

Recession and unemployment: a comparative analysis of Germany and the United States

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Recession and Unemployment:

A Comparative Analysis of Germany and the United States

Tanja Bosch, Jonah Otto, Martin Preuß and Savini Ranaweera

1. Introduction

Unemployment is a long term problem that governments as well as their citizens are confronted with. Unemployment comes with high costs of national assistance programs designed to alleviate the economic burdens of joblessness. This is compounded by the fact that overall state revenue suffers as low employment rates lead to a lower amount of wage taxes being collected. Although unemployment has been remedied temporarily in the past, the current rising unemployment rate shows that a real long term solution has not been found. This suggests that there is a missing element in the existing research. Attempting to close this gap can give insight on how to handle the problem of unemployment today.

The improvement of the living conditions of non-workers helps to solve other serious matters. Upon closer inspection one can see that the countries that support their unemployed persons are more likely to have a long term problem. As a result, it raises the question if it is meaningful to reduce the benefits to stimulate the jobless people to go back to the labor market or if it is important to assist these people at all. This chapter talks about different projections on how two exemplary industrial countries, Germany and the United States, handle the problem. Germany and the United States both have a long term unemployment problem which will be explained in detail in this chapter. Of the solutions discussed, one can decide where to take parts of both solutions to combine the advantages of both systems and arrange a better program.

The prospects for the unemployed in Germany are generally better than in the United States because of the social care and the advanced training that is financed by the German government. However neither of the two governments has found a way to reduce their unemployment rate in the long-run. One of the reasons for this is due to the recessions and economic boom phases that still have a big influence on the unemployment rate.

Furthermore because of globalization, recessions have a big influence on the unemployment rate in other countries. The exports and imports, which have increased during globalization in the 20th century, have a large impact beyond national borders. Before this time, when every country was responsible for itself, a bad economic climate

in the United States had almost no influence on that of Germany due to the geographical distance. Today the association with unemployment is different in the two countries so the consequences for the aggrieved party, also referred to as the unemployed persons, are not the same. In Germany it is difficult to find a job, but if you have a job it's hard to lose it. This fact is based on the strict dismissal protection and the low fluctuation in the German job market. In contrast, in the United States the danger of losing an existing contract of labor is higher while finding a new job is easier.

Long term unemployment is a big problem for the German treasury. One possible reason for this is because the unemployed in Germany receive more unemployment benefits, which leads to a higher living standard for the jobless than for the unemployed in the United States. People in the United States also change their job often, because it is easier to find a new one. In fact, about three out of four employees leave their job on their own accord because they have found a better alternative. Only one out of four were actually dismissed by their company (Blanchard and Illing, 2009).

This chapter will show which country has found the best way to deal with unemployment and explicate how both countries can learn from each other on how best to deal with this problem. In exploring this area, research will be presented to show what other scientists have found in this field and different types of unemployment will be illustrated. Next, unemployment in the United States will be discussed, including the reasons for unemployment and how the American government deals with this problem as well as possible solutions to combat unemployment. The same format follows for Germany and its government. We will then discuss the relationship between unemployment and health and the similarities and differences between Germany and the United States. The chapter ten concludes with the effect of globalization on unemployment and the final thoughts on which solutions to unemployment are the most realistic, applicable and effective.

2. Literature Review

The literature about unemployment is very informative and diversified because of the consistent problem of the recessions and their effects on unemployment. The basis of this research will be shown to give an outline of the existing findings. Franz

(1995) has engaged in the different types of unemployment and turned his attention to the structural unemployment which in turn is important for our research. He thinks that the insufficient adaptability on the structural change is a cause for unemployment, while Hilpert and Kistler (2001) see the main problem of unemployment as the change in demographics. The sustained economies in matters of human capital are getting more difficult.

Boss, Christensen and Schrader (2005) occupy themselves with the problems that result from the preservation of unemployment benefits. They point out that many unemployed persons see unemployment benefits as a long-term solution instead of working and have no ambition to go back to the world of work. Berthold, Gangl, Schmid, van Suntum and Weidmann (2002) assess in their study the efficiency of Hartz IV and carve out the relationship between the quality of unemployed benefits and the length of the jobless phase. Brinkmann (1976) applies himself to the impacts of unemployment for the aggrieved party whereat on the other hand he takes a look at the financial aspect and the personal problems of the involved party. Afterwards many studies are followed which handle the health conditions which change for the worse because of unemployment (Bartley, 1994, Grobe and Schwartz, 2003).

Many scholars have delved into the topic of unemployment and the differences in unemployment rates between the United States and other European countries. Solow (2000) states in his paper “Unemployment in the United States and in Europe A Contrast and the Reasons” that the variables that contribute to the differences between the unemployment rates in the United States and Germany are the duration of unemployment, the legal restrictions on discharging workers, the difference in minimum wages and the range in payroll taxes. Solow (2000) suggests that European countries like Germany need to have flexible labor markets in order to decrease their unemployment rates. He also states that the reason many European countries have higher unemployment rates is due to the extensive unemployment benefits that the unemployed receive.

