

Labor market segmentation in Germany

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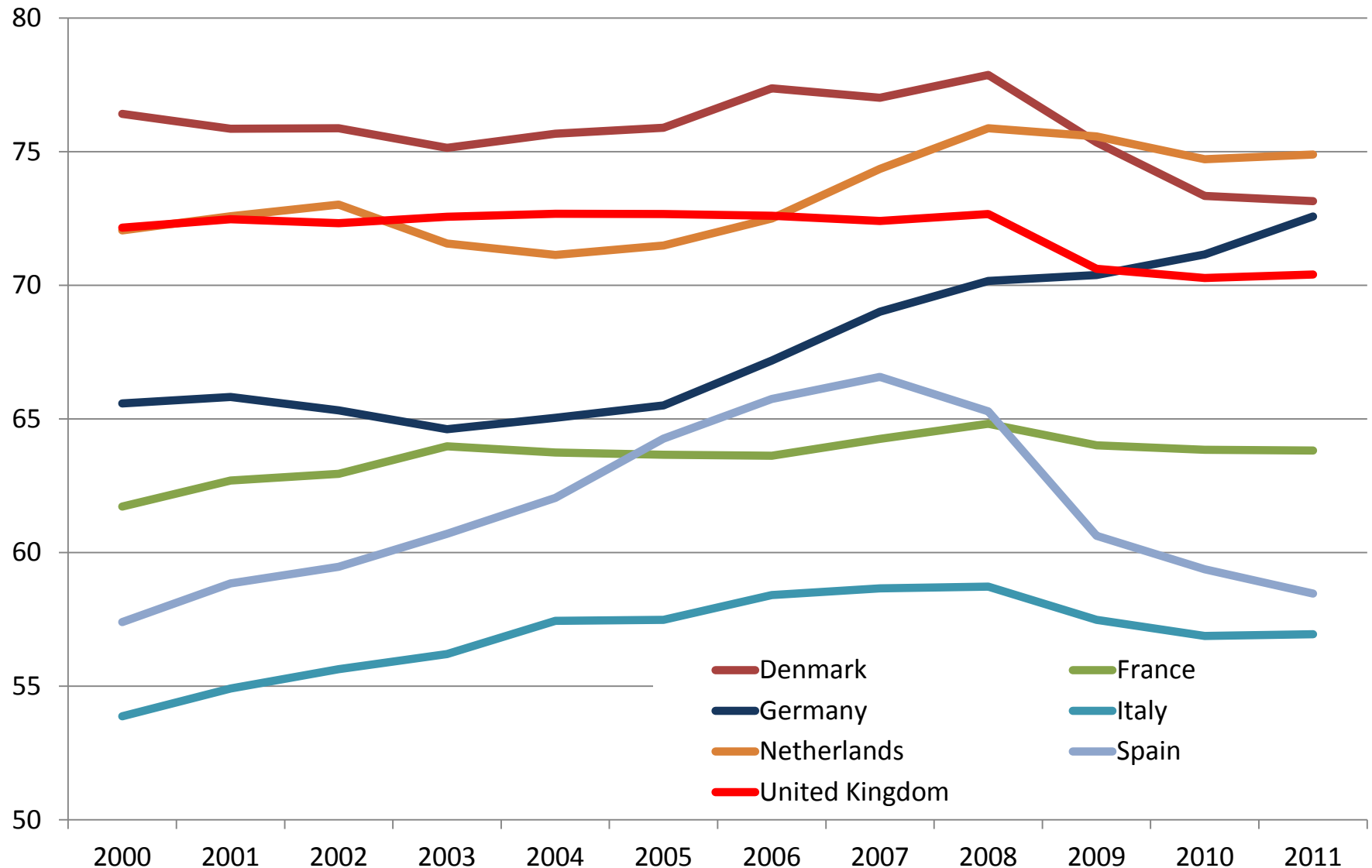
Employment Quality in Segmented Labour Markets

ILO Research Workshop, Geneva, 10 December 2012

What Germany is good at

- Bringing more and more people into work – record level of employment, decrease in unemployment and inactivity -> a remarkable move beyond the ‚welfare without work‘ syndrome!
- Protecting core labor market for skilled workers in manufacturing and some services: collective agreements, full social protection, internal flexibility, skill development, long tenure... but also wage moderation for many
- Largely stable medium income group or „Mittelschicht“ (also due to more than one job in the household)

Job creation in selected European countries, 2000-2011



Source: OECD.

