International Labour Office

Geneva

The State and social partners working together: Germany's response to the global financial and economic crisis

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March 2017

Governance and Tripartism Department

Working Paper

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Project funded by the European Union

ILO Cataloguing in Publication Data

Lesch, Hagen; Vogel, Sandra; Hellmich, Paula.

The state and social partners working together: Germany's response to the global financial and economic crisis/ Hagen Lesch, Sandra Vogel, Paula Hellmich; International Labour Office. - Geneva: ILO, 2017.

ISBN: 9789221306290; 9789221306306 (web pdf)

International Labour Office.

state intervention / economic recession / social dialogue / collective bargaining / Germany

04.03.3

ILO Cataloguing in Publication Data

Printed in Switzerland

Foreword

This paper is one of a series of studies commissioned by the International Labour Office (ILO) in 2015, under a project entitled "Post-crisis social dialogue: Good practices in the EU-28", which is implemented by the ILO with funding from the European Union (EU). The project documents and analyzes emerging trends and good practices in social dialogue and industrial relations in EU Member States. The project focuses specifically on developments since 2013, as countries began to exit the crisis, and examines the role played by social dialogue in promoting sustainable reforms and jobs-rich, inclusive growth.

The research component involved eleven in-depth country studies carried out by reputed national scholars, as well as the drafting of a comparative analysis. A tripartite knowledge-sharing conference, hosted at the Palais du Luxembourg in Paris on 20 May, 2016 provided a forum for discussion of the draft papers. The conference brought together national and international stakeholders, including government ministers and high-level officials, representatives of employers' and workers' organizations and of regional and international organizations, including the ILO and EU institutions such as the European Commission, the European Economic and Social Committee (EESC) and Eurofound. Participants discussed recent developments in the industrial relations landscape and exchanged experiences of social dialogue in the 'post-crisis' period. The revised country summary reports and the comparative analysis have since been compiled in an edited, peer-reviewed volume, entitled *Talking through the crisis: Social dialogue and industrial relations trends in selected EU countries*, to be published by the ILO in March 2017.

This study, by Hagen Lesch, Sandra Vogel and Paula Hellmich, examines the role of social dialogue and collective bargaining in facilitating the so-called "jobs miracle" in Germany, which saw a drop in unemployment during the peak years of the economic and financial crisis. This was made possible through a combination of flexible use of collective bargaining and extensive labour market reforms to introduce more flexible forms of employment in the 2000s. In the absence of a formal structure for national tripartite social dialogue, the social partners were able to avail of "crisis summits" to stimulate dialogue on measures to stabilize the economy at the height of the crisis. These summits brought together representatives of government, employers' and workers' organizations, as well as of financial institutions, to agree on measures aimed at sustaining consumption and safeguarding employment. The authors conclude that these informal processes for facilitating dialogue, coupled with an industrial relations system built upon the principle of free collective bargaining between employers' and workers' organizations, were highly effective in dealing with the impact of the crisis in Germany.

The responsibility for opinions expressed in this paper rests solely with its authors and its publication does not constitute an endorsement by the International Labour Office or the European Union.

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Executive summary

When the financial and economic crisis hit Germany in 2008 the Federal Government's immediate response was to stabilize the German banking sector. As the crisis reached the real economy, stimulus packages and other measures were used to support companies, safeguard employment and bolster private consumption. Overall, the German labour market remained stable during the crisis. There was a small increase in unemployment in 2009, but by the end of 2010 this had already been reversed. Germany was thus able to avoid higher unemployment for all age and gender groups both during and after the crisis. The German "jobs miracle" was made possible by a combination of factors: on one hand, extensive labour market reforms had already been implemented throughout the 2000s, introducing more flexible forms of employment, as well as re-forming the social welfare and pension systems. On the other hand, over the same period collective bargaining had become more flexible.

While there is no national tripartite social dialogue institution in Germany, in 2008 and 2009 the social partners were nonetheless involved in debating the immediate crisis measures and policy responses. Involvement took the form of crisis summits attended by all relevant actors, as well as bipartite meetings between representatives of the government and either the unions or employers. At the summits, government representatives and trade union, employer and financial institution representatives met to analyze the prospects of the German economy and to debate possible measures to stabilize the economy and private consumption, and to safeguard employment. These less formalized structures were effective in dealing with the crisis, mobilizing all actors and facilitating consultation on the measures to be taken. The ad hoc dialogue structure was complemented by an industrial relations system built upon the principle of free collective bargaining between employer organizations and unions. Legally enshrined workers' rights allow for co-determination at the establishment level. Social partnership in Germany mainly takes the form of bipartite negotiations and consultations. Two major collective agreements – in the metalworking and electrical industry and in the chemical sector – illustrate how this arrangement contributed to successful crisis management. The advantage in both industries was that trade unions and employers were pursuing the same goal, namely retention of the labour force by preventing mass layoffs. Skilled labour is of special importance in these highly specialized industries. Hence, employers and unions were able to reach a reasonable consensus on concentrating on short-time work and opening clauses to deal with the crisis.

However, collective bargaining coverage and trade union density in Germany had been declining steadily since 1995. This development was due to a combination of the weakness of German trade unions and criticism of multi-employer agreements and a bargaining process that, it was claimed, had not been flexible enough to cope with either the onset of globalization in the 1980s or the recession of 1992/93. Induced by this long-term erosion of collective bargaining, the social partners in Germany had agreed to reforms and made the collective bargaining system more flexible even before the crisis hit. In addition to modernizing the general agreements in certain industries, opt-out clauses in sectoral collective bargaining and new options for employer organization membership provided companies with more leeway. Largely for this reason, the financial crisis itself had no visible effect on the development of collective bargaining coverage and trade union density.

For a long time, real wages in Germany stagnated or decreased. However, in 2010, in the aftermath of the crisis, there was a change to a more expansive German wage policy and real wages have risen in the past few years. Critics argue that not all workers have benefited from these increases. While between 2000 and 2006 there was indeed a burgeoning of the low-paid sector, this development was deliberately brought about by the Hartz reforms in order to combat unemployment. Since 2007, the share of low-paid employment has remained broadly stable.

Two important legislative changes have occurred in Germany since the crisis, both implemented in 2015. First, the Act on Strengthening the Autonomy of Collective Bargaining includes a minimum wage of 8.50 euros (€) per hour aimed at avoiding a further expansion of the low-paid sector. Second, the principle that only one collective agreement can apply to any company, challenged in practice and in the courts, has been restored by parliament, a development that should avoid a further fragmentation of collective bargaining. This legislation has clearly increased the influence of the government on the collective bargaining process. How far the government will intervene in free collective bargaining in the future remains an open question.

List of acronyms

ALMPs	Active labour market policies
BA	Federal Employment Agency
BAVC	German Federation of Chemicals Employers' Associations
BetrVG	Works Constitution Act
BDA	German Confederation of Employers' Associations
BDI	Federation of German Industries
BMWi	Federal Ministry for Economic Affairs and Energy
CSU	Christian Social Union
DGB	German Confederation of Trade Unions
DIHK	Association of German Chambers of Industry and Commerce
EESC	European Economic and Social Committee
EU	European Union
FMSA	Financial Market Stabilization Agency
FMStG	Financial Market Stabilization Act
IGBCE	Mining, Chemicals and Energy Industrial Union
IKB	Deutsche Industriebank
ILO	International Labour Office/Organization
SoFFin	Financial Market Stabilization Fund
SPD	Social Democratic Party
TAW	Temporary agency workers
TVG	Collective Bargaining Act
UB	Unemployment Benefit
UVB	Regional employer organization for Brandenburg-Berlin
ZDH	German Confederation of Skilled Crafts

Section I. Germany’s answer to the global economic and financial crisis

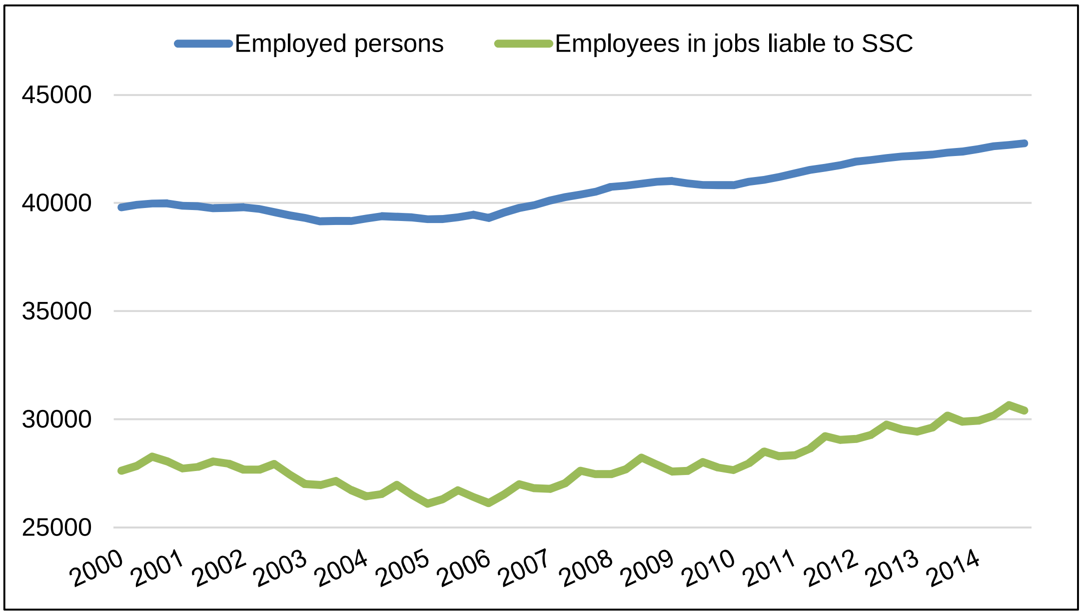
1.1 Setting the scene

This snapshot of pre-crisis Germany is intended to serve as a background to later developments, such as the rescue packages adopted by the Federal Government in 2008 and 2009, the social partners’ contribution to weathering the crisis and other labour market policies subsequently adopted.

The German labour market emerged relatively unscathed from the crisis triggered by the collapse of the American investment bank Lehmann Brothers in summer 2008. As early as October 2010, when Ms Ursula von der Leyen (Christian Democratic Union, CDU), then Federal Minister for Labour and Social Affairs, announced that unemployment figures had fallen below 3 million from a high of nearly 5 million in 2005, the news magazine Spiegel Online referred to a German “jobs miracle” (Spiegel Online, 28 October 2010).

Figure 1.1 shows that aggregate employment levels remained relatively stable between 2007 and 2014. In 2007, around 40.3 million people were in gainful employment (up from 39.9 million in 2000). Throughout the crisis years, employment figures never fell below 40 million.

Figure 1.1. Aggregate employment and employees in jobs liable to social security contributions (SSC)*; in thousands Employment levels (2000–2014)



Note: * In Germany, dependent employees pay fixed shares of their gross wages into the statutory pension scheme, statutory unemployment insurance, statutory health and care insurance and the statutory accident insurance. Not included in the BA figures are self-employed persons, employees in marginal employment and civil servants, to whom other rules apply.

Sources: destatis (2015a); BA (2015a)

Nor did unemployment levels rise as steeply as might have been expected in view of the crisis. The number of people registered as unemployed with the Federal Employment Agency (BA) dropped from over 4.8 million in 2005 to slightly more than 3.2 million in 2008. The year 2009 saw a moderate increase to over 3.4 million unemployed persons, after which unemployment levels started to fall again and in 2014 the number was below 2.9 million people.

When the global and financial crisis hit Germany in 2008, the economy was in good shape. During the early years of the new millennium, after years of sluggish growth and high unemployment, the German Federal Government had initiated and implemented a set of controversial labour market reforms. What became known as “Agenda 2010”, introduced by then Chancellor Gerhard Schröder (Social Democratic Party, SPD) in a speech in March 2003, comprised several reform packages that were meant to free the German labour market from its rigidities and stimulate economic growth and employment levels (Goecke et al., 2013).

The reforms deregulated temporary agency work, revised marginal employment regulations and raised the earnings thresholds up to which so-called mini-jobbers and their employers paid reduced social security contributions (Goecke et al., 2013). In addition, the statutory pension age was raised from 65 to 67 years. The new rules were introduced in 2007 and revised after the crisis in 2011 by the current Federal Government, a coalition between the CDU, its Bavarian sister party the Christian Social Union (CSU) and the SPD (Vogel, 2015b).

Fördern und fordern (“[both] championing and challenging”) became the catch-phrase of Schröder’s reform agenda (Scheele, 2001), a set of measures to restructure the statutory unemployment and welfare systems. Until 2005, apart from the statutory unemployment insurance (still available today as Unemployment Benefit I, UB I), two other schemes existed that provided welfare grants to those in need. Called Unemployment Assistance and Social Assistance, these were merged under the title Unemployment Benefit II (UB II) by the Third and Fourth Laws on Modern Services in the Labour Market (Vogel, 2012a).

With UB II, a single measure was created to provide a minimum income for those in need, but not eligible for UB I. UB II is financed from tax revenues and recipients are means-tested. Means-testing, shorter UB I entitlement periods for older employees and stricter rules requiring UB I and UB II recipients to take up work and cooperate with the local employment agency caused a series of protests and demonstrations in 2004 (Dribbusch, 2004). Among others, Busch and Hirschel (2011) have criticized these re-forms and the induced labour market effects (more low-paid work). Together with a long-standing policy of concession bargaining (see Section 4.2) the reforms distorted price competition in the Eurozone, subsequently leading to high current account surpluses in Germany but current account deficits in other European countries. (For a full list of measures, see Goecke et al. 2013.)

In the years that followed, economic growth and employment both picked up, albeit not necessarily due solely to “Agenda 2010”. Demographic factors, full order books for German companies and wage moderation may also have contributed (Schäfer and Schmidt, 2014). In addition, the social partners in several industries had modernized their pay and general collective bargaining structures, abolishing the distinction between blue- and white-collar workers and adopting uniform pay scales for both groups of workers.

This occurred in the public sector in 2005 (Dribbusch, 2005), while the metalworking and electrical industry introduced modernized pay frameworks in its individual bar-gaining regions in the course of the 2000s (Stettes, 2005). In addition, the so-called Pforzheim Agreement of 2004 (Pforzheimer Tarifabkommen zur Standortsicherung) al-lowed for greater flexibility by enabling single companies, such as Siemens and Daimler in 2004, to be covered by a supplementary company agreement negotiated separately between the employer organization and union responsible. Such supplementary agreements were intended to keep the firm in question competitive, improve its innovation and investment situation, secure existing jobs and even create new ones (Stettes, 2009). Other options providing more leeway in times of economic crisis were the use of opening clauses in collective agreements (working time reductions were aligned with pay reductions). In order to counter the declining membership and collective bargaining coverage since the 1990s, employer organizations started to organize themselves differently: first, they permitted membership in their associations that did not bind companies automatically to the sectoral collective agreement negotiated by the employer organization. This is called an OT membership. Second, they introduced different flexibility options (for example, opening clauses). The Pforzheim Agreement in the metal-working and electrical industry was path breaking in this respect.

