do you see further remarkable developments and issues in Germany, e.g. unexpected policy innovations, changes in employment, new trends? How will the general functioning of the labor market be affected in the long run?

In Germany, the COVID-19 recession may not only result in a departure from the long and rather stable path of employment growth (Schneider and Rinne 2020), but the crisis may also accelerate structural change and digitalization. At the worker level, remote work may become more frequently at least a realistic option. In Germany, about one in six jobs may be permanently suitable for working from home (Pestel 2020). At the firm level, digital tools may be increasingly viewed as a hedge and reinsurance against external shocks. In this respect, the crisis is also an endurance test of firms’ past digital achievements, and their past omissions become very visible (Engels 2020).

In terms of disruptions or structural breaks at the sector level, it is very likely that the crisis will accelerate the long-term decline of local retail, often delivered through smaller shops, while all forms of online retail will experience an extra boost. As digitalization also continues in the health sector and in education, the skill needs of workers in these sectors will change accordingly. The ongoing transformation of manufacturing, in particular of car manufacturers and their suppliers, may proceed more rapidly than expected before the crisis.

At the same time, however, and contrary to widespread beliefs, significantly shorter or less complex global value chains in industrial production are unlikely to occur. Firms in the post-crisis situation may even rely to a larger extent on cost-saving initiatives, which typically include outsourcing and offshoring. The crisis will by no means reverse this development and it will not trigger a trend to bring production back to Germany – for a very simple reason: the level of automation in German manufacturing is already very high (Krzywdzinski 2020).

Last, but not least, restrictions to migration and to EU mobility may have lasting effect on the functioning of the German labor market. Beyond its often controversially discussed labor market impacts, immigration from EU
member states has certainly increased labor supply in Germany and, in comparison to many years ago, has led to more employees, but also to more unemployed and benefit recipients from these countries (BA 2020b). Nonetheless, it helped cushion the imminent problem of labor shortages in the German labor market. The country's demographic challenge could thus intensify in the future.

(8) What do you see as necessary and useful next steps in Germany, in particular to revive economic activities (soon)? How do you assess the current and future fiscal viability of the crisis relief measures?

The longer the COVID-19 crisis lasts and the longer restrictions on economic activities continue to exist, the more obvious the trade-off between COVID-19 containment and reviving economic activities becomes. This concerns, for example, the re-opening of shops, restaurants and hotels, the re-opening of schools and child care facilities, and allowing for cross-border mobility. For example, the economic costs of a 3-month shutdown in Germany could be as large as 20 percent of GDP (ifo 2020b). Such a scenario would create a heavy fiscal burden for Germany, despite its relatively favorable initial position allowing for a large fiscal stimulus.

As a consequence, a controversial debate about the costs of forgone economic activities and governmental spending to mitigate the immediate effects of containment is emerging. This has already led to the removal of some restrictions, but not all. A careful and regionally differentiated revival of economic activities, in combination with close monitoring efforts, continued social distancing and widespread testing, as adopted now, might be an appropriate strategy in this situation. It also seems advisable to avoid too broadly targeted and too generous governmental subsidies. These financial resources might be more effectively and efficiently spend in the future when an additional fiscal stimulus would be needed and when target groups could be more precisely identified and reached.

Finally, the German situation also depends on the ability to stabilize the European and global economy. The German economy relies to a large extent on foreign demand for goods and services, on reliable and efficient global value chains as well as on free labor mobility. However, as regards to the European stabilization efforts, the German position looks more accommodating or solidaristic than perceived at first glance.
REFERENCES


