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The Management of Restructuring and Demographic Change – Challenges for German Labor Relations

Demographic Challenges for Human Resource Management and Labor Market Policies
-- A German-Japanese Comparison –
Tokyo, October 5-6, 2005
Outline

• structural change and labor market transitions
• early retirement – traditional mode of negotiated redundancy
• demographic challenge: opting out of early retirement
• negotiated outplacement: the new pathway
• new demands on social actors
Sectoral Shift of Employment, Germany 1957 – 2003 (Thousands)

Source: Federal Bureau of Statistics
Shift of Organizational Size: Distribution of Workforce*) over Establishment Size Categories, West Germany

*) only wage and salary earners subject to social security contributions
Source: Own calculations from employment register sample
Entry, Exit, and Labor Turnover Rates*), West Germany, 1976 – 2000

*) only wage and salary earners subject to social security contributions
Source: Own calculations from employment register sample
Job Separations by Type, West Germany 1985—2001

Source: Own calculations from GSOEP

- **dismissals**
- **quits**
- **other (e.g. end of fixed term)**
# Traditional Pathway to Early Retirement (Earliest Possibility)

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- still employed
- short time allowance
- unemployment benefit + compensation
- officially free from jobsearch obligation
- full pension
Legal Employment Protection

- dismissal for ‘operational reasons’ *socially justified*
  if in selection for dismissal duly considered:
  - tenure
  - age
  - obligations to support (children or other dependents)
  - disability

⇒ three out of four criteria protect older workers

⇒ downsizing following the letter of the law
  ⇒ older workforce than before

- dismissals of certain order of magnitude negotiated with works council
  ⇒ social compensation plan
(Dis-) Advantages of Voluntary Separations of Older Workers in Comparison to Dismissals

for the worker:
• higher severance payment (if offered)
• avoiding psychological hardship
• earlier retirement

for the employer:
• freedom of selection
• no risk of legal recourse
• shortening of notice period
• rejuvenation of workforce

for the general public:
☞ more unemployment benefits (1/3 of unemployed 50+)
☞ lower social security contributions
☞ earlier and longer pensions

for the remaining workforce and the works council:
• higher productivity, better competitiveness, more job security
“Window of Demographic Opportunity”

- Cohort 1940 turned 60 in 2000
- Cohort 1945 turns 60 in 2005
- Cohort 1964 60 in 2024
Putting the Brakes on Early Retirement

- Pension reform: pensions before 65 with 3.6% deduction per year
- Unemployment benefit reform:
  - maximum duration of contribution-based benefit for older workers 18 months (instead of 32)
  - payments by former employer taken into account when means-testing for open-ended and flat-rate follow-on benefit
- Short-time allowance: maximum duration 12 months (instead of 24)
- “Gradual retirement” as an alternative to early retirement via unemployment
The Impact of the Pension Reform
Population 50 – 65 by Status: 1996

- Gainfully employed
- Inactive, no pension or benefit
- Receiving social assistance
- Receiving pension
- Unemployed

Cumulated percentages by age completed.
Population 50 – 65 by Status: 2003

- Gainfully employed
- Inactive, no pension or benefit
- Receiving social assistance
- Receiving pension
- Unemployed

Cumulated percentages by age completed.
Impact of Pension Reform plus Approach of Female Cohorts with Higher Participation towards Ends of their Careers

• inactivity without social transfers decreasing
• pensions decreasing 58 – 62
• employment increasing 50 – 64
⇒ unemployment increasing 58 – 63 (relative to numerically weak cohorts)
Provisions of the Public Employment Service for the Accompaniment of Redundancies

• subsidies for job transfer measures (2,500 Euros maximum per worker)
  • profiling
  • outplacement training
  • jobsearch coaching
  • job placement
• allowance for working ‘short time’ (0 hrs.) in a legally separate ‘transfer company’
Negotiated Redundancy: Trilateral Job Transfer Schemes

framed in collective agreement between employer and works council

employer

employee

‘transfer company’

↑ voluntary annulment of open-ended labour contract replaces imminent dismissal
⇒ no legal recourse possible
↓ prolongation of employment beyond notice period
↓ transfer services
↓ possibly: supplement to short-time allowance
↓ possibly: severance payment

exchange of
⇒ resources and
⇐ services

subsidised by PES as ‘short time working allowance’
≡ unemployment benefit not counting against eligibility period
# The New Outplacement Pathway for Workers of all Ages

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- enterprises <50 employees under-represented
- women under-represented (in relation to the national workforce, not the workforces concerned)
- services under-represented
- ‘not unemployed’ after participation: 73%
- in work (including 2% self-employment): 60%

⇒ no assessment of net effects
New Demands on Redundant Workers

• accept ‘real services’ as an equivalent (totally or in part) for severance payments
• accept the ending of an employment relationship many may have believed to be ‘for life’
• orient themselves towards new challenges and conditions
• often accept lower wages and poorer conditions
New Demands on Employers

• envisage and commission employment-oriented measures (possibly in times of corporate crisis)
• pay at least 50% of costs of ‘transfer measures’ + full wages for participation during working hours
• bear residual wage costs during short-time
  ⇒ social insurance contributions, full wages for bank holidays and annual leave
  ⇒ 35% of regular wage costs
  • plus possibly negotiated supplements on top of short-time allowances
• bear these reduced costs for periods longer than employees’ individual notice periods (up to the legal maximum of 12 months short-time)
• pay 100% of employment assistance costs during short-time (unless European Social Fund can be tapped)
New Demands on Works Councils

- defend **existing jobs** and simultaneously envisage transfer assistance to **new jobs**
  ⇒ at which point in the negotiating process do you openly switch strategy?
- give redundant workers **confidence** in opportunity for transfer
  - ‘real services’ of employment assistance more sustainable than cash payments
- monitor quality and fairness of transfer services
New Demands on Trade Unions

• observe ‘critical’ corporate development in order to be prepared for pro-active responses
  ↭ often: bring first information on the mechanisms of transfer and of public provision to the employer
• strategic coaching of works councils
• give employees confidence in transfer provisions
  ↭ accept irony of transfer to new industries:
    ⇒ loss of members for TU representing old industry
New Demands on the Public Employment Service

• explain and implement complicated provisions in a straightforward manner
• provide information on available provisions and providers for employers and works councils
☞ win access to small enterprises in crisis where no workers’ representation exists
• win the confidence and commitment of employers and works councils who are ‘first time users’
• monitor the quality and outcome of third party provision
Demands on Outplacement Providers

• mediate between all the other actors
• survive and maintain professional quality in a highly cyclical business
• find jobs in the market during recession or stagnation
• infuse optimism and can-do attitudes in seemingly hopeless situations
Summary

- remarkable structural change effected without much increase in labor market mobility
- early retirement important buffer but not sustainable under demographic change
- reforms of the retirement system show effects
- job transfer (assisted mobility) intended to replace early retirement
- difficult task in generally depressed labor market

⇒ turn-around of employment patterns and retirement orientations indispensable before baby-boomers arrive at the critical pre-retirement age in about 10 years