

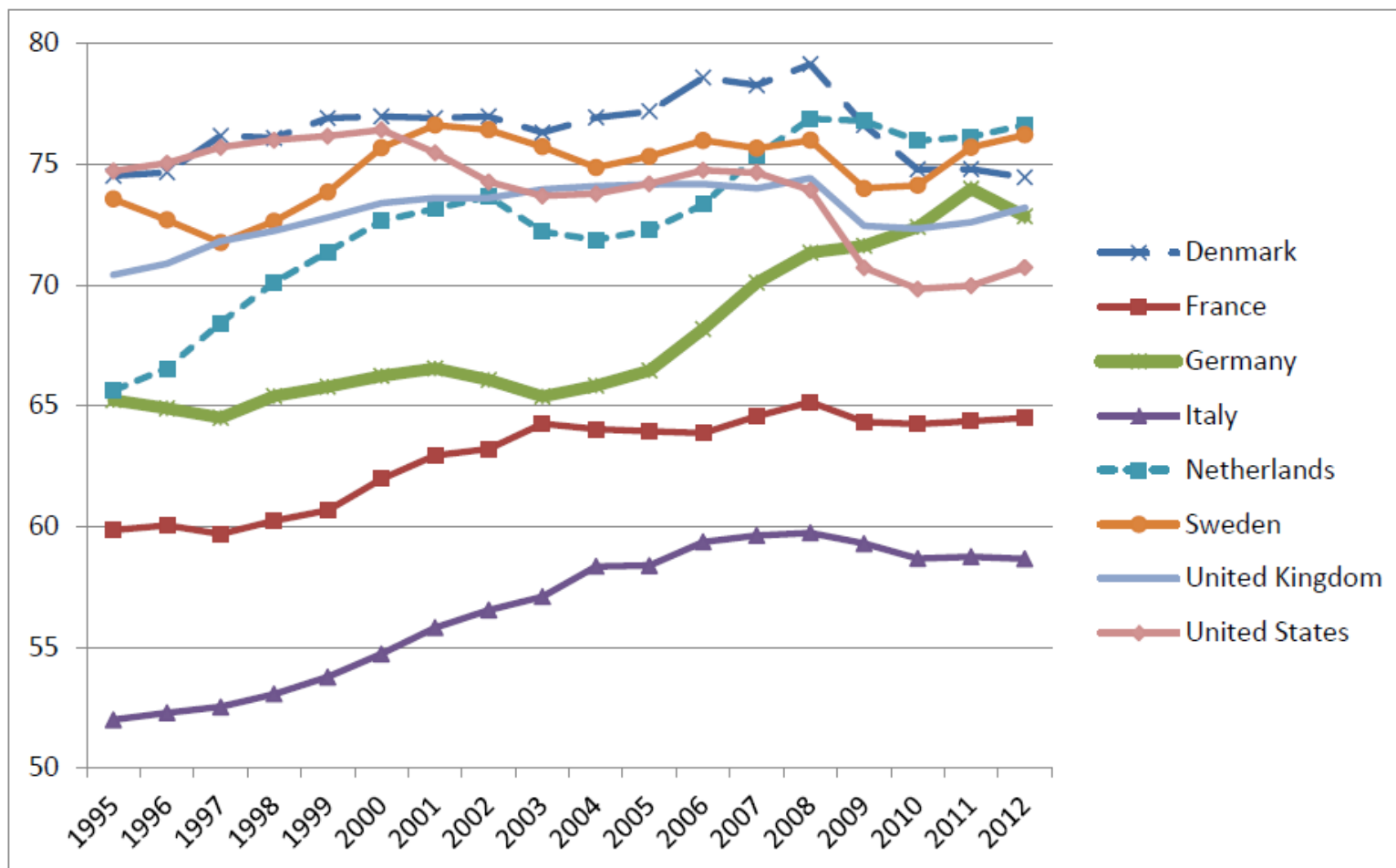
Flexibility as a key to more employment? The background of the German ‘Jobwunder’

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**The European Labour Market –
Success through Flexibility and Mobility**

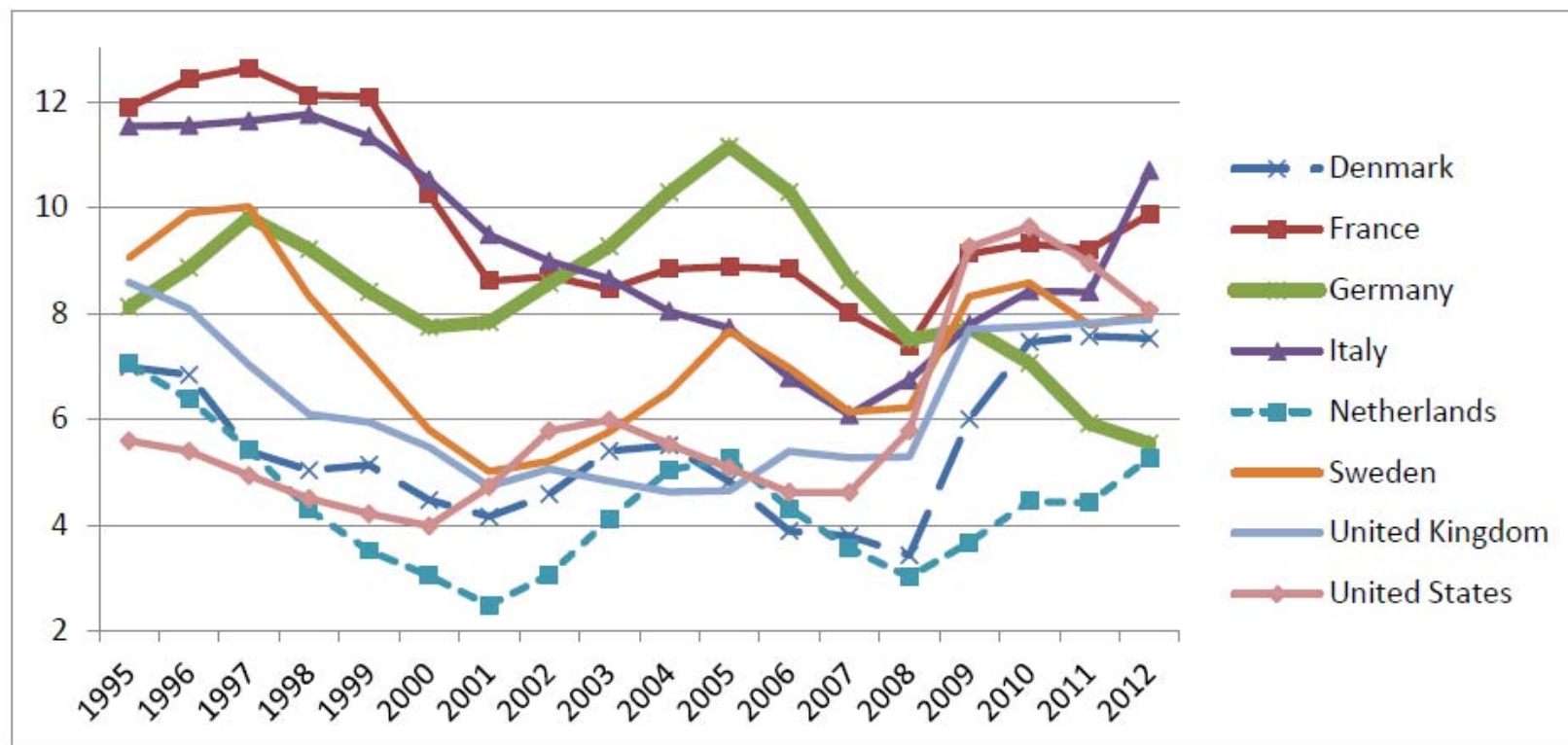
Brussels, 25 November 2013

Employment rates: A German miracle?



Source: OECD.

Declining unemployment rate in Germany – an exceptional case?

