

Inclusion and exclusion in the labour market - The German experience

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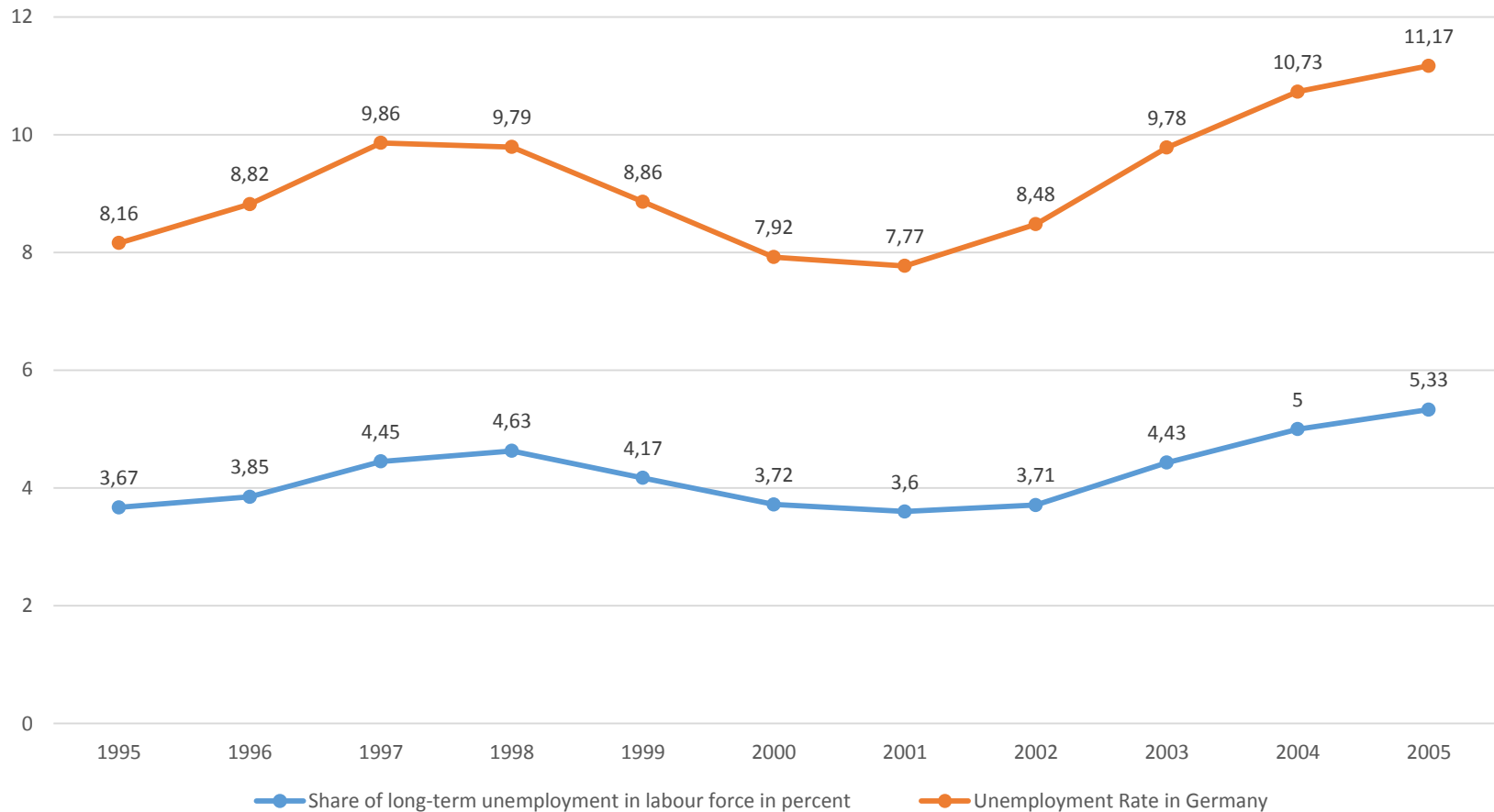
Oslo, 31 October 2018



