

# From 'Sick Man of Europe' to 'Economic Miracle'

Are the labour market reforms the reason  
for Germany's relative economic strength ?

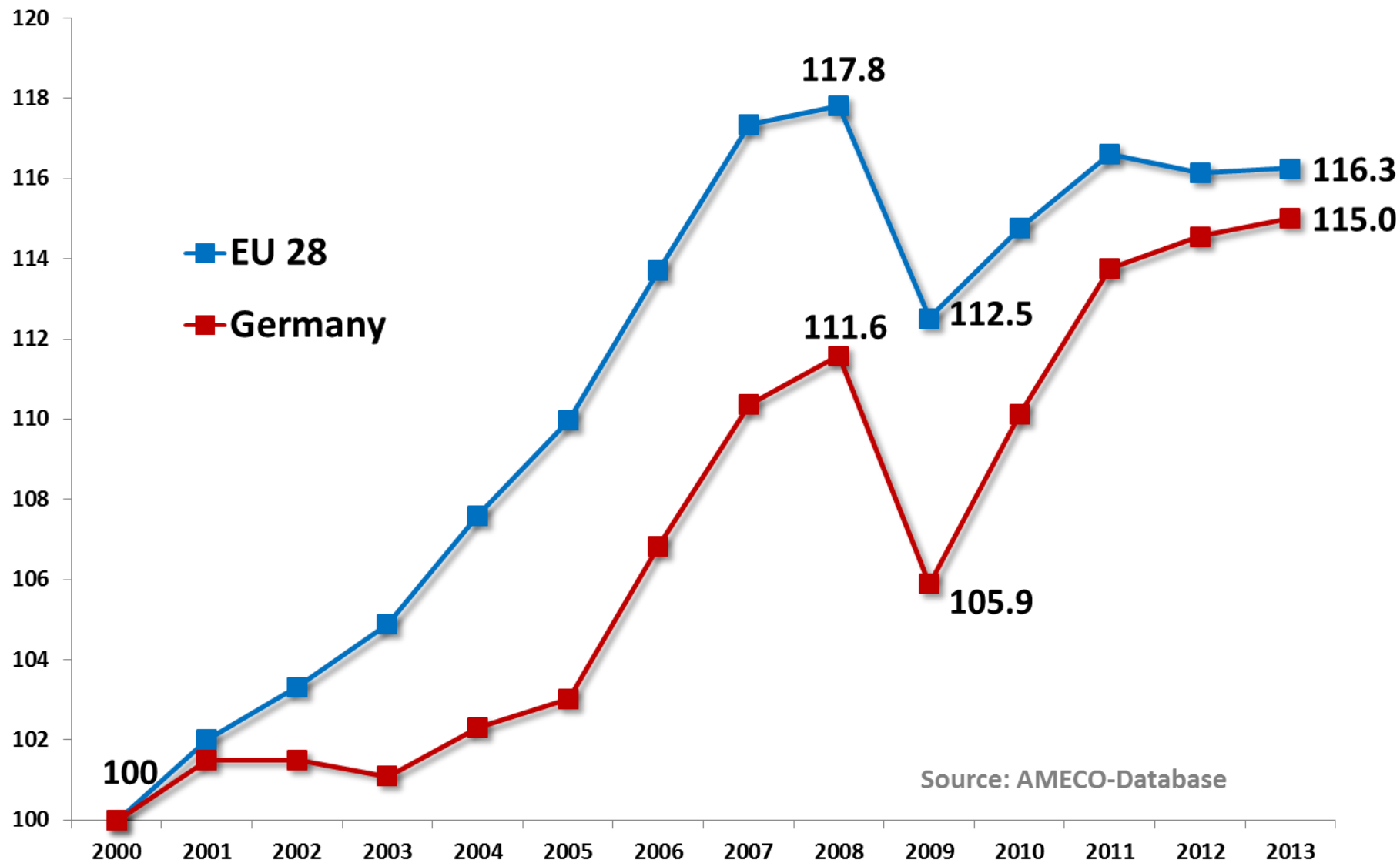
**Dr. Thorsten Schulten**

**Changing Employment Marie Curie ITN**

Doctoral Summer School Flexicurity, Labour Market and Social Dialogue  
KU Leuven, 4 June 2014

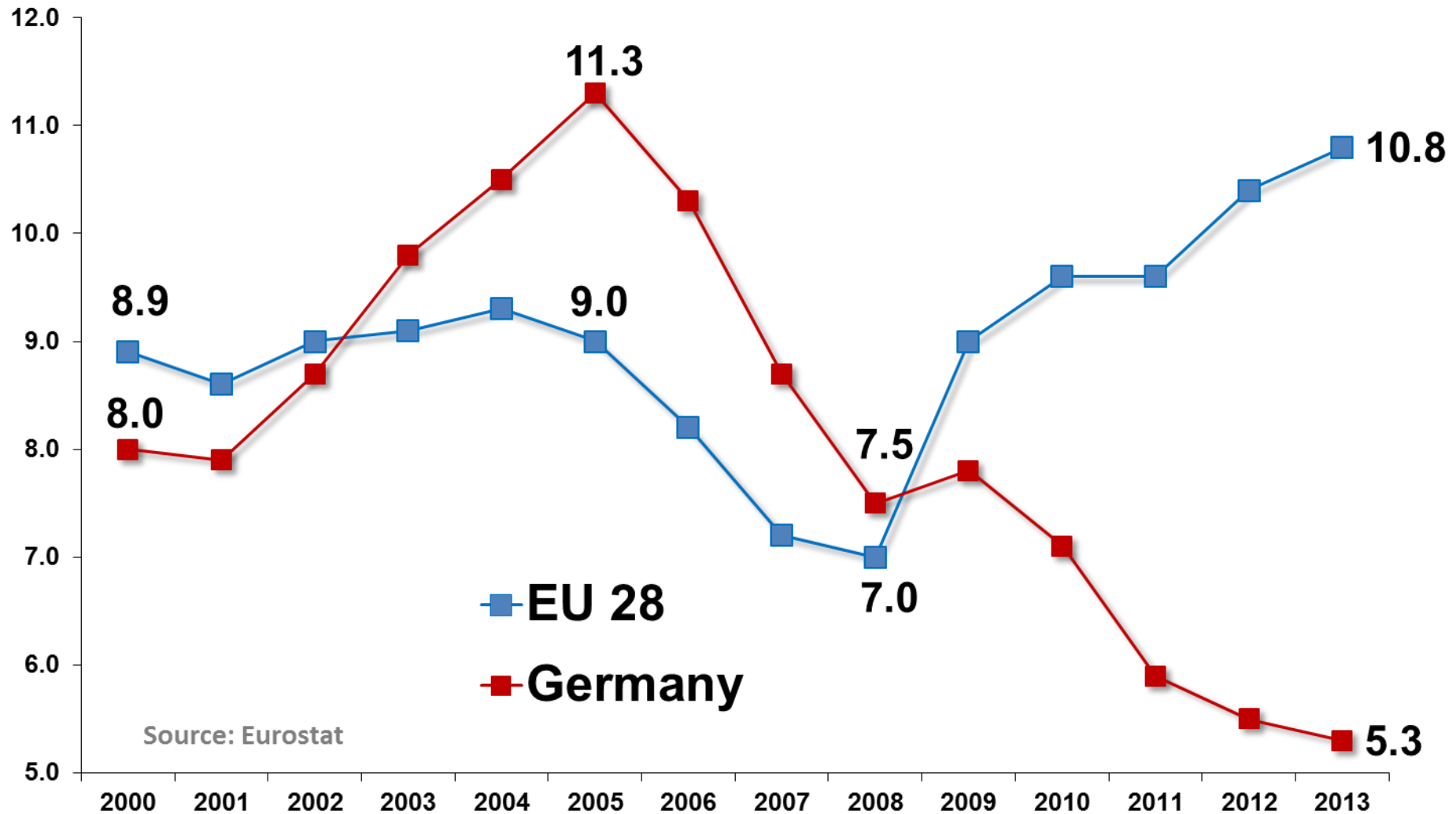
1. **What was behind the German ‘job miracle’?**
2. What was the impact of German labour market reforms?
3. Is Germany a model for Europe?
4. Outlook: Towards a ‘new order’ for the German labour market?