What Germany is also good at

- Segmenting / dualizing the labor market by creating compartments of cheap and flexible labor
- offering only second tier jobs to some groups, mainly secondary earners, (re) entrants – often women, and people with less marketable skills, with less stability / upward mobility and lower pay
- widening the gap between top and bottom of wage distribution

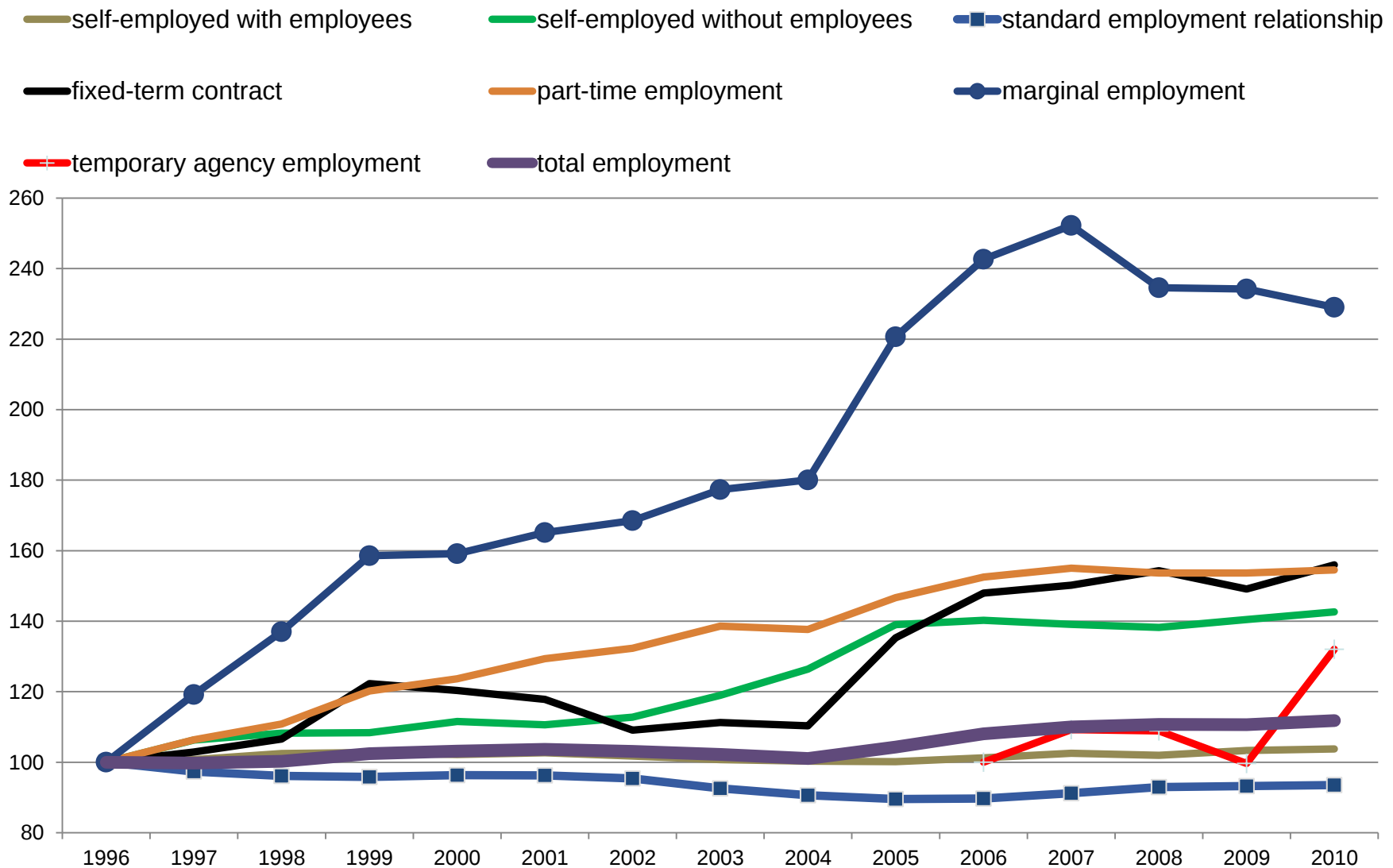
