

# What minimum wage for Germany?

By Odile Chagny and Sabine Le Bayon

The campaign for the parliamentary elections taking place on 22 September in Germany has engendered a broad debate among all political forces about the consolidation of the welfare state. The SPD programme highlights the concept of social justice, while in its programme the CDU has taken up several of the SPD's main themes in the field of social welfare. The role of the welfare state has never been more central to a general election campaign since 2002. Despite this, the concern is not to move towards expanding the welfare state but the need for better quality in the welfare state, by correcting some of the negative consequences of Agenda 2010 [\[1\]](#). The fight against poverty at more advanced ages (through a revaluation of family benefits for older mothers and the introduction of a contributory minimum), the re-regulation of certain types of work (temporary) and the need to strengthen the minimum wage are all clearly reflected in the programmes of both the CDU and the SPD. Even the FDP, traditionally hostile to any notion of a minimum wage, has incorporated in its election platform the need for "adequate pay, even at the bottom of the wage scale". However, behind this apparent unity, the way such a minimum wage would work varies greatly between the parties.

## **The weakening of the collective bargaining system**

In a country where there is no statutory national minimum wage, pay scales are negotiated at the regional or national level by the social partners in each business sector. But the decline in the share of employees covered by a collective bargaining agreement (53% in 2012 in the old Länder, 36% in the new Länder, against, respectively, 70% and 56% in 1996),

the weakening of the trade unions and the development of atypical forms of employment, particularly since the Hartz reforms, have led to an increase in the proportion of people earning a low wage, which is calling into question the protective role of the collective bargaining system for an entire segment of the population. In 2010, the share of low-wage workers [\[2\]](#) was 22.2% in Germany and 6.1% in France. The majority of the 8.1 million employees concerned ([Kalina and Weinkopf, 2013](#)) work full-time (45%), one-quarter occupy part-time jobs subject to social security contributions, and 30% are employed in “mini-jobs”. The range of workers earning a low wage (less than 9.14 euros [\[3\]](#)) is broad: 1.8 million receive less than 5 euros per hour, 2.6 million between 5 and 7 euros, and 2.5 million between 7 and 8.50 euros.

The debate over the introduction of a statutory minimum wage dates back to the 1990s. For a long time, however, this was confined to a few sectors, construction in particular, based on a rationale of dealing with wage competition from businesses in the new Member States of the European Union, who sent their employees to Germany under pay conditions that were much below those provided for by collective bargaining. It was not until the mid-2000s that the first joint trade union call for a national minimum hourly wage (7.5 euros per hour) was finally made – by the DGB (the German confederation of trade unions) and that concerns over income support gradually came to outweigh concerns over wage dumping. This level was upgraded to 8.5 euros as of May 2010.

### **SPD and CDU/CSU/FDP: Two different visions of the minimum wage**

While all the major parties put forward a desire to establish a minimum wage, there is not much consensus about the practical arrangements.

The SPD is proposing the introduction of a statutory minimum wage of 8.5 euros per hour (gross), which would apply to all employees, regardless of the minimum wage agreed for any

particular sector. The point is, as was noted by the SPD candidate, Peer Steinbrück, during a debate he had with Angela Merkel in early September, to put an end to the “patchwork of minimum wages that exists from sector to sector and region to region”. Some 6.9 million people would see their hourly wage revalued ([Kalina and Weinkopf, 2013](#)) by 30% on average and by over 80% for the 1.8 million employees earning less than 5 euros per hour. About one-fifth of employees would be affected, more than half of whom have a “normal” job (subject to social security contributions). This would result in large-scale shocks both to income (for households) and to competitiveness (for companies), and would pose a real challenge to the low-wage economy that now characterizes certain sectors (agriculture, food, retail, hotel and catering, security and cleaning, etc.).

Because of this, the issue of the minimum wage is inseparable from the future of “mini-jobs”, the 7 million posts that pay less than 450 euros per month (400 euros prior to April 2013), which are exempt from employee social charges and income tax and which give virtually no access to social rights. In the case of the introduction of a national minimum wage of 8.5 euros per hour, these employees would represent nearly 40% of those whose wages would be revalued.

It should not be forgotten that one of the key measures of the first SPD-Green government led by Schröder was in 1999 to severely restrict the growth of “mini-jobs”, which were charged with 1) promoting the casualization of employment by replacing normal jobs that are subject to social charges, and 2) not offering social security coverage. Three years later, the Hartz Commission proposed facilitating the recourse to mini-jobs so as to develop sectors with low-skilled work.

