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The Management of Restructuring and Demographic Change – Challenges for German Labor Relations

Demographic Challenges for Human
Resource Management and Labor Market
Policies

-- A German-Japanese Comparison --
Tokyo, October 5-6, 2005



Ministerium für
Wissenschaft und
Forschung des Landes
Nordrhein-Westfalen

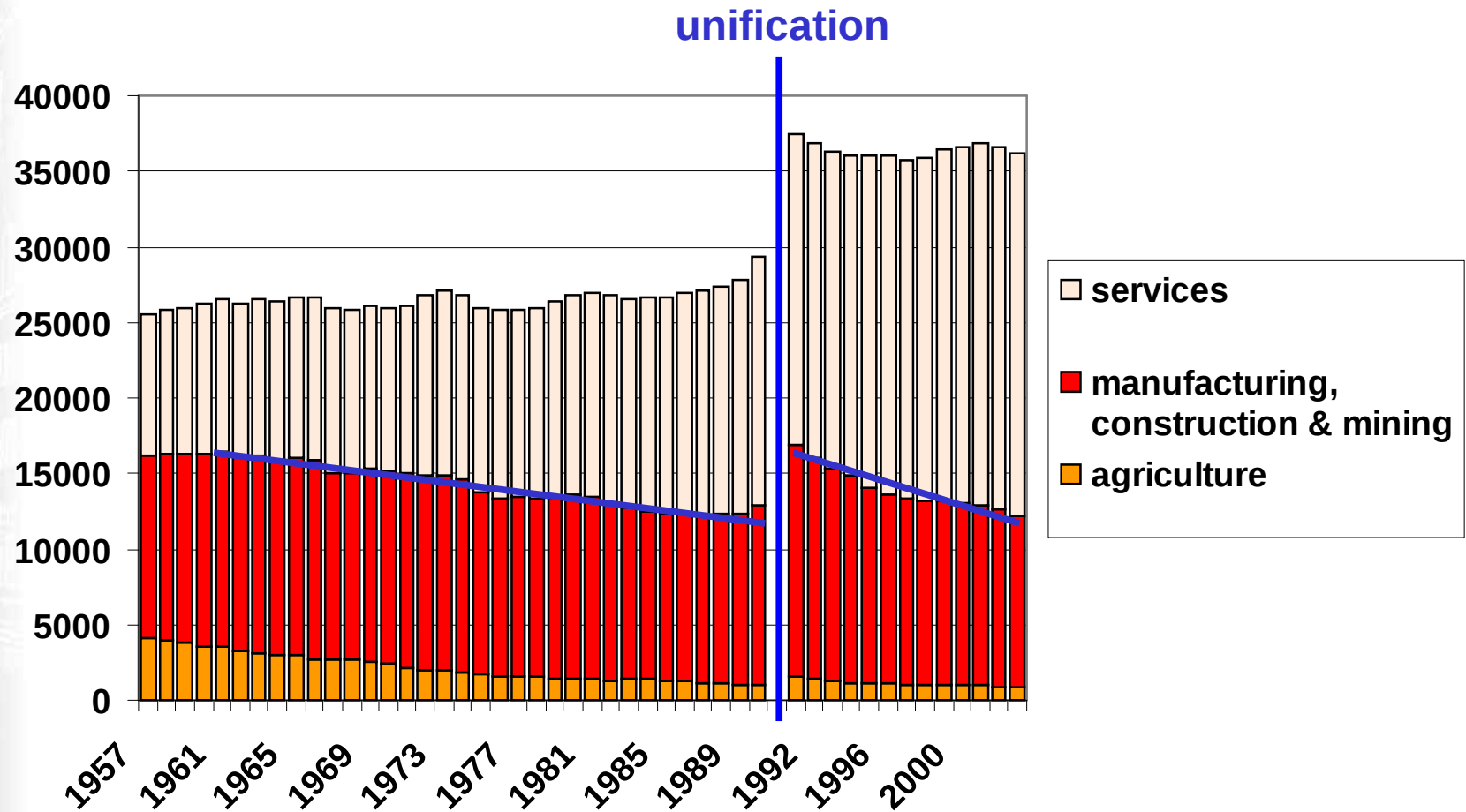
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Outline

- structural change and labor market transitions
- early retirement – traditional mode of negotiated redundancy
- demographic challenge: opting out of early retirement
- negotiated outplacement: the new pathway
- new demands on social actors

Sectoral Shift of Employment, Germany 1957 – 2003 (Thousands)



