



European Employment Observatory

EEO Review: Self-employment, 2010

Germany

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July 2010

This article is the sole responsibility of the author(s).

Abbreviations

BfB	Federal Association of Freelancers (<i>Bundesverband der freien Berufe</i>)
BMWi	Federal Ministry of Education and Research (<i>Bundesministerium für Wirtschaft und Technologie</i>)
DIHK	Association of German Chambers of Industry and Commerce (<i>Deutsche Industrie- und Handelskammer</i>)
IfM	Institute for Middle Class Research (<i>Institut für Mittelstandsforschung</i>)
SME	Small and medium sized enterprises
ZDH	German Crafts Association (<i>Zentralverband des Deutschen Handwerks</i>)

1. Introduction

Self-employment has a long tradition in Germany. In particular, the large amount of craftsmen and the economic success of small and medium sized companies (the Mittelstand or 'middle class' industry) raised the importance of the so-called middle class policy as an element of economic policy making. Several measures promote self-employment and business start-ups. In recent years the measures have also comprised political instruments for the transition of unemployed people into self-employment.

In 2009, around 4.2 million people were self-employed. This equals 11 % of the labour force. The number of persons who became self-employed in 2009 totalled 872 000, which was an increase of 9.4 % compared to 2008. The number of new self-employed compared to people leaving self-employment was almost equal as the net amount of self-employed only slightly increased by 1.7 % in 2009 compared to 2008.¹

There is a remarkably high amount of assisted unemployed people who have gone onto establish a business. Around 20 % of all business founders in 2009 were previously unemployed.² Promotion measures for the unemployed therefore have a strong influence on the number of business start-ups. After the introduction of the start-up grant in the course of the Hartz-reforms³, the amount of business start-ups experienced a boom in 2004 and 2005. The change to the self-employment programme – initiated by the merger of the Transition allowance and the Start-up grant into the Business foundation allowance – lowered the number of start-ups stemming from unemployment.

The financial crisis did not show the expected effects; neither did the economic downturn lead a greater number of self-employed going into insolvency nor did the minor rise in unemployment bring a further push to new start-ups. Self-employment appeared as an area of stability rather than as vulnerable to labour market changes.

2. Assessment of national labour market policies and recovery measures

2.1. Promotion of unemployed

Self-employment for unemployed is promoted by the Business foundation allowance (*Gründungszuschuss*) and the Entry allowance (*Einstiegsgeld*). The Business foundation allowance was introduced in 2006 and detached the former Transition allowance (*Überbrückungsgeld*) and the Start-up grant (*Existenzgründerzuschuss*) which were merged into the Business foundation allowance.

Transition allowance

The transition allowance was introduced in the 1980s and supported self-employed people with the previous unemployment benefit and social insurance contributions totalling around 70 % of their former net income. Applicants had to submit a business plan which needed to be certified by an external institution.

¹ Statistisches Bundesamt 2010.

² KfW 2010.

³ The Hartz-reforms comprised several measures which were implemented between 2003 and 2005 to reform the German labour market policy. The reform followed the principle to promote the unemployed but also in return to demand them.

Start-up grant

In the course of the Hartz reforms the start-up grant was established to promote self-employment for unemployed people. The start-up grant – better known as Ich-AG ('Me Inc' or solo company) – comprised monthly payments of EUR 600 in the first year, EUR 360 in the second and EUR 240 in the third year. The yearly income could not exceed EUR 25 000. No business plan needed to be approved by external institutions in the beginning of the measure but became obligatory by the end of 2004.

Business foundation allowance

The Business foundation allowance of today is paid for nine months to unemployed who intend to become self-employed. This depends on the following conditions:

- the person is a unemployment benefit I recipient⁴ and is entitled to the benefit for a minimum period of 90 days,
- the person is able to show that he/she possesses the required knowledge and ability to become self-employed, and a business plan must be certified by an appropriate authority such as chambers, business associations, banks or other institutions,
- self-employment needs to be the main economic activity of the person.

