

Case Study 4: Leipzig's Municipal Job Agency

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*Photo: BMW plant in Leipzig
Source: City of Leipzig / Office for Economic Development*

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1. Context

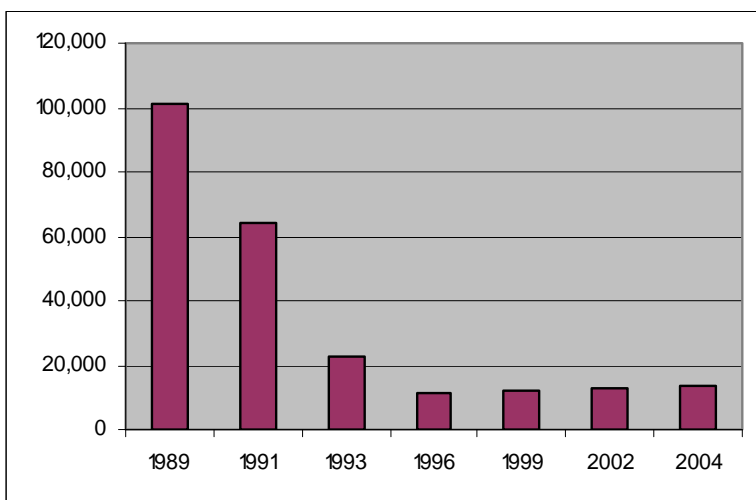
City

- Leipzig is located in the German federal state of Saxony, Eastern Germany
- Its population totals 498,000, making it the second largest city in Eastern Germany after Berlin.
- The former Socialist East German regime collapsed in 1989 with the fall of the Berlin wall. Germany was reunified in 1990. Reunification meant that the Eastern regions were absorbed into the existing West German framework leading to a dramatic system change for the *New Länder*.
- Leipzig has become known as one of the few ‘success stories’ in Eastern Germany. This has been attributed to factors such as its political leadership, the will to make tough decisions, the active participation of civil society, well-designed public services and a high quality of life.

Crisis

- In just a few years after reunification, Leipzig underwent an unprecedented deindustrialisation process, which was rather a ‘sudden death’ than a ‘long decline’ (as it had been in some West-German cities for example). The industrial workforce declined from 101,000 in 1989 to 11,000 in 1996 (see Fig. 1).

Fig. 1: Number of employees in manufacturing (changes since 1989)



Source: Stadt Leipzig

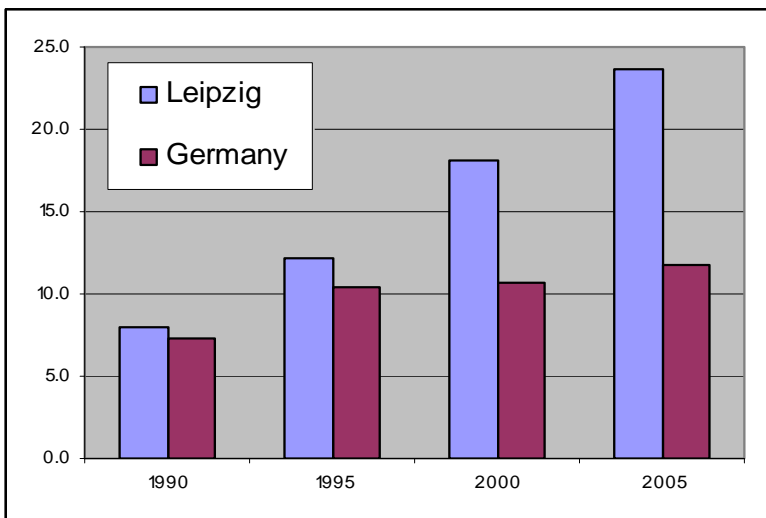
- Severe environmental damage due to the continuous pollution of air, water and soil by heavy industries and open-cast mining was a difficult legacy to wipe out.
- Many links with the Eastern bloc countries were suddenly cut by reabsorption into the West.
- There were major social consequences for the population: unemployment which was officially non-existent until 1989 rose to 24% in 2005 (see Fig. 2).
- Population decline due to migration to more dynamic West German urban areas and rapid suburbanisation caused the city’s population to plummet (see Fig. 3). The consequence was that Leipzig – like most East German cities – became a ‘shrinking city’¹, posing a series of new urban

¹ A term used by an EU funded German project, *Schrumpfende Stadt* (or shrinking city), examining the phenomenon of declining cities

problem such as an oversized technical infrastructure, decreasing tax base, housing vacancies and chronic decay. There were more than 60,000 empty homes in 2000. This overburdened the city budget and created an even stronger motive for unsustainable sprawl in the surrounding areas as the city became unviable.