# Development of GDP in Germany and EU 28 (2000 = 100)



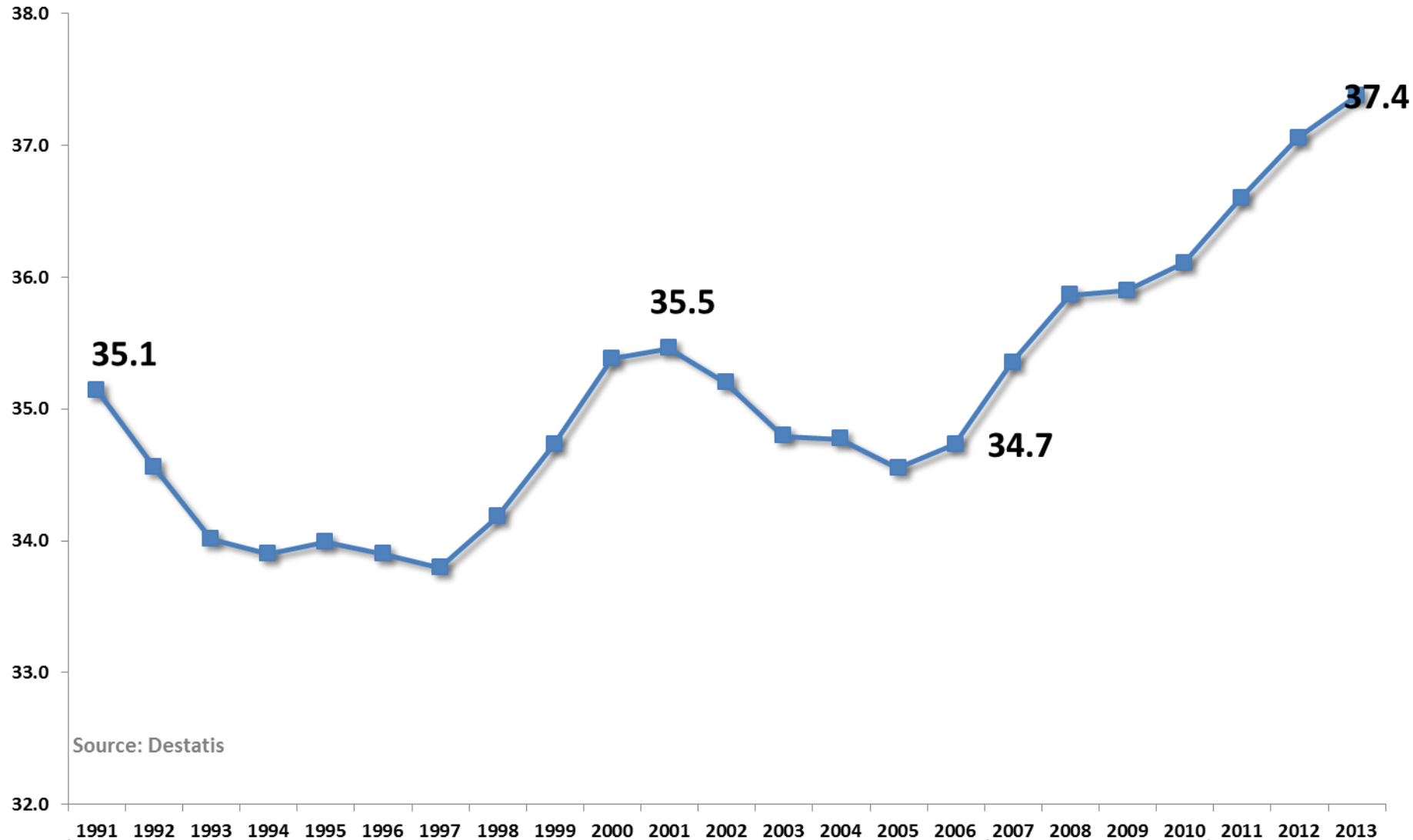
Source: AMECO-Database

# Rate of Unemployment in Germany and EU 28 (2000-2013)



# Number of Employees in Germany in Million (1991-2013)

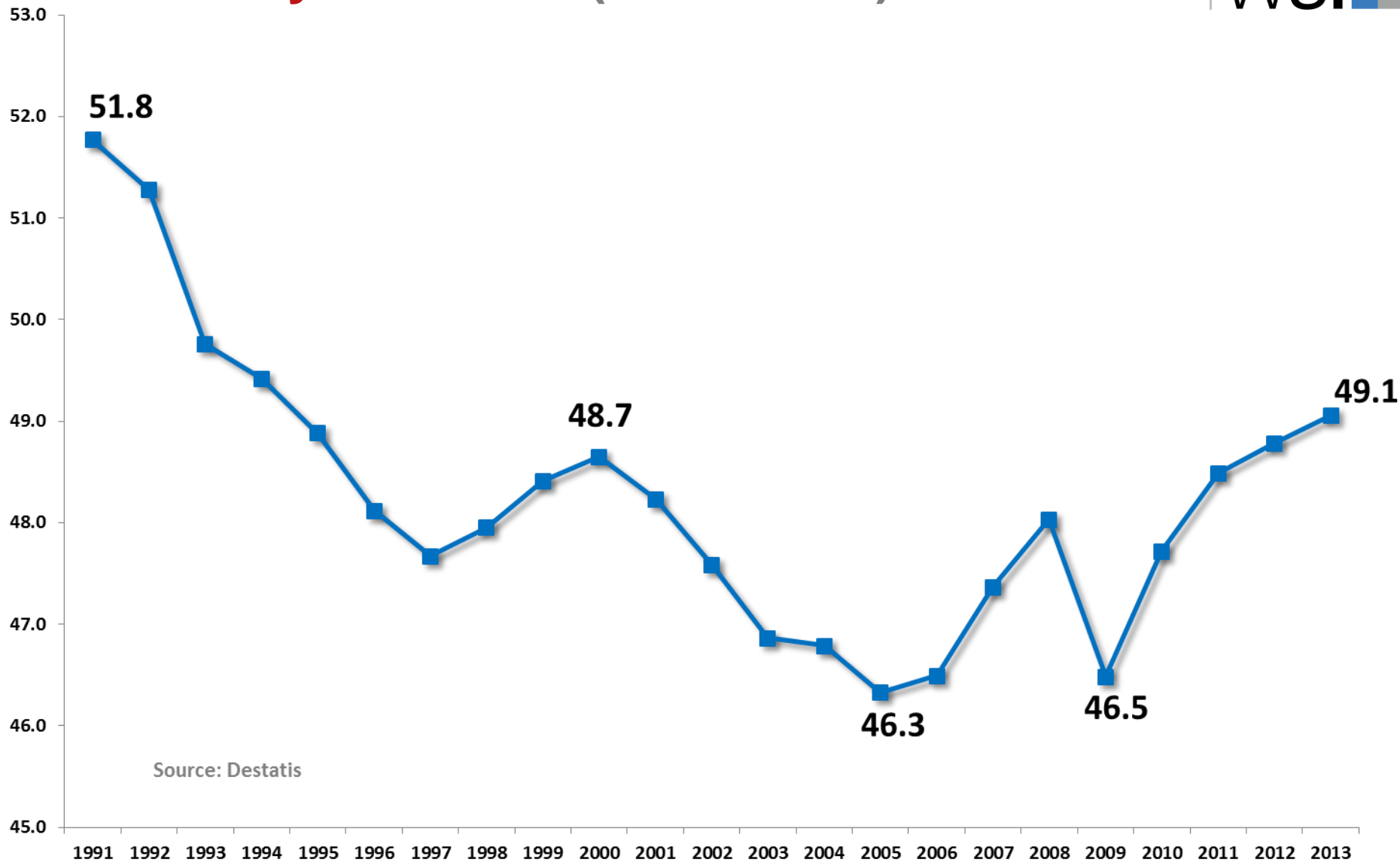
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Source: Destatis

# Number of Working Hours in Germany in Billion (1991-2013)

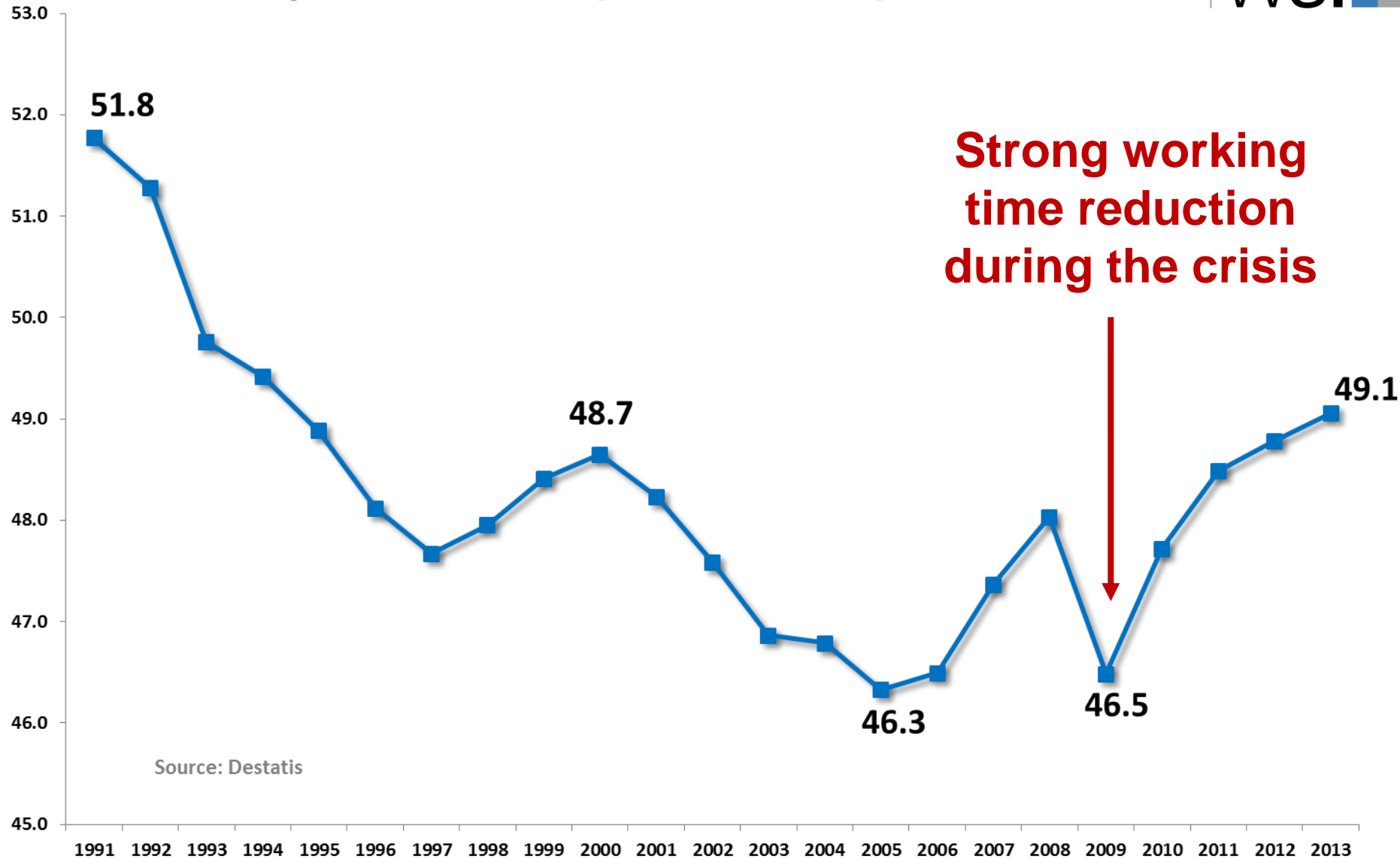
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Source: Destatis

# Number of Working Hours in Germany in Billion (1991-2013)

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Source: Destatis

# What is behind Germany's 'job miracle'?

- ➔ (Temporary) shortening and redistribution of working time
- ➔ Highly flexible working time arrangements (*working time accounts, short-time working schemes*)
- ➔ Fiscal stimulus package (2009f.)
- ➔ Strong export-performance of German manufacturing



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# Germany's labour market reforms

## Major aims

- ➔ Reduction labour costs
- ➔ Increase wage dispersion/low wage sector
- ➔ Decrease labour protection
- ➔ Cutting the 'reservation wage'
- ➔ Increase the pressure on unemployed