However Rothstein (2011) would disagree since he says in his paper “Unemployment Insurance and Job Search in the Great Recession” that the extension in unemployment benefits that occurred after the Great Recession had almost no impact on

the increase in the unemployment rate. Murphy and Topel (1986) might disagree because their research found that mobility in the labor market has little to do with the unemployment rate. Their findings in “Evolution of Unemployment in the United States: 1986-1985” concluded that much of the fluctuations in unemployment rates are economy wide and hard to exactly pin down.

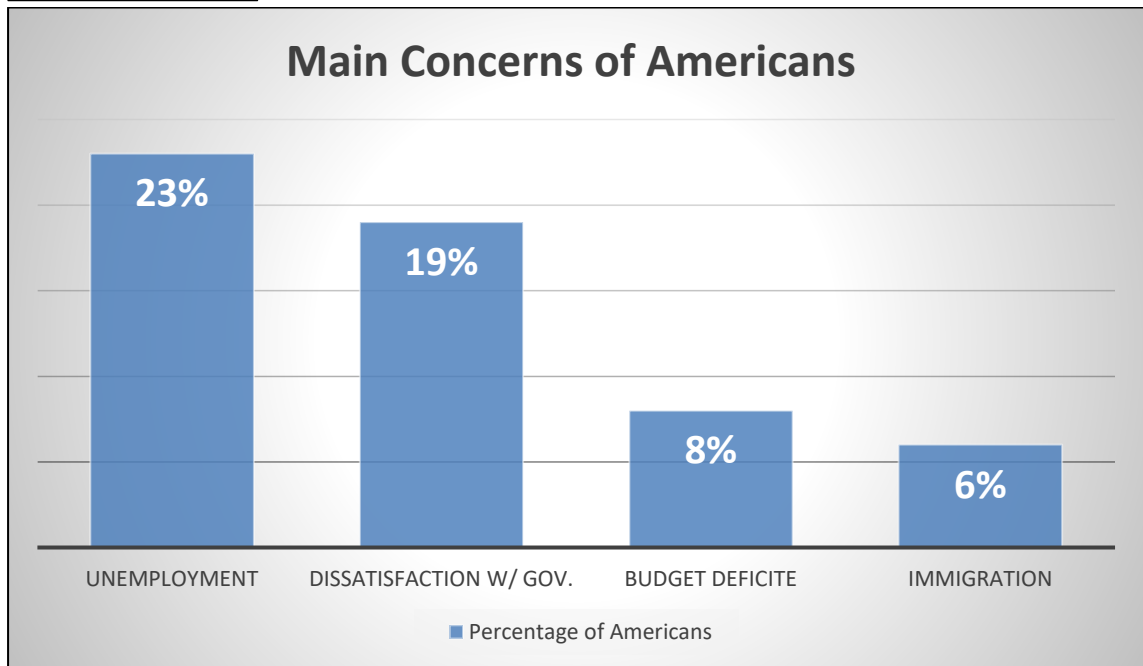
3. Recession and the Types of Unemployment

A recession is the episode of economic activity where production has decreased drastically. Recessions have a tendency to have an excess supply in the economy because of the decreased demand. There are four different types of unemployment: seasonal unemployment, which exists when firms are producing only in a specific period. Second, frictional unemployment occurs when a worker is in between two jobs. It refers to the period of time the worker is jobless between finishing their old job and beginning their new one. The third point is cyclical unemployment, which depends on the circadian fluctuation. In a boom phase the unemployment rate is declining and in a recession the rate is increasing. Finally there's structural unemployment which is the biggest problem. Structural unemployment depends on sector adjustment. In recent years the introduction of new technologies and changes on the global market has made structural unemployment a bigger problem. The labor market has largely been inflexible and slow to adapt to the changing economy.

4. Unemployment in the United States

According to a recent poll from February 2014 unemployment is one of the top concerns of Americans today. Of the Americans that participated in the study, around 23% stated unemployment as their main concern. To put this into perspective unemployment ranks above issues such as dissatisfaction with the government (19%), federal budget deficit (8%) and immigration/illegal aliens (6%) which are all topics that are heavily complained about by Americans, displayed graphically in figure 1 (Rifkin, 2014).