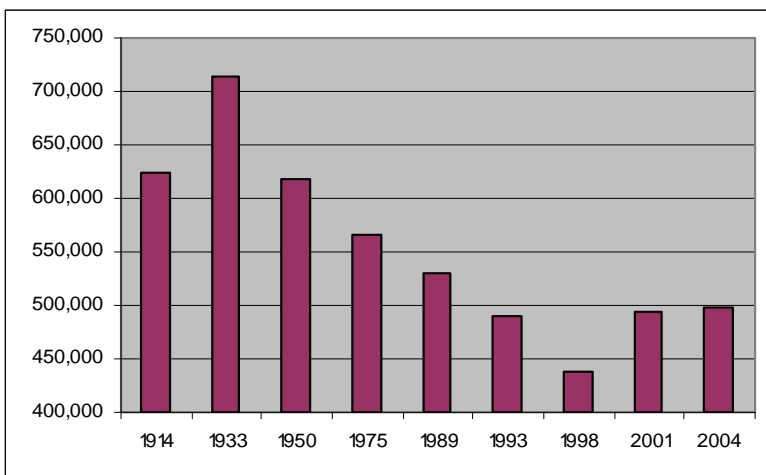
- Since reunification massive transfer payments have been made to Eastern Germany to leverage its structural recovery. In 2003, federal subsidies still accounted for one third of the East German gross product.

Fig 2: Unemployment rates in Leipzig and Germany (in %)



Sources: Stat. Bundesamt; Stat. Landesamt Sachsen; Bertelsmann Stiftung

Fig. 3: Changes in population levels, 1914-2004



Sources: Statistik Sachsen; Stadt Leipzig

Note: The decline between 1993 and 1998 was caused by migration towards more dynamic West German regions and rapid suburbanisation to surrounding municipalities. The rise until 2001 is mostly attributed to municipal incorporation of some suburban municipalities.

2. The aims of the new economic approach: focus on attracting new companies

Among other areas such as housing and urban renewal, economic development was seen as a key factor in the recovery in Leipzig. The City Department of Economic Development and the Economic Initiative *Mitteldeutschland*, a lobby group representing large regional employers, designed a cluster strategy based on five economic areas:

- car production and automotive components
- media, telecoms and IT;
- healthcare and biotech;
- energy and environmental engineering; and
- enabling technologies and services.

As there was no significant grouping of local companies, attracting major employers became a core task within the economic development policy. The city council was determined to 'go the extra mile'. In order to achieve its objective in the context of increased competition for investment on regional, national and international levels, Leipzig designed several business services and reorganised its own structure. This included four main ingredients:

- effective land supply policy;
- quick, non-bureaucratic implementation of decisions;
- cross-departmental cooperation; and
- additional services to potential investors, e.g. the municipal job agency PUUL (see below).

Leipzig has been impressively successful in attracting major companies, especially in the logistics sector (DHL, Quelle, Amazon) and car manufacturing (BMW, Porsche). These two sectors alone led to the creation of an estimated 5,000 and 6,000 new jobs respectively.

The logistics sector was attracted by the proximity to the Leipzig-Halle airport, the only German airport without flight prohibition during the night. The airport was modernised through public funds (€660 million). Twenty-four hour flight access was central to the decision of DHL to open one of only 3 international logistics centres in the world. DHL plans to employ 3,500 staff when fully operational in 2010, and an estimated 7,000 jobs are expected to be created indirectly (see Fig. 4).

Fig. 4: Logistics Park close to Leipzig-Halle regional airport, including new DHL hub (on the right)



Source: GVZ Entwicklungsgesellschaft

BMW chose Leipzig for its new manufacturing site out of 250 applicant cities. Production began in 2005. BMW's investment of €1.3 billion was supplemented by €360 million in state subsidies. For BMW, the significance of the Leipzig site is symbolised by the company commissioning the internationally renowned architect Zaha Hadid to design the complex. As a BMW spokesperson said, the employers were attracted to locate in Leipzig because of:

- the availability of sufficient and conveniently located land;
- lower labour costs (approximately 23% below West German levels);
- longer working hours and lower security of labour in Eastern Germany; and
- the efforts made by the City of Leipzig to help companies with the logistics of setting up in Eastern Germany.

3. Methods: the municipal job agency PUUL

One of the most significant moves by the city was the creation of the municipal job agency PUUL (Personal support for companies in Leipzig); crucial to its creation in 2001 was the decision by BMW to build its new plant in Leipzig. The job agency has the following characteristics:

- a subsidiary company of the City of Leipzig; created by the Department of Economic Development; and
- a company responsive remit: offering special services to companies that plan to locate or expand in and around Leipzig.

