

The new German employment model – Implications for fair pay

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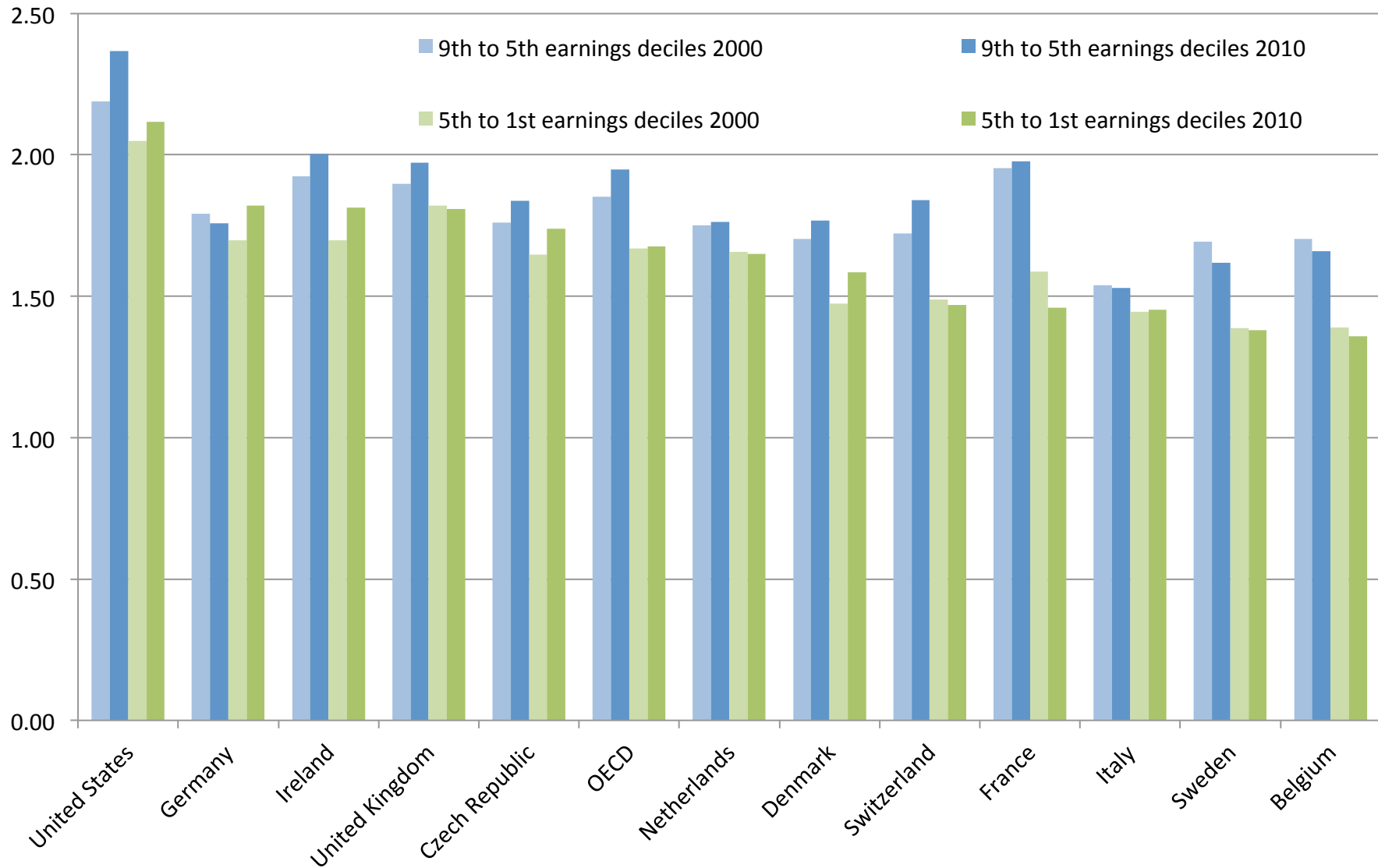
What is Fair Pay?

