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PASSIVE LABOUR MARKET POLICIES IN GERMANY AND SPAIN

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ABSTRACT:

In this paper we will describe the role of passive labour market policies in unemployment in Germany and Spain since the beginning of this century. The structure of this report starts with a description of the unemployment situation and labour market characteristics of Germany and Spain during the last two decades followed by an explanation of the labour reforms carried out throughout that period. The second part is a detailed description of what passive labour market policies are as well as how they work in each country. Subsequently, we will analyze the public spending in terms of passive labour market policies taking into account the quantity and number of recipients of these aids.

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1. INTRODUCTION:

The motives that have driven the elaboration of this paper are those of clarifying the differences in unemployment in Spain and in Germany, focusing more extensively on their passive labour market policies. I consider it to be a topic that is very important for everyone who wants to enter the labour market in Germany or Spain. The choice of countries has been based on their extreme asymmetries in unemployment rates and the way they faced the consequences of the Great Recession. Germany is a leading economy in Europe in terms of employment, whereas Spain exhibits one of the highest European unemployment rates. The measures taken to regulate the effects in unemployment of the crisis of 2008 have been carried out through several labour reforms. These reforms will be explained pointing out their aims and main adjustments in order to give a brighter insight of their respective deficiencies and strengths.

The main objective is that, at the end of this paper, the reader has understood how the crisis of 2008 impacted unemployment in both countries, which measures were taken to improve the effects produced by the Big Recession, the structure of passive labour market policies of each country and finally gain knowledge on the importance of unemployment benefits in terms of public spending.

The structure of this report starts with a description of the unemployment situation and labour market characteristics of Germany and Spain during the last two decades followed by an explanation of the labour reforms carried out throughout that period. The second part is a detailed description of what passive labour market policies are as well as how they work in each country. Subsequently, we will analyze the public spending in terms of passive labour market policies taking into account the quantity and number of recipients of these aids.

2. UNEMPLOYMENT:

2.1 UNEMPLOYMENT IN GERMANY:

After the fall of the Berlin Wall in 1989, Germany started the reunification process, which consisted of integrating the democracy to all the eastern states (Länder) that had been governed by communists in the last 30 years. They had to adopt concepts such as private property, open markets and free migration. In order to compensate these inconsistencies, a governmental organ, called Treuhand was created in order to buy all the public companies and resell them to the private sector, and therefore employing those workers who used to work in those companies. This last asset increased the buying price of the companies as they had to take into account all the labour costs. Unemployment rose considerably in the following decade, reaching 19.5% in 1999. Due to a lower productivity and a high migratory flow from East to West, this had caused a huge increase in the real salaries.

In the nineties where Germany was referred to as “the sick man of Europe” due to the high levels of protection of employment, high labour costs and a strict labour market regulation, amongst many other factors, consequential to the Reunification between West and East. In West Germany labour was cheaper than in East, nevertheless western workers wanted to move to the East in order to obtain higher salaries, which created a huge chaos between both sides. Therefore they agreed on equalizing wages as soon as possible. Productivity in the West was one third of the eastern productivity, leaving most West German workers out of the market after the deal and therefore creating more unemployment on that side of the country.

To face these problems Germany proposed a radical change with its well-known Hartz reforms, which started in 2003, suggested by Peter Hartz, who was at that time, the Human Resources Director of Volkswagen. The aim of these reforms was to ease the labour market, motivate unemployed people to find a job as well as erase certain tools that had failed its purpose, and unify the protection of the unemployed within the

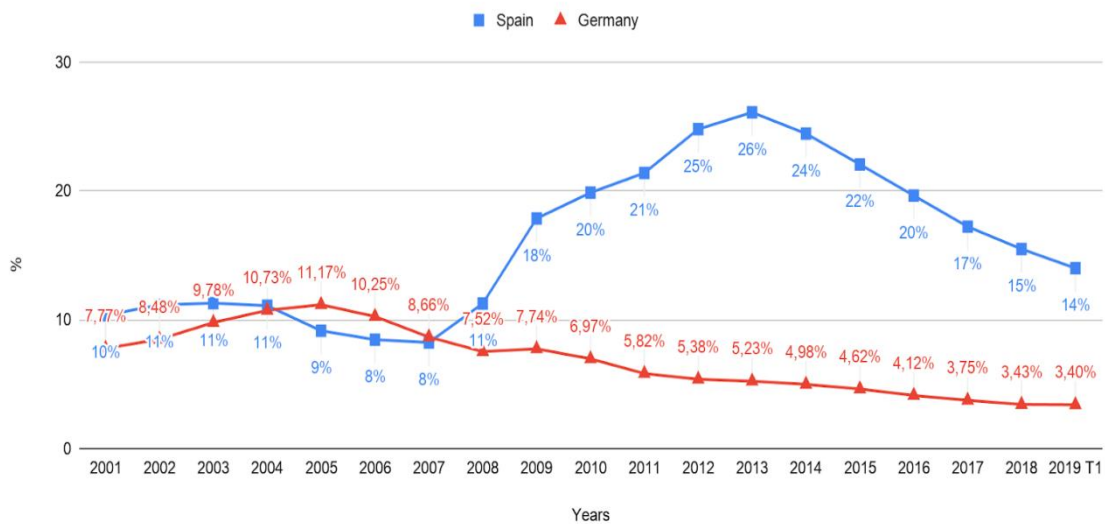
borders of their welfare system. These measures focused mainly on deregulating temporary employment as well as changing the incentives that motivated unemployed people to find a job in order to make them more proactive in their search. As a consequence of these efforts to change the German labour system, the structural unemployment rate changed from 8.48% in 2002 to 5.82% in 2011 with Germany managing to get its international competitiveness back. This reform stimulated the creation of part time jobs, mainly in industrial areas as well as a reduction in the unitary labour cost by adjusting the working time in such a way that it did not negatively affect the unemployment rate.

Companies were concerned about the lack of skilled labour and therefore the challenges they faced at the time was hiring workers with capabilities that match the job position's requirements. But this system allowed them to keep their employees such that when the recovery phase came, they could maintain their already invested human capital instead of looking for new employees, which would turn into additional costs for the companies.

In 2005 Germany reached its highest levels of unemployment (11.17%) of the last two decades. This was also the year that the last of the Hartz reforms, Hartz IV, entered into force, as a consequence, the effects of those reforms started showing immediately after its implementation. In 2006 the unemployment rate started decreasing in a sustainable way until present day, allowing Germany to achieve the lowest levels of unemployment in the EU.

Germany has shown to the world how it stands back up when times are rough by compatibilizing labour flexibility with a high level of social protection as well as an established welfare system. But is this sustainable in the long term? The evolution of the unemployment rate, as shown in the graph and the increase of productivity of this country since 2007 have shown these measures to be consistent through time, although not without going through challenges related to technological and demographic changes such as the creation of educational and financial aids and assistance to immigration coming from troubled countries that look for jobs and a new future in this country.

Graph 1.1: Unemployment rates from Germany and Spain since 2001



Own elaboration with data collected from The World Bank.

2.2. UNEMPLOYMENT IN SPAIN:

The Spanish labour market is characterized by many different factors. According to several studies, although the level of education has increased in Spain during the last decade, the level of education of the vast majority of unemployed is still considerably low compared to the level seen in the rest of Europe. In addition, the percentage of school dropouts of people between 25 and 39 has been of 36% in 2018 and 51% of unemployed people has not reached secondary school, which is compulsory in Spain.

