

Leipzig labour market profile and SWOT analysis

Structural relationships affecting employment

A primary objective of German economic policy is convergence between the former east and west. It can be argued rather than a converging economy, the former East and West are diverging, with the former becoming a *transfer economy*, permanently dependent upon subsidy from the west. In terms of convergence, the most significant ‘output’ figure is aggregate labour productivity. As figure 1 illustrates the initial levels of gross capital formation in the new Länder are ceasing to result in rapid productivity convergence with the former west until 1995 and stagnation after that time.

Aggregate labour productivity (ALP) % of former GDR relative to reunified Germany									
	1991	1992	1993	1994	1995	1996	1997	1998	1999
ALP (%)	35	42	50	56	58	59	59	58	57

Figure 1: Aggregate labour productivity (ALP) % of former GDR relative to the rest of Germany

As might be expected, changing institutional arrangements, habits, rules and ways of doing things is far harder than constructing new building and roads. Provided short-term subsidy is used to fund human capital and physical investment, convergence will occur. Perhaps the real issue is to understand the processes of complex and rich social and cultural change necessary to complete convergence.

The dynamics of Leipzig’s economy

Leipzig’s population was 457,173 in 1999 of which the non-working age population forms 31%, the working age proportion being 65%. The city supports 208,474 jobs with 171,052 of these being people who both live and work in the city

Sectoral breakdown of Leipzig’s industry and employment

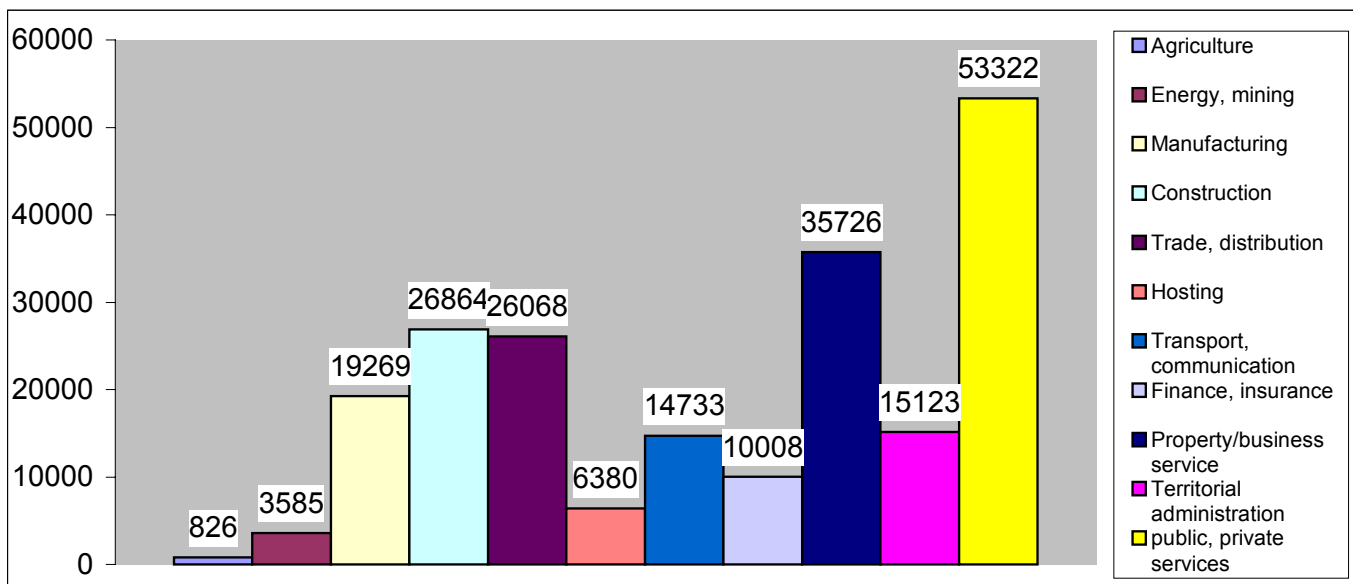


Figure 2: Distribution of employment in Leipzig’s different sectors

Entrepreneurship in Leipzig

In Leipzig the city council has started important local initiatives which they summarise as in figure 3 – Leipzig’s got the lot – in terms of business support infrastructure.

