

The myth of the German jobs miracle

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Christian Odendahl is one of the finest analysts of the German economy writing in English. So it's worth your time to closely read [his review](#) of the country's labour market reforms of the early 2000s, sometimes called "Agenda 2010" or the "Hartz Reforms".

There's lots to digest, from his finding that German real interest rates were significantly *higher* in 1999-2007 than in the other large Western economies to his observation that the impact of the reforms is often overstated because they happened to coincide with the end of Germany's decade-long construction bust.

The most useful insight for policymakers elsewhere in the euro area is that Germany's reforms in 2003-2005 can't explain most of the interesting things that have happened in the German economy during its membership of the single currency. The features [that prevented mass layoffs in 2008](#) were much older, for example.

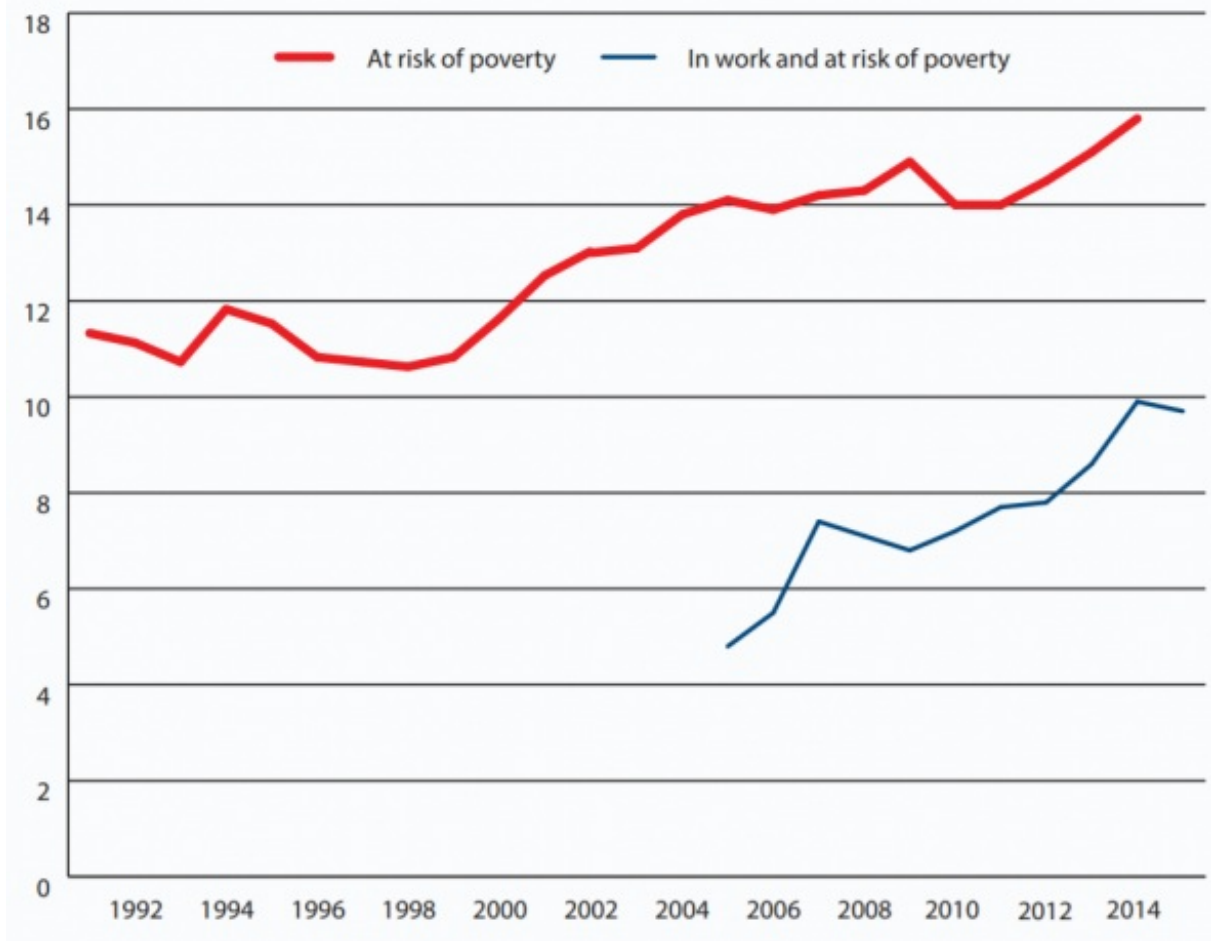
But we want to highlight something else in Odendahl's paper: his implication that Germany's jobs growth is more myth than miracle.