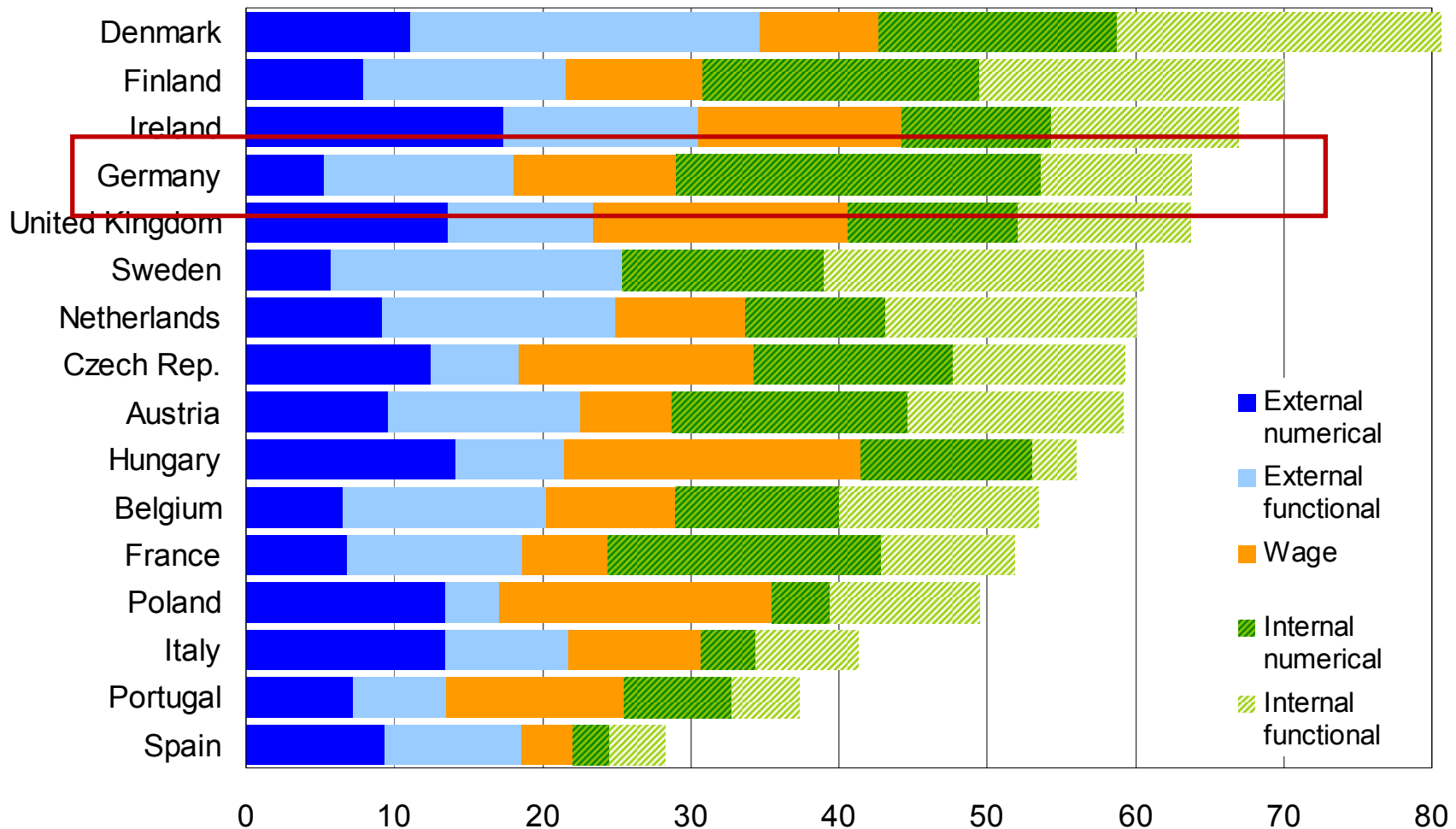


Source: OECD.

Reform dynamics

- No “master plan” or social pact
- But effects of a sequence of smaller changes
- Mixture of
 - (a)** long-run effects of business restructuring, adaption within collective bargaining and actors’ adaptation (micro- and meso-level)
 - (b)** effects of several waves of labor market reforms, in particular combination of de-regulation of non-standard work (marginal part-time, agency work) and activation reforms (Hartz package)
- Quite a “good fit” with the current economic environment

Different patterns of flexibility in EU member states (based on summary institutional indicators)



Based on Eichhorst/Marx/Tobsch (2009).

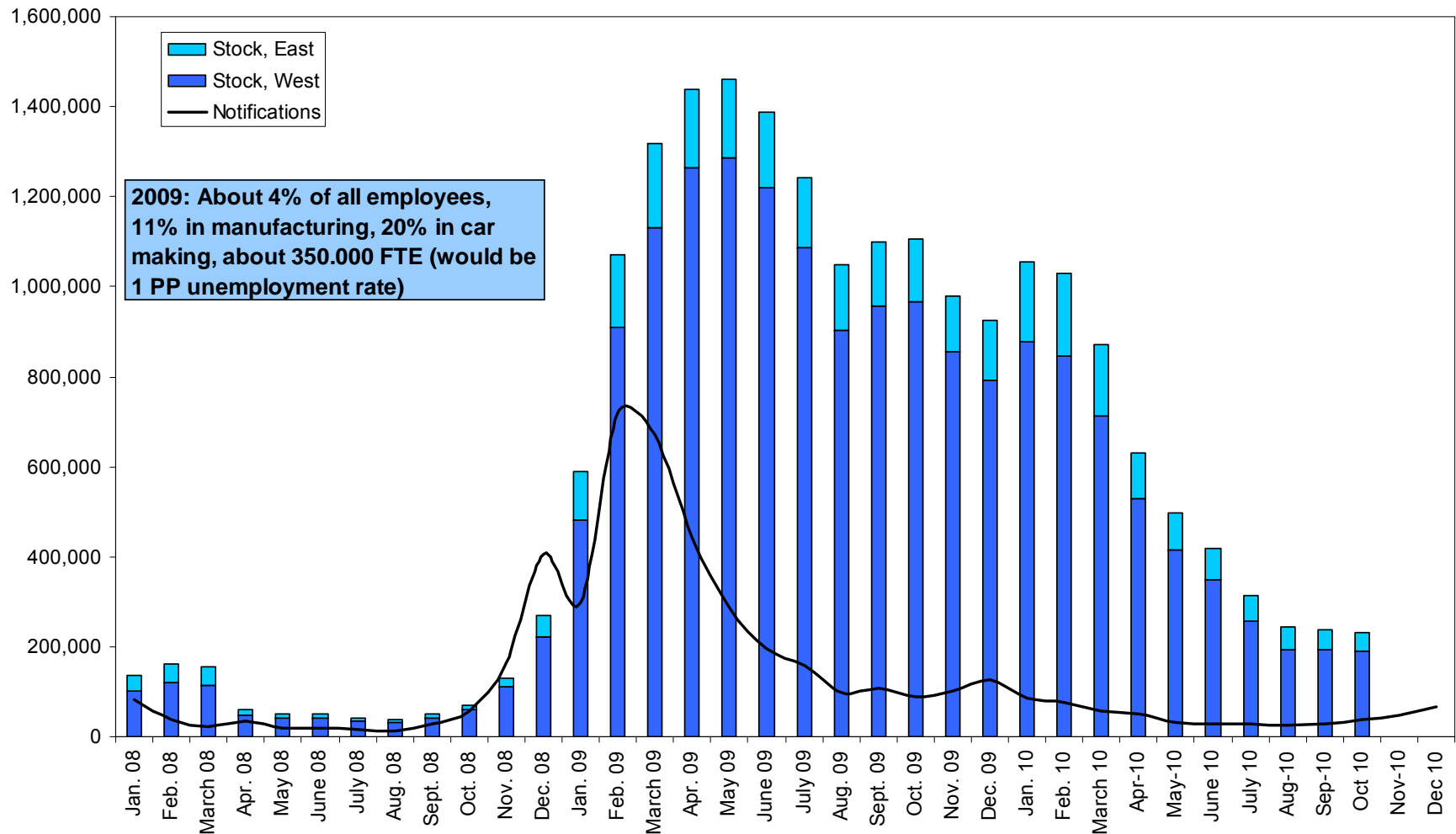
Manufacturing

- Internal flexibility: flexible working time, increasing flexibility at plant level, and still core of specifically skilled workforce – traditional “German model”
 - But: logic of employment in the core has changed over time – main motive: competitiveness (employers) and job stability (trade unions, works councils)
1. Smaller core of long-term skilled workers with wage moderation and increased wage/working time flexibility at sectoral and plant level
 2. combined with outsourcing to domestic and foreign suppliers
- Changing employment conditions contributed to relative stability of manufacturing employment over the last two decades