Figure 1

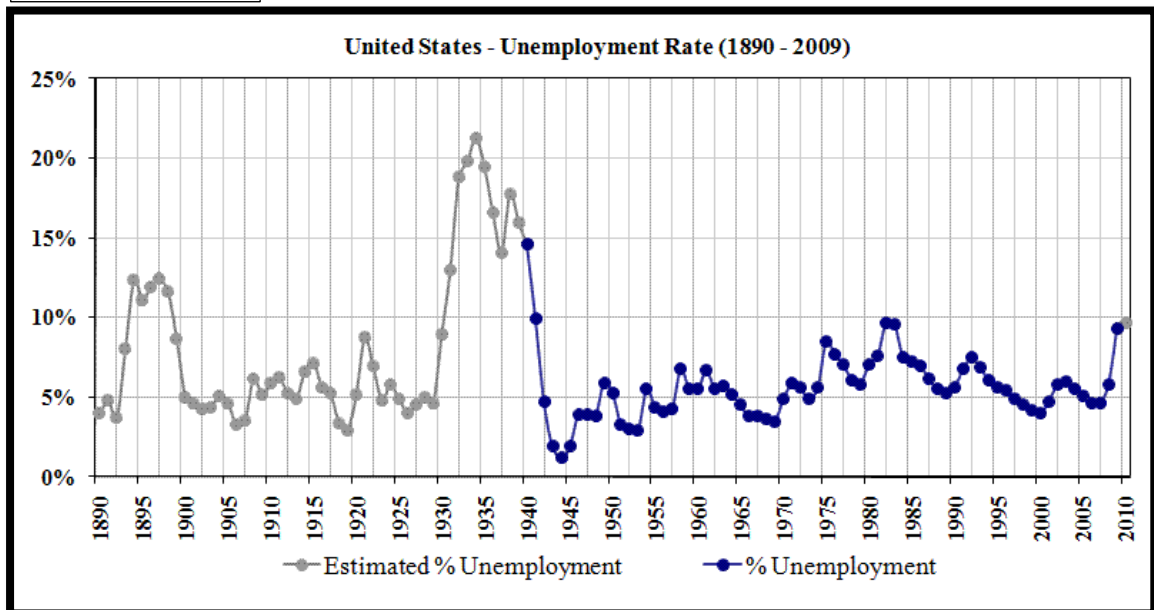


Source: Rifkin, 2014

4.1 Causes for Unemployment in the United States

The Great Recession that occurred in 2008 was cyclical in nature since it was partially due to the regular ups and downs of the economy. The root cause however was the housing bubble burst of 2007. Hall (2012) states that a recession begins with a wave of layoffs, mainly in cyclical durable-goods industries. In the past 10 years the highest unemployment rate recorded was 10% in 2008. This was at the height of the Great Recession and the highest it has been in the past 16 years (Bureau of Labor Statistics, 2012). This rate is only slightly higher than the 8.9% rate reported in 1930 during the Great Depression. The highest rate of unemployment during the Great Depression was 24.9% in 1933 (Lucas and Rapping, 1997). Figure 2 below conveys U.S. unemployment trends over time (Pettinger, 2010). As of April 2014, the unemployment rate in the United States is at 6.3% which is a decrease from the previous month's rate of 6.7% and a significant decrease from the 7.5% rate reported on April of 2013 (Bureau of Labor Statistics, 2014). Decrease results from creation of new jobs, mainly low income jobs such as retail services, bars and fast food joints.

Figure 2



Source: Pettinger, 2010

The recession although cyclical as stated earlier seems to have contributed to structural unemployment because of its severity. The research conducted by Groshen and Potter (2003) was on the recession of 2001 but there are many similarities to the recession that occurred in 2008. The “largely permanent nature” of the jobs lost during the 2001 recession means that workers must find new positions in new firms. The recovery from the 2001 recession showed steady growth but at the same time there seemed to be no corresponding change in unemployment. This is the same situation as 2014 in regards to the 2008 recession since the current market is performing well, but still unemployment remains rather high. It seems that much of the recovery pattern that followed the 2001 recession will parallel the recovery for the 2008 recession. This means structural change and productivity increases rather than gains in payroll. The recovery period for the 2001 recession was 18 months and that does not seem to be the case for the 2008 recession (Groshen and Potter, 2003). This is due to the 2008 recession being much more severe.

A few years after the Great Recession hit, the government gave out extensions on unemployment insurance (UI) to assist people during the difficult time. Previously UI only lasted 26 weeks but in June 2008 Congress enacted legislation which authorized the benefits to go up to 99 weeks. This includes regular benefits which last about 26

weeks, emergency unemployment compensation (53 weeks) and extended benefits (20 weeks). Even though the goal of extended benefits is to assist people in getting out of unemployment, unemployment levels continued to rise. The new policy contributed to around one percent of the unemployment in 2011. If there wasn't an extension, the unemployment rate in December of 2010 would have been about 0.1 percent lower (Rothstein, 2011). UI benefits cause people to stop searching for jobs thus slowing their transition into employment. However, it is not uncommon for the US government to grant these extensions in times of severe recessions because it is so difficult for people to find work.

There are other causes of unemployment for the United States besides structural and cyclical unemployment. The Euro crisis has also had an effect on US industries and unemployment. Since today's economy is a global economy when European countries are going through a recession it affects American stock markets and exports. Exports are an important part of the American economy and have a distinct impact on American manufacturing companies. One of the effects is unemployment due to the fact that there is less demand for workers since the company is not exporting as many goods.

4.2 The Effect of Unemployment on the American Economy

If unemployment goes on for too long, the people within the country will start to save money because they no longer have a source of income. This belief is known as Keynesian economics which is a liberal theory that warns against excessive saving due to the fear that it would be detrimental to the growth of the economy. This theory is largely based on the effect of total spending in the economy and its effects on outputs and inflation. Keynesian economists believe that one person's spending goes towards another person's earnings. When this person spends his or her earnings he or she is contributing to another person's earnings. This cycle is what keeps the economy functioning in a normal manner. Excessive saving could lead to a stagnant economy because the "circular flow of money" is halted (Maynard, 1995). In fact, personal consumption or spending is about 70% of the United States GDP (Skousen, 2010) so it is no surprise that a decrease or halt in spending has a negative impact on the economy. After the Great Recession of 2008, Keynesian economic policies were put into action when the government pumped trillions of dollars into the economy to stimulate it once

again.