# Germany's labour market reforms

## Pressure on unemployed

- ➔ Cuts and shortening of unemployment benefits
- ➔ Fall back to subsistence-level after 1 year of unemployment (Hartz IV)
- ➔ Obligation to accept **any** job offered by the employment agency

## Relaxation of rules for ...

- ➔ Fixed-term contracts
- ➔ Temporary agency work
- ➔ Marginal employment (mini-jobs)
- ➔ Dismissal protection in small companies

## Incentives for solo self-employed

# Germany's labour market reforms

## Impact on the labour market

- ➔ Increase of precarious employment
- ➔ Increase of the low wage sector
- ➔ Growing income inequality
- ➔ Overall poor wage developments/  
decrease in real wages
- ➔ (Partial) erosion of collective bargaining

## Macroeconomic impact

- ➔ Growing discrepancy between a highly successful export sector and a rather weak domestic market
- ➔ Strong underperformance in terms of growth and employment

# Aim of the Agenda 2010:

*„We have liberalised our labour market. We created one of the best low wage sectors in Europe.“*

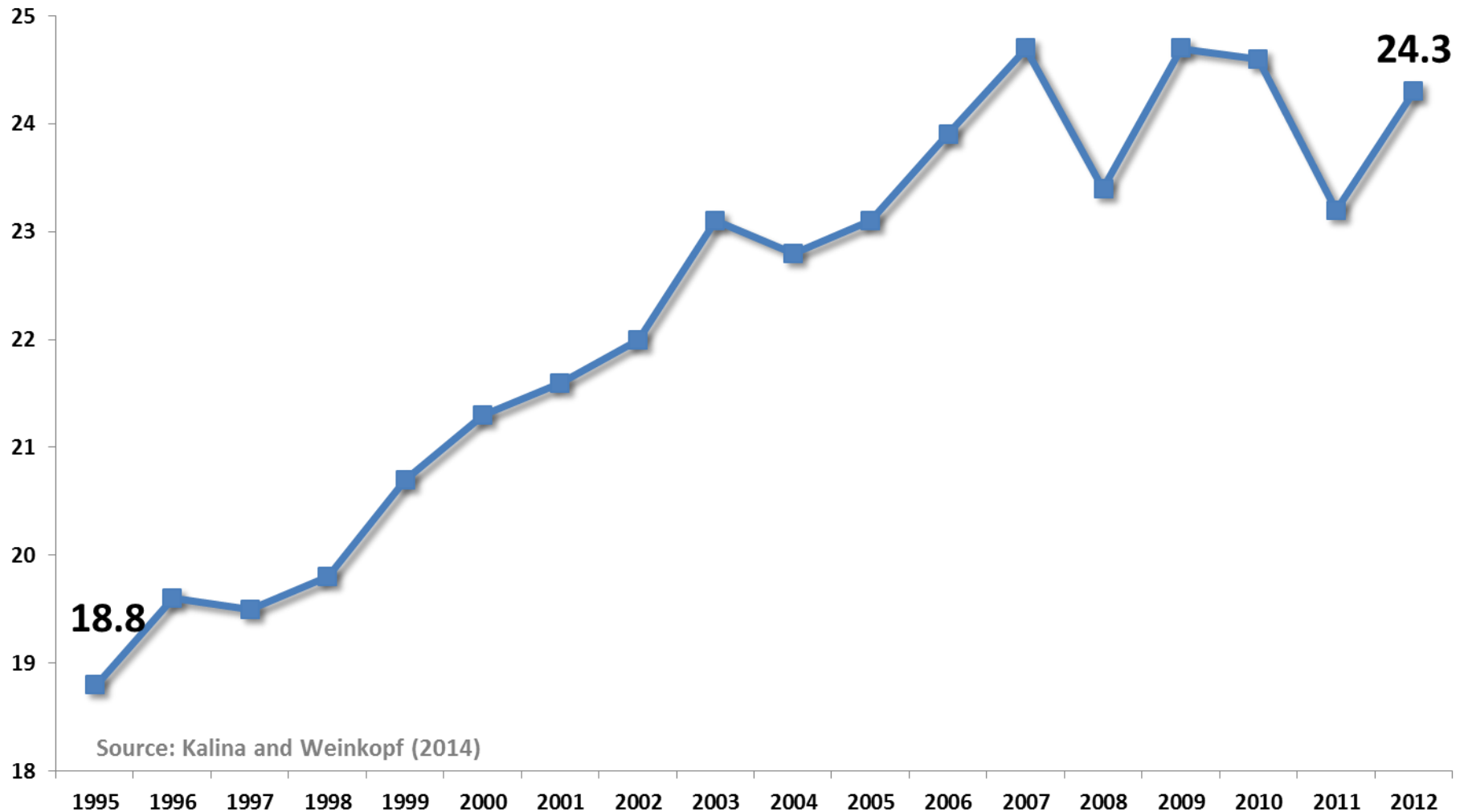


Gerhard Schröder,  
Word Economic Forum Davos 2005

# Incidence of Low Pay in Germany

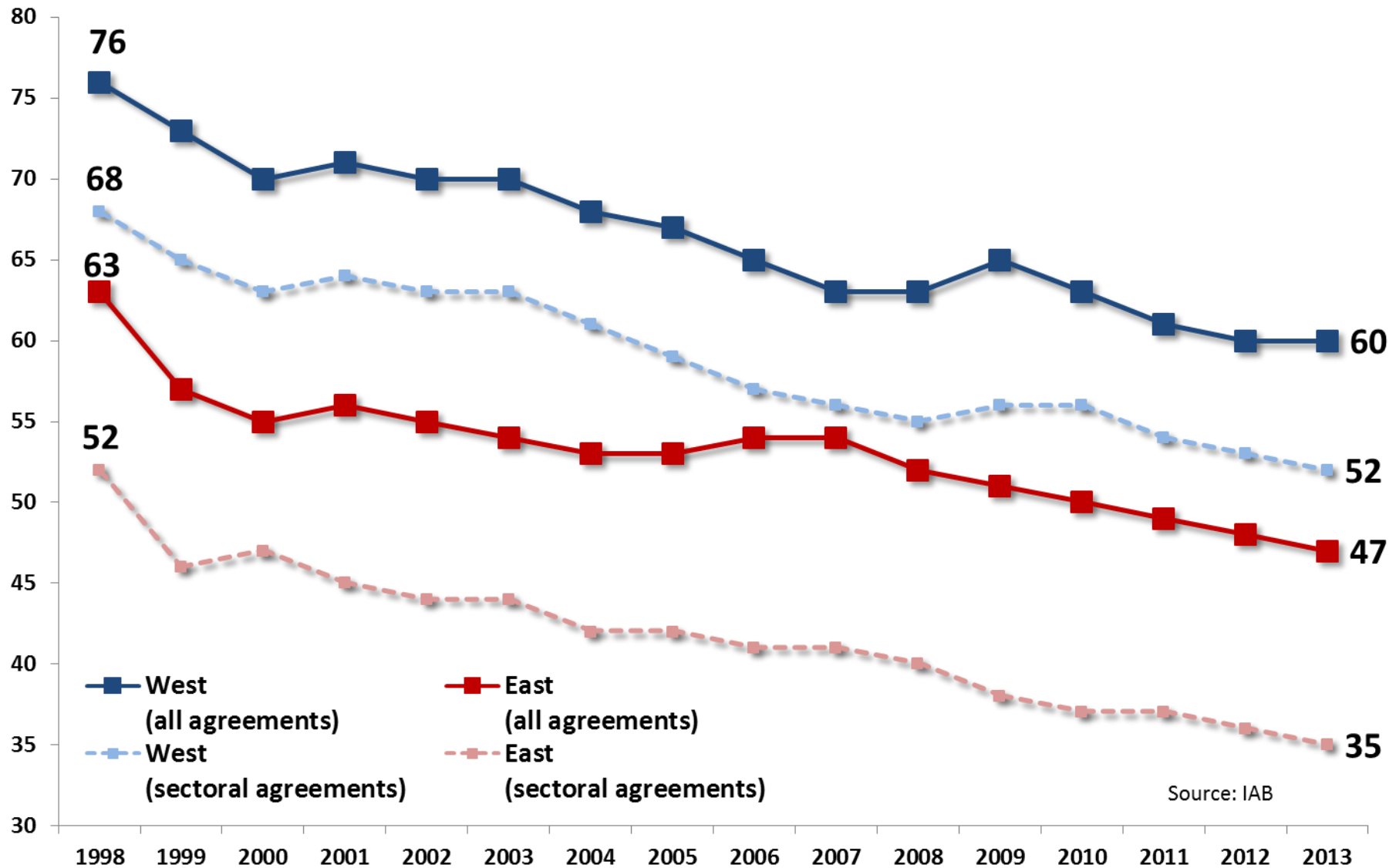
## 1995-2012 (in % of all workers)

