

A Polarized Labor Market

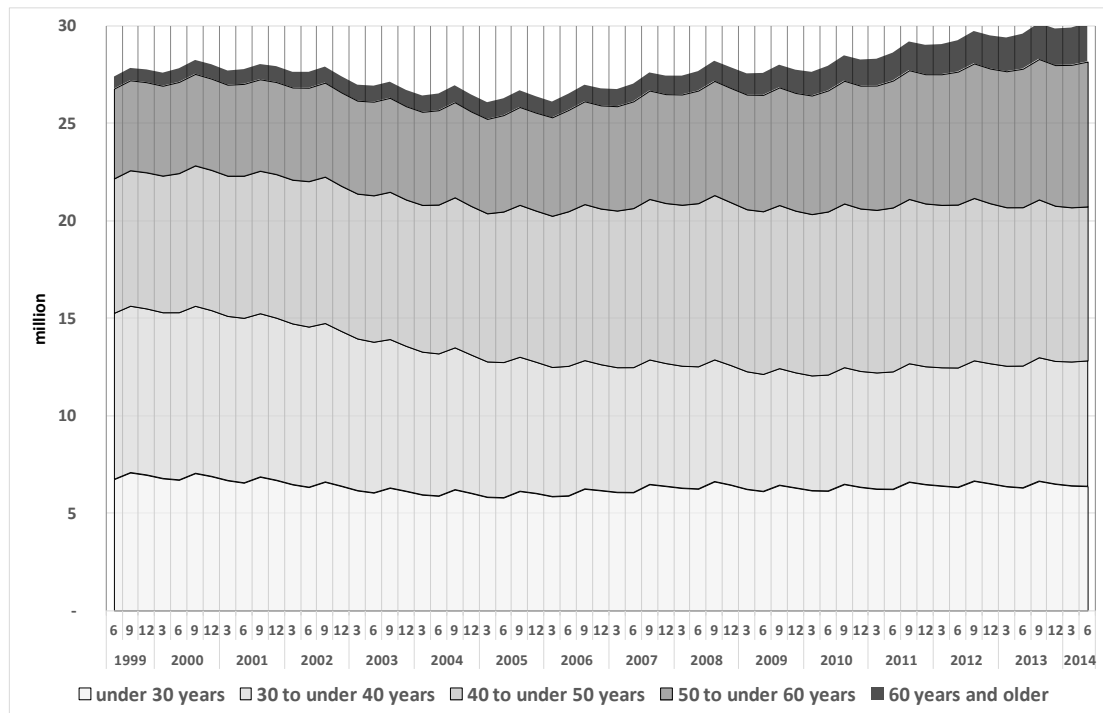
2015 German Labor Market Outlook

1 Labor market developments in 2014

Despite new external threats (like the European sanctions against Russia and the Russian economic crisis), the German labor market, in 2014, has very much continued along the lines described and analyzed in last year's issue (Knuth 2014):

- Overall employment has continued to grow. With 42.6 million employed, 2014 was the eighth year in a row during which employment levels reached all-time records. The employment rate of the population 15-64 was 73.5% in 2013 (not yet available for 2014).
- Employment covered by social insurance has continued to grow as well, surpassing 30 million in 2014. Due to demographic aging and the extension of working lives, employment growth has concentrated in the age groups 50plus (see Figure 1).