Numerous studies have recently revealed blatant violations of labour law (lack of compliance with regulations on sick leave, on paid holidays, etc.) and unacceptably low hourly wages in these jobs (Bäcker and Neuffer 2012 [\[4\]](#), [Bundesministerium für](#)

[Familie, 2012](#)). It is therefore not surprising that all the major parties (except the FDP) have included in their election manifestoes a commitment to reforming “mini-jobs”. But whereas the CDU is only targeting violations of labour law, the SPD programme goes further. The introduction of a minimum wage of 8.5 euros (gross) per hour would in effect limit companies’ interest in making use of “mini-jobs”. Furthermore, given the monthly ceiling on the maximum payment for “mini-jobs”, setting a wage of 8.5 euros per hour would amount to introducing a time limit on these jobs of about 13 hours per week. This would not be far from the limit of 15 hours per week that was suppressed by Hartz Law II in 2003 ... as part of Agenda 2010 [\[5\]](#). More generally, the entire political economy underlying these jobs would be called into question, as their rationale is to provide extra compensation that is exempt from social security contributions for employees in sectors with low minimum wages.

The CDU proposal on the minimum wage aims both at facilitating the extension of existing agreements (that is to say, to reform the process by which a collective agreement becomes mandatory for all the companies in the sector in question) and at requiring sectors without a collective agreement to set a minimum wage. A desire to secure protection against wage competition from companies that do not adhere to collective agreements and from East European companies who post their employees in Germany [\[6\]](#) has led several sectors to resort to these extension procedures in recent years. However, while an extension like this is virtually automatic in France, this is far from the case in Germany, even though the procedure was simplified in 2009. The CDU therefore proposes a “least burdensome approach”, that is to say, government intervention only in cases where the social partners have failed. The aim is to deal with situations where there is an “agreement vacuum” and allow a maximum number of employees to be paid according to collectively agreed minimum wages, while enabling the social partners to fix the level, since the CDU believes

that minimum wage differentials help to take into account the diversity of regional and sectoral situations.

The CDU, which is unlikely to be able to govern alone in the next Parliament, has not gone farther than this for the time being, pending the outcome of the elections. Depending on which party it will govern with, the decisions about how low wages are regulated can differ greatly.

Here it is worth summarizing the numerous limitations of the current arrangements for the State's extension procedure, which set the context for the CDU's proposal:

- – When the same sector has a number of different collective bargaining agreements, the extension procedure becomes more difficult, as it is necessary to determine which one is most representative and which ones could be controversial. This is what happened in the postal sector, where two competing collective bargaining agreements co-existed: one covering employees of Deutsche Post, the former monopoly in the sector, and the other covering employees of competitors for whom minimum wages were much lower. The government decided to extend the agreement signed in Deutsche Post to the entire sector, but the competitors complained, and the extension procedure was overturned by the Berlin Court [\[7\]](#).
- – Negotiations on a sector's minimum wages are renewed regularly (every six months or every one or more years). But when renegotiation fails, several months may elapse during which no minimum is in effect, and employers have sometimes seized the opportunity to hire employees at wages that are 30% below the previous minimum. This is what happened for instance in late 2009 in the industrial cleaning business ([Bosch and Weinkopf 2012](#)).
- – The minimum in a sector can vary greatly, and some of them do not protect workers against the risk of poverty. Thus, according to data from the [WSI-Tarifarchiv \(March](#)

[2013](#)), 11% of collective agreements in late 2012 provided for a minimum of less than 8.50 euros, the threshold proposed by the SPD as the statutory minimum wage, which is below the threshold for a “low wage” (9.14 euros).

The impact of the proposals of the various parties on changes in employment is difficult to estimate from studies conducted recently in Germany ([Bosch and Weinkopf 2012](#)), if only because the studies have focused on the introduction of minimum wages in isolated sectors, covering only a limited proportion of employees. This would not be comparable to the introduction of an industry-wide minimum wage that affected at least a quarter of employees, that was not differentiated, or even with the generalization of collectively agreed minimums. The goal is now for the maximum of employees to receive a “decent” income, even if the level of the latter differs depending on the programme. It is also to curtail certain atypical forms of employment. Notably, in a number of sectors the studies conducted show that the introduction of a minimum wage leads to a change in the structure of employment, with fewer “mini-jobs” and more “normal” jobs (subject to social security contributions), due to the regular checks conducted to ensure compliance with the minimum wages in the companies. Whatever the election results, the measures adopted will in any case point in the direction of correcting the most egregious injustices in terms of compensation, especially with respect to “mini-jobs”.