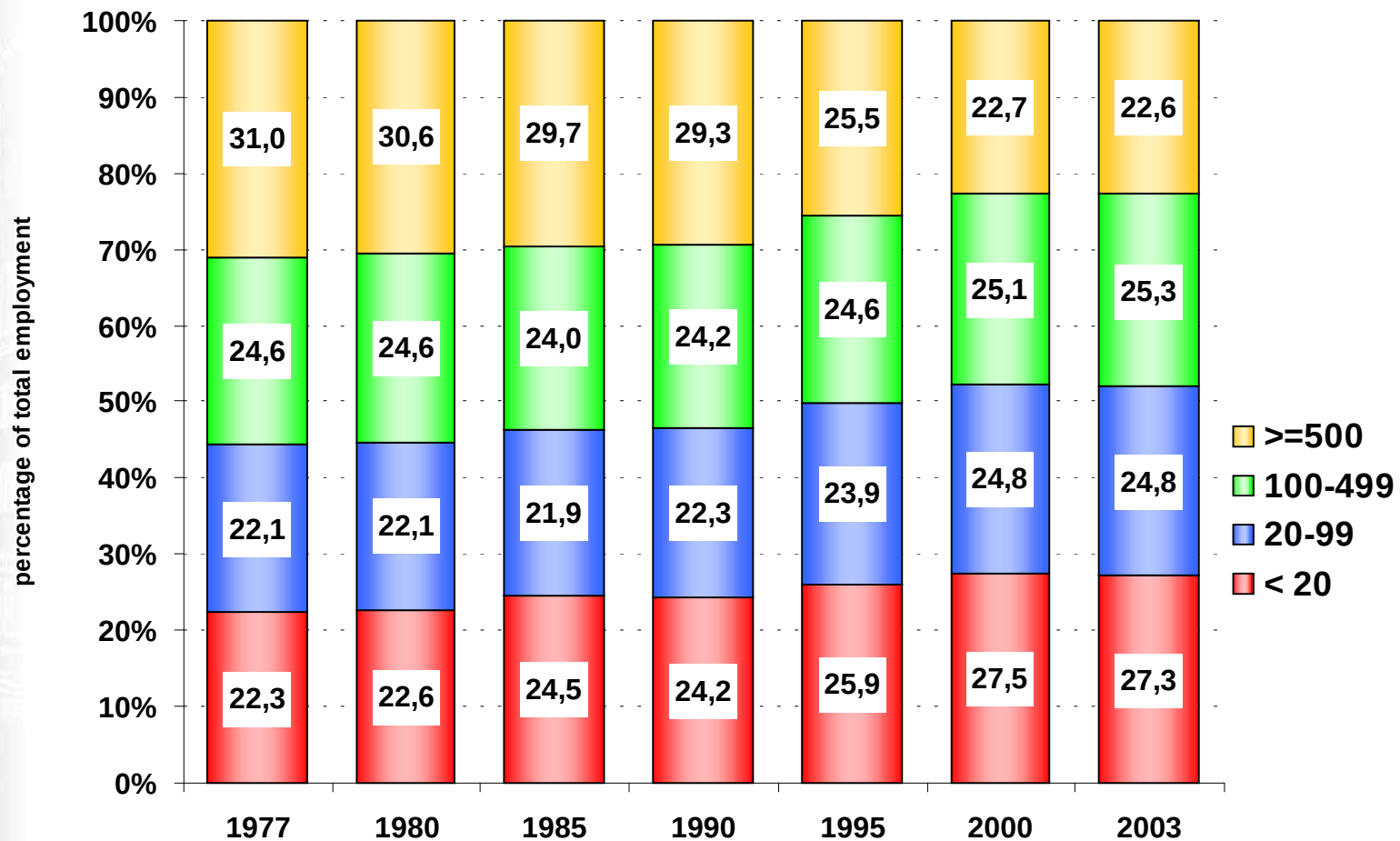
Source: Federal Bureau of Statistics

Shift of Organizational Size: Distribution of Workforce*) over Establishment Size Categories, **West Germany**

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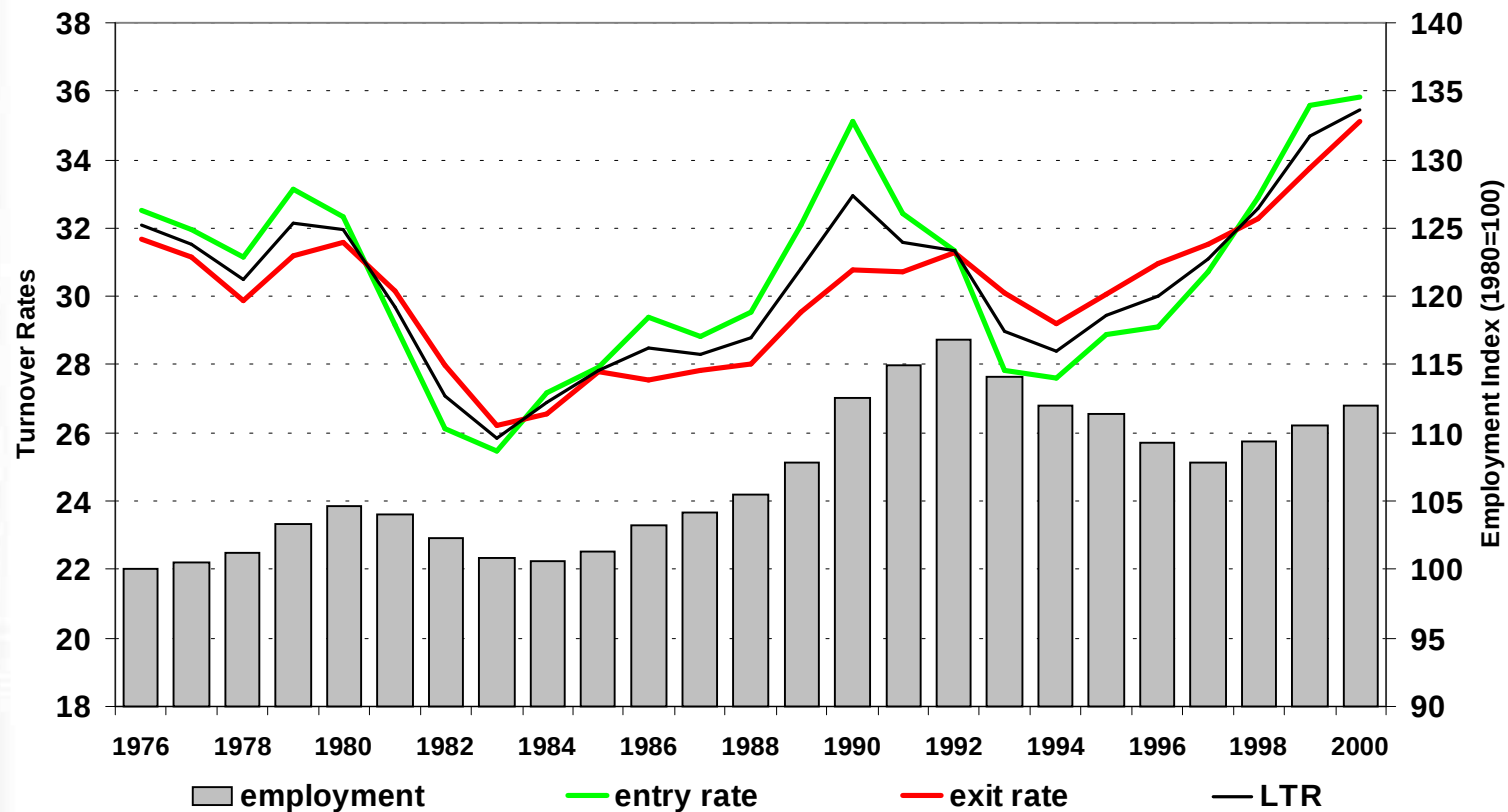
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*) only wage and salary earners subject to social security contributions