Another characteristic, which has defined the Spanish labour market for a long time, is the high temporality rate this country possesses, which was 26.8% in 2018. In contrast, the average European temporality rate is of 14.2%, which is less than a half of the Spanish figure. In 2006, before the Great Recession, this rate was of 34.1% in Spain, again double as much as the average European temporality rate which was of 15% at the time. It is observable that despite the reduction in this rate in the country, it is far from reaching the European levels of temporality. Short term contracts, in many cases of duration of less than one week, as well as the rotation between job positions are much

consolidated factors in Spain. High temporality can be translated into a higher volatility in terms of creation of employment. The balance in contraction as well as expansion periods is negative, which means that this volatility tends to provoke more unemployment. The costs associated with adjustments made through reductions in staff are more expensive in terms of long term unemployment than adjustments made through division of labour or wage flexibility.

All these imbalances translate into a low labour productivity level. The abovementioned volatility has consequences, such as loss of human capital and of innovative projects or initiatives that could have improved this labour productivity. The deficiencies found in the Spanish educational system constrain the state's economic efficiency (Torres 2018).

On one hand, Spain has always been characterized as a country with low productivity compared to the rest of the European countries and low salaries have allowed employers engage in labour intensive production strategies instead of pursuing innovation in technology. On the other hand, the real estate bubble turned the construction sector into a more profitable industry in comparison with other sectors that could have been considered very profitable but needed a higher investment level in technology. The government did not just stop this but also incentivized it through fiscal advantages. Another important economic activity in Spain is tourism, which is characterized for low salaries and precarious working conditions, due to a very intensive use of its labour force. Furthermore, agriculture and industrial activities had lost its importance in the last few decades before the Great Recession. Not many sectors were left to create an increase in productivity and economic growth whilst imports did not allow control on prices. This explains the lack of specialization in certain sectors and why the constructive sector became so important in Spain. When the crisis of 2008 arrived the European Central Bank raised the interest rates, and made it difficult to repay the loans that had been granted, as a consequence consumption fell and the Spanish economy collapsed. Before 2008 Spanish unemployment rates oscillated around 10%. It was not until after 2007 when it started increasing uncontrollably, reaching 26% of unemployment in 2013. The effects of the measures applied on the labour reform of 2012, which will be explained later, have only been visible since 2014 when the

unemployment rate started decreasing reaching 14% in the first semester of 2019. If we take a look at the graph 1.1, we can see how since 2014 the unemployment rate has not increased at any following year.

3. LABOUR REFORMS:

3.1 GERMAN LABOUR REFORMS:

After nearly two decades of lackluster improvement in the labour market, the Hartz commission, firstly named Die Kommission für moderne Dienstleistungen am Arbeitsmarkt, was created on the 22nd of February of 2002 (Consejería de trabajo y asuntos sociales de Berlín, 2007). It consisted of creating policies with the aim of building awareness between the populations of the importance of seeking a job. These policies achieved their purpose through hard measures such as punishing those who had not found a job in a specific period of time or intensification of autonomy. The Hartz commission compromised four main laws to restructure the labour market:

Table 3.1.: Main measures of the Hartz reforms

Laws:	Applicable since:	Main measures:	Aim:
Hartz I and II	1 st of January 2003	Creation of minijobs (maximum 400€/month). Creation of midijobs (maximum 850€/month before 1 st of July of 2019, now it is 1300€/month).	Directed to intensify prevention of unemployment growth, responsibility and flexibility.
Hartz III	1st of January 2004	Creation of customer service centers and creation of a virtual labour market	Aiming to restructure the Federal Agency of

		with a common data base.	Employment.
Hartz IV	1st of January 2005	Creation of assistance unemployment benefits (Arbeitslosengeld II) substituting the former unemployment aids (Arbeitslosenhilfe).	Contributing unemployed people with their self-care needs.

(Own elaboration with information from La Reforma Laboral en Alemania (2002-2005), Sandalio Gómez, Araceli Rojo, Julio 2013).

3.1.1 Minijobs and midijobs:

These types of jobs, also commonly known as “one euro per hour jobs” were specifically directed to long-term unemployed individuals. There are two main distinctions (Sandalio Gomez, Araceli Rojo, 2013):

- 1- Remunerated: The salary is subject to social security contributions (SSC).
- 2- Compensatory: It has to fulfill certain requirements such as being of public interest, additional and to not endanger ordinary work positions or jobs. This type accounted for 96% of created jobs in 2005.

In the compensatory jobs, the employer pays for 30% of the salary, where 15% goes to the pension insurance and the employee is not required to pay any social security contributions nor taxes. Nevertheless, if the employee does not want to lose their right to a pension, he or she will have to deposit 4.5% to the pension insurance. As depicted on the table above (Table3.1), the salary of the minijobs cannot exceed 450€/month, and in the case of midijobs it cannot exceed 1300€/month. Unlike workers with a midijob, workers with a minijob have to pay their own medical insurance, the salary will be obtained in a lump sum and if they have more than one minijob and exceed 450€/month they have to notify their employer. The following table shows the main differences between mini and midijobs:

Table 3.1.1: Differences between Minijob and Midijob:

Matter:	Minijob:	Midijob:
Payment	Can only earn up to 450€ per month.	Can earn up to 1300€ per month.
Social Security	Does not generally require the payment of social security contributions.	Does require payment of social security contributions, although they are lower than those for a normal job.
Gross Pay	Gross and net are congruent.	Since a midijob requires the payment of taxes, these are deducted from the gross amount.
Taxes	Minijobs are often performed as a side job to a main job in which the social security contributions are paid.	If a midi job is to be considered a part-time job, the tax benefits are usually not applicable. This means that the income from the midijob is taxed on a regular basis.

Own elaboration.

According to a response from the federal government to a request from the Left, the number of people with a midijob has more than doubled, from 1.3 million before the implementation of the new limit to 3.5 million. Consequently, this group of people is now able to benefit from the fact that they will have to pay social security contributions, but these will be lower than in a normal employment relationship. In a midjob, at least 20% of the gross salary is not paid to the social security system, but the amount is calculated individually on the basis of actual earnings. Simply put, this means that since middle of 2019 it has been worth accepting a midijob for more employees, i.e. for those who earn between 850.01 and 1300 euros. If they currently earn more than 850 euros, it may not be worthwhile to take on a midijob and pay the full social security contributions at the same time. This has changed since July 2019. Those who earn between 850.01 and 1300 euros will also benefit from tax breaks and will have a larger amount of gross net income at the end of the month. After the implementation of these two types of jobs, several economic analysis have shown that minijobs have not make it

easier to get a long-term job but instead they acted as substitutes. On the other hand, midijobs have shown to be more useful in this matter.

If we analyse the German unemployment rate after 2005, we find that the Hartz reforms, amongst other factors, had profound effects on unemployment, as since 2005, the unemployment rate has only continued falling from 11.7% in 2005 to 3.4% in the first quarter of 2019. The only time this rate increased from one year to another happened to be in 2009 after the Great Recession. Nevertheless, this increase was quite insignificant as it was from 7.52% in 2008 to 7.74% in 2009. Amongst other reasons, the fact that these reforms had already been applied since 2002 helped Germany to prepare for the crisis of 2008 and therefore experience a lower impact on unemployment.