Another effect of unemployment on the economy is unemployment benefits and the detrimental consequences it can have on society in the long run. After a certain amount of time the unemployment benefits put the unemployed workers into a false sense of security and lead them to believe that they no longer need a real job since they can rely on government assistance. This in turn leads to the problem mentioned earlier about Keynesian economics and the effect it has on the economy when people are out of work and not spending money.

4.3 Strategies for Solving Unemployment in United States

There are various strategies for fixing the unemployment problem in the United States. One of the first solutions is the reformation of UI benefits. If the UI benefits are implemented for a shorter period of time than discussed in the previous section they could help incentivize people to continue their job search. UI benefits are only provided to people who are continuously looking for a job (Rothstein, 2011). Another idea for reformation is giving the payments for unemployment assistance at the beginning of the month instead of weekly so people will start jobs at the beginning of new pay periods. Providing cash bonuses for people on unemployment insurance if they find a job and go off unemployment is another way to incentivize people. There should be programs that help relocate people into other areas around the country (Strain, 2014). These programs would include relocation subsidies to help with the financial burden that come with moving and relocation. The subsidies would of course be a large cost for the government if provided for everyone that is unemployed so it would only be provided for people in long term unemployment (Strain, 2014).

There have to be incentives for companies to hire workers. For a short period of time new hires should have a lower wage (Strain, 2014). This idea is paired with a proposition for a higher minimum wage. Congress can also offer subsidies to companies that spread out the hours worked between employees instead of laying off workers. This will also benefit the company in the long run because once the economy picks up they will not have to worry about hiring new employees and training them, they would already have experienced workers.

A similar method is to ensure that people are trained for jobs that are in high demand. This proposition was put forth President Barack Obama during his State of the Union address in January of 2014. Obama stated that companies need to connect with universities and offer apprenticeships with on the job training that is designed for specific jobs that are in high demand. He also says that Congress can help by funding more effective programs that directly and easily place workers that are ready for a job into open positions (Obama, 2014).

5. Unemployment in Germany

This next section is about the unemployment in Germany. First there will be a discussion of the actual situation in the job market. After showing the situation, the causes of unemployment will be explained more specifically. Next, the strategies of the German government to solve this problem will be shown. Initially the actual programs are explained, before the impacts of these agendas are exposed. Finally the consequences of immigration, especially from the European guest workers coming to Germany, are declared.

5.1 Causes of unemployment in Germany

Structural unemployment is a long term problem in Germany because it depends on sector adjustment. Historically coal mining and handcraft jobs were important industries, but over time conditions have changed. Now Germany is a service-driven economy. This implies that the national economy needs specific workers for services. Structural unemployment exists because of the high adaption costs needed to change the education system. These high costs lead workers to lack the qualifications needed to work in the new sector. This is one of the causes of unemployment in Germany because the sectorial structural change defeated copious activity areas in the industrial sector, without creating new workplaces in the service sector (Franz, 1995).

Cyclical unemployment is also a problem the German economy is confronted with. Recessions have a negative impact on the German unemployment rate. The government tries to keep the negative influence as low as possible instead they legislated for protecting the citizen, for example the dismissal protection. This

protection prohibits entrepreneurs from dismissing their workers in short term recessions because it seems to be cheaper to dismiss someone than employ somebody until the next boom-phase. A negative aspect of the dismissal protection is, that an entrepreneur hesitates more to hire new workers because he cannot dismiss them from one day to another.

Another initiative for economic recovery is the automating of the production process. Depending on the industry, a machine may be more efficient. The role of the worker has changed from a 'doer' to an 'operator', so the economy does not need the same number of workers as before. A resulting cause is outsourcing, which is the displacement of production to low wage countries. For example, the clothing industry changed from Europe to Bangladesh because of the cheaper production costs in Bangladesh. Workers in Bangladesh will work for less and in facilities that are built and maintained cheaply. Cost pressure is another aspect for outsourcing because of the increasing competitive pressure that firms are confronted with.

One of the reasons for the lack of jobs is the phenomenon of multiple jobs. Many people take on multiple jobs because one job simply cannot provide the money needed to survive. If every employee earns enough money in his first job, he does not need another job, which can be given to another applicant. Illegal employment also leads to job scarcity and is something that the government needs to solve. This is especially a problem in the building industry where many workers are working without paying taxes.

There is a gap between some under skilled people and those who have the requisite qualifications. The skilled workers are standing in for those who missed the "technology train" in the last 15 years. Unwillingness to work is also a problem that Germany is confronted with. Some of the employable people could work, but are simply not interested because they would earn about the same or less money than if they stayed on government assistance (Boss, Christensen and Schrader, 2005; Berthold, Gangl, Schmid, van Suntum and Weidmann, 2002).