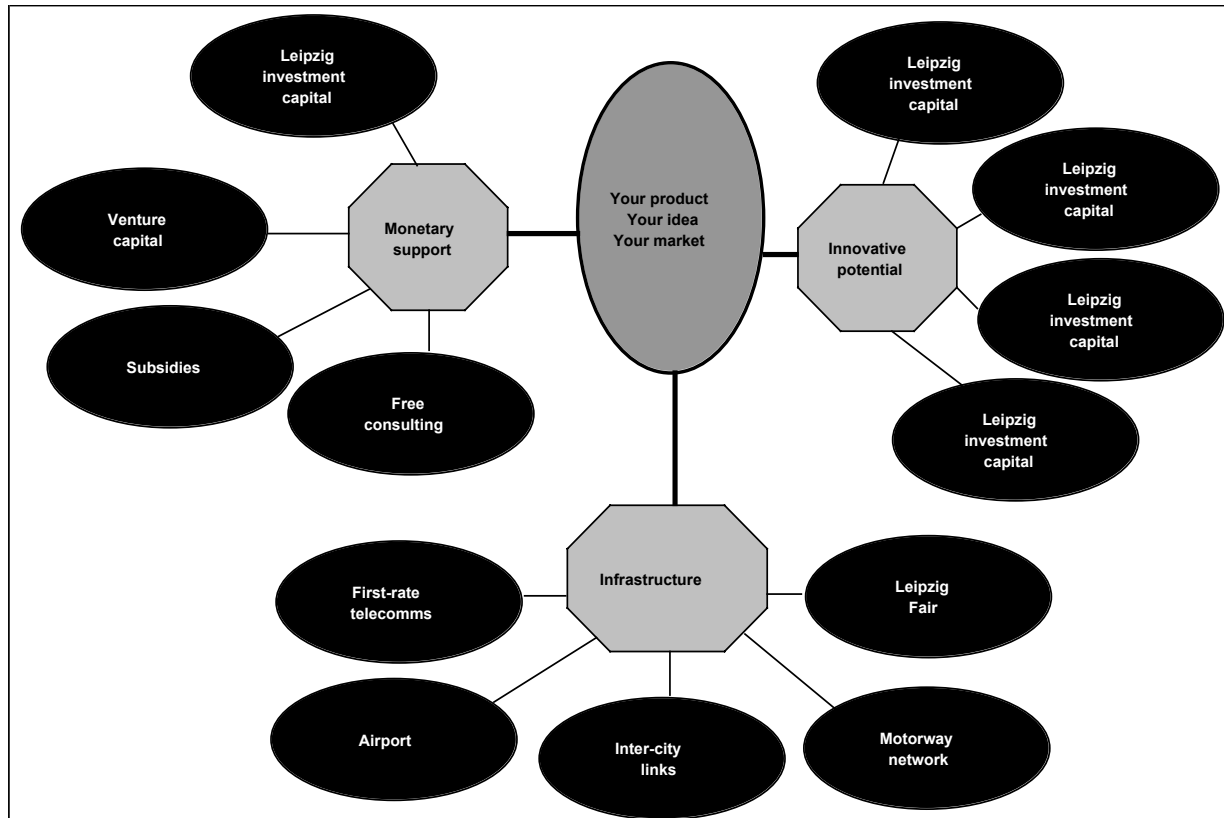


Figure 3: Leipzig's got the lot!

Foreign direct investment in Leipzig

As indicated above, the city council of Leipzig acts with alacrity to align with the needs of inward investors. Of course, each of these foreign and national direct investors, like original equipment manufacturers and processors are not at this stage locating R&D facilities in the city, though this may come. Thus, the technology transfer centres are focusing upon building competences amongst indigenous companies with a view to becoming authorised suppliers of value-added materials, components and 'corner-engineered' sub-assemblies. In the meantime, the additional employment for less value-adding procurement is welcome for the multiplier effect on employment in the city. Two further significant aspects of Leipzig's vision are biotechnology and growth in environmental products, each of which features in the following section. In summary, Leipzig is in the throes of a major restructuring of its industrial (and social) base and institutions

Life-long learning and adaptability

Leipzig has strong traditions of formal higher education and formal life-long learning. Part of its continued success in manufacturing and trade is also its aptitude in non-formal life-long learning cumulating learning-by-doing skills. Companies such as Porsche and BMW undoubtedly recognise these strengths. A third strand of life-long learning, informal emphasises the general socialisation of knowledge, often in informal community-based learning centres. This learning often has a dual role of altering attitudes in addition to generalising 'facts' about emerging business areas. For example, if in a local learning centre a group learn ICT skills, they also pick up attitudes towards Ecommerce and web-supported business interactivity. It is in this area of informal life-long learning that Leipzig faces most challenges.

