

## Rapid change in paid employment

Paid employment in Germany is undergoing a radical transformation. Traditional or “normal” contracts of employment in the form of dependent full-time employment for an unlimited period are becoming less and less prevalent. This is a widespread trend and is now apparent, albeit to a varying extent, in nearly all sectors of the economy. While the increase in part-time jobs often accommodates women’s wishes for paid employment, the expansion of other forms of employment is being driven, to a major extent, by corporate demand for labour.

This finding is not just a reflection of the substantial needs for adjustment in enterprises. It also reflects changes in the underlying conditions in terms of labour market policy and of taxes and social security contributions, which are to be seen as a response by economic policymakers over the past few years to the persistent major imbalances on the labour market. If the existing variation in arrangements concerning working hours is taken into consideration along with the present broad range of forms of employment, many different options are now available for working patterns at the firm level, which signifies a considerable increase in the flexibility of labour deployment in the economy.

## Structural shifts in forms of employment

*Declining percentage of full-time employees ...*

According to the figures of the Federal Statistical Office, almost 39 million persons are in gainful employment in seasonally adjusted terms. That is almost exactly as many as at the beginning of the 1990s. The fact that the aggregated stock figures are largely constant does, however, conceal marked structural shifts in the status of the employed. For example, the statistics of the German Institute for Employment Research (IAB) show that the level of persons in full-time employment declined by one-fifth between 1991 and 2004. On balance, nearly 6 million persons have departed from this core segment of the labour market, resulting in its overall size decreasing from what used to be 29½ million to no more than 23¾ million at the end of the period under review.

*... alongside increase in part-time work and self-employment*

The crucial counterweight to this is formed by the group of persons in part-time jobs, among which, in this context, those working exclusively on a part-time low-income basis are also counted. As defined by the Federal Employment Agency, part-time work is deemed to be employment in which, by contractual agreement, a person does not work full-time but on a regular basis for part of what are, normally, standard or negotiated working hours. Over one-quarter of all employed persons now belong to this category. At just under 11 million, their number has almost doubled since the early 1990s (1991: 5½ million). Self-employment has also become more important. Including members of families who assist in family-run businesses and who are usually assigned to this group in

the statistics, 4¼ million, or 11% of all persons in gainful employment, were self-employed at the end of the period under review. At the beginning of the 1990s, the figure had been 9%.

### Part-time employment subject to social security contributions

Part-time work is especially prevalent among employees subject to social security contributions.<sup>1</sup> Of the total of just under 27 million persons working in this category, ie around two-thirds of all employed persons, somewhat over 16%, or 4¼ million, were working limited working hours in 2004. One decade before, the rate had been little more than one-tenth. The increase in the number of persons working part-time by more than 1 million, or 37%, between 1993 and 2004 is all the more striking in the light of the fact that there was a simultaneous decline in the number of full-time employed of 3¼ million, ie almost 13%.<sup>2</sup>

*Rise in part-time employment subject to social security contributions ...*

Part-time employment has traditionally been a female domain. Even though the number of men working limited hours has more than doubled in the past decade and was significantly over ½ million at the end of the period under review, at just over 3½ million, women still accounted for a share of around 85%. At

*... especially in the case of employed women*

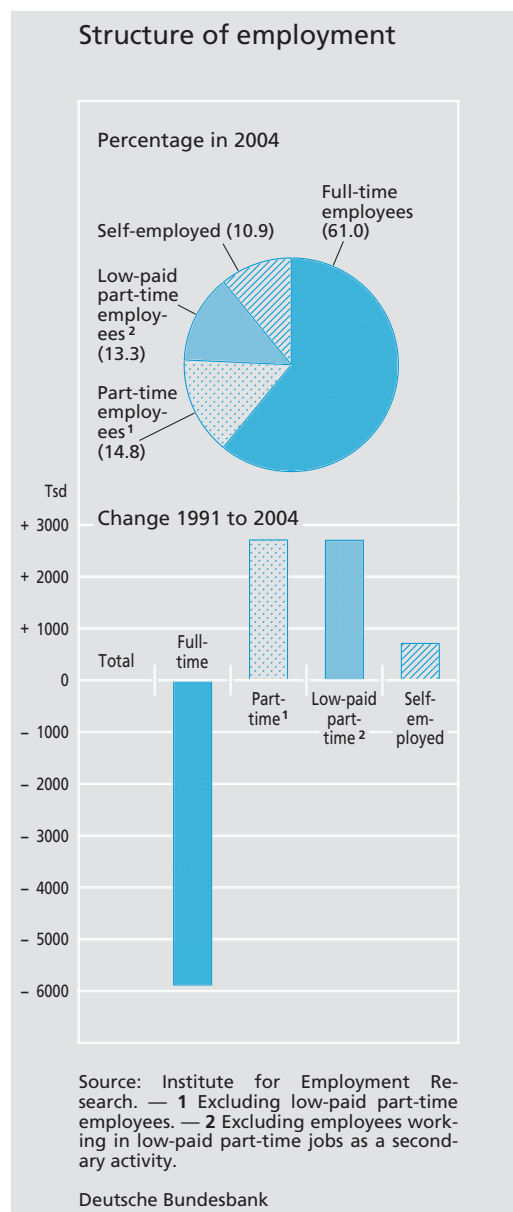
<sup>1</sup> Self-employed persons are also increasingly working part-time, however. According to the figures of the 2004 microcensus, the part-time ratio among self-employed persons is 14%.