By the summer of 2007, as the crisis spread, the first German financial institutions, Deutsche Industriebank (IKB) and Sachsen LB, were in need of rescue packages. Hypo Real Estate (HRE) followed in 2008 and by 2009 the German economy was experiencing a severe economic downturn. Economic growth had slowed notably in the third quarter of 2008 and continued to decline throughout the winter of 2008 and 2009. At its lowest, German GDP shrank by 7.9 per cent in the second quarter of 2009 (over the same quarter in the previous year). However, in the second half of 2009 the decline in GDP began to slow. The negative growth in 2009 can be attributed mainly to shrinking German exports, mostly of manufactured goods, and a steep decline in investments (Smeets, 2011). Economically speaking, the turnaround was achieved in the first half of 2010 with the GDP rising in the first quarter by 2.6 per cent and in the second quarter by 4.7 per cent (over the same quarters in the previous year). It has continued to rise, though at a much slower pace, ever since (Destatis, 2014).

These developments have led to a renewed interest in the “German labour market miracle” and, specifically, the reasons behind it, the economic policies adopted and the tri-partite interplay of Federal Government, unions and employers. In the chapters that follow we will, first, illustrate what measures were taken to fight the crisis; second, show how the German policy response was orchestrated at the national level; and third, relate what became of it after the German economy started to recover.

1.2 Introducing crisis measures: a chronology of state intervention

The present section is divided into two parts. The first deals with the immediate crisis measures and rescue packages adopted by the German Government in rapid succession and in direct response to the emerging crisis. At this stage, the social partners were consulted on the immediate measures at the national level. At the international level, government measures were also closely coordinated with the EU and G7. The most important developments for collective bargaining and social partner initiatives will be de-scribed in Sections 3.1 and 3.2.

The second part of this section looks at later developments from 2010 onwards. While the Government continued to stimulate growth, not all of the measures introduced since 2010 can be regarded as a response to the crisis. In autumn 2013, Germany went to the polls and elected a new federal government (Vogel, 2014). The newly elected government made up of the CDU/CSU and the SPD is headed by Chancellor Angela Merkel. The coalition agreement concluded after the election in December 2013 listed extensive reform projects for the labour market and the statutory pension system.

1.2.1 The immediate response (2008-2009)

In 2011, Michler and Smeets investigated the global financial crisis and suggested a model for analyzing its different stages. As they note, understood as a banking and liquidity crisis the financial crisis lasted from 2007 to 2008. In the second half of 2008, its effects on the real economy were felt strongly all around the globe, leading to a new phase, widespread recession, which also hit the German economy. At the end of 2009 and the beginning of 2010 some countries began to experience severe new problems affecting their sovereign debt and threatening them with national bankruptcy. As we will see, the German Government's reaction to the global crisis can be divided into similar phases.

Zagelmeyer (2010) for example pointed out that the nationalization of HRE in October 2008 made it very clear that the global financial crisis had reached Germany. As mentioned above, two German Banks, the IKB and Sachsen LB (the state bank of Saxony) had already encountered severe problems after having invested in the US real estate market (Michler and Smeets, 2011). While the rescues arranged for these two banks received considerable coverage in the German media, the crash of HRE made it obvious that more thorough action was needed.

In November 2008 the Federal Ministry for Economic Affairs and Energy (BMWi) published a special edition of its monthly bulletin focusing on the global financial crisis and listing the steps envisaged to fight it. These were grouped in three phases similar to those identified by Michler and Smeets (2011) and subsequently adopted by the Federal Government for its measures:

1. Stabilizing the banking sector and avoiding a credit crunch.

2. Supporting the real economy by public investment and other measures.

3. Stimulating economic growth.

Stabilizing the banking sector and avoiding a credit crunch

In October 2008, the Bundestag and Bundesrat adopted a package of measures to stabilize the German banking sector. The package was adopted as a direct consequence of the global financial crisis and included: the Financial Market Stabilization Act (*Finanzmarktstabiliserungsgesetz*, FMStG), the Act on the Establishment of a Financial Market Stabilization Fund (*Finanzmarktstabilisierungsfondsgesetz,* FMStFG) and the Act on the Acceleration and Simplification of the Acquisition of Shares and Risk Positions of Financial Sector Enterprises by a newly created Financial Market Stabilization Fund, the FMS (*Finanzmarktstabilisierungsbeschleunigungsgesetz*, FMStBG).

As the names of the separate pieces of legislation already suggest, the newly established acts aimed at stabilizing the German financial market, guaranteeing the solvency of financial services institutions and thereby creating trust in the German banking sys-tem (BMWi, 2008). Individual institutions needed bailout packages and the fall in stock prices had to be stopped. Trust was needed not only to carry out transactions in the interbank market, but also to avoid a credit crunch and its repercussions for the German economy. Companies wanting to invest or needing loans to keep their businesses running were not to want for credit due to a solvency problem at the banks. After all, companies still operating also saved jobs. The new legislation focused on the setting up of the Financial Market Stabilization Fund (SoFFin) and stipulated the following:

1. SoFFin is managed by the Financial Market Stabilization Agency (FMSA), headquartered in Frankfurt am Main. FMSA implements and monitors SoFFin's stabilization measures.

2. SoFFin was created to stabilize the financial market in Germany by avoiding liquidity shortages and creating favorable conditions for financial service companies' equity bases.

3. SoFFin can issue guarantees of up to 400 billion euros for the debt instruments and liabilities of financial-sector enterprises. The guarantees are for a maximum of 60 months, with extensions for guarantees running longer than 36 months granted only

in exceptional circumstances. SoFFin was initially created to do this only until 31 December 2010.

4. SoFFin can also provide support by recapitalizing a financial (service) institution and taking over risk positions (liabilities and securities).

In addition, at the beginning of October 2010, after talks on the bailout of HRE had failed, Chancellor Angela Merkel promised the public that their savings accounts were safe (Hamburger Abendblatt, 2008). This promise was intended to avoid a run on banks by private individuals withdrawing their savings.

Supporting the real economy and the general population

Apart from immediate crisis measures to rescue, and implement a new framework, for the banking sector, further measures were needed to support the German economy and consumers (BMWi, 2008). The measures taken represent a mixture of automatic stabilizers and targeted public investments to safeguard employment and boost consumption and growth.

In October 2008, the Federal Government adopted a number of measures to support the general population, stabilize the social security system and support families (*Maßnahmenpaket zur Senkung der steuerlichen Belastung, Stabilisierung der Sozialversicherungsabgaben und für Investitionen in Familien*). The following measures were included in the package (BMWi/BMF, 2008; Scharnagel, 2009):

1. Child benefit and the tax allowance for children were raised. Further support measures for families were introduced (lower income taxes for employing a mini-jobber, tax deductions for household services, financial support for the schooling of children of parents receiving welfare benefits).

2. Contributions to statutory unemployment insurance were lowered from 3.3 per cent of gross pay in 2008 to 3.0 per cent in 2009 and 2.8 per cent in 2010. This measure alone was estimated to have saved private individuals and companies some €30 billion annually. The total value of the package was estimated at around €6 billion in 2009 and nearly €14 billion annually from 2010 onwards (BMWi/BMF, 2008).

3. However, contributions to the statutory health insurance were raised by 0.6 percentage points to 15.5 per cent of gross pay.

In addition, monthly allowances for UB II were raised to €351 (first bracket: for the unmarried, single parents and adult claimants living with a minor), €316 (second bracket: for adult partners living with a UB II claimant), €281 (third bracket: 18- to 24-year-olds still living with parents receiving UB II), €281 (fourth bracket: for 14- to 17-year-olds), €211 (fifth bracket: for 6- to 13-year-olds), €211 (sixth bracket: for children up to the age of five). In 2009, the allowances were raised to €359, €323, €287, €287, €251 and €215, respectively.

The economic situation deteriorated rapidly throughout the second half of 2008 and the winter of 2009. Interviews with the social partners and a representative of the Federal Government (see Section 2), as well as the publications and statements of the BMWi in 2008 and 2009 emphasize the shared conviction that the crisis was a steep economic downturn. However, as soon as companies' order situations improved, economic growth would return without having to make structural adjustments with regard to the set-up of German industries. The first rescue package promised investments, sought to safeguard jobs and fostered economic growth by private and public investment. Entitled Securing Jobs by Enhancing Growth and adopted on 5 November 2008, it represented a distinct break with earlier German policies. The individual measures included:

Labour market measures:

1. The regular entitlement period for short-time working allowances granted for economic reasons was extended from 12 to 18 months with effect from 1 January 2009. In 2008, statutory entitlement periods for short-time working allowances for economic reasons had already been extended from six to 12 months. This type of short-time work was the instrument most widely used to deal with the crisis (Eurofound, 2010). [1]

2. Improved placement of employees threatened by joblessness with the creation of an additional 1,000 jobs for case workers in local employment agencies.

Tax relief:

1. Tax relief for companies (degressive depreciation for movable assets up to a maximum of 25 per cent, special depreciation for SMEs).

2. Tax relief for private households (improved deductibility for tradesmen's services, maintenance and modernization measures).

3. One-year tax exemption for newly bought cars.

Investment:

1. The KfW (Kreditanstalt für Wiederaufbau) was given more leeway in the granting of loans to SMEs, and its infrastructure programmes for poorly developed municipalities received additional funding of €3 billion.

2. Additional investments for the energy-efficient renovation of buildings.

3. Accelerated implementation of necessary investments in transport.

4. Additional funds for improving regional economic structures, a joint federal and state responsibility.

With the economic outlook still bleak at the end of 2008, a second rescue package (*Pact for Employment and Stability*) followed on 13 January 2009. Here the measures included:

Labour market and employment:

1. The entitlement period for the short-time working allowance for economic reasons was extended to 24 months. Employers received reimbursement of half the social security contributions paid for their short-time workers (effective until the end of 2010). The training subsidy for workers on short time for economic reasons was extended: while even before 2009 the BA had subsidized training measures for workers on short time due to restructuring or a plant closure, as an anti-crisis measure the target group was expanded to include all short-time workers. If companies trained their short-time workers during non-working hours, the BA could refund 100 per cent of employers'

[1] Generally speaking, there are three types of short-time working schemes available in Germany: apart from the one mentioned above, the other two are: short-time working allowances due to restructuring or plant closure (Transfer-Kurzarbeitergeld) and seasonal short-time working allowances (Saison-Kurzarbeitergeld). For details, see Vogel, 2009 (URL: http://www.eurofound.europa.eu/observatories/eurwork/articles/new-allowances-for-short-time-work-in-bid-to-offset-economic-crisis).

social security payments. Costs for training courses could also be partially reimbursed (depending on the kind of training).

2. A short-time working allowance for temporary agency workers (TAW) was introduced for the first time.

3. Investment of nearly €2 billion in public training measures for job seekers, for example, to support further training measures during short-time work or train persons with no school leaving certificate and so on.

4. 5,000 additional staff at local employment agencies and job centres to place jobseekers and distribute grants.

Investment programmes:

1. Greater investment in public facilities (kindergartens, schools, universities) and infrastructure (transport, hospitals, urban development) and simplifying public procurement to speed up investments.

2. Expansion of the broadband network.

3. Increased funding for the Central Innovation Programme for SMEs (Zentrales Innovationsprogramm Mittelstand, ZIM). Additional funding worth €1.5 billion for 2009 and 2010 was budgeted to support SMEs in their research and development activities and to foster long-term growth.

4. Raising demand for private cars (“scrappage premium”): a premium worth €2,500 was paid when a car nine years old or older was scrapped and a new environmentally-friendly car bought and registered by the end of 2009.

5. Additional investment and credit programmes for applied research in electro-mobility.

Credit facilities and loan guarantees:

1. To avoid a credit crunch, a special fund, the “Germany Business Fund” (Wirtschaftsfond Deutschland), was set up. The fund contained a total of €115 billion to be used for loans or loan guarantees in 2009 and 2010.

Tax relief:

1. Lowest income tax rate reduced from 15 per cent to 14 per cent starting in 2009.

2. New regulation of car tax.

Fiscal reform:

1. New rules on public debt: Section 109 of the Basic Law (*Grundgesetz*) obliges Germany’s national and state governments to balance their budgets with a strict limit on new debt. The rule is that from 2016 onwards new debt at the federal level and from 2020 onwards new debt at the state level may not exceed 0.35 per cent of Germany’s annual GDP. An exception to the new rule is made for emergency cases, such as a deep economic recession or a natural catastrophe. The national government and the federal states can adopt special rules for such situations. Despite rising expenditures for the aid packages of 2008 and 2009, Germany continued to stimulate growth in the hope that this would help to consolidate public finances in the long run.

The Federal Government and its ministries agreed at an early stage that while public investment was needed and under the circumstances higher spending was unavoidable, all measures were adopted on the premise that they were to be administered in a fiscally responsible way (BMWi, 2008).

Stimulating economic growth

On 17 March 2009, after initial drafts had already been debated throughout 2008, the Third Act to Reduce Burdens on Small Business (Drittes Mittelstandsentlastungsgesetz, *MEG III*) was adopted. The act sought to reduce red tape for SMEs, and thus enhance their competitiveness, by making many small administrative changes. The law aimed to reduce costs for SMEs by at least €75 million and for public administrations by some €8.6 million annually (Deutscher Bundestag, 2009a).

This was followed on 2 December 2009 by the Growth Acceleration Act (*Wachstumsbeschleunigungsgesetz*). The intention behind the act was to overcome the economic recession still being felt at the end of 2009 and provide growth stimuli for a lasting economic upswing by improving tax provisions and investing in renewable energies (Deutscher Bundestag, 2009b). It included the following measures:

Tax relief:

1. Inheritance tax lowered.
2. Value added tax for hotels, boarding houses and camping sites lowered.
3. Possibility to deduct losses for company tax purposes on an enlarged scale.
4. Immediate write-off of fixed assets up to a maximum of €410.

Miscellaneous:

1. Higher tax allowances for dependent children and increased child benefits.
2. Additional support for the expansion of renewable energies.

1.2.2 Following up: 2010 and beyond

From 2010 onwards, the Federal Government initially continued to promote growth and boost the economy. With the recession easing at the end of 2009 and the first positive news in 2010, the entitlement period for the short-time working allowance for economic reasons was reduced from 24 to 18 months in 2010 and again to 12 months in 2011. All other crisis-induced special regulations on short-time work (for example, reimbursement of SSC) were discontinued at the end of 2011. Temporary agency workers were able to profit from the crisis regulations and claim their short-time working allowance until the end of 2012. In March of that year the entitlement period was shortened to the statutory six months, though only briefly, as in 2013 it was re-extended to 12 months, where it has since remained.

Automatic stabilizers

Lower contributions to the statutory unemployment insurance served to relieve the pressure on employees and employers throughout the crisis. As shown in Table 1.1, this trend was discontinued in 2011, when the statutory unemployment and health insurance contributions rose again.

