OECD-Employment Outlook 2007 -- How does Germany compare?

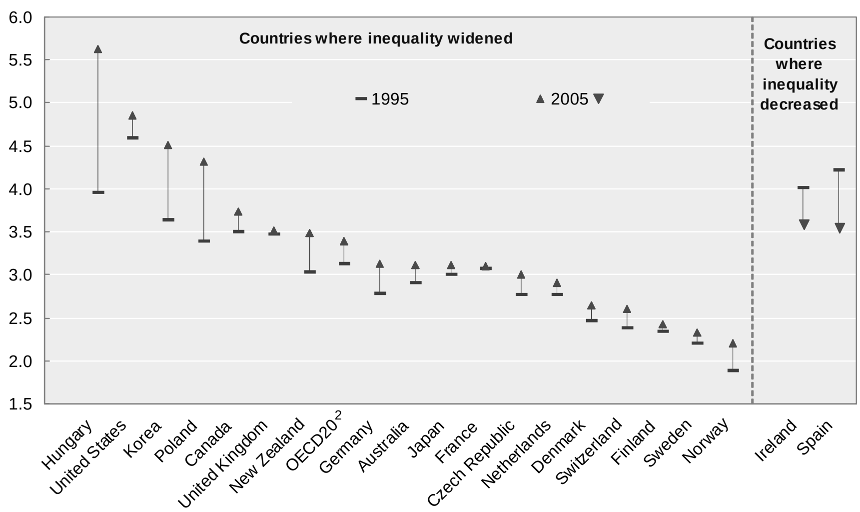
Germany should provide workers with stronger and more effective support in meeting the challenges of the new global economy. Employment policy, social insurance and labour law should be structured such that employees can cope with necessary job changes rather than stay in branches and jobs which have no future. At the same time, the social insurance burden on wages should be lightened in order to offset relative loss of incomes and encourage higher employment. So concludes the current year's OECD-Employment Outlook published today in Paris by the Organisation for Economic Cooperation and Development (OECD).

The Study comes to the conclusion that technical change and globalisation have above all weakened the bargaining power of low-skilled workers in the OECD countries. Relocation of jobs or the threat of it have increased the risk of unemployment and kept a lid on wages. **Thus in the vast majority of OECD countries, income inequalities have increased and the share of wages in economic output has fallen**.

Despite this general trend, the differences between the OECD countries and even between EU countries are considerable. Between 1995 and 2005 in France, Finland, Japan, Sweden and the Netherlands, wage gaps hardly widened. In Spain and Ireland, during the same period, wages for the low-paid grew faster than for the highly-skilled. In Germany, conversely, income differentials rose much more sharply than in the majority of OECD countries. In 2005, the ten per cent best-paid employees earned 3.1 times as much as the ten per cent least-paid. In 1995, it was only 2.8 times. In the 20 OECD countries for which data are available, only in the transitional countries of Hungary, Poland, and also South Korea and New Zealand, have wage trends been even more pronounced.

Income inequalities in most countries have increased

Ratio of the highest and lowest ten per cent of wages[1]



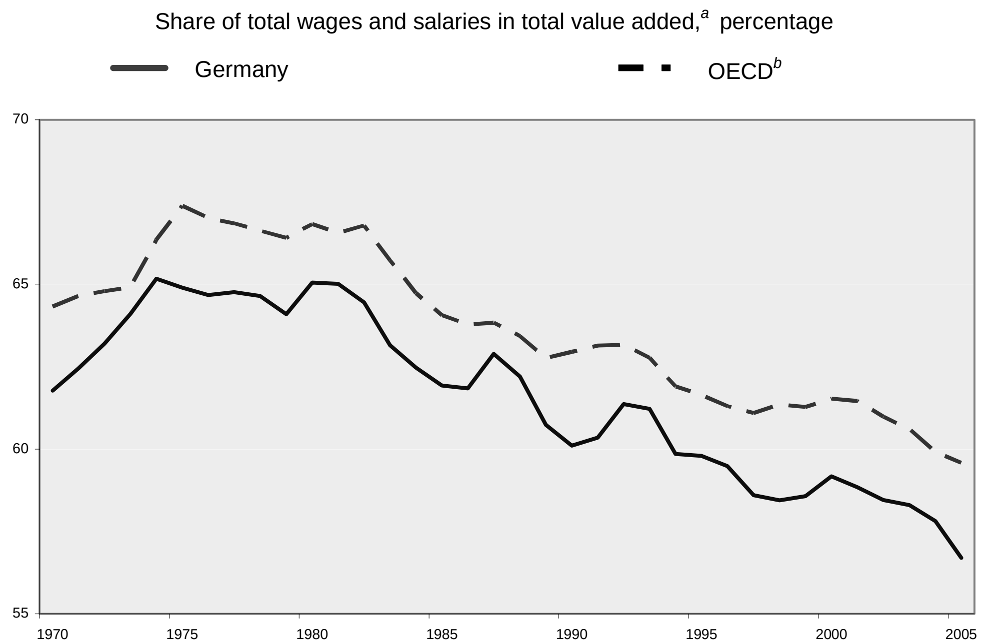
Note: The figure shows that in all countries except Ireland and Spain, the earnings of the 10% best-paid workers increased more than the earnings of the 10% least-paid workers, over the 1995-2005 period (*i.e.* earnings inequality widened).

