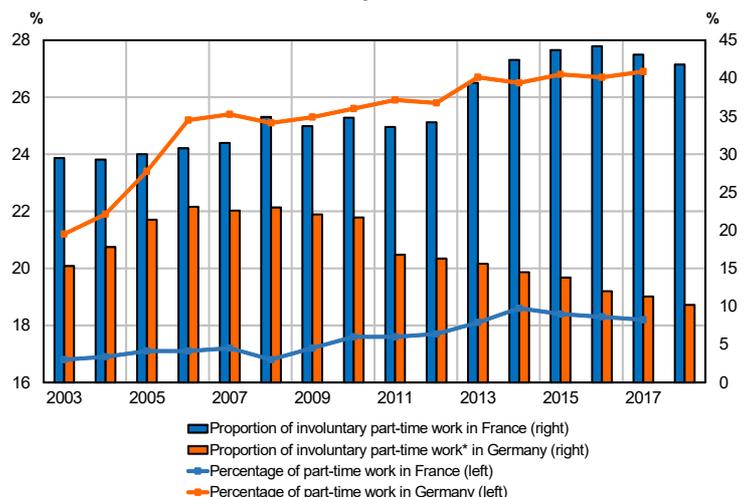


Part-time employment and hiring difficulties in Germany

- In contrast to France, Germany enjoys a high labour participation rate and a particularly low unemployment rate, 3.4% in 2018, the lowest since reunification. These have gone hand-in-hand with severe labour market tensions. However, Germany also has a high proportion of part-time workers, which raises the question as to whether these workers could provide a solution to the current hiring difficulties experienced by German companies.
- Part-time employment in Germany rose sharply during the 2000s in connection with the Hartz reforms, which broadened the scope of so-called "marginal" jobs (mini- and midi-jobs – very part-time positions for which employee contributions are minimal) and made the conditions in which they could be used more flexible. Interestingly, part-time work is less often reported as an involuntary phenomenon in Germany than in France (see chart). Women, who are over-represented in this type of employment, say less often than in other countries that they would prefer to work full-time. This can be attributed to cultural differences and the specificities of Germany's tax and social security system, but also to constraints concerning childcare and school hours.
- Although few women want to move to full-time work, many of those working part-time want to increase their hours (by 10 to 14 hours per week, depending on the survey). Moreover, they specialise in the service sector, where labour needs are concentrated and a desired increase in hours could satisfy a significant portion of the need.
- The recent slowdown in the German economy starting in 2018 has led to a decline in labour market tensions, although they still remain high in comparison with recent years. Several recent measures should further reduce these tensions. The reform making employee contributions more progressive as of 1 July 2019 for a portion of the part-time workforce could encourage some to work longer hours. This reform is expected to affect nearly five million employees. Other efforts that should help lessen constraints on the German labour supply include an act to improve childcare services, which was adopted at the end of 2018, and the amendment, slated for 2020, of the rules governing how certain social benefits are granted. In addition, the introduction of a minimum wage and the wage increases it has entailed tend to limit the demand for low-skilled labour, but could boost labour supply.

Part-time employment and its voluntary aspect in Germany and France



Source: Eurostat.

*includes people working part-time because they have been unable to find full-time employment.

1. Part-time employment has risen sharply in Germany¹

Germany had a labour force of 42 million in 2018, 37 million of whom were employees. With only 1.5 million persons out of work,² unemployment in Germany is at an all-time low: 3.4% in 2018 (against 9.1% in mainland France). According to the European Commission, Germany's unemployment rate has been near and even below its structural level since 2010. This has been accompanied by labour market tensions – an increasing number of German companies are reporting recruitment difficulties. In the industrial sector, for example, the percentage of companies reporting that staff shortages are the primary obstacle to expanding production has risen from less than 10% in 2016 to 25% in 2018, according to the Commission's business and consumer surveys. These difficulties are reflected in an increasing number of vacancies.³