<sup>2</sup> Federal Statistical Office, *Fachserie 1, Reihe 4.2.1, Struktur der sozialversicherungspflichtig Beschäftigten, Stichtag 30. Juni, various years*. The shortened observation period from 1993 is geared to the availability of statistics for Germany as a whole (western and eastern Germany).

the end of the period under review, not quite one-third of the nearly 12 million women in jobs subject to social security contributions were working part-time, compared with less than one-quarter in 1993. The persistently increasing participation of women in the labour force has thus led in many cases to part-time employment, while the number of women working full-time – as in the case of men – has fallen.

*Sharp increase  
in eastern  
Germany*

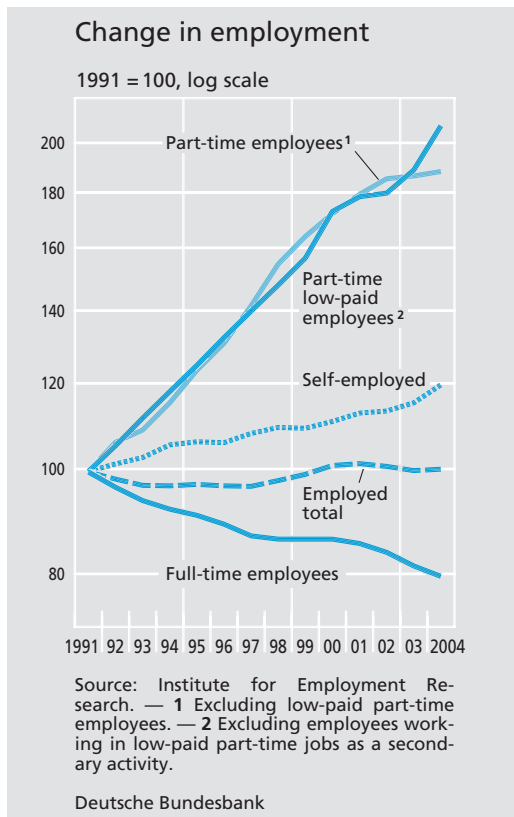
There has been a comparatively sharp expansion of part-time work in eastern Germany with a nearly 60% increase over the past 11 years. More than ½ million women are now working in part-time jobs. Nevertheless, at one-quarter, their share among all female employees subject to social security contributions was still appreciably lower than in western Germany, where the rate in 2004 was just under 33%. This may be partly connected with the fact that, traditionally, part-time work has been less popular in eastern Germany. In the 2004 microcensus, more than half of all dependently employed women stated that the only reason they were working part-time was that they were unable to find full-time employment. In western Germany, by contrast, part-time work is primarily a matter of preference. Only 6½% of women would prefer to work longer hours. In line with these differing preferences or constraints, the number of hours worked per week by women in part-time jobs in eastern Germany was clearly higher than in western Germany. Whereas around one-half of the women in western Germany stated that they worked fewer than 20 hours, the relevant fig-



ure in eastern Germany was mostly between 20 and 30 hours.