The German labor market as an onion



The different layers of the German labor market

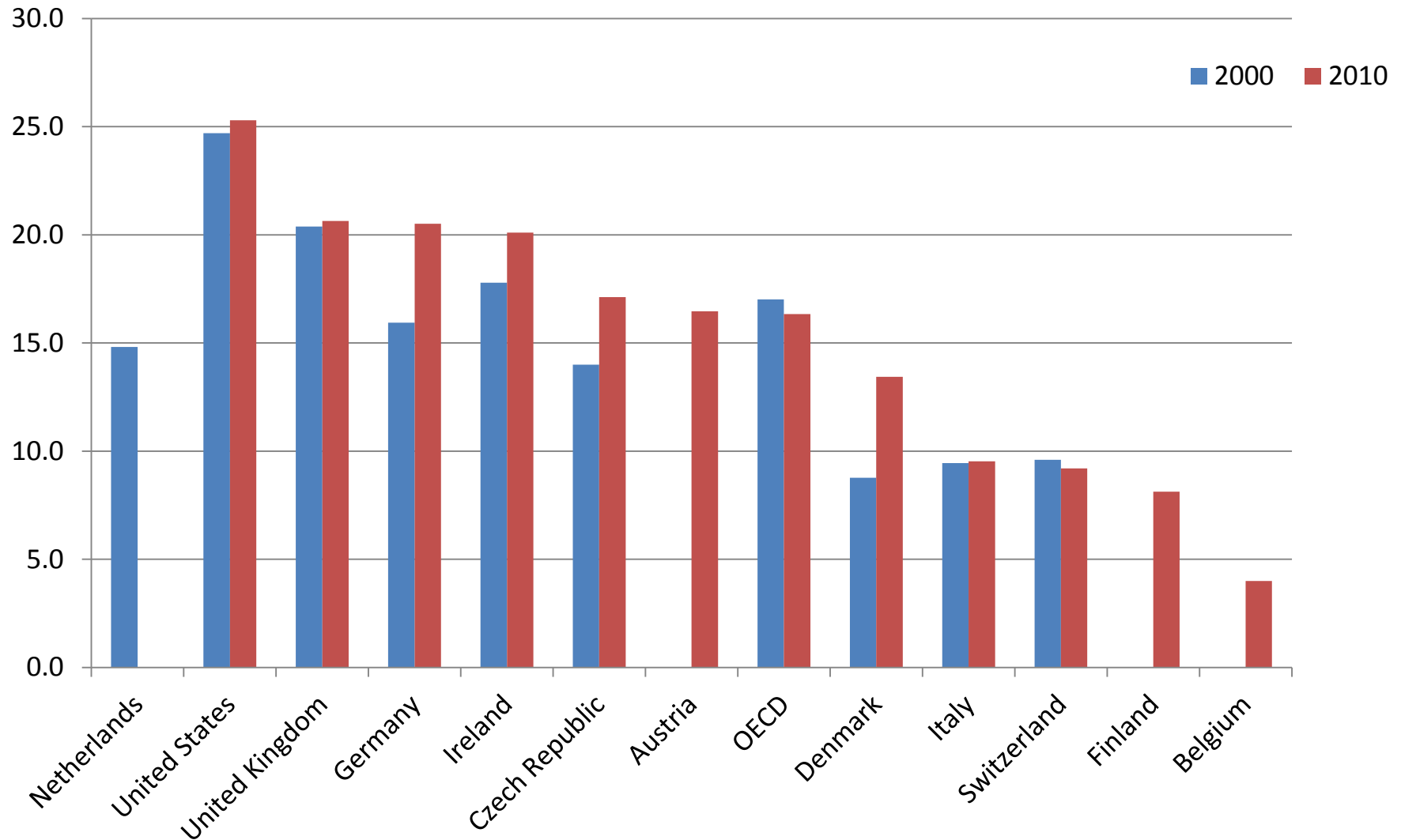
- Permanent staff in manufacturing, core services and public sector (with high bargaining coverage)
- Permanent staff in other sectors
- Part-time workers
- Fixed-term contract holders
- Marginal part-time workers
- Temporary agency workers
- Unemployed with a job
- Self-employed without employees