The subsidy includes the unemployment benefits and an additional EUR 300 for social insurance contributions. The EUR 300 can be prolonged for a further six months if the beneficiary demonstrates economic activity.

Entry allowance

The entry allowance is a subsidy for unemployment benefit II⁴ recipients and can be paid up to 24 months. If and how much support is granted is decided by the personal contact person at the agencies of labour. The basic amount depends on the monthly benefits, duration of unemployment and size of household. The main condition to receive the entry allowance is that the person becoming self-employed has self-employment as the main economic activity.

2.2. Promotion of business-creation

Support for self-employment has a long tradition in Germany. This comprises several information platforms administered by the Federal Ministry of Economics and Technology (BMWi), the Federal Agency of Labour and the Chamber of Industry and Commerce, which offer purposeful knowledge, lectures and personal support for business founders. Moreover, there are several funding models for founders, young companies and also small and medium sized enterprises. A new initiative was recently established by the BMWi to increase the level of self-employment which is illustrated in more detail below.

Promotion of business creation by the BMWi

In early 2010, the Foundation Country Germany initiative was introduced by BMWi. This aims to increase the amount of German business start-ups and it also comprises measures to strengthen self-employment. The initiative is supported by the Association of German

⁴ In the course of the Hartz reform the unemployment benefits were divided into the unemployment benefit I and unemployment benefit II. The unemployment benefit I is paid for 12 months to unemployed who at least paid for 12 months into the unemployment insurance. Otherwise the unemployment benefit II is paid.

Chambers of Industry and Commerce (DIHK), the German Crafts Association (ZDH) and the Federal Association of Freelancers (BfB). The initiative comprises four action areas:

- expanded supply of information and actions to increase the attractiveness of and motivation for self-employment,
- Purposeful measures in schools and universities to promote self-employment as an option for work,
- improved funding, especially to counteract the economic recession,
- improved information to answer questions about rules and handling of company successions.

Funding (also by stimulus packages)

Business starter-ups and small and medium sized enterprises (SMEs) do not receive the same favourable credit conditions by banks as larger scale businesses do. The Federal State therefore offers several promotion programmes for these smaller companies.⁵

- i. Start-up money by the KfW Mittelstandsbank of up to EUR 50 000. The KfW bank is then liable for 80 % of the debt. The loan can be given for a period of 3 years after foundation.
- ii. The European Recovery Program (ERP)⁶ capital for business start-ups fosters subordinated loans. The loan can be up to EUR 500 000 but only between 45 and 50 % of the necessary investment quantity at the most can be offered.
- iii. Capital support is given to companies which exist longer than 3 years. The loan consists of 50 % from the house bank and a sub-ordinated loan from the KfW bank. The loan can be up to EUR 4 million.
- iv. Enterprise loans are offered by the KfW bank up to an amount of EUR 10 million for long-term investments. The loan can cover 100 % of the investment costs.
- v. The KfW Special Programme 2009 was established in the course of the financial crisis and bundled the stimuli packages of the Federal Government. The programme is limited until the end of 2010 and fosters loans up to a limit of EUR 50 000 with an exemption from liability for 90 % of funding regarding investments and 60 % of funding regarding equipment. The promotion was aimed at counteracting the economic recession and comprises around EUR 15 billion in its entirety.⁷

2.3. Evaluation of measures

Participation

The total number of people who are self-employed has constantly risen in the last two decades; by 39 % between 1991 and 2009. Around 4.2 million people were self-employed in 2009. Men are more strongly represented than women. In 2009, 69 % of the self-employed were men and 31 % were women. Even if the higher share of men in the labour force is considered (55 % men and 45 % women in 2009) it is nevertheless more likely that men are

⁵ BMWi 2010.

⁶ ERP = European Recovery Program.