Yes, the number of Germans listed as having a job has grown by about 15 per cent since the lows in the mid-1990s. But the total number of hours worked is less than 2 per cent higher over the same period and still significantly lower than in the early 1990s:



As Odendahl notes, this wouldn't necessarily be a problem if an employment boom happened to coincide with a widespread desire to spend less time on the job.

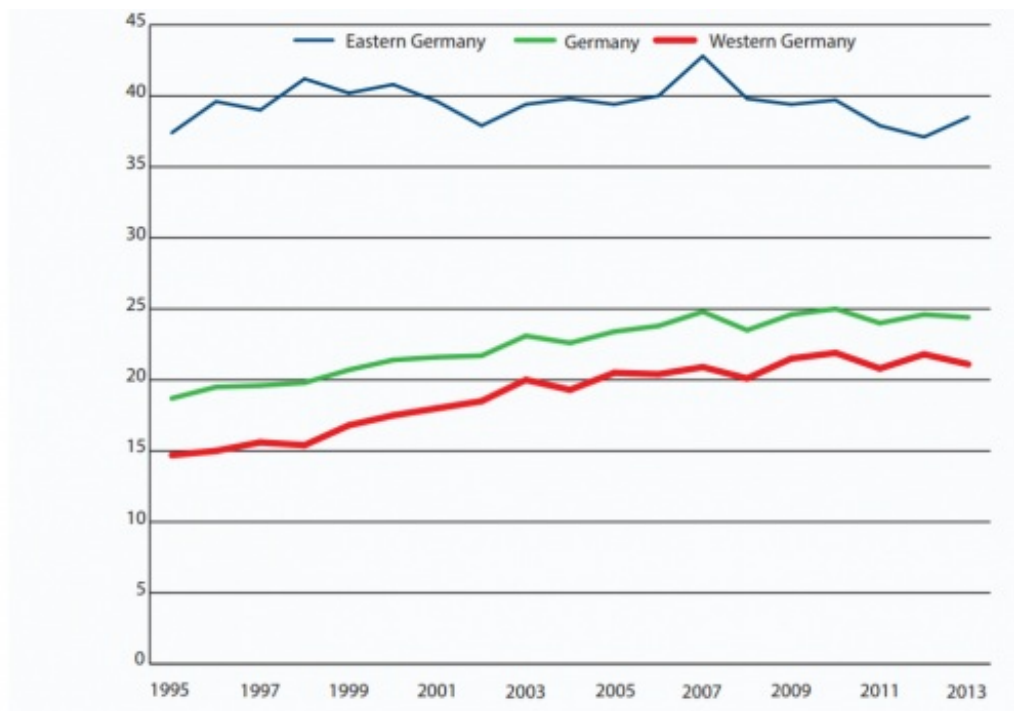
But this is unlikely, since the disconnect between jobs and hours worked went hand in hand with a large increase in the share of Germans at risk of poverty:



Odendahl also points out that more than a fifth of West German workers are low-paid (wages below two-thirds of the median, or about €10.50 an hour as of 2014). That's up from just 15 per cent in the mid-1990s:

Chart 7:
Low-wage earners as a share of all employees in Germany (in per cent)

Source:
Replicated from
Thorsten Kalina
and Claudia
Weinkopf,
*Niedriglohnbe-
schäftigung 2013:
Stagnation auf
hohem Niveau*,
IAQ-Report, 2015.