Table 1.1: Development of contributions to the statutory social security system Statutory

Statutory insurances	2009	2010	2011	2012	2013	2014	2015
	As a percentage of gross pay						
Unemployment	2.8	2.8	3.0	3.0	3.0	3.0	3.0
Health	First half :15.5 Second half: 14.9	14.9	15.5	15.5	15.5	15.5	14.6
Pension	19.9	19.9	19.9	19.6	18.9	18.9	18.7
Long-term nursing care	1.95	1.95	1.95	1.95	2.05	2.05	2.35

Source: Lohn-Info (2015)

Germany elected two new federal governments in the period covered by this report (2008-2015), in 2009 and 2013. The most recent federal election led to the currently ruling grand coalition of CDU/CSU and SPD. Despite being the minor partner in this coalition, the SPD has nonetheless pushed through much legislation on the coalition's agenda that either reverses such earlier reforms as the unpopular gradual raising of the statutory retirement age to 67, or is otherwise controversial, such as the introduction of a national minimum wage.

Though neither these changes nor the reforms they reverse should be regarded as a direct result of the 2008-2010 crisis, which many of the latter predate, we will here de-scribe the changes most relevant for the structure of the German labour market, the ba-sis of collective bargaining in Germany and the statutory pension scheme. Many smaller changes affecting single instruments of active labour market policy have been introduced since 2010 but these are too many to be fully listed in this report.

Active labour market policies and labour market reforms (2010–2015)

In 2010, in the wake of the crisis, several active labour market measures (ALMPs) were prolonged. They included measures for older employees, integration subsidies (paid to employers for taking on older employees) and subsidies for further training courses. Bonuses for taking on apprentices from insolvent companies were prolonged until the end of 2013.

However, the first major reform after the crisis came into force on 1 April 2012, when the new law on improving prospects for integration into the labour market (*Gesetz zur Verbesserung der Eingliederungschancen am Arbeitsmarkt*) took effect. The new act reduced labour market instruments by around a quarter and was designed to align those that remained with specific goals. To ensure higher quality, the law introduced more flexibility for job centre case workers in granting certain benefits and measures. For example, entitlement conditions for the "start-up premium" (*Gründungszuschuss*) were tightened, while the discretionary power to decide on whether or not to grant the premium was transferred to case workers. The premium is paid to unemployed people wishing to start a business of their own.

Following federal elections in September, the prospective coalition partners reached a policy agreement at the end of 2013. The coalition partners set out to change important cornerstones of the German labour market structure (Vogel, 2014). For details see Section 3.2.2.

Major changes to the statutory pension scheme

The pension reform of 2007, which raised the pensionable age by one month each year, took effect on 1 January 2012 and raised the statutory retirement age that year from 65 to 65 years and one month. From 2024, the retirement age was to rise by two months each year so that, by 2029, people born in 1964 or the following year would have to work until 67. Only on reaching the full retirement age would they receive their full public pension. Early retirement was still possible, but accompanied by deductions in pension benefits (Vogel, 2012b).

However, as already mentioned, the reversal of earlier reform steps was envisaged in the current government's coalition agreement and a new pension law (RV *Leistungsver-sicherungsgesetz*) took effect on 1 July 2014. The pension package consists of four main elements (Vogel, 2015):

1. Employees who have worked for 45 years may retire at 63 years of age and still receive their full state pension. This rule applies only to those born before 1953 and who received their state pension for the first time in 2014. For those born after 1952 who have worked for 45 years, the pensionable age will rise by two months each year. The cost of this measure was estimated to rise from around €1 billion in 2014 to around €3 billion in 2030.

2. Mothers of children born before 1992 are entitled to higher pension benefits. For each child, their benefits will increase by around €343 per annum in western Germany and around €317 per annum in eastern Germany. Annual costs for this measure have been estimated at around €3 billion in 2014 increasing to around €6 billion in 2030.

3. Pensions for those with reduced earning capacity: people who are wholly or partially unable to work or earn their own living (due, for instance, to illness or accident) can claim this benefit. If granted, the benefit is paid until the statutory retirement age or until rehabilitation and reintegration into the labour market. From 1 July 2014, pension levels are calculated differently to provide those in need with a higher pension. The new rules apply only to pensions first granted after 1 July 2014.

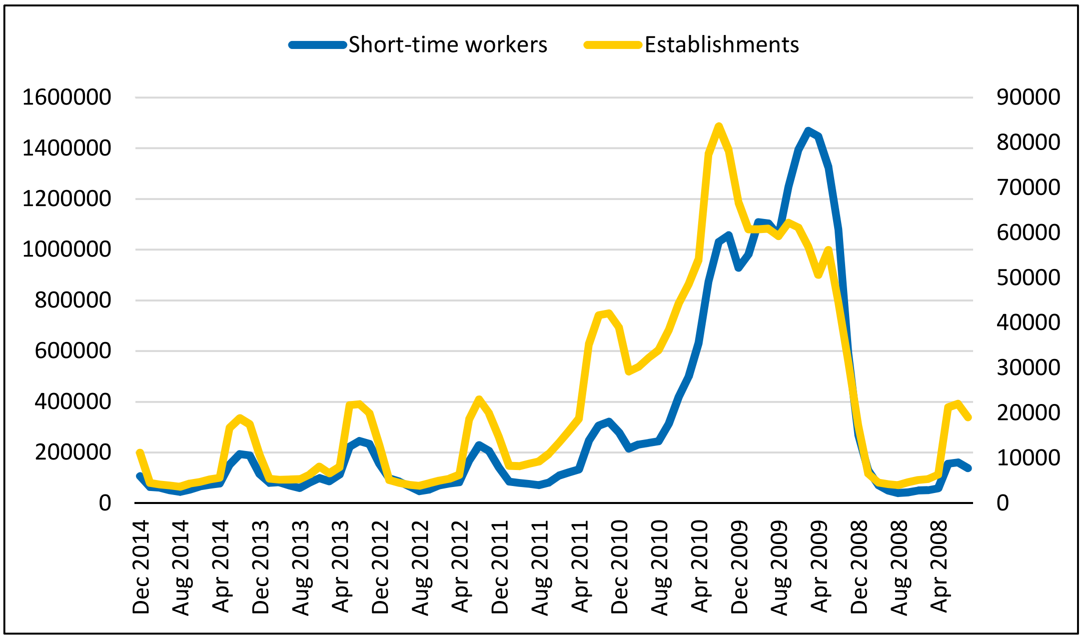
4. Rehabilitation: higher budgets are available for rehabilitation measures. They start with an additional €100 million in 2014, rising to an additional €233 million by 2017.

The new pension package is one of the most far-reaching reforms in post-war German history. Not all experts regard it as fiscally sound, as longer working lives and longer contribution periods to the public pension scheme will be needed to finance the scheme for future generations (Vogel, 2015).

1.3 Effects of the crisis measures

It is not possible to clearly link the effects of any single crisis measure to the subsequent performance of the German economy, as many other factors have also played a role. Germany's three short-time working schemes have received considerable attention as potential drivers of the country's "job miracle", because the number of companies and workers on the schemes increased throughout the crisis (see Figure 1.2). Take-up peaked in May 2009 at nearly 1.5 million workers and almost 56,000 establishments.

Figure 1.2. Utilization of short-time work in Germany (2008–2014)



Source: BA (2015c).

However, Bellmann, Gerner and Upward (2011) suggest that it was not the application of any single instrument, but rather a mixture of several measures that helped companies to weather the crisis. The researchers show that instead of employing a policy of "hiring and firing" and reducing costs by massive layoffs, many firms resorted to instruments that brought down working hours and labour productivity. This included the reduction of surplus hours on working time accounts, banning overtime and introducing short-time working schemes.

Finally, IWH and Kiel Economics (2015), two research institutes, have analyzed the effects of the fiscal policy measures Germany adopted in response to the crisis. The re-searchers find evidence that, overall, the rescue packages and other crisis measures had a positive impact in 2009. However, the full effect of the measures was delayed until 2010 and 2011 when the German economy was already experiencing an upturn. There is also some evidence that positive expectations of the effects of the measures helped to stabilize corporate and consumer trust and to boost demand. Automatic stabilizers and crisis-induced labour market measures are judged to have contributed strongly to the weathering of the crisis. However, it is difficult to quantify any of these effects.

Section II. Orchestrating a national policy response before, during and after the crisis

2.1 Industrial relations and social partnership in Germany: concepts and reality

There is no national dialogue between the social partners in Germany. Industrial relations and social partnership in Germany rely mainly on the legal rights and obligations laid down in the Basic Law, the Works Constitution Act (*Betriebsverfassungsgesetz*, BetrVG) and the Collective Bargaining Act (*Tarifvertragsgesetz*, TVG).

Germany's Basic Law, its constitution, stipulates freedom of association (Section 3), from which the constitution of employer organizations and unions is derived. The interaction between management and employee representatives at the establishment level is regulated by the Works Constitution Act. Works councils can be set up in all establishments with at least five employees. Works council members do not need to be un-ion members, although this is often the case (Stettes, 2015).

Works councils have co-determination rights, for example, concerning working time issues, restructuring measures affecting the merger or splitting of organizational units, and further information and consultation rights. Management and works councils can conclude voluntary works agreements at the establishment level on all issues that are not covered by collective bargaining (unless the collective agreement opens up the bar-gaining option for works councils, usually by including an opening clause). Works agreements and collective agreements are discussed and negotiated between employers and employee representatives. Unions negotiate either with the management at the establishment level or with sectoral employer organizations, mainly at the regional level, to conclude single- or multi-employer collective agreements. Mechanisms exist for both individual and collective dispute resolution, such as going to the labour court in the former case and invoking the arbitration committee (*Einigungsstelle*) when employers and works councils fail to reach a joint solution.

Social dialogue, defined by the ILO as "all types of negotiation, consultation or information sharing" (ILO, 2013), is mainly bipartite in Germany, although tripartite mechanisms are not unknown. For example, the governing boards of Germany's statutory social security insurances include representatives of the government, as well as of the two sides of industry. However, tripartite social dialogue in Germany often works without formalized structures. Other examples in Germany's post-war history when tripartite coordination played a role in social and economic policy-making, include the following:

1. In 1967, the German Federal Government set up the so-called Concerted Action (*Konzertierte Aktion*). The goal was to coordinate public, employer and union interest in a joint wage policy and other macroeconomic issues. The concerted action failed as the agreements were informal and non-binding and the unions were largely unable to convince their members of the benefits of a non-inflationary wage policy.

2. The "Alliance for jobs" (*Bündnisse für Arbeit*) was initiated under then Chancellor Gerhard Schröder in 1998 to deal with the high level of unemployment in Germany (Schulten, 1998). It failed at the national level due to the inability of the social partners to reach an accord on fundamental structural questions.

3. A new Alliance for Vocational Training and Further Training was launched in 2014. While an alliance had existed since 2004 between different employer associations, the government and other civic society representatives, it only became tripartite when the

German Confederation of Trade Unions (DGB) joined at the end of 2014 (Vogel, 2015a).

The interaction of the Federal Government and the social partners following the crash of Lehman Brothers in summer 2008 represents one of the most successful examples of tripartite coordination and crisis management.

2.2 Crisis management: An invitation from the Chancellor

As described in our first chapter, the Federal Government created several rescue and other packages to limit and absorb the negative effects of the crisis. Although it was not clear how long the crisis would last and how severely affected the German economy and labour market would be, it was clear that immediate action was needed and that this would require the concerted efforts of all concerned. The Federal Chancellery therefore invited the unions, employers and other actors to participate in the summits and other crisis meetings held throughout autumn and winter 2008/2009 to analyze the situation and develop a crisis strategy.

On 13 October 2008 the Federal Minister for Economics invited representatives from different sectors to a meeting to discuss possible measures to tackle the crisis (Zagelmeyer, 2010). After launching the first rescue package on 5 November 2008, the Federal Government once more invited the social partners to a meeting the next day. The goal was to secure their support in realizing the rescue package. Among others, the participants included the heads of the four employer umbrella organizations, namely the German Confederation of Employers' Associations (BDA), the Federation of German Industries (BDI), the Association of German Chambers of Industry and Commerce (DIHK) and the German Confederation of Skilled Crafts (ZDH). The unions were rep-resented by the German Confederation of Trade Unions (DGB).

At the end of 2008, the Federal Chancellery organized the first economic crisis summit. On 14 December 26 representatives from the federal ministries, employer organizations, unions, companies and financial institutions took part in this high-level meeting (Wirtschaftswoche, 14 December 2008). Concrete decisions were neither anticipated nor reached. The summit was held to involve the relevant actors, jointly analyze the prospects for the German economy in 2009 and debate possible measures to boost the economy and private consumption and to safeguard employment. The summit served as a preparation for the decisions taken on 5 January 2009, when the ruling coalition parties met to discuss what further measures were necessary. The result was the second rescue package.

Meetings with employer and union representatives continued on different occasions throughout the winter of 2008/2009, leading to a second crisis summit on 22 April 2009. [2] Here, as at the first summit, employer and union representatives discussed economic developments and the effects of the first package. The employers called for an extension of the entitlement period for short-time working allowances from 18 to 24 months and relief for companies wanting to use the instrument by cutting their social security contributions for short-time workers. The unions, on the other hand, called for a third stimulus package, which never materialized, however (Zeit Online, 22 April 2009).

[2] For details see Zagelmeyer, 2010.

Box 1: The crisis summits in the Federal Chancellery and the involvement of the social partners

When the crisis hit Germany in 2008, it was not possible for the Federal Government to predict its duration or scope. However, all government representatives agreed that the crisis was a one-off event and therefore the measures adopted were to be of a temporary nature. The main strategy for fighting the crisis was to mobilize all available re-sources. All actors were aware that this kind of mobilization could not be repeated any number of times.

Measures to fight the crisis were coordinated at the Federal Chancellery. The powers of the Chancellor's Office – as enshrined in the constitution – are limited to setting the guidelines and coordinating the different federal ministries, while each minister is responsible for their own policy area. In the case of the financial and economic crisis, policy responses were drafted mainly under the leadership of the Federal Ministry for Economic Affairs and Energy and the Federal Ministry of Finance. Other federal ministries were also involved in formulating measures affecting their port-folios, such as the Federal Ministry of Labour and Social Affairs and the Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety.

The crisis summits in the Federal Chancellery were informal meetings outside existing committee structures. However, informal meetings at the Federal Chancellery were already common practice before the crisis. The difference was that the regular meetings usually did not lead to any concrete agreements, while at the crisis summits the Federal Government asked for the social partners' positions on concrete measures. All in all, the summits were characterized by the joint efforts of all participants to cooperate constructively. There were no recriminations or demands. Rather, it was agreed that the crisis was not "homemade" and that fighting the crisis required a structured approach and mutual effort.

While there have been informal meetings between the government and the social partners since the crisis, new tripartite standing structures have not been introduced. The positive experience during the crisis showed that the ad hoc dialogue structure works and constitutes a basis for successful cooperation in future crises. The success of the existing dialogue structure is not defined by an institutional setting, but determined by how actors work and what is needed on specific occasions. In addition to the meetings between top representatives, there are also informal talks which are held regularly at the sectoral level.