⁷ Bundesministerium für Finanzen. Internet:

http://www.bundesfinanzministerium.de/nr_69120/DE/Buergerinnen_und_Buerger/Gesellschaft_und_Zukunft/the_menschwerpunkt_konjunkturpakete/073_Schutzschirm_arbeitsplaetze.html?__nnn=true

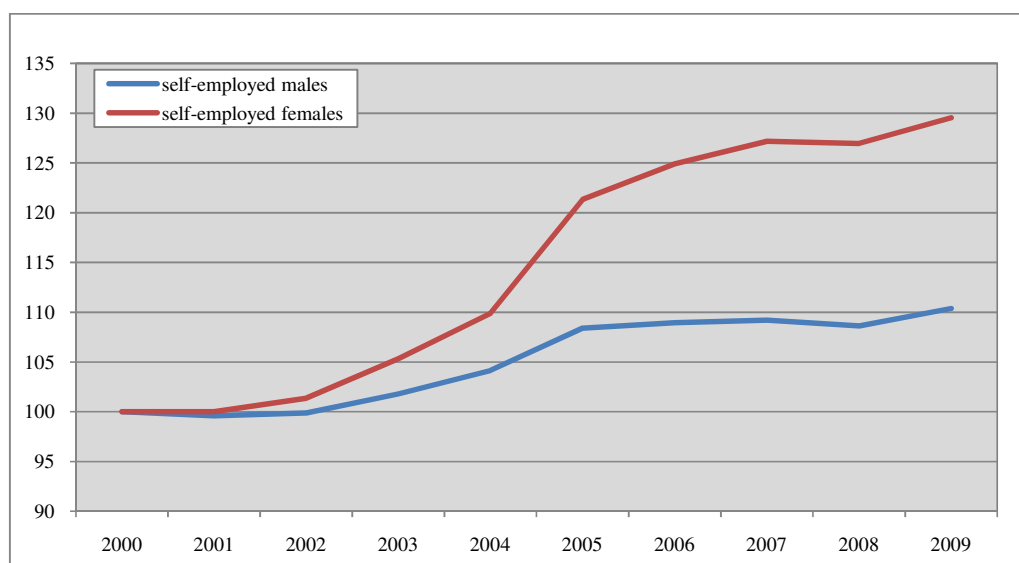
more likely to start their own business.

Self-employed are strongly represented in the services sector (73 %). Around 20 % work in the manufacturing sector and 7 % in agriculture and forestry sector and fishery. This also shows the increasing tertiarisation of the German economy.⁸

More than half of the self-employed are between 35 and 55 years old (61.5 %). A lower share is between 25 and 35 years old (12.4 %) or between 55 and 60 years old (11.3 %). It is more likely that people aged over 60 years are still self-employed (13.1 %). Among young people between 20 and 25, only 1.4 % started their own business and even less among the 15 to 20 years old – only 0.1 %. This means that self-employed still have to (or want to) work in older age. In comparison, 4.3 % of employees are older than 60 years and only 1 % older than 65.

The number of self-employed increased substantially with the introduction of the start-up grant for unemployed in 2003 (Chart 1). Compared to the year 2000, the amount of women becoming self-employed grew more than the amount of men. The number of self-employed also rose between 2008 and 2009. There is therefore no negative impact visibly caused by the financial crisis.

Chart 1 Self-employment by gender (2000=100)



Source: Federal Office of Statistics

There is also a notable trend when comparing the number of self-employed with and without employees. More than half of the self-employed have no employees (2009: 56 %). The amount increased compared to the pre-Hartz-reform period in 2002 by around five percentage points. The number of self-employed men with and without employees stayed quite equal at 51 % without and 49 % with employees. Self-employed women on the other hand are more likely to be solo-self-employed. In 2009 66 % of the female self-employed had no employees.