At the end of the period under review, a particularly large number of part-time jobs was being offered in the health and social work sector as well as in the wholesale and retail trade. These sectors employed 1¾ million persons, which corresponds to roughly two-fifths of the overall number of persons work-

*Concentration  
on the services  
sector*



ing in part-time jobs subject to social security contributions. In many cases, the number of operating hours to be filled in the two cited sectors are probably too small for the deployment of persons working on a full-time basis. Without the readiness to work reduced hours, many jobs would undoubtedly not be created. With a total of roughly 800,000 part-time jobs, the public sector and the education sector were also well represented. Furthermore, both the commercial service providers and real estate activities (including business services) are heavily staffed with part-time labour. Together, these sectors account for around ½ million employees. In industry, the food and drink industry as well as construction play a prominent role, although the 125,000 part-time jobs provided by these

sectors are notably fewer than those in the services sector.

### Low-paid part-time jobs

Another major form of part-time work is in jobs classified as low-paid part-time work (*Geringfügige Beschäftigungsverhältnisse*), which differs from part-time work which is subject to social security contributions in that there is a monthly upper income limit of €400 and that the employee is exempt from the obligation to pay taxes and social security contributions. The reduced contributions to health insurance (11%), pension insurance (12%) as well as the flat-rate wage tax (2%) are paid solely by the employer. The policy intention behind establishing job opportunities of this kind was to create jobs in the low-pay sector, integrate the unemployed and to cut back on illicit working in the field of household services.

Low-paid part-time work is evidently very popular. According to the official figures, which have been available since 1999, around 4¾ million employed persons worked exclusively in jobs of this kind in mid-2004.<sup>3</sup> This was, in fact, even larger than the number of part-time employees subject to social security contributions. Since 1999, there has been an increase in low-paid part-time jobs

*Strong proliferation of low-paid part-time work*

<sup>3</sup> This does not include persons who are simultaneously employed in work that is subject to social security contributions and who do low-paid part-time work as a second job. On the reference data of 30 June 2004, their number amounted to 1.7 million. Likewise excluded are low-paid part-time workers in households who are included at around 100,000 in the figures published by the Miners' Federal Statutory Insurance Scheme (*Bundesknappschaft*).

## Forms of employment by economic sector

in 000s

Sector	Full-time subject to social security contributions			Part-time subject to social security contributions			Low-paid part-time <sup>1</sup>		
	1999	2004	1999 to 2004	1999	2004	1999 to 2004	1999	2004	1999 to 2004
Manufacturing	6,891	6,403	- 488	333	378	45	508	585	77
Construction	2,295	1,584	- 711	70	60	- 10	138	196	58
Wholesale and retail trade	3,410	3,127	- 283	772	822	50	870	1,061	191
Hotels and restaurants	623	607	- 16	116	145	29	299	456	157
Transport, storage and communication	1,314	1,299	- 15	153	169	16	179	285	106
Financial intermediation	923	863	- 60	129	162	33	52	55	3
Real estate activities <sup>2</sup>	2,316	2,645	329	391	504	113	722	964	242
Public sector	1,418	1,270	- 148	380	445	65	28	81	53
Education	678	659	- 19	317	365	48	97	122	25
Health and social work	2,159	2,151	- 8	721	942	221	345	451	106
<b>Total</b>	<b>23,810</b>	<b>22,213</b>	<b>- 1,597</b>	<b>3,672</b>	<b>4,311</b>	<b>639</b>	<b>3,658</b>	<b>4,803</b>	<b>1,145</b>

Source: Federal Statistical Office, Federal Employment Agency; figures in each case for June. — <sup>1</sup> Excluding em-

ployees working in low-paid part-time jobs as a secondary activity. — <sup>2</sup> Including renting and business services.

Deutsche Bundesbank

of just over 1 million, or more than 30%. Estimates by the IAB show a figure of just under 2½ million persons in low-paid part-time work for 1991. That means almost a doubling since the early 1990s. There has therefore been a markedly higher-than-average increase.