Figure 1: Employment covered by social insurance, by age groups

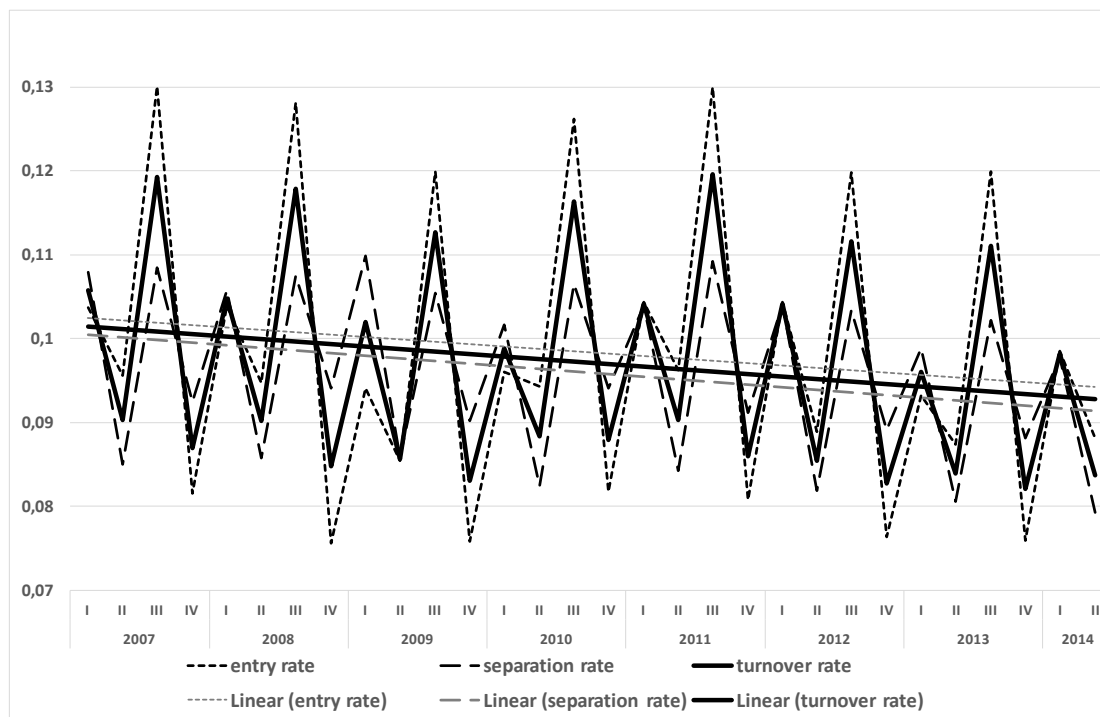


Source: Federal Employment Agency

- Unemployment went down to 2.9 million, making an unemployment rate of 6.7% (based on the total active population). The comparable measure for youth (15 to 24 years) was 4.9% in December 2014 (5.3% in December 2013).

Though the European Restructuring Monitor¹ recorded slightly more announcements by companies of planned job reductions in 2013 and 2014 than in 2012, overall separation rates (see Figure 2) continued to decline (data for the second half of 2014 not yet available). The same holds true for entry rates, which results in decreasing labor turnover rates. Overall, the German labor market seems to be holding its breath with full lungs.

Figure 2: Quarterly entry rates, separation rates, labor turnover rates 2007-2014



Source: Federal Employment Agency, own calculations

The decline of labor market dynamics is paradoxical in a situation with growing employment and frequent complaints by employers about skills shortages. As in previous periods of employment growth, one should expect companies to ‘poach’ incumbent workers from other companies, thus creating vacancies far above the levels resulting from the creation of new jobs; job-to-job mobility should increase as a consequence. One should have even more reason to expect ‘poaching’ to become more frequent as transition rates from unemployment to employment have been on the decline since 2011, notwithstanding further progress in the reduction of unemployment levels. In other words, hiring from unemployment (which does not trigger new vacancies) has declined. This is an indication that among the remaining 2.9 million unemployed, those considered to be suitable candidates by employers have become fewer.

Only since 2010, part of the explanation may be the now positive and rising net immigration reaching 430,000² in 2013 (latest available figures), the highest level

¹ <http://eurofound.europa.eu/observatories/emcc/erm/factsheets>

² For a comparison of magnitude: Increase in employment covered by social insurance was 510,000 jobs between March 2013 and March 2014. It cannot be expected, however, that any considerable share

since 1993. More than three quarters of new immigrants to Germany are European citizens from other member states.