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# Collective Bargaining Coverage in Germany 1998- 2013 (in % of employees)

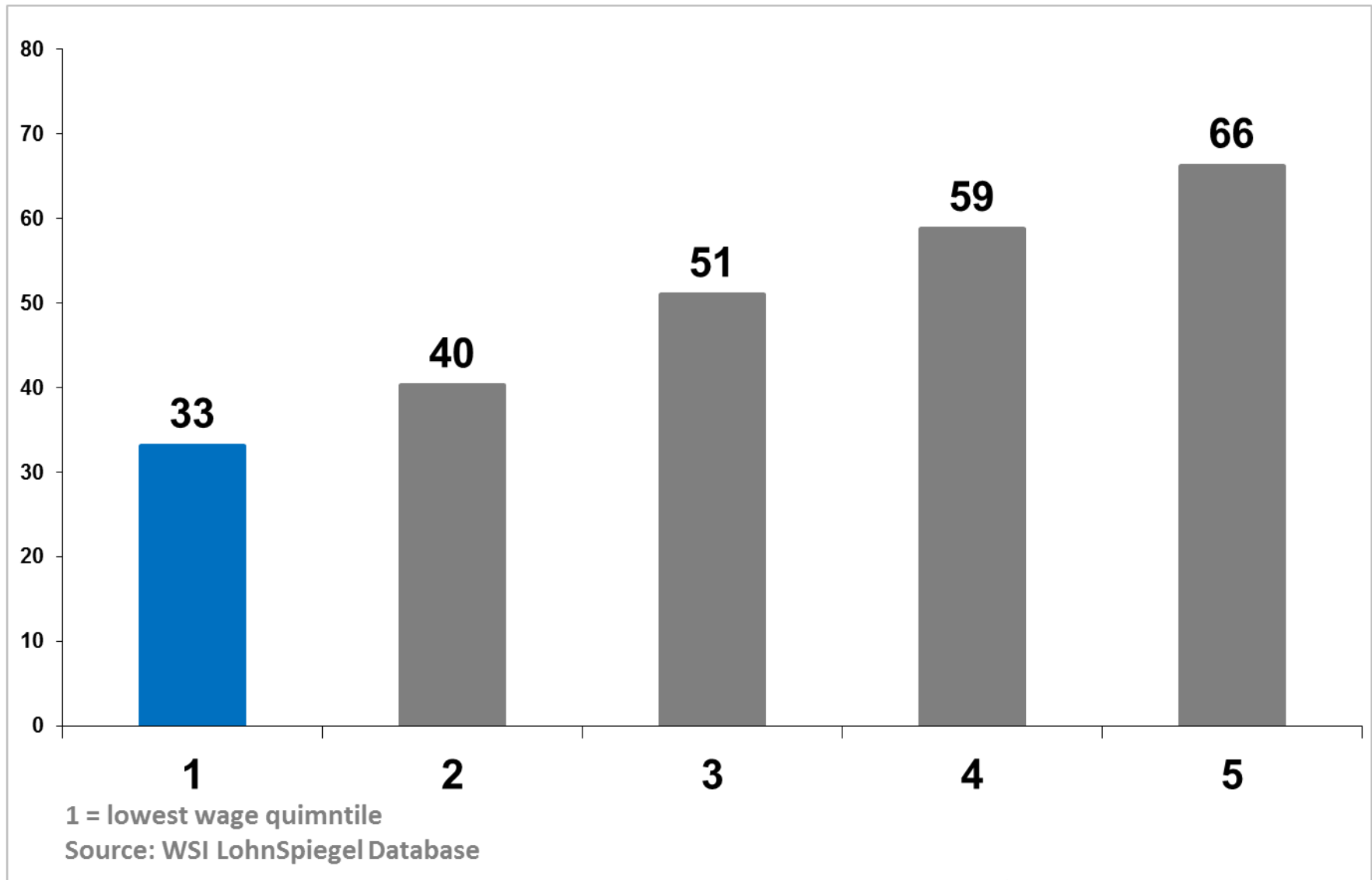
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Source: IAB