Number of promoted unemployed

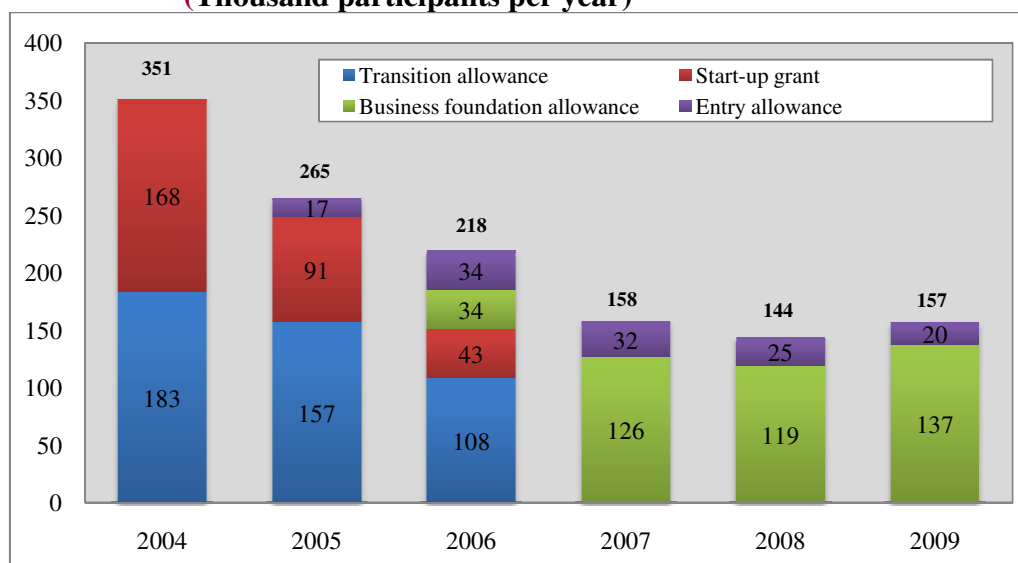
The number of unemployed assisted into self-employment by several different measures between 2004 and 2009 is illustrated in Chart 2. It is clear that the numbers assisted steadily

⁸ Statistisches Bundesamt 2009.

decreased between 2004 and 2008. The decline can probably be attributed to the merger of the Transition allowance and Start-up grant into the Foundation business allowance.

The number going into self-employment through the measures slightly increased between 2008 and 2009 and continued to grow in the first 5 months of 2010. Altogether, 78 000 business start-ups have already been achieved this year, which is an increase of 18 % compared to 2009.

Chart 2 Self-employment by promotion measure
(Thousand participants per year)



Source: IfM Bonn (Institute for Middle Class Research).

Expenditure on promotion measures

The expenditure of the Federal Agency of Labour on promoting self-employment for the unemployed aggregated to EUR 1.58 billion in 2009. The expenditures have constantly declined since 2005 – by a total of 51 % between 2005 and 2009 (Table 1). A sum of EUR 1.56 billion was used for the Business foundation allowance and EUR 22.8 million was used for the last beneficiaries of the Start-up grant which was finally phased out in May 2009.

Table 1 Expenditures for the promotion of self-employment

	2002	2004	2005	2006	2007	2008	2009
Expenditures for the promotion of self-employment (€ bn)	1.01	2.73	3.20	2.58	1.82	1.78	1.64
...thereof							
Transition allowance	100%	64%	58%	57%	5%	-	-
Start-up grant	-	36%	42%	40%	28%	9%	1%
Business foundation allowance	-	-	-	3%	67%	91%	99%

Source: Federal Agency of Labour, Economix.

Evaluation of the Transition allowance and the Start-up grant

More than one million business start-ups, which includes 400 000 Ich AG's (Solo Company), were subsidised between 2003 and 2006. Several studies have showed a positive result for the integration of the unemployed and their income (Caliendo 2007, IAB et al. 2006). These evaluations revealed that there were strong selection effects. For the Transition allowance the beneficiaries are more often men than women and had a better qualification level. For the Start-up grant the amount of women was higher compared to the average business founder and their skills level was generally lower. This was mainly caused by the restructuring of both measures.

The long term effects of both measures – five years after the Start-up grant programme started – were investigated by Caliendo (2008). The following list outlines the key findings.