Its main fields of activity are finding and pre-selecting the necessary workforce for these companies; providing companies with information about the structure of the local/regional labour market (e.g. skills, credit levels, etc.) and running its own job data base (*Jobimpuls*). In joint cooperation with regional and federal labour agencies and companies, PUUL started the project *Poleposition* in 2002. Funding to 2004 amounted to €870,000. Its aim was to prepare unemployed jobseekers for future job openings and to make them compatible with the new labour market as it emerged.

With the City of Leipzig as the main shareholder, PUUL is required to integrate as many jobless as possible into the labour market. Nevertheless, the agency is not thought of as part of the city's social policy but as part of economic development. In this it is like Sheffield. This job agency is still a virtually unique case in Germany. To our knowledge, no other city has made a similar commitment until now.

Funding

Between 2001-2005, initial funding of €1.7 million came from the City of Leipzig supplemented by additional external funding of €0.8 million from federal and European sources. Since 2006, the agency has funded itself independently because the City of Leipzig is no longer providing funds. Sixty percent of the funding now comes from the public sector, mainly the federal and regional labour agencies and some additional funds from European Social Fund (EU). Forty percent is made up of private investment from companies in the region that have an interest in the provision of such a service.

Outcomes

The agency channelled more than 3,000 applicants into new jobs, approximately 1,500 of whom were formerly unemployed:

- approximately one-third of the jobs went to jobseekers from each of Leipzig, the inner commuting zone and the wider commuting zone. As Leipzig is located in a structurally weak region, unemployed residents of surrounding communities and nearby cities like Halle also come to Leipzig looking for work.
- Jobs were mainly created in two dominant economic sectors:
 - automotive such as BMW (approx. 2,000 jobs), suppliers to BMW (approx. 350)²; and
 - logistics: DHL (approx. 400), Amazon (approx. 400)

² BMW received 109,000 job applications (!)

- The previously unemployed could more readily be placed in the logistics sector which required a lower skills base. Here, approximately 90% of jobs went to formerly unemployed workers, in the case of Amazon up to 100% (!).
- Halle (the closest city in the region with even higher unemployment) has evolved as an important location for call centres; spillover benefits in further call-centre jobs are expected for Leipzig in the near future.
- 465 participants who attended courses funded through the *Poleposition* project run by PUUL managed to get permanent jobs at the BMW plant.

4. Challenges and Responses

Challenges	Responses
Securing inward investment, attracting major companies	City went out of its way to make everything easy for the big companies (good cross-departmental cooperation, cutting down on bureaucratic procedures, offering special additional services)
Preparing the unemployed for work	Training application process and support (e.g. through <i>Poleposition</i> programme run by job agency PUUL)
Making the city more attractive to investors	Major renovation and some demolition of older housing stock
Shifting the economy from planned Soviet style to Western market basis	Adaptation of skills, system change, leadership
Stopping the leakage of population away from the city	Making it an attractive place to work while re-expanding job opportunities

5. Overall lessons and results

- Courting large companies in order to rebuild an economic base and close the huge employment gap is helped by investment in regeneration.
- Designing and implementing a long-term strategy about how to achieve urban recovery steered the city through years when outsiders lost confidence.
- The need to offer a broad range of services in order to ‘win’ new companies was taken seriously by Leipzig.
- Adopting an innovative approach to urban renewal greatly helped in restoring confidence in Leipzig as a place (see our City Reports).

6. Concluding thoughts

This case study illustrates the lengths to which the city council went to rebuild an economic base after the dramatic restructuring of the entire East German system. Skills are key to the success of this approach. This investment based programme aims to aid city recovery through:

- providing new employers with a suitable workforce; and
- channelling the unemployed into employment.

Any sustainable approach to economic recovery must focus on these issues, and Leipzig has been spectacularly successful in defying predictions of population and economic collapse through a determined drive to attract inward investors and link their population to the new opportunities.

Annex

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City of Leipzig: <http://www.leipzig.de/de/index.shtml>

Employment Services, Leipzig (PUUL):

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Halle Institute for Economic Research (IWH): <http://www.iwh-halle.de/default.asp?lang=e>

Institute for Regional Sciences (IfL): <http://www.ifl-leipzig.com/>

Marketing Initiative, Leipzig (*Mitteldeutschland*): <http://www.leipziger-freiheit.de/de/index2.html>

Regional Economic Initiative: <http://www.mitteldeutschland.com/>

Statistical Office, Free State of Saxony: <http://www.statistik.sachsen.de/>

Interviewees

Joachim Burdack	Researcher, Professor	Institute for Regional Sciences (IfL)
Sigrun Kabisch	Head of division	Centre for Environmental Studies (UFZ)
Torsten Oertel	Managing director	Job agency (PUUL)
Michael Schimansky	Deputy head of department	City of Leipzig, Office for Econ. Development
Oliver Weigel	Head of department	City Council /Dept. of Urban Planning
Klaus Wurpts	Managing director	Economic Initiative for <i>Mitteldeutschland</i> region