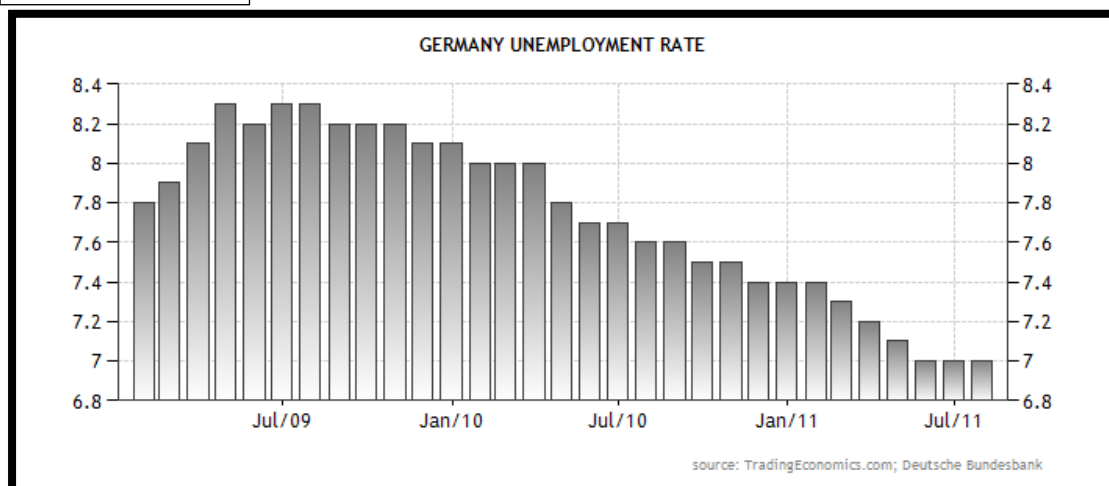
In the long run, demographic change is another cause for unemployment because of the aging population (Brücker, Brunow, Fuchs, Kubis, Mendolicchio and

Weber, 2013). The whole job market is suffering from the implication of this generational force. Through the increasing number of inactive population based on the aging of German citizenry it becomes more difficult for the employed people to fund assistance to the non-working population (Hilpert and Kistler, 2001).

5.2 The Effect of Unemployment on the German Economy

Germany is also confronted with the problem of unemployment; however its problem is not as severe as other European countries like Spain, Greece and Italy, who have to fight against the results of the Euro-crisis. In April of 2014, 2,943,000 people were jobless, translating to an unemployment rate of 6.8%. Since 2005 the unemployment rate decreased continuously until 2008 (See figure 3). In 2009 it rose because of the global economic recession, the next two years the rate declined beneath the level of 2008.

Figure 3



Source: Nasad, 2011

German administration faces high costs when it comes to the unemployed. It is estimated that Germany will spend about 120 billion euros for its welfare system in 2014. This is more than 40% of total government expenditures (Statistisches Bundesamt, 2014). There are two factors which cause government spending to increase. Tax deficit occurs because the government is unable to collect wage taxes. Fewer wage earners signify less tax-payers and that implies less state income. In addition, expenses are rising because the state pays out-of-work benefits to the unemployed persons. This

results in the state taking out a loan, thus increasing level of debt.

The long-term unemployment is an issue for the nation as a whole, but especially for sick and old persons (older than 50 years), and persons with a migration background (Amlinger, Bispinck, and Schulten, 2014, Achatz and Trappmann, 2009, Konle-Seidl, Rhein and Trübswetter, 2014). The long-term unemployment is high and one reason are the high benefits the government pays for the unemployed. This begs the question if high benefits are good or if it is better to pay less to stimulate the workers to go back in the labor market. Another negative factor is the high costs of social insurance institutions. These high costs lead insurers to raise the premiums in order to support every German citizen. The associated employer outlay is also on the rise. At the moment Germany is one of the countries spending the most on incidental wage costs. The result is that the impulsion to dismiss more workers hence forming a vicious circles (Franz, 1995).

5.3 Strategies for Solving Unemployment in Germany

In Germany assistance for the unemployed is high. Every citizen has the right to live according to the living standards which are prescribed in the German basic rights. For example, the dignity of the individual must be preserved. This means that every citizen has the right to have access to food, drink and warm shelter. The German social system is built on two-way support. The basis of this system is that the employed pay for those who are unemployed with the knowledge that they would be treated well if they were in the same position. The administration agency of the unemployment insurance in Germany is called “Bundesagentur für Arbeit”. They administer the unemployment insurance contribution which is deducted from the workers’ paycheck every month.

Unemployment benefits are the most important support for the unemployed. With this money, they are able to provide for themselves and their families. Without this backup, most of them would be homeless. The amount of the benefits depends on the age, family status and earnings before becoming unemployed (Brinkmann, 1984). These compensations are not meant to be long term solutions, which is the reason why the German government is anxious to integrate the unemployed back into the labor

market. The German government wants unemployed workers to join advanced vocational training for specific occupations. This allows for a better integration of the prospective job applicant to the job market. Another way the German government assists the unemployed is through job centers. Job centers offer free career counseling to the unemployed to ensure that they know which options are available to them. If the unemployed person receives the job offer he has to apply himself to the corresponding firm.

The German government, like all governments, has the goal of keeping the market fairly consistent. The system is called “Anti-cyclical budgetary policy“. This requires the government to increase government spending during a recession. A common way to increase spending is for the state to reduce taxes and invest in the economy. In contrast to the recession the government has to increase the public revenue, through the advancement of taxes and reducing the subventions in the boom phase. The same problem can be noticed in the wage policy where wages are rising in an upcoming economic climate. Reduction of wages in a recession has negative effects on the general employer satisfaction.