Point of departure

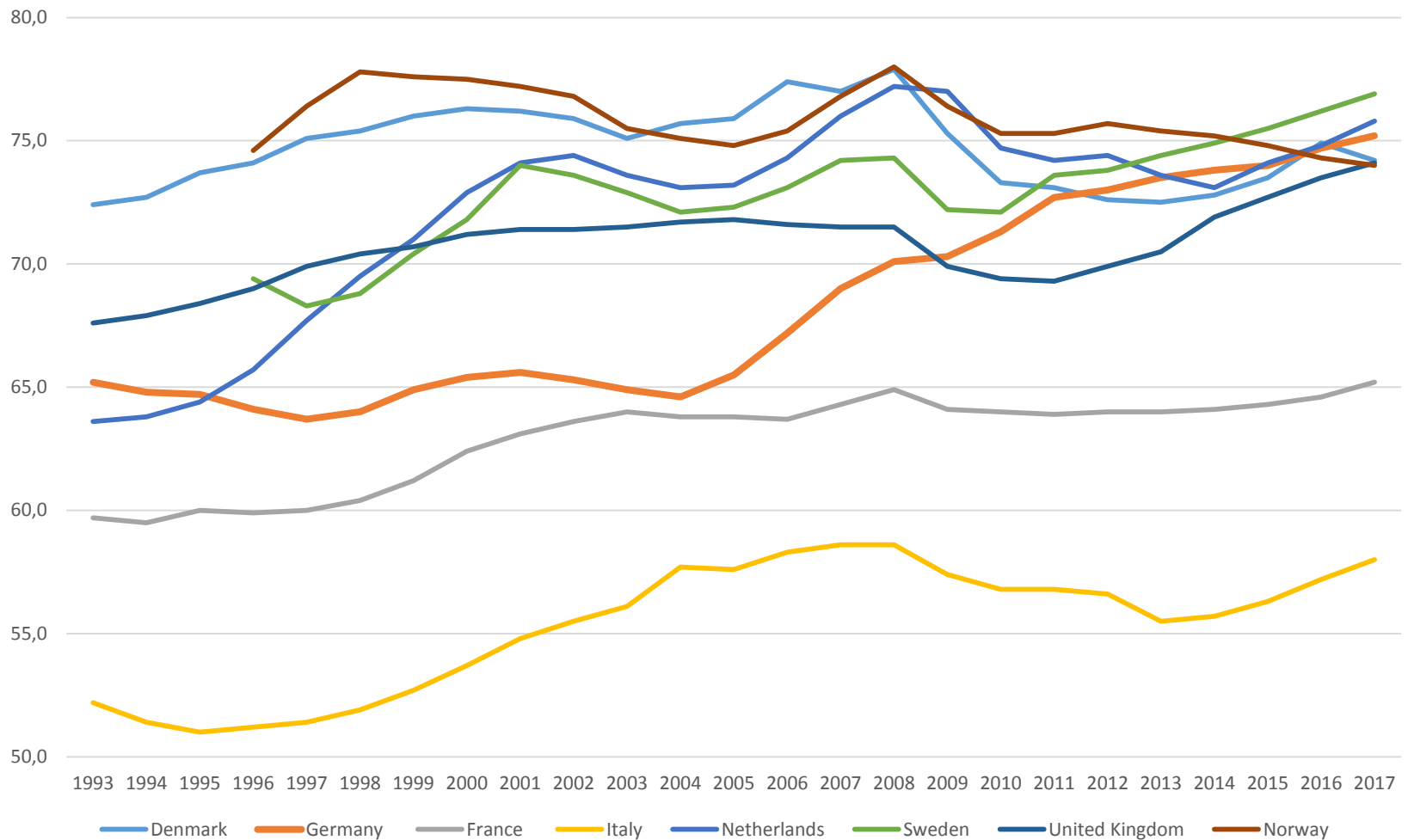
- A Continental European country with medium employment, low job creation and persistently high unemployment
- „few jobs, but mostly good jobs“
- „sick man of Europe“ around 2000

Unemployment and long-term unemployment in Germany, 1995-2005



Source: World Bank (2018): Unemployment, total (% of total labor force) (modeled ILO estimate).
Eurostat (2018): Arbeitslosigkeit nach Geschlecht, Alter und Dauer der Arbeitslosigkeit (1 000). Code: lfsa_ugad.;
Eurostat (2018): Erwerbspersonen nach Geschlecht, Alter und Staatsangehörigkeit (1 000). Code: lfsa_agan.

Employment rates in Europe in percent



Source: Eurostat (2018): Employment and activity by sex and age - annual data [lfsi_emp_a].