Source: Own calculations from employment register sample

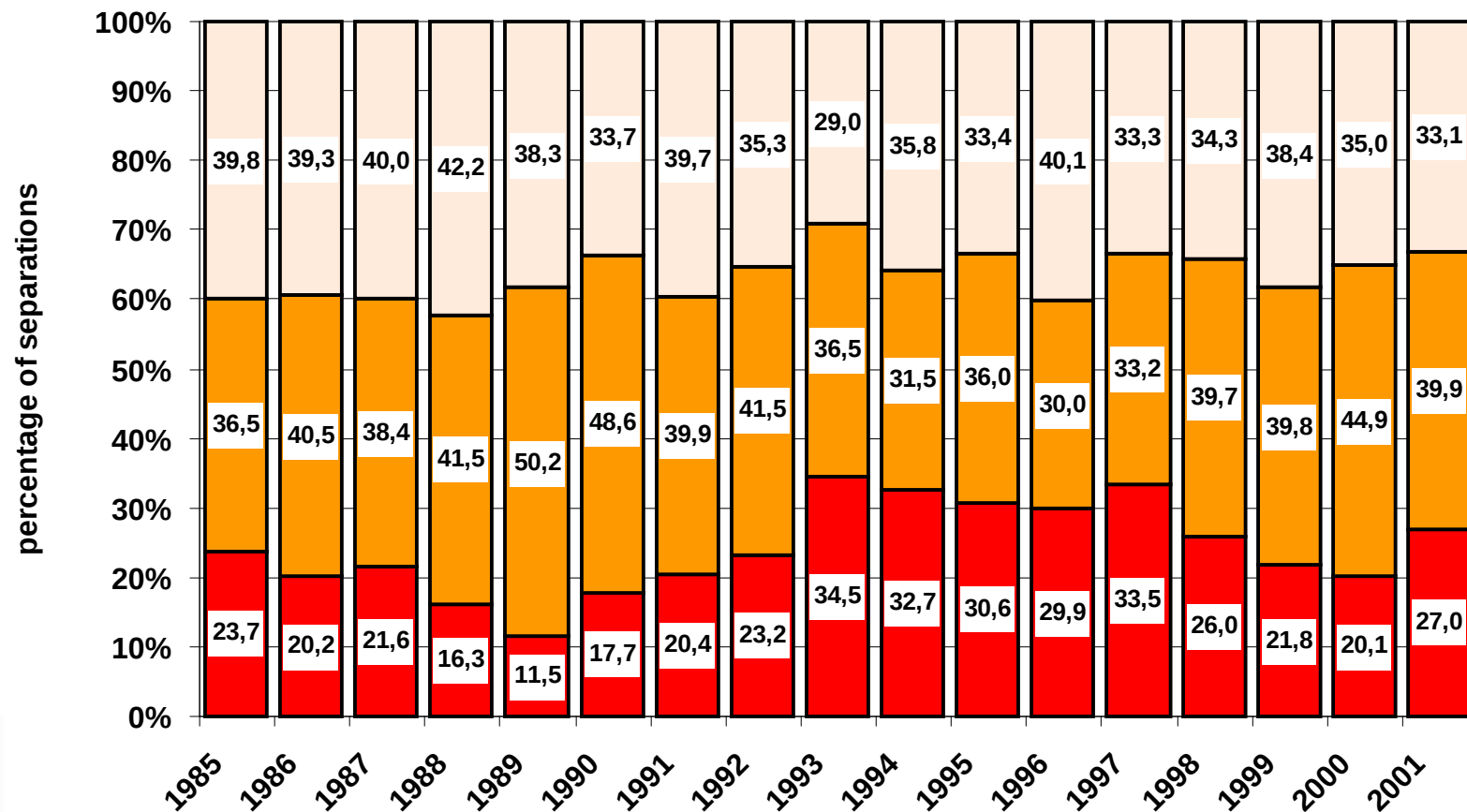
Entry, Exit, and Labor Turnover Rates*), West Germany, 1976 – 2000



*) only wage and salary earners subject to social security contributions

Source: Own calculations from employment register sample

Job Separations by Type, West Germany 1985—2001



Source: Own calculations from GSOEP

■ dismissals ■ quits □ other (e.g. end of fixed term)