- i. Between 57 and 63 % of the Start-up grant's beneficiaries and between 56 and 70 % of the Transition allowance's beneficiaries were still self-employed after 5 years. The number of drop-outs was more for women than for men and for eastern Germany than western Germany.
- ii. Between 8 and 12 % of those who received the Start-up grant were registered as unemployed and between 16 and 21 % were in registered employment. The remaining 7 to 17 % were not specified.
- iii. Between 3 and 10 % who received the Transition allowance were unemployed and between 20 and 24 % were in registered employment. The remaining 3 to 11 % were not specified.
- iv. Between 8 and 15 % of former Start-up grant recipients dropped-out from self-employment between the third and fifth year. This means these were dependent on the benefits.
- v. The amount of self-employed working full-time (more than 35 hours per week) lies between 76 and 92 % for men and between 47 and 79 % for women, while the number is higher in eastern Germany compared to western Germany.
- vi. On average, self-employed men have a higher income than women and the income is also higher in western Germany than in the east. West German women working less than 15 hours are more often self-employed for additional income and have a net income of around EUR 400-500 per month. Men from western Germany who are working full-time have the highest net income of around EUR 2 045 (Start-up grant recipients) and EUR 2 680 (Transition allowance recipients).
- vii. The average income of self-employed lies above the equivalence income.
- viii. Both measures have had positive employment effects: through 100 000 transition allowances, 80 000 additional full-time equivalent jobs were created, and by the start-up subsidy 16 000 jobs were created.

A scientific study to assess the business foundation allowance does not yet exist.

3. Quality of self-employment jobs

3.1. *Quality at work*

Sustainability of foundations

Between 65 and 75 % of all businesses still exist three years after foundation.⁹ The likelihood of survival rises with the amount of funding (> EUR 25 000) and the number of employees. Based on a survival period of at least 2.5 years, those self-employed through measures of the Federal Agency of Labour have a continuation rate of around 67 % for women and 68 % for men.¹⁰ Five years after business foundation, between 56 and 70 %¹¹ of assisted self-employed were still active. The amount of drop-outs was highest for recipients of the Start-up grant.

Hours worked

In 2009 self-employed worked 46.3 hours on average per week. The number of hours worked has continuously declined over the last few decades, but in 2003 the average working week for self-employed was 49.7 hours compared to 39.2 hours for employees. In 2008, employees worked a weekly average of 37.8 hours. The amount of hours worked has decreased by 6.8 % for self employed and by 3.5 % for employees.

Maternity leave and sickness

Maternity leave is protected for employees for the period between six weeks before expected birth and eight weeks after birth. During this period mothers receive 70 % of the net income as maternity benefit. Self-employed women have only limited possibilities to receive public benefits. One possibility is voluntary membership in public health insurance. Under these conditions, self-employed women get the same benefits as employees. The new parents' allowance also offers grants for income compensation during the early age of the child, which seems to have improved the situation for self-employed mothers.

Self-employed persons can protect privately against the risk to income of sickness so that they receive daily sickness remuneration. The level of benefits can be determined individually.

3.2. *Flexicurity framework*

Self-employed are not eligible for the public insurance system, including the public pension insurance and unemployment insurance. They do not pay contributions but also do not receive benefits. Thus the self-employed cover the risk of unemployment through their own resources.

The measures to support unemployed into self-employment, however, do support the self-employed in the foundation phase by providing unemployment benefits and additional payments for social insurance contributions. It raises, on one hand, the success of business foundation, and on the other it provides income protection and social insurance given that the self-employed can return into benefited unemployment

⁹ KfW 2009.

¹⁰ Caliendo 2008, pp. 7-8.

¹¹ See section 2.3

schemes¹² if the business is closed. This instrument can therefore be seen as a flexicurity instrument.

In order to lessen the risk of unemployment, self-employed can become a member of the unemployment insurance system on a voluntary basis but only those coming previously from registered employment or unemployment.

Moreover, they have the possibility to become a member of the public pension insurance system. In 2008, around 39 % voluntarily paid into public pension insurance. This however does not mean that the remaining self-employed do not accumulate resources for the future. They use private pension arrangements or capital investments.