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[\[1\]](#) Agenda 2010 includes all of the reforms implemented in Germany by the SPD-Green coalition between 2003 and 2005, which focused on labour market reform (called the Hartz reforms) (for more on this, see e.g. [Hege 2012](#), [Chagny 2008](#)).

[\[2\]](#) These are employees receiving less than 2/3 of the median gross hourly wage.

[3] In 2011, the median gross hourly wage in Germany was 13.7 euros.

[4] “Von der Sonderregelung zur Beschäftigungsnorm : Minijobs im deutschen Sozialstaat” [On special employment standards: Mini-jobs in the German welfare state], WSI Mitteilungen 1/2012.

[5] Not to mention the fact that as a result it would be necessary to completely revamp the support for low-wage workers provided by exemptions on employee social charges.

[6] When companies from a Member State send their workers to another State, they are required to meet the minimum standards (working time, wages). The posting of workers has been governed by a 1996 EU Directive. These postings, which are growing in number, are posing a number of problems (social dumping, unfair competition, deterioration in working conditions) ([Metis 2013](#)).

[7] For further information, see: [“Vrais et faux enjeux de la controverse sur les salaires minima légaux en RFA”](#) [True and false issues in the controversy over the statutory minimum wage in the RFA], Karl Brenke, *Regards sur l'économie allemande*, no. 94, 2009.

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## A fiscal policy to promote structural reform – lessons



# from the German case

By [Eric Heyer](#)

“France should copy Germany’s reforms to thrive”, Gerhard Schröder entitled [an opinion piece in the Financial Times on 5 June 2013](#). As for the European Commission (EC), its latest annual recommendations to the Member states, released on 29 May, seem to take a step back from its strategy of a rapid and synchronized return to balancing the public finances, which has been in place since 2010. The EU executive’s priority now seems to be implementation of structural reforms of the labour and services markets in the euro zone countries. These countries will of course continue to consolidate their public finances, but the EC has given them an extra year or two to do this. While, for example, France will further consolidate its accounts over the coming two years (the fiscal effort demanded of the French government by the EC comes to 0.8 percent of GDP, or 16 billion euros per year), it has been given another two years to bring its deficit below 3% of GDP (2015 instead

**Tableau. New fiscal targets after postponement**

		2013	2014	2015	2016
France	Government deficit (% of GDP)	3,9	3,6	2,8	
	Fiscal impulse (GDP points)	-1,3	-0,8	-0,8	
Spain	Government deficit (% of GDP)	6,5	5,8	4,2	2,8
	Fiscal impulse (GDP points)	-1,1	-0,8	-0,8	-1,2
Netherlands	Government deficit (% of GDP)	3,6	2,8		
	Fiscal impulse (GDP points)	-0,6	-0,7		

Source : European Commission.

of 2013).

This change in course – or at least in tone – by the EC, which had emphasized the enactment of extreme austerity reforms, should be welcomed. However, it is important to consider whether the new environment, in particular the fiscal situation, will be favourable enough to ensure that the structural reforms are effective. An examination of the economic context in which Germany introduced its reforms in the early 2000s, which became a benchmark for the countries of



southern Europe, provides some important lessons. While the purpose here is not to go into these reforms in depth, it is nevertheless useful to remember that they were enacted while the German economy had a substantial trade deficit (-1.8 percent of GDP in 2000 against a surplus of 1.4 percent for France at that same time) and was considered a “low achiever” in Europe. These reforms led to a significant reduction in the share of wages in value added, boosting the margins of German business, and helped to quickly restore the competitiveness of the German economy: by 2005, Germany was once again generating a large trade surplus while France ran a deficit for the first time since 1991. The non-cooperative character of the the euro zone ([OFCE, 2006](#)) and the steep increases in Germany in poverty – ([Heyer, 2012](#)) and Figure 1 – and in wealth inequality ([de Grauwe et Yi, 2013](#)) were the hidden fruit of this strategy. Europe’s “low achievers” today are the southern European countries, and the pressure to take steps to boost competitiveness has shifted from Germany to France, Italy and Spain. Despite this parallel, the question remains: is the economic environment similar today? Figures 1 and 2 summarize the economic situation in Germany at the time the structural reforms were implemented. Two main points stand out:

