

Fact sheet: Flexible forms of employment promote labour market integration of long-term unemployed, low-skilled and young people – objections about widespread job insecurity in Germany are untenable



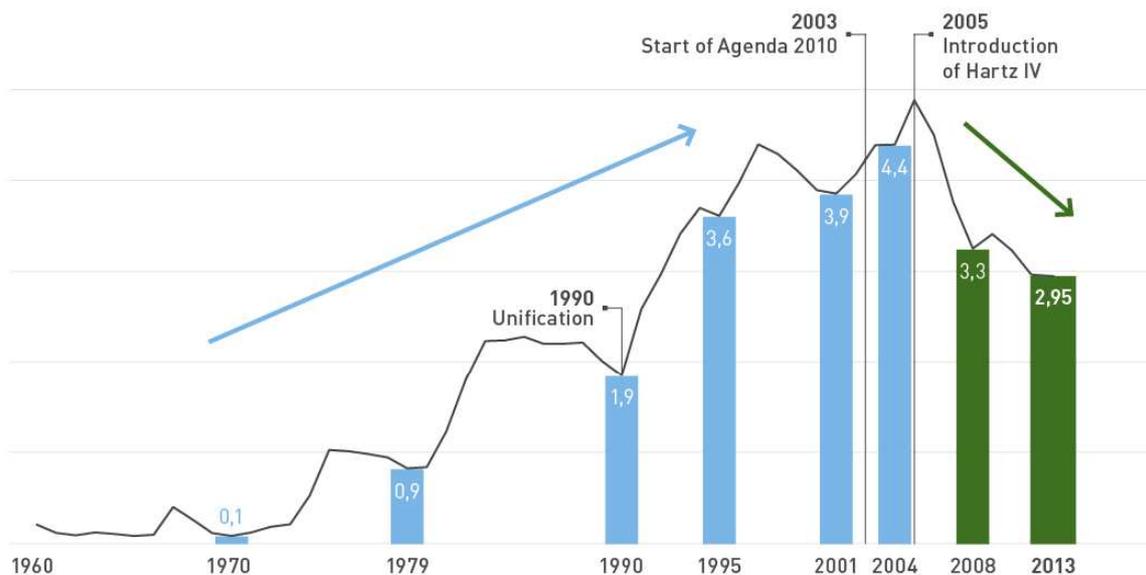
31 July 2014

Fact: Primarily as a consequence of labour market reforms, Germany has managed to halt and reverse the decades-long trend of increasing core unemployment¹.

- In every decade since the end of the 1960s, core unemployment has been higher at the end of each economic cycle. Starting in 2005, this trend was finally broken: for the first time, **core unemployment** stopped climbing and **dropped sharply by more than one million** from 4.4 million (2004) to 3.3 million (2008). In 2013, 2.95 million were registered as unemployed (source: *Bundesagentur für Arbeit*, 2014).

HARD CORE OF UNEMPLOYMENT FINALLY MELTS

In recent years chronic unemployment has started to decline for the first time since the 1970s



— Number of unemployed in millions
■ Chronic unemployment in millions

Chronic unemployment: hard core of unemployment which remains even in economic upturns;
Number of unemployed: only West Germany until 1990

Source: Bundesagentur für Arbeit, 2014

¹ Core unemployment = hard core of unemployment which remains unchanged even in economic upturns.

- Among other things, **labour-market reforms** have made it possible to make greater use of flexible forms of employment, in particular temporary work. As a result, hundreds of thousands of long-term unemployed and low-skilled workers who in the past were effectively excluded from the labour market have been given an opportunity to find work: the **number of unemployment benefit claimants (*Arbeitslosengeld II – Hartz IV*) who find a job on the primary labour market has increased** perceptibly and is clearly higher than the number of workers who lose their jobs and need to be assisted via *Arbeitslosengeld II*.
- *Arbeitslosengeld II* recipients increasingly succeed in **entering the labour market**. However, these employment relationships are often not permanent in the early stages because of the great remove from the labour market (poor qualifications, long-term absence from the labour market). Therefore, the turnover rate between the receipt of welfare benefits of the *Arbeitslosengeld II* and employment in the primary labour market has as well increased.