Low-paid part-time jobs are likely to be seen as especially appealing by employers as such jobs allow a large degree of flexibility with regard to working hours along with a low cost burden. Furthermore, the administrative input for registering and transferring the contributions and tax is comparatively limited. The jobs offered, however, are generally not very demanding as the working hours are usually quite short. Assuming, say, an hourly wage of €10, fully exploiting the income

scope of €400 a month would leave no more than ten hours per week or so. This makes it possible to cope with operational peak working times or to fill in times that are not covered by a normal job.<sup>4</sup>

The restricted duration of working time is undoubtedly one of the reasons why a considerable part of low-paid part-time work is performed by persons in fairly old and fairly young age groups. According to the data of the Federal Employment Agency, roughly one-fifth were more than 60 years of age and around one-fifth younger than 25. Pensioners and retirees are likely to feature prominently

*Structure of low-paid part-time employment*

*Highly attractive for the employer*

<sup>4</sup> In addition, there is the option of a "midi-job" covering the income range between €400 and €800. Up to the income ceiling, the percentage of payable social security contributions gradually rise to the "normal" level.

among the older age group as are school, college and university students among the younger persons. Whereas most persons in these two groups have probably made a voluntary decision to work in a low-paid part-time job, in the case of other persons working on a €400 basis it is much less possible to rule out that they would prefer a regular job. The fact that two-thirds of those working in low-paid part-time jobs are women does suggest that bringing up children and other family commitments often run counter to a heavier involvement in the labour market. Nevertheless, a significant percentage of persons working in "mini-jobs" might prefer an employment subject to social security contributions.

The sectors that have a particularly large number of low-paid part-time employees largely correspond to those sectors where part-time work subject to social security contributions occurs frequently. The wholesale and retail trade takes the lead; at around 1 million, "normal" part-time employees are, in fact, exceeded by almost one-third. Furthermore, the increase in "mini-jobs" in the past five years was nearly four times as great. Low-paid part-time work is also very important in the case of commercial service providers, with the cleaning of buildings and vehicles being a focal point. Such jobs are also widespread in hotels and restaurants and in the health and social work sector. In the hotel and restaurant sector, low-paid part-time employment far exceeded traditional part-time jobs. In industry, there is a high level of such non-standard working arrangements in the manufacture of food products as well as in

paper manufacture, publishing and printing. The distribution of newspapers and magazines is likely to be an important factor in this area. There has also been a notable increase in the deployment of low-paid part-time work in the construction sector.

### Part-time work versus full-time work?

Even though the decline in full-time work and the simultaneous sharp increase in part-time jobs would, at first sight, seem to point to strong substitution processes, such a substitution is unlikely to have been the primary aim of firms' personnel policy. This is suggested, firstly, by the fact that the decline in the number of payroll employees in the past decade has very largely affected male workers, while the increase in part-time work has mainly benefited women. Secondly, the reductions in staffing levels were concentrated, above all, on industry and construction. By contrast, there were employment gains especially in the tertiary sector, namely in the wholesale and retail trade and in hotel and restaurant services. Both longer opening hours and marked peaks in demand at certain times of the day often call for flexible but not-full time working. The situation is similar with regard to the cleaning of buildings and vehicles (especially public transport). In these sectors of the economy, it cannot be ruled out that part-time work subject to social security contributions has been displaced owing to the fact that low-paid part-time jobs are easy to administrate and offer a large degree of flexibility in working hours and pay. In the public sector as well as in education, on account of the tight financial situation, the possibility of

*Structural  
change  
promoting  
part-time work*

making savings may have played a part in the increased use of part-time labour.

### Limited-term employment and subcontracted working

*Slight increase  
in limited-term  
jobs*

Limited-term employment contracts and subcontracted work (temporary hiring from an agency) are further forms of employment beyond the traditional pattern. According to the data from the 2004 microcensus, around 2½ million persons in gainful employment, or 8% of dependently employed persons (excluding trainees and those doing community or military service) were employed exclusively on a limited or fixed-term basis. This means that the quantitative significance of traditional "normal" work contracts is even less than is indicated by the percentage of full-time employees among the gainfully employed. The limited-term rate has increased by more than 1 percentage point compared with 1991. However, this slight overall growth conceals the fact that there is a clear increase in the case of younger employees. In 2004, at over 22%, twice as many dependently employed persons aged between 15 and 29 years were working on limited-term contracts than in 1991. This suggests that enterprises are offering fewer and fewer unlimited contracts, especially to those starting out on their work career. Furthermore, a professional qualification appears to increase the likelihood of obtaining an unlimited contract. At 14%, the limited-term rate in the case of employees who have not completed any vocational training is significantly higher than for the dependently employed as a whole. By contrast, labour market policy assistance for

limited-term contracts for older workers has met with little success.