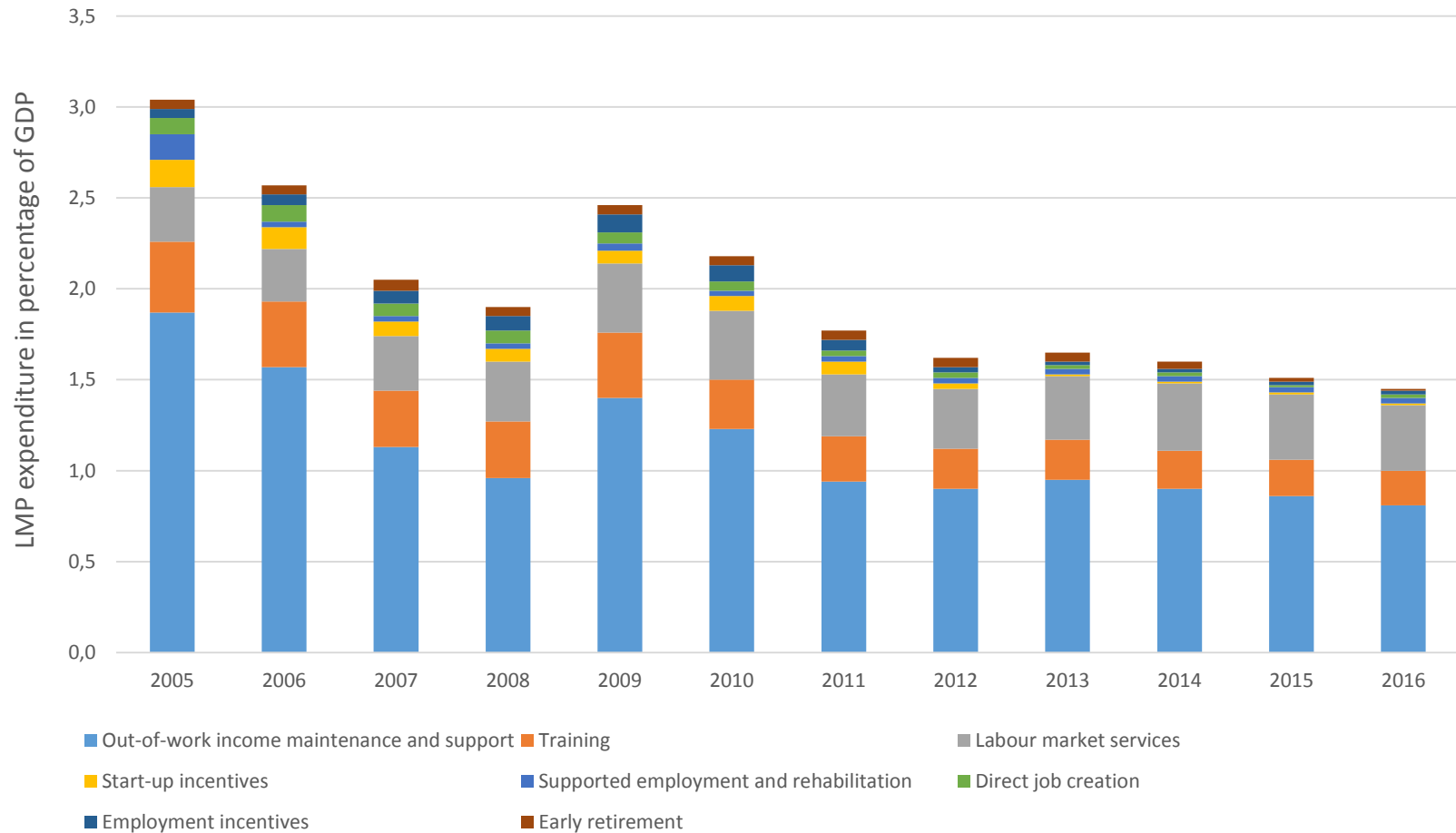
Reform Phase 1

- Structural reforms in the early 2000s („Hartz reform package“ and „Agenda 2010“) with the Red-Green Government
- Objective: bring down unemployment, create more jobs, ease fiscal pressure
- Demand, supply, matching
- ***Demand side***: stimulate job creation in the private service sector
- Deregulation of temporary agency work
- Promotion of marginal part-time work
- Supported and liberalized self-employment

Reform Phase 1

- **Supply side:** Activation policies, Reform of public employment service
 - Some cuts in benefit generosity, in particular for older workers/some long-term unemployed
 - Stricter job search monitoring and sanctioning
 - Active measures to speed up labour market entry (rather than long-term training or supported employment) – some moves towards „work first“
 - PLUS: Phasing out of early retirement (over a longer period) and family-friendly policies (child care)
- **Matching:** a more effective public employment service with stricter performance monitoring