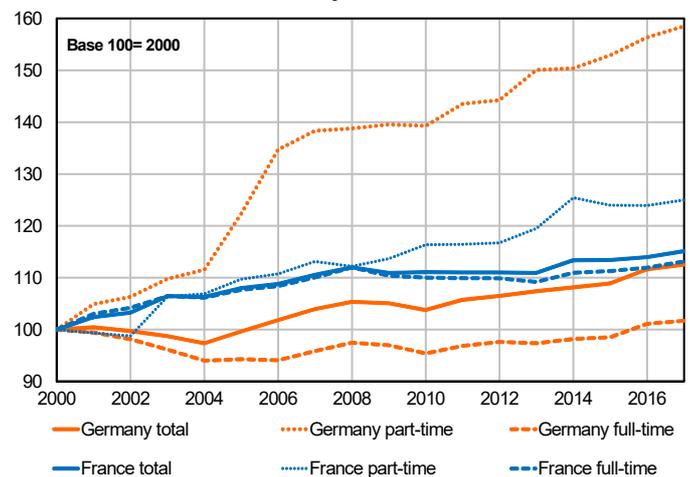
Despite this tension, part-time employment remains fairly widespread. According to Eurostat, 27% of Germans aged 15 to 64 work part-time (in both mini-jobs and regular employment – see Box 1), compared with 18% in France and 22% in the euro area as a whole. This data, which allows for cross-country comparisons, may however understate the percentage of part-time work in Germany, as some respondents tend to not report their mini-jobs occupation. For example, according to data from the Federal Employment Agency, 39% of employees in Germany were working part-time in 2017.⁴

Since 2000, part-time employment has buoyed up net job creation in Germany (90% of new net jobs for the period). This trend should be seen against the backdrop of the Hartz reforms introduced in 2003-2005, which encouraged the use of these types of jobs⁵ (see Chart 1 and box). As a

result, whereas there were 5.9 million mini-jobs in 2003, the number rose to 7.7 million in 2017. However, there are different trends depending on whether mini-jobs are secondary activities (in addition to a position subject to social security contributions⁶) or exclusive activities.

- The number of mini-jobs as a secondary activity has grown steadily since the Hartz reforms (1.1 million in 2003 and 2.8 million in 2017).
- There have been two distinct phases in the growth of "exclusive" mini-jobs, held by individuals who have only this type of employment. Just after the Hartz reforms, a significant rise was recorded, but the introduction of the minimum wage in 2015 led to a sharp decline (see section 4.2). Today the number of exclusive mini-jobs is only slightly higher than that observed in the early 2000s

Chart 1: Change in full-time and part-time employment in Germany and France



Source: Eurostat, DG Trésor calculations.

(1) This work is based on information and analyses provided by the Regional Economic Department at the French Embassy in Berlin.
(2) See Box 2 for details of how unemployment is measured.
(3) According to the Federal Employment Agency, there were an average of 1.3 million job vacancies in 2018 across the German economy, against 0.8-0.9 million for the period 2010-2015.
(4) See "Der Mikrozensus im Vergleich mit anderen Arbeitsmarktstatistiken, Ergebnisunterschiede und Hintergründe seit 2011." Thomas Körner, Katharina Marder-Puch, WISTA – *Wirtschaft und Statistik*, 4/2015. The estimate, based on the employment survey, of the number of people in mini-jobs as their primary occupation was 1.7 million fewer for 2013 than the Federal Employment Agency's estimate. This difference is largely explained by the fact that the employment survey concentrates on respondents' primary social status (student, pensioner, etc.), which means that they often fail to mention other activities, particularly mini-jobs. Over and beyond the question of mini-jobs, the two sources also differ on the estimation of the breakdown, within conventional employment, between full-time and part-time; however, the authors do not propose an explanation for this discrepancy.
(5) See Bouvard F., Rambert L., Romanello L. and N. Studer (2013), "How have the Hartz reforms shaped the German labour market?", *Trésor Economics* no. 110, March 2013.
(6) The number of mini-jobs does not correspond to the number of individuals employed at a mini-job. It is possible for the same person to combine several mini-jobs as long as the cumulative earnings do not exceed the cap set for this type of job (see box).

Box 1: Mini-jobs; Midi-jobs, traditional jobs: the various forms of part-time employment in Germany

In addition to traditional employment, which is subject to social security contributions, part-time workers in Germany can also work in other so-called "marginal" forms of employment: mini-jobs, which are largely exempt from employee contributions, or midi-jobs, which are subject to progressive social security contributions. These jobs have a low hourly volume, and have a monthly wage cap. Before the introduction of the minimum wage in 2015, these jobs were particularly low-paying.^a

