2014 German Labour Market Outlook

Recent labour market developments in long-term perspective

Over the past eight years, the German labour market has displayed a markedly different pattern compared to the thirty years before. Since the 1970ies, unemployment had built up stepwise, with increases during periods with slow or negative GDP growth not being set off by decreases during periods with higher growth rates. From 2006 on, however, the unemployment rate has been nearly halved, despite growth rates below those of the 1970ies and 1980ies and in defiance of the financial crisis, which, in 2009, resulted in the deepest slump of GDP since 1929.

Figure 1: Unemployment rates (annual averages, national administrative count, left scale) and rates of GDP change (right scale), 1971-2012

Factors underlying this change are demographics and productivity. The population of working age has been shrinking since the turn of the millennium, and gains in productivity have slowed down (Klinger 2013). Consequently, despite only moderate growth rates, the long-run decline of the volume of work (paid hours worked annually) has been halted and recently even slightly reversed. Simultaneously, part-time work and ‘small jobs’ have spread out: More individuals than ever before (almost 42 million in 2013) are now partaking in a ‘cake’ of work that has, for the time being, ceased to shrink, but is not growing much. With an increase in the numbers of persons having some sort of employment in the magnitude of almost 3 million within

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10 years, the overall employment rate of the population aged 20 to 64 has reached an all-time peak of around 77 per cent, clearly higher than EU average and, within the EU, surpassed only by the Netherlands and Sweden. Employment fully covered by social insurance has grown again since its all-time low in 2005, and its share in total employment has slightly recovered from 67 per cent to almost 70 per cent. However, given the effect of ‘work sharing’ through increasing shares of part-time work, the average effective working time per week in Germany is below EU average (36.6 vs. 38 hours in 2010, cf. Kümmerling 2013).

In accordance with rapid demographic ageing, the larger part of these employment gains has come to the benefit of older workers aged 55plus. This is not to say that the relative chances of older workers to be hired would have considerably improved. Rather, the incumbent workforce is ageing, and workers are continuing their employment into higher age than before. Between only four consecutive birth cohorts (those born in 1941 and in 1945), the median age of exit from employment has increased by almost one year. Consequently, in European comparison, Germany has made the most far-reaching progress in employment rates 55plus, drawing level with Denmark though still falling short of Sweden, Norway or Switzerland (Knuth 2012b).

Figure 2: Annual transitions between employment and unemployment, 1998 - 2012

Retaining older workers in employment has contributed to remarkable changes regarding the pattern of transitions between employment and unemployment. Flows from employment into unemployment were high from 2002 to 2004, partly due to recession (see fig. 1), partly due to the anticipation of reforms of the benefit system taking effect in 2005 (Dlugosz et al. 2009). Since the 1980ies, the standard pattern of restructuring and manpower adjustment had been the dismissal (or consensual
separation) of primarily older workers. This was widely accepted since older workers enjoyed prolonged periods of eligibility for unemployment benefits plus access to early pensions from the age of 60 after having been unemployed for at least one year. This pattern of early retirement used to account for considerable shares of total unemployment benefit recipience (Knuth und Kalina 2002). In coaction between pension reforms (taking effect from 1996) and unemployment benefit reforms (starting from 1998, culminating in 2005), such pathways into retirement were rendered considerably less attractive. Consequently, the severe slump of 2009 produced much less of an increase in employment-to-unemployment transitions than the milder recession of the early 2000’s. The government supported the weathering-off of the 2009 crisis by extending short-time working allowances very generously (Bosch 2011), which accounted for about one third of the absorption of the economic shock. Other important factors were long-term flexible working time accounts as well as temporary sacrifices of income by workers and of productivity by employers (Burda and Hunt 2011). After the shock of 2008/2009, flows from employment to unemployment have continued to fall to an all-time low. Against the backdrop of a shrinking workforce, and with complaints of alleged skills shortages, employers are holding on to their employees.

The improvement of the unemployment rate is probably driven even more strongly by the decline of dismissals than by increased hiring from the unemployed. Nevertheless, it is also remarkable how transitions from unemployment into employment have increased between 2002 and 2010, after having been almost completely decoupled from the business cycle during the second half of the 1990ies. This positive development can be seen as a result of the ‘activating’ reforms of labour market policies associated with the name of Peter Hartz (‘Hartz reforms’) who chaired a commission in 2002 forwarding proposals for reform. The labour market became more absorptive for unemployed jobseekers. Since 2011, however, flows from unemployment to re-employment have shown a steep decline (fig. 2). Employment growth in 2013 was only 0.6 per cent, and unemployment decreased only by 1.6 per cent. This might indicate that the current favourable business cycle is about to tail off.