Since 2011, free movement of labor to Germany includes Poland, and Poles, in fact, are the largest group. Owing to economic crises in southern Europe, Greece, Italy, and Spain have also become important countries of origin. In 2012, 62% of immigrants were between 18 and 39 years old, as compared to 26% of the resident population (Bundesministerium des Innern und Bundesamt für Migration und Flüchtlinge 2013, p. 26). In other words, immigration is currently rejuvenating the workforce or, rather, slowing down workforce aging. However, Germany cannot rely on this effect to last since European citizens can as easily return to their home countries as they come, and many will probably do so when the economic situation in their countries of origin improves.

2 Long-term unemployment and long-term reciprocity of labour market related benefits

The percentage of the long-term unemployed (12 months and more) among total unemployment has remained stable at slightly above 35% since 2010. This is the national administrative count, where periods of unemployment are interrupted by long-term sickness, participation in active measures or short-lived jobs. According to European Labor Force Survey data, the percentage of unemployed (by ILO definition) respondents reporting that they have been searching for a job for one year or more is around 45% (2.3% of the active population). The ‘very-long-term unemployment rate’ (four years or more) which had peaked at 4.2% of the active population at the end of 2004 came down to 1.6% in 2012 but has been almost stable since then (1.4% in the third quarter of 2014; according to the Eurostat database - this is almost 600,000 persons).

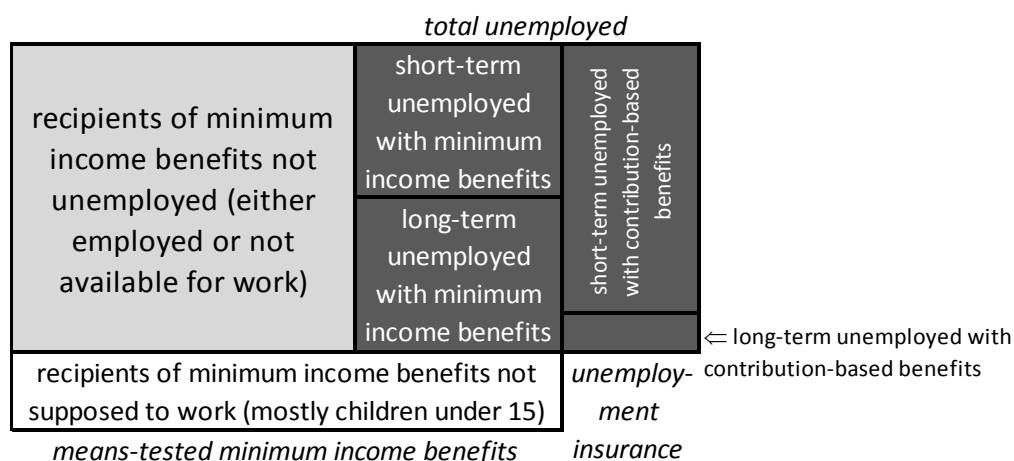
Since 2005, the fourth step of the so-called ‘Hartz’ reforms, the national unemployment count has become an even more insufficient indicator for the situation on the labor market than before. The German version of ‘activating’ or ‘workfare’ reforms of labor market policy consisted in the creation of a universal means-tested and flat-rate benefit for all households in financial need in which there is at least one member of working age and considered able to work.³ Unemployed people who have exhausted their claims for contribution-based employment benefits, or who have never earned an entitlement (e.g. self-employed gone bankrupt or those who worked only mini-jobs), receive the so-called ‘unemployment benefit II’. Of the recipients of this benefit, a majority of almost 60% is not counted as unemployed (see Figure 1 for a simplified overview). The largest group, 15% of the recipients, is actually employed but not earning enough to meet the needs of their households; 11% are engaged in active measures.⁴ Seven per cent are in education or vocational training (remember, this benefit starts with reaching working age at 15), another 7% are not available for the labor market because of caring responsibilities, and 6% are currently sick and thus not available, though considered able to work in principle.

of these jobs would have been given to unemployed jobseekers if there were no immigration because of the vast differences in the skills structure of long-term unemployed and new immigrants.

³ For a more detailed explanation, see Knuth 2009.

⁴ Data for 2012, taken from DGB Abteilung Arbeitsmarktpolitik 2013.