1. Full-year, full-time workers. The data shown are consistent over time, but not fully comparable across countries owing to differences in pay reporting periods and coverage of workers.
2. Unweighted average of countries shown in the graph.

Source: OECD database on Earnings Distribution.

In Germany, the share of wages in economic output fell faster than on OECD average, between 1995 and 2005 from 59.8 to 56.7 per cent of GDP. In the OECD20, the wage share in the same period fell from 61.6 to 59.6 per cent (see graph "Share of Wages"). Political decisions, such as reducing income tax, have accentuated this affect. However, the feared effects of globalisation on employment and job security had not yet appeared. Thus the employment rate in Germany between 1995 and 2005 rose slightly above the OECD average (see Report page 246). The proportion of short-term employment (tenure up to one year) fell during this period by one percentage point to about 13 per cent. The average length of tenure rose from nine and a half to ten and a half years (see in Report Graph 3.5, on page 115). However, one in two unemployed in Germany has been jobless for over a year. Within the OECD, this figure is only exceeded in Slovakia.

Wage share of national income in Germany and the OECD area, 1970-2005



a) Total labour compensation, including employers' social security and pension contributions and imputed labour income for self-employed persons.

b) GDP weighted average of the following countries: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Korea, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom and the United States

Source: OECD Employment Outlook 2007.

The Study recommends that countries with high social security contributions, such as Germany, Austria and Belgium, should finance their social insurance on a broader basis. Especially for health and nursing care insurance, where the amounts paid do not determine the total service provision, financing from taxation could lighten the burden on incomes. Likewise, a reduction in social contributions for lower wage groups could have a positive effect on employment. This could be financed, the authors believe, from Value Added Tax or Income Tax. The decision to use part of the increase in Value Added Tax to reduce unemployment insurance contributions was a step in the right direction. Further financing of social insurance from taxes, according to Torres, could relieve the burden on wages and have a positive effect on employment. In this context, it could be useful to prevent a constant decline in low wages by introducing a moderate legal minimum wage.

The Study also recommends making it easier to change jobs without depriving workers of social security. The so-called Flexicurity Model, adopted by Denmark and Austria, is a successful strategy in this regard. Thus in Austria employers regularly pay amounts into an individual account for each employee. In the case of redundancy, this resource can be used as compensation or transferred to a new employment. If an employee does not claim these funds during his work-life, it can serve as a pension supplement after retirement.

Furthermore, support for the unemployed should be more thoroughly monitored in future, so as to ensure that its effects are employment friendly. This can be achieved through appropriate benefits in combination with measures to "activate" employees, so that they engage in independent job search. Pre-conditions for an effective "activation" policy are appropriate staff/client ratios, the signing of back-to-work agreements and regular checks of availability-for-work, coupled with moderate unemployment benefit sanctions. In recent years, Germany has made progress in this area. Furthermore, there are successful examples in the Netherlands, Great Britain and the Nordic Countries, which show that much more is possible. Germany should further improve its staff/client ratio and see to it that the possibilities for extending activation principles to recipients of long-term unemployment benefits (Harz-IV) which are already provided by the law, are also implemented in practice.

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