Improved chances for re-employment have been largely confined to those who have been unemployed for only shorter periods of time and have skills and work experience. Employment chances for the long-term unemployed and, in particular, those very distant from the labour market have hardly improved at all, and the share of the long-term unemployed in total unemployment has decreased only very moderately. The reforms have failed to reduce mismatch unemployment (Bauer 2013). The intractability of unemployment at the ‘low end’ of the workforce must be seen against Germany’s traditionally rigorous ‘work line’ which was reinforced by the Hartz reforms. Escape routes from unemployment and associated job search obligations into other categories of social benefits are very narrow, by international comparison (Erlinghagen und Knuth 2010; Brussig und Knuth 2013). Consequently, there are several hundred thousands of persons labelled as unemployed jobseekers whose chances to be considered as hiring candidates by employers are near to zero (cf. Moertel and Rebien 2013).
Downsides of the German ‘job miracle’

As already hinted, increased participation in gainful employment is distributed in an extremely uneven manner, in particular as far as women in West Germany are concerned. The German gender working time gap is among the highest in Europe (Kümmerling 2013). In other words, more women are working, but the total of paid hours worked by them is stagnating (Kümmerling et al. 2008).

The assessment of part-time work from a workers’ perspective is obviously a tricky issue between ‘time prosperity’, exclusion from career prospects, and individual earnings usually insufficient for a living. Furthermore, part-time arrangements in Germany are nowadays far from ‘half jobs’ but spread out along a continuum between only three or four hours to more than thirty hours per week. For this reason, the Federal Statistical Bureau in a recent representation has taken 20 hours as the threshold for a job to be ‘atypical’ on the dimension of weekly working time. This allows combining part-time with other dimensions of atypicality like fixed-term contracts, temporary agency work or exemption from social insurance for ‘mini-jobs’ earning no more than 400 Euros per month in a consolidated account, avoiding double counting of those affected by more than one deviation from ‘standard employment’.

Figure 3: Standard and atypical employment by gender, absolute and percentages, 1991 - 2011

Source: Federal Statistical Bureau

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1 Even 23 years after the German reunification, the situation in the East is still different (despite institutional homogenization) because the legacy of better childcare infrastructures and female work orientation still survives.

2 This threshold was raised to 450 Euros from 2013.
According to this account, which excludes people beyond statutory retirement age, apprentices, students, and self-employed, the total percentage of atypical employment has risen considerably from 15 per cent to about 25 per cent between 1993 and 2007, but it has stagnated (men) or even declined (women) slightly in recent years. Obviously, this account is strongly influenced by the arbitrary decision for a threshold of 20 hours per week; however, any other threshold would be equally arbitrary.

Collectively agreed hourly wages have developed very moderately already since the late 1990ies, not only since the labour market reforms of 2003-2005 (Bispinck 2011). Consequently, real wages on a household basis were no higher in 2012 than in 2000 (Brenke and Wagner 2013). From 2000 to 2010, the growth of German labour costs per hour was the weakest in the European Union, and the trend of per unit labour costs was markedly below that of the Euro zone (Niechoj et al. 2011). Economic and fiscal imbalances within the Euro zone mirror Germany’s lasting export surplus. If there were anything like a ‘German Euro’, 100 German Euros would have been traded against 123 ‘rest-of-Euro Zone Euros’ as early as 2011 (Mazier and Petit 2013, p. 516). The European discourse about ‘competitiveness’ is blindfolded by the silly assumption that all countries could have export surpluses simultaneously.

Like in many countries, income inequality has increased considerably. The share of the population in risk of poverty (less than 60 per cent of median income) has grown from 10 to 14 per cent between 1998 and 2004 and has since remained at this high level (Grabka et al. 2012), unchanged by the Hartz reforms. The percentage of low-wage work measured on an hourly basis has grown (Kalina und Weinkopf 2013), more before than after the Hartz reforms, to be now the second highest in Europe after Lithuania (Rhein 2013). In European comparison, it stands out that gender and working time per week bear particular heavily on the likelihood of earning low hourly wages. At the same time, the low wage risk also of alleged ‘core’ workers is higher than in other European countries (Kalina und Weinkopf 2013). For men, the spread of low-wage work seems to be partly driven by the expansion of temporary agency work; for women, the spread of mini-jobs has the same effect. Both these forms of atypical employment were deregulated in 2003, as part of the Hartz reforms, and have spread since.

However, more importantly than direct legislative deregulation, overall wage stagnation and increasing wage inequality seem to be driven by the attrition of collective regulation of employment relations, namely the coverage by collective agreements and the existence of works councils. Collective agreements in Germany are usually sector-based (nation-wide or confined to geographical areas); company-based agreements (which are normally backed by less bargaining power) are on the rise, but without compensating the loss in sector-based coverage. The percentage of workers enjoying neither form of collective representation has grown strongly since such data have been collected (fig. 4). It is higher in the East (45 per cent in 2012) than in the West (34 per cent), but it has grown more strongly in the West (fig. 4).