After the crisis, the Federal Government adopted two major labour market laws. These laws had either already been discussed before the crisis (statutory minimum wage) or were introduced at the request of the social partners (the principle that one collective agreement prevails in one company). Neither the Act on Strengthening the Autonomy of Collective Bargaining, which came into force at the beginning of 2015 and introduced Germany's first general mini-mum wage, nor the law to restore the principle that one collective agreement can apply in any one company *(Tarifeinheitsgesetz)*, which entered into force in July 2015, are a result of the crisis. The legally binding nature of the latter law goes back to a joint initiative by the social partners from 2010. The background of this initiative was a new ruling by the Federal Labour Court in 2010. The Act on Strengthening the Autonomy of Collective Bargaining has an even longer history.

According to the Federal Government's representative, the social partners are closely involved in the European semester. This holds true for the coordinating Federal Ministry for Economic Affairs and Energy, as well as for the Federal Ministry of Labour and Social Affairs. There is an intensive and regular exchange of views and positions.

Source: Interview with Ms Rose Langer on 3 September 2015 (currently BMAS, formerly working at the Federal Chancellery).

As the interview with the Federal Government representative highlights, the government deemed it important to involve the social partners in the process of finding and adopting suitable crisis measures and different strategies were used to take their positions and views into account, as well as to secure their support. Meetings took different forms and were organized on a bi- and tripartite level. As well as the formal crisis summits that received considerable attention in the media informal meetings were held at the operational level of the federal ministries.

Our interviews with representatives from the metalworking and electrical industry – one of the most severely affected industries and one of the biggest employers in Germany – illustrate the characteristic features of German social partnership. While critics have voiced concerns that the summits were "show events" (Spiegel Online, 15 December 2008), interviews with the social partners undertaken for this report make clear that their ideas and analyses were considered by the Federal Government and some of their proposals (such as lowering the hurdles for short-time working and the car scrap page scheme) were incorporated into the rescue packages.

When the crisis hit Germany in the second half of 2008, the German Metalworkers' Union (IG Metall) had tabled a wage claim of 8 per cent for the upcoming collective bargaining round (see Box 2). While this demand was regarded as exceptionally high by employers and could have led to serious confrontations, both sides of the industry rapidly understood the possible extent of the crisis and switched from "confrontation" to "problem-solving mode". Safeguarding employment at affordable costs for companies became the paramount task during 2008 and the years to follow. A call that was echoed by IG Metall, but also by the Employers' Associations for the Metalworking and Electrical Industry (Gesamtmetall).

Box 2: Social partnership in the German metalworking and electrical industry - The view of the IG Metall trade union

In autumn 2008, two parallel developments emerged in the metalworking and electrical industry. One was the upcoming wage bargaining round and the second was the spreading symptoms of crisis. Rising oil and energy prices in 2007/08 meant that union members found themselves at a disadvantage and there was an intra-union debate on fairness. The conclusion was reached that, in addition to the assumption that wage rises should correspond to the sum of productivity gains and the inflation rate, fairness demanded an additional bonus. While the union representatives were aware that the industry was in an economic downturn, rising wages were seen as an instrument for stimulating demand and boosting consumption. In addition, the extent of the crisis was perceived only with some delay. Union representatives therefore did not immediately intervene in the debate on the wage demand and the result was a wage claim of 8 per cent for twelve months.

IG Metall was prepared to go on strike to enforce its demand and both social partners were expecting an escalation of the collective bargaining process. However, this escalation was pre-empted by the bankruptcy of Lehman Brothers banking house, which triggered the financial crisis. Thereafter, the social partners took only two months to negotiate a new agreement, which included a significantly lower wage rise than demanded by the union (one-off payments and a wage increase of 4.2 per cent to be paid in two steps of 2.1 per cent over 16 months). At first, union members criticized the agreement but the criticism stopped in January 2009, as the extent of the crisis be-came obvious. Everyone was aware that the crisis was profound and would threaten not only individual jobs but the entire industry.

However, the social partnership worked and the social partners coped successfully with the financial crisis. Employers and unions agreed that it was a one-off economic downturn and not a consequence of a lack of competitive-ness in the metalworking and electrical industry. This assessment resulted in a mutual goal, to avoid layoffs and safeguard jobs. With this in mind, first balances on working time accounts were reduced. However, the social partners agreed that further action was needed and IG Metall was one of the first to demand that short-time work should be fully exploited.

In December 2008, IG Metall adopted a seven-point programme to safeguard employment ("no dismissals during the crisis"). The proposals not only included the use of short-time work but also insisted that it should be combined with training measures and be affordable for small and medium-sized enterprises. The proposals were coordinated with the employers at the beginning of 2009. Additionally, the social partners laid down a common position towards, and discussed their ideas with, the Federal Government. In particular, they asked for earmarked subsidies to re-duce the companies' residual costs for short-time work. The government responded positively to the proposals. First, the entitlement period for short-time work allowances was temporarily extended to 24 months. This was the second extension, the first having been in November 2008, when the entitlement period was extended from 12 to 18 months. In addition, the employers' share of social security contributions was borne by the Federal Employment Agency. This significant reduction in the residual costs made the use of short-time working more attractive for employers. On one hand, it was possible to employ skilled workers during the crisis at reasonable cost. On the other hand, the workers no longer had to fear mass layoffs. However, the trade union's aim of combining short-time work with further training was not sufficiently realized. In the view of IG Metall, the proposed combination of the two instruments would have ensured companies' competitiveness after the crisis, when new market structures and new challenges emerged. However, the approach was hardly used in practice because there was no training strategy. Employers were cautious about conducting training during the crisis as they faced a high degree of uncertainty due to a lack of sufficient market signals.

The main result of the tripartite approach (the crisis summits in the Federal Chancellery, see Box I) was the message it sent to the public. The summits signaled that the government and the social partners were ready to fight the crisis jointly. From a practical point of view, informal meetings between IG Metall and the different ministries were at least as important, because the union was able to promote its own ideas. There were similar bilateral meetings between Gesamtmetall, the employers' association and the ministries.

The next collective bargaining round held in February 2010 was also influenced by the crisis. Although productivity had decreased and technically speaking the scope for wage increases was negative, employers signaled early on that they were not demanding wage cuts. IG Metall then started the wage negotiations – for the first time in its history – without demanding higher wages. Because the union leaders expected the crisis to last even longer, safeguarding employment was the focus of the collective bargaining round and the 2010 agreement only included one-off payments.

In addition, the social partners negotiated a new collective agreement called “Future in Work” (Zukunft in Arbeit). In addition to the existing crisis instruments, this introduced a new option on short-time working. The new option was designed to assist establishments which had introduced short-time working at the beginning of 2009 and would therefore have exhausted the possibilities of statutory short-time work by the end of 2010. The new agreement made longer entitlement periods possible. [3]

The behavior of both parties represented a remarkable break with tradition and this was a prerequisite for the effective working of the social partnership during the crisis. However, the social partnership itself has a long history characterized by a constant trade-off between confrontation and cooperation. Periods of greater cooperation have been followed by periods of more direct confrontation, and vice versa. The ability of both social partners to work with conflict is important for the achievement of balanced collective agreements and the crisis did not change this bargaining pattern. During the crisis, however, both social partners worked together in an efficient manner.

The bilateral dialogue between the social partners was at the heart of the successful response to the crisis whereas the tripartite approach was an accompanying measure. It is important to point out that this kind of “social dialogue” is not an established institution in Germany. Informal meetings at the Federal Chancellery were already common practice before the crisis and the government and the social partners have always come together occasionally to discuss specific topics. However, in contrast to the introduction of the Hartz Reforms some years before, during this crisis the organizations were fully involved by the government. On the other hand, the tripartite cooperation, which involved not only summits in the Federal Chancellery but also a comprehensive information exchange with the ministries on the working or expert level, was initiated not by only the government but also by the social partners.

What is an established institution in Germany is the principle of co-determination at the establishment and company levels and this is an important basis for this kind of “social dialogue”. The process of co-determination ensures effective participation of works councils and union members on supervisory boards, a mechanism that was an essential element of the successful response to the crisis. It ensured a climate of trust and a level of information exchange that was the basis for joint agreements at the sector level.

The crisis did not change the informal setting of the dialogue between the main actors. Furthermore, the government’s most recent labour market legislation (the Act on Strengthening the Autonomy of Collective Bargaining and the Collective Agreement Unity Act) was not a result of the crisis but had been requested by the social partners. From the perspective of unions, the Federal Government should take further measures to strengthen the collective bargaining system for the future.

Source: Interview with Mr Kay Ohl for IG Metall on 31 August 2015.

Although the union and the employers did not agree on every detail, they shared a common analysis of the situation and a mutual goal. Both sides agreed that the sharp drop in demand was of a cyclical nature, the industry itself was in good shape, companies needed to be supported until the economic upswing set in and skilled labour would be needed to profit from that upswing. (On the strategies and measures adopted see Boxes 3 and 4 and Section 3.)

The steps taken by IG Metall and Gesamtmetall illustrate very well the inner workings of their social partnership. At first, the employers and the union analyzed the situation and discussed possible countermeasures within their own ranks. By December 2008, for example, IG Metall had adopted a seven-point programme to safeguard employment and lowered their wage demands considerably during the collective bargaining round. At the beginning of 2009, they liaised with the employers to coordinate this programme. In addition, bilateral or trilateral meetings with government representatives were used to underpin their approaches to the crisis.

The expert interviews with IG Metall and Gesamtmetall make clear that mutual trust, the ability to work through conflicts, cooperate and find common ground are essential to a successful social partnership.

[3] For further details see Kraemer, 2010.

Box 3: Social dialogue in the metalworking and electrical industry - The employer's view

Social dialogue and collective bargaining in the German metalworking and electrical industry are usually bipartite. Employer organizations and the union in the industry discuss and negotiate collective agreements and debate topics of common interest. Gesamtmetall is the umbrella organization for regional employer organizations in the metalworking and electrical industry. IG Metall and its regional branches represent employees in the sector.

In 2008, the metalworking and electrical industry was one of the most severely affected sectors in Germany, with a decline in orders of up to 80 per cent, an unprecedented economic crisis. According to Gesamtmetall, the social partners in the industry had foreseen neither the extent nor the intensity of the global financial and economic crisis.

Indeed, at the beginning of the collective bargaining round in September 2008, IG Metall had tabled a demand for wage increases of 8 per cent, a figure which Gesamtmetall considered extremely high. However, this wage claim was taken no further as the crisis hit the sector and the social partners switched from a path of contested wage bargaining to crisis-solving mode, a change made possible by the strong culture of dialogue and cooperation in the industry.

As Gesamtmetall stated, the ability to unite during a crisis, analyze the situation at hand and develop tailor-made solutions is a special feature and unique advantage of such a bipartite partnership. Constant alternation between conflict and cooperation is the core of the social dialogue in the metalworking and electrical industry. Heated de-bates during collective bargaining rounds are as important as looking for common ground and finding appropriate solutions during times of severe crisis.

In the case of the global financial and economic crisis of 2008–2010, Gesamtmetall and IG Metall rapidly agreed that the drop in orders was of a cyclical nature, the industry was in good shape and did not need restructuring (as might have been the case during a structural crisis). Sharing this common analysis, both partners also agreed that safeguarding employment was the paramount task ahead. Skilled labour was the key to remaining competitive during the next economic upswing and profiting from an improved order situation.

Against this background, the social partners in the industry agreed to exploit all options already available to companies in the sector, such as opening clauses, reduction of credits on working time accounts and an overtime ban. The main strategy was to reduce working time, along with wage costs in the industry. This was made possible by a collective agreement on safeguarding employment (TV Besch) and by making short-time working more attractive for companies.

Whilst the TV Besch was a bipartite solution, the finding of an affordable short-time working scheme is an excellent example of how tripartism works in Germany. Although short-time working schemes were already part of German labour legislation, Gesamtmetall and IG Metall looked for ways to adapt the basic instrument to the severity of the crisis. The employer organization pointed out that the statutory version of the allowances for short-time working due to economic reasons (konjunkturelles Kurzarbeitergeld) was not easy for companies to use. On one hand, the statutory entitlement period of six months was too short for the anticipated duration of the crisis and on the other, the costs faced by companies which put their workers on short-time work were too high. Employers still had to pay wages and social security contributions for hours worked. The social partners therefore advocated changes to ease this burden. Tripartite meetings with Federal Government representatives – at the crisis summits and with minis-tries – were used to debate these topics and bring about the necessary changes. The entitlement period for short-time working due to economic reasons was prolonged several times and employers' social security contributions were reduced, initially by 50 per cent and ultimately by 100 per cent.

Once the tripartite consultations had facilitated the necessary legal framework, Gesamtmetall and IG Metall concluded bilateral collective agreements on short-time working, training and employment in Baden-Wurttemberg and "Future in Work" (Zukunft in Arbeit) for all other bargaining regions. These agreements allowed companies to extend the duration of short-time work from 12 to 24 months (using voluntary company agreements). In this way, longer periods of short-time work were introduced at the sectoral level. Companies could make use of this option, but were not forced to do so. If they did, they also had to follow certain rules and safeguard employment.

As Gesamtmetall pointed out, the interplay of tripartite consultations leading to an adjustment of the legal setting and independent bipartite collective bargaining are the key to understanding the background of the German "jobs miracle". Tripartite consultation between the government, employers and unions at the national level, together with tailor-made solutions at lower levels allowed companies in the industry to weather the crisis and rebound during the economic upswing.

While tripartite cooperation was not new and had not always been successful (as, for example, in the case of the "Alliances for Jobs"), Gesamtmetall believes that the social partnership was strengthened by the successful cooperation during the crisis and that such cooperation can be reactivated in the future. This does not mean, however, that the social partners and the Federal Government have shared common positions ever since. Employers op-posed both the introduction of a national minimum wage and the reinstatement of "retirement at 63". However, neither of these developments was related to the crisis. They reflect political settlements of a later era.

Nonetheless, Gesamtmetall is certain that tripartite cooperation will continue to be possible in the future. Like the Federal Government representative interviewed for this report, the employer organization does not see the need for a formal national social dialogue in Germany. In the metalworking and electrical industry, there is already stable bipartite cooperation. Tripartite forums can be set up when the need arises (and not only during a crisis). Gesamtmetall points to occupational pension systems as an example of a topic that might be worth exploring in a tripartite forum in the future. Another issue to be debated with the Federal Government and unions might be free collective bargaining, including negative freedom of association and not making it a rule to declare any collective agreement generally binding. The employers see a need to ensure that the German collective bargaining system works independently. Such a system requires strong unions and employer organizations, as well as flexibility. As Gesamtmetall stressed, it was the flexibility of this system that facilitated a rapid and appropriate response to the crisis. It kept German industry competitive and at the same time protected jobs.