# Collective Bargaining Coverage in Germany 2010 (different wage quintiles)

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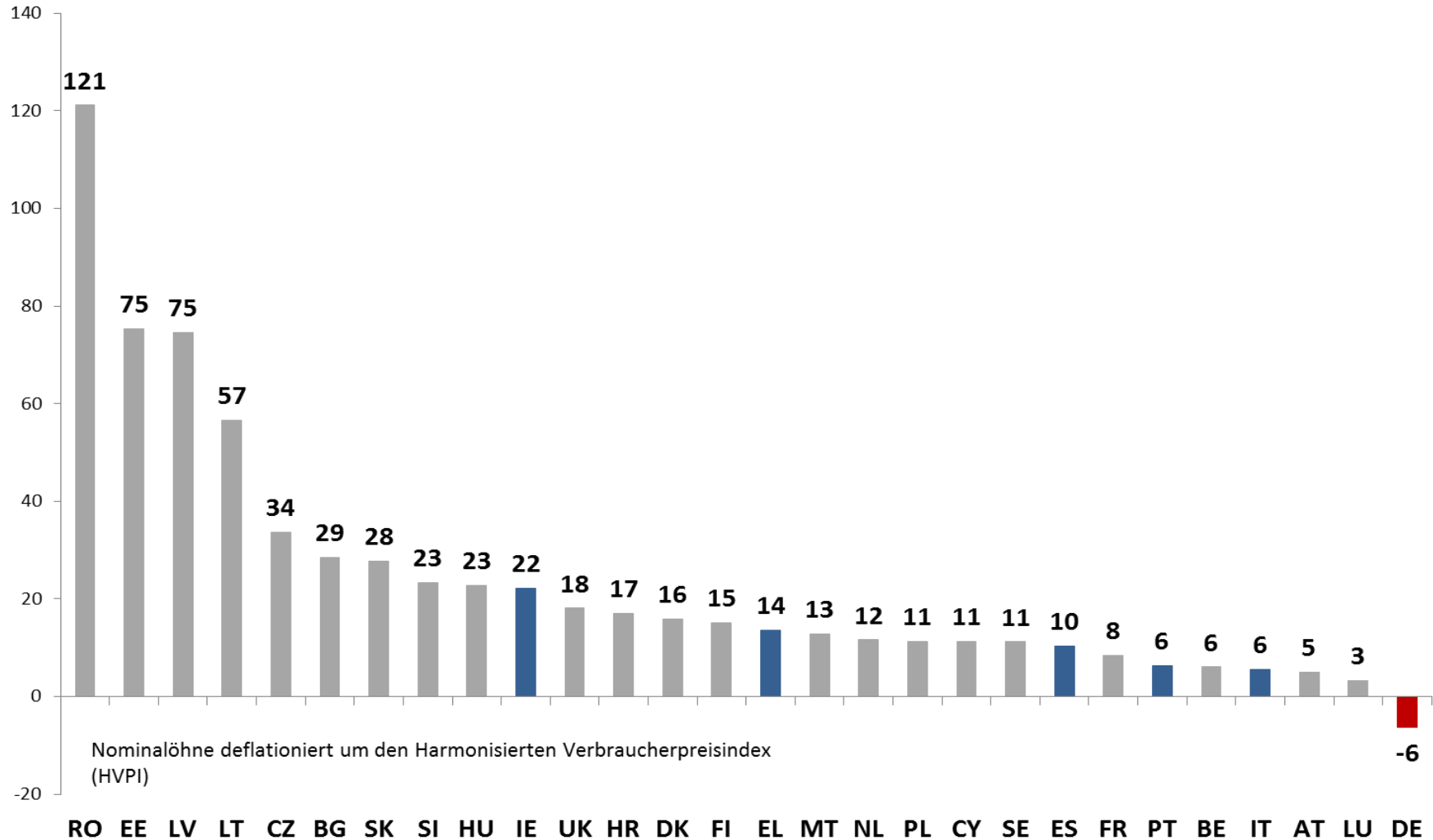
# Precarious employment in Germany

- ➔ > 4.5 Mio: full-time workers with low wages
- ➔ 4.9 Mio: Marginal part-time workers (**Mini-Jobs**)
- ➔ > 2.Mio: Regular, but involuntarily part-time
- ➔ 3.2 Mio: Workers with fixed-term contract
- ➔ > 800,000: Temporary Agency Workers
- ➔ 2.4 Mio: Solo Self-employed
- ➔ **Precarious employment** is estimated to sum up to **more than one third of the German workforce**

# Development of Real Wages

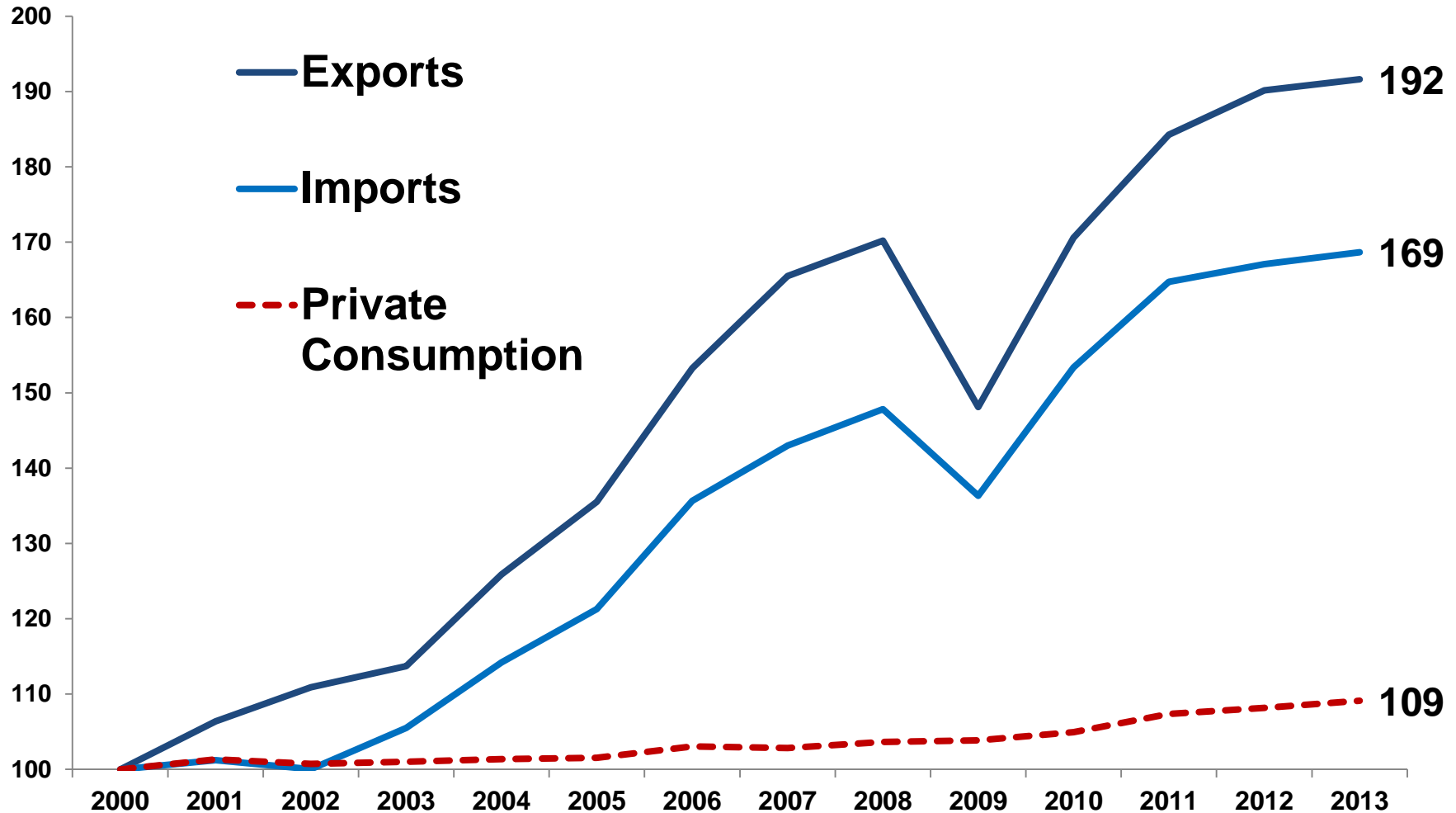
*before* the crisis (2001-2009, in %)