ESRC Festival of Social Science, Brighton

9 November 2012

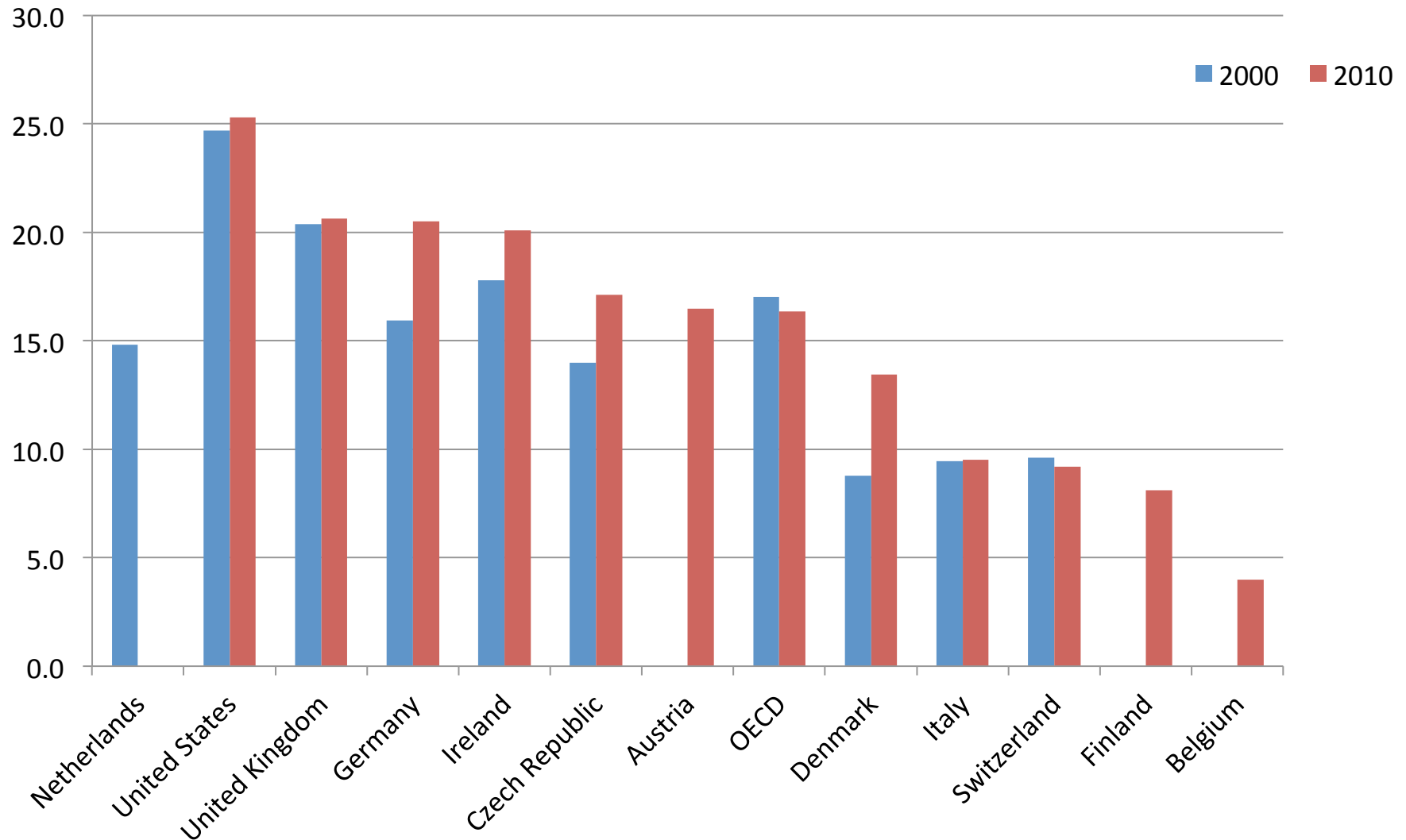


Germany: high and increasing pay dispersion among full-time workers



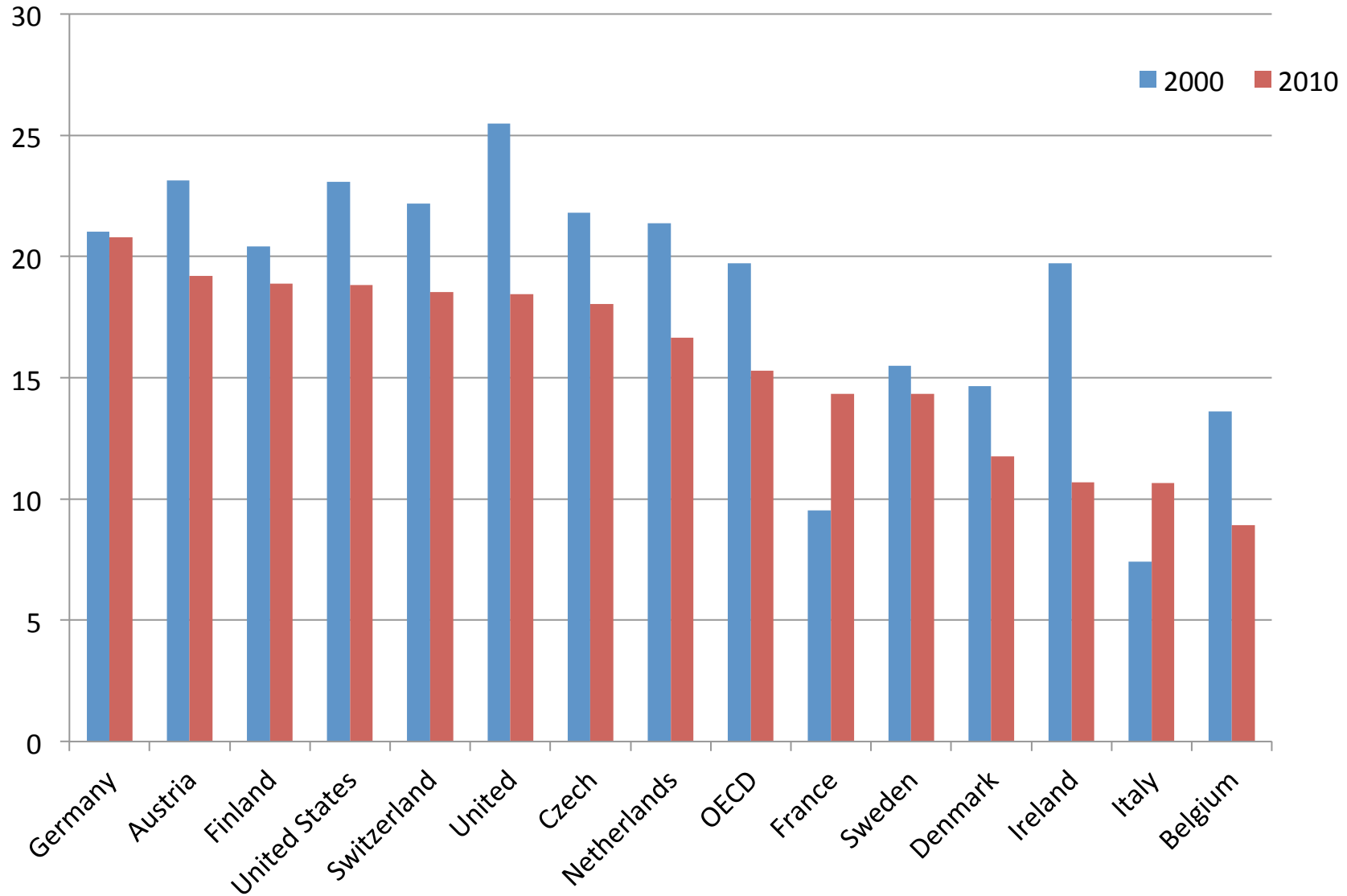
Source: OECD.