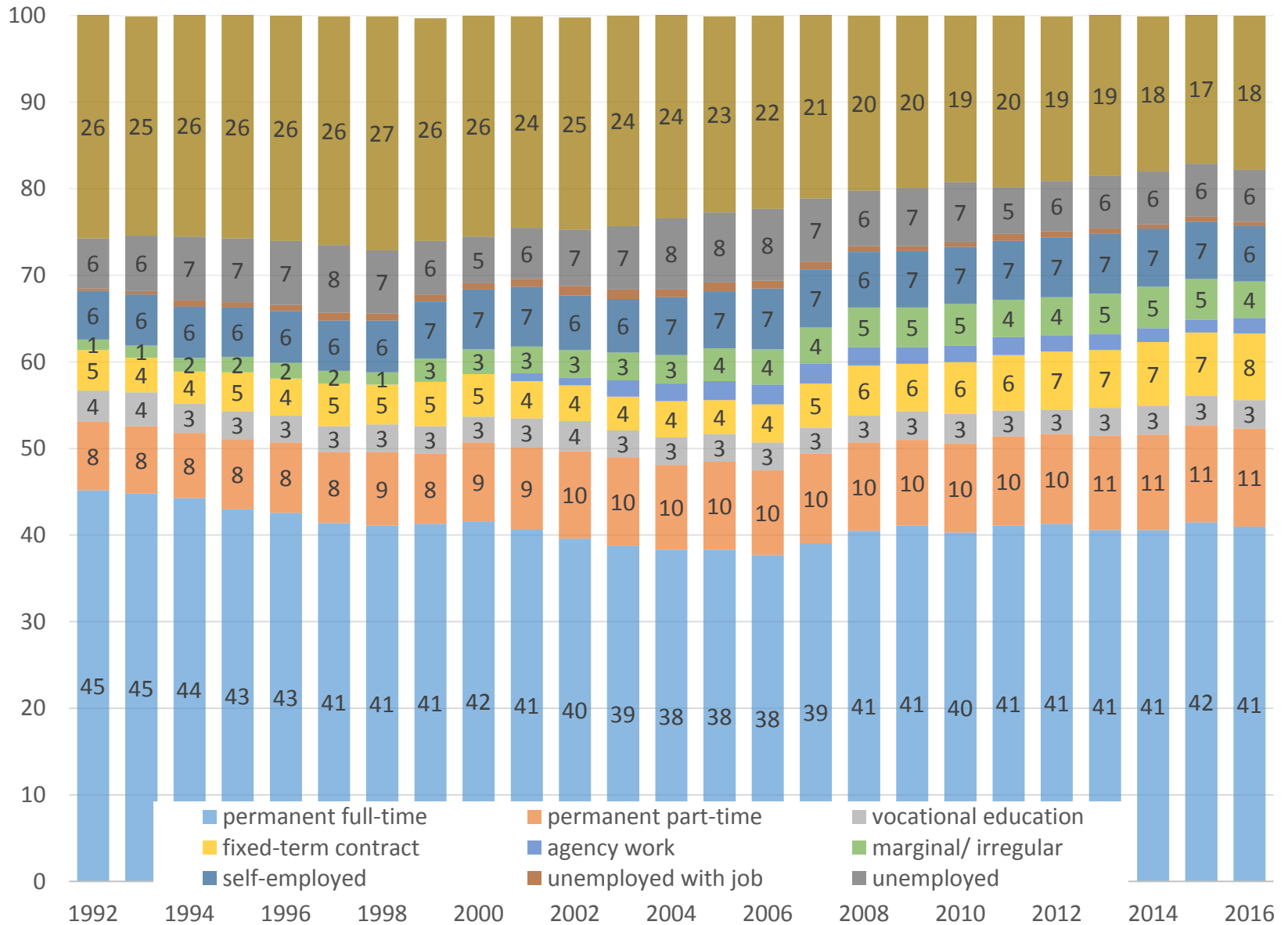
LMP Expenditure in Germany



Labour market developments after the reforms

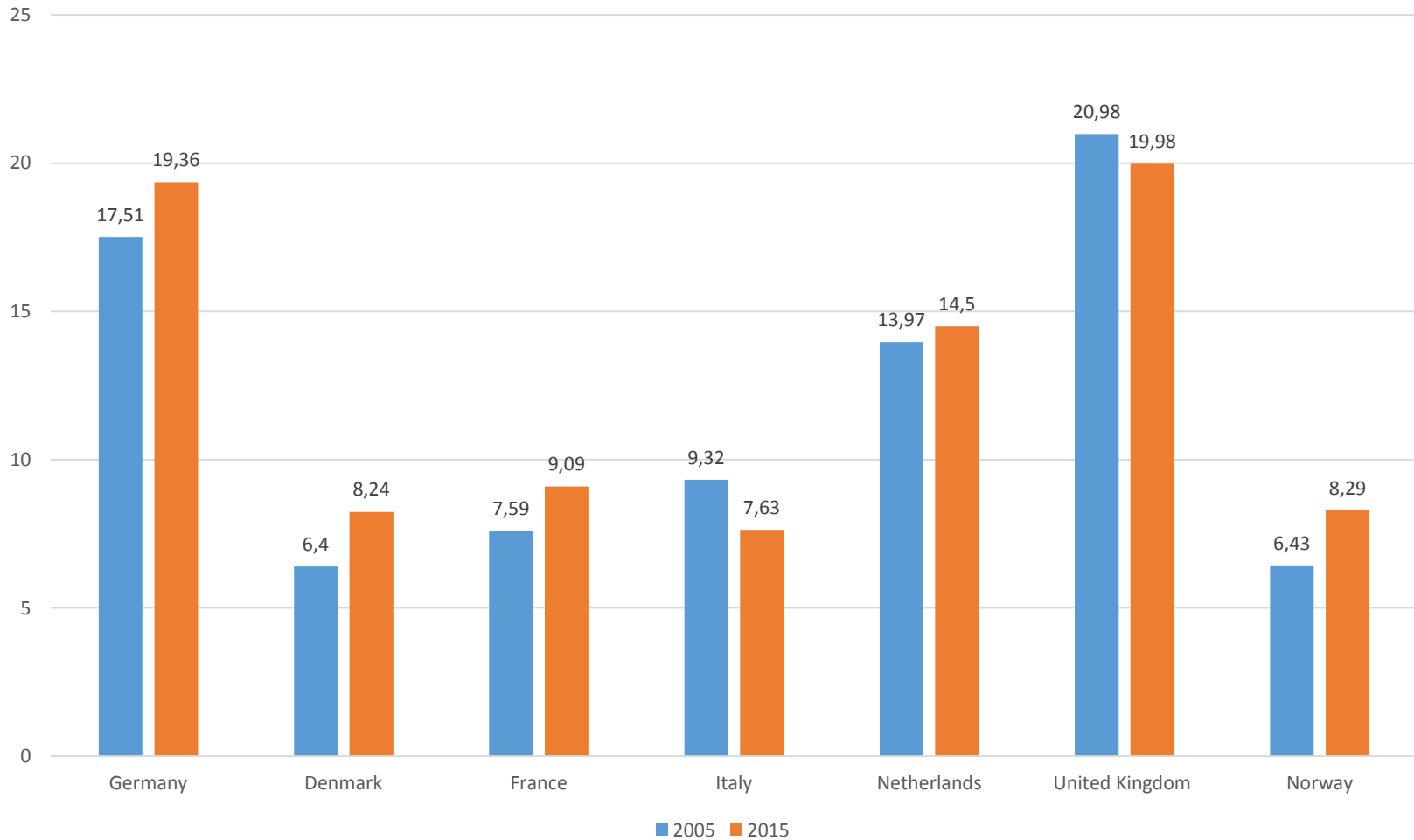
- Expansion of non-standard work and low pay, accelerating a trend that has started even before the labour market reforms, in particular:
 1. Temp agency work in manufacturing/labourer level
 2. Marginal part-time and (solo) self-employment in private service sector
- Restructuring of employment at the firm level, using and interpreting available flexibility options
- Increasing job quantity along with more heterogeneity – „more jobs, but also more bad jobs“
- Nota bene: Continued decline, flexibilisation and decentralisation of collective bargaining – also affecting labour market insiders