Mini-jobs have undergone many changes since the 1970s but the main characteristics of these forms of employment have not changed since 2003.^b They are now capped at a gross monthly salary of €450. Employee contributions are limited to pension funds (and employees may request to opt out) but employer contributions are higher than for traditional jobs (around 28% compared with 20% under ordinary law). Income from these jobs is taxed at a low rate, but it is partially deducted from any social payments (minimum social benefits, unemployment benefits for those working less than 15 hours a week). Working a mini-job does not give an employee access to standard social security coverage, since it does not entitle her or him to unemployment or health insurance. If the employee is not covered by a spouse's health insurance, he or she must take out private health insurance, but he or she is covered by (employer-financed) accident insurance. Labour law provisions apply in full (conditions of dismissal, the right to paid leave, compensation for maternity or sick leave, minimum wage). In particular, the rules are the same as for traditional employment when it comes to the possibility of recruitment on permanent or fixed-term contracts.^c The framework for these forms of employment was made more flexible in 2003 by the Hartz II Act, in particular by eliminating the hourly cap, which was 15 hours per week. However, the introduction of the minimum wage in 2015 has de facto reintroduced the cap. It was also this act that introduced exemptions from contributions and taxation (a flat-rate 2% tax as a general rule), including for mini-jobs carried out as a secondary activity.

There are thus two main scenarios^d for the use of mini-jobs:

- i) Some people only have mini-jobs, in which case we can speak of exclusive mini-jobs. It is possible to hold down several mini-jobs with different employers, provided that the combined income from these activities does not exceed the monthly cap of €450. Roughly 260,000 employees^e are in this situation. If the monthly cap is exceeded, then all of the mini-jobs are deemed to be a "standard" salaried activity (entitling the worker to full social security coverage). As long as the cumulative income does not exceed €1,300, this salaried activity takes the form of a midi-job (see below).
- ii) For other workers, mini-jobs are performed as a secondary activity ("neben-jobs") and are worked on top of another job with another employer, thus entitling the worker to full social security coverage (full-time or part-time, also including midi-jobs, see below). Exemptions from employee contributions and income tax apply only to the first declared mini-job. If the employee declares other mini-jobs, the income from these mini-jobs is subject to the same contribution and taxation rules as for a standard job (with the exception of the contribution to unemployment insurance).

According to Minijob Zentrale, the national agency in charge of the social security scheme for persons employed in mini-jobs, the average gross income paid on all mini-jobs in 2017 was €309/month, with one third of these jobs being paid at the cap (€450/month).

Alongside mini-jobs, midi-jobs were created in 2003 (under the Hartz II Act) in order to even out the increase in contributions applying to the wages of those whose worked hours exceeded the cap for mini-jobs. For jobs paying monthly wages of between €450 and €1,300 (€850 prior to 1 July 2019), a progressive rate of employee contributions is applied until the full rate is reached at the level of the €1,300 cap.

- a. According to the "Verdiensterhebung 2017" survey by the German statistical institute Destatis, in 2014, nearly 40% of people holding down a mini-job were paid an hourly wage below the 2015 minimum wage (€8.5 per hour). These 40% were paid an average of €6.8 per hour and worked 9 hours per week.
- b. See Lestrade B. (2013), "Mini-jobs en Allemagne. Une forme de travail à temps partiel très répandue mais contestée", *Revue Française des Affaires Sociales*, 56-71. The Hartz reform also saw the creation of the Minijob Zentrale, which is tasked with centralising the management of the social security scheme for people employed in mini-jobs.
- c. It is possible to resort to a fixed-term contract, without having to justify it, for a maximum of two years, renewable at most three times over that same period.
- d. There are special provisions for mini-jobs performed for households but also for another form of mini-job known as "*kurzfristig Beschäftigung*": short-term mini-jobs that are limited to three months per year, or 70 days of work, with no cap on remuneration. These jobs are subject to very low employee and employer contributions, but are taxable under the general individual tax scheme at a flat rate of 25%. According to data from the Federal Employment Agency, there were on average 240,000 such jobs in Germany in 2017.
- e. See the government's response to a parliamentary request "Ausmaß und Struktur der geringfügigen Beschäftigung", BT-Drs. 19/4681 (29.10.2018).

Employees in midi-jobs benefit from standard social security coverage (health insurance, long-term care, retirement and unemployment). The applicable employer's contributions are the same as those for a standard job.

The various reductions in the tax wedge that apply to these forms of employment may encourage employees to combine them (midi-job + mini-job) in order to earn, for an equivalent hourly volume, a higher net income than for a traditional job. The characteristics of mini-jobs are also of interest to companies. Indeed, according to the Institute for Employment Research (IAB), which is affiliated with Germany's Federal Employment Agency, companies that make extensive use of mini-jobs^f most often indicate that their interest in this form of employment is due to its flexibility^g and the possibility of meeting short-term needs. In addition, the absence of employee contributions makes it possible to obtain concessions in terms of compensation from the persons employed.

f. See IAB-Forum, Ulrich Walwei: "Raus aus der Minijob-Falle! Sieben Ansatzpunkte für Reformen" (2018). These are mainly small companies or those in certain service sectors, such as retail trade, hotels and catering, social and health services.

g. On the basis of an annual hourly volume agreed between the employer and the employee and resulting in a fixed monthly remuneration, the monthly working time may vary and even be zero for up to three consecutive months. See "Flexible Arbeitszeitregelungen bei 450-Euro-Minijobs", Minijob Zentrale.