An steep increase in the low pay share in Germany – close to the UK now



Source: OECD.

A large and persistent unadjusted gender pay gap



Source: OECD.

WOMEN

**Like men,
only cheaper.**



**IF YOU DON'T LIKE IT,
HELP US RIGHT IT.**

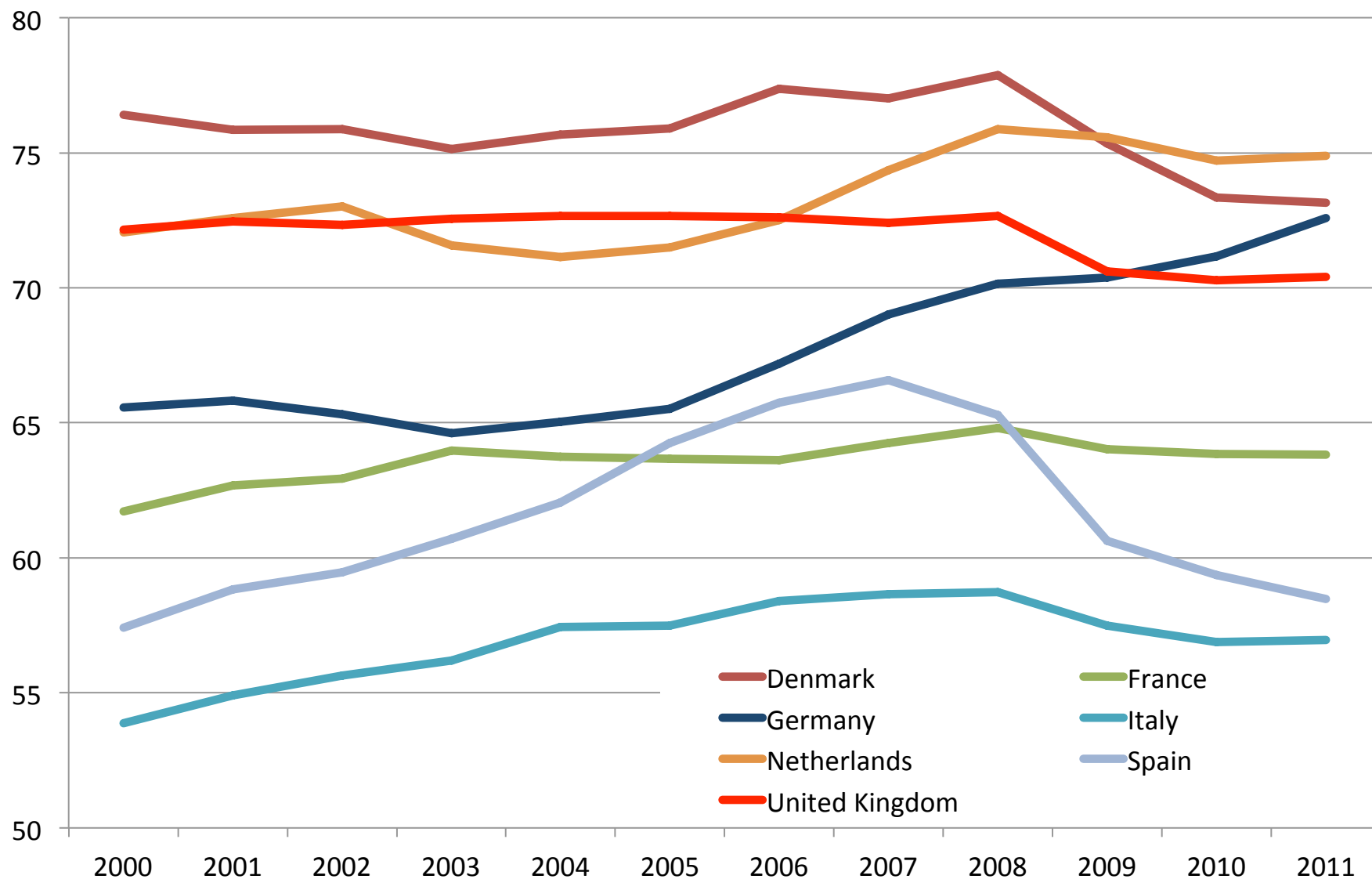
Gender pay gaps in Germany

- Raw gender pay gap in comparable positions ca. 23%, quite persistent
- Corrected pay gap (controlling e.g. for sector, working time, occupation, type of training) much smaller, around 8% (+/- 3, depending on method/data), lower for women with short work experience