Manufacturing

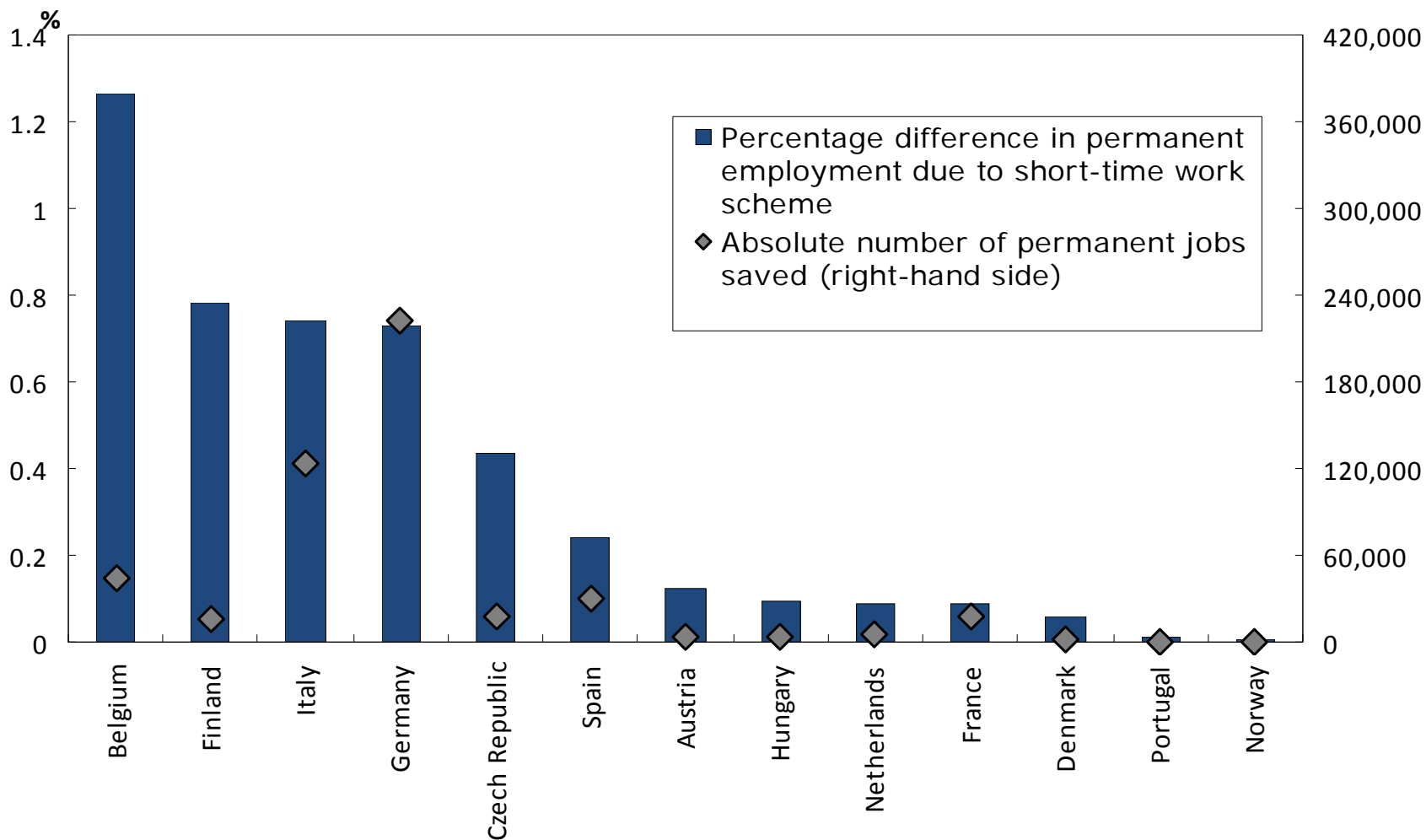
- Not only “Kurzarbeit” but dual crisis response:
 - (a)** Adjustment of overtime/working time accounts and massive reliance on public short-time work scheme
 - (b)** buffering via marginal workforce (agency work, fixed-term)
- New element of non-standard work (external flexibility): temporary agency work in manufacturing at separate (lower) wage scale based on sector collective agreement (available since 2003/04) → new element of “internal outsourcing” within the factor

Short-time work helped manufacturing jobs to survive (only) in 2009



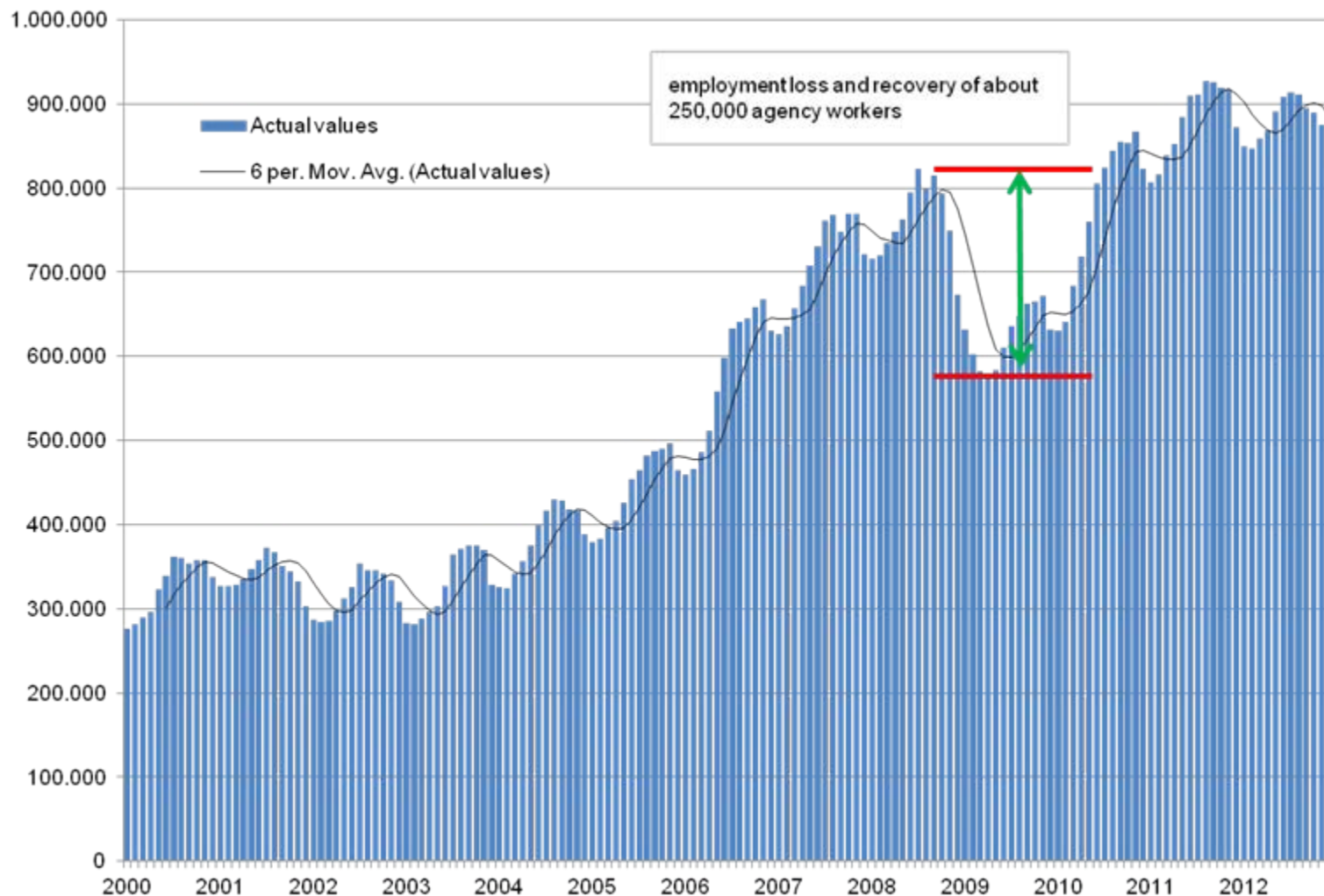
Source: Bundesagentur für Arbeit

A comparative view on short-time work



Source: OECD Employment Outlook 2010.

