

World News

The trade-off that created Germany's job miracle

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unit, which is based in Ingolstadt and is by far the biggest employer, now sells more of its high-end cars in China than in Germany or the United States.

The effects of the labor reforms are impossible to disentangle from the results of sound corporate strategy. "It's hard to say because at the same time the economy recovered," said Thomas Sigi, a member of the management board at Audi who is in charge of personnel. "German industry prepared itself at the right time for emerging markets."

Since 2005, when the revamp in labor laws took effect, the jobless rate in Germany has fallen from 13 percent to less than 7 percent. A big factor was a steep cut in jobless benefits that put pressure on people to take even low-wage jobs, and changes that made it easier for companies to hire temporary workers with fewer protections against dismissal.

That is why the country's job miracle is regarded with curious ambivalence by many Germans. It came at the expense of the comfortable but costly social benefits many Germans treasured.

People had to give up the security of a guaranteed long-term income if they became unemployed. They faced more pressure to take jobs they did not want. Even better-paid workers had to make do with meager pay raises.

As a result, labor costs in Germany have barely budged in the past decade. The wage restraint helped German companies become more competitive on world markets, preventing the loss of manufacturing jobs to Eastern Europe or China.

Gerhard Schröder, the chancellor who pushed through the changes in labor rules in the face of bitter opposition within his own center-left party, subsequently lost a re-election bid to Angela Merkel. He has since become a figure of some ridicule because of his business ties to the Russian president, Vladimir V. Putin.

Mr. Schröder's fate has not been lost on officials in countries like Spain and Italy, who have often dragged their feet on removing sclerotic labor rules. Such changes are unpopular and typically take years to bear fruit, by which time the officials responsible have been kicked out of office.

But for all the drawbacks, by most measures Ingolstadt has undergone a



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Patrick Shulter, left, and Christian Stoehr at the Schabmüller Automobiltechnik plant in Ingolstadt, where the jobless rate is 2.2 percent.

remarkable transition. It was once regarded as a somewhat blighted corner of Bavaria, perhaps most famous as the place where the fictional Dr. Frankenstein attended medical school and stitched together a monster from body parts he scavenged from graveyards.

In 2005, the jobless rate in Ingolstadt was more than 7 percent, three times the current level. The city is not opulent like Munich to the south. Ingolstadt has a historic city center surrounded by old fortress walls, but there are several empty storefronts. And many neighborhoods consist of slab-like concrete apartment blocks, where the predominant

language is often Turkish or Russian.

For now, Audi continues to thrive, reporting a 13 percent increase in unit sales through August. But some people in town worry that Audi could begin suffering the slump now afflicting most other European carmakers. Besides employing 35,000 people in Ingolstadt, the company supports a huge network of suppliers.

The German economy is slowing down, which could affect Audi and other Ingolstadt businesses. "We are very concerned about what would happen if Audi had a sales problem," said Bernhard Stiedl, deputy head of the IG Metall union in Ingolstadt, which repre-

sents Audi workers. "It would have a massive effect on us."

The first to suffer would be temporary workers. As part of the 2005 changes in the labor market, Germany made it easier for companies to use workers supplied by staffing companies to deal with fluctuations in demand.

"Flexibility in production is essential,

and temporary workers definitely play a role," said Janina Kugel, senior vice president for human resources and executive development at Osram, the lighting division of Siemens, which has a factory in Eichstätt.

Despite the 2005 overhaul, most German workers continue to enjoy far more protections than those in the United States. Permanent workers can usually be laid off only after lengthy negotiations with employers that typically include hefty severance payments. German politicians remain reluctant to tamper with these legal barriers to dismissal.

Temp workers, though, are formally employed by the staffing companies. They can be released in an instant from their temporary employers.

"Temporary work has boomed, but there is a high degree of insecurity," said Rolf Zöllner, head of the Federal Labor Agency in Ingolstadt. Staffing agencies account for about 40 percent of the positions offered through the labor agency, he said.

For now, few workers are complaining. Ingolstadt has problems many cities would envy. While many communities are suffering from declining population because of low birthrates, Ingolstadt is adding 1,000 residents a year and construction companies are busy putting up housing. Financially strapped cities elsewhere are closing schools and public swimming pools; Ingolstadt is building new ones. Audi has sponsored new sports stadiums and professional soccer and hockey teams.

The people suffering the most in Ingolstadt may be employers desperate to find enough workers, particularly small enterprises that cannot afford to pay as much as Audi.

At the Espresso Café Boulevard in the city's pedestrian zone, the owner, Kristin Zinser, had two large chalkboards set up on the cobbled street recently. One advertised the lunch special (meat with gravy and a small salad) and the other sought counter help

Ms. Zinser said it was tough to find workers and hard to keep them. "They're students," she said. "They go after a while."



\$660, a month from €400, and they can earn an additional €150 a month if they maintain the equivalent of a B average in school.

Despite the labor shortage, there has not yet been an influx of workers from countries with high unemployment like Spain, Greece or Italy. One exception is Osram, the lighting unit of Siemens, which has imported workers from Poland and the Czech Republic for some of its Bavarian factories. But language skills have been an obstacle for southern Europeans, Mr. Zöllner of the labor agency said, though he added they might start to arrive in Germany as the Continent's economic problems continue.

Otherwise, Germany's tight labor market could become a brake on growth. "I can't buy a new machine if I don't have someone to operate it," said Christian Stöhr, a manager at Schabmüller who is in charge of recruiting and training apprentices.

The job market has even vacuumed up people who used to be considered unemployable. After the collapse of the Soviet Union, Ingolstadt was a destination for many ethnic Germans in places like Kazakhstan that, under German law, had a right to citizenship.

But many did not speak German or have marketable skills and were blamed for a rise in crime. That problem has all but disappeared, said Herbert Lorenz, head of the Ingolstadt economic development office. "The best social policy," he said, "is full employment."