Figure 3: Categories of unemployment and benefit reciprocity



It is against this background that data on the persistence of benefit reciprocity should be interpreted. There are 1.3 million persons who have been on the benefit since its creation in 2005; the percentage of those having drawn these benefits for at least four years has been stable at above 60% since 2007 (Koller-Bösel et al. 2014). Transition rates into employment are much lower from ‘unemployment benefit II’ than from contribution-based, wage-replacing unemployment benefits proper, and the gap has widened: Whereas employment chances of the recipients of the flat-rate benefit were 45% of those in the wage-replacing system in 2007, this ratio declined to 30% in 2012 (more recent data not yet available). Furthermore, taking up employment often does not end benefit reciprocity - because of low hourly wage, or because health conditions allow only part-time work, or because of the size of the household. The number of persons working and receiving benefits simultaneously as a supplement has remained stable at around 1.3 million during recent years.

So the overall picture is one of increasing polarization. The German labor market has recovered to a state comparable to the beginning of the 1990s, before the monetary and economic unification threw East Germany into the troubles of transformation. However, this recovery brings to the fore that more than half a million of those supposed to work are permanently excluded from the labor market and that another estimated 2.5 million remain in permanent or frequently recurrent need of benefits because of low earnings or job instability. The unemployment rate of 6.7% is contrasted by the fact that almost 10% of the population under 65 depends on minimum income benefits. In certain deprived areas, the equivalent reciprocity rate is 24% (Bremerhaven), 22% (Gelsenkirchen) or 16% (Anhalt-Bitterfeld).

As announced by the government when taking office, a special program, co-funded by the European Social Fund, was launched for the “very long-term unemployed”, that is people at least 35 years old and unemployed for at least two years. The program consists of high wage subsidies for employers (75% of the wage cost during the first six months) who will hire a long-term unemployed jobseeker; however, there is a very rapid degeneration of the subsidy which will be only 50% from the seventh to the 15th month and only 25% from the 16th to the 18th. In other words the underlying assumption that will have to be tested in practice is that people will improve very quickly in performance and productivity once they have been in a job for a few months. In order to assist this process, participants will receive intensive coaching during the first six months, which is a novelty in German active labor

market policies. The financial volume of the program allows for a total of 33,000 participants from 2015 to 2019; the size of the target group was 434,000 in 2012⁵ and is unlikely to have changed in magnitude considerably since then. So this is only an experimental model program but no large-scale remedy against exclusion from the labor market.

3 Wages, wage regulation and industrial relations

Collective bargaining trends

After a long period of wage stagnation and even real wage losses in some years, collective agreements taking effect in 2014 brought average wage increases of 3.1% (Bispinck und WSI-Tarifarchiv 2014). With inflation at an all-time low, this made for appreciable increases in real wages of 2.2%, the highest increases since 2009. Entering the new year with bargaining demands of 5.5%, some trade unions have already made clear that they want to take their chances in 2015, reaping the benefits of the favorable business and employment situation as long as it will last.

However, low-wage employment (defined as hourly gross wages below 60% of the median) which had grown to almost 25% until 2007 has remained at the same magnitude since then (Kalina und Weinkopf 2014). The unions have not been able to effectively combat wage inequality since collective bargaining coverage has continued to decline gradually (cf. Knuth 2014, fig. 4).

Introducing a statutory minimum wage

Germany used to belong to the minority of EU member states that do not have a statutory minimum wage. Autonomous collective bargaining between free associations of workers and employers, respectively, is one of the cornerstones of the (then West) German constitution that emerged in 1949 out of the experience of bogus associations manipulated by the Nazi Party. During the Cold War, the political confrontation with East Germany (where a similar system of state-led trade unions prevented autonomous expression of workers' interests) certainly had the effect of strengthening the principle of autonomous collective bargaining. Under this principle, the state, through legislation and independent jurisdiction, has the responsibility to safeguard the 'arena' in which bargaining takes place, and labor courts assist workers in claiming entitlements derived from collective agreements; however, the state would not interfere in the bargaining process as such or try to influence its results. This tradition explains why a statutory minimum wage was for a long time seen as alien to the German system of industrial relations. Not only employers opposed the idea of a minimum wage, but so did also trade unions still in 2005 when the 'Hartz' reforms removed thresholds for the 'acceptability' of job offers, tightened the regime of sanctions for unemployed jobseekers and thus appeared to reinforce already existing tendencies for entry wages to decline. It was only until after the reforms that trade unions gradually turned around to favor the introduction of a universal statutory minimum wage. They finally admitted to themselves that they were no longer in a position to counteract growing wage inequality (cf. Antonczyk et al. 2011).