Agency work: A growing element of external flexibility

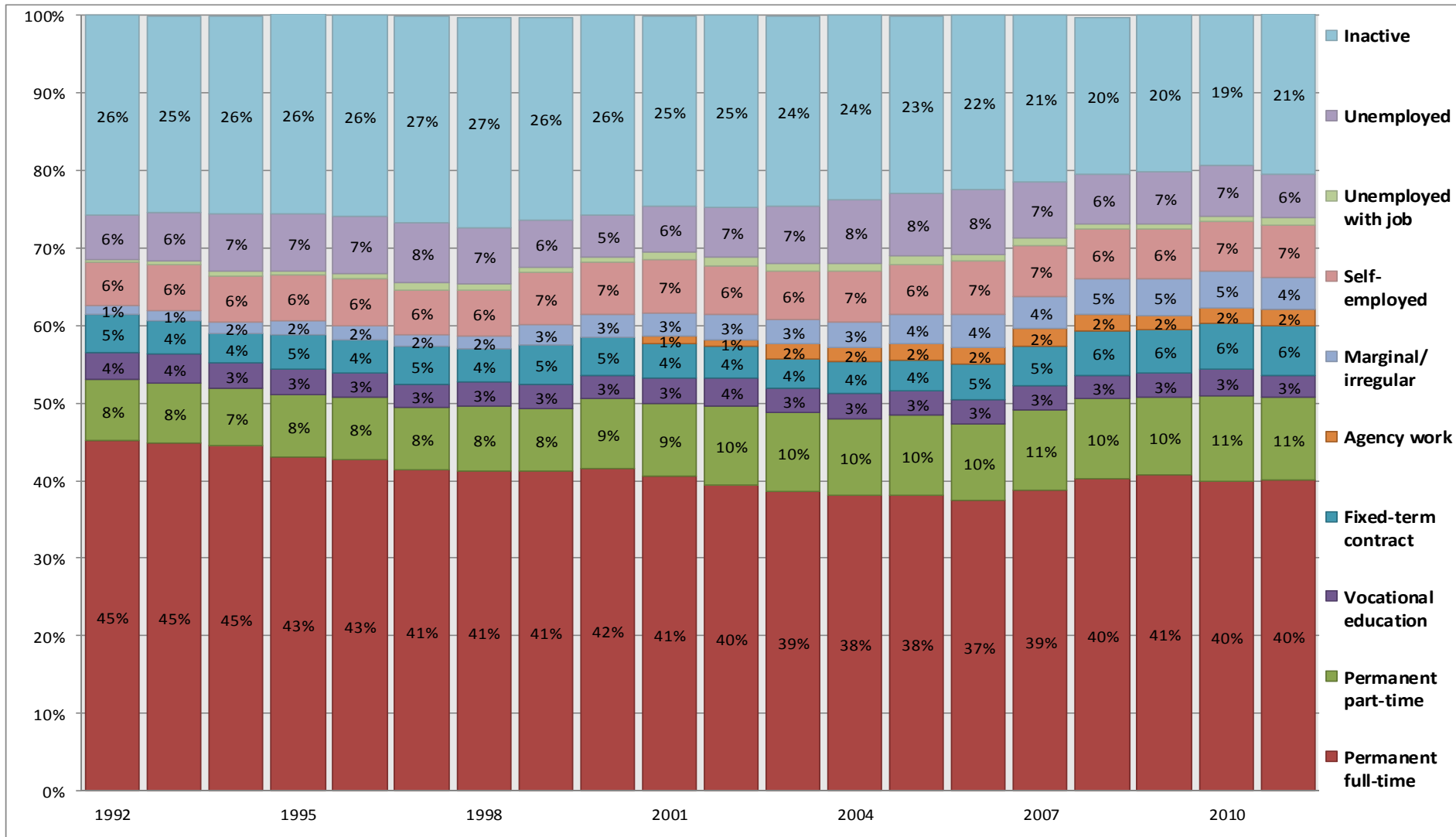


Source: Federal Employment Agency, own calculations

Service sector employment and non-standard work

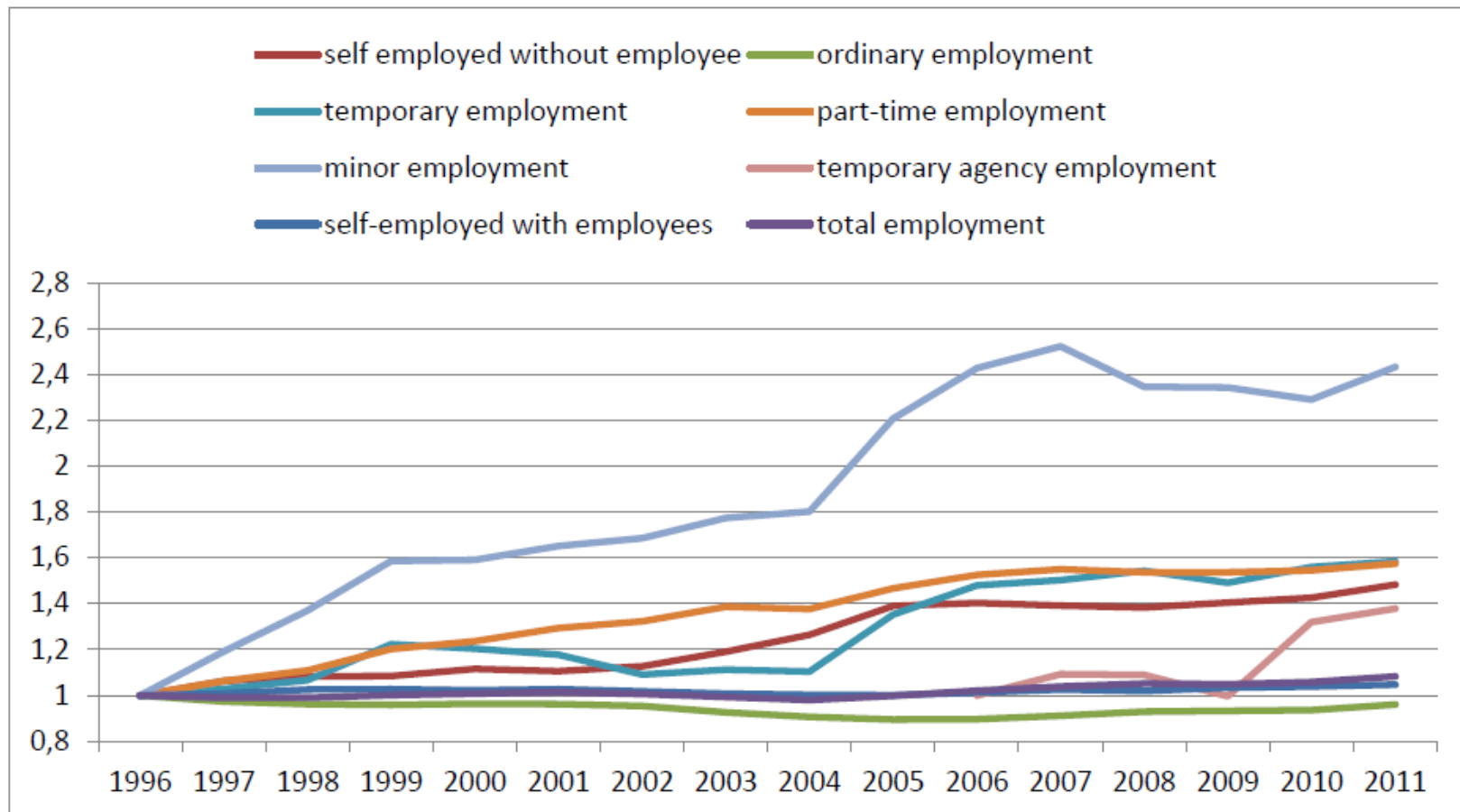
- Stable employment growth in the service sector, accelerated over the last decade – overcoming long-standing jobs deficit
- Not only, but quite relevant segment of non-standard employment and low pay
- service sector is more responsive to labor market deregulation and take-up of these flexible forms of employment (demand and supply)
 1. Marginal part-time work
 2. Fixed-term contracts
 3. Temporary agency work
 4. Self-employment and freelance
 5. Low pay

