

Brady, David; Biegert, Thomas; Vitols, Sigurt

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## Continuity and change in the German labour market

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# CONTINUITY AND CHANGE IN THE GERMAN LABOUR MARKET

DAVID BRADY, THOMAS BIEGERT AND SIGURT VITOLS  
*WZB Berlin Social Science Center*

The German labour market has long been admired for its robust institutions, its vocational training and apprenticeship systems, which produce skilled and productive workers, and its relatively strong performance in delivering stable and secure careers. However, Germany has experienced a variety of economic, political, policy and institutional transformations in recent years and, as a result, its labour market has undergone many changes. This chapter offers an analysis of the contemporary German labour market, and how it changed between 1984 and 2010. Using data from the German Socio-Economic Panel made available through the Luxembourg Income Study, we analyse five labour market outcomes and a series of sociodemographic and employment-related variables.

The analysis reveals a number of important descriptive trends. The only improving trend is in the rise of the employment rate among working-age adults. On the other hand, some labour market outcomes – in particular, part-time employment and the share of low-wage employment – have grown much worse. There has also been a large increase in wage and earnings inequality. These changes have occurred at the same time as women's labour force participation has increased; migrants have remained a relatively stable share of employees; and there have been substantial improvements in the education and skill composition of the labour force.

There are also clear and relatively stable regional differences within Germany. In general, the former states of eastern German perform worse on nearly all labour market outcomes, and the southern states (especially Baden-Württemberg) perform best.

## The current German labour market

Generally, the relationships between sociodemographic variables and labour market outcomes are unsurprising, but there are some that are not in line with expectations. Across four out of five measured labour market outcomes, women are disadvantaged relative to men, even after allowing for any differences in other variables (such as age, education levels and experience). The one exception is that women are not more likely to be on temporary contracts than men. The other four are employment, part-time and temporary working, low-wage working and wage growth.

People born outside Germany are significantly less likely to be employed, but are also significantly less likely to be in part-time employment, and significantly less likely to be low-wage workers. Having a young child in the household is significantly negatively associated with employment, and significantly positively associated with part-time and low-wage employment.

Young adults (aged 18–24) experience some advantages and disadvantages. They are more likely to be employed and less likely to be working part-time. However, they are more likely to be temporarily employed and more likely to be low-wage employees.

People with few or no qualifications are significantly less likely to be employed and more likely to have low hourly wages if they are in work. However, they are also significantly less likely to be part-time employees and not significantly different in terms of temporary and low-wage employment. Labour market outcomes are better for those with vocational training experience than for those with medium-level qualifications but without vocational training. Those with higher education have the best labour market outcomes across all five outcomes.

## Trends in the labour market

Over time, there have been some important changes to how the sociodemographic and employment-related variables are associated with labour market outcomes. Our analysis shows women have become more likely to work, but have experienced a slightly increased disadvantage in terms of part-time and low-wage employment. At the same time, young adults have become increasingly less likely to be employed.

We also find that those with vocational training or higher levels of education have becoming increasingly advantaged. Comparing 2010 with 1984, there appear to be increasing returns to education and training. While there have always been advantages to education and training, workers with a low or medium level of education and no vocational training have become increasingly disadvantaged.

Most other key predictors have had relatively stable effects over time. There has been no clear change in the effects of being born outside Germany, age, industry or occupation on labour market outcomes. Even for young workers, there are no major changes over time in four of the five labour market outcomes. Moreover, we do not find fundamental changes in the traditionally successful domains of the German labour market, namely manufacturing and skilled workers.

## Addressing three contemporary issues

This analysis can inform the debates around three contemporary issues in the German labour market: the effect of policy reform, the growth of precarious work and the tendency towards dualisation.

We have data for 2004 and 2007, immediately before and soon after the Hartz reforms to the German labour market were implemented, which allows us to gauge the effects of these reforms. The Hartz reforms coincided with rising employment, and there was not a clear increase in temporary employment between 2004 and 2010.<sup>1</sup> Also, hourly wages rose between 2004 and 2010. However, since the reforms came into effect, there has been a clear increase in low-wage employment and wage and earnings inequality.