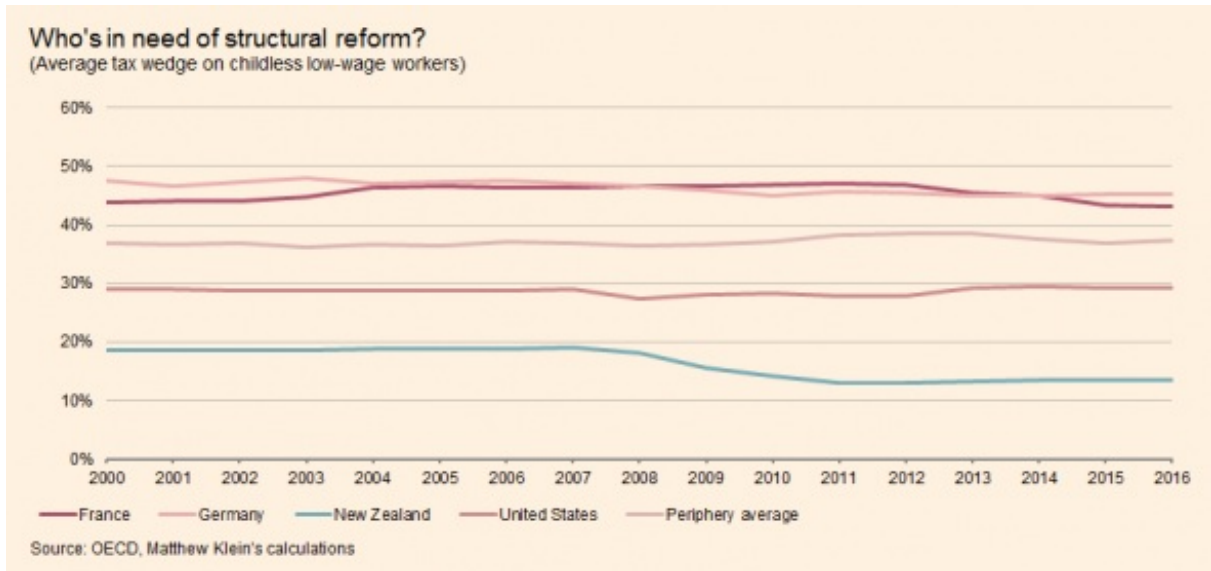


As if that weren't bad enough, these workers have consistently been taxed at punitive rates:

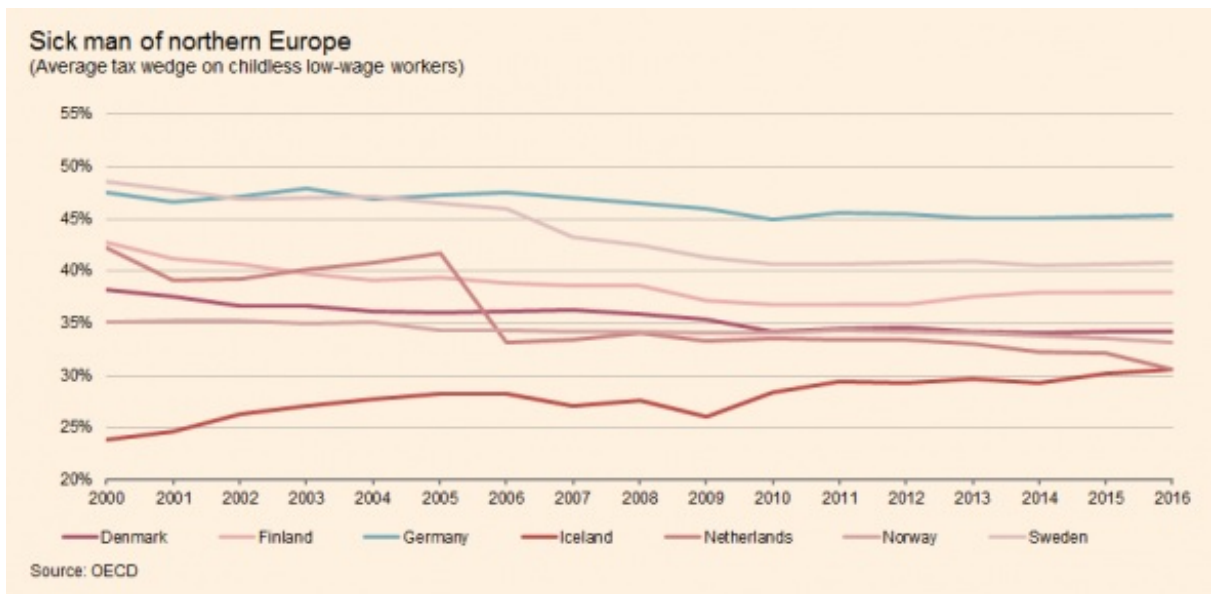
In Germany, benefit payments are still reduced at a steep rate of more than 80 per cent when recipients take up work. (In the UK, universal credit is reduced by just 63 pence for every pound a

recipient earns.) Low wage earners are then taxed at 45 per cent in Germany, which is a whopping 13 percentage points higher than the OECD average.

That's slightly worse than France and significantly above Greece, Italy, Portugal, and Spain. Only Belgium and Hungary are worse. The chart below, which we made using [OECD data](#), shows the average "tax wedge" paid by single low-income workers:



Countries with generous in-kind benefits for health and schools can look relatively worse on this measure than places with more meagre welfare spending, but this seems like an insufficient explanation considering how Germany compares to the Netherlands and Scandinavians:



German taxes on low-paid workers were among the highest in the world when the data began in 2000 and they've stayed that way ever since. No wonder German consumers have been so miserly! This isn't just bad for German workers, [but for the whole world](#). If only there were German politicians keen on addressing this...

Related links:

[Review of "Verteilungskampf"](#) — Martin Sandbu

[The German Minimum Wage: Experiences And Perspectives After One Year](#) — Social Europe

[Behind the German jobs miracle](#) — McKinsey