Working age population by employment status, 1992 to 2011



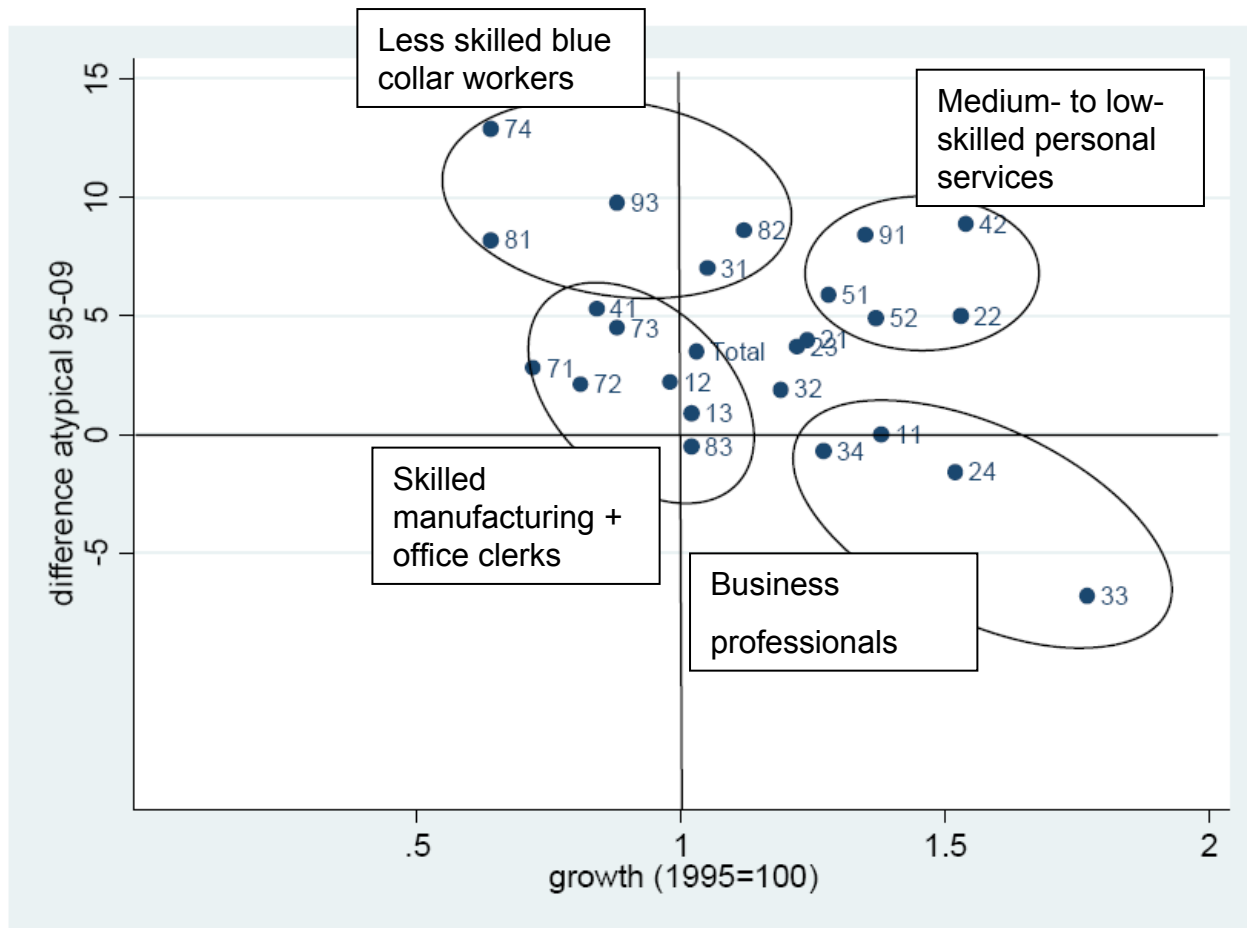
Source: GSOEP, authors' calculation.

Different types of employment in Germany, 1996-2011



Source: Federal Statistical Office.

Occupational dualization



Source: GSOEP, authors' calculations. Atypical share: fixed-term, marginal part-time, temporary agency work.

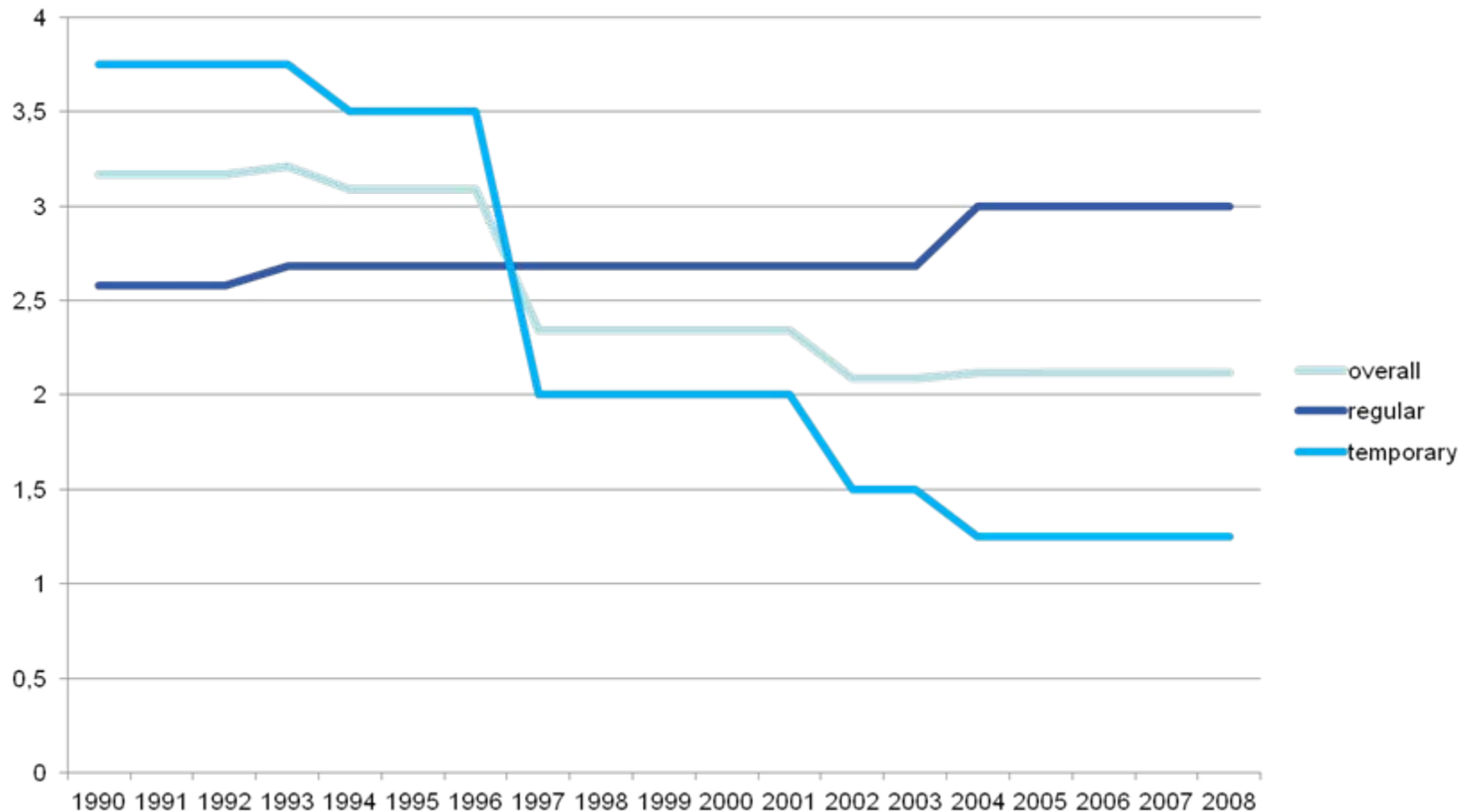
Different types of employment in selected sectors, 2011