According to Federal Employment Agency figures, the number of subcontracted workers in June 2004 was about 400,000. The personnel service agencies set up as part of active labour market policy play no more than a minor role in this context with around 25,000 employees. With an overall share among employees subject to social security contributions of only 1.5%, the quantitative significance of subcontracted work is comparatively slight. Even so, the temporary labour sector is growing extremely rapidly, with the easing of some restrictive regulations undoubtedly having played a part in this. In the past ten years, the number of subcontracting firms has doubled to around 15,000, and there were three times as many subcontracted employees as in 1991. Furthermore, there is evidently still no saturation of demand for subcontracted workers. Even though there was a decline in 2002 and 2003 associated with the slackening of economic activity, the sharp rise of more than 70,000 in the number of casual employees last year points to a continuing upward trend. The principle that subcontracted workers should enjoy the same pay and working conditions as core staff,<sup>5</sup> which was enshrined with effect from 1 January 2004 in the Act on Labour Leasing (*Arbeitnehmerüberlassungsgesetz*), gave rise to fears of a resulting decline in temporary work. So far, this does not appear to be case.

*Rapid growth of  
subcontracted  
work ...*

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<sup>5</sup> Departures from this are possible if the firm leasing workers has concluded its own pay agreement.

*... enhances  
operational  
flexibility...*

This is likely to be connected to the fact that wage differentials are less of a major consideration in deploying temporary labour than the associated increase in operational flexibility. For example, order peaks or a temporary loss of working hours as a result of business disruptions or illness can be offset more easily by means of subcontracted work. The temporary labour sector is, however, not only very flexible with regard to firms leasing labour from it but also in terms of its own complement of staff, as is shown by its very high staff turnover. Only 40% of the concluded work contracts ran for longer than three months, with 14%, in fact, being for only up to one week.

*... and helps to  
integrate the  
unemployed*

One reason for this quite short period of employment is that roughly one-third of subcontracted workers succeed in making a seamless transition into jobs outside the firm hiring out labour.<sup>6</sup> Accordingly, the temporary work agencies have, to a certain extent, assumed a job placement capacity. They recruit on a large scale from among the unemployed and non-employed. Nearly 70% of the workers were not previously employed, of which 8% had never been employed and 11% not in the preceding 12 months. Low-skilled persons, whose position in the economy is becoming increasingly difficult as a whole, have gained additional shares of employment in the temporary labour sector.

### Self-employment

*Increase in self-  
employment  
and start-up  
boom ...*

The changing profile of gainful employment is also apparent in the growing importance of self-employment. Including family members

who assist in family-run businesses, who are usually counted towards this category, their number rose between 1991 and 2004, as mentioned above, by one-fifth to 4¼ million at the end of the period under review. This was due mainly to a sharp increase in self-employed single-person-operated businesses. According to the data from the microcensus, since 2000 there have been more business proprietors working alone than self-employed persons with dependent employees. This is also likely to be connected with government assistance for unemployed persons to start up their own businesses, which has become very much more prevalent in the past few years. According to the calculations of the Institute for SME Research (IfM), Bonn, the total number of business start-ups reached a new peak in 2004, at around 570,000. The amendment of the regulations governing the craft trades, which entered into force at the start of 2004, has also played a considerable part in this, leading to a start-up boom in craft trades that no longer require authorisation.

Such assisted start-ups now account for nearly two-thirds of self-employed businesses. The number of firms established with the aid of bridging payments (*Überbrückungsgeld*) in Germany increased from 5,600 cases in 1986, the year in which they were introduced, to around 185,000 in 2004. Since the introduction of business start-up grants (*Existenzgründungszuschuss*), which are also financed by the labour exchanges, start-ups by persons who were formally unemployed have

*... with  
government  
assistance*

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<sup>6</sup> See E Jahn und H Rudolph (2002), *Auch für Arbeitslose ein Weg mit Perspektive*, IAB-Kurzbericht 20.



gained additional momentum. As early as in the first year of 2003, almost 93,000 one-person businesses were promoted throughout Germany. Taking bridging payments and business start-up grants together, 355,000 persons establishing a new business made use of the labour market policy programmes last year. Nevertheless, it is not possible at present to assess whether the instrument of the subsidised one-person business will ensure sustained self-employment.<sup>7</sup> The accompanying research on bridging payments showed that, three years after starting up a business, more than 70% of those given assistance were still self-employed. This roughly corresponds to the survival rate of non-assisted business start-ups and shows that temporary unemployment does not necessarily pose an obstacle to operating a successful business.<sup>8</sup>

*Sectoral  
distribution*

The largest growth in self-employment in the past five years, at around one-fifth, was in the case of commercial service providers. Along with the wholesale and retail trade, around 1¼ million were employed in this sector, which corresponds to nearly one-third of the total number. Hotel and restaurant services as well as the health and social work sector are heavily represented with almost 400,000 self-employed persons in each case. The services sector as a whole now accounts for nearly three-quarters of all self-employed persons and persons assisting in family-run businesses. In industry, the construction sector plays a prominent role with around 450,000 persons at the end of the period under review. The importance of self-employment in the construction sector has

undoubtedly also increased markedly under the pressure of circumstances.