Traditional Pathway to Early Retirement (Earliest Possibility)

50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65
still employed															
		short time allowance													
				unemployment benefit + compensation				officially free from jobsearch obligation							
										full pension					

Legal Employment Protection

- dismissal for 'operational reasons' *socially justified*
if in selection for dismissal duly considered:
 - tenure
 - age
 - obligations to support (children or other dependents)
 - disability
- ⇒ three out of four criteria protect older workers
- ⚡ downsizing following the letter of the law
⇒ older workforce than before
- dismissals of certain order of magnitude
negotiated with works council
⇒ social compensation plan

(Dis-) Advantages of Voluntary Separations of Older Workers in Comparison to Dismissals

for the worker:

- higher severance payment (if offered)
- avoiding psychological hardship
- earlier retirement

for the general public:

- ↪ more unemployment benefits (1/3 of unemployed 50+)
- ↪ lower social security contributions
- ↪ earlier and longer pensions

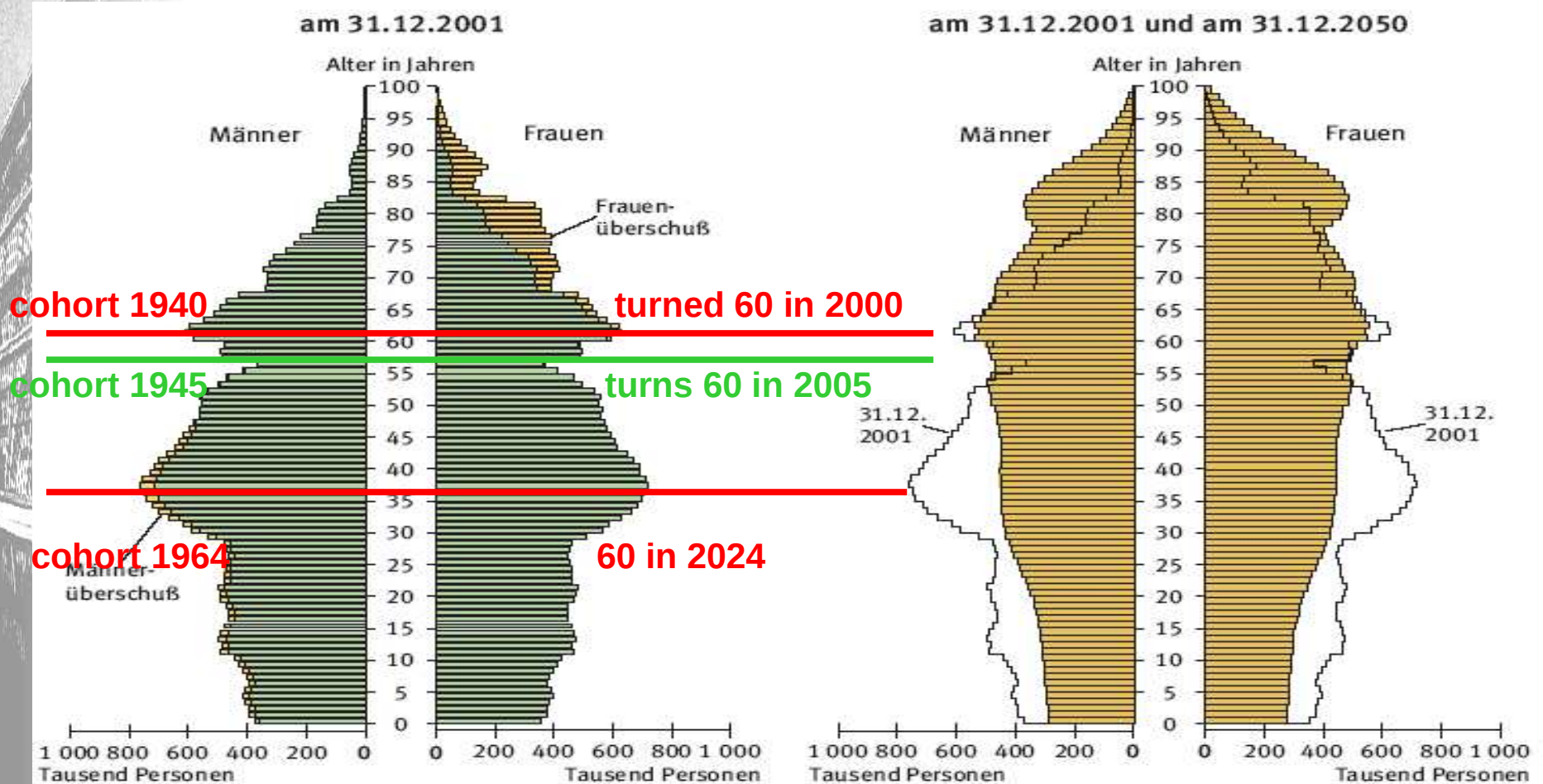
for the employer:

- freedom of selection
- no risk of legal recourse
- shortening of notice period
- rejuvenation of workforce

for the remaining workforce and the works council:

- higher productivity, better competitiveness, more job security

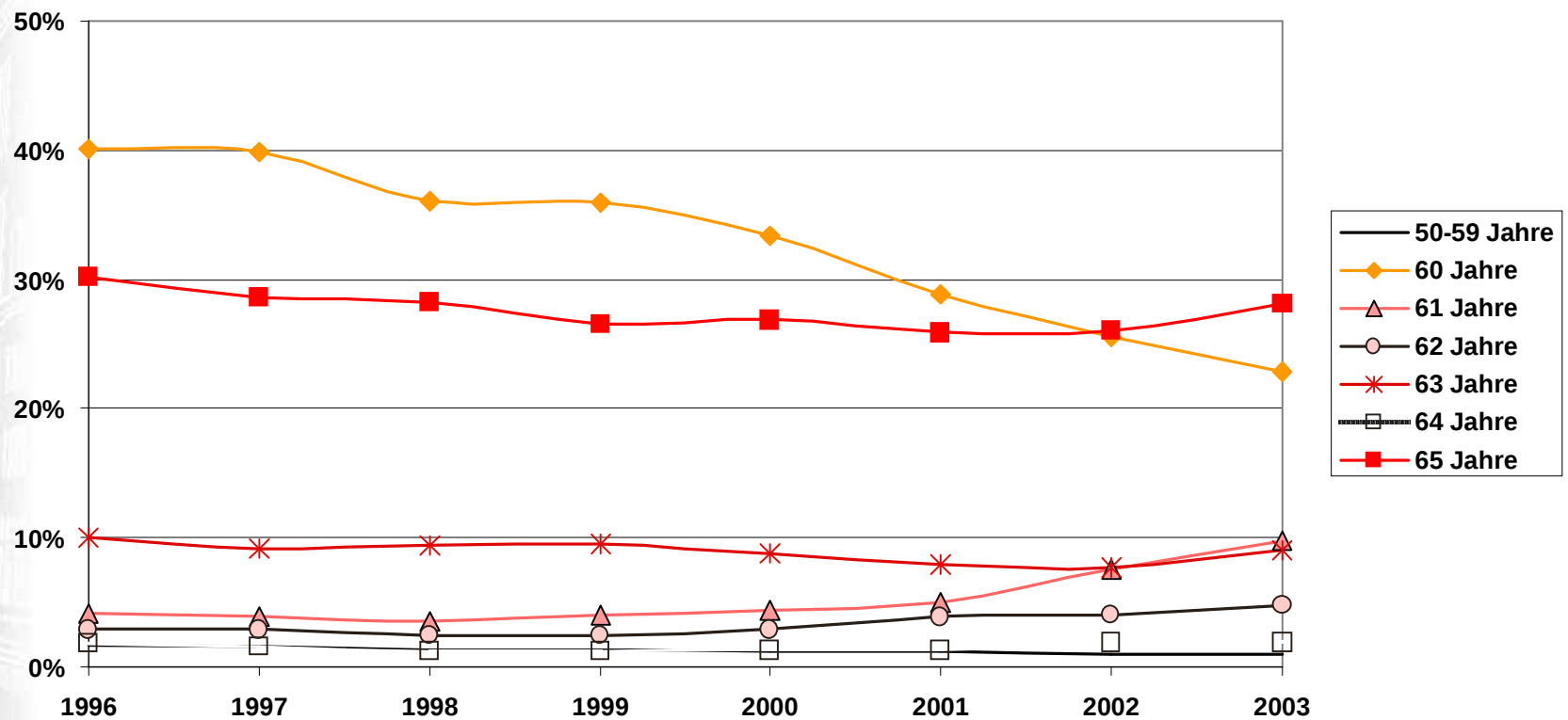
“Window of Demographic Opportunity”