and short career breaks (and East Germany); higher for highly skilled women than for low skilled
- Composition effect regarding occupation, sector and company is important as are institutional variables, i.e. public policies, influencing career breaks and working time patterns

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 (high pay shares – and CEO pay – increase, too)

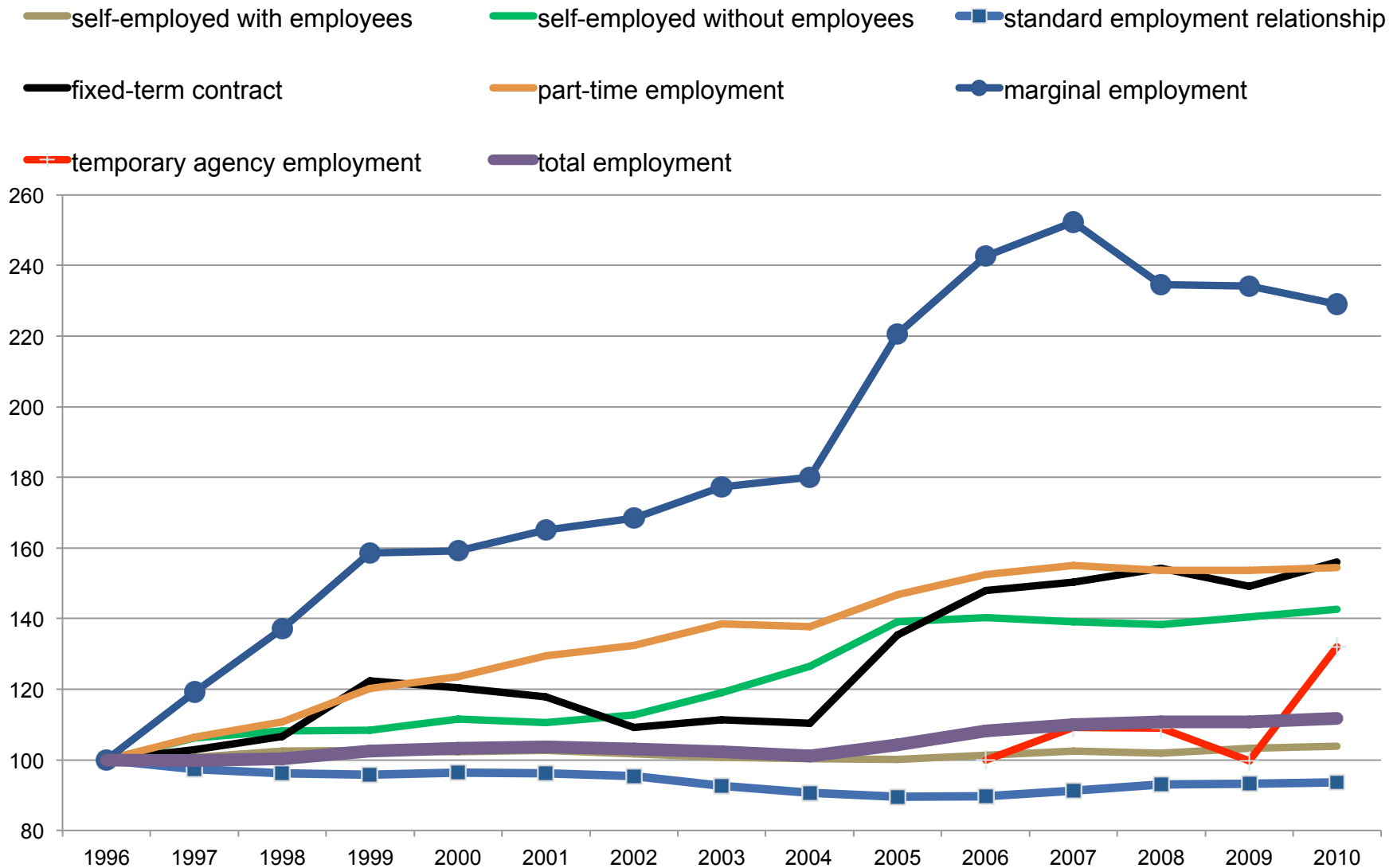
The German labor market as an onion



The different layers of the German labor market union

- 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.