Working-age population in Germany by main status



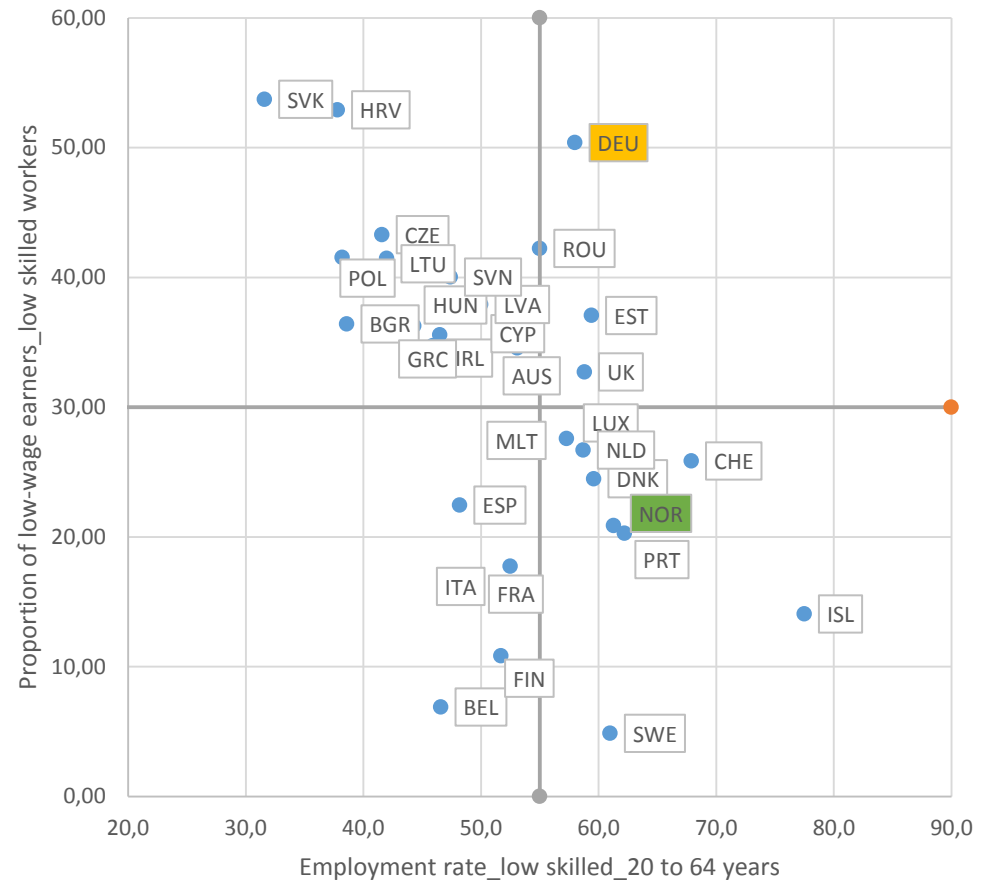
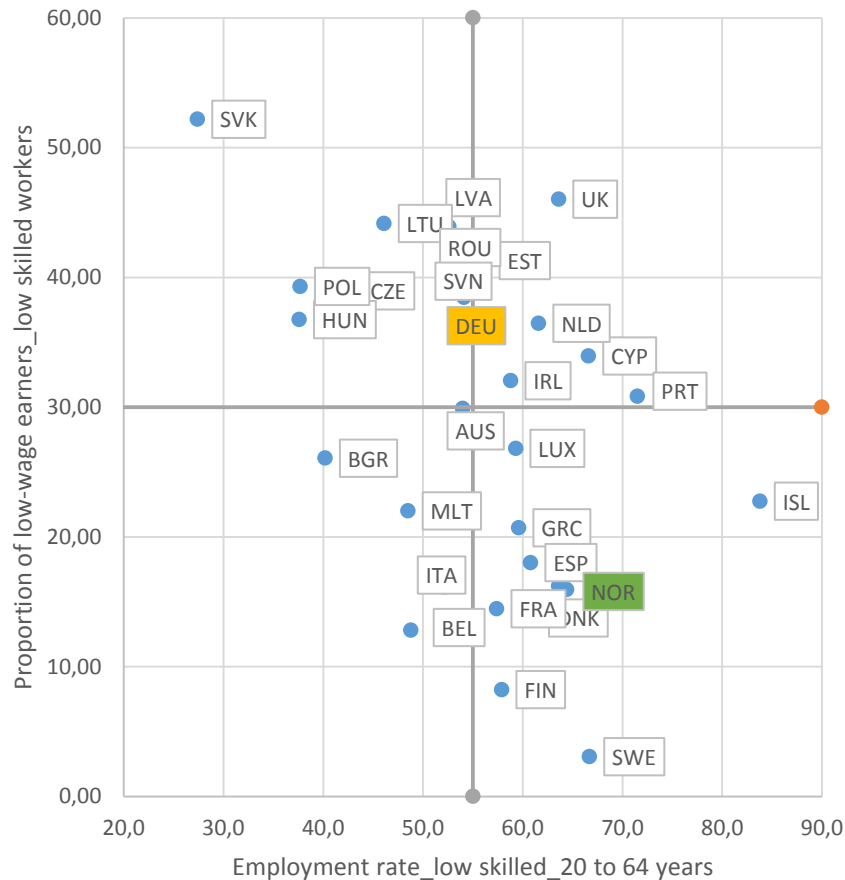
Source: GSOEP, own calculations.

OECD low pay shares 2005 and 2015



Source: OECD (2018): Wage Levels.

Employment of the low skilled and low pay share 2006 and 2014



Source: Eurostat (2017): Niedriglohnempfänger als Prozentsatz der gesamten Angestellten (ohne Auszubildenden) nach Bildungsabschluss.
 Datensatz: earn_ses_pub1i [17.08.2017].