Source: Interview with Mr Karsten Tacke of Gesamtmetall on 25 August 2015.

2.3 Post-crisis developments

Germany did not set up a national social dialogue or a similar forum after the crisis years of 2008–2010. Nor were the meetings in the Federal Chancellery institutionalized, although informal meetings continue to take place. As the interviews with representatives from the Federal Government and the metalworking and electrical industry make clear, they see no need to set up any such standing national dialogue. All those interviewed fully trust in the German institutions of co-determination, bipartite arrangements between the social partners that can be extended to a third party, the Federal Government, in times of need, and the workings of informal meetings between government representatives and both sides of industry at any time.

At state (*Land*) level, however, there have been new developments. In 2011 the state of Brandenburg in eastern Germany introduced a standing social dialogue. While other states are also in close touch with the social partners, the Brandenburg dialogue is the first of its kind in Germany. In contrast to western German states, Brandenburg could not rely on sixty years of experience with the Works Constitution Act with its extensive co-determination, information and consultation rights or a long-standing tradition of cooperation between employer organizations and unions (and the state government). Box 4 provides more detailed information on the reasons for this development and the current state of social dialogue in Brandenburg.

Box 4: Social dialogue in the federal state of Brandenburg

In 2011, Brandenburg established Germany's first formal social partner dialogue at state level. Employer and employee representatives signed the "Declaration on Strengthening Social Partnership" jointly with Brandenburg's labour ministry (Ministerium für Arbeit, Soziales, Gesundheit, Frauen und Familie, MASGF).

Brandenburg launched its social partner dialogue only two years after the onset of the global financial and economic crisis. Though the 2008/2009 crisis was only one of the factors leading to the formation of the tripartite dialogue, it did raise the question of the role the social partners can play not only during a crisis but also in a stable economic climate. Brandenburg had already experienced a more profound crisis after the reunification of the two Germanies in 1991, when communist East Germany's centrally planned economy gave way to the social market economy and its institutions (Collective Bargaining Act, Works Constitution Act, Freedom of Association and so on).

Since the 1990s the number of companies in eastern Germany no longer wanting to be covered by collective agreements has been growing and today collective bargaining coverage in Brandenburg is low in comparison with states in western Germany. This low collective bargaining coverage has been an important reason for the state's lower wage levels. According to Brandenburg's labour ministry, even in 2011 there was little awareness of issues concerning social partnership and collective bargaining coverage and this proved to be a stimulus for the initiation of the dialogue. Demographic transition and the increasingly urgent matter of securing skilled labour was the second topic driving the launch of the dialogue. The third impetus came from the wish to enhance the regional attractiveness of Brandenburg as a place to live and work and to strengthen Brandenburg's economy. Against this background, the labour ministry was keen to work systematically on the issue of social partnership and found both employers and unions to be very interested in this approach.

Since 2011, the Brandenburg social partner dialogue has been held twice a year. It brings together the heads of the German Federation of Trade Unions (DGB), the regional employer organization for Brandenburg-Berlin (UVB) and the collective bargaining partners from the following five sectors: metalworking and electrical, chemicals, hotels and catering, construction and retail. While the labour ministry moderates the dialogue, all participants are equally entitled to propose topics for the meetings. In the dialogue, participants work on compromises on issues relevant to everyone and to which everyone is able to contribute. The dialogue has so far concentrated on the following issues: reconciliation of family and working life, an age-appropriate working environment, vocational training opportunities and pay developments. In addition, works council conferences, workshops and symposiums are organized. All participants have intensified their communication on the issue of social partnership both within their own ranks and with the public. The topic of social partnership has also gained in importance in the cooperation between the labour and economic ministries. Employer organizations more often address companies that are not bound by a collective agreement (OT membership).

To further strengthen the social partnership and collective bargaining coverage, financial incentives are provided. Projects are supported at the sectoral level with ESF funds as part of Brandenburg's social partnership guidelines, which are unique in Germany. To be eligible, projects must contribute to improving work organization in Branden-burg's companies and to effective social partnership either at the company level (co-determination) or at the sectoral level (pioneering collective agreements).

The social dialogue in Brandenburg is limited to the regional level and is not linked to any national or European institutions. However, it does have strong links to the social dialogue in Berlin, the German capital, which shares a border with Brandenburg. This is partly due to the overlapping organizational structures of the social partners, which represent both Brandenburg and Berlin. On the other hand, ties have been markedly strengthened by initial joint activities, such as a symposium on collective bargaining matters in 2015. The Berlin dialogue, set up in 2013, follows the example set by Brandenburg. Other states in Germany are also cultivating an intensive exchange with the social partners. They are interested in the Brandenburg model because of its formal structure, the resources allocated to it and its active programme. While the social dialogue was an initiative of the labour ministry, the Brandenburg state government embedded the dialogue in its coalition agreement in 2014.

By setting up the dialogue, a constructive and trusting atmosphere for talks between the social partners has been developed and structured debates on topics of mutual interest, measures and activities have been made possible.

In 2003, long before Brandenburg's social dialogue was set up, the state oversaw the conclusion of a so-called Apprenticeship Accord (Ausbildungskonsens). The accord is a voluntary agreement by which employers agree to publish the number of apprenticeship contracts they have concluded and to engage in the training of youngsters within a pre-assigned scope. The social dialogue has increased companies' willingness to engage with the Accord substantively. A further indication of how social dialogue has developed is the extent to which views have changed concerning the Brandenburg labour ministry's ability to declare regional collective agreements generally binding and extend them to a whole sector. Employers long held a dim view of this option but, according to the labour ministry, their perception of the instrument has undergone a gradual change. They now acknowledge more openly that it has prevented unfair competition and that collective agreements offer a reliable and secure framework for their future planning. Enacted in 2014 the Act on Strengthening the Autonomy of Collective Bargaining has revised the legal basis at the national level for extending the coverage of collective agreements. Brandenburg first wants to take a closer look at how the newly designed instrument can be used. Possible initiatives will be explained in the social dialogue.

Overall, Brandenburg's labour ministry believes that the dialogue is a valuable instrument for strengthening mutual trust between the social partners and encouraging them to join forces. It is a major advantage that a well-established dialogue built on a trusting and constructive culture of consultation can also offer a forum for developing joint solutions for the labour market and the economy in times of crisis.

Source: Interview with Mrs Friederike Haase on 21 August 2015 (labour ministry of Brandenburg)

Section III. Social partner responses

3.1 Collective bargaining mechanisms

3.1.1 Impact of the crisis on collective bargaining

In Germany, the economic crisis has been identified as cyclical rather than structural. This was the shared view of the Government and the social partners. As a result, the Government implemented no special fiscal consolidation measures or structural re-forms. It is important to note that labour market reforms had been implemented before the crisis started. In 2003, then Chancellor Gerhard Schröder presented his "Agenda 2010", which included measures to make the German labour market more flexible (Goecke et al. 2013). Apart from extending short-time working, there were no legislative changes that affected the functioning of collective bargaining.

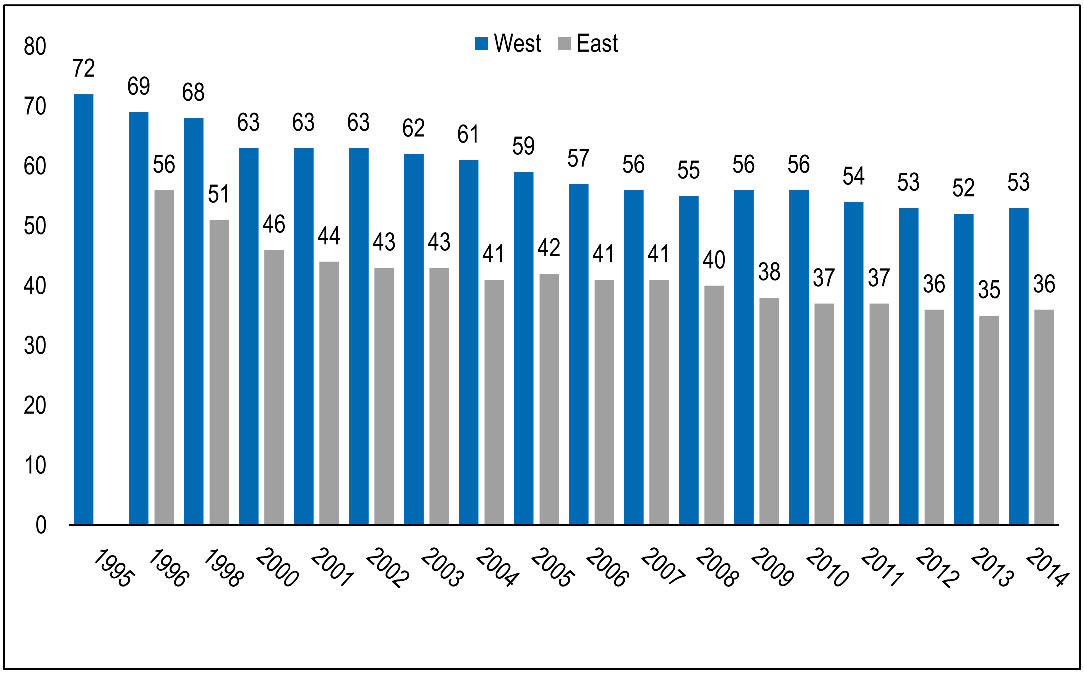
A key characteristic of the German system of industrial relations is that it is not rooted in legislation but laid down in contracts and mutual agreements between the main ac-tors: employers' associations, trade unions and works councils (Dustmann et al. 2014). Free collective bargaining has turned into a "support column" for Germany's ordoliberalist social market economy (Lesch, 2010). The freedom to establish social partner organizations and the right of unions, employers' associations and individual companies to conclude collective agreements is an essential part of German industrial relations. Free collective bargaining is derived from the freedom of association laid down in Article 9 section 3 of the Basic Law. This ensures that all individuals and professions have the right to establish coalitions to preserve and promote their economic and employment conditions. This provision creates the opportunity for employees and employers to join forces in coalition organizations, such as trade unions and employers' associations. The social partners are able to conclude collective agreements without any state influence. Usually, trade unions and employers' associations conclude sector-based collective agreements, which may apply across several regions or differ slightly from region to region. Such industry-wide collective agreements apply to nearly 90 per cent of employees covered by collective bargaining, with the remaining 10 per cent subject to single-employer agreements.

In the 1980s free collective bargaining was heavily criticized and even called into question by the Kronberger Kreis (1986). Further criticism came later from the Deregulation Commission (1991) and the Monopolies Commission (1994), with the critics demanding more flexibility and differentiation in collective agreements (Lesch, 2010; Brough-ton et al., 2013). The social partners responded to the economic crisis of 1992/93 with the so-called Job Security Collective Agreement. In some industries, this gave companies an opportunity to reduce working hours temporarily without (full) compensatory wage increases if they refrained from layoffs. However, after the end of the recession, it soon became apparent that the pressure of globalization made further measures necessary. In essence, the debate was about the introduction of opening clauses and re-form of the favorability principle laid down in the Collective Agreements Act. Ac-cording to this principle, deviations from the sector-level collective agreement are per-mitted only if they contain a change in favor of the employee or are legalized by a collectively agreed opening clause. Initially, the majority of trade unions tried to pre-vent opt-outs wherever possible. Many employers reacted by terminating sectoral collective agreements and replacing them with individual agreements.

In consequence, collective bargaining coverage has declined over the past two decades (Figure 3.1). The share of employees adhering to industry-wide collective bargaining has fallen from 70 per cent in 1996 to 53 per cent in western and from 56 per cent to 36 per cent in eastern Germany. The share of employees working in establishments governed by firm-level agreements has remained more or less constant at a rather low level (currently 7 per cent in western Germany and 11 per cent in eastern Germany). As larger companies are more frequently covered by collective agreements the coverage rate for firms is notably lower than that for employees. However, both exhibit a decline. The proportion of establishments bound by a collective agreement (at either the sectoral or the company level) fell from 52 per cent (1995) to 33 per cent (2014) in western Germany and from 26 per cent (1997) to 20 per cent (2014) in eastern Germany (Kohaut and Schnabel, 1998; Ellguth and Kohaut, 2015).

Remarkably, we have not been able to identify a significant impact of the crisis on the development of collective bargaining. In 2008, the collective bargaining coverage rate was 55 per cent in western and 40 per cent in eastern Germany. Two years later, the figures were a similar 56 per cent in western and 37 per cent in eastern Germany. The main reason for this finding is that the social partnership continued to work during the economic crisis. It was not the crisis that induced the erosion of collective bargaining coverage in Germany. Erosion had started for other reasons some years before.

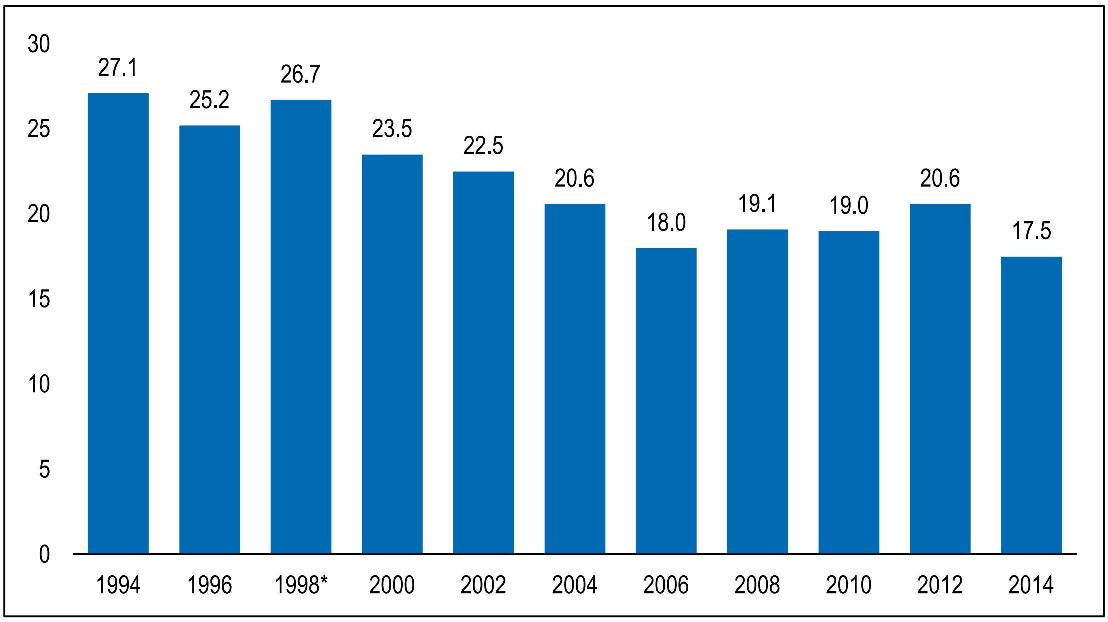
Figure 3.1. Collective bargaining coverage in Germany from 1995 to 2014
Coverage of employees (sector-level collective agreements); in %



Source: IAB (2015b).