	self employed		employees					
			standard employment	atypical employment among				
	total	without employees			total	fixed-term contracts	part-time employment	Marginal part-time
Mining and quarrying, manufacturing	0.04	0.01	0.82	0.14	0.06	0.06	0.03	0.03
Energy, water, waste management	0.03	0.02	0.85	0.12	0.06	0.04	0.03	0.03
Construction	0.20	0.10	0.69	0.12	0.04	0.07	0.04	0.01
Wholesale and retail trade; repair of motor vehicles	0.12	0.06	0.62	0.26	0.07	0.20	0.11	0.01
Transportation and storage	0.06	0.03	0.75	0.19	0.08	0.11	0.06	0.02
Accommodation and food service activities	0.17	0.05	0.47	0.36	0.11	0.26	0.20	0.01
Information and communication activities	0.16	0.12	0.68	0.15	0.06	0.09	0.05	0.01
Financial and insurance activities, real estate activities	0.14	0.09	0.70	0.16	0.03	0.12	0.04	0.01
Professional, scientific and technical activities	0.31	0.19	0.52	0.17	0.06	0.11	0.04	0.01
Administrative and support service activities	0.13	0.08	0.46	0.41	0.14	0.23	0.16	0.13
Administration, defence and social security			0.84	0.17	0.07	0.11	0.03	0.01
Education	0.07	0.06	0.65	0.28	0.14	0.17	0.06	0.01
Human health and social work activities	0.09	0.04	0.60	0.31	0.11	0.21	0.09	0.01
Arts, entertainment and recreation activities	0.27	0.21	0.44	0.29	0.10	0.20	0.13	0.01
Private households	0.07	0.07	0.15	0.77	0.05	0.73	0.63	

Service sector employment and non-standard work

1. **Marginal part-time work** up to 450 € per month: mostly medium-skilled service sector jobs, second-earners, pensioners, working unemployed
2. **Fixed-term contracts**: about 50% vocational training, stable conversion rates of about 50% of all “genuine” fixed-term jobs, particular issue in public, social, academic sector
3. **Temporary agency work**: concentrated in more routine occupations in production, logistics, services
4. **Self-employment and freelance**: increasingly important in high-skilled and low-skilled service sector occupations
5. **Low pay**: in particular in areas outside collective bargaining

OECD Employment Protection Indicator for Germany



Source: OECD.

Temporary agency work in Germany – A second tier type of employment

- Agency work liberalized 2003 to promote reintegration of the unemployed, in particular abolition of maximum assignment limit and synchronization ban + introduction of equal pay
- But: deviation from equal pay is possible if there is a sectoral collective agreement
- TWA wage scale is significantly below user sector wages (e.g. metal working)
- Agency workers are mainly concentrated in blue collar manufacturing occupations – long-term assignments side by side with directly employed workers (“internal outsourcing”)

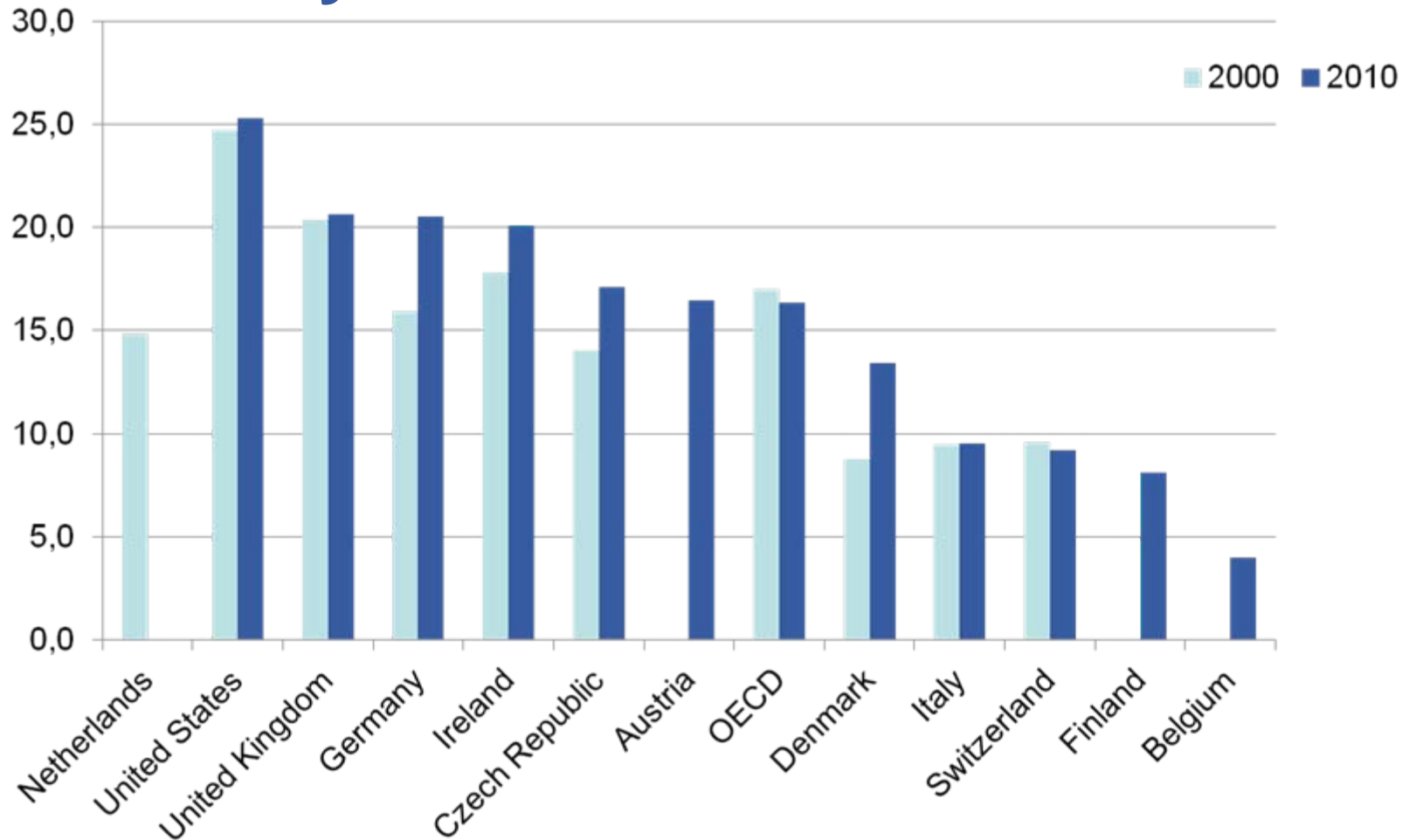
Temporary agency work in Germany – A second tier type of employment

- Unadjusted pay differential is significant in major user sectors, ca. 30% for manufacturing (male blue collar workers), about 20% when controlling for individual characteristics, e.g. work experience and tenure)
- Agency workers have a high risk of in-work poverty
- Institutional rules make progression to direct employment rather difficult
- Agency workers take a major part of labor market risks, see reaction to the crisis

Marginal part-time work

- Marginal part-time expanded in 2003 to promote supplementary earnings and flexible employment in private services
- Part-time jobs up to 400 EUR per month (2013: 450 EUR) are exempt from employee social contribution and tax-free, both as first and second job, above that threshold zone of extremely high marginal tax rates
- About 7.5 mio. marginal part-time workers
- Popular with employers who can appropriate part of the tax/contribution relief and reduce gross wages accordingly; popular also with employees (in particular medium income households searching for some additional earnings)
- Minijobs pervasive in sectors such as retail trade and restaurants, with high female share
- Minijobs are no stepping stones

A steep increase in the low pay share in Germany – close to the UK now



Source: OECD.