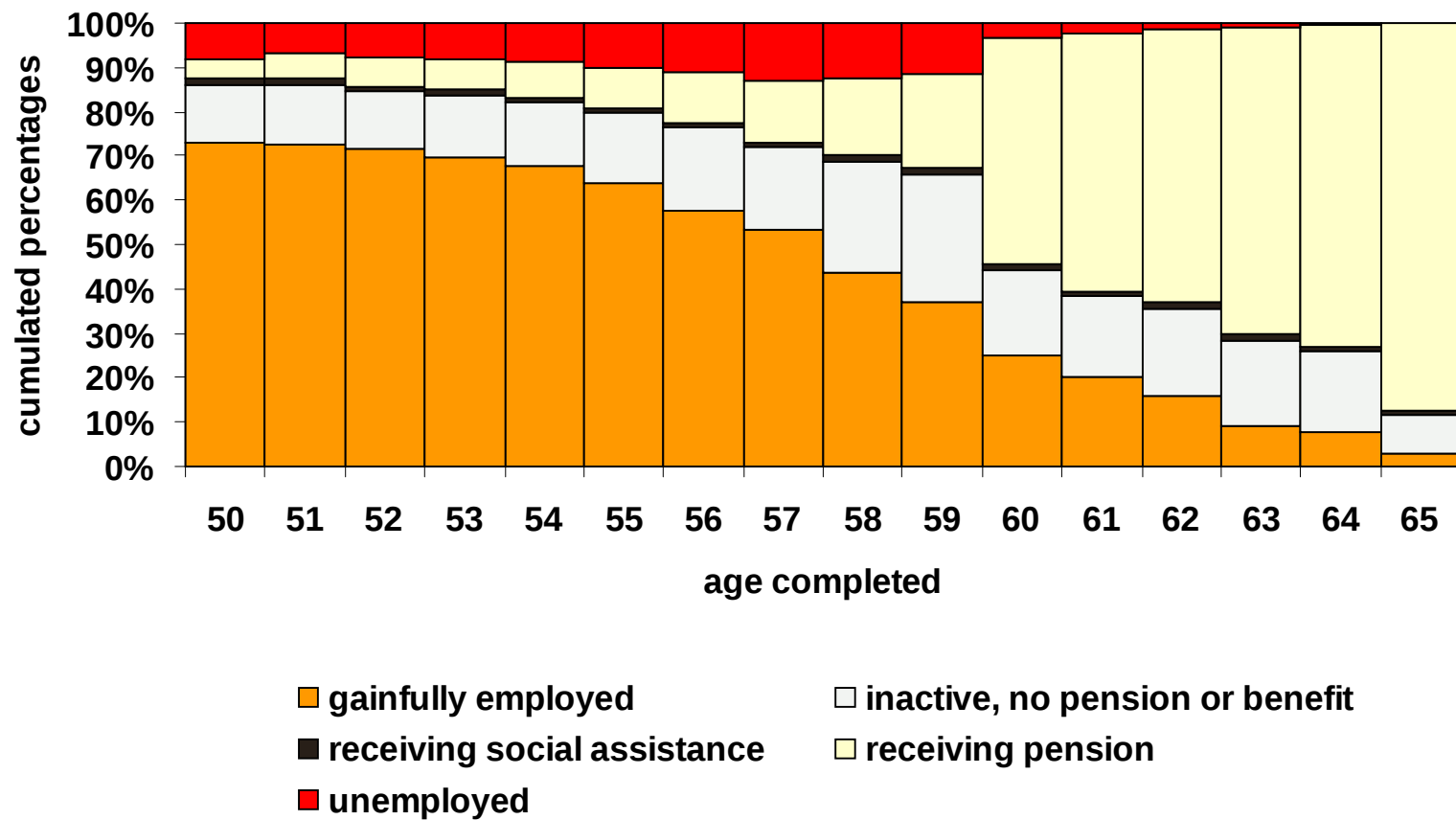
Putting the Brakes on Early Retirement

- Pension reform: pensions before 65 with 3,6% deduction per year
- unemployment benefit reform:
 - maximum duration of contribution-based benefit for older workers 18 months (instead of 32)
 - payments by former employer taken into account when means-testing for open-ended and flat-rate follow-on benefit
- short-time allowance: maximum duration 12 months (instead of 24)
- “gradual retirement” as an alternative to early retirement via unemployment

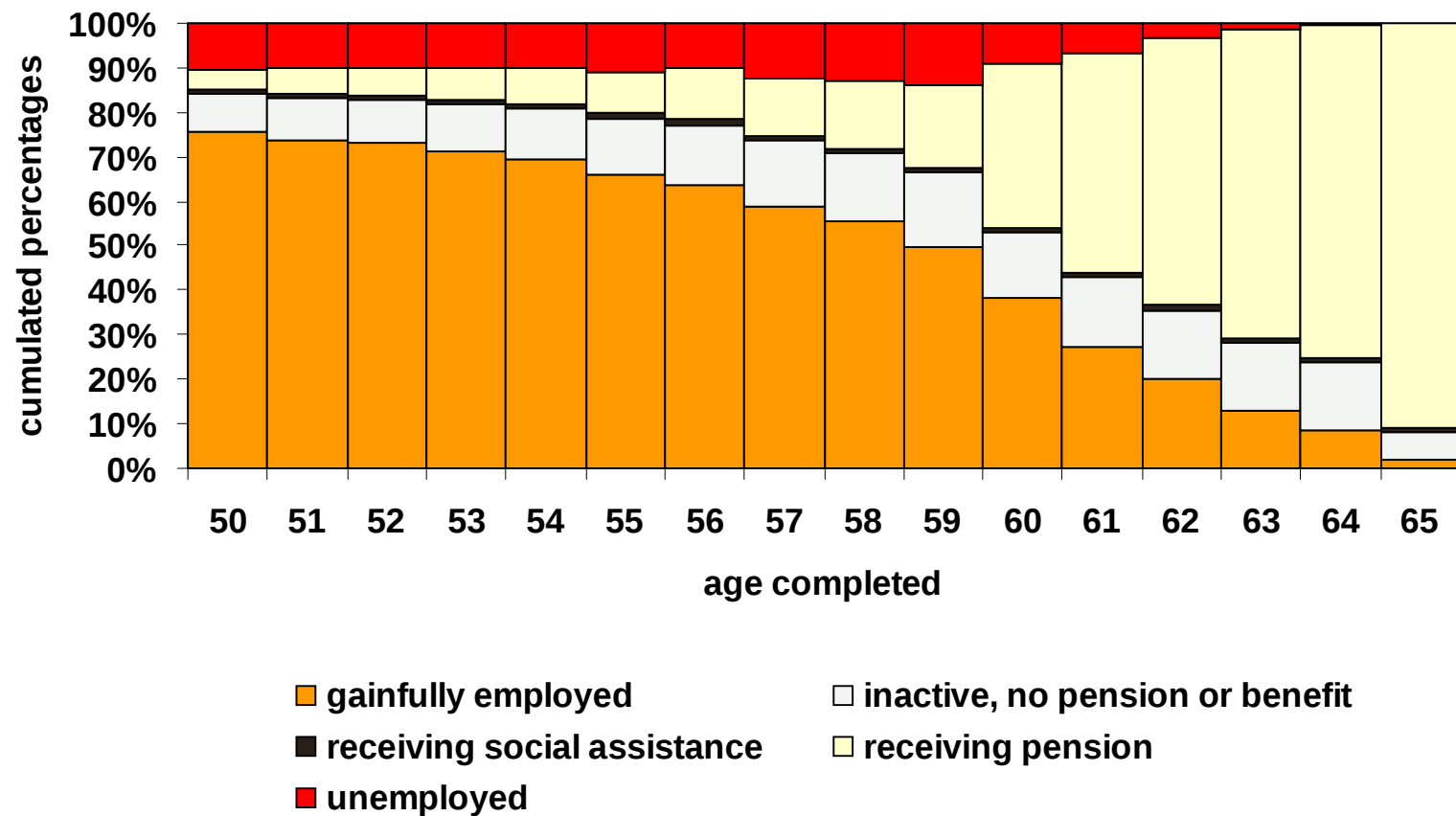
The Impact of the Pension Reform



Population 50 – 65 by Status: 1996



Population 50 – 65 by Status: 2003



Impact of Pension Reform plus Approach of Female Cohorts with Higher Participation towards Ends of their Careers