The idea of “Anti-cyclical budgetary policy” is ideal but there are problems with the implementation. It is difficult to increase taxes in a boom phase and often the focal point of the government is reducing the rate of unemployment. The primary goal of the government should be to raise the demand for labor. This is a long term solution to reduce unemployment by creating a higher demand which means in turn a higher production rate and therefore more workplaces (Franz, 1995). In Germany, a minimum wage has been introduced, which means that every employee earns a specific sum per hour, which is given by the government. Besides the positive aspects of this program, such as less exploitation of the low wage workers, there are negative aspects for the long-term unemployed. The entrepreneur hesitates to hire new applicants, because of the high wage costs. A possible solution could be that the workers get their legal minimum wage only after six months. This should increase the occupational rehabilitation for the long-term jobless people (Amlinger et al., 2014)

6. Relationship between unemployment and health

Many researchers have delved into the topic on the relationship between unemployment and health. That depends on the social pattern of the contemporary society which is focused on the individual, especially the influence of ethics and morality. The human takes center stage and that's the reason why this research takes a look on the consequences of unemployment on individual health. It is quite obvious that unemployed people are prone to more health problems in comparison to employed persons. Through the switchover into unemployment the living conditions are altered. At first the living standards change for the worse, because the aggrieved party has to move into smaller and cheaper homes. This procession into another environment causes their previous social network to deteriorate. The result of this is that the people lose their social contacts, which leads to general unhappiness and depression (Grobe und Schwartz, 2003).

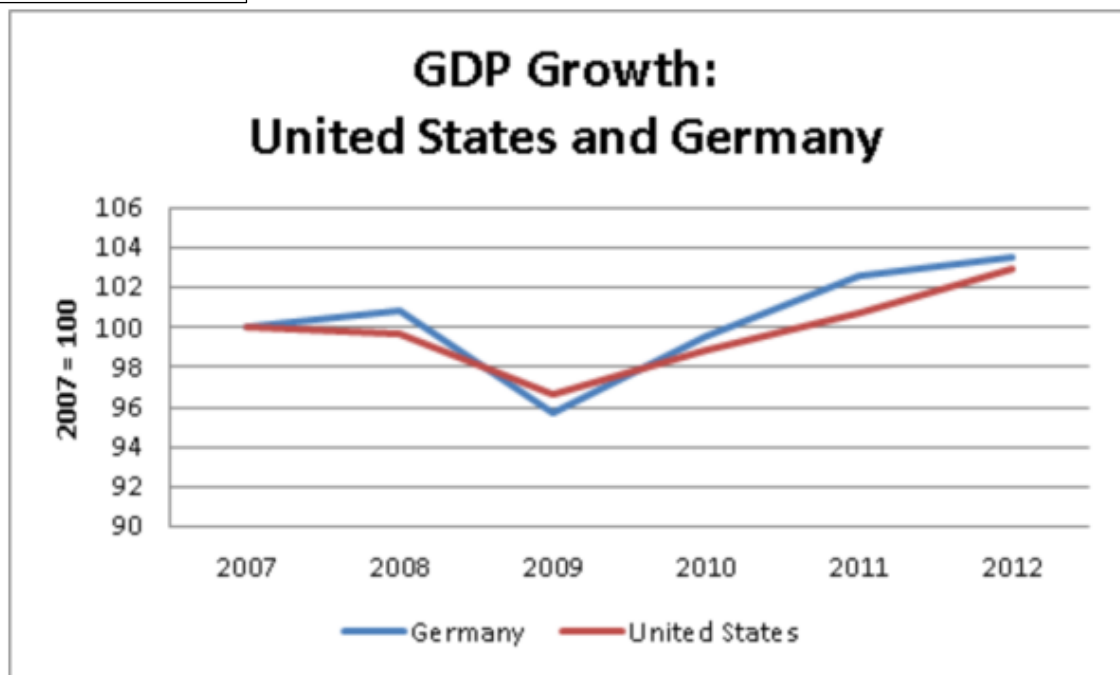
Another adverse impact is low-self-esteem that results from being dispensable and expelled from society (Brinkmann, 1976). Many of them try to forget their problems by drinking alcohol. This especially affects the male population. Furthermore there is a relationship between unemployment and mortality. For an employed person, the mortality rate is about 0.277%. In contrast a person who was unemployed between one to two years, the rate amounts to about 0.463%. If the person is unemployed for more than two years the rate double to about 0.965% (Grobe and Schwartz, 2003). There is a correlation between the increasing trend of the mortality rate and the length of the unemployed time (Bartley, 1994). It's apparent that the longer a person is unemployed, the more likely they are to have major health concerns.

On the basis of the oversupply of labor on the job market, often employees with disorders and diseases are frequently dismissed because they are less capable of competing. These employees are less productive because of their sick days and cost the company the same amount as a healthy employee. So naturally the company would choose a healthy employee over an ill employee (Grobe und Schwartz, 2003). This confirms the long term unemployment and brings US to the problem that the exchange relationship between the working and those who are living on the costs of them is out of order. The government system is not designed for many long term jobless people, because of the very expensive funding.