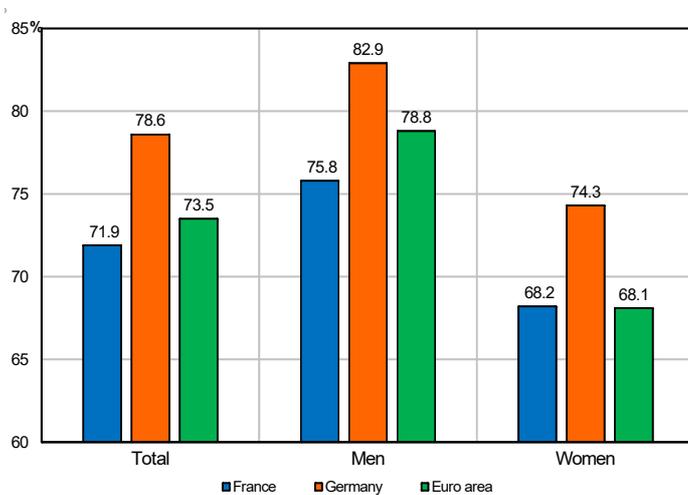
2. Involuntary part-time employment is low in Germany, especially among women

Germany's labour force participation rate of 78.2% is amongst the highest in the euro area, and is above that observed in France (71.5% in 2017, see Chart 2). This reflects the significant participation rate of German women, but also a greater prevalence of part-time jobs (including mini-jobs). Nearly half of all working women are in part-time jobs, compared with 30% in France (see Chart 3), and women account for two-thirds of mini-jobs.⁷ This situation

can be observed in almost every sector of the German economy (see Chart 4).

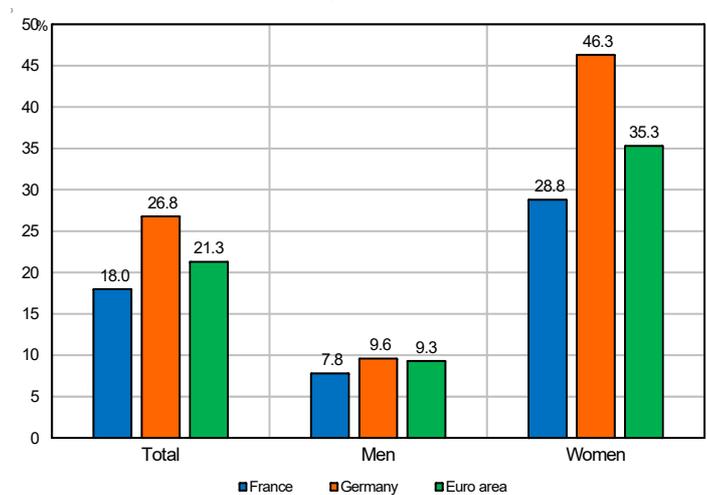
Nevertheless, part-time employment is much less often reported as "involuntary" than in other countries (see chart on page 1). In Germany, only 11% of workers in part-time employment say they would prefer to work full-time, and only 9% of women (compared with 18% of men).⁸

Chart 2: Labour force participation rate, 2018



Source: Eurostat.

Chart 3: Part-time employment as a percentage of total employment, 2018



Source: Eurostat.

In addition to cultural differences⁹ (particularly in western Germany), several factors appear to discourage the transition from part-time to full-time work, especially from a

mini-job to a full-time job. The tax and social security system, which is modulated according to household income, may encourage women to work short hours. The