The erosion of collective bargaining coverage has been at least partly caused by the weakness of trade unions. Trade union density has declined relatively steadily during the past two decades (Figure 3.2). After German reunification, there was a sharp de-crease in the net density rate in eastern Germany, caused by the process of economic transformation. Thereafter, the downward trend continued with the overall net density rate falling from 27.1 per cent in 1994 to a mere 18.6 per cent in 2006. During a short period of stabilization, which lasted from 2006 to 2012 – and thus included the economic and financial crisis – the density rate rose by 2.6 percentage points to 20.6 per cent. Since then we have seen a further reduction to only 17.5 per cent in 2014 (Biebeler and Lesch, 2015). Overall, the net density rate has fallen by two-thirds since 1994. In consequence, trade unions have little power to enforce collective agreements, especially in some service sectors. If employers terminate a collective agreement, they often have little cause to fear trade union protests, let alone industrial action.

Figure 3.2. Trade union density rate in Germany from 1994 to 2014
Employed union members as a percentage of wage and salary earners



Note: * Different basis for calculation in 1998.

Sources: ALLBUS (2015); authors' calculations

One strategy adopted by the unions to stop the erosion of collective bargaining cover-age was concession bargaining. The strategy involved two elements, one of which was wage moderation. Between the mid-1990s and the start of the crisis in 2008, wages failed to keep up with the sum of productivity gains and the inflation rate. However, after the crisis labour costs increased at a higher rate. At present, German wage policy is no more expansive than it was before the crisis (Lesch, 2014). The second element was the implementation via opening clauses of company-level "alliances for jobs", whereby the union side accepted concessions on the understanding that redundancies would be avoided or kept to a minimum. We can distinguish two periods of concession bargaining (Broughton et al., 2013):

1. Prior to 2003/2004, company-level alliances for jobs or deviations from collective standards (even when jointly decided by the works council and the management) were often at risk of violating the legislation on collective bargaining, as regular opening clauses were less prevalent than nowadays. In those days, derogations from collective standards initiated by the management unilaterally or jointly with the works councils or staff were often not authorized by unions and employers' associations. Non-representative empirical evidence suggests that the proportion of establishments or companies implementing "alliances for jobs" totaled between 23 per cent and 40 per cent, depending on the sector analyzed (Massa-Wirth and Seifert, 2004; Berthold et al., 2003a and 2003b).

2. Employers' associations criticized the unions' unwillingness to introduce opt-out rules, but after the implementation of different kinds of opening clauses in some industries (such as chemicals), further change came only slowly (Lesch, 2010). In the economic policy debate, the government was asked to introduce opening clauses by law. This culminated in then Chancellor Gerhard Schröder threatening the social partners with statutory opening clauses in his famous "Agenda 2010" speech. The threat was effective. From 2004/2005 onwards, more and more opening clauses were added to sectoral collective agreements. The most significant of these is the settlement in the metalworking and electrical industry – the so-called Pforzheim Agreement – which, since coming into effect in 2004, has allowed companies to temporarily derogate from

sectoral standards in order to improve competitiveness, foster innovation and spur investment. In contrast to the provisions of the few opening clauses established prior to 2004/2005, derogation in the metal industry does not necessarily require the firm to be in economic turmoil. Ellguth et al. (2012) provide some evidence on the adoption of opening clauses between 2005 and 2007. They found that collective agreements including opening clauses applied to one-third of the establishments surveyed, 33 per cent of which actually adopted the clause.

To summarize, the German multi-employer bargaining process had been decentralized and rendered more flexible before the crisis hit the German economy. This adjustment process ensured that the German wage bargaining system was remarkably stable during the crisis. Although the system itself remained basically unchanged, how it operated did not (Dustmann et al., 2014): When the crisis set in, the social partners used all kinds of opening clauses, especially those enabling a reduction in the weekly working time. In addition, flexible labour arrangements made it possible to reduce positive balances on working time accounts. An important instrument for safeguarding employment was the extension of short-time work permitted by the Government (Dribbusch and Birke, 2012), which extended the maximum entitlement period for the short-time working allowance for economic reasons to 24 months. Additionally, the Government provided financial assistance for companies using short-time working by reimbursing social security contributions during work stoppages and providing subsidies for the further training of short-time workers (Crimmann and Wießner, 2009). With the government’s generous support these measures contributed to the willingness of crisis-ridden firms to pursue a strategy of massive labour hoarding (Möller, 2010; Burda and Hunt, 2011).

3.1.2 Major collective agreements during the crisis

The crisis mainly affected export-oriented manufacturing firms in Germany’s thriving regions (Möller, 2010), whose export markets more or less collapsed. It should be noted that the social partners in the most severely affected industries were unified by the same preferences. There was a high willingness to pursue a strategy of labour hoarding because prior to the crisis many firms had suffered from a shortage of skilled workers. Expecting the economic downturn to be only temporary, firms sought to prevent redundancies. Equally, the trade unions called for “alliances for jobs” in order to prevent mass unemployment.

Collective bargaining took place in 2008 in major sectors such as the chemical and metalworking and electrical industries. These pre-crisis arrangements, covering the period up to 2010, contained no special measures. In 2010, although the peak of the crisis had already passed, the new bargaining round sought to respond. However, the unions adopted different strategies to deal with the crisis (Dribbusch and Birke, 2012). For ex-ample, while IG Metall and the Mining, Chemicals and Energy Industrial Union (IG-BCE) entered into a series of negotiations on concessions and exercised wage restraint during bargaining rounds, the United Services Union (ver.di) called for greater public investment, for example, stimulus packages. The different reactions of the unions can be attributed to the varying impact of the crisis on individual branches of industry. The wage settlements in chemicals and in the metalworking and electrical industry are widely regarded as examples of good crisis management.

The metalworking and electrical industry is the largest industrial sector in Germany, employing 3.5 million workers in 2010. Because of the crisis, the industry’s work volume decreased by 20 per cent. In order to prevent dismissals, the social partners signed a “Crisis Package 2012” including an innovative collective agreement called “Future in Work” (*Zukunft in Arbeit*, *ZiA*). The framework agreement was signed in February 2012 and had a running time of 28 months. “Future in Work” included regulation of working time for the purposes of crisis management, forward-looking training opportunities and small wage increases. In addition to existing crisis instruments (short-time working and the collective agreement on job security), the social partners agreed on two new options companies could use if works councils agreed: a reduction of the residual costs for short-time working and working time reductions (Gesamtmetall, 2010).

“Future in Work” targeted establishments implementing short-time work for at least 12 months and provided the opportunity to extend the duration to 24 months by voluntary company agreement (Gesamtmetall, 2010; Kraemer, 2010). The agreement was aimed at further reducing costs for companies by dividing Christmas and holiday bonuses into 12 parts and adding them to monthly compensation transfers to replace single annual payments. This meant that employers only had to pay the bonuses according to the number of hours actually worked; without the agreement, they would have had to make full bonus payments on the basis of standard working time. This new option was applicable only to companies using short-time working for longer than 12 months. In addition, the agreement with the works council had to run for a minimum of six months. During this period, workers on short-time working could not be made redundant.

A second option was achieved by extending the collective agreement on job security. At the company level, the social partners agreed on a further reduction of weekly working time with partial wage compensation (Gesamtmetall, 2010; Kraemer, 2010). Weekly working time could be reduced to a minimum of 29 hours in eastern Germany or to between 26 and 28 hours in western Germany, depending on the region. The maximum duration of the working time reduction was 12 months. Any reduction below 31 hours a week had to be compensated. The partial compensation of employees was related to the number of working hours lost; in other words, the more working hours were reduced, the higher the partial compensation was. Both parties asked the Government to provide additional support by cutting the employers’ social security contributions during statutory short-time working and during the additional phase of collectively agreed reduced working time.

To safeguard and promote vocational training, the agreement contained an obligation on employers to examine the possibility of employing trainees after their apprentice-ships.

Another aspect of the 2010 agreement was the prolongation of the existing wage agreement for 11 months from 1 May 2010 to 31 March 2011. A lump-sum payment of €320 was paid in two steps. A wage increase of 2.7 per cent was agreed for 1 April 2011 but could be postponed for up to two months by a works agreement. It was the first time that the IG Metall had signed an agreement before the expiry of the previous agreement, thus avoiding industrial action. It covered nearly 1.7 million employees in 3,700 establishments.

In April 2010, another innovative contract was signed by the social partners in Germany’s chemical industry (Vogel, 2010b). The agreement provided for lump-sum payments and included a number of measures to safeguard employment. The social partners agreed to extend the pay scale tables for 11 months. Employees received lump-sum payments of €550 (€611 or €715 for shift workers, and €150 for apprentices). The payments were to be made by June 2010 but an opening clause enabled employers and works councils in companies in economic distress to postpone the payments or re-duce them to €300 (€333 or €390 for shift workers) in a separate works agreement. Where the employer and the works council agreed, employees in companies not severely affected by the economic crisis received an additional bonus of €200 (€222 or €260 for shift workers). If they did not agree, the award was to be decided on by the social partners at the national level.

The social partners also agreed to safeguard employment in the chemical industry (Vogel, 2010b). They adopted a series of measures, including short-time working and the use of opening clauses, to be considered before companies made redundancies. Employers who did not implement the measures were required to explain the situation to the works council and give reasons. In addition, further flexibility was to be achieved by regional networks set up by the social partners to help, for example, in placing employees from struggling companies with other firms.

A further measure, which was limited to the duration of the crisis, involved provisions for apprentices (Vogel, 2010b). The new scheme, called “1,000 for 1,000”, included two main elements. First, companies in the chemical industry made a one-off payment of €25 million into a new fund. This fund was to support firms that continued to employ apprentices who had successfully completed their training but were not offered permanent jobs because of the economic crisis. A company which offered a newly-trained employee a job received a maximum monthly amount of €1,000 for one year, a sum calculated to cover one-third of the company’s personnel expenditure on the employee. The fund, which was administered by both the social partners and the Support Association for the Chemicals Industry, was limited to a year. As the name of the scheme indicated, the aim was the creation of 1,000 additional jobs for the newly qualified.

The collective agreement covered 550,000 employees in 1,900 establishments. The German Federation of Chemicals Employers’ Associations (BAVC) and the IGBCE jointly emphasized the importance of the new fund in supporting companies and their young employees. Furthermore, both parties had proven that collective bargaining worked, even under difficult circumstances.

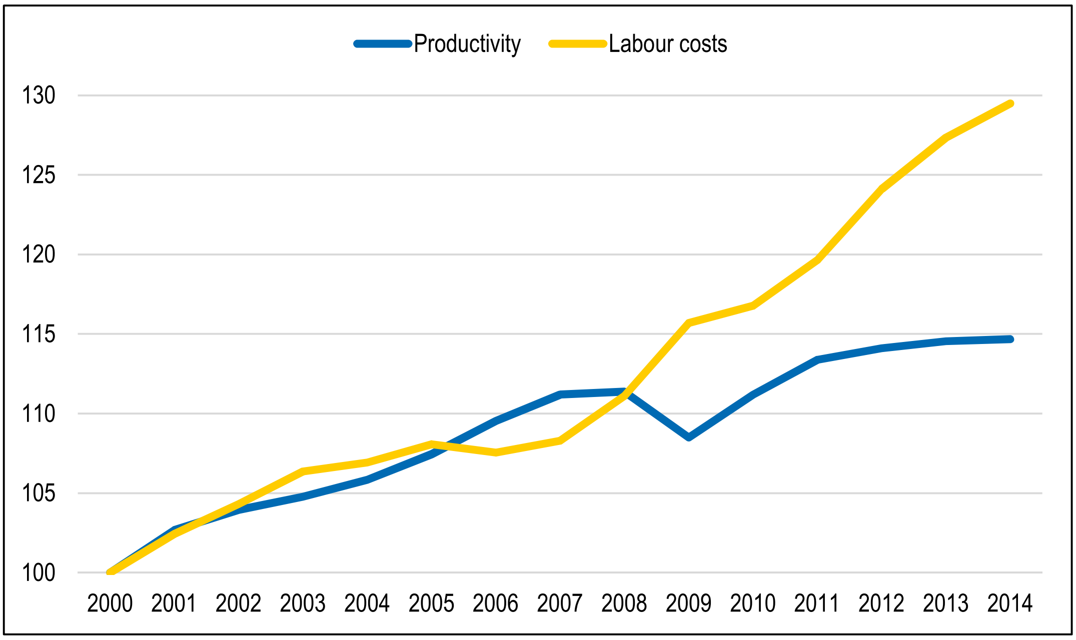
3.2 Post-crisis developments

Because the social partners in the affected industries turned out to be efficient crisis managers, the crisis did not lead to an accelerated decline in collective bargaining coverage. In 2008, sectoral agreements covered 55 per cent of employees in western and 37 per cent in eastern Germany (see Figure 3.1). As the latest figures show, the cover-age rate has since fallen only moderately, standing in 2014 at 53 per cent in western and 36 per cent in eastern Germany. Overall, the collective bargaining system remained stable. This explains why, apart from legal provisions to expand short-time work, there were no legislative changes that affected the functioning of collective bargaining and collective bargaining agreements during the economic and financial crisis. However, there have been two important changes since the crisis. The first change concerns the subject of collective bargaining. The second concerns the new role of the government in free collective bargaining.

3.2.1 Contents of collective bargaining

After the crisis and its most severe effects had been dealt with successfully, the social partners resumed their usual tasks and since 2010 the subject of collective bargaining has changed. While in 2010 the unions were keen to prevent mass layoffs, they have subsequently reverted to higher wage demands. As Figure 3.3 shows, wage policy changed after the crisis and wage moderation was no longer practiced so extensively. The chart contrasts the development of productivity from 2000 to 2014 with the development of labour costs. Three phases can be distinguished. In phase 1 (from 2000 to 2005) both variables rose to a similar degree. In phase 2 (from 2006 to 2007) labour costs grew more slowly than productivity. This changed in phase 3 and since 2008 labour costs have clearly risen more steeply.