Differential growth of contract types



Source: Federal Statistical Office.

An steep increase in the low pay share



Source: OECD.

Low pay shares by type of job, gender and education, 2010

	Total	Standard employment	All non-standard	Part-time	Fixed-term contract	Marginal part-time	Agency work
Total	20.6	10.8	49.8	20.9	33.5	84.9	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 skill	52.8	22.7	77.8	44.7	62.2	88.1	85.5
Medium skill	17.7	12.1	39.4	17.1	36.2	77.2	57.6
High skill	1.7	0.5	8.3	2.7	5.7	61.4	20.7

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

Low pay shares in some occupational groups

	Total	Standard employment	All non-standard	Part-time	Fixed-term contract	Marginal part-time	Agency work
Total	20.6	10.8	49.8	20.9	33.5	84.9	67.7
Academic occupations	3.0	1.0	10.5	3.5	5.7	64.9	n.a.
Technicians and equiv. occ.	7.6	4.0	24.9	4.7	17.3	68.1	29.2
Office clerks	23.4	10.9	48.1	13.2	39.4	80.3	62.5
Services occ. and retail	42.3	28.4	65.4	30.0	58.3	88.6	72.1
Crafts	16.1	11.1	48.7	32.6	31.3	81.0	47.6
Machine operators	23.7	17.1	60.6	33.2	39.7	89.3	63.0
Laborers	61.5	39.7	79.2	56.3	70.7	90.3	89.2

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

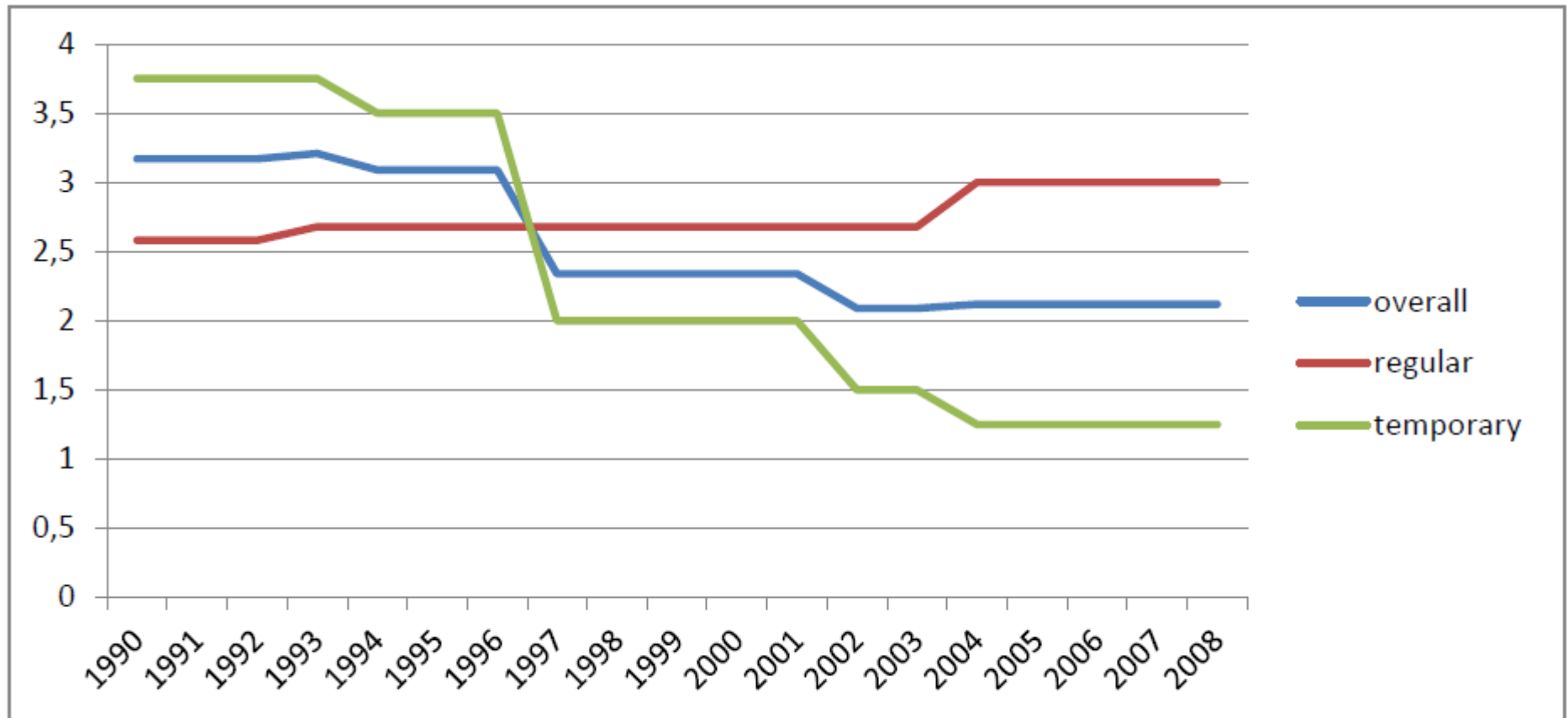
Low pay and collective bargaining coverage