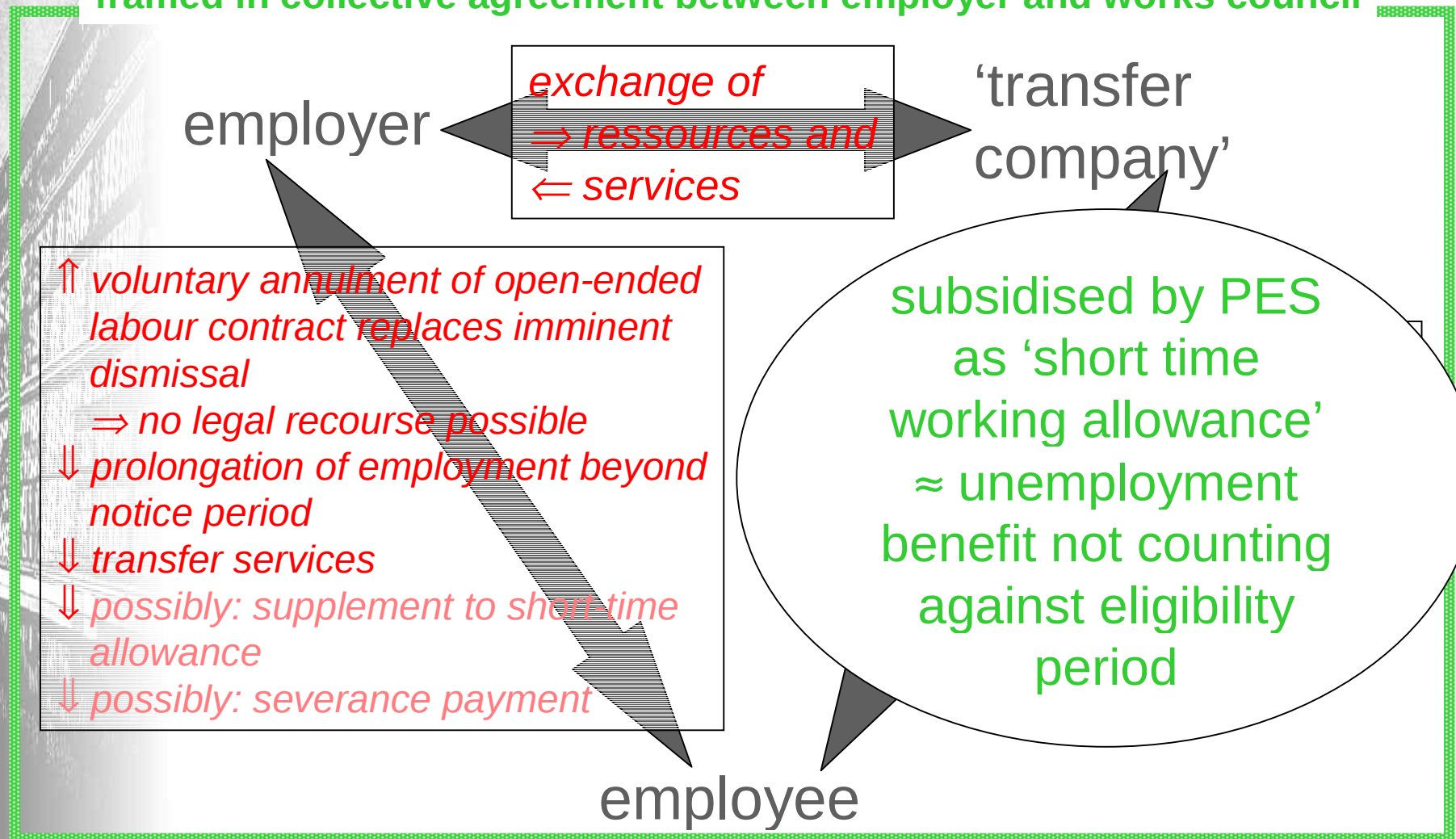
- inactivity without social transfers decreasing
- pensions decreasing 58 – 62
- employment increasing 50 – 64
- ↗ unemployment increasing 58 – 63 (relative to numerically weak cohorts)

Provisions of the Public Employment Service for the Accompaniment of Redundancies

- subsidies for job transfer measures (2,500 Euros maximum per worker)
 - profiling
 - outplacement training
 - jobsearch coaching
 - job placement
- allowance for working 'short time' (0 hrs.) in a legally separate 'transfer company'