Figure 3.3. Labour costs and productivity from 2000 to 2014 (Index 2000=100)
Labour costs: compensation of employees per hour; productivity: real gross domestic product per hour

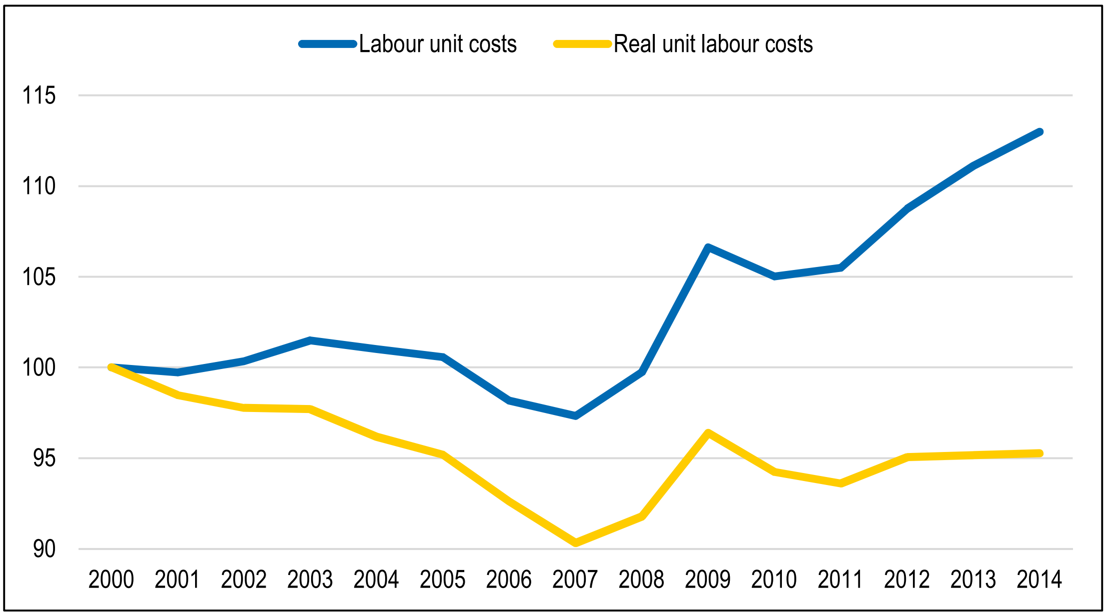


Source: destatis (2015b); authors' calculations.

As shown in Figure 3.4, this difference can also be seen in the development of unit labour costs. Since 2008, nominal real unit labour costs have increased by more than 13 percentage points. Rising nominal unit labour costs weakened the price competitiveness of German manufacturing. However, after adjusting for prices, the increase appears more moderate. While real unit labour costs rose from 91.8 per cent of the base year level in 2008 to 95.3per cent in 2014, this is still nearly 5 percentage points less than in 2000, the base year itself. The significantly higher wage increases indicate that the phase of employment-oriented wage policy that began in the mid-1990s ended with the crisis.

The period of concession bargaining with only moderate wage increases in Germany was often criticized as a "beggar-thy-neighbor policy". However, wage moderation helped to stabilize employment levels and therefore purchasing power in Germany. In this way, demand for goods and services from abroad was maintained.

Figure 3.4. Development of unit labour costs from 2000 to 2014 (Index 2000 = 100; per hour)



Sources: Destatis (2015b); author's calculations.

3.2.2 Legislative changes

Since the crisis, the Federal Government has introduced two major labour market laws relating to collective bargaining. The statutory minimum wage was already under discussion before the crisis, while the principle that only one collective agreement can apply in one company was implemented at the request of the social partners. Neither the Act to Strengthen the Autonomy of Collective Bargaining, which includes the Minimum Wage Act and came into force at the beginning of 2015, nor the Collective Agreement Unity Act *(Tarifeinheitsgesetz)*, which took effect in July 2015, are a result of the crisis (see interview with Rose Langer in Box 1 in Section 2).

Act to Strengthen the Autonomy of Collective Bargaining

Since 1 January 2015, a national minimum wage of €8.50 per hour has applied in Germany. After years of refusing this step, the governing coalition finally conceded that all employees had to earn a living wage, also arguing that measures were needed to stem the decline in collective bargaining coverage. Sectors already covered by the Posted Workers Act (*Arbeitnehmer-Entsendegesetz*, AentG) are initially exempt from the legislation. A transition period allows deviation from the national minimum wage until the end of 2016, after which it will affect all sectors. The future level of the minimum wage is to be determined by a new bipartite commission of employer and union representatives, with a first review scheduled for June 2017. Nine months after coming into effect, the minimum wage has had no significant detrimental effect on the German labour market.

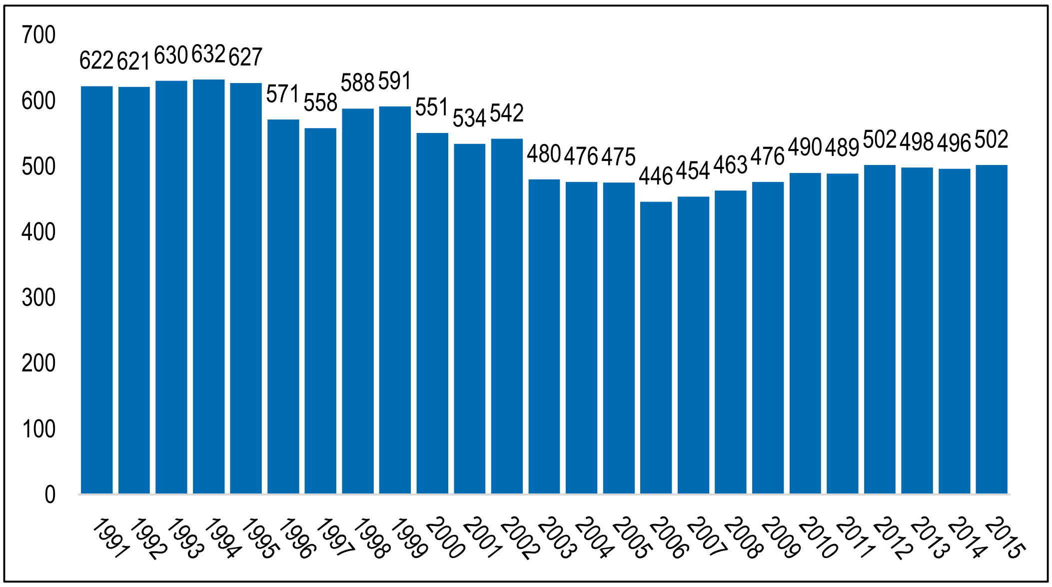
While the minimum wage applies, in principle, to all adult employees, an exemption exists for the previously long-term unemployed during their first six months in a job. The Government estimated that 3.7 million employees would immediately be affected by the statutory minimum wage, the biggest government intervention in free collective bargaining since the Second World War.

New rules for declaring sectoral collective agreements generally binding (*Allgemein-verbindlichkeitserklärung*, AVE) were introduced, giving the state much more flexibility to extend an agreement to other companies (Schulten and Bispinck, 2014). The BMAS and the labour ministries at state level can declare national or regional collective agreements to be generally binding. Previously, the social partners had to prove that the agreement to be extended covered at least 50 per cent of all workers. This rule has been changed and sectoral collective agreements can now be extended to cover the whole sector when “general interest” calls for such a step. Employers and unions need only prove that a majority of workers are covered or that an extension protects collectively agreed standards against negative economic developments. The law specifically mentions the danger of irresponsibly low wages as a reason for the new regulations.

In July 2015, only 502 – or less than 1 per cent – of all of the approximately 70,000 registered collective agreements had been declared generally binding. As Figure 3.5 shows, from the early 1990s to the mid-2000s the number of collective agreements that were extended on this legal basis steadily declined but rose moderately again after 2007. The reasons for the reform are thus more political than practical and follow a debate as to whether the currently declining trend in collective bargaining coverage could be reversed by more intensive use of the extension mechanism (Schulten and Bispinck, 2014).

The second possibility for extending collective agreements is based on the German Posted Workers Act and is far more prevalent than the first (Broughton et al., 2013). Introduced in 1997, this law allows the setting of minimum wages in a limited number of sectors. Currently, it applies to 13 sectors, among them construction-related trades, industrial cleaning, agriculture, security and care services. The new Act to Strengthen the Autonomy of Collective Bargaining *(Tarifautonomiestärkungsgesetz)* makes it possible to introduce sector-specific minimum wages in all sectors. However, while extension on the basis of the Collective Bargaining Act can cover the whole wage table, extension on the basis of the Posted Workers Act usually covers only sectoral minimum wages (Schulten and Bispinck, 2014). It should be noted that in some industries (for example, the meat industry and agriculture) sectoral minimum wages were introduced in order to circumvent the legal minimum wage. This is because the Minimum Wage Act provides the possibility to undercut the statutory minimum wage until the end of 2016 if a sectoral minimum wage on the basis of the Posted Workers Act already exists.

Figure 3.5. Number of collective agreements declared generally binding by law (1991 to 2014: at 1 January 2015: at 1 July)



Source: BMAS (2015).

Collective Agreement Unity Act

In July 2015, the German parliament adopted the Collective Agreement Unity Act to restore the principle that only one collective agreement can apply in a given company. Just like the Act to Strengthen the Autonomy of Collective Bargaining, the new law aims to ensure the functioning of free collective bargaining. The central element is a rule that if there is a conflict between different collective agreements, the collective agreement of the union with a majority of members in the company shall apply. The legislation was passed to forestall further fragmentation of the German wage bargaining system and to increase the incentive for competing unions to cooperate with each other. Thus this rule avoids the risk of cumulative conflicts in future wage negotiations. The risk of cumulative conflicts will occur only in the case of multiple collective agreements, autonomously agreed upon by the social partners. The law is also designed to prevent disputes between unions having a negative impact on wage negotiations (Lesch and Hellmich, 2014).

The origin of the law goes back to a joint initiative by the social partners in 2010 in response to a ruling by the Federal Labour Court, which, after more than 60 years of practical application, rejected the rule that “only one collective agreement can be in effect in any one company”. The Court found that if there were two or more collective agreements, the provisions of every collective agreement applied in each case to all members of the collective contracting party. This decision led to intense competition among trade unions, which jeopardized the functioning of free collective bargaining. The new law restores the old practice, which was a cornerstone of the German wage bargaining system.

It should be noted that the two new laws change the role of government in the wage bargaining process. The state can now not only prescribe a wage floor in the form of a statutory minimum wage but also extend the scope of collective agreements to a greater extent than hitherto. The state becomes a substitute for collective bargaining purposes. Opponents of the Act to Strengthen the Autonomy of Collective Bargaining have criticized the Government for restricting the trade unions’ right to strike.

Section IV. Germany’s labour market and industrial relations after the crisis

4.1 Labour market

Despite the economic crises, Germany has been able to stabilize its labour market. In-deed, between 2008 and 2014 the harmonized unemployment rate in Germany de-creased by 2.5 percentage points, from 7.6 per cent to 5.1 per cent (see Table 4.1). In general, the fall in unemployment was greater for women than for men. For all age groups unemployment shrank by 2.1 percentage points for men and by 3 percentage points for women. The change was especially marked for older women aged between 55 and 64 years. For this group unemployment fell from 8.9 per cent to 4.6 per cent. Similarly the fall for young (15–24 years) and prime age (25–54 years) women was about 3 percentage points. Unemployment rates for men also fell, but by a lesser magnitude. For young (25–24 years) and older (55–64 years) men unemployment declined by 2.3 percentage points and 2.6 percentage points, respectively. In the prime age group (25–54 years) the drop of 1.9 percentage points was somewhat smaller than in all other groups.

In 2014, overall unemployment was 5.1 per cent, while the rates for men and women were 5.4 per cent and 4.7 per cent, respectively. At 7.8 per cent youth unemployment is clearly higher than in the other age groups. It is even higher for young men (8.4 per cent) than for young women (7.1 per cent). On the other hand, at 4.7 per cent the un-employment rate in the prime age group is lower than in the total population. In this group the rates for men and women are 5.0 per cent and 4.4 per cent, respectively. Finally, the unemployment rates for the older population are more or less equal to those for the population as a whole.

Even at the height of the crisis in 2009, the labour market suffered only a minimal negative shock. Total unemployment rose by a mere 0.2 points, from 7.6 per cent in 2008 to 7.8 per cent in 2009. In 2010, the trend was reversed and unemployment continued to decline again. Overall, it is remarkable that Germany was able to avoid higher unemployment for all age and gender groups during the global financial and economic crisis. At present, Germany is enjoying the lowest unemployment rates since its reunification in 1990.

Table 4.1: Unemployment rates by gender and age in Germany; in %

Gender/age	Total	Youth (15–24)	Prime age (25–54)	Older population (55–64)
		2008		
Total	7.6	10.4	7.0	8.5
Male	7.5	10.7	6.9	8.1
Female	7.7	10.0	7.2	8.9
		2014		
Total	5.1	7.8	4.7	5.1
Male	5.4	8.4	5.0	5.5
Female	4.7	7.1	4.4	4.6

Source: OECD (2010; 2015a).

Generally, collectively agreed weekly working hours have remained nearly constant since 2008, at an average 37.7 hours per week in 2014 compared with 37.6 hours in 2008 (see Table 4.2). The financial crisis thus had no effect on the collectively agreed weekly working time in Germany. However, the effective working hours per week de-creased slightly from

29.9 hours in 2008 to 29.5 hours per week in 2014. This decrease is due to a rise in the proportion of part-time working. Effective full-time working hours have remained a constant 38 or so hours per week. Though it declined temporarily in 2009, effective working time in part-time jobs has since increased by 0.45 hours per week.

Table 4.2: Collectively agreed and effective working time; hours per week, 2008–2014

	2008	2009	2010	2011	2012	2013	2014
Collectively agreed weekly working hours	37.6	37.7	37.7	37.7	37.7	37.7	37.7
Effective weekly working hours	29.89	29.42	29.44	29.36	29.38	29.46	29.50
Effective weekly working hours (full-time)	38.02	37.78	37.93	37.98	37.91	38.03	38.07
Effective weekly working hours (part-time)	15.44	15.25	15.31	15.36	15.49	15.75	15.89

Sources: WSI (2015); IAB (2015a).

Table 4.3 gives an overview of the development of overtime since the crisis. Although the volume of work increased by 2.3 per cent (from 48.7 to 49.8 billion hours) be-tween 2008 and 2014, the amount of paid and unpaid overtime fell markedly. Paid overtime decreased from 23.1 hours in 2008 to 18.5 hours in 2009. Similarly, unpaid overtime declined from 33.5 to 30.7 hours. This decline was reversed temporarily in 2010, after which no clear trend has been apparent. In 2014, the levels of both paid and unpaid overtime were lower than in 2008. Consequently, the volume of work rose, while effective working hours remained constant and overtime per worker decreased. After the crisis the volume of work was evidently distributed over more employees.