- Low pay share is much higher in companies not covered by collective agreements (31%) compared to covered ones (12%) – major difference also with standard contracts (4% vs. 20%)
- Public sector shows lower low pay share than private (6% vs. 25%)
- Coverage by sectoral agreements declined from 1996 to 2010 in West Germany 69 to 56% from and East Germany from 56 to 37% of all employees
- Decline in collective bargaining coverage can explain a major part of low pay rise and wage dispersion – exit from existing agreements, less binding collective agreements, outsourcing, expansion of companies and jobs outside collective bargaining, start-ups ... -> fundamental change in the employment system

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

- Agency work liberalized 2003, 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 mainly concentrated in blue collar manufacturing occupations – long-term assignments side by side with directly employed workers („internal outsourcing“)

OECD indicator on EPL for Germany



Source: OECD. For details on the situation also refer to the OECD country file.

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

- Part-time jobs up to 400 EUR per month (2013: 450) 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

Policy options

- Get rid of dead end segments such as Minijobs (in combination with joint income taxation)
- Set incentives for shorter care leave periods + expand child care and old-age care – rather than expand leave entitlements (to save costs)
- Ensure equal pay and equal treatment of agency workers – and more employment stability in TWA
- Set appropriate minimum hourly wages for all workers without creating entry barriers – moderate statutory minimum wage preferable, probably related to level of minimum income support

What has happened 2011-12?

- Making sectoral, collectively agreed minimum wages generally binding – now covering about 10% of all employees – but no general minimum wage
- Collective agreements in the metal sector providing for pay supplements narrowing the wage gap between TWA and user companies (proportional to duration of assignment)
- But at the same time: expansion of Minijob segment, extended old-age care leave ...

Sectoral minimum wages 2012

Sector	Gross hourly minimum wage in EUR	
	West Germany	East Germany
Waste removal	8.33	
Vocational and adult education	12.60	11.25
Construction	11.05 / 13.40	10.00
Specialized mining activities	11.53 / 12.81	
Roofing	11.20	
Electrical crafts	9.80	8.65
Cleaning	8.82 / 11.33	7.33 / 8.88
Painting	9.75 / 12.00	9.75
Old-age care	8.75	7.75
Security services	Regional variation between 7.00 and 8.75	
Laundry services	8.00	7.00
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

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