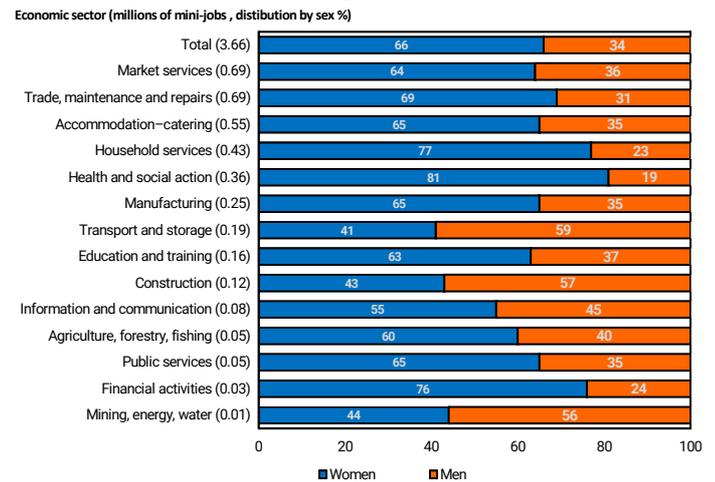
(7) Share of women among people whose only activity was a mini-job.

(8) In France, 43% of workers (51% of men and 41% of women) work part-time involuntarily.

(9) Cf. (Keine) Lust auf Kinder? Geburtenentwicklung in Deutschland. Bundesinstitut für Bevölkerungsforschung (Hrsg.) (2012). This report by the demographic institute underlines the significance of the term "Rabenmutter", or "raven mother", when used to criticise (particularly in the West) women who return to work soon after giving birth. According to the 2008 European Values Study, in western Germany 63% of the 18-40 year olds surveyed share the view that a child under three years of age would be unhappy if his or her mother were working. This figure was 36% in eastern Germany and 41% in France.

appeal of mini-jobs from the employees' point of view is the exemption from employee contributions and the low taxation. This appeal is all the stronger for married couples, whose income taxes are calculated not individually, but based on the couple's combined incomes ("*Ehegattensplitting*"), and as the person working a mini-job can benefit from his or her spouse's health insurance. Although the conditions for granting certain benefits should change starting in January 2020,¹⁰ their threshold effect, which means an abrupt loss of certain benefits, dissuades low-income families from increasing the number of hours worked.¹¹ Another major obstacle to women's full-time work remains childcare in nurseries and schools: only 38%¹² of primary school pupils in Germany stay at school all day. A recent study by the German Institute for Economic Research (DIW)¹³ on working time preferences within a couple estimates that difficulties with childcare in schools and nurseries are the main obstacles to female employment.

Chart 4: Exclusive mini-jobs by sector and by gender in June 2018 (ages 15-64)



Source: Federal Employment Agency "Die Arbeitsmarktsituation von Frauen und Männern 2018", July 2019.

How to read this chart: 66% of those holding down an exclusive mini-job are women.

Box 2: Mini-Job workers and labour market status

The labour market status statistics presented here are based on the International Labour Office's (ILO) measure of unemployment, which allows for cross-country comparisons. It does not count mini-jobbers as unemployed, since this status applies only to those who did not work at all during the reference week, who were actively looking for work and who were readily available.

On the other hand, it is possible that a proportion of those working mini-jobs are counted as jobseekers by the Federal Employment Agency (BA), which uses less restrictive criteria with regard to time worked (those who work less than 15 hours a week are counted if they want to work more and are registered with the BA). These differences in methods explain the differences in the unemployment rate measures: 3.4% in 2018 according to the ILO and 5.2% according to the BA.

Finally, a portion of mini-job holders can be counted as under-employed according to the ILO, which includes 2.4 million employees (i.e. 5.9 % of the German labour force). This measurement includes employed persons in employment within the meaning of the ILO who work part-time, want to work more and are available, whether or not they are actively looking for work.

3. A majority of women would like to work more, and their supply seems to match companies' demand for labour

As an indication of the momentum of female labour supply, the number of mini-jobs held by women as secondary jobs is rising sharply (by some 4% per year since 2010). The majority of employees who state that they are underemployed are women, most often working part-time.

Thus, the potential employment reserves via an increase in working hours mainly concern female employment. A large proportion of underemployed women would like to work longer hours, but without taking up full-time employment (a choice which closely overlaps with the family situation, see

(10) In particular the child benefit, the *Kinderzuschlag*, will be gradually reduced according to income instead of being abruptly cut off after an income threshold is reached.

(11) Cf. Costes N., Rambert L. and E. Saillard (2015), "Part-time work and work-sharing: a comparison between France and Germany", *Trésor-Economics* no. 141 and Weinkopf C., (2014), "Women's Employment in Germany. Robust in Crisis but Vulnerable in Job Quality", *Revue de l'OFCE*, vol. 133, no. 2, pp. 189-214.