⁵ Data received on request from the Federal Employment Agency.

Against the backdrop of these traditions, it can be understood why the present coalition between Social Democrats and Christian Democrats framed their legislation introducing a statutory minimum wage of currently 8.50 Euros per hour as the ‘Act for Strengthening Autonomous Collective Bargaining’. This is not simply a misnomer since the mechanism foreseen for future adaptation of the minimum wage emulates collective bargaining. Unlike the British Low Pay Commission, there will be no body of independent experts monitoring wage developments and proposing legal minimum wage adjustments; instead, the respective body will be made up of representatives of the social partners. Independent academic experts will only participate as advisors without voting capacity. Every two years, starting in June 2016 with effect for January 2017, the German Minimum Wage Commission will decide about adjustments of the minimum wage in the light of recent collective bargaining results. The government, by decree, may or may not implement the Commission’s decision, but it may not set a rate different from the Commission’s decision. So, in effect, the German minimum wage legislation creates an arena for national, supra-sectoral collective bargaining in which sectoral trade unions and employers’ associations will have to find agreement between and among themselves - that is both between the two sides of workers’ and employers’ representatives and between their respective sectoral and national organizations. It remains to be seen whether this mechanism, in the medium term, will have repercussions on the German system of collective bargaining as a whole.

For a transitional period until the end of 2016, collective agreements foreseeing wages below 8.50 Euros per hour will have precedence over the legal regulation if declared universally binding. Making use of this clause, the social partners in six industries have negotiated paths of gradual wage adjustments during 2015 and 2016.⁶ For newspaper delivery staff a transitional period with gradual adaptations to 8.50 Euros has been regulated by law (early morning delivery of daily newspaper subscriptions is important in Germany). Existing procedures for declaring sectoral collective agreements or their lowest wage groups universally binding (*erga omnes* regulations), thus in effect creating sectoral minimum wages,⁷ have been streamlined in order to ease their use; however, from 2017 on, the universal minimum wage will always take precedence over sectoral regulations.

Enforcement of the statutory minimum wage will be a new task of the national customs authority. Employers sanctioned for not complying with the minimum wage will be excluded from public procurement. The majority of federal states have included the minimum wage in their legislation on public procurement as a precondition for allotting government contracts. Exemptions from the minimum wage were strongly contested during the legislation process. As it came out, groups exempted include: apprentices; volunteers serving internships of no more than three months; persons who were long-term unemployed immediately before being hired for the first three months in the new job. The latter clause, in particular, met with much criticism, not only on grounds of discrimination but also under practical considerations: Instead of supporting the integration of unemployed jobseekers, it might lead to the procrastination of hirings until unemployed jobseekers have

⁶ These industries are: the meat industry, hairdressing, agriculture and gardening, textiles and garments, laundering, and temporary work agencies.

⁷ For details see Knuth 2012.

become long-term unemployed. Furthermore, the information that a person is long-term unemployed is subject to the protection of personal data so that a person in question must explicitly authorize their jobcenter to disclose it to a potential employer.

The preparation of minimum wage legislation was accompanied by opposition from employers' organizations and mainstream economists who maintained their contention in parliamentary hearings that the introduction of a wage floor would destroy jobs. However, previous evaluations of the recent introduction of sectoral minimum wages had found no evidence of job destruction⁸, and also studies from the U.S. (Card und Krueger 1995; Dube et al. 2008) tended to call into question that minimum wages would automatically cost jobs. Some individual employers from low-wage sectors came out saying that they would welcome to pay their employees minimum wages as soon as their competitors would be obliged to do the same. So it may be said that in the end of a longer run-up to minimum wage regulation opposition against it lost its political thrust and dwindled down to begging for exemptions some of which were granted. With regard to the overall situation of the labor market (see 1), no better timing for such a fundamental paradigm shift is conceivable.