Self-employed are also eligible for social benefits. In particular, they are protected against poverty by the basic social income; they receive child allowance like all other parents and get the recently implemented parents' allowance.

3.3. *Impact of the financial crisis*

Around 48 % of early business start-ups (between 2005 and 2008) were affected by the negative impacts of the financial crisis while 9 % gained from the financial crisis.¹³ They are mainly influenced by the volume of orders and sales and also profits. A proportion of 41 % reported declines in orders and 8 % had larger orders. The same trend is shown for the decrease in volumes of sales and profits (43 % and 49 % respectively) and increase of volumes and profits (7 % for both).

According to the KfW-Gründungsmonitor 2009, around 71 % of all self-employed need resources for funding of investments and equipment. 34 % of these use external sources and 27 % use both external sources and their own sources for funding. The remaining 66 % solely use their own sources. While in 2008 the majority of founders did not have any problems with funding, 17 % had problems with funding in the context of business start-up and 7 % of these did not receive a bank credit. This was, however, not different to previous years and is therefore not impacted upon by the financial crisis.

3.4. *Transition and income trends*

Transition

The number of business foundations rose between 2002 and 2004 and since then has decreased (Chart 3). The number of liquidations mostly followed the same trend. In 2008, the amount of liquidations exceeded business foundations by around 12 000. This was mainly caused by the financial crisis which brought more insolvency and illiquidity. In 2009, the balance was positive again.

The highest proportion of new business foundations begin their economic activity within the services sector (83 %). The remainder take place in the manufacturing sector (3 %), in the construction sector (7 %) and in non-service sectors¹⁴ (7 %).¹⁵

¹² This is as long as the entitlement exists. The entitlement is valid until four years after foundation, whereby the total amount of benefits – business foundation allowance plus received unemployment benefit I – can together only total to 12 months.

¹³ KfW/ZEW 2009.

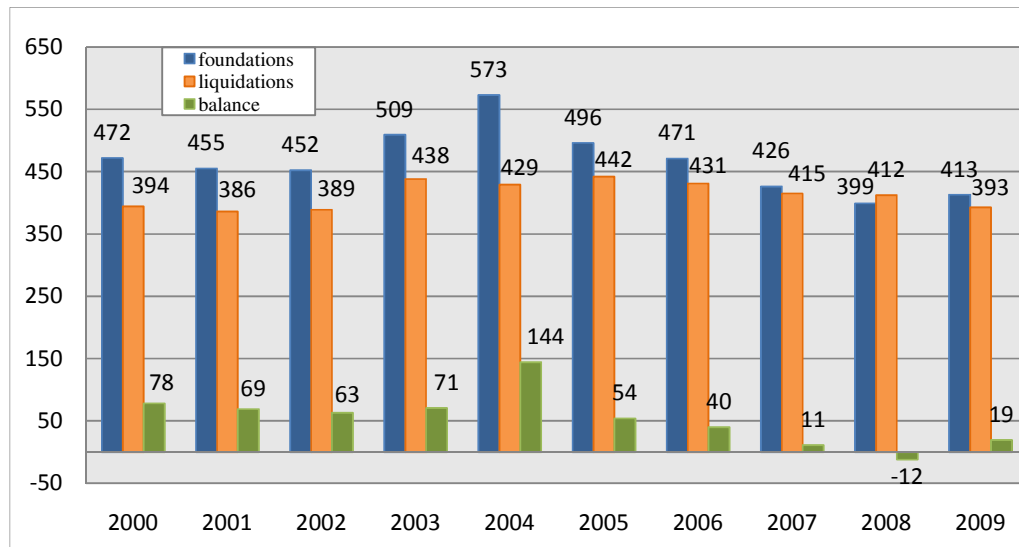
¹⁴ Non-services sectors comprise agriculture, forestry and fishery as well as renewable energies.

¹⁵ KfW 2010.