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3 Apprenticeships are fixed-term by definition but regarded as employment relationships, which creates confusion when comparing fixed-term contracts in Germany with countries where there is no apprenticeship system.

4 The threshold applied is two thirds of median hourly earnings.

5 Skilled male German nationals aged 30plus working full-time on open-ended contracts in medium and large-size companies.
Increasing wage dispersion in combination with overall wage restraint implies that entry wages must have declined since incumbents’ wages will rarely be permanently lowered. Such a tendency for entry wages to decline has actually been ascertained, and this seems to be the principal cause for declining labour turnover and increasing job tenures (Giannelli et al. 2013). Not only are companies more reluctant to dismiss workers into unemployment, as we have seen (fig. 2); in addition, workers are loath to change employers voluntarily since by doing so they tend to lose rather than gain (Trischler und Kistler 2010). For a period of employment growth, with employers’ complaints about skills shortages (Dietz et al. 2012) but with considerable percentages of workers employed in jobs demanding skills below their qualifications simultaneously (Hall 2010), this is a paradoxical finding. It appears, then, that reforms allegedly aiming at making the German labour market more ‘flexible’ have actually reduced its capacity to reallocate human resources. Re-allocation is insufficient because employers are not prepared to pay attractive wages. The use of fixed-term contracts for entry positions (between 44 and 47 per cent of new hires – Institut für Arbeitsmarkt- und Berufsforschung 2013) and the proliferation of agency work (e.g., 1/3 of the workforce in the automobile industry) contribute to the sealing-off of shrinking ‘cores’ of good jobs against new entrants.

This is the situation, in which Germany elected a new federal parliament in September, 2013. The remainder of the article will discuss how the new government is going to address these issues.
The agreement for the new ‘Grand Coalition’

For the first time in post-war history, the Liberal Party (F.D.P.) failed to pass the 5 per cent threshold in federal elections so that they are not represented in the present Bundestag. Mrs. Merkel’s Christian Democrats could neither continue their previous coalition, nor did they win an absolute majority of seats, despite having gained in percentage. Since the other parties concerned had denounced both a coalition with the Left Party (necessary for making up a majority of Social Democrats, Greens and the Left) and a Christian-Green coalition, the only possibility remaining was a ‘grand’ coalition between the two largest parties, Christian and Social Democrats. Government coalitions in Germany are usually preceded by negotiations of an agreement which spells out the programme of the new government in some detail. In the context of this article, our review of the agreement will be restricted to labour market regulation, active labour market policies, and pensions.

The fundamental compromise underlying the coalition agreement is that the Social Democrats waived their plans for higher taxation of top incomes and assets in exchange for the acceptance by the Christian Democrats of some more regulation of the labour market, of greatest consequence among these the introduction of a legally binding wage floor. Regarding pensions, the appearance of plenty in the state pension fund (which results from the increase in employment covered by social insurance) prompted the coalition partners to simply merge plans from their respective manifestos: The Christian Democrats wanted to improve the regard for interruptions in parents’ – in practice: mothers’ – employment careers who have raised small children born before 1992 in order to overcome existing unequal treatment between younger and older mothers. The Social Democrats advocated a new premature retirement path for workers with long contribution records in order to ease the pressure from the gradual increase of the statutory retirement age. Ironically, with these two core projects, both partners contradicted their own previous policies of 1986 (Christian Democrats, regard for raising children) and of 2006 (previous Grand Coalition, scheduling the statutory retirement age to rise from 65 to 67).

According to hitherto existing legislation, the long-ranging gradual rise of the statutory pension age has begun in 2012 and will roll out until 2029. An exemption for those with extended working careers exists already: After 45 years in employment covered by social insurance, employees can still draw an undiscounted pension when they turn 65. Only few people, mostly men, qualify for this type of pension, which presupposes that they have been in work without interruption since they were 20. In 2012, the first year when this regulation became relevant by making a difference to statutory retirement age, less than two per cent of pension take-ups were of this type (3.2 per cent for men, 0.5 per cent for women – regarding only old-age pensions). Under the new regulation envisaged by the coalition, the age threshold will drop to 63 from July, 2014. What looks even more impractical than the current regulation at first sight (having been in work without interruption since the age of 18) will be considerably facilitated by including periods of receiving unemployment