1. These reforms were carried out **in a context of strong global growth**: the world experienced average growth of over 4.7% per year in 2003-2006 (Figure 1). By comparison, the figure for growth is likely to be less than 3% over the next two years;
2. In addition, the fiscal situation of the German economy in the early 2000s was not good: in 2001, the general government deficit for Germany exceeded 3%, and came close to 4% in 2002, the year before the enactment of the first Hartz reform. Government debt then exceeded the threshold of 60% of GDP allowed by the Maastricht Treaty for the first time. Despite this poor fiscal performance – with public debt approaching 70% in 2005 –

it is interesting to note that the German government continued to maintain a highly expansionary fiscal policy for as long as the reforms had not been completed: in the period 2003-2006, the fiscal impulse was positive at on average 0.7 GDP point each year (Figure 2). Thus, during this period **the German government supported its structural reforms with a highly accommodative fiscal policy.**

Figure 1. Growth, unemployment rate and poverty rate in Germany

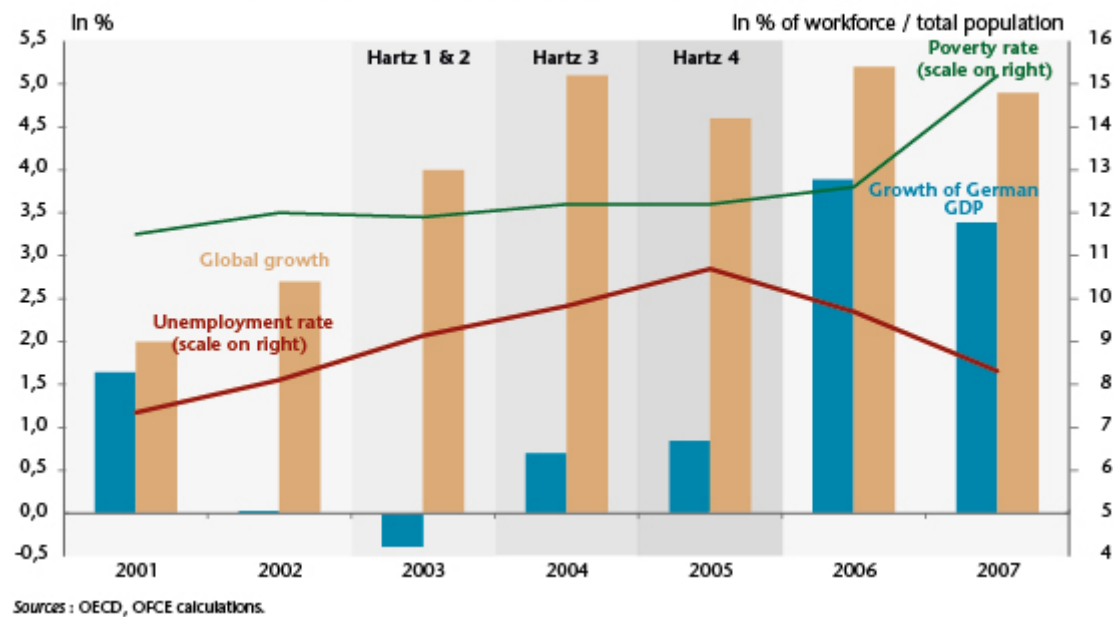
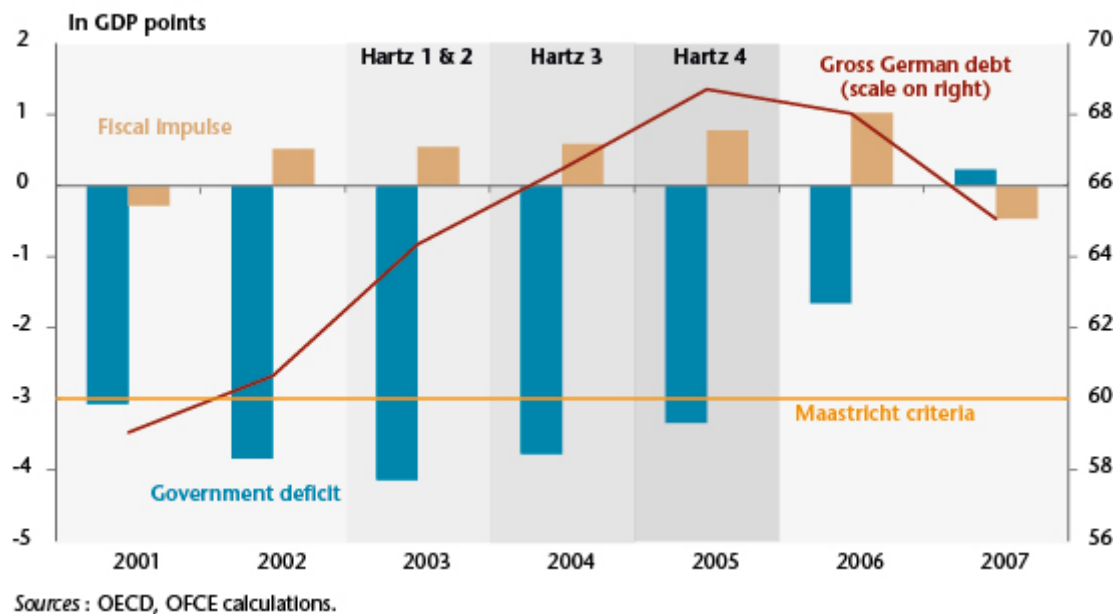