A principal challenge for an effective implementation of the hourly minimum wage is correct documentation of individual working hours. This may be a problem, in particular, where working time is practiced informally and flexibly, and the new obligation for employers of 'mini-jobbers' not earning more than 450 Euros per month to record the beginning and ending of individual working time and to store the records for two years will be an additional bureaucratic burden for small employers. Many details of how wages must be related to hours are left open, such as annual extra payments, payment-by-result schemes, the treatment of 'on call' hours or travel times within the job.

Legislating uniformity of bargaining?

In 2014, professional or 'craft' unions of staff groups in key positions (e.g. locomotive drivers, air pilots, cabin crews etc.) continued to challenge the bargaining hegemony of sectoral unions. While the government pursued its plans to legislate bargaining uniformity (see Knuth 2014), these small but powerful unions came to act even more militant. One of the apparent reasons for this is the government's intention to declare precedence of the agreements negotiated by the largest union within an enterprise over agreements by smaller unions. The locomotive drivers reacted by now claiming to negotiate for the entire train staff, including conductors and dining car waiters. With repeated strikes severely disturbing the circulation of people in the country, they are no longer fighting primarily for wages but for the survival of their union. They want to become the largest union within German Rails' two subcompanies operating the trains. This is one example of how this legislation, while still in the pipeline, creates effects to the opposite of what is intended.

There are other risks as well: Given the constitutional principle of free associations and autonomous collective bargaining, it seems very questionable how the government could possibly find a legal construct that will survive a juridical test

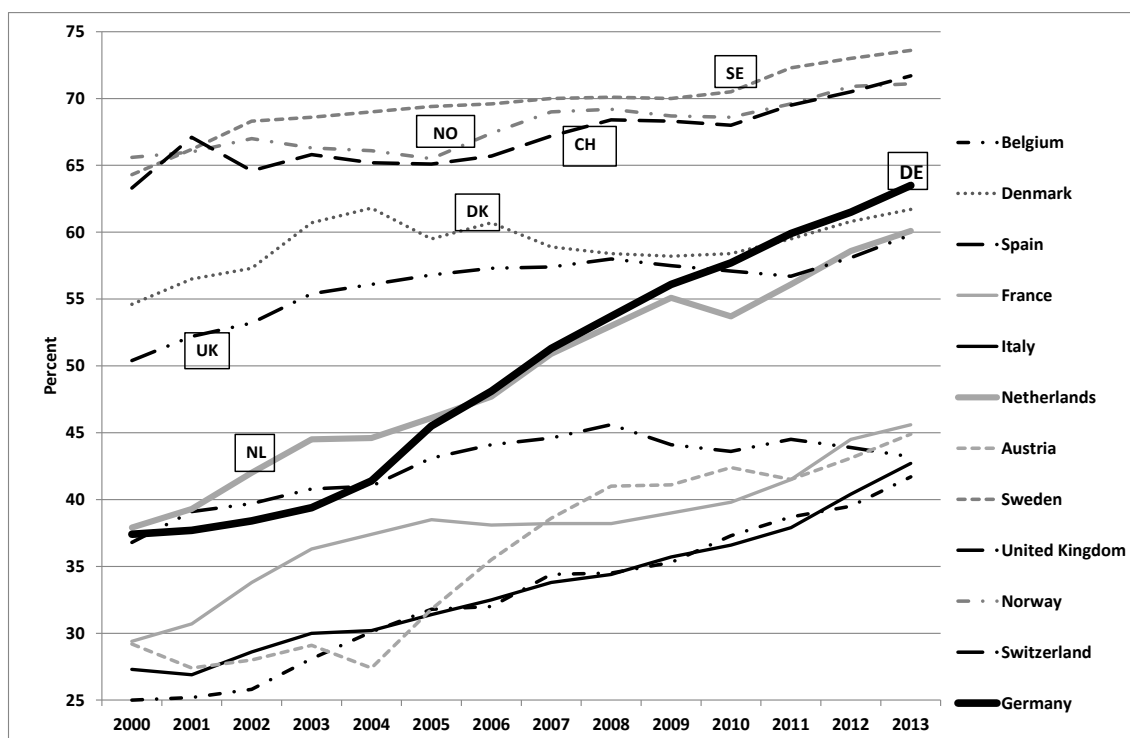
⁸ Most of these evaluations are only available in German; see, however, Boockmann et al. 2012. - For an overview in German see Bosch und Weinkopf 2012.