3.1.2. Other German labour reforms:

Germany also carried out several other reforms apart from the previously seen Hartz reforms that held importance for the German economy. For instance, those directed to reduce juvenile unemployment and to stimulate further education such as bonuses for vocational training or dedicating more attention to the younger sector of the population in employment offices through special aids and advice.

In addition, financing measures to decrease unemployment are created such as “Job-Floater”. It is an aid granted to SMEs by giving loans to unemployed workers.

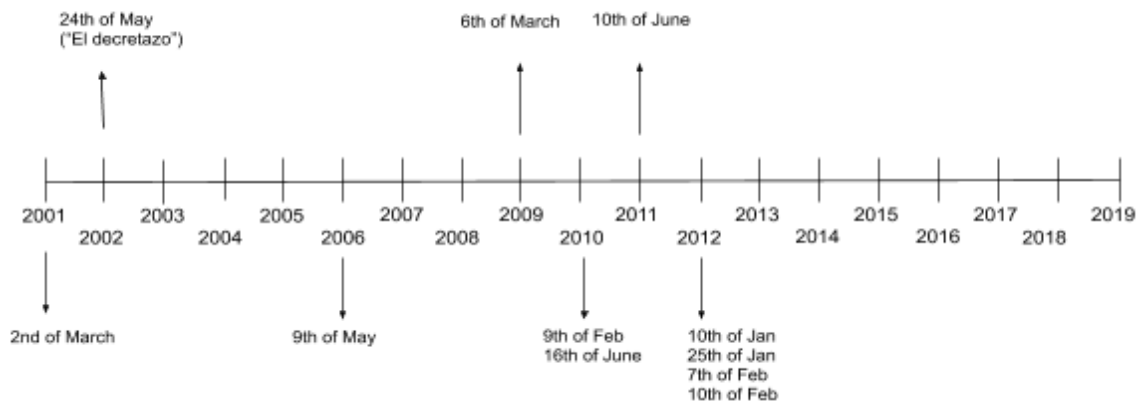
3.2. SPANISH LABOUR REFORMS:

During the last twenty years, Spain has experienced multiple labour reforms. The most significant ones have been the reform of 2010 and 2012, after the Great Recession of 2008 and its devastating effects for the Spanish economy. Other agreements and smaller reforms have been carried out since 2001, which we will briefly analyze in first place.

3.2.1 Spanish labour reforms and agreements since 2001:

Below we will find a timeline with the most important reforms and agreements carried out since the beginning of the 21st century in Spain.

Timeline 3.2.1: Chronology of most important labour reforms and agreements since 2001 in Spain:



Own elaboration.

1. 2nd of March of 2001: The congress of deputies approves to eliminate the limit of the open-ended contract as well as to extend it to more collectives.
2. 24th of May of 2002 ("El decretazo"): The council of ministers approves to rationalize the spending of the government on unemployment. Days before, the 20th of June, the head offices of the syndicates CCOO and UGT established to make a national call on general unemployment.
3. 9th of May of 2006: Tripartite agreement of the Moncloa, of the government as well as of patrons and syndicates. This happened to be the first reform of Zapatero. It consisted of:
 - Reducing abusive temporality in the labour market as well as decreasing the unitary labour costs for the companies.
 - The main measure was to limit the abusive linkage with regards to fixed-term contracts, forcing employers who have too many temporary workers to turn them into fixed workers.

- Extension of two years of the period in which companies will receive incentives to hire.
4. 6th of March of 2010: Council of ministers approves through decree-law six measures for the maintenance and encouragement of employment and protection of the unemployed.
 5. 10th of June of 2011: The council of ministers approved collective reform which reduces the latest deadlines of renovation of the collective bargain agreements, establishes arbitration in case of no consensual agreements and gives more importance to company agreements than to provincial agreements in the matter of salaries, shifts functions and transfers.
 6. 10th of January 2012: Syndicates and patrons handed in to the government a document that includes all the partial agreements met for the reform, including the removal of some festivity days. Nevertheless there is no consensus on the most important matters that the executive power wants to change, such as hiring, firing and internal flexibility.
 7. 25th of January 2012: COE, CEPYME, UGT and CCOO sign the Agreement for Employment and Collective Negotiation 2012-2014 II, which established a rise in salaries up to 0.5% in 2012 and up to 0.5% in 2012 and 2014, with the possibility of revision for a further increase but without allowing retributions to rise as much as inflation.
 8. 7th of February 2012: Patrons and syndicates sign the fifth agreement about autonomic solutions of labour conflicts, giving more importance to intervention and arbitration in state matters and it reduces the deadlines for these procedures.
 9. 10th of February 2012: The Popular Party (PP) approves the new labour reform, in which the cost of firing per 33 days worked per year is lowered. In addition it includes bonifications for hiring workers under 30 years old and long term unemployed people.

3.2.2 The Spanish labour reform of 2012:

The labour reform from 2012 has constituted the most significant reform of the last two decades in Spain; therefore it has to be analyzed with more depth than the aforementioned reforms and agreements. The following table explains the most important measures carried out by the labour reform of 2012 and compares them to how the situation was before the reform:

Table 3.2.1: Main measures of the Spanish labour reform of 2012

APPROACH	MEASURES	BEFORE REFORM
Labour intermediation	The companies of temporary work will be allowed to act as private agencies of employment.	Companies of temporary work were not allowed to act as private agencies of employment.
Formation	Education and formation rights are introduced, stimulating contracts for apprenticeships and its maximum age is extended to 30 years.	Maximum age used to be 25 years.
Open-ended contracts	Open-ended contracts for support to SMEs (< 50 employees). Fiscal deductions and bonuses.	Nothing was disclosed.
Fixed-term contracts	Fixed-term contracts limited to 24 months.	Fixed-term contracts limited to 3 years, extendable to 4 years through collective agreements.
Partial contract	Stimulation of partial contracts and allowance of extra hours.	No extra hours were allowed.
Telework	Regulation and incentives. Equivalent retribution to assistance work. The minimum wage is the total established retribution according to their professional group and functions.	The worker can develop its activity in its private residence without surveillance of its employer. The minimum wage is equal to the one earned by a worker of equivalent professional category in the same economic sector.

Flexibility	Improvement of functional and geographical mobility.	More restrictions regarding functional and geographical mobility.
Collective negotiation	Modernization of the collective negotiation. Firm's agreements prevail over the ones of the sector, lasting maximum without an agreement 1 year.	No limit to collective negotiation contracts established. Once a new agreement was settled, the old one becomes obsolete.
Firing and compensation	Reduction of compensation for unfair dismissal of contract to 33 days a year, with a limit of 12 installments. Procedure salaries are erased. The company has no need to prove the unfairness of the dismissal.	Compensation for unfair dismissal used to be of 45 days worked a year with a limit of 42 installments. The company had to prove the unfairness of dismissal.
Reasons for firing	For reduction of income/sales: three consecutive semesters Absenteeism: more than 20% in two consecutive months or 25% during 4 months.	Absentism: more than 20% in two consecutive months or 25% during 4 months as long as the total absenteeism index of all workers is not higher than 2.5% during those periods.
Collective firing	For reduction of income/sales: three consecutive semesters. It does not require any administrative authorization.	No time limit of reduction of income/sales. Reduction of income that can affect the company's viability or its capacity to maintain its levels of employment. Justification is needed as well as an administrative authorization.
Control	Legal compliance, fight against fraud and absenteeism.	Less measures against fraud and absenteeism.
Youth	Capitalization of 100% of the social benefits for unemployment for people under 30 years (<35 for women) that start as freelance.	No capitalization of social benefits for unemployment.