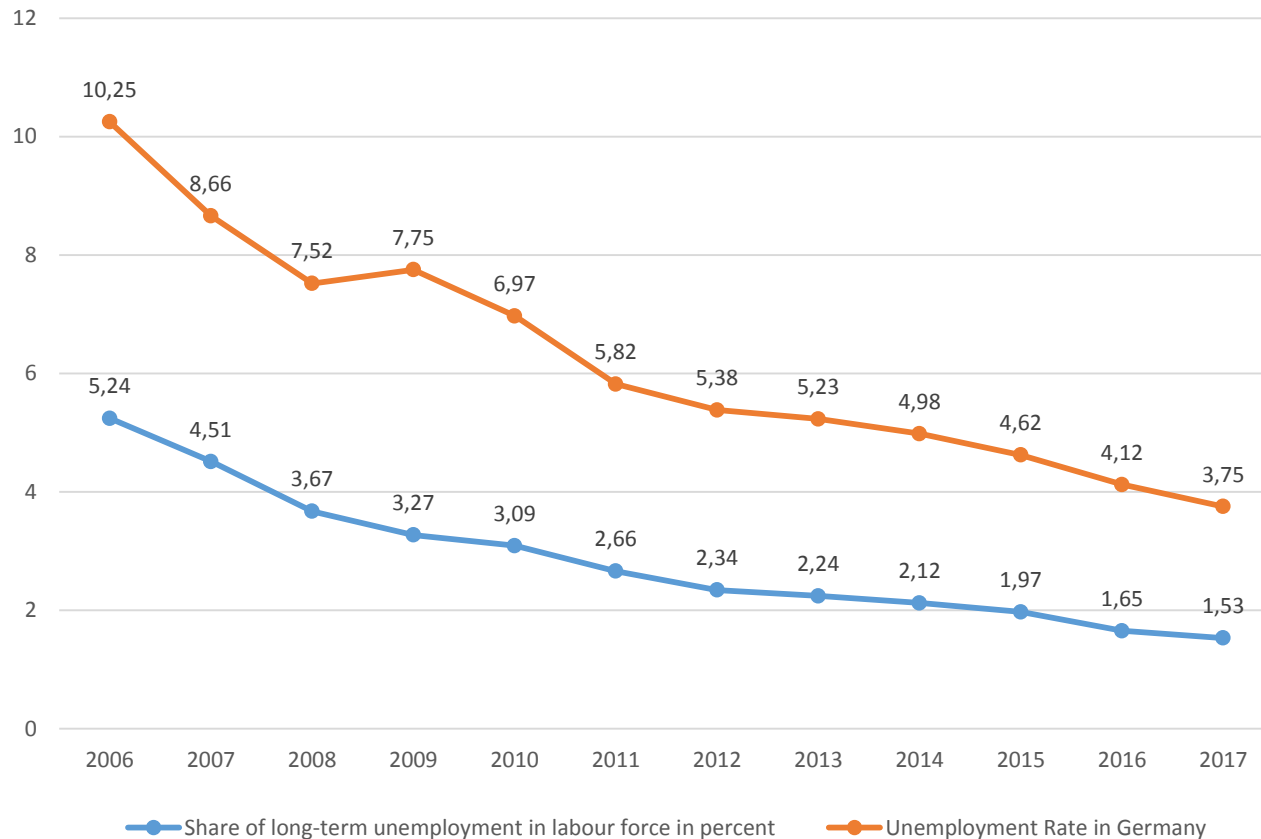
Sustainable integration of long-term unemployed and atypically employed?

- Slow decline in total number of long-term unemployed
- Evidence that new (mostly low-paid) jobs do not permit a sustainable exit from long-term unemployment and SGB II benefits
 - How to tackle placement obstacles and difficulties to place long-term relative to short-term unemployed?
 - Focus on demanding side of activation is not enough
- Ambiguous empirical evidence of atypical employment as a stepping stone to long-term, standard employment
 - Fixed-term employment often prolonged probationary period
 - Temporary agency work shows far lower chances of transition
 - Marginal part-time quite sticky due to problematic incentives

Labour market developments in the 2010s

- No major impact of the 2008/09 crisis
- Continued employment growth, decline in unemployment
- Full employment and labour shortages in some sectors and regions
- Stagnation, if not decline in low pay and non-standard work since around 2010 – renaissance of ,regular‘ employment, including open-ended, full-time work
- But long-term unemployment and ,precarious jobs‘ remain on the agenda: growing concern that the good economic environment, but also current regulation and labour market policies are not well-suited to improve labour market attachment of those at the margin