### Reasons for the transformation of employment

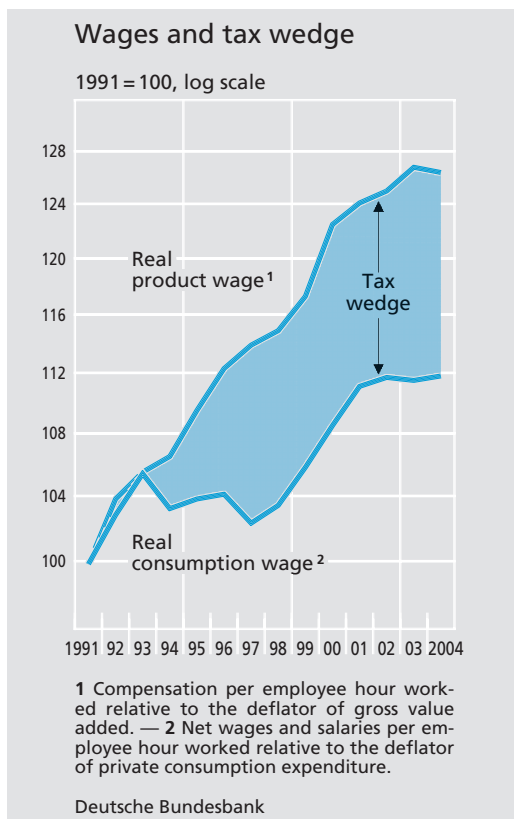
In explaining the structural shifts described above, reference is often made to sectoral change. It is true that the shift of importance in the forms of employment is being especially intensified by the advance of the services sector. But the percentage of full-time employees is clearly declining in the production sector, too, including, in particular, construction. A further factor behind the changes is undoubtedly (west German) women's increasing participation in the labour force. This may have caused a rise in demand for part-time jobs, although it does not explain the decline in full-time employment.

The underlying institutional conditions on the labour market are of crucial importance. High and increasing taxes and social security contributions have wedged themselves between labour costs and net incomes. In terms of the demand for labour, the increase in the cost of the factor labour leads not only to labour being substituted by capital but also to demand for labour moving to the alternative

*Widening tax  
wedge*

<sup>7</sup> Initial studies show that, two years after its introduction, one-sixth of the persons assisted had ceased to be self-employed. Of those who had already ceased to be self-employed after one year, more than half were unemployed again. See F Wiessner (2005), *Nicht jeder Abbruch ist eine Pleite, IAB-Kurzbericht 2*.

<sup>8</sup> See F Wiessner (2001), *Arbeitslose werden Unternehmer. Eine Evaluation der Förderung von Existenzgründungen vormals Arbeitsloser mit Überbrückungsgeld nach § 57 SGB III (vormals § 55a AFG), Beiträge zur Arbeitsmarkt- und Berufsforschung Nr. 241, Nuremberg*.



forms of employment which involve only low or no contributions to the social security systems. This is often the only way to prevent further jobs from migrating to other countries. Likewise, in terms of the supply of labour, employment subject to social security contributions is becoming less attractive than alternative forms of employment such as self-employment and low-paid part-time work.