Own elaboration with data from BOE Lex Nova.

Regarding passive labour market policies (PLMP) the measures taken in the reform of 2012 have been rather restrictive. Before the reform, workers obtained 70% of the regulatory base of contributive aids during the first six months and 60% after. After the reform workers obtain 50% after the sixth month (reduction of 10%). Concerning assistance PLMPs, the subsidy granted to individuals older than 52 has changed its age restriction to 55 years. The subsidy for unemployed workers over 45 years old has been eliminated during this reform. Finally, the concept of partial subsidy is reintegrated to the Spanish unemployment aids, which consists of obtaining a the quantity of unemployment benefit that is proportional to the length of the shift worked, for instance partial workers who have worked 50% of a full time shift will obtain 50% of what they would obtain if they were fulltime workers. We will discuss passive labour market policies later in this paper.

Since 2014, the Spanish unemployment rate has slowly decreased from year to year, from 26% in 2014 to 14% in 2019. It can be concluded that, amongst other factors, the measures taken in 2012 with this reform have positively affected the unemployment rate in this country.

4. PASSIVE LABOUR POLICIES:

There exist two types of labour policies in the labour market:

1. Active Labour Policies:

Directed to make the transition from unemployed to employed with help of training courses and other interactive activities.

2. Passive Labour Policies:

Directed to sustain the welfare of those who are unemployed by providing them with financial aids in form of subsidies. They do not contribute to the transition

from unemployed to employed but instead help cover the cost of their basic needs. We will refer to these aids as to unemployment benefits.

We will focus on the Passive Labour Market Policies (PLMP) in this paper. There are two types of PLMP, which nowadays constitute the system of protection for the unemployed in most countries of the world (El Mercado de Trabajo en la Obra de Luis Toharia, Ministerio de Empleo y Seguridad Social, 2012), which are:

1. Contributive:

Destined for people who have lost their jobs and have worked for more than a specific period of time. The amount obtained will depend on the salary that the worker used to earn and the duration of this benefit has a limit of two years.

2. Assistance:

Destined for people who are not able to obtain the contributive ones for reasons such as having already used them up or because they have not worked the minimum time required in order to have access to it. This is usually a fixed quote, which does not depend on salaries.

4.1 GERMAN PASSIVE LABOUR POLICIES:

In Germany these two types of unemployment benefits are called Arbeitslosengeld I (contributive) and Arbeitslosengeld II (assistance). Arbeitslosengeld II was introduced with the Hartz reform IV in 2004 and we will see how there are several differences with what is considered to be assistance PLMPs (López Lerma 2017).

4.1.1. Arbeitslosengeld I:

Arbeitslosengeld I is paid once a month and at the end of the month, the amount is calculated on a daily basis and only thirty days per month will be taken into account.

People who are unemployed have the right to receive these benefits, as well as those who are taking part in a course of continuing education or have worked more than 12 months in two years. One is considered to be unemployed in the case of not having a job or having a reduced shift with no right of insurance. It is considered to be a reduced shift if the shift is shorter than 15 weekly hours and the lack of insurance translates into lack of right to obtain any benefits. If the person has several reduced shifts, all worked hours will have to be added in order to determine if she or he has worked more than 15 hours per week. In that case it would be considered mandatory to include this worker in the unemployment benefits program.

In 2005 a new law was introduced, with the following requirements (Lopez Lerma, 2017):

- The unemployed person has to make an effort and try to find a job by all means (Eigenbemühungen).
- To entrust the Employment Offices with the job seeking process and take their offers (Verfügbarkeit).

In order to register in the unemployment office, it has to be done personally; no representative or familiar is allowed to do it on the unemployed person's behalf. In addition, it has to be done within the three following days of becoming unemployed or else he or she will lose the right to obtain any financial benefit on the first week of unemployment. When the ending date of the job is known, it has to be done within the three previous months.

4.1.2. Arbeitslosengeld II:

Arbeitslosengeld II, as mentioned before is an assistance type of passive labour policy that was firstly introduced in Germany with the last of the Hartz reform, Hartz IV on the 1st of January of 2005. The aim of this policy is to substitute the former unemployment subsidies (Arbeitslosenhilfe) in order to make unemployed people assume their responsibility of self-care and maintenance (Sandalio Gómez, Araceli Rojo, 2013). These aids will be received every first day of the month and will be updated every first of July in the same percentage as the public pensions (López Lerma, 2017). In order to be entitled to obtain them, the solicitors have to be unemployed and prove that their

income is insufficient to maintain their basic needs. The main difference with ordinary assistance passive policies is that the individual has no need to be looking for a job in order to obtain this type of aids.

Types of benefits included in Arbeitslosengeld II (López Lerma):

There are two main classifications:

1. Fixed: Addressed to cover basic needs such as food supply, clothes, household and other basic daily needs.
2. Special: Addressed to cover needs that cannot be covered by the fixed amount in order to support people with special living conditions, such as disabilities or pregnancy. The total sum of the amount of special aids cannot exceed 409€/month, which is the fixed maximum quantity per month and a worker can obtain special aids as well as the fixed ones.

The following table shows the different amounts granted by the German government in each situation, as well as the percentage of those quantities with respect to the maximum amount granted:

Table 4.1.2.: Types of benefits included in Arbeitslosengeld II:

Situation:	Type:	Amount (€/month):	% of maximum amount granted:
<ul style="list-style-type: none"> - Only one adult person - Single parent families - Couples where one person is underage 	Fixed	409	100
If two adults (over 18) live together	Fixed	368	90
For every third adult living in the same	Fixed	327	80

house				
Working women after the 12 th week of pregnancy	Special	69,53		17
Single parents	1 st Variation: With custody over one child under 7 years or two or three children under 16	Special	147,24	36
	2 nd Variation: as long as the total amount is higher than 145,44€ but does not exceed 245,40€	Special	49,08 per child	12
Disabled people who participate in labour market integration programs	Special	143,15		35

Own elaboration with information from Lopez Lerma, 2017.

There is another option included in Arbeitslosengeld II for those who are under 15 years old or do not have the ability to work, called Sozialgeld. ALG II and Sozialgeld are social aids with the purpose of covering rental costs, heating or costs incurred by people with special situations.

4.2. SPANISH PASSIVE LABOUR POLICIES:

In contrast to Germany, Spain has dealt with much higher unemployment rates during more recent times. In the specific case of unemployment benefits, the public system assumes the role of agent in charge of unemployment risk insurance and of welfare

allocation. The tools for it to develop this role depend on the duration, as well as the quantity of the unemployment benefits (Toharia).

