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## Putting Germany's 'mini-jobs' in their context

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Mini-jobs have become the main target for those who dislike the German economic model. Unfortunately, the criticism is usually based on a misunderstanding of the effects of the Hartz labor market reforms introduced in the 2000s. These are the points of criticism that are commonly raised: 1) the reforms are perceived as a neo-mercantilist strategy to increase the international price competitiveness of German firms; 2) the most recent German employment miracle is due to a massive increase in precarious, not permanent forms of employment; 3) the reforms have impoverished German workers by forcing them to accept, and to live on, €450 mini-jobs; 4) they have increased income inequality and poverty; 5) the German authorities want to impose this labor-unfriendly model upon the rest of the Eurozone.

We will tackle each of these points in order to put the German mini-jobs in their right historical and social context. By doing so, we hope that the debate about reforming the labor market systems in the southern countries of the Eurozone can be based on a more solid understanding of how the German model works. To begin with, we wish to state **it is simply not true that many Germans have to survive on just €450 per month from a mini-job**. However, let us explain the circumstances of the matter step by step. As background information, it is important to bear in mind that Hartz-I (2003) brought to Germany the deregulation of temporary employment. Hartz-II (2003) introduced tax and social security exemptions/reductions for marginal employment. Hartz-III (2004) restructured the Federal Employment Agency, which was seen as highly inefficient in the 1990s, and Hartz-IV (2005) merged unemployment assistance and social assistance, and introduced stricter control to avoid free-riding while retaining the unemployment insurance system.

At the macro level it is necessary to begin by analyzing Germany's allegedly neo-mercantilist strategy. While **the Hartz reforms may have contributed to a lowering of German wages, wage moderation in Germany in fact started in the 1990s**. After the achievement of unification, unemployment among

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unskilled workers in the east of Germany, in particular, skyrocketed. This triggered a decentralized setting of employment standards and wages. Furthermore, labor unions agreed to continued *wage moderation* to keep employment in Germany. This general strategy has to be seen within the wider context of increased globalization and therefore of more intensive competition from Japanese and, later, Korean and Taiwanese firms in the technology-intensive car and machine markets. While Japan and Korea kept their real exchange rates low through foreign exchange interventions or pegging to the dollar, Germany retained its competitiveness via wage moderation at home, successfully outsourcing part of the value chain to Eastern Europe, and higher quality of products.

Regarding the second point of criticism, namely that the Hartz reforms have increased deregulated and temporary employment in Germany, statistics show a different picture. Most of the employment gains from 2005 stem from regular jobs, both full-time and part-time, which must not be confused with temporary, precarious work. Between 2005 and 2014, total employment increased by 2.7 million, while temporary employment increased only by 0.5 million workers. During the same period, mini-jobs (as the only source of market income) increased by about 100,000, while mini-jobs as a second job increased by about 750,000. However, the latter increase cannot be directly interpreted as a negative consequence of the Hartz reforms. Income from marginal employment in a second job is exempt from taxes and social security contributions as long as it is below €450 per month, making it more attractive for many employees who prefer a second job to working more hours in their regular (part-time) job. It is thus not the increase in temporary or marginal, but in regular employment that explains the German job miracle.

This brings us to the third point, i.e. that a lot of German workers are living on the “miserable” income of a €450 mini-job. This is factually wrong. As in every country, there might be exploited workers, but no one in Germany officially has a mini-job who is not living in a household with other income sources or with either capital income, another job or complementary social assistance. It is not surprising that many of those with a

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mini-job are second-earners, students and pensioners. The Hartz-IV reforms were introduced because the previous unemployment support package was seen as too generous for the long-term unemployed and lacking incentives to get people back to work faster. Many workers considered it so attractive that they used it for early retirement. The new system is now based on “supporting and demanding” (*Fördern und Fordern*). The period of unemployment benefits was shortened considerably from 32 to 12 months (up to 24 months for older workers) and financial support is reduced if the worker rejects new job offers. **Still, compared to other European countries, Germany’s support system is rather generous.**

At present, unemployment assistance for the long-term unemployed (*Arbeitslosengeld II*) pays €399 per month for a single person (€360 for any additional adult in the household and €234 for young children, rising to €302 for older children) to cover living expenses like food, electricity or transportation. These payments are supplemented by payments for housing (with the exact amount depending on the household structure and the regional level of rents) and free access to the public healthcare system, which would

otherwise be open only to insured people. A four-person family with two children – e.g. one young and one older – will receive a total payment of €1,295 plus payments for housing if they pass the means test (i.e. if they have no other (capital) income or any asset above certain thresholds). Furthermore, if this person earns €450 from a mini-job, the family receives less support (just €1,015) while keeping the €450, which results in €1,465 total income plus payment for housing. Overall, it is difficult to argue that the Hartz-IV reform impoverished German workers.

Related to this, although it is commonly believed that the Hartz reforms have increased income inequality in Germany, statistical evidence does not support this. If we analyze Germany's Gini coefficient of household market income, we see that it experiences a steady increase from 0.4 to 0.5 between 1991 and 2005, but thereafter it reaches a plateau with a slight decline. Thus, while the Hartz reforms have not significantly reduced inequality in Germany, they have not contributed to the rising trend either. This is mostly due to the fact that by 2005 nearly 25% of the unskilled workforce was unemployed and living on unemployment assistance without any real incentive to increase their income. The Hartz reforms have changed this behavior. Ultimately, **it is better to have social assistance and a mini-job than only live on social assistance without working.**

This brings us to the final point of criticism, namely that Germany wants to impose a particular model – allegedly based on the systematization of precarious work – on the rest of the Eurozone member states, especially the crisis-hit countries of the south. This is disingenuous. Rather, countries such as Italy, Spain, Portugal and Greece have structurally precarious work due to their high unemployment, extremely dual labour markets, the large size of their informal economies and the weak social assistance provided by the state. In our view, their unskilled workers (the losers of globalization and technological progress) could only wish they had the support framework of the German model. In this regard, we welcome the emerging debate in Spain about introducing a minimum welfare benefit for the long-term unemployed. This would bring Spain's welfare system into line with countries such as France and Germany. However, we would take the liberty of warning that for such a system to work, tax collection needs to be increased and stricter controls, like those in place in Germany, need to be introduced to reduce, as far as possible, the informal economy and free-riding.