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.

Selected occupations with the highest low pay shares: also standard contracts affected, 2010

	Low pay share	Distribution of low pay workers				
		standard contract	atypically employed	of these		
				part-time workers	fixed-term workers	Marginal part-time
Taxi operation	87.0	45.1	41.9	8.1	3.5	30.3
Hairdressing and beauty	85.6	59.7	25.9	5.2	10.5	10.3
Cleaning activities	81.5	21.6	59.9	12.9	6.9	40.2
Restaurants and other food service	77.3	30.1	47.2	7.5	9.8	30.0
Washing and (dry-)cleaning of textiles	73.6	52.1	21.5	3.4	5.9	12.2
Cinemas	73.5	14.2	59.3	14.6	3.7	41.0
Retail sale of food, beverages and tobacco	68.9	38.7	30.2	5.1	4.8	20.3
Activities of call centres	68.1	36.7	31.5	3.6	23.5	4.4
Event catering and other food service activities	64.5	31.3	33.3	7.6	9.5	16.2
Hotels and similar accommodation	62.3	31.5	30.9	3.7	8.7	18.5
Private security activities	60.3	36.1	24.2	1.9	9.7	12.6

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

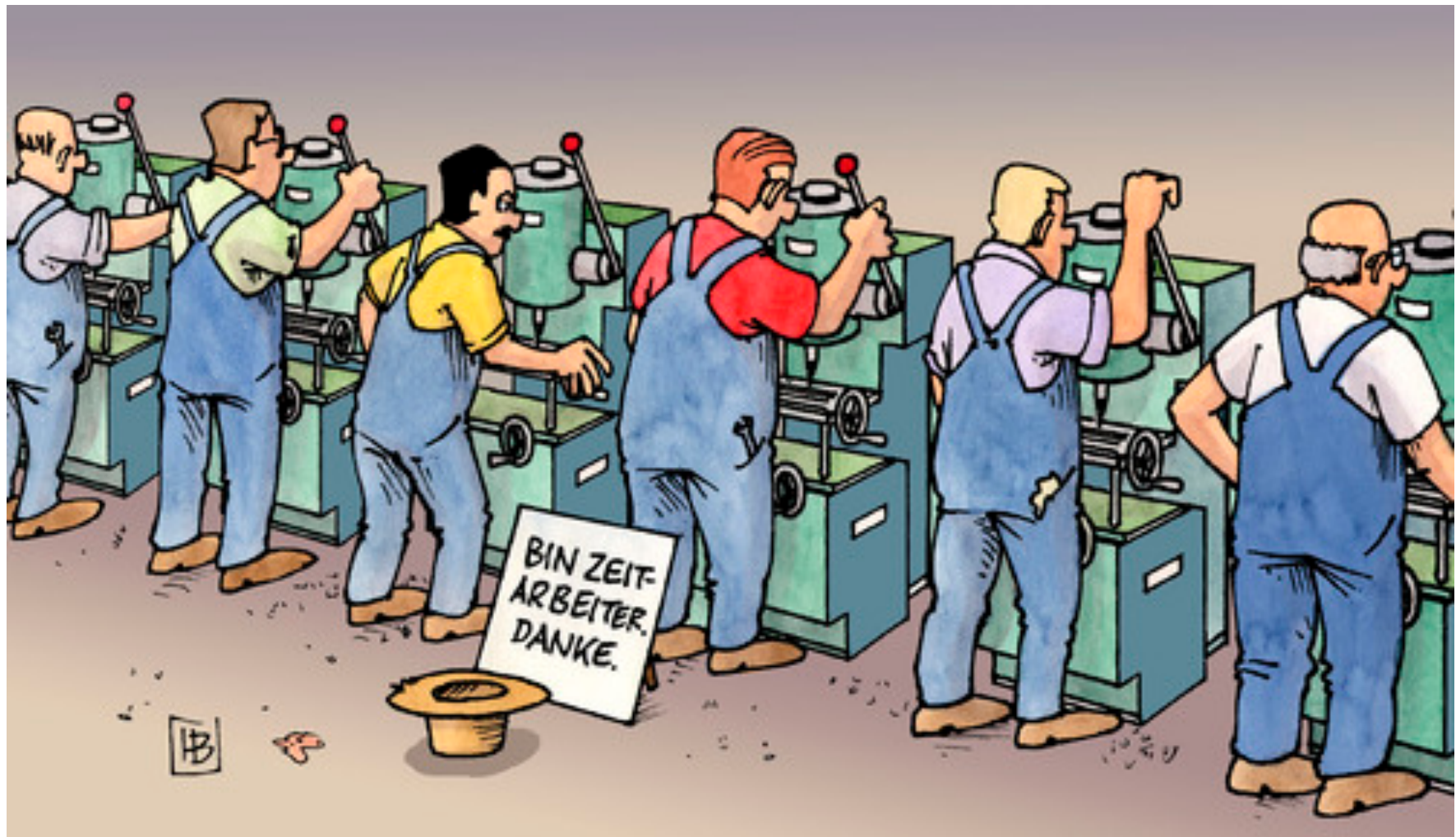
Collective bargaining coverage in 2010