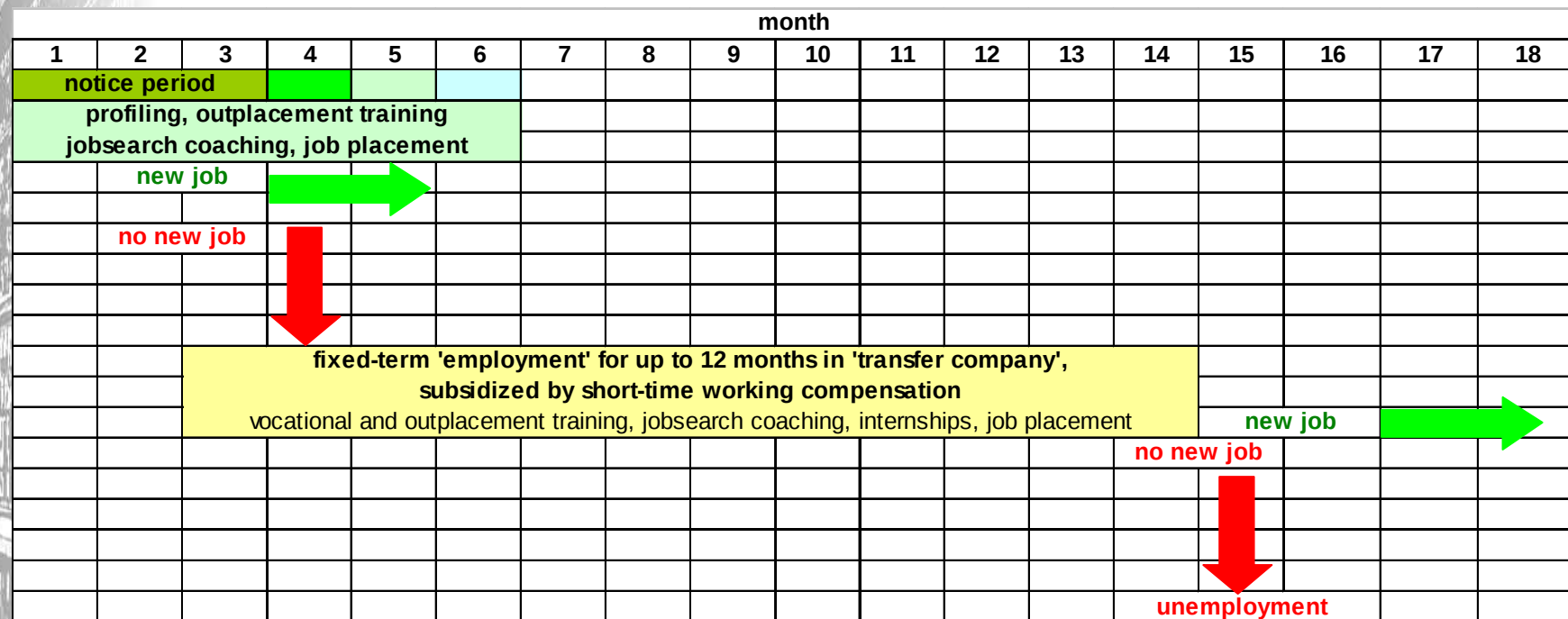
Negotiated Redundancy: Trilateral Job Transfer Schemes

framed in collective agreement between employer and works council





The New Outplacement Pathway for Workers of all Ages



Evaluation of Subsidies to 'Transfer Measures' 1998 – 2000

- enterprises <50 employees under-represented
 - women under-represented (in relation to the national workforce, not the workforces concerned)
 - services under-represented
 - 'not unemployed' after participation: 73%
 - in work (including 2% self-employment): 60%
- ⇒ no assessment of net effects

New Demands on Redundant Workers

- accept 'real services' as an equivalent (totally or in part) for severance payments
- accept the ending of an employment relationship many may have believed to be 'for life'
- orient themselves towards new challenges and conditions
- often accept lower wages and poorer conditions

New Demands on Employers

- envisage and commission employment-oriented measures (possibly in times of corporate crisis)
- pay at least 50% of costs of 'transfer measures' + full wages for participation during working hours
- bear **residual wage costs** during short-time
 - ⇒ social insurance contributions, full wages for bank holidays and annual leave
 - ⇒ **35% of regular wage costs**
 - plus possibly negotiated supplements on top of short-time allowances
- bear these reduced costs for periods longer than employees' individual notice periods (up to the legal maximum of 12 months short-time)
- pay 100% of employment assistance costs during short-time (unless European Social Fund can be tapped)

New Demands on Works Councils

- defend **existing jobs** and simultaneously envisage transfer assistance to **new jobs**
 - ⇒ at which point in the negotiating process do you openly switch strategy?
- give redundant workers **confidence** in opportunity for transfer
 - 'real services' of employment assistance more sustainable than cash payments
- monitor quality and fairness of transfer services

New Demands on Trade Unions

- observe 'critical' corporate development in order to be prepared for pro-active responses
 - ↪ often: bring first information on the mechanisms of transfer and of public provision to the employer
- strategic coaching of works councils
- give employees confidence in transfer provisions
 - ↪ accept irony of transfer to new industries:
 - ⇒ loss of members for TU representing old industry

New Demands on the Public Employment Service

- explain and implement **complicated** provisions in a **straightforward** manner
- provide information on available provisions and providers for employers and works councils
- ⚡ **win access to small enterprises in crisis where no workers' representation exists**
- win the confidence and commitment of employers and works councils who are 'first time users'
- monitor the quality and outcome of third party provision

Demands on Outplacement Providers

- mediate between all the other actors
- survive and maintain professional quality in a highly cyclical business
- find jobs in the market during recession or stagnation
- infuse optimism and can-do attitudes in seemingly hopeless situations

Summary

- remarkable structural change effected without much increase in labor market mobility
 - early retirement important buffer but not sustainable under demographic change
 - reforms of the retirement system show effects
 - job transfer (assisted mobility) intended to replace early retirement
 - difficult task in generally depressed labor market
- ⇒ turn-around of employment patterns and retirement orientations indispensable before baby-boomers arrive at the critical pre-retirement age in about 10 years