before the Federal Constitutional Court. For more than one year, the German public has now been debating - mostly negatively - draft legislation which the cabinet finally agreed upon in December, 2014, but which still has not introduced into parliamentary proceedings. The government's apparently tentative and hesitant action does not augur well for the success of this piece of legislation.

4 Pension policies and the 'working longer' agenda

Since the turn of the century, and with more rapid progress since about 2003/2004, Germany has made remarkable progress with regard to the employment of older people aged 55plus (see Figure 4). Although still not a European champion, Germany has overtaken Denmark, the UK, and the Netherlands. Furthermore, among the larger western European countries, Germany has covered the largest ground, from a deeply entrenched 'early exit culture' to relatively high older age employment rates. The changing age composition of employment covered by social insurance (see Figure 1) indicates that additional employment of older people is not just 'mini-jobs' or bogus self-employment, two forms of atypical employment that would not be covered.

Figure 4: Employment rates 55 to 64



Source: Eurostat

The overall favorable economic and employment trend and the growing older of female cohorts with higher participation rates throughout their lifetimes have contributed to the rise of older age employment rates. However, analysis of the retention of cohorts in employment clearly shows a behavioral effect: Between only four birth cohorts, 1941 and 1945, the median age of exit from employment has increased by almost one year. Pension reforms gradually taking effect have created growing disincentives against retiring early. Since 2012, also statutory retirement age (the age qualifying for a pension without actuarial deductions) has begun to rise by

one month per birth cohort to currently 65 plus three months for those born in 1949. This will continue until statutory retirement age will have reached 67.

Though apparently the larger part of the older workforce has managed to adapt to the new rules for retirement, this policy is not popular. Furthermore, it creates pressure for those who are worn out by a strenuous working life (but not sick enough for a disability pension) or whose skills are no longer in demand. This is the background for the current coalition's decision to open up again a pathway into a pension before statutory retirement age and without discounts for those who have completed 45 years in employment covered by social insurance; periods in receipt of unemployment or sickness benefits (of which contributions to the pensions fund are paid) equal periods of employment. The minimum age for using this option is now 63 but will gradually be raised to 65 again as statutory retirement age moves from 65 to 67.

The government has apparently underestimated the numbers of employees that would qualify for this type of pension as well as the numbers of those who would be interested. Whereas the government, in its justification of the bill, made the assumption that there would be around 200,000 applications per year, this number was reached already during the first six months since the legislation took effect in July 2014. Employers are complaining about the government's change of course: After adapting to the 'working longer' policy, companies were relying on their experienced and qualified staff in the 60plus age category. With the new policy creating a lemming effect, workers from 63 on are now quitting unexpectedly, and without having inducted successors.

5 Concluding remarks

2015 will be a year with many challenges and interesting new developments. Company restructurings announced in 2013 and 2014 will probably materialize in job losses of increased magnitude, even though the overall positive labor market outcome is expected to continue. Collective bargaining in an environment of low unemployment, sporadic skills shortages and near-zero inflation may bring considerable real wage increases. The implementation of a statutory minimum wage will be a substantial paradigm shift in German wage setting and industrial relations. Intended bargaining consolidation legislation will remain contested and may finally be frustrated as public discourse reveals the potential consequences in detail; alternatively, legislation may be passed and would then certainly be challenged in the courts in years to come. Long-term unemployment will continue to be a stain on the government's favorable employment record; however, fundamental new initiatives in employment policies are not to be expected before the next government takes office in the autumn of 2017.

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