Figure 2. State of deficit and fiscal policy in Germany



Thus not only was the structural reform of the labour market conducted under Schröder implemented in a very favourable

economic environment (strong global growth and a strategy that differed from the other European countries), but it was also accompanied by a particularly accommodative fiscal policy, given in particular the poor state of Germany's public finances. This situation differs greatly from contemporary conditions:

1. Global growth is likely to be under 3% over the coming two years;
2. The EC is asking a large number of European countries to implement the same structural reforms simultaneously, which in a highly integrated euro zone limits their effectiveness; and
3. Despite the extra time being granted for deficit reduction, fiscal policy will remain very tight: as is indicated in Table 1, the fiscal impulses for France and Spain will still be very negative (-0.8 GDP point per year) as the structural reforms in these countries are being implemented.

So while the pressure to boost the competitiveness of the countries of southern Europe is similar to that facing Germany in the early 2000s, the external environment is less favourable and there is greater pressure to reduce the public debt. On this last point, the German example teaches us that it is difficult to juggle structural reforms to boost business competitiveness with efforts to reduce the public debt.

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# France, Germany: The nonworking poor

By [Guillaume Allègre](#)

*"The ways of thinking society, managing it and quantifying it are indissolubly linked"*

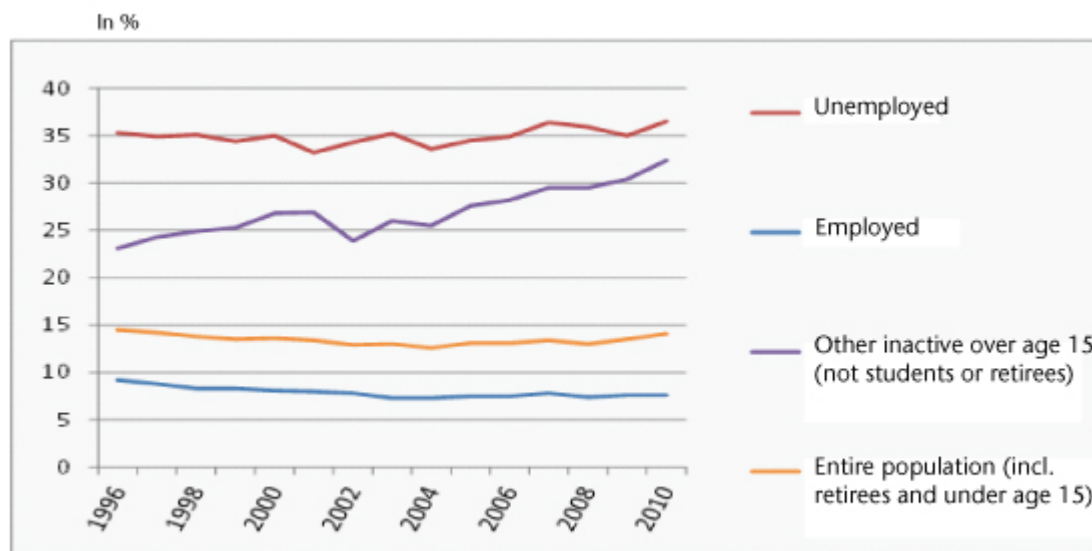
[Alain Desrosières](#), 1940-2013

The subject of working poverty emerged in Europe in public debate and academic discussion in the early 2000s, in parallel with the implementation of policies to "make work pay". European guidelines on employment have explicitly mentioned the need to reduce working poverty since 2003, and Eurostat set up an indicator on the working poor in 2005 ([Bardone