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# Exports, imports and private consumption in Germany 2000-2013 (2000 = 100)

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Source: Destatis, National Accounts

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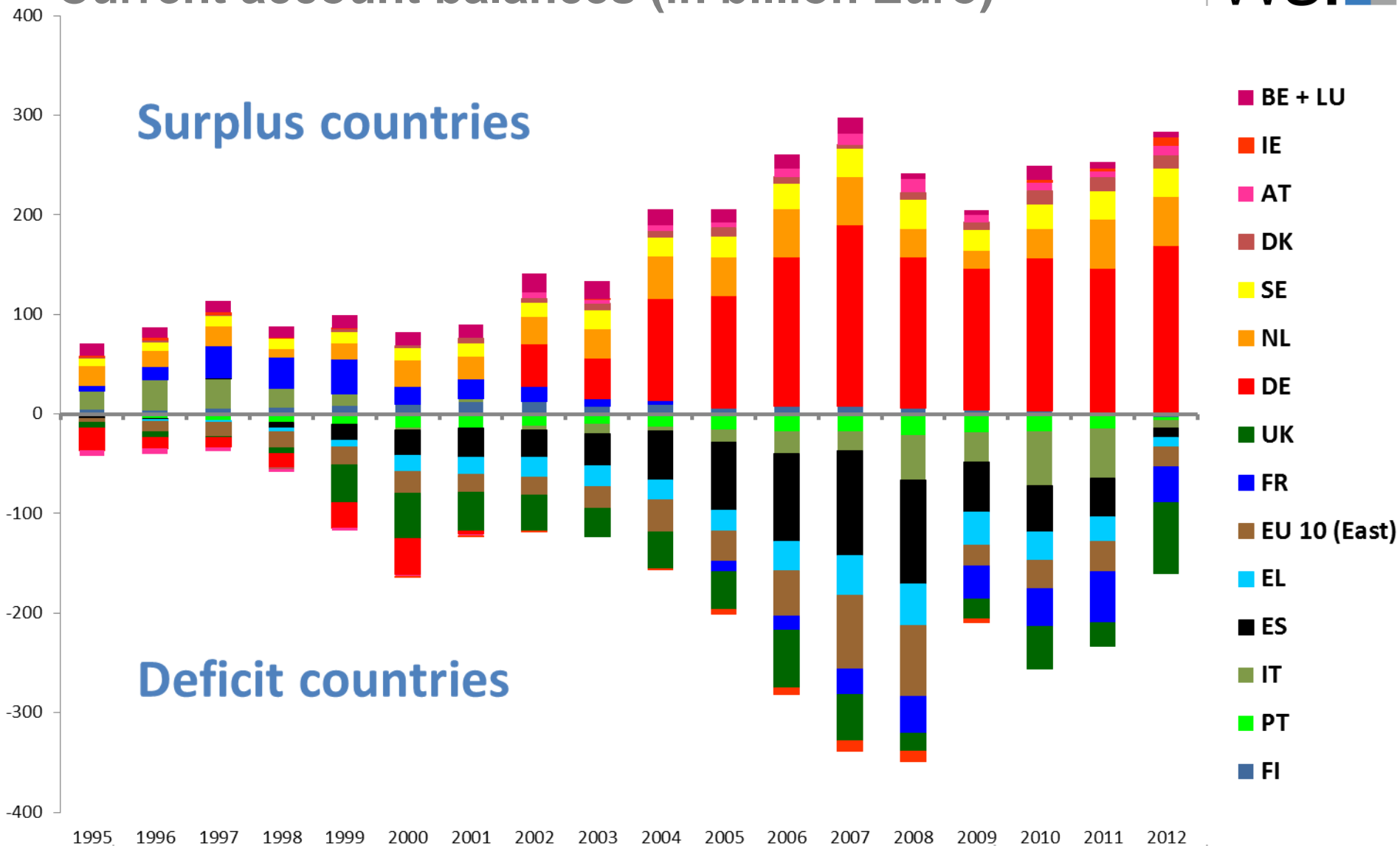
# Economic imbalances in the EU

Current account balances (in billion Euro)