4.2.1 Contributive PLMPs:

In the following table we can distinguish the different durations of contributive PLMPs in Spain (SEPE, 2019):

Table 4.2.1 Duration of contributive PLMPs in Spain:

Number of days contributed	Duration of contributive PLMP
From 360 to 539	120 days
From 540 to 719	180 days
From 720 to 899	240 days
From 900 to 1079	300 days
From 1080 to 1259	360 days
From 1260 to 1619	420 days
From 1440 to 1619	480 days
From 1620 to 1799	540 days
From 1800 to 1979	600 days
From 1980 to 2159	660 days
From 2160	720 days

Own elaboration with information obtained from SEPE.

As depicted in the table above (Table 4.1), the minimum duration of contributive aids is of four months (120 days), in order to be able to obtain it the worker has to have contributed minimum one year (360 days) in the last six years before becoming unemployed. The maximum is of two years (720 days) which is obtainable by those who have contributed six working years (2160 days) or more. An easy rule to calculate

the duration would be: one month of contributive aids per three months of contribution. If the worker has already used up those months to obtain another financial aid, they will not be accounted for

The quantity obtained is a percentage of the regulatory base, which depends on the contribution bases of the last six months (180 days) before entering unemployment. Specifically, the bases of Social Security Contributions are taken into account, which are to be found on each person's payroll. The average of those bases for the last six months is computed and that average rate will be called regulatory base. During the first 180 days of receiving this aid, the amount obtained will be of 70% of the regulatory base. After 181 days, the amount obtained will be of 50% of the regulatory base.

The limits of the amount one can obtain are set through an index called IPREM, which is revised on a yearly basis. In 2019 this index has not increased with respect to the previous year, which means that the limits continue to be the same. The 100% of the IPREM index in 2019 is of 537.84€.

Table 4.2.2: Limits of quantity of contributive aids obtained for full-time employment:

Family Situation:	Minimum*	% of IPREM (minimum)	Maximum	% of IPREM (maximum)
No children:	501,98€	80	1098,09€	175
One child	671,40€	107	1254,86€	200
Two or more children:	671,40€	107	1411,83€	225

*Computed as % of IPREM + 1/6

Own elaboration with data obtained from El Ministerio de Trabajo.

The calculation will also depend on the type of employment the worker once had, if it is part time, the quantity will be derived proportionally. If the worker has worked 50% of a full-time shift, the limits will be 50% of the ones depicted on the table above (Table 4.2.2).

4.2.2. Assistance PLMPs:

The classifications of aid is obtained by those who have depleted their contributive aids, have not contributed the minimum amount of months in order to receive contributive aids, and are older than 52 years or have a special living situation, such as a disability. In 2019 it is considered that a worker can be entitled to these aids if: they are unemployed due to involuntary reasons and their income is lower than 75% of the minimum interprofessional wage (MIW), which is 675€/month in Spain in 2019. In addition, the average income of the whole family should also not exceed that limit either. The amount perceived by the recipient constitutes 80% of the IPREM index and is of 430.27€/month in 2019.

One of the main characteristics is that this type of aid is not regulated by specific laws, but through the General Law on Social Security, which gives them more stability. There are eight different types of assistance subsidies, which depend on different living or personal conditions. The following table shows the different types:

Table 4.2.3: Types of assistance PLMPs:

TYPE	CHARACTERISTIC
For insufficient contributions	Aid for those who have lost their jobs and do not have enough contributions accumulated to obtain a contributive aid. Duration:
Family aid	If the individual is responsible for his or her family (children under 26 years old or spouse). Duration: from 18 to 30 months.
For workers who are over 45 years old	If the individual is older than 45 years old and has no family responsibilities. Duration: maximum 6 months.
For workers who are over 52 years old	It is obtained until the person retires. But the difference is that it is the only aid that contributes to the pension every month until retirement. Duration: until retirement.
For emigrants who	Those who have returned from working in countries that lack a bilateral agreement with Spain regarding unemployment. Duration from 6 to 18

have returned	months.
For individuals released from prison	For those who have served a sentence of minimum six months in prison and have no rights to obtained any other aid. Duration: from 6 to 18 months.
For individuals with disability revision	For individual who have experienced an improvement of their disabilities and therefore have been withdrawn from their condition of permanent disability. Duration: from 6 to 18 months.
Subsidy and agrarian income	Specifically directed to agrarian workers in Andalusia and Extremadura. The amount obtained depends on the number of real shifts worked and on the IPREM Index. The minimum is 80% of IPREM (430€/month) and the maximum is of 107% of IPREM (575.49%/month).

Own elaboration with data collected from El Ministerio de Trabajo.

The quantity obtained by all the subsidies explained on the table above (Table 4.2.3.) is of 430€/month, and in order to obtain them the worker has to fulfill the requirements of assistance aids as well as being registered as unemployed.

Unemployment aids for freelance workers in Spain:

Workers, who have been working as freelance or autonomous, also have the right to obtain unemployment benefits. The problem is that they have many restrictions and not everyone in this category is entitled to receive them. The only ones which do qualify, are the dependent freelance workers, which are the people that only work for one sole client, and therefore they would lose their job if that client was to terminate the contract. For the rest of the cases, the freelance worker has to prove that his or her unemployment situation is involuntary and that it is due to a severe reduction in the individual's income in the last months. In cases where this is proven, the minimum duration of the unemployment aid would be of 60 days per year of work. For each 6 more months worked the increase in the duration is of one month only. The total duration of contributive benefits for freelance workers cannot exceed one year.

The quantity obtained is determined from the average base of the previous 12 months before entering unemployment, with a minimum quantity of 497€ and maximum of 1397,84€ per month.

Extraordinary Aids: RAI and SED

Extraordinary aids are the ones that an individual can request once it has depleted all the other available aids, (contributive and ordinary assistance). The main extraordinary aid has been enforced since 2006 and it is called Renta Activa de Inserción (RAI). It is designed for groups with special difficulties to do with reinsertion into the labour market, specifically to the long-term unemployed who are over 45 years old, victims of gender violence, emigrants who have returned, and unemployed individuals with disabilities.

Until the 30th of April of 2018, two other aids existed (PLAN PREPARA and PAE), which have been substituted by the Subsidio Extraordinario por Desempleo (SED). This aid was given to the long term unemployed with low or no income and family responsibilities, and it lasted a maximum of 6 months.

In addition to contributive and assistance unemployment benefits, Spain developed a program called Plan PREPARA due to the high unemployment after the 2008 crisis. Plan PREPARA consists of a financial help, as well as activities given to those who have depleted their contributive or assistance aids. It was valid until the unemployment rate reached levels lower than 15% but it can be revised every 6 months to decide if the program will continue. This aid is given for a period of six months maximum, it can only be given once to each person and the amount received is generally 403,78€ per month or 457,17€ per month in the case of having familiar responsibilities. Since the unemployment rate has reached lower levels of unemployment than 15%, this aid is no longer available.