Fact: There has not been a general erosion of the “normal” work relationship as a result of flexible forms of employment. Mainly permanent workers have benefited from the increase in employment in Germany.

- Between 2006 and 2013, the number of wage earners in a “normal” work relationship increased by more than 2.4 million while the number of those employed in flexible forms of employment only grew by 230.000 (source: *Statistisches Bundesamt*, 2014). From June 2010 to June 2013 alone, the number of employment contracts subject to social insurance contributions increased by 1.6 million.
- **Flexible forms of employment lower entry barriers to the labour market and offer long-term perspectives of employment.** Almost three-fourths of initially fixed-term employees (72 %) move directly into a permanent work relationship. The transition rate increased markedly – from 30 % in 2009 to 37 % in 2013 (source: *IAB-Betriebspanel*, 2013). The share of fixed-term contracts in total employment relationships has been stable for years at around 10 %, it decreased to 8 %, in 2013 the lowest level since 2005 (source: *Statistisches Bundesamt*, 2014).
- **Temporary work is not a mass phenomenon in Germany**, as is repeatedly suggested. According to the latest international comparisons, its share in gainful employment is only 2 % (source: *Statistisches Bundesamt*, 2014). Temporary work makes it easier for the unemployed to return to the labour market: In the first half of 2013, almost two-thirds of the newly temporarily employed were previously unemployed. Almost every third person of this group was either long-term unemployed or never in employment before.
- **Part-time work enhances the opportunity for the unemployed to participate in the labour market.** In 2012, 22 % of newly hired temporary workers were previously unemployed (hidden reserve) or in long-term unemployment. This group of people usually finds it more difficult to enter the labour market (source: *IAB*, 2013). The **extension of part-time work over the recent years was driven by politics**, which is why the legislator enshrined the right to part-time work in 2001. More than 80 % of part-time employees are voluntarily not looking for full-time jobs, e.g. because they assign higher priority to family responsibilities.
- The **extension of part-time work does not happen at the expense of full-time employment**. Instead, it is an additional form of employment: 19 % of the 15 to 64 years old were employed in part-time or in minijobs – 2 percentage points more than in 2005. At the same time, the rate of full-time employment increased by 4 percentage points to 40 % (source: *Statistisches Bundesamt*, 2014).
- Although the number of people in gainful employment increased by more than 2.4 million between 2006 and 2014 (source: *Statistisches Bundesamt*, 2014), the **number of people working exclusively in “mini-jobs” has hardly changed** – 4.85 million in June 2006 against 4.82 million in the same month of 2013 (source: *Bundesagentur für Arbeit*, 2014). More than 40 % of people working exclusively for a small number of hours are students

or pensioners , that are not primarily interested in another work activity on the primary labour market (source: *Statistisches Bundesamt, 2013*).

Fact: There is no German “low-pay” strategy as is repeatedly claimed.

- The upward trend in the so-called **low-wage sector ended** in 2005. The share of employees working in the low-paid sector hovers around 24 % for several years now. The expansion of the low-paid sector took place before the Agenda 2010, namely from the mid-nineties until the mid-two thousands (1995: 18,8 %; 2005: 23.1 %; 2012: 24,3 %; source: *IAQ, 2014*).
- In Germany pay is negotiated by the social partners while the state keeps its distance. The **social partners rightly align themselves on productivity changes in the German economy** and not on the pay policy of other countries. This pay policy has increased Germany’s competitiveness and clearly improved employment perspectives. New jobs feed into consumption up to 2.5 times as much as higher pay. A 1 % pay increase adds only 0.2 % to consumption whereas a 1 % increase in employment adds around 0.4 % to 0.5 % (source: *Institut der deutschen Wirtschaft, 2012*).
- Germany continues to be among the industrial countries with the highest labour costs: in 2013 employers in the private sector paid on average € 31.70 for an hour’s work – 34 % more than the EU average. In the manufacturing industry, which is especially open to international competition, hourly pay in Germany averaged € 36.20 in 2013 (ranked fifth on an EU comparison). This means that **one hour work in the German industry was 48 % more expensive than the EU average** (source: *Statistisches Bundesamt, 2014*).