*Restrictive regulations of "normal" work contracts...*

Furthermore, the regulation of the labour market and/or the regulatory burden have a considerable influence on the demand for labour. The more highly regulated "normal" work contracts are, the more likely is the response of moving to less protected alternative forms of employment. According to an international comparative study undertaken by the OECD, German employment protec-

tion regulations are to be rated as restrictive. The established indicator shows Germany occupying 19th place among 28 countries. With regard to compulsory redundancies and dismissals for individual reasons, only six and five countries respectively had poorer marks than Germany.<sup>9</sup>

It is true that a number of regulations have been relaxed over the past few years. However, this did not affect "normal" jobs so much as, first and foremost, "atypical" work contracts, where, according to the OECD, there has been more-than-average deregulation in the past decade. This has created additional options and incentives for enterprises to use alternative forms of employment. The fact that many employees see these as appealing, too, is revealed by the Act on part-time work adopted in 2001, which enshrines the fundamental legal right to part-time work. According to the Institute for Employment Research, between 2001 and 2003, working hours were reduced on request for a total of around 250,000 full-time employees.<sup>10</sup>

*... alongside increasing deregulation of alternative forms of employment*

Growing requirements of flexibility are a major cause of the transformation in paid employment. Increasing regional as well as international integration and division of labour inside and between enterprises along with greater customer-orientation make it necessary to adjust the deployment of labour – not least on considerations of cost – to what is often a fluctuating orders situation.

*Adjustment to changed demands*

<sup>9</sup> See OECD (2004): Employment Outlook.

<sup>10</sup> See S Wanger (2004), *Teilzeitarbeit – Ein Gesetz liegt im Trend*, IAB-Kurzbericht 18.

## Major changes to the legal framework for employment contracts in Germany

<b>Employment protection</b>			
1996	Raising of company threshold for the applicability of the Employment Protection Act ( <i>Kündigungsschutzgesetz</i> , KSchG) from six to eleven employees. Part-time employees are to be included in the calculation of the threshold on a pro rata basis.	2001	Act on part-time and limited-term employment. Limited-term employment contract permissible only with justified reason; justified reasons are regulated by law. Limited-term employment without justified reason permissible only for new recruits.
1999	Revocation of 1996 amendments. Lowering of company threshold for the applicability of the Employment Protection Act to six employees.	2003	Abolition of all restrictions on limited-term employment contracts for employees aged over 58.
2004	Raising of company threshold for the applicability of the Employment Protection Act from six to eleven employees (does not apply to those workers already employed on 31 December 2003). Simplification and harmonisation of the social selection criteria in the case of compulsory redundancies.	2004	Extension of maximum period of limited-term contract to four years for newly established companies.
<b>Part-time employment</b>		<b>Subcontracted/casual employment</b>	
2001	Act on part-time and fixed-term employment ( <i>Teilzeit- und Befristungsgesetz</i> , TzBfG). Basic statutory right to part-time employment. Possibility of returning to full-time employment. As a general rule, new positions are also to be advertised as part-time jobs.	1972	Act on labour leasing ( <i>Arbeitnehmerüberlassungsgesetz</i> , AÜG). Maximum period of labour leasing: three months; time limitation ban and synchronisation ban.
		1985	Maximum period of labour leasing extended to six months.
		1994	Maximum period of labour leasing extended to nine months.
		1997	Maximum period of labour leasing extended to twelve months. Relaxation of synchronisation ban, time limitation ban and reemployment ban.
		2002	Maximum period of labour leasing extended to 24 months.
		2004	Principle of equality (regarding the wages and working conditions for labour leasing) after the twelfth month of labour leasing. Abolition of numerous restrictions (maximum period of labour leasing, synchronisation ban, time limitation ban, reemployment ban). Principle of equality (regarding the wages and working conditions for labour leasing); exemption for labour leasing contracts subject to negotiated pay settlements. Establishment of personnel service agencies (PSA) to promote placement-oriented labour leasing.
<b>Low-paid part-time employment</b>		<b>Self-employment</b>	
until 1999	Flat-rate tax of 20% to be paid by employer (plus solidarity surcharge) for low-paid part-time workers (monthly earnings below the defined ceiling and no more than 15 working hours per week). Employees exempt from paying taxes and social security contributions. Wage-linked raising of the earnings ceiling from DM470 (1990, in western Germany) to DM630 (1999).	1986	Assistance in the form of bridging payments for unemployed persons who become self-employed; these are paid for six months and are based on the level of unemployment benefit expected or already received.
1999	Employees who do low paid part-time work as a second job no longer exempt from paying taxes and social security contributions. Flat-rate tax of 22% payable by employers. Earnings ceiling set at DM630 or €325 per month (no longer any annual adjustment).	1999	Act promoting self-employment: restriction of pseudo self-employment.
2003	Earnings ceiling raised to €400 per month, abolition of restriction to 15 working hours per week. Flat-rate contribution of 25% by employers, reduced flat-rate contribution of 12% for mini-jobs in households. Reintroduction of exemption from taxes and social security contributions for employees with a maximum of one additional low paid part-time job. Reduced social security contributions for "midi jobs" (scaled rates). Simplification of registration and contribution transfer procedures.	2003	Assistance in the form of business start-up grants for unemployed persons who become self-employed; maximum duration of assistance is three years; monthly payments of €600 in the first year, €360 in the second year and €240 in the third year; annual income may not exceed €25,000.
		2004	Partial abolition of the requirement to be a master craftsman as a result of the amendment to the legislation on craft trades: authorisation now required for only 41 out of 94 craft professions; qualified journeymen can also become self-employed in craft professions.
		2005	Assistance in the form of start-up allowance for unemployed persons who become self-employed and are not entitled to bridging payments or business start-up grants (recipients of unemployment benefit II); this is paid for a maximum of two years and depends on the length of unemployment, the number of dependants, the current standard benefits and the future level of total income.
<b>Fixed-term employment contracts</b>			
until 1985	Limited-term employment contracts permissible only with justified reason (section 620 of the German Civil Code in conjunction with case law).		
1985	Employment Promotion Act ( <i>Beschäftigungsförderungsgesetz</i> , BeschFG). Abolition of justified reason for limited-term employment. Maximum fixed-term period of 18 months.		
1996	Maximum fixed-term period of 24 months. Abolition of all restrictions on limited-term employment contracts for employees aged over 60.		