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Surplus countries

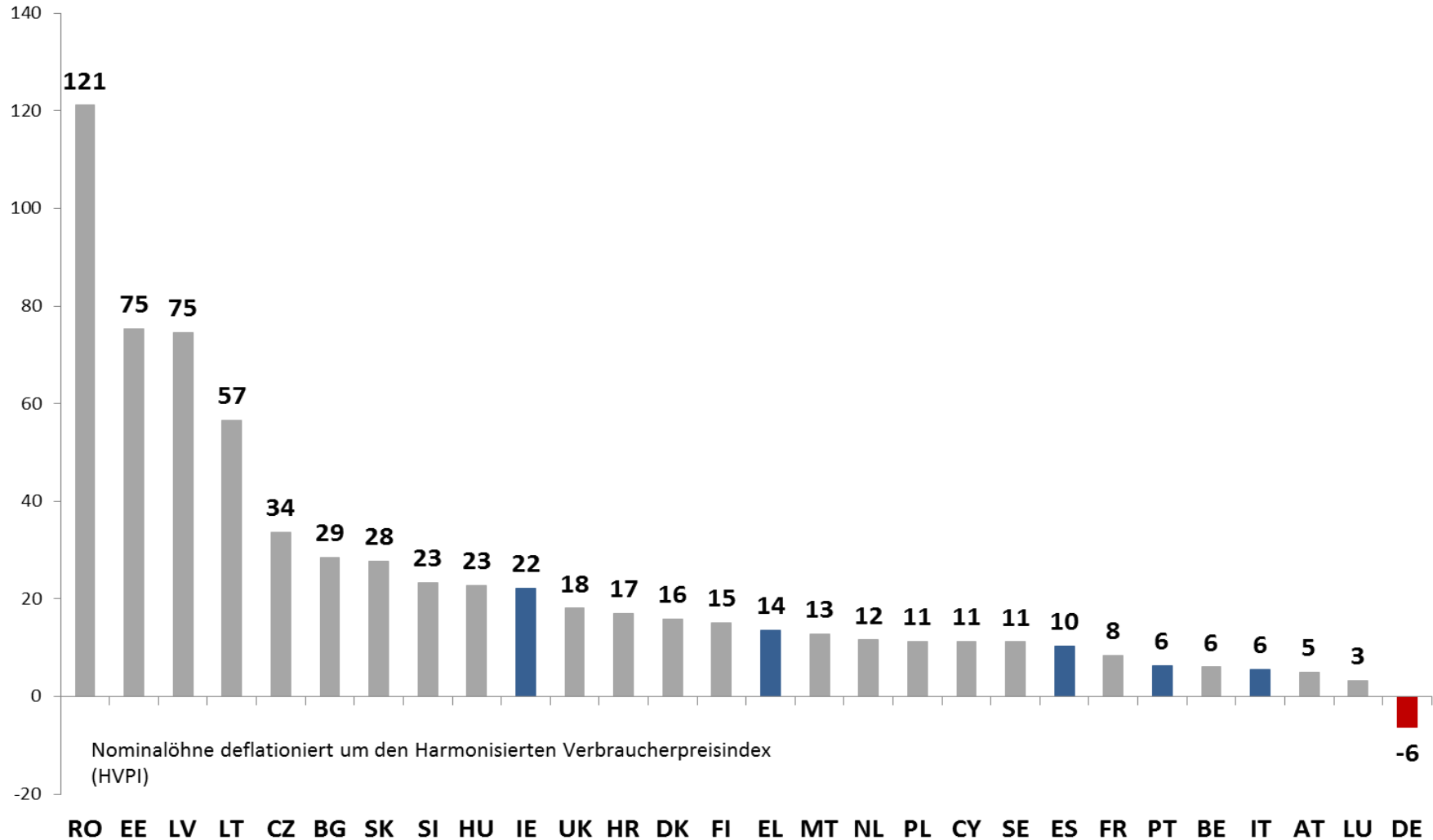
Deficit countries



# Development of Real Wages

*before* the crisis (2001-2009, in %)

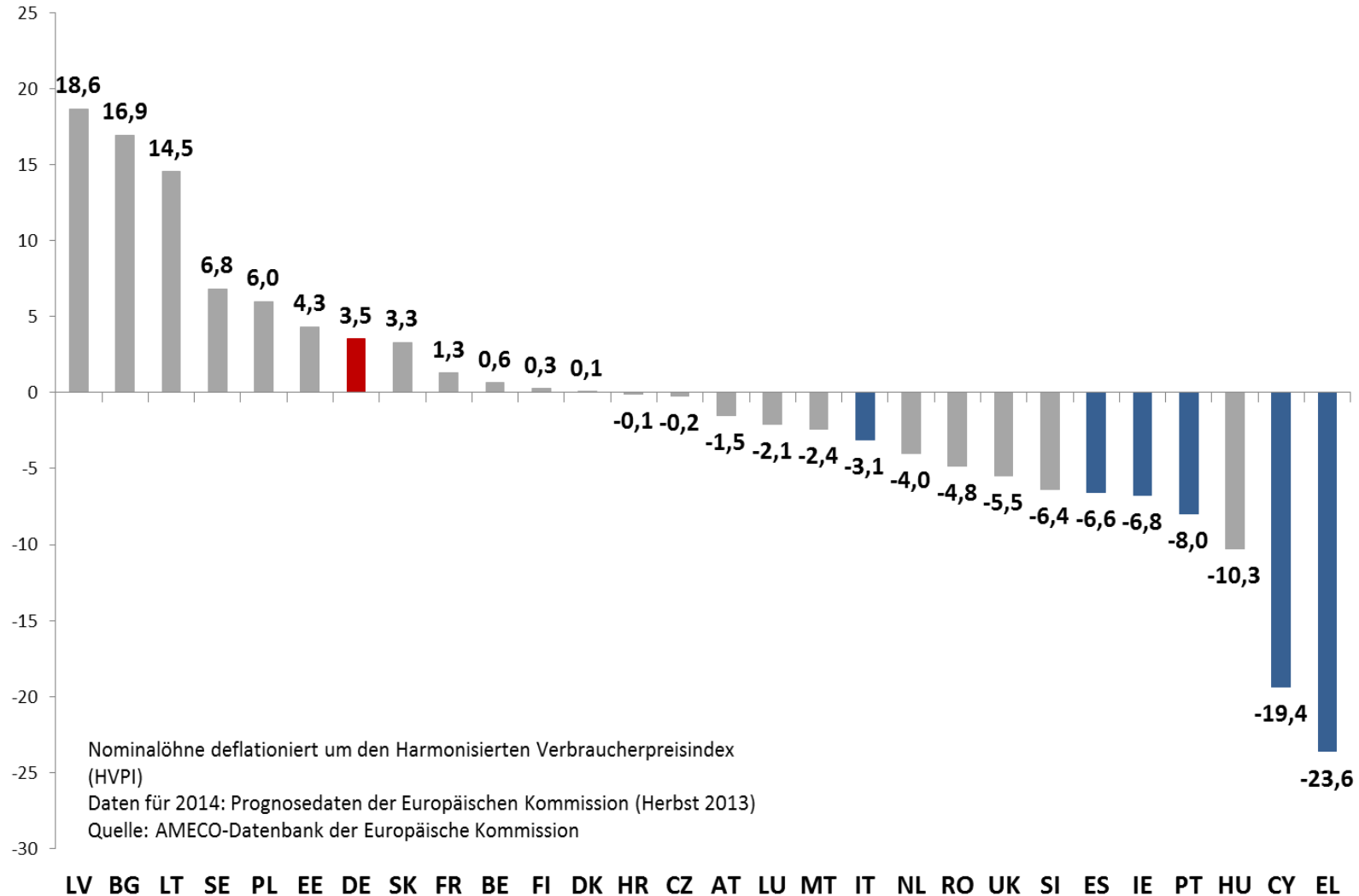
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Nominallöhne deflationiert um den Harmonisierten Verbraucherpreisindex (HVPI)

# Development of Real Wages

## *after* the crisis (2010-2014, in %)



# Why Germany can (and should) not be the model for Europe

- ➔ Not all countries in Europe can become surplus-countries and rely on export-led development models
- ➔ Need for **a more balanced economic development** based on higher equality
- ➔ Germany needs to strengthen its domestic development through more public investment and **higher wages**
- ➔ In order to get higher wages Germany needs a **new order for the labour market**



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4. **Outlook: Towards a ‘new order’ for the German labour market?**

# New Order for the German Labour Market

Draft Law of the current government:

## Introduction of a statutory minimum wage

- ⇒ **8.50 Euro per hour** from 1 January 2015
- ⇒ Exceptions possible through collective agreements until 31.12. 2016
- ⇒ General exceptions for younger workers under 18 and long-term unemployed



## Strengthening of collective bargaining through a less restricted use of extension

- ⇒ Abolishment of the 50% bargaining coverage threshold

# New Order for the German Labour Market

## Further topics under discussion:

### Temporary agency work

- Equal pay
- Stricter rules and limitations

### Fixed-term contracts

- Abolishment if there are no objective reasons
- Stricter rules and limitations if there are objective reasons

### Contract work an bogus self-employment

- Stricter rules and limitations

### Part-time work

- Strengthening of workers rights to switch between full- and part-time

### Improvement of dismissal protection



# Many thanks for your attention!

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