	sectoral agreement		company agreement	
	West	East	West	East
Public administration	89	76	10	22
Banking and insurance	81	56	2	8
Energy and infrastructure	75	49	15	24
Construction	72	52	2	3
non-profit organizations	62	30	7	19
Manufacturing	56	25	11	13
Health and education	56	34	10	17
total	56	37	7	13
Retail trade	51	28	2	5
Hospitality and other services	48	25	2	7
Business services	46	44	6	9
Wholesale	42	13	6	10
Logistics	40	23	14	20
Information and communication	27	10	4	16

Source: HBS Tarifarchiv, Betriebspanel.

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

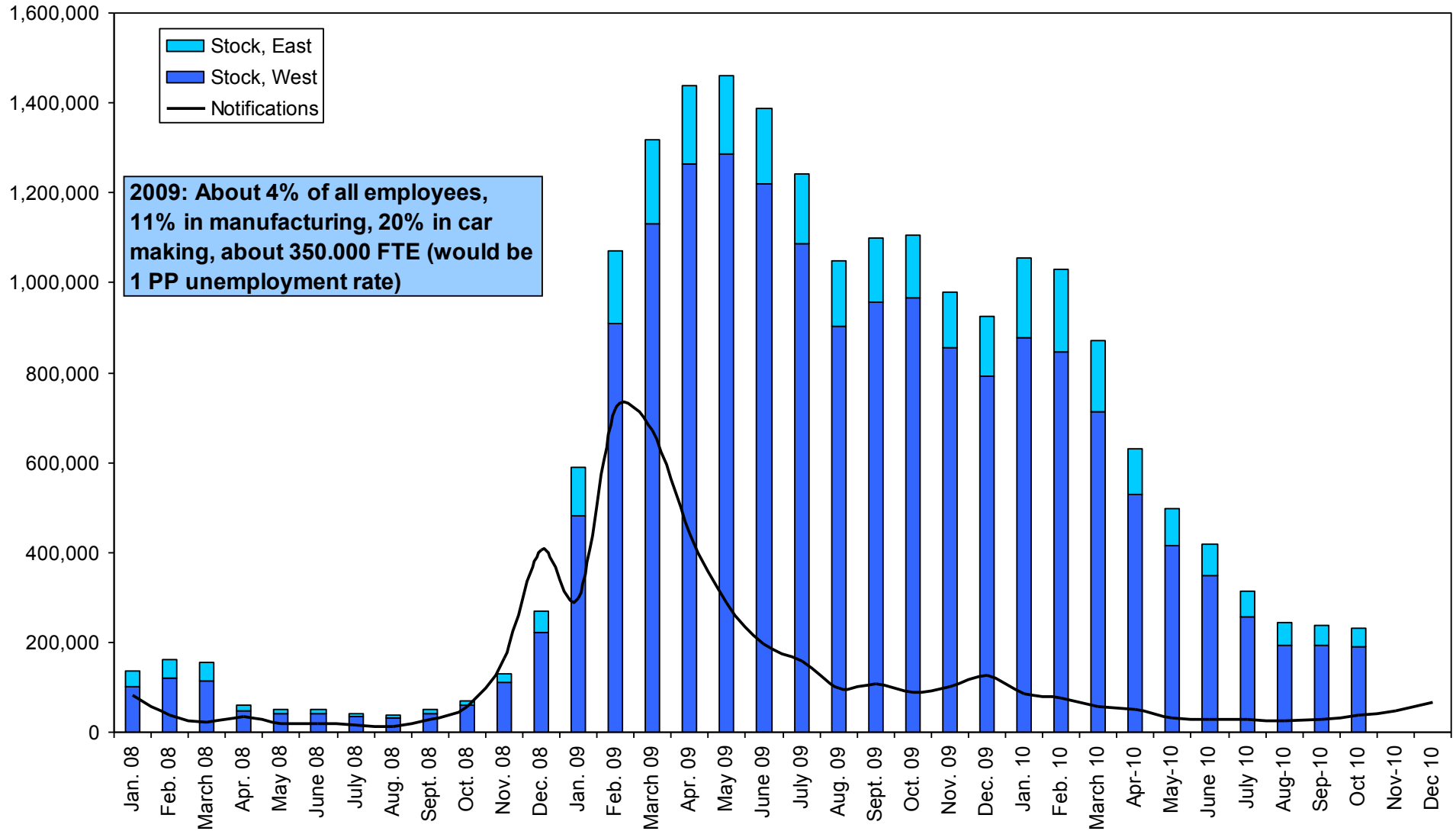
- Agency work liberalized 2003, in particular abolition of maximum assignment limit and synchronization ban + introduction of equal pay
- But: deviation from equal pay is possible if there is a sectoral collective agreement
- TWA wage scale is significantly below user sector wages (e.g. metal working)
- Agency workers mainly concentrated in blue collar manufacturing occupations – long-term assignments side by side with directly employed workers („internal outsourcing“)