and Guio](#)). In France, policies to make work pay have taken the particular form of earned income supplements ([PPE](#), then [RSA](#)). In Germany, a series of reforms of the labour market and social welfare (the Hartz Laws) were introduced in the early 2000s with the aim of activating the unemployed. Critics of the German reforms often highlight the proliferation of atypical forms of employment ([Alber and Heisig, 2011](#)): the recourse to part-time, low-wage work and mini-jobs without social protection. In France as in Germany, this focus on workers has masked a less well-known aspect of the changing face of poverty: among working-age people, it is poverty among the unemployed (the "inactive" in France, the "unemployed" in Germany) that has been on the rise since the late 1990s.

Figure 1 shows the change in the poverty rate for individuals between 1996 and 2010, calculated at the threshold of 60% of the median living standard, according to their employment status. Two points stand out. First, poverty primarily affects the unemployed: their poverty rate was about 35% over this period. Second, economically inactive people over age 15, who are neither students nor retired (called "other inactive"), *i.e.* the "discouraged unemployed" and men and women (especially women!) in the home, are the group most affected by the rise in poverty. Their poverty rate was 23% in 1996, but hit 32% in 2010. At the same time, poverty among people in work fell from 9% to 8%. As a result, while the economically active with jobs accounted for 25% of the poor in 1996 and

“other inactive” 12%, the latter’s share of the poor rose to 17% in 2010 while the share of the active declined to 22%. The weight of the working poor among all poor people is tending to decrease, while the weight of the inactive is rising.

Figure 1 : Poverty rates according to activity status, France



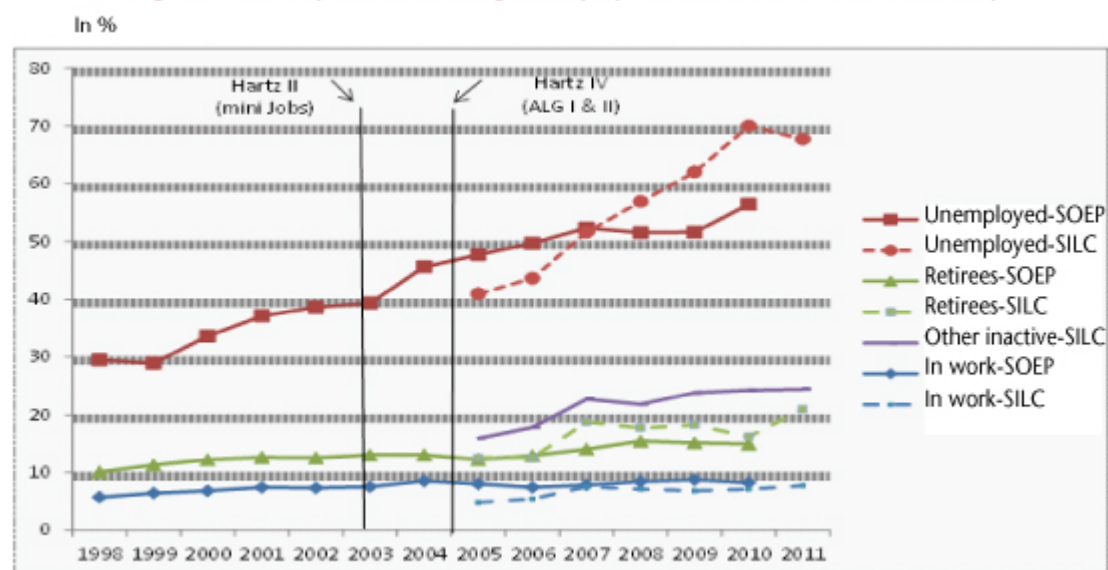
Source : Insee-DGI, Enquêtes Revenus fiscaux et sociaux rétrospectives 1996 à 2004 ; Insee-DGFiP-Cnaf-Cnav-CCMSA, Enquêtes Revenus fiscaux et sociaux 2005 à 2010.