7. Comparing the United States and Germany

The United States and Germany are both highly industrialized countries with a multilateral and multidimensional relationship that has grown stronger in the 21st century. Both countries have some of the best universities, research institutions and innovative companies in the world. They are each economic powerhouses in their respective regions yet they are both susceptible to economic downturns and vast unemployment. See figure 4 for a comparison of growth in gross domestic product between the two nations (International Monetary Fund, 2012). With all their similarities there are many differences between Germany and the United States as well. However the close relationship between the two countries leads to a domino effect concerning economic downturns.

Figure 4



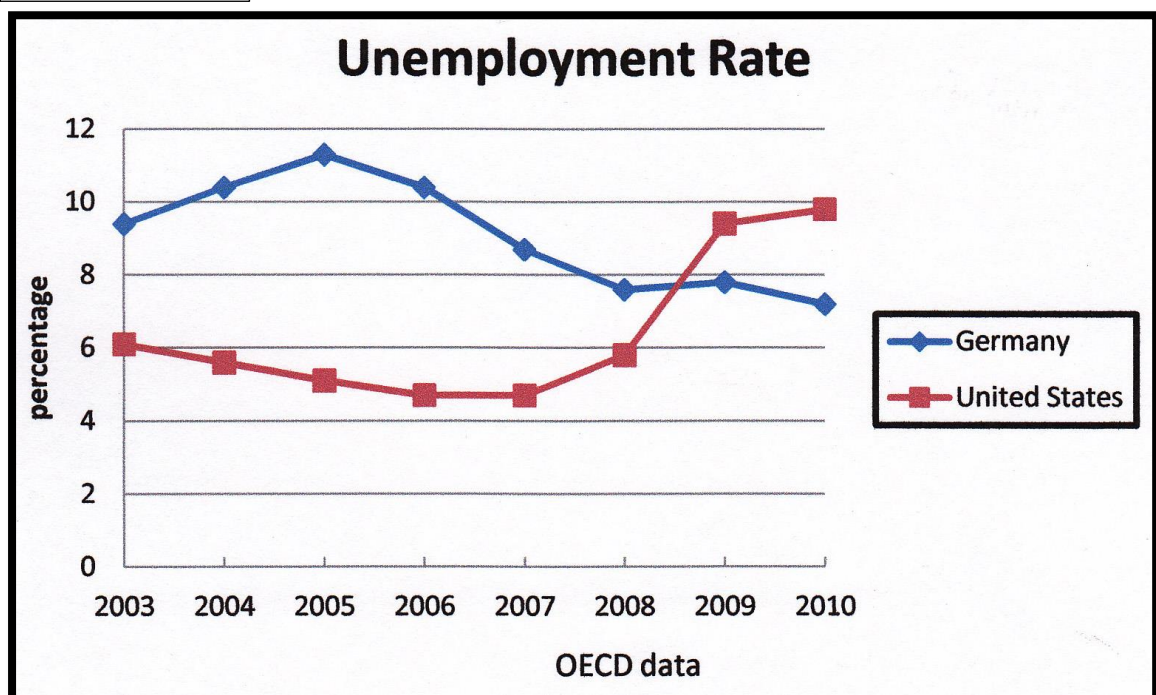
Source: **International Monetary Fund.**

7.1 Similarities and differences between Germany and the United States

Germany and the United States have few similarities in regards to the topic of unemployment. As of April 2014, Germany and the United States have similar levels of

unemployment at 5.1% and 6.3% respectively. See figure 5 for a comparison of the unemployment rates of the United States and Germany prior to and during the most recent recession (OECD, 2010). Keep in mind of course that the population of Germany (81 million) is much smaller than that of the United States (315 million). Both countries have near equal levels of productivity in the labor force as well. Germany's productivity in April of 2014 was 102.20 index points while the United States was about 106 points (Trading Economics, "United States" and "Germany").

Figure 5



One of the main differences between the United States and Germany is the amount of time spent in the unemployment pool. In general, people in the United States do not wait long to find a job (under the assumption that there is no large recession) and quickly get a new job. This is not the case in many European countries like Germany. For example, 26% of unemployed Americans find a job. Compare this to the 10% of unemployed Germans who find a job. At the same time there are more people leaving the labor force in the United States than in Germany. Forbes reported a study in 2013 saying that in the United States about 2 million people quit their jobs every month and the number will continue to grow (Hall, 2013). Germans follow the typical European thought process that staying in the same job often is actually a positive choice (Fottrell,

2014). This difference in the amount of people entering and leaving the labor force is influenced by the fact that the US economy is more flexible than the German economy.

All of the States in America (except Montana) have a policy known as “employment at-will” that also contributes to more people being jobless. “Employment at-will” means that an employer is legally allowed to terminate an employee at any time for any reason. This is quite different from German policies regarding employment because they have a process that makes it difficult for an employer to fire an employee.

Another difference between Germany and the United States are their labor costs. On average Germany’s index points for labor costs are 109.67 points while the United States is about 58.5 points (Trading Economics, “Germany” and “United States”). Germany has a much higher minimum wage than the United States with an hourly rate of about \$11.60 an hour. In contrast the minimum wage in the United States is about \$7.25 an hour (“Pay Scale”). Even in comparison to the rest of the EU, Germany has much higher labor costs.