Income

The net income profile of self-employed remained almost constant between 2002 and 2008. There was a slight decrease in income groups with net incomes above EUR 1 100 per month and an increase in income groups below this level between 2002 and 2006, respectively. This was influenced by the strong increase in business foundations without employees as a result of the start-up grant. In 2006, only one third of all business start-ups were undertaken with employees.

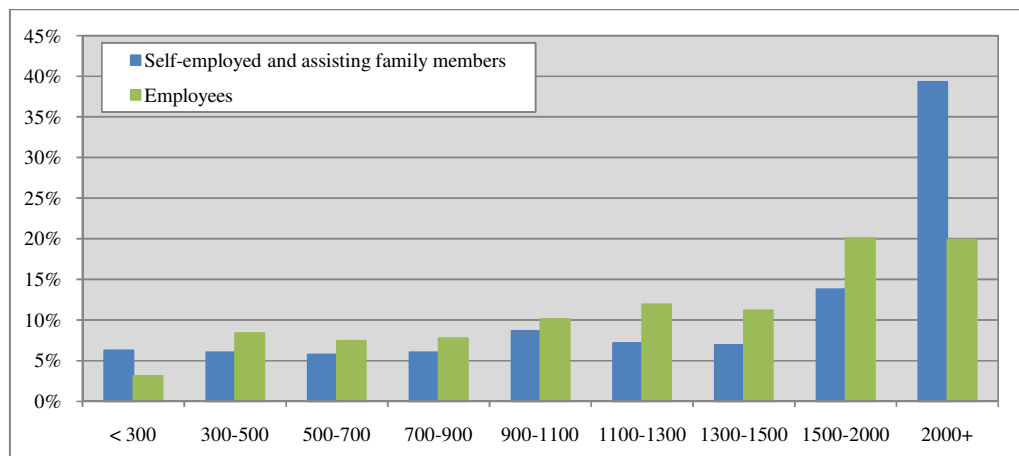
Chart 3 Number of business foundations and liquidations (In thousands)



Source: IfM Bonn (Institute of Middle Class Research)

The different distribution of monthly net income between self-employed and employees is very notable. Employees are more strongly represented in income groups below EUR 2 000 than self-employed (Chart 4), while around 40 % of self-employed earn a net income above EUR 2 000 compared to 20 % of employees.

Chart 4 Monthly net income in 2008 (% share)



Source: Federal Office of Statistics

3.5. Abuses

Self-employment can be used to avoid paying fees into statutory unemployment insurance, the pension insurance, health insurance and nursing care insurance. The self-employed are obliged to be medically insured, but they can choose between the statutory and the private health insurance system. This means that people who would otherwise be employees, become self-employed instead without actually changing their work situation and continue to work for their old company/employer. This is known as disguised employment (*Scheinselbstständigkeit*).

Before 1999 there was no legal basis for disguised employment. This changed with the law '§ 7 Abs. 4 SGB IV' which determined five criteria to determine disguised employment. These criteria were abolished again in the course of the Hartz-reforms. Nowadays only the statutory pension insurance can charge the self-employed if a disguised employment persists. An assessment procedure is previously required.

4. Conclusions

Self-employment is an important pillar of the German labour force. Self-employed are mostly represented in the services sector which emphasises the tertiarisation of the German economy.

Supporting unemployed people to move into self-employment is a successful instrument of active labour market policies and adapts the flexicurity approach. Approximately one in five new business founders was previously unemployed. Three years after initial foundation, the survival rate of businesses lies between two thirds and three quarters.

In the course of the financial crisis the number of self-employed slightly increased, combined with a relatively small rise in unemployed assisted into self-employment. Thus self-employment was resistant against the economic downturn. Moreover, it seems that the attractiveness of self-employment rose, caused by a difficult job situation in the labour market. A combination of job conservation by flexible working schemes on one hand, and the simultaneous absence of job supply on the other hand, seemed to be at work.

Self-employed have on average a higher income than employees but also have to cover the business risk with their own resources. The highest risk emerges from unemployment. Self-employed only have limited access to public unemployment insurance. For self-employed mothers the income loss from maternity leave can be compensated by the recently introduced Parents' allowance.

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