Consistent with the work–family aspect of the reforms, women were more likely to be working in 2010 than in earlier decades. There has also been an increase in part-time employment, which the reforms guaranteed as a right. However, women experience growing disadvantages relative to men in other labour market outcomes. Although there has not been a rise in part-time employment overall, women are increasingly more likely to be working part-time, which suggests strong – and potentially growing – gender segregation. There is also a clear disadvantage for women to having a young child in the household: work–family policies enable employment but have not gone far enough to remove disadvantages to parenting, a burden that falls disproportionately on women. While the policy changes provide state- and employer-funded benefits for working families, employers have not become less discriminating against women and mothers. The rising disadvantages that employed women experience are consistent with at least some increase in discrimination.

A second major narrative in discussion of the German labour market has been the growth in precarious working. More specifically, there is a view that deregulation, increased business power and weakening labour market institutions, social policies and unions have all worsened the standing of workers.

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1 It is important to be cautious with the 2010 time point as falls squarely within the ‘Great Recession’. However, as this analysis concentrates primarily on longer-term trends, our conclusions do not rest solely on the 2010 data.

There is some evidence for a prevailing trend towards precariousness. Unionisation has declined precipitously in Germany; young adults are having greater difficulty finding employment; and the rise in part-time employment is not encouraging, even if it reflects work–family reconciliation and some degree of personal choice. More importantly, there have been significant increases in low-wage employment and in wage and earnings inequality. On the other hand, it is difficult to decisively conclude that the labour market is getting more precarious when employment and hourly wages are increasing significantly. Moreover, there is a lot of stability and continuity in labour market outcomes.

The third narrative centres on dualisation, and contends that the labour market is being increasingly divided into ‘insiders’ and ‘outsiders’, who are granted different levels of access to labour markets, institutions and social policies. While the German labour market might benefit older, male, native workers, it excludes and marginalises the young, women, the less skilled and immigrants. Indeed, the argument has been that the exclusion of such groups is what has allowed the German system to maintain generous wages, benefits, protections, and social policies for the insiders – especially in an era of financial austerity and following reunification.

The strongest evidence for dualisation is the significant increases in part-time employment, low-wage work and wage and earnings inequality. Particularly indicative of dualisation are the increasing disadvantages that employed women experience, and the fact that young adults have become increasingly less likely to be employed. Equally relevant are the persistent advantages of skilled workers: those with vocational training, and those in the public sector or mining/manufacturing industries. That Germany’s traditionally successful workers are clearly insiders and continue to be ‘winners’ means that the outsiders and ‘losers’ include the less skilled, and those without vocational training working in the service sector. Workers with low- or medium-level qualifications and no vocational training have become increasingly disadvantaged. Meanwhile, the German labour market has substantially improved for those with a university education. That this improvement has coincided with rising low-wage employment and inequality suggests that many workers are excluded and marginalised.

However, some evidence is more ambiguous. Migrants are disadvantaged, but this disadvantage has not increased over the period when dualisation was supposedly becoming more pronounced. Although women face increasing disadvantages in the labour market, more women have been able to work than in the past, which makes it hard to see them, as a group, as outsiders. Temporary employment has not increased. Against four of the five labour market outcomes, young workers are not doing any worse in 2010 than they were in

1984. Finally, the key institutions of education and training, which might be supposed to sort workers into insiders and outsiders, have arguably become less exclusive over time.

Overall, there is some evidence to support each of these three narratives about the German labour market, but in no case it is overwhelming. The concept of dualisation arguably best describes the changes in the German labour market, but at the same time one should keep in mind the stability and robustness of the German model.

That said, despite an increase in the average skill level of the German workforce, there has been an increase in part-time work, in low-wage employment and in wage inequality. This is the downside of increased labour market flexibility. At the margin, firms appear to have taken a 'low road' to more low-productivity, low-value-added, low-paid work, rather than a 'high road' characterised by the opposite. The lesson for Germany – and for other European countries – is that simply supplying skills to a flexible labour market is not by itself an adequate response to structural change in the economy. More needs to be done to encourage and support firms to move towards a high-productivity model so that they can offer more, better-quality jobs.