5. GOVERNMENT SPENDING IN PASSIVE LABOUR POLICIES:

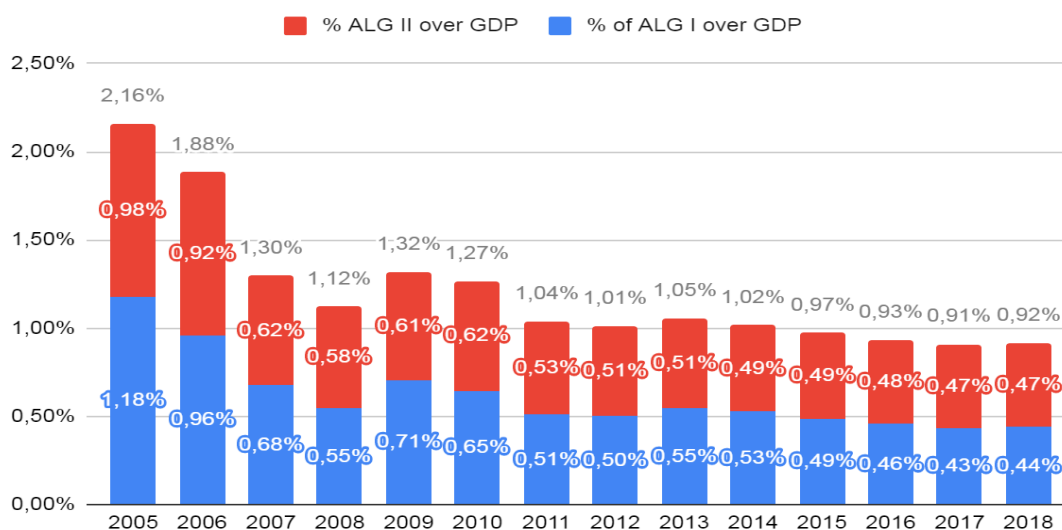
The volume of spending invested in PLMPs in a country depends on various factors: The number of unemployed in a country, the duration of unemployment, the duration of unemployment benefits as well as the laws regulating unemployment benefits and who is entitled to them.

We will analyse how much the government of both countries has spent on passive labour policies since 2005 as well as compare the amount of expenditure with the number of recipients of these unemployment aids. The analysis of the unemployment aids will be divided between contributive and assistance. Finally we will compare the evolution of the number of recipients with the evolution of the unemployment rates.

5.1. GOVERNMENT SPENDING IN PASSIVE LABOUR POLICIES IN GERMANY:

In 2005 Arbeitslosengeld II substituted what was called Arbeitslosenhilfe, therefore the data collected including Arbeitslosengeld II dates after 2005. We will start this analysis by observing the proportion of investment in PLMPs as a percentage of the GDP in Germany. The following table contains the proportion of investment of ALG I and ALG II, in terms of Gross Domestic Product, separately as well as in total. The total represents the sum of both aids

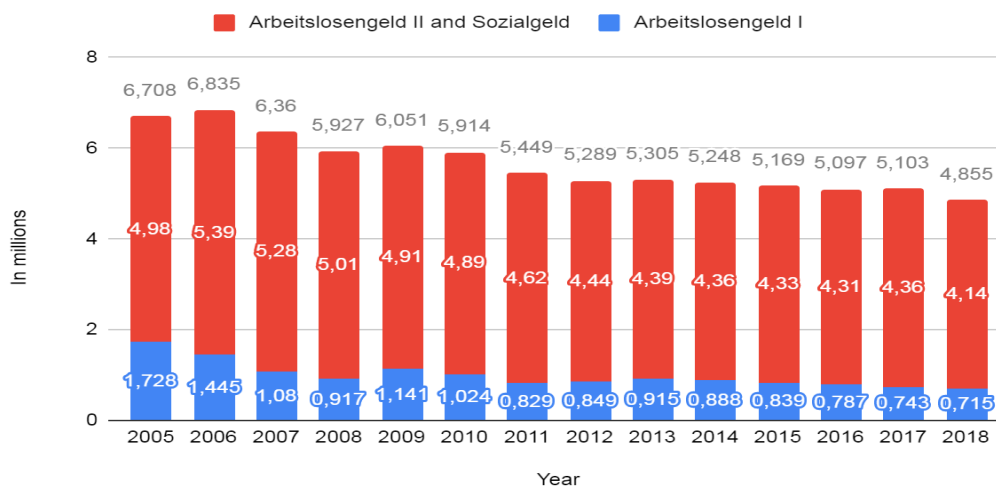
Graph 5.1.1: PLMPs as a proportion of GDP in Germany since 2005:



Own elaboration with data collected from Bundesagentur für Arbeit and Eurostat.

The proportions of both types of aids in terms of GDP are homogeneously distributed throughout the entire period (2005-2018). The highest levels within this period have been reached in 2005 with 2.16% of total share of GDP. Since 2011 the total share has oscillated around 1%. This means that Germany has achieved to reduce its investment as a proportion of GDP in more than half since 2005.

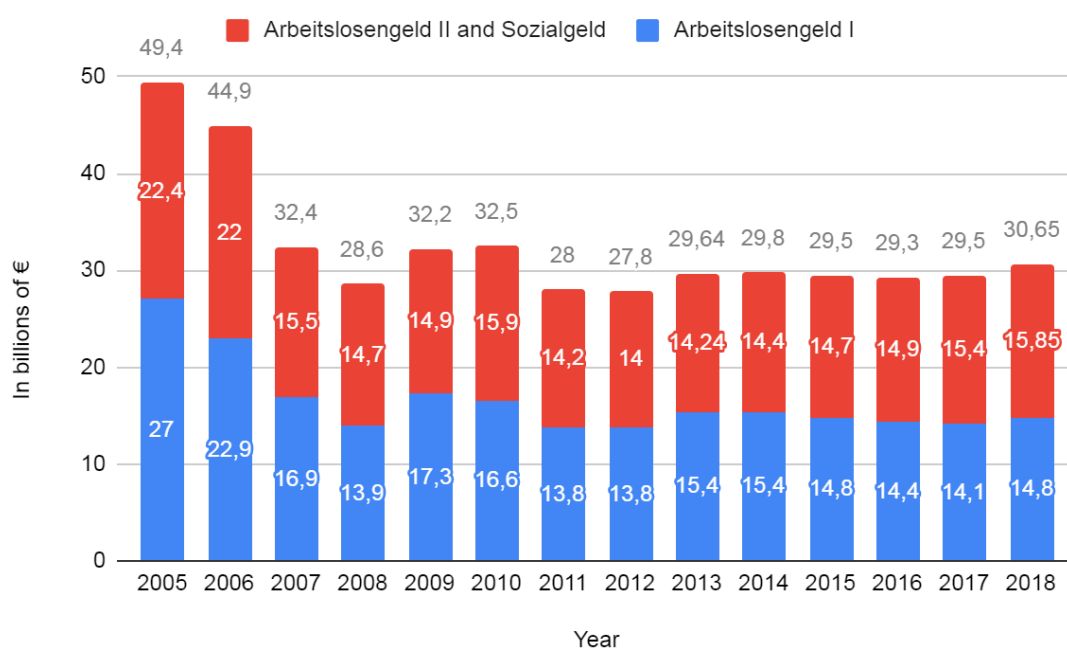
Graph 5.1.2.: Number of recipients of PLMPS (Arbeitslosengeld I, II and Sozialgeld):



Own elaboration with data from Bundesagentur für Arbeit.

As depicted in the graph above (graph 5.1.1) the proportion of recipients of PLMP of both types is extremely unbalanced, the number of individuals who receive Arbeitslosengeld II is four times higher than of those who receive Arbeitslosengeld I. Every person who works and pays contributions to the unemployment insurance thought their wages has the right to obtain Arbeitslosengeld I once they find themselves in the position of being unemployed. Nevertheless, there is no need for the individual to prove that he or she is searching for a job in order to obtain Arbeitslosengeld II. This is aspect is heavily criticized by the German population, especially in the case of immigrants who benefit from these aids but are not actually looking for a job. Another aspect that contributes to this imbalance is that someone who is receiving Arbeitslosengeld I can also receive Arbeitslosengeld II if that individual fulfills all the required conditions. Finally we can observe a total reduction of recipients of Arbeitslosengeld I, II and Sozialgeld of two million from 2005 to 2018.