Leipzig's employment base

Leipzig's 493,872 population in 2000 is 31% between sixteen and 65 years of age. The city supports 208,474 jobs, has 4,332 registered vacancies. Thus, assuming a NIRU of 5%, the city has a shortfall of some 50,000 jobs.¹

¹ The 5% non-inflationary rate of unemployment is assumed for the purpose of calculation.

Over the previous year, the job-burn rate exceeded the job creation rate by some 6,000 jobs. To reverse this rate of unemployment increase and bring rates to a 5% NIRU over a three-year period, a net job creation of some 21,000 jobs per year is necessary.

Unemployment patterns in Leipzig city-region –2000 to 2001		
Total unemployed	75,028	18.7%
Jobs created in previous month	8,602	
Jobs created in previous year	20,867	
Jobs lost in previous month	7,389	
Jobs lost in previous year	14,584	
Net change in previous year	1,213	

Figure 4: Unemployment patterns in Leipzig region (February) 2000 to 2001

These figures cover Leipzig city-region. For the city alone the unemployment figure is 52,574. As figure 5 underlines, these trends are powerfully affecting Leipzig's women who constitute 46.1% of the long-term unemployed at 21.6%, a higher proportion than men (19%) of their total active labour force.

Unemployment breakdown - Leipzig, February 2001			
	Number	% of total unemployed	Change over Year
Women	34,623	46.1	352
Under 20 years of age	1,382	1.8	- 89
Under 25 years of age	8,284	11	698
Disabled	2,139	2.9	148
Ethnic minority	2,108	2.8	326
Unemployed over 12 months	27,683	36.9	4,600

Figure 5: Unemployment breakdown, Leipzig 2001

Figure 6 shows that a further 5% (21,382) would be added to the overall unemployment figure, where it not for the council and government supported initiatives aiming to provide skills, training and work experience, which remove people from the unemployment register.

City/Government supported employment and training - Leipzig, February 2001		
Nature of support	Number	Change over year
People working whose job is subsidized	5,051	1,365
People working in short-term jobs with firms with subsidy	2,093	283
People in short-term work or training and induction with council	14,184	- 1,614

Figure 6: City/Government supported employment and training

The 21,238 people shown in figure 6 are engaged with public financial support in short-term working or training and induction with the council (and other public agencies). This includes people on training placement, people undergoing induction training and people in public works (such as parks and gardens). Whatever problems Leipzig has in labour supply and matching mechanisms, its over-riding problem is one of a demand for labour lower than the available supply. Notwithstanding these overriding demand issue, the city's training and up-skilling programmes (*zweiter Arbeitsmarkt*) are ambitious. As the local action planning evolves, finer grained attention may be paid to the outcomes of these programmes and their alignment with the city's target technologies.

Long-term unemployed

At 36.9%, Leipzig's rate of long-term unemployment (over 12 months) is similar to Germany's at 37%. Both are high, however, in Germany as a whole the rate is falling, whereas in Leipzig it is rising. Many of these are young people looking for opportunities to further deplete the city's population. To avoid continuous haemorrhaging of talent and perpetual long-term joblessness, the process of industrial restructuring will need to speed up and the size of temporary measures increased. Given the shortage of qualified engineers elsewhere in Germany, it may be that (even temporary) work elsewhere can contribute to lowering long-term skilled worker unemployment.

Women

With a pre-reunification activity rate of 83% (and a similar participation rate), the former East Germany had possibly the highest rate of women engaged in paid employment in the world. Women's activity rate 74.7% (at 83% pre-reunification was higher). Participation rate is currently 65%. Of course, the quality of this work, its rewards and economic benefit to the economy are matters of debate.² What is clear is the women in the new Länder wish to work and less of them are getting the opportunity. Women constitute 46.1% of the long-term unemployed in Leipzig, 50% of these (a quarter of total women unemployed) cannot be placed in training.