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6 Previous ‘grand coalitions’ governed from 2005 to 2009 and from 1966 to 1969.
7 Statistics from the German Pension Fund website.
8 Those, of course, who do not qualify in terms of their employment careers at 63 may still benefit later if they complete their 45-year-contribution record before reaching statutory retirement age.
benefits or long-term sickness pay (during which contributions to the pensions fund are paid). Details are still unclear and contested as this is being written; however, the fundamental pattern stands out clearly: Men will benefit considerably more than women, core workers more than contingent workers; many employees who could work longer will be incentivized to leave the labour market, despite skills shortages, whereas vulnerable workers with perforated careers will have to continue struggling for jobs or wait receiving minimum income benefits until they reach statutory retirement age. Both these costly regulations (estimate: 60 billion Euros until 2020) are not focused on any manifest social or employment problem but catering to the interests of certain clientèles. The Social Democrats are serving the predominantly male ‘core’ workforce, whereas the Christian Democrats are extending a regulation once introduced as an incentive for having children to mothers whose children have long grown up. Promises in the coalition agreement to also raise the pensions of low-wage earners with long working careers above the poverty threshold have miraculously disappeared from the public debate since the new government took office.

Regarding industrial relations and collective bargaining, the coalition partners want to restore the bargaining monopoly of sectoral unions which has been challenged by some professional unions of employees in key positions (locomotive drivers, hospital doctors, air traffic controllers etc.). These are not the unions that would undercut existing collective agreements; rather, they tend to challenge the wage-restraining consensus. Trying to silence them is a questionable project against the backdrop of wage stagnation, and the regulations that have to be found may have kickback effects on workers’ fundamental rights to organize. More positive appear plans to extend the existing possibilities for declaring collective agreements universally binding (erga omnes regulations - for existing possibilities see Knuth 2012a). Furthermore, a legal minimum wage of 8.50 Euros per hour will be introduced from January 2015. During a transitional period extending until December 2016, collective agreements may stipulate lower wages. This gives employers in East Germany, where wages are lower and much more often below the new threshold, some time for adjustment provided they enter a collective agreement. Rather than weakening collective bargaining, as some critics of legal minimum wages have argued, provisions for the transitional period may reinvigorate it, at least temporarily. Given current pay structures, between every fourth and fifth worker will be directly affected by the minimum wage regulation. Furthermore, this project may exert an upward push on the whole lower end of the wage scale, as social partners will endeavour to maintain wage differentials and since individual employers will discover paying slightly above the minimum wage as a selling argument. Lifting and reshuffling wages at the lower end may help to overcome the current situation of a ‘frozen’ labour market with low turnover, since asynchronous adjustment to the new situation will create new differentials and incentives to move. However, details of the minimum wage regulation (exceptions for young people, students, pensioners?) are

9 No doubt the raising of the statutory pension age does pose problems for workers who are unable to work longer. However, these are not exactly those qualifying for the new pension pathway. The project is not socially targeted in any way but favouring those who are already privileged by continuous working careers.

10 Resulting pension increases will be around 28 Euros per month and child borne.

11 A first precursor of such an effect can be seen in a recent wage settlement in the meat industry.
still hotly debated since employers’ associations as well as mainstream economists are opposed to the project.

Concerning atypical forms of employment, temporary agency work will be more strictly regulated with 19 months maximum periods of assignment, pay equality with core workers after 9 months, and counting agency workers in workforce thresholds relevant to the election and operation of works councils. Fixed-term contracts, however, are only mentioned in the agreement as a problem in universities and research organizations. With regard to the infamous ‘mini-jobs’, the coalition agreement envisages no more than informing those working in these jobs better about their rights and ‘facilitating’ changes to regular jobs. In other words, despite clear evidence of widespread violation of workers’ rights in these jobs (RWI 2012), and of these jobs being more traps than stepping-stones (Brülle 2013), the coalition will leave their institutional framing unchanged. This is in line with the abstention of the coalition partners from changing other institutional features of the tax and social insurance system which likewise reinforce the role of men as the principal breadwinners. The coalition is united in not resolving the inconsistencies inherent in the German family and employment model because, in this regard, each of the partners himself is trapped in conflicting ideologies and interests.

In the field of active employment policies, the only concretely circumscribed project is a programme to be co-financed by the European Social Fund and to address long-term unemployed. In other words, after the Hartz reforms failed to tackle the problem that was at the core of their justification, this problem is now left to the contingencies and discontinuities of European funding periods.

Pension reforms, labour market policy reforms, and the gradual attrition of industrial relations have been the three big changes on the German labour market since the beginning of the millennium. Of these, the coalition is about to dismantle the only element that is undoubtedly working in the intended direction, the pension reform, and it demonstrates perplexity vis-à-vis persistent long-term unemployment, the issue unresolved by the Hartz reforms. It does, however, address the decline of collective regulations on the labour market, and it wants to introduce a legal floor to wages which may have positive effects on the whole lower end of the wage structure.

References