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

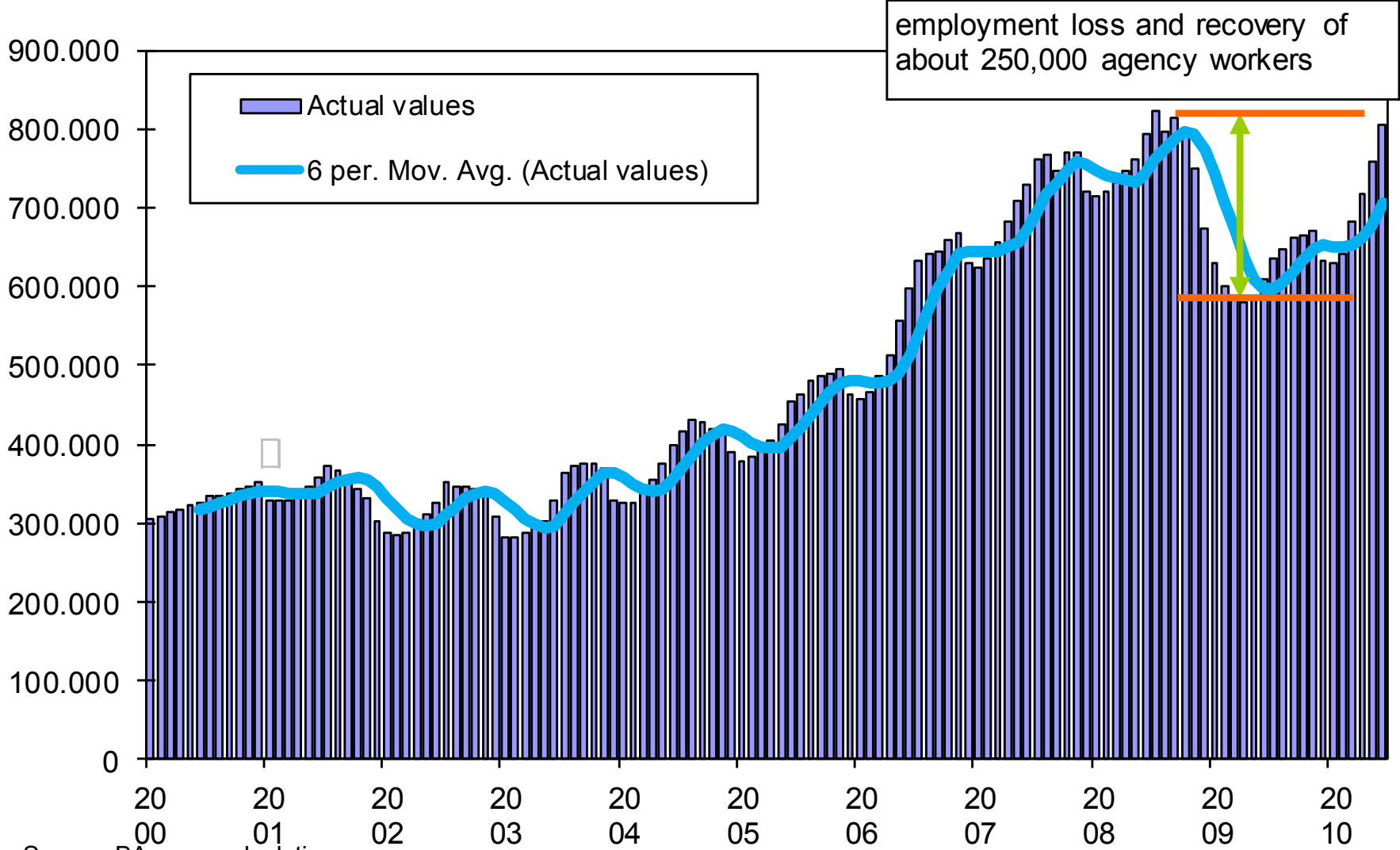
- Unadjusted pay differential is significant in major user sectors, ca. 30% for manufacturing (male blue collar workers), about 20% when controlling for individual characteristics, e.g. work experience and tenure)
- Agency workers have a high risk of in-work poverty
- Institutional rules make progression to direct employment rather difficult
- Agency workers take a major part of labor market risks, see reaction to the crisis