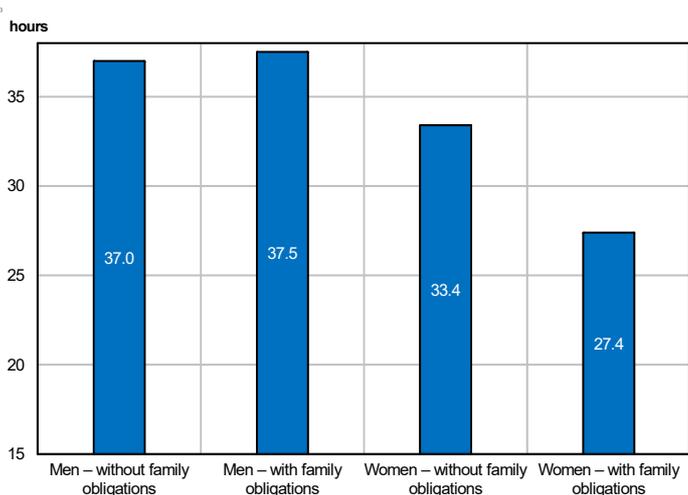
(12) Result of the "STEG" study for the development of full-time schooling, conducted in 2016.

(13) Cf. DIW Wochenbericht No. 38 (2018): "Part-time employees would like to increase their working hours, full-time employees would like to reduce them". The institute uses data from the Socio-Economic Panel, SOEP (which includes data on working hours worked versus desired working hours) and takes into account the impact of the tax system on household income. The institute then simultaneously estimates the labour supply of households (choice between full-time, "high" or "low" part-time and mini-job) and the impact of certain barriers on actual working time.

Chart 5). Thus, according to various surveys,¹⁴ underemployed part-time female workers wanted to work 10 to 14 hours more per week in 2015. By way of illustration, assuming that all the barriers to increasing working time can be removed, this corresponds overall, depending on the sources, to 16 to 23 million extra hours worked, or around 400,000 to 540,000 full-time equivalent jobs (see Chart 6).

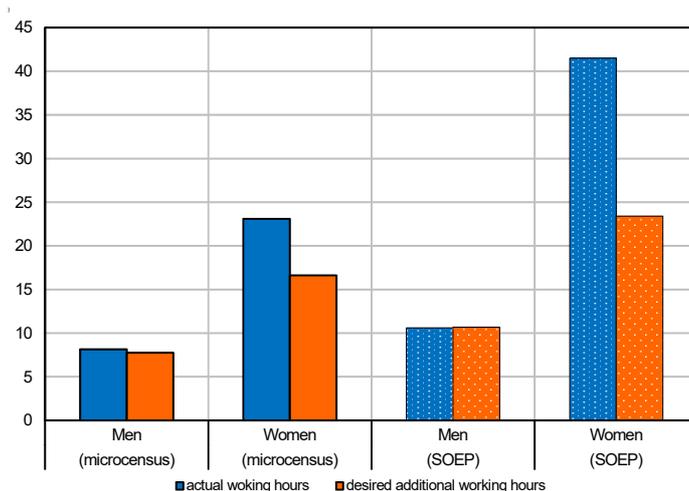
Of the 1.5 million jobs declared vacant by German companies in 2018, three-quarters required at least one professional qualification and were in the service sector (see Chart 7). This could correspond to a portion of the female labour supply, which is generally qualified and concentrated in the service sector (which accounted for 85% of German female employees in 2017). An increase in the volume of hours worked by women could therefore meet part of companies' demand for labour.

Chart 5: Desired weekly working hours of employees in 2015 broken down by family situation



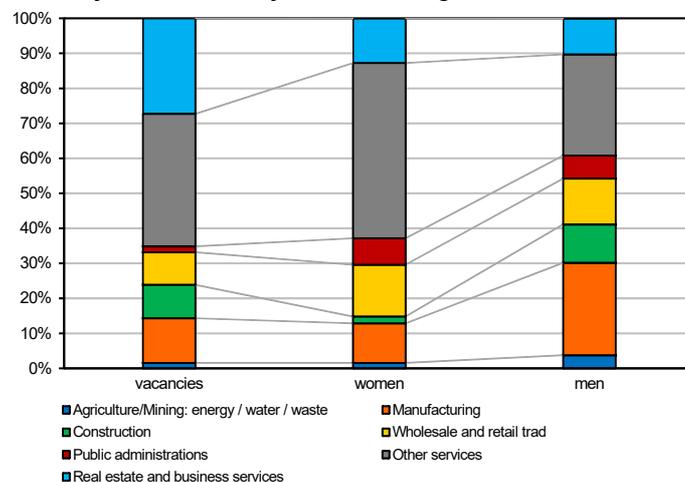
Source: SOEP, Schäfer H., Schmidt J. (2017), "Arbeitszeitwünsche von Frauen und Männern", IW-Kurzberichte n°5, IW-Köln.