Family structures and the labour market

Improving employment opportunities for women, tests family and social structures and their ability to support women in work. These structures and services are not a major barrier to women's participation in the labour market in Leipzig.

Although a female single parent heads only one in six families with children, these young women form half of the city's welfare claimants.

Changing family structures in Leipzig between 1995 and 1999					
	1995	1996	1997	1998	1999
Total families	200,000	193,700	186,600	186,200	205,300
Single-parent families	27,000	29,700	24,600	27,100	29,800
Single-parent families headed by women	24,000	27,800	23,000	25,100	27,000
% of total families being single-parent families headed by women	13.5	15.3	13.1	14.6	14.5

Figure 7: Changing family structures in Leipzig between 1995 and 1999

Young people and the labour market

Unemployment amongst young people, especially those without qualifications, remains a major concern for Germany. A series of national and local initiatives has lowered unemployment of under-25s to 472,000 or 11.8%, with the figure continuing to fall across Germany, though not in the new Länder.

In Leipzig 1,382 under 20 year olds are unemployed (1.8% of the unemployed) a figure falling due to improved stay-on rates. However, the 20 to 25 age group figure is increasing (by 798 in the year 2000 to 2001 to nearly 7,000 – an 11% unemployment rate in this age range).

Labour market exit by older people

In Leipzig between 2000 and 2001, long-term unemployment amongst the age group over 50 reached 36.9% of the unemployed (a proportion rising with age since 56.8% of people between 55 and 60 years of age are not working). There are currently (February 2001) 9,680 unemployed in the city aged between 45 and 50, 8,345 between 50 and 55 and 12,229 between 55 and 60 years of age. In the long run this will add pressure to the effect of demographic shifts on the payment of benefits and services to senior citizens. Many of Leipzig's over-50 unemployed are skilled workers who's skills appear now to be redundant. It may be that inward investors find this group highly reliable and motivated as employees (experience in Scotland suggests this to be the case), and benefit from targeting recruitment towards this group.

General labour market situation and opportunities

The deeper weaknesses in Leipzig's labour markets (see figure 7) are on the supply-side. The area has lived on its skills rather than general level of qualifications and exploitation of knowledge. Thus, commercial focus and extent of enrolment into life-long learning will be critical factors in eradicating supply-side weaknesses. Already (back to the demand-side) the council has put in place an infrastructure (incubation, venture capital, business services) supporting entrepreneurship.

² See Dodds D, 1998 and Rosenberg D, 1991.

The public employment service, *Bundesanstalt für Arbeit* appears a suitable body to lead labour supply and demand matching where some equilibrium exists. However, such is the low labour demand in Leipzig finer grain matching mechanisms are required and in particular matching deeper into economic institutions i.e. aligning with target technologies. For example, ABS companies (like the bfb) are state funded to provide intermediate labour market re-introduction to work training. Of the 13,000 people in this programme last year, only 194 found a permanent job.

The four Luxembourg pillars of employability, entrepreneurship, adaptability and equal opportunities are nowhere more relevant than in Leipzig – portrayed in the last figure:

Opportunities for Leipzig labour markets	
Demand factors	
Employability	Likely growth of tourism, personal services and retail sectors offering diversity of employment opportunities
Entrepreneurship	Success in attracting inward investors likely to continue High level of civic entrepreneurship, led by council Returnees with new business ideas, new ways of working and connections into capital markets World-class knowledge base and absorptive capacity in an internationally important emerging sector – biotechnology and environmental businesses
Adaptability	Clear benchmark and shared goal of convergence High quality life-long learning infrastructure
= Opportunities	Integrated and harmonious workforce
Supply factors	
Employability	<ul style="list-style-type: none"> • Qualified industrious workforce, high participation rate and history of commitment-based human relations. • Rising stay-on rates and attainment
Entrepreneurship	<ul style="list-style-type: none"> • Incubation, business services and risk capital available • Emergence of sophisticated commercialisation arrangements
Adaptability	<ul style="list-style-type: none"> • Life-long learning capable of satisfying high quality inward investors • High rate of women’s business birth rate
Equal Opportunities	<ul style="list-style-type: none"> • Possible return to world’s highest women’s participation rate • High level of childcare at (internationally) competitive costs

Figure 8: Opportunities facing Leipzig's labour markets