Employees' working hours are being deployed with greater variability and greater use is being made of flexible forms of employment. Longer-term staff retention, which involves ties that are often difficult to adapt owing to statutory regulations or negotiated working arrangements, is becoming less competitive.

### Implications of the new employment structures

*Total number of hours worked*

Given the outlined trends, it is becoming less and less possible to measure the amount of work performed on the basis of the number of employed persons. The key determinant, owing to the changes in the forms of employment, is the total number of hours worked. According to the calculations of the Institute for Employment, the annual total number of hours worked has gone down by roughly 6%, or 3½ billion, from just under 60 billion in the early 1990s. Given that the number of persons in work has remained largely constant, this implies a corresponding decline in the average number of hours worked. The crucial factor here is not so much the trend towards generally shorter working hours but rather the increase in part-time employment. Between 1991 and 2004, hours worked on a part-time basis increased from 3½ billion to 6½ billion hours and their share of total working hours doubled to around 12%, compared with 28% when measured by the number of persons. By contrast, the number of hours worked by full-time employees fell by one-sixth.

The changes in the employment structures are being reflected more and more in the traditional productivity ratios as well. While, in the period under review, productivity growth per employee, at an average annual rate of just under 1½%, roughly corresponded to the trend rate of real GDP, productivity growth on an hourly basis – owing to the falling total number of hours worked – was noticeably higher at an average annual rate of about 2%.

*Productivity of the factor labour*

The transformation in paid employment also has obvious implications for the importance of labour income for securing a livelihood. In the 1991 microcensus, no fewer than 95% of employed persons stated that their own labour income was the main source for securing their livelihood, whereas only 91% did so in 2004. Although some persons earning only a small amount are supported by the family income, supplementary social transfers to cover living costs are likely to become increasingly important, not least given the growing number of one-person households.

*Labour income and securing a livelihood*

The advancing transformation of paid employment is leading to serious problems in the financing of the social security funds. Insofar as the social security contributions have no direct relation to the claim for benefits and are therefore perceived as taxes, decoupling them from the level of employee compensation is called for. Additionally, traditional work contracts need to be framed in such a way that engaging new staff is made easier rather than more difficult. Furthermore, greater con-

*Continuing need for reform*

tractual freedom in pay bargaining is a an appropriate option.<sup>11</sup>

The German labour market is currently in a transitional phase. A lot has now changed. At the microeconomic level, this is undoubtedly often associated with hardships and frictions. More and more often, however, adhering to the status quo is proving to hold out no prospects; long-term unemployment remains by far the most important reason for income

poverty in Germany. In macroeconomic terms, it is important not to impede structural change on the labour market and to accompany processes of adjustment with systems of tax and social security, transfers and pay rates that are compatible with incentives and the availability of resources.

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<sup>11</sup> See Deutsche Bundesbank, Greater flexibility on the German labour market, *Monthly Report*, September 2004, pp 43-57.