Chart 6: Actual working hours and desired increase in 2015 for part-time employees who state that they are underemployed (in millions of weekly hours)



Source: SOEP (DIW household panel), microcensus (Destatis household panel), calculations by DG Trésor.

Chart 7: Comparison of job vacancies by sector to the gender structure of employment (2017)



Source: IAB and Eurostat.

(14) Results of the Destatis 2015 employment survey (microcensus) and the SOEP 2015 survey conducted by the German Institute for Economic Research (DIW), respectively. The differences between the two surveys can be explained in particular by a different sequencing and wording of the questions asked ("Longer or shorter working hours? - Questions and answers in the microcensus and the SOEP" in Methods - Approaches - Developments, Issue 2/2018).

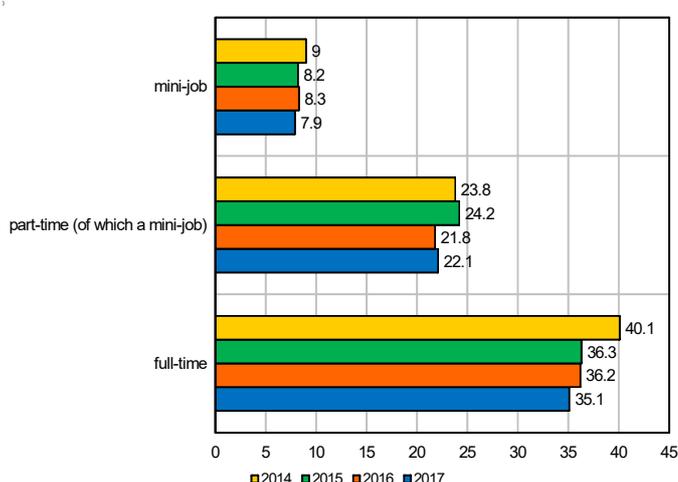
4. Recent measures introduced by the German government could alleviate emerging labour market tensions

4.1 Employees affected by the introduction of the minimum wage benefited from a sharp increase in hourly wages but saw their working hours reduced

The annual income survey published by Destatis¹⁵ shows that, for minimum-wage jobs, the actual weekly working time for full-time employees fell to 36.3 hours in 2015, compared with 40.1 hours in 2014 (see Chart 8), and in 2017 to 35.1 hours. The second report by the German Minimum Wage Commission indicates that the strategy of reducing working time has been widely observed among firms where a significant proportion of the workforce was

affected by the introduction of the minimum wage. The arrival of the minimum wage in 2015 also made exclusive mini-jobs (but not supplementary ones) less attractive. Until 2014, despite an additional employer's contribution, mini-jobs remained an attractive form of employment for employers because of their low wages. There was thus a sharp decline in the number of exclusive mini-jobs starting in 2015 (a fall-off of 153,000 in 2015 against 2014), some of which were transformed into salaried positions that were fully subject to social security contributions (an increase of 104,000 in 2015 compared to around 50,000 in other years, see Chart 9).

Chart 8: Average actual weekly working time of employees paid the minimum wage from 2014 to 2017 (in April)



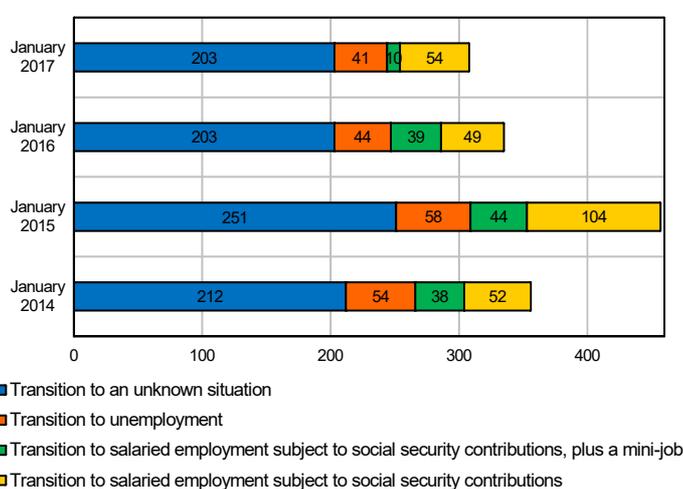
Source: Destatis, Verdiensterhebung 2017.