Low pay shares in some occupational groups

share of low-wage earners %	total	Standard employment (FT and PT > 20h)	Non-standard employment				
			total	part-time (< 20h)	fixed-term	marginal part-time	agency work
Total	20.6	10.8	49.8	20.9	33.5	84.3	67.7
Female	26.5	15.1	47.6	19.2	35.5	84.8	72.9
Male	15.8	8.1	53.7	34.3	31.6	83.4	65.4
low qualification	52.8	22.7	77.8	44.7	62.2	88.1	85.5
medium qualification	17.7	12.1	39.4	17.1	36.2	77.2	57.6
high qualification	1.7	0.5	8.3	2.7	5.7	61.4	20.7
selected occupational groups							
academic professions	3.0	1.0	10.5	3.5	5.7	64.9	/
technicians and equivalents	7.6	4.0	24.9	4.7	17.3	68.1	29.2
office workers	23.4	10.9	48.1	13.2	39.4	80.3	62.5
retail and service staff	42.3	28.4	65.4	30.0	58.3	88.6	72.1
craftsmen	16.1	11.1	48.7	32.6	31.3	81.0	47.6
operators and fitters	23.7	17.1	60.6	33.2	39.7	89.3	63.0
labourers	61.5	39.7	79.2	56.3	70.7	90.3	89.2

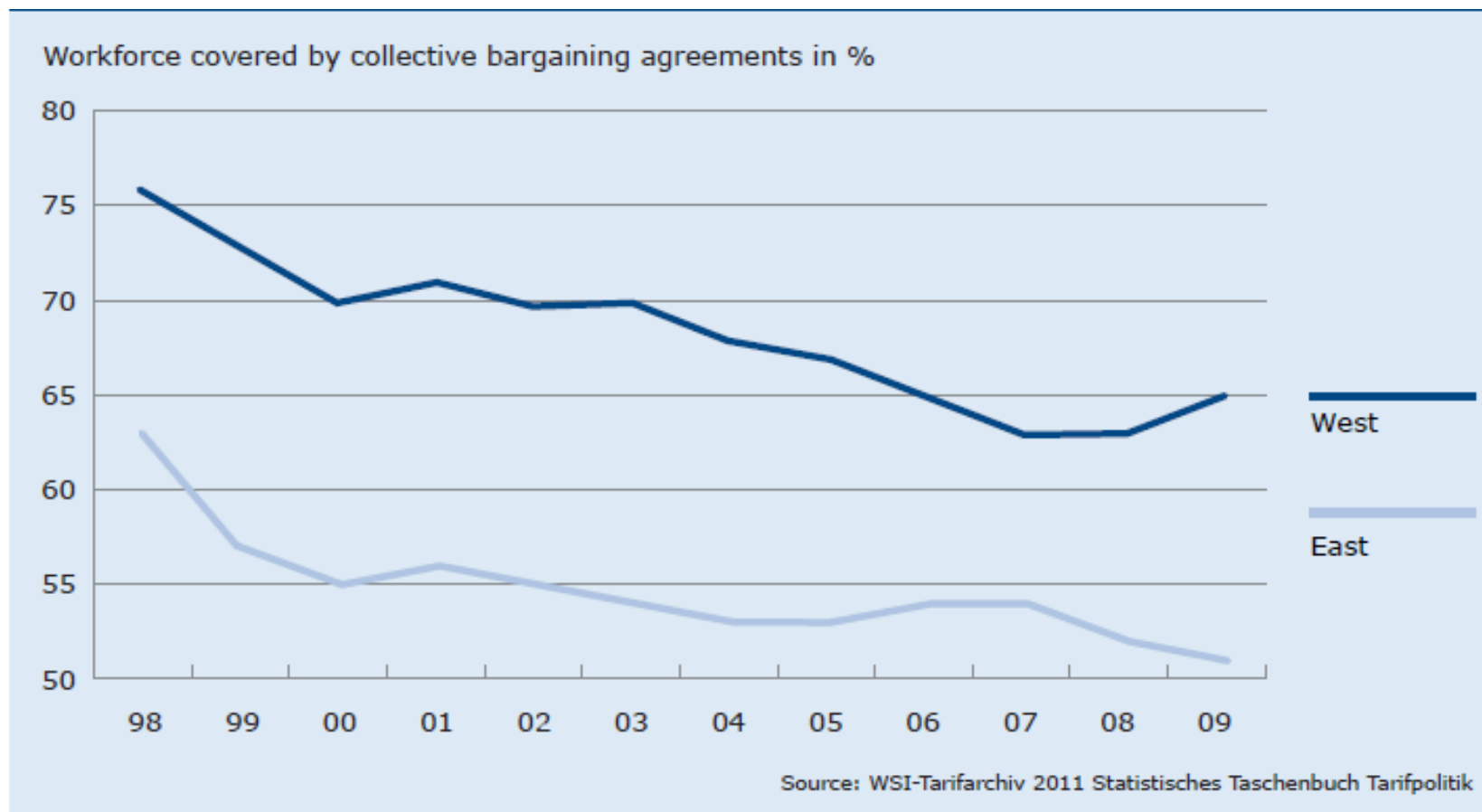
Note: standard employment incl. part-time > 20h, part-time is < 20h, but above marginal part-time.
 Low pay threshold: 10.36 EUR. Only employees in firms > 9 employees. Source: Federal Statistical Office.

Collective bargaining coverage in 2010

	sectoral agreement		company agreement	
	West	East	West	East
Public administration	89	76	10	22
Banking and insurance	81	56	2	8
Energy and infrastructure	75	49	15	24
Construction	72	52	2	3
non-profit organizations	62	30	7	19
Manufacturing	56	25	11	13
Health and education	56	34	10	17
Total	56	37	7	13
Retail trade	51	28	2	5
Hospitality and other services	48	25	2	7
Business services	46	44	6	9
Wholesale	42	13	6	10
Logistics	40	23	14	20
Information and communication	27	10	4	16

Source: HBS Tarifarchiv, Betriebspanel.

Collective bargaining coverage declines



The unexpected emergence of a new German model (I)

1. Germany seems to have found a solution for employment increase/unemployment decline – quite different from pessimistic statements from the late 1990s/early 2000s
2. Job creation in service sector without undermining quality production in manufacturing = “purified” core of skilled production + larger flexible work force in manufacturing and services (dualization)
3. German economy can obviously adjust to changing competitive environment and demand fluctuations effectively – better than expected at the beginning of the crisis

The unexpected emergence of a new German model (II)

- Variety of job types is on the increase, this creates new issues for policy makers
 1. Defining appropriate and fair distribution of different components of labor market flexibility across different groups of workers (core vs. margin), current issues: stronger equal pay principle in agency work, better social protection of self-employed
 2. Setting minimum standards of remuneration and employment stability without major (negative) impact on employment and access to the labor market (current debate: broader coverage by extended sectoral minimum wages vs. general minimum wage)
 3. Effective activation policies for the low-skilled and long-term unemployed (but at the same time tendency to curtail ALMPs)

The unexpected emergence of a new German model (III)

- Analysis shows the potential beneficial effects of prior reforms – after some delay significant actors' adjustment to changing conditions
- Significant effects of actors' behavior on labor market outcomes (even in the absence of big institutional reforms)
- Quite successful institutional arrangements can emerge without a “master plan” or an explicit social pact
- They may be viable for the time being, require further adaptation later on

What is currently going on?

- Making sectoral, collectively agreed minimum wages generally binding – now covering about 10% of all employees – but no general minimum wage (yet), probably with new government (8.50 EUR per hour?)
- Collective agreements in the metal sector providing for pay supplements narrowing the wage gap between TWA and user companies (proportional to duration of assignment) - maybe effective principle of equal pay/equal treatment by legislation
- Discussion about contract labor (“Werkverträge”) as a way to circumvent collective agreements in TWA and user sectors + restrictions on fixed-term contracts being considered