Short-time work helped core manufacturing jobs to survive in 2009



Source: Bundesagentur für Arbeit

Agency work: A growing element of external flexibility

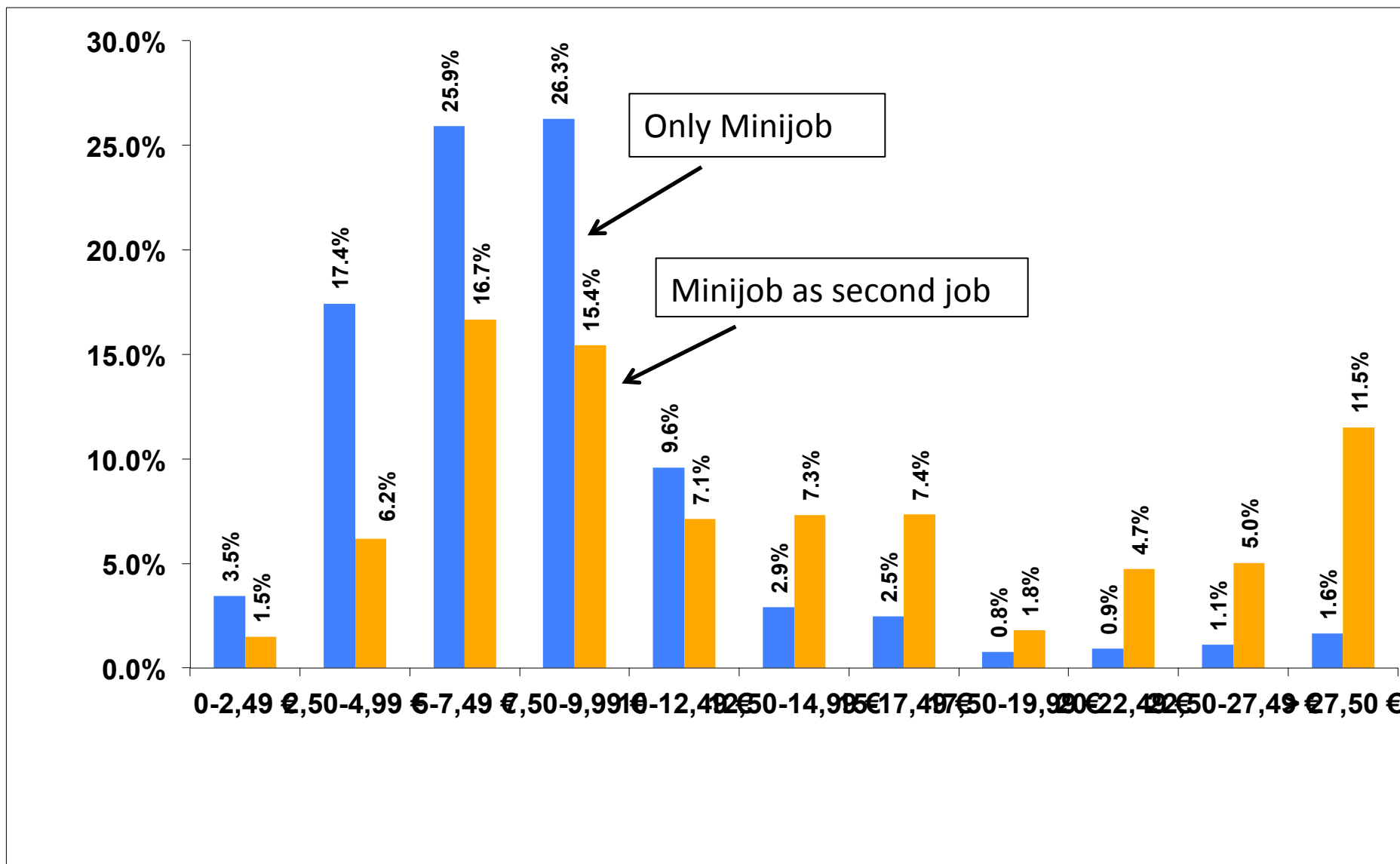


Source: BA, own calculations

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

Gross hourly wages of Minijob workers



Source: GSOEP. Own calculations.

Who is responsible?

- Policy makers – institutional framework, increasing labor market segmentation as a side effect of deregulation at the margin: pay dispersion, dead-end jobs and (dis)incentives for substantial labor market participation
- Employers and trade unions – promoting or (at least) tolerating segmentation and inequality on the labor market

What can be done?

1. Adaptive behavior of market actors
2. Social partners and collective bargaining
3. Public policies – re-regulating the labor market without making it overly rigid

Employers

- The role of the business model: Cheap and flexible labor vs. 'good jobs with skilled workers and longer tenure – price competitiveness vs. quality
- Labor shortages will influence working conditions, but only with respect to core workforce

1. Better pay in certain occupations

2. Broader recruiting and promotion strategies addressing neglected groups

3. Bringing women into better paid sectors and positions, investing in family-friendly policies etc.

Trade unions

- Organize flexible labor and private services better – but quite unsuccessful so far
- and some core constituencies support (i) part-time/secondary earner model and (ii) segmented manufacturing workforce
- Take enforcement of existing rules seriously, e.g. labor law in Minijob segment
- Promote re-regulation of flexible jobs via legislation and/or collective agreements

Policy makers

- 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, maybe, 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 (currently: ca. 750 € net for singles = gross monthly pay ca. 1,000 € = roughly 6.00 € per hour gross wage / 40% of median)

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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