Unemployment and long-term unemployment in Germany, 2006-17

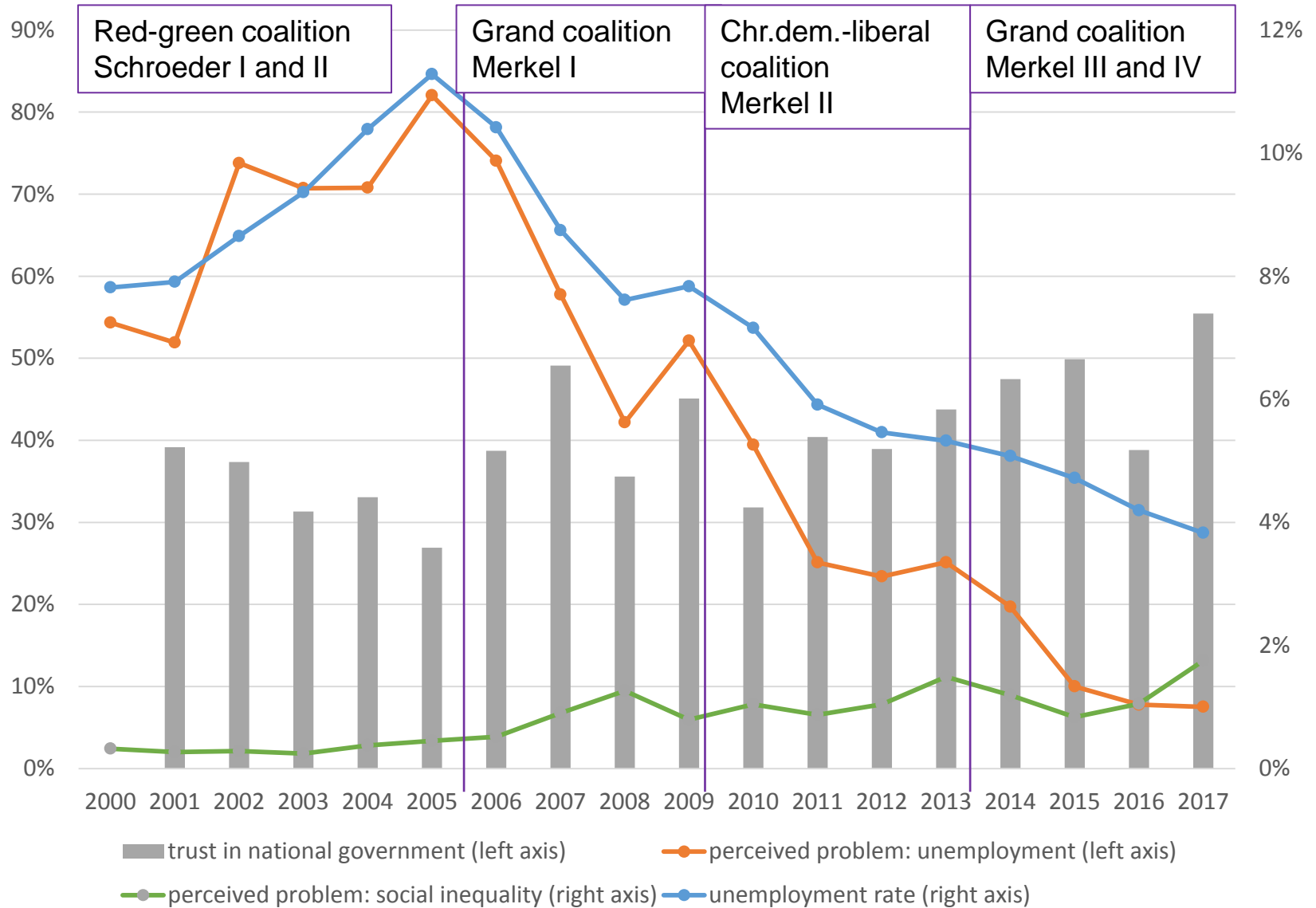


Source: World Bank (2018): Unemployment, total (% of total labor force) (modeled ILO estimate). URL: <https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS> (09.102.18).; Eurostat (2018): Arbeitslosigkeit nach Geschlecht, Alter und Dauer der Arbeitslosigkeit (1 000). Code: ifsa_ugad.; Eurostat (2018): Erwerbspersonen nach Geschlecht, Alter und Staatsangehörigkeit (1 000). Code: ifsa_agan.

Germany – Reform Phase 2

- Introduction of a statutory minimum wage in early 2015 -> remarkable decline in low paid, marginal part-time work, no major effects on employment
- Re-regulation of agency work 2017: stronger equal pay rules, maximum assignment period, with optional deviation via collective agreements -> too early to see effects
- Imminent re-regulation of fixed-term contracts without valid reasons (shorter maximum duration, maximum share in medium and large firms)
- Plans for a “softer” and more human capital-oriented activation policy with more attention to training of those at risk of unemployment

Unemployment rate, trust in government, perceived problems: unemployment and social inequality



Sources: Eurobarometer, Politbarometer, OECD.

Political economy considerations

- Declining unemployment and reduced concerns regarding mass unemployment as a major problem
- Growing public concern about non-standard work, in particular agency work, low pay and precariousness
- Discourse shifted from job quantity to job quality issues
- Campaigning of trade unions in favour of re-regulation, in particular minimum wage and temp agency work
- Support by wider public and governing political parties (CDU/CSU + SPD after 2013, decisive role of the Social Democrats, after deregulatory phase in the early 2000s)

Insights

- Better inclusion through job creation in particular in non-standard jobs in the 2000s
- Subsequent concerns about job quality and sustainability of some types of non-standard work
- Re-regulation as a response
- Particular issue is sustainable integration of most vulnerable groups, in particular long-term unemployed persons – „work first“ does not correspond to their needs

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