Sectoral minimum wages 2013

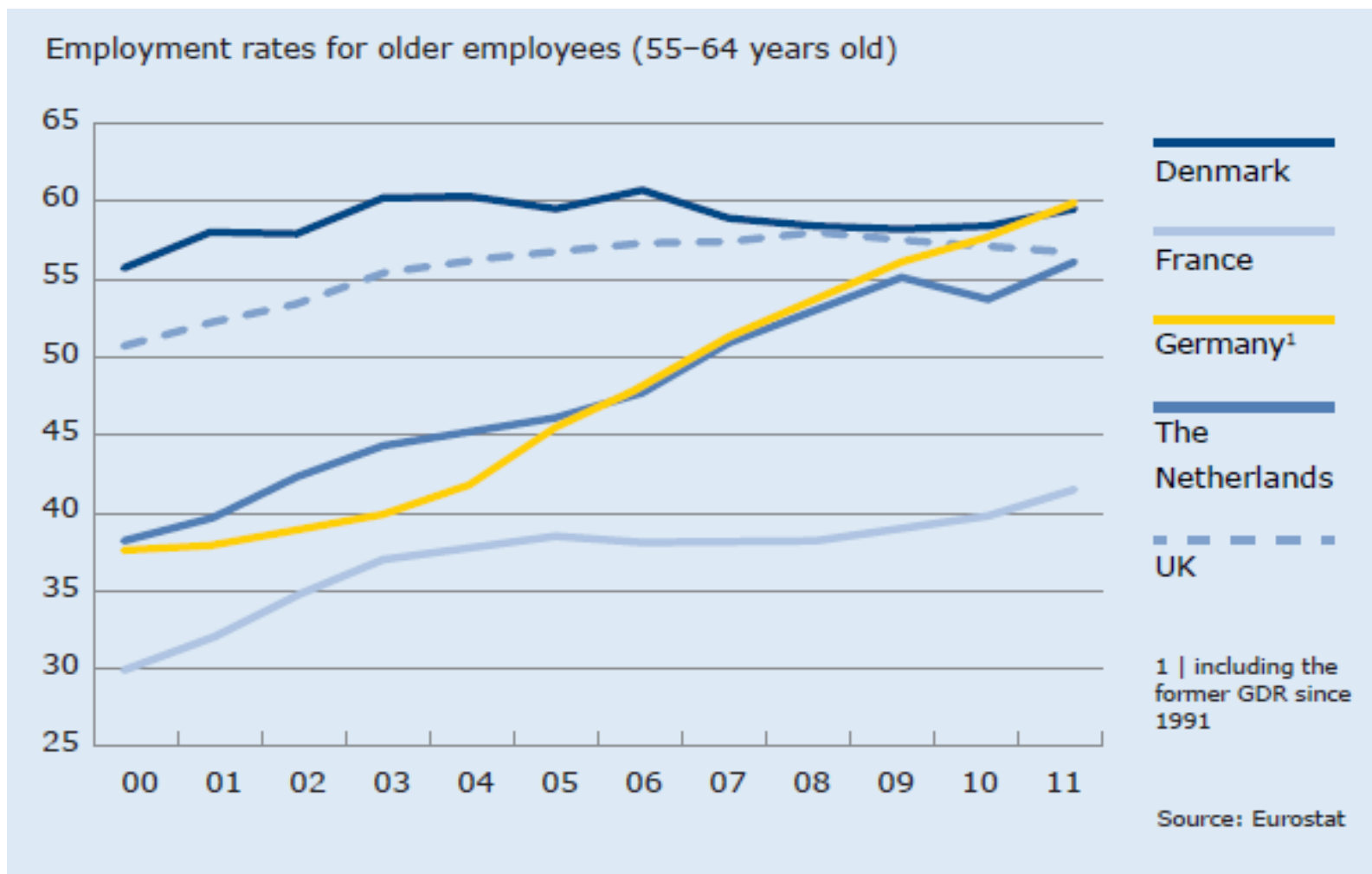
Sector	Gross hourly minimum wage	
	West Germany	East Germany
Waste removal	8.68	
Vocational and adult education	12.60	11.25
Construction	11.05 / 13.70	10.25
Specialized mining activities	11.53 / (12.81)	
Roofing	11.20	
Electrical crafts	9.90	8.85
Cleaning	9.00 / 11.33	7.56 / 9.00
Painting	9.90 / 12.15	9.90
Old-age care	9.00	8.00
Security services	Regional variation between 7.50 and 8.90	
Laundry services	(8.25)	(7.50)
Temporary agency work	8.19	7.50

Note: If two minimum wages are listed, the lower one refers to simple tasks/unskilled workers, the higher one to more complex tasks/skilled workers. Source: German Ministry of Labor and Social Affairs.

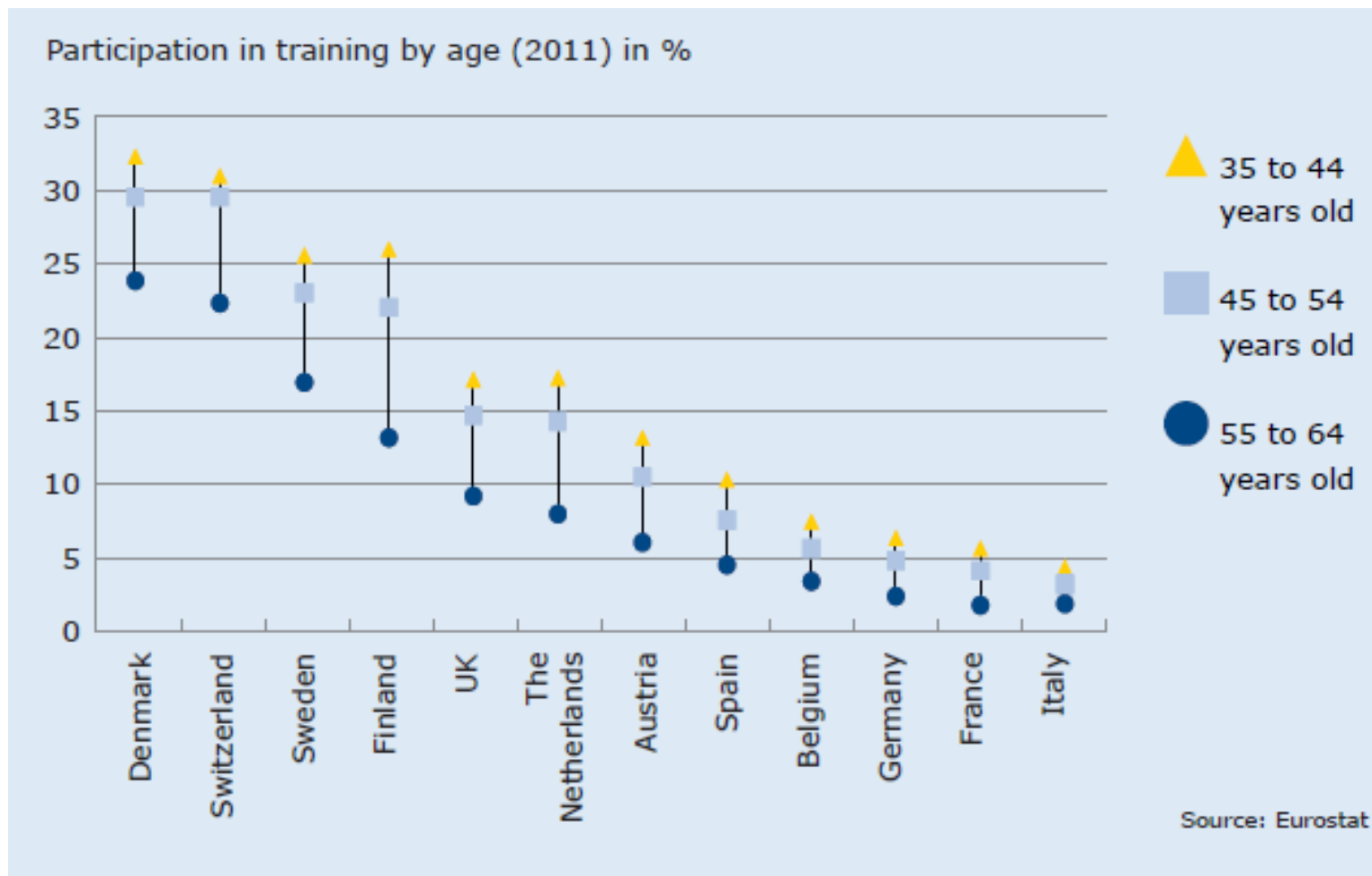
Outlook

- Labor market segmentation is here to stay, but the different segments and borderlines will probably change structure and size, driven by market forces and actors' adaptive action
- Where collective bargaining is weak we will probably see more government intervention setting minimum regulatory standards
- New government will probably increase regulation intensity at the margin of the labor market (minimum wage, TWA, FTC) which could potentially destroy some of the jobs created in recent years
- Demographic change requires better mobilization of available work force, in particular women, older workers, migrants as well as improvement in training and lifelong learning

Better labor market integration of older workers



Persistent deficits in lifelong learning



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