Fact: The establishment of low-skilled jobs in the so-called low-wage sector creates additional job opportunities esp. for the less-skilled. This is not detrimental to the so-called “normal” earners but allows an increase in employment as a whole.

- In 2013, 58 % of the 25 to 64 year old that did not obtain a vocational training were in employment. Ten years before, it was 50 % (source: *Eurostat, 2014*).
- **45 % of the unemployed have no vocational qualifications.** It is them that are primarily employed in the low-wage sector.
- Over the last years, the share of so-called normal earners among the 15 to 64 year olds did not decrease but increase (from 44% to 49% between 2005 and 2011). On the contrary, the share of the non-working decreased from 31 % to 25 % (source: *Institut der deutschen Wirtschaft, 2013*).
- In Germany, 14 % of the population between 15 and 64 of age are engaged in the low-wage sector. EU countries with smaller low-wage sectors show a much greater number of non-workers (i. e. Italy: only 4 % share of low-wage jobs but 43 % share of non-employed among the 15 to 64 year old) (source: *Institut der deutschen Wirtschaft, 2013*).
- **Employment in the low-wage sector lowers the risk of poverty:** For a person on low pay, the poverty risk is only one quarter of the risk for an unemployed person (poverty risk in 2011 for the unemployed 64 % against 17 % for employees in the low-paid sector, 13 % for the population as a whole) (source: *Institut der deutschen Wirtschaft, 2013*).

Fact: Social standards in Germany are high. The number of people receiving “top-up” benefits is not an indicator for social dumping or low pay.

- **Four out of five employed persons in receipt of “top-up” benefits** i.e. those whose income from work is supplemented by *Arbeitslosengeld II*, are **not employed full-time**. More than half (51 %) have a “mini-job”, 30 % are employed part-time. In other words, it is usually not low pay that is being topped up but earned income from employment with limited working time.

- Recently there were around 42,000 single “top-up” recipients in the whole of Germany who were temporarily receiving *Arbeitslosengeld II* despite being in full-time employment: the overwhelming **majority of single full-time employees receiving “top-up” benefits manage to leave the need for assistance behind them within one year**. According to the latest scientific studies, only 15.900 singles with a full-time job temporarily needed supplementary *Arbeitslosengeld II* (source: IAB, 2013).
- Due to the additional family entitlements of benefits, a married single earner with two young children living in Berlin needs to have an hourly wage of € 14 in order to become completely ineligible for supplementary *Arbeitslosengeld II* (*own calculation*). Therefore, the **universal statutory minimum wage would do nothing to alter the “top-up” phenomenon**.

Fact: The volume of work as measured by the number of hours worked has increased since the Agenda reforms, not decreased. This is the result of an enhanced integration of women and elderly persons into the labour market as well as the continuous dismantling of unemployment.

- Since 2005 (with the exception of the crisis 2008/2009) the volume of work has increased (until 2013 by 2.3 billion or 4.2 %) in particular because **flexible forms of employment remove barriers of employment for many previously unemployed**. The trend of declining working hours since reunification has been reversed in the year 2005.
- Mainly responsible for the **rise of the volume of work from 2005 until 2013** is the increase of full-employment by 1.2 million to 24.5 million as well as the increase of part-time work by 1.7 million to 12.9 million (IAB, 2014). The latter is decisively **due to the increase of women’s participation in the labour market** (increase of women’s employment rate from 60.7 % to 72.3 % from 2000 to 2013) (source: Eurostat, 2014).