Graph 5.1.3.: Government spending in PLMP (Arbeitslosengeld I, II and Sozialgeld):

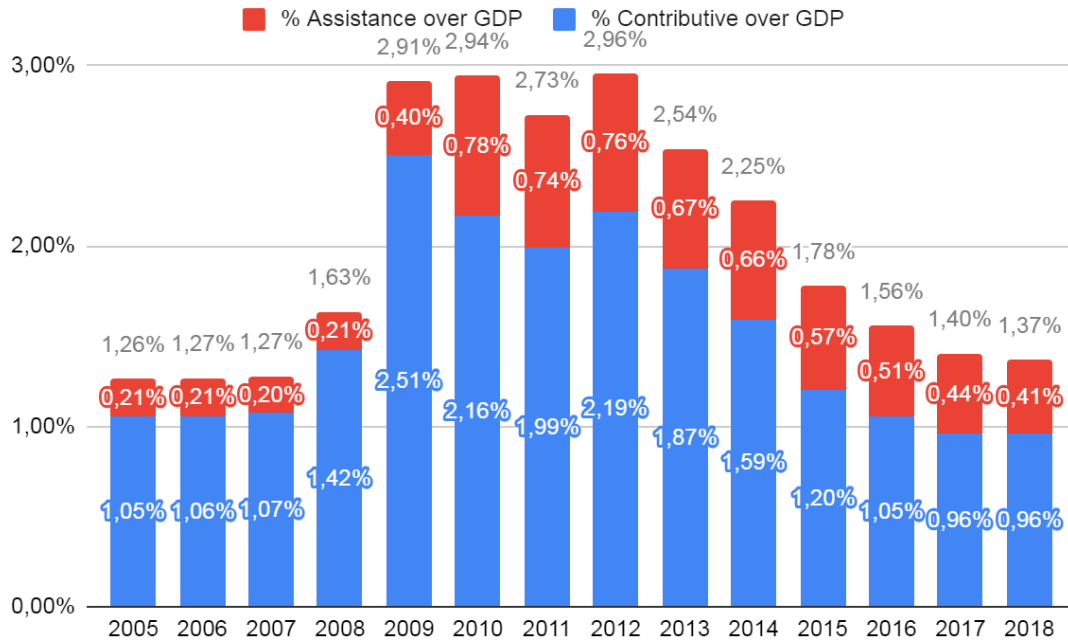


Own elaboration with data from Bundesagentur für Arbeit.

Regarding government spending, we can appreciate an accentuated decrease of investment in PLMPs from 2005 (49.4 billion €) to 2008 (28.6 billion €) of almost half of the initial amount (graph 5.2.1). In 2009 this expenditure experiences an increase as a result of, amongst other factors, the shock of the Great Recession and its consequences such as an increment of individuals in need of unemployment benefits. The proportion of Arbeitslosengeld II and Arbeitslosengeld I is very balanced throughout this period (2005-2019) with a slightly higher investment in Arbeitslosengeld I. If we observe the number of recipients of each PLMP (Graph 5.1.1) and compare it to the proportion of funds invested in each type of PLMP (Graph 5.1.2), we can conclude that Arbeitslosengeld I constitutes a higher investment for the government, as the number of individuals who receive it compose around one quarter of the total amount of recipients of PLMPs, nevertheless, the quantity invested is slightly higher in Arbeitslosengeld I than in Arbeitslosengeld II.

5.2. GOVERNMENT SPENDING IN PASSIVE LABOUR POLICIES IN SPAIN:

Graph 5.2.1.: PLMPs as a proportion of GDP in Spain since 2005:

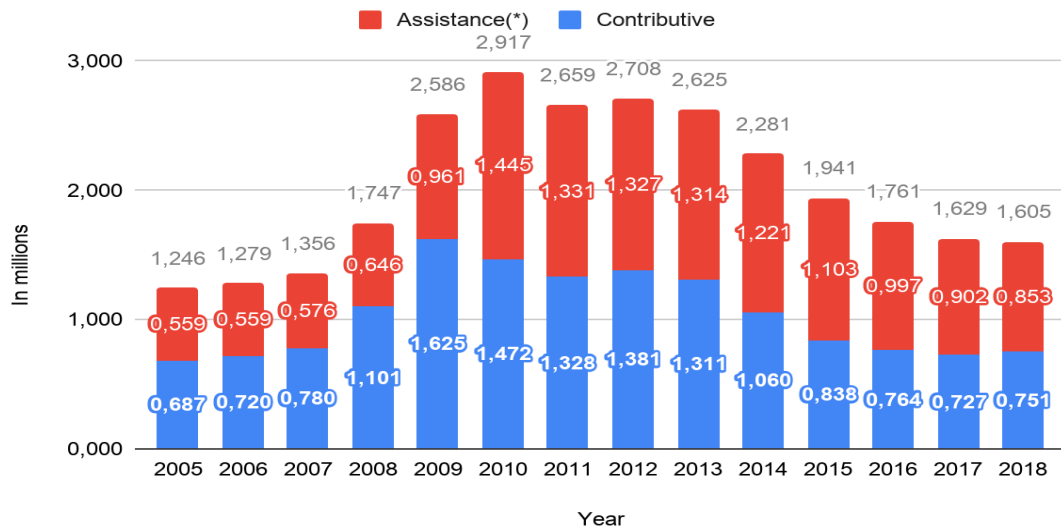


Own elaboration with data collected from El Ministerio de Trabajo and Eurostat.

In contrast to the graph previously seen related to Germany (graph 5.1.1), the graph above (5.2.1) does not show a homogeneous proportion between assistance and contributive aids as a percentage of GDP. Public investments on contributive aids embody around 80 to 90 percent of the total.

The impact of the Great Recession can be clearly denoted by the aggressive increase from 2008 to 2009 of 1.28% of the total share, Spain maintains those higher levels until 2013 when, as depicted in the graph (graph 5.2.1), Spain starts to slowly recover until it reaches levels similar to those before the impact of the Great Recession.