Table 4.3: Paid and unpaid overtime, volume of work; hours per year, 2008–2014

	2008	2009	2010	2011	2012	2013	2014
Paid overtime	23.1	18.5	20.3	24.6	22.6	20.0	21.1
Unpaid overtime	33.5	30.7	31.6	32.4	27.8	27.2	27.8
Volume of work (in millions of hours)	48,698	46,937	47,846	48,701	48,736	48,833	49,783

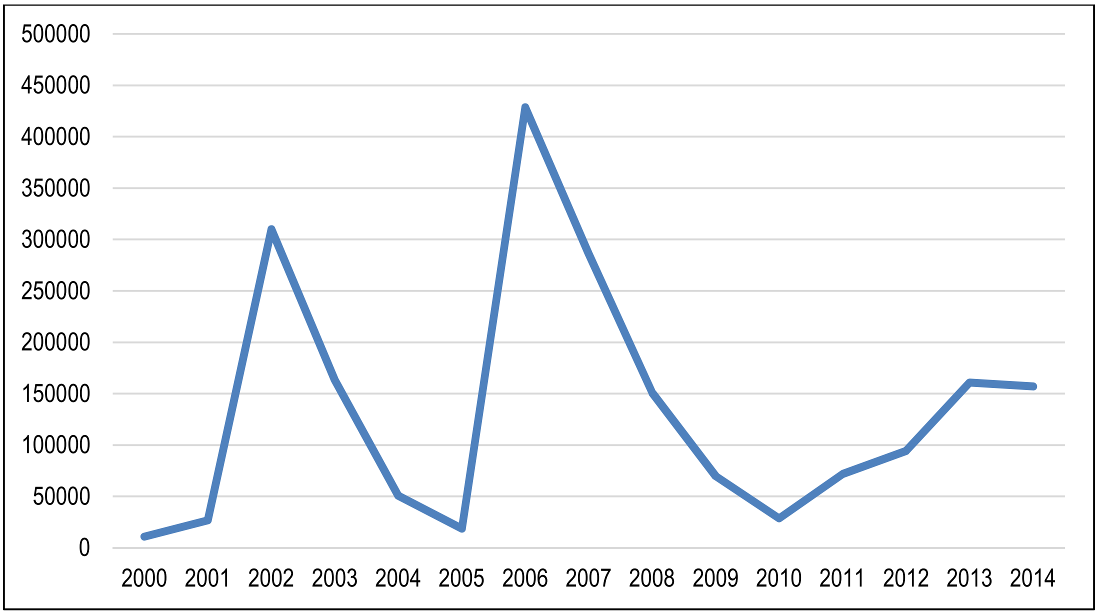
Source: IAB (2015a).

4.2 Industrial relations

As already noted in Section 3, the German wage bargaining system has remained largely stable in recent years. However, the collective bargaining coverage rate is still declining and neither the unions nor the employer organizations have been able to stop this development. The gradual erosion of the collective bargaining system is incontrovertible. The hot topic currently is how free collective bargaining will be influenced by the Act on Strengthening the Autonomy of Collective Bargaining, which came into force at the beginning of 2015 and creates new opportunities for the Government to interfere. It is currently unclear whether the Government will succeed instabilising or increasing the coverage of collective agreements by using the extension mechanism more extensively than before. By doing so, it may be able to stabilize the coverage rate but not un-ion density or employers' association membership. However, all actors have agreed to work towards the stabilization of collective bargaining coverage. This they are doing largely in an informal way and such formal initiatives as the regional Brandenburg social partner dialogue (see Box 4 in Section 2) have so far been exceptions. However, there are some sectoral dialogues that focus mainly on industry-specific economic is-sues.

A major issue in recent political debate has been the increased competition between trade unions and the erosion of industrial peace in Germany. For a long time, including the crisis years (see Figure 4.1), industrial peace was one of the most important factors attracting investment and production facilities to Germany (Lesch, 2015). After two peaks in 2002 and 2006 caused by major conflicts in the metalworking and electrical industry (2002) and the public sector (2006) the number of working days lost to industrial action plummeted. However, after bottoming out in 2010, official statistics show the figure creeping up again thereafter (Federal Employment Agency, 2015). Starting with 28,443 working days lost in 2010, the number increased steadily to 160,548 in 2013 and 156,754 in 2014. Preliminary estimates show that there will be an accelerated increase in 2015. In addition to some long-lasting conflicts affecting craft unions, there were two major conflicts in postal and educational services.

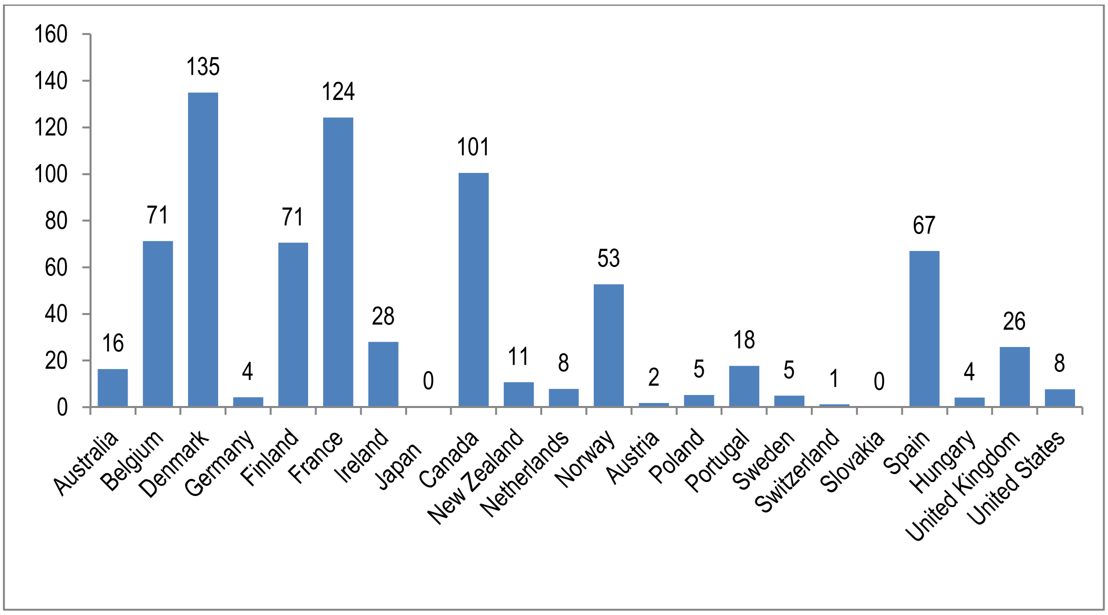
Figure 4.1. Development of labour disputes in Germany from 1990 to 2014
Working days lost due to strikes and lockouts



Source: BA (2015d); Lesch (2015).

When comparing industrial disputes between Germany and other OECD countries, it is helpful to normalize the figures (Lesch, 2015). This can be done by relating the number of working days lost due to strikes and lockouts to the number of employees. Taking the number of days lost per 1,000 employees in a range of 22 countries for the ten-year period 2005 to 2014 reveals a wide span of results. Germany joins the United States, Japan and Switzerland in a group of peaceful countries with an average of less than 20 days lost per year. Other economies, such as the United Kingdom and France, were less peaceful. While there were 124 and 26 days lost in France and the United Kingdom respectively, Germany lost only 4 days (see Figure 4.2). If industrial unrest continues to grow, Germany thus risks losing an important economic advantage. However, the new law to restore the principle of "one company, one collective agreement" aims to restore peace to labour relations by creating more incentives for competing unions to cooperate with each other.

Figure 4.2. Labour disputes in international comparison from 2005 to 2014 Working days lost due to strikes and lockouts per 1,000 employees

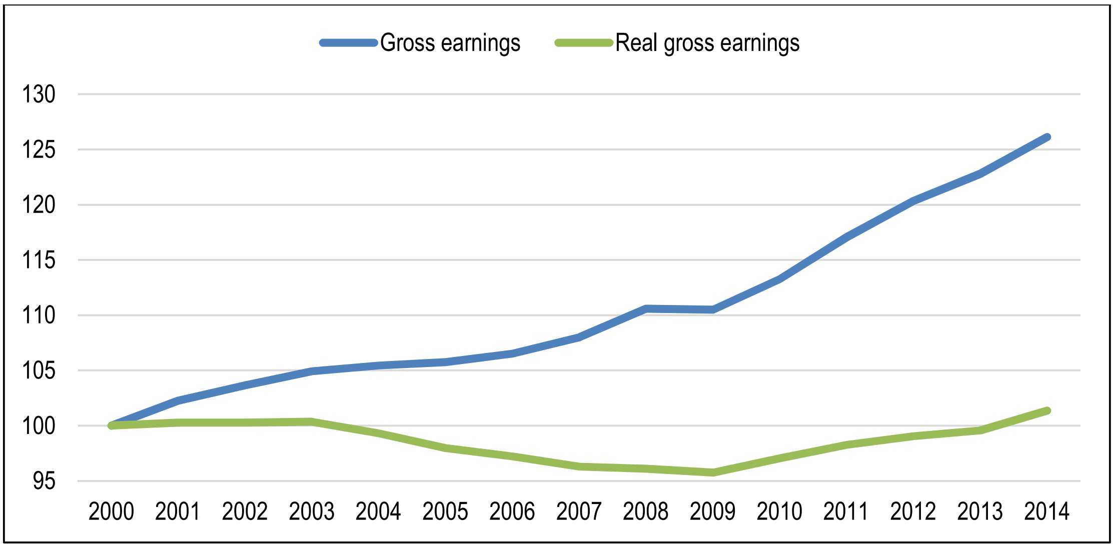


Note: * Figure includes rounding differences (Japan, Slovakia).

Source: Lesch (2015).

As already noted in Section 3.2, German wage policy was changed recently. The abandonment of wage restraint apparent since 2010 applies not only to collectively agree but also to effective wages. Figure 4.3 indicates that overall gross earnings per employee increased moderately between 2000 and 2010. However, since then this growth has accelerated. A similar picture emerges in the development of price-adjusted gross earnings. Real wages decreased between 2003 and 2009, but have increased in recent years. Since 2010, employees' real purchasing power has increased significantly. Together with the expansion in employment, the increase of nominal and real wages stimulated private aggregate demand in Germany. A rising aggregate demand could help to balance current account deficits by stimulating demand for German imports.

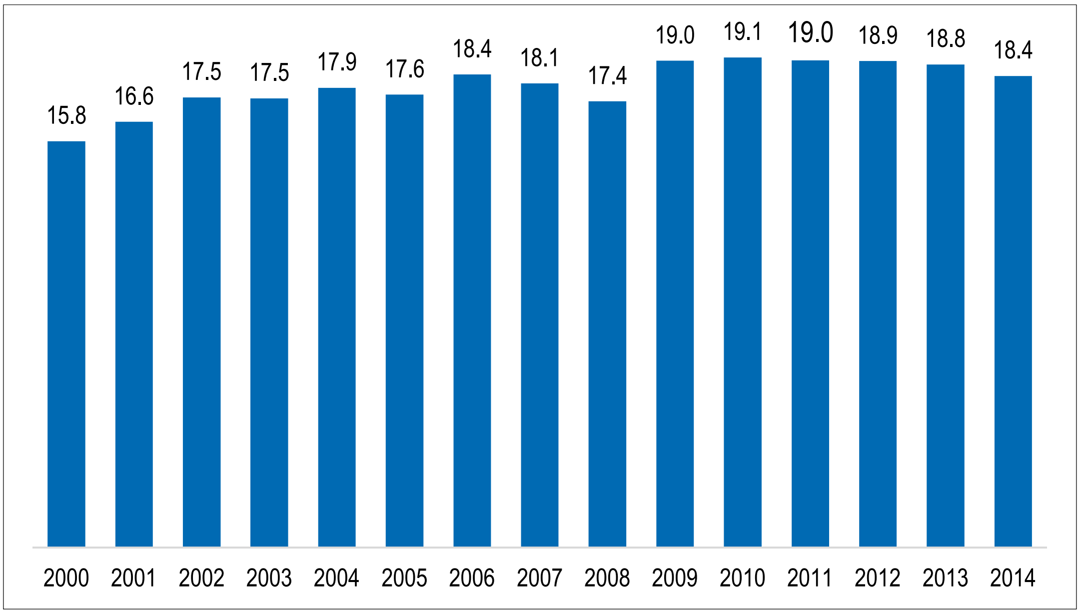
Figure 4.3. Gross earnings and price-adjusted (real) gross earnings per employee



Source: Destatis (2015b); author's calculations.

Critics argue that not all workers have benefited from this real wage increase since the low-paid sector has grown. As Figure 4.4 shows, between 2000 and 2006 the share of low-paid workers increased from 15.8 to 18.4 per cent. However, this increase was deliberately induced by the Hartz Reforms, which stimulated the growth of the low-paid sector in order to combat unemployment. Since 2007, we can see no lasting trend. After shrinking in 2007 and 2008, the sector grew during the crisis. In 2010, the share of workers earning less than two-thirds of median earnings reached a peak of 19.1 per cent before falling again to 18.4 per cent in 2014. By introducing a statutory minimum wage, the Government will prevent further growth of the low-paid sector in the future. The development of decile ratios of gross earnings shows a similar picture. The earnings dispersion increased in the years before the crisis, but changed only moderately thereafter. In addition, the new national minimum wage reduces the share of low-paid workers and strengthens low-wage earners' demand for goods and services.

Figure 4.4. Incidence of low pay Share of workers earning less than two-thirds of median earnings; in %



Source: OECD (2015b).

Conclusion

In Germany there is no formal social dialogue structure at the national level. However, outside existing committee structures there are regular meetings between the Federal Government and the social partners at the Federal Chancellery. Both sides of industry also use bilateral meetings with the relevant federal ministries to present and discuss their views on particular topics. This was true before the crisis and it has continued since. As one of the experts interviewed for this report noted, there was a remarkable difference between the regular meetings and the crisis summits. While the regular meetings usually did not lead to concrete agreements, at the crisis summits the Federal Government asked for the social partners' positions on concrete measures.

This dialogue during the crisis was efficient, and this positive experience suggests that the ad hoc structure not only works but also represents a basis for an equally successful response to future crises. New institutional forms, such as a national social dialogue, are not considered necessary. However, formal social dialogue structures on a regional basis have been established. In 2011, Brandenburg was the first state to introduce such a structure, although the idea was born long before the crisis. Sector-level dialogue structures focusing on economic issues also exist.

The future for tripartite social dialogue mechanisms and multi-employer bargaining could be influenced by new laws that alter the German legal framework for collective bargaining. In making more collectively agreed wages generally binding and by setting up a statutory minimum wage, the government has ensured that its influence will in-crease. However, due to the strong tradition of free collective bargaining in Germany, the government is sure to decide all issues in close coordination with the social partners.

The informal structure of social dialogue seems an efficient basis for further consultation between the government and the social partners. In Germany, bilateral cooperation between unions and employers has a long tradition and continues to function efficiently. This limits the need for government intervention and participation.

A common goal and primary objective of all actors is the stabilization of collective bargaining coverage. Currently, it is an open question whether the new regional social dialogue structures will be successful in meeting this challenge. However, free collective bargaining commits the social partners to reform and to adjusting collective agreements to meet changing circumstances. This means that collective agreements must be so de-signed that they are willingly accepted by a majority of enterprises. Achieving this is surely one of the main challenges facing the social partners for the future.

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Annex: List of interviews

The following interviews were conducted for this report:

1. Interview with Mrs Friederike Haase (labour ministry of Brandenburg) on 21 August 2015

2. Interview with Mr Karsten Tacke (Federation of German Employers' Associations in the Metal and Electrical Engineering Industries) on 25 August 2015

3. Interview with Mr Kay Ohl (German Metalworkers' Union) on 31 August 2015

4. Interview with Ms Rose Langer (currently Federal Ministry for Labour and Social Affairs, formerly working at the Federal Chancellery) on 3 September 2015.

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ISBN 978-92-2-130629-0