4.2 Recent measures could encourage the take-up of marginal jobs with a higher hourly volume or facilitate the return to full-time work

In this context, several measures have been put in place to accompany the increases in the minimum wage in 2019 and 2020 (4% and 1.7%, respectively).

Changes to employee contributions on midi-jobs should make this form of employment more attractive and encourage some part-time workers to increase their hours. From €850 per month, the monthly cap on income that is partially exempt from employee social security contributions has been increased to €1,300 gross starting on 1 July 2019 (equivalent to working 32 hours per week at

Chart 9: Transitions by individuals whose only activity was a mini-job (2014-2017)



Source: Second report from the German Minimum Wage Commission (2018).

the 2019 minimum wage level). This measure is expected to improve employees' purchasing power but will also influence their labour supply compared to the situation pre-reform: workers earning less than €850 per month (equivalent to working around 21.5 hours per week at the minimum wage) will have a greater incentive to work more since the rate of social security contributions will increase at a slower pace. For workers earning between €850 and €1,300 per month, the contribution rate also declines. On the other hand, it becomes progressive which, relative to the pre-reform situation, reduces their incentives to work more. According to the Berlin-based DIW, the reform would affect 4.7 million workers, 2.5 million of whom currently earn less than €850/month.¹⁶

(15) Verdiensterhebung 2017.

(16) Wochenbericht no. 16 (August 2018), Stefan Bach, Hermann Buslei and Michelle Harnisch: "Midi-Job-Reform entlastet Geringverdienende, vor allem teilzeiterwerbstätige Frauen".

The German government, aware of the disincentives connected to the rigidities of the various types of employment contract, undertook in its coalition agreement to create a legislative framework that would facilitate the introduction of the Family Working-Time Model (*Familienarbeitszeit*) to facilitate work/life balance, particularly by allowing working time to fluctuate across careers. To make it easier to return to full-time employment, especially for employees who have shifted to part-time employment after having a child, the government introduced a right to return to full-time employment on 1 January 2019.¹⁷ The promulgation, in December 2018, of the "Good Daycare Facilities Act" also plays a part in supporting the labour supply, by improving daycare for children through an additional €5.5 billion over three years,

particularly dedicated to extending opening hours, reducing crèche fees and staff training.

Discussions are underway on broader action to address obstacles to increasing working hours. The IAB has called for an end to the "mini-jobs trap", which acts as a roadblock to the increase in working hours for many employees.¹⁸ Similarly, in its latest report on Germany,¹⁹ the IMF stresses the blocks represented by the method of calculating income tax for married couples (which uses a marital quotient) and the specific tax and social security regimes for mini-jobs. To remove these, the IMF recommends individual taxation for couples, accompanied by an increase in the tax threshold or a specific tax credit for couples.

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(17) This measure is a response to the success of the *Elterngeld Plus scheme*, which entered into force in July 2015. It encourages individuals to work part-time following the birth of a child by offering a parental benefit. This benefit can be granted for 24 months – or 28 months for both parents. The benefit covers between 65% and 100% of the loss of income compared with a full-time job. The new right to return to full-time employment, introduced in 2019, should prevent the involuntary prolongation of part-time employment taken up, in particular, under the *Elterngeld Plus scheme*.

(18) The IAB advocates a broad and very gradual approach to removing the benefits of using mini-jobs in the market sector (in particular so as not to create shocks for small businesses or the retail sector). The model is based on seven elements, including the abandonment of the joint taxation model for spouses, which reduces the incentives for many married women to increase their working time. Other recommendations include more effective monitoring of the application of the minimum wage, traceability of working hours, extended care for children and dependent parents, as well as a review of the exemptions on *neben-jobs* in contrast to the overtime system, which does not benefit from them (a criticism also shared by the IW research institute, which reflects employers' concerns; see "iwd kompakt" "Attraktiver Zweitjob", 12/2018).

(19) Germany-Staff Report for the 2019 Article IV Consultation.

Publisher:

Ministère de l'Économie
et des Finances
Direction générale du Trésor
139, rue de Bercy
75575 Paris CEDEX 12

Publication manager:

Bertrand Dumont

Editor in chief:

Jean-Luc Schneider
(01 44 87 18 51)
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English translation:

Centre de traduction
des ministères économique
et financier

Layout:

Maryse Dos Santos
ISSN 1962-400X
eISSN 2417-9698

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This study was prepared under the authority of the Directorate General of the Treasury (DG Trésor) and does not necessarily reflect the position of the Ministry of Economy and Finance.