Graph 5.2.2: Number of recipients of unemployment benefits in Spain since 2010:

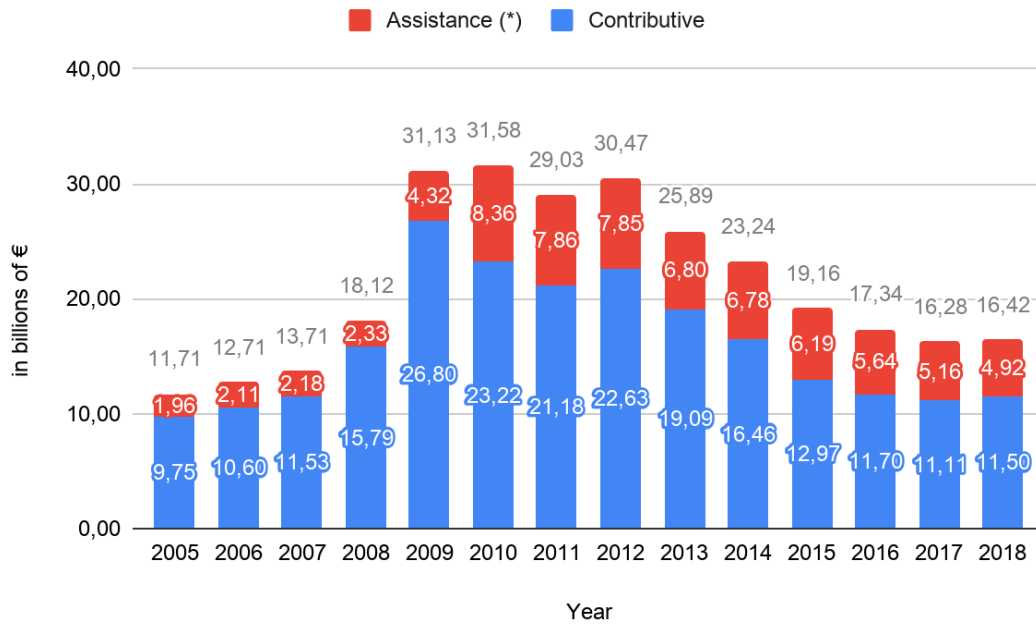


(Own elaboration with data collected from El Ministerio de Trabajo).

(*) Does not include active rents of insertion and the program of activation of employment.

In 2010 Spain approved the first labour reform after the crisis of 2008, which was later on improved by the reform of 2012. The graph above (Graph 5.2.2) shows the number of recipients of contributive as well as assistance passive labour market policies. On it we can see how the number of recipients has decreased since 2010 from around 3 million to half that figure by 2018. From 2010 until 2014 the quantities do not vary to a large extent, it is not until after 2014 when we can observe a noticeable decrease. This could be, amongst other factors, due to the results of the labour reform of 2012. As shown in the graph above (graph 5.2.2), the proportion of number of recipients of contributive to assistance benefits have been extremely balanced throughout the past decade. Nevertheless, it is important to point out that assistance benefits in Spain can only be obtained once the individual has depleted their contributive benefits. This fact would lead to the conclusion that the numbers of recipients obtaining those aids are individuals who have failed to enter employment whilst they were receiving contributive aids on previous periods.

Graph 5.2.3: Government spending in passive labour policies in Spain since 2010 (in millions of €):

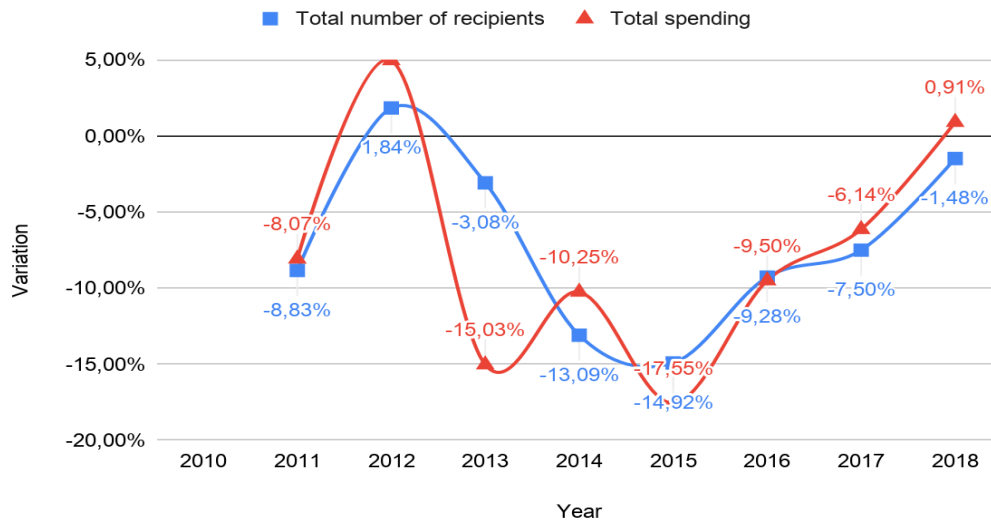


Own elaboration with data from El Ministerio de Trabajo.

(*) Does not include active rents of insertion and the program of activation of employment.

With respect to the government spending, as shown in the graph above (Graph 5.2.3), contributive policies have accounted for most of the money invested during the last decade. It is also extremely noticeable how after the reform of 2012 the amount of spending slowly decreases, reaching in 2018 around half of the amount invested in 2010. In 2013 the government started slowly cutting this spending, due to the improvement experienced in unemployment.

Graph 5.2.4: Variation of number of recipients and of total spending of passive labour policies in Spain since 2010:



Own elaboration with data collected from El Ministerio de Trabajo.

Both, the number of recipients and the government spending, show to be related in a way as we can observe from the movement of their respective variations from year to year shown in the graph above (graph 5.2.4). In 2012 the amount invested in spending decreased around 15%; accordingly the total number of recipients experienced a decrease of 13% by 2014. This leads to conclude that one important cause, amongst other factors, are the restrictions on who is entitled to receive these financial benefits imposed in the labour reform of 2012. The decrease in unemployment could have also played an important role.

6. CONCLUSION:

The levels of unemployment of the last two decades of Spain have been heavily determined by the crisis of 2008 and its terrible consequences. Germany suffered a lower impact because it had started implementing measures to deal with this crisis before it had even begun. The Hartz reform aimed to amend the unemployment levels of earlier decades and therefore served more as a protection or against the Great Recession

than only as a healer, whereas the Spanish reform of 2008 was carried out after the crisis of 2008 in order to fix the high unemployment levels.

The Hartz reforms were divided into four main laws, which had the aim of intensifying prevention of unemployment growth, responsibility and flexibility as well as a wider implementation of aids for individuals who needed it. In addition, these policies achieved their purpose through hard measures such as punishing those who had not found a job in a specific period of time or intensification of autonomy. On the other hand, the main objectives of the Spanish reform of 2012 were to stop the massive destruction of employment, set the bases for the creation of stable employment, stop the duality of fixed-term and open-end contracts, increasing internal flexibility in businesses and increase opportunities for the unemployed, especially young people and long-term unemployed.

Two main distinctions can be made when analyzing the passive labour market policies of both countries: In order to obtain assistance PLMPs in Spain, the solicitor must have depleted their contribution PLMPs first, whereas in Germany an individual can obtain both at the same time. This condition affects, amongst other factors, the number of recipients as well as the amount of government spending of PLMPs. The second distinction is that as the unemployment levels of Germany are extremely lower than those of Spain, the restrictions on who is entitled to obtain certain unemployment benefits are much more lax.

There are many factors that affect unemployment, and it is very hard to tell which factors have a bigger impact on it. Nevertheless and although these changes in policies and labour reforms have caused an impact on unemployment, it is very hard to know if these measures have actually worked. In order to find out with the most accuracy possible, we would need confidential information of each person and know what type of aids and or benefits that person has obtained and if that specific person found a job after all those aids offered by the government. As that type of information is not available, we can only speculate about it. Nevertheless, in general terms we can observe how unemployment rates have decreased in both countries, Spain and Germany since the impact of the crisis of 2008, which leads to the conclusion that the aforementioned policies and labour reforms have had an overall good impact.

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