As of July 2014, there are about 32 million people unemployed in the United States. These 32 million are considered long-term unemployed because they have been unemployed for 27 weeks or more. The current long-term unemployment rate is about 2.02 percent. Germany’s long-term unemployment is only slightly higher with it being about 2.4%. There are also about 502,000 jobs available for German citizens compared to the 4.6 million that are vacant for American citizens (Trading Economics “United States” and “Germany”).

7.2 The Role of Globalization on Unemployment

In the 21st century it is almost impossible for a country to be unaffected by events that occur in another country since most of the highly industrialized countries of today have close economic relationships. This is especially true when talking about the relationship between the United States and Germany when the recession of 2008 occurred. Even though the recession was caused by a housing market failure in the United States, Germany still suffered some unemployment. Surprisingly, Germany’s labor market in regards to unemployment was barely affected. Germany actually had the

lowest unemployment out of all the G7 countries after the recession hit (Möller, 2010). A possible explanation for Germany's low unemployment is the wide range of unemployment protection plans and short term work schemes such as flexible working hours and the social partnership between management and unions (Möller, 2010).

Likewise when there's a recession in Germany the United States has a rise in their unemployment. In 2005 the recession in Germany caused the unemployment rate in the United States to rise to about five% when in 2000 it was at around 3.9%. In parallel to the 2008 recession where unemployment was higher in the United States than in Germany, the unemployment for Germany during the 2005 recession was about 10%. In 2000 the unemployment rate in Germany was around 7.5% (Blanchard and Illing, 2009). These recessions that seem to travel across waters affect various industries in both countries such as manufacturing.

7.3 Some possible solutions to solve the unemployment problem

Structural change has led to the reduction of jobs in the past. Although one must be aware that the technological industry has created many jobs. This goes against the predominant opinion that structural change has many capabilities and possibilities. One must qualify the unemployed persons for the new challenges which the new labor market demands. The German government has already tried to reeducate unemployed workers for sectors where there are open jobs. This is a good approach to the problem because the efforts can be balanced in sectors where there are still some open jobs. In the United States unemployed persons are on their own because there are few programs financed by the government for qualifying them. Another problem is that there are not enough government agencies that can inform unemployed people as to which jobs they are suited for and where the open positions are. This problem occurs because of a lack of employee reeducation in the United States. The advanced vocational trainings are too expensive and take up too much time.

In Germany the government has problems financing this program, because these courses are expensive and the success of this program is not guaranteed since some are forced into the courses. For many jobless people the professional training is only a means to an end. That means that they participate in these programs not to become

qualified for a new work place, but to get a certificate which allows them to receive unemployment benefits. In addition, some of the unemployed are qualified for areas in which they never want to work in the future. In the United States the situation is different in that the government does not offer adequate programs to educate oneself. This makes it difficult for people to orient them into the right job, since they do not know where the open positions are. Another negative aspect of the American system is that the citizens have to pay for these programs on their own. One way to improve this already good projection could be to construct future-oriented programs. More specifically one could try to find the future gaps in the labor market before they arise so the economy could prepare unemployed persons on these future job perspectives. Furthermore it is important to train the redundant workers in appropriate skills. Through this measurement these courses can be designed to be more efficient, faster and consequently cheaper. This will make the success rate higher than before.

Now it puts into question why there are so many long-term unemployed if the education training in Germany is run well. One reason could be that these courses are not as effective as expected. They have the wrong concept of advanced training, which means that the content that is communicated is not needed in the practical world. On the other hand many unemployed join these programs because participation is required of them in order to receive unemployment benefits. It is often heard that people do not want to work and just join these courses to be secured on the financial aspect. Another requirement for getting long term unemployed benefit could be that the jobless have to apply in constant periods at different companies. The applications have to be serious and legitimate; otherwise one will receive a reduced unemployed benefit. The advantage of these measures could be that the government can save money and offers the jobless workers new perspectives on the labor market.

8. Conclusion

The German government provides much more assistance to the unemployed in their country than the US government does for its citizens. There are also rigid rules that German companies must follow before laying off workers so there are far fewer people that are jobless in Germany. The unemployment rate is also higher in the United States because of the “at-will employment” policy that most companies adopt. In addition,

Germany already has programs in place to better assist workers to find a job while President Obama just recently proposed a similar solution to the American public.

If the United States adopted unemployment policies similar to Germany's, such as more unemployment benefits, there would be a stronger shield for the citizens of the United States if another recession hits the country. President Obama's policies seem to move in this direction because of his mentioning of the government subsidizing programs in companies to train employees for jobs that are actually needed. This might be easier said than done because many Americans do not like the idea of the government interfering with businesses. Maybe one should try to change the attitude of these people. This mindset is different in comparison to German citizens since they are comfortable with their government assisting their businesses. For Obama's plan to be properly implemented, citizens need to understand that not all government interference is bad.

With regards to Germany's unemployment problem, the "anti-cyclical budgetary policy" will be difficult to implement and control but once worked out it will be beneficial in the long run. Of course in the short run, the career counseling which includes the training of workers will help combat the unemployment. Germany will also need to find solutions for their long term unemployment problem that does not drain the resources of the government. The German government will need to find less expensive ways to finance their unemployed or better, bring them back into the labor market.

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