As for Germany, the analysis of poverty rates by employment status is fraught with discrepancies attributable to the sources, in particular with regard to changes in the poverty level among the unemployed, which according to Eurostat (EU-SILC survey) is much higher than in the national SOEP survey (see Figure 2). Despite the statistical uncertainties, it is still clear that poverty affects the unemployed above all, and that their poverty rate has risen substantially: from 30% to 56% between 1998 and 2010, according to the SOEP survey, which is generally considered more reliable than the SILC ([Hauser, 2008](#)). While poverty is increasing for all categories of the population ([see Heyer, 2012](#)), it is among the unemployed that it is most pronounced.

The increase in poverty among the jobless is the result of certain provisions of the Hartz IV laws, which are less well known than those establishing mini-jobs (Hartz II). Prior to this legislation, the jobless could receive unemployment benefits for a maximum period of 32 months, after which they

could receive means-tested unemployment assistance for an indefinite period ([Ochel, 2005](#)). But unlike the ASS benefit [i] in France, the amount of this assistance depended on the net income at the last job and provided a relatively generous replacement rate (53% of net income for people without children). This system was replaced starting in 2005 by a much less generous compensation, based on the goal of employment activation. Unemployment benefit (*Arbeitslosengeld I* – ALG I) was limited to 12 months for unemployed people under age 55, and the grounds for penalties were expanded. Following this period, unemployment assistance (*Arbeitslosengeld II* – ALG II) is greatly reduced and essentially serves only as an ultimate safety net: the amount for a single person is limited to 345 euros per month, while the penalties have also been expanded and toughened [ii]. Germany's strategy to promote employment hence uses two levers: reducing income support for the unemployed, and penalties. While this policy may have contributed to lowering unemployment (see [Chagny, 2008](#), for a discussion of the controversial impact of this reform), by its very design it has had a significant impact with regard to poverty among the unemployed.

**Figure 2 : Poverty rates according to employment status and source, Germany**



Source : Eurostat (SILC) ; DIW (SOEP).

One paradox that needs to be examined is the only small change since the early 2000s (at least according to the SOEP survey)



of the poverty rate among people in work. Indeed, during this period, the proportion of low-wage workers rose and the recourse to part-time work increased sharply, without a substantial rise in the poverty rate for people in work. In 2010, 4.9 million people (12% of people in work) held a mini-job for which they cannot receive more than 400 euros per month in earned income ([Alber and Heisig, 2011](#)). There has also been the growth of part-time work with social protection (from 3.9 million jobs in 2000 to 5.3 million in 2010). We would expect therefore to see an increase in working poverty. But this is being countered by two factors: the development of opportunities for cumulation with unemployment benefits (the third lever of the employment activation policy), and family solidarity. Indeed, part-time and low-wage jobs are predominantly held by women, who account for two-thirds of workers on low annual incomes [iii]. The income of their spouse, when they have one, often enables them to avoid poverty, as the income of all household members is aggregated to determine the standard of living and poverty. In this respect, to paraphrase [Meulders and O'Dorchai](#), the household is a fig-leaf concealing women's low incomes. Lone mothers, on the other hand, are especially affected by poverty: the poverty rate is about 40% among single-parent families.

From the perspective of the indicators, the use of the category "working poor" thus poses several problems. First, the category hides the role of unemployment and inactivity as determinants of poverty; by its very name, it highlights one important determinant of working poverty ("work doesn't pay") in relation to other determinants ("small number of hours worked" or "heavy family responsibilities"). Public policies based on this approach thus run the risk of limiting the population targeted by the fight against poverty (in France, people on unemployment benefit are excluded from the RSA-activité [income supplement for the working poor]) and of focusing on strengthening financial incentives for returning to work in order to stimulate the supply of labour, even



though the high level of unemployment is related to the demand-side rationing of labour. Second, the category is blind to gender inequality: women are more often poor and constitute the majority of low-wage workers, but they are less likely to be working poor! ([Ponthieux, 2004](#)) If all that we manage well is what we measure, it is necessary that the measure be easily interpreted by policy makers. Reducing inequalities in living standards (between households) and in earned income (between individuals) are two legitimate public policy goals (as explained [here](#) [in French]), which need to be measured separately, just as these two goals require the use of specific instruments.

From the standpoint of public policy, the change in poverty based on employment status in France and Germany emphasizes that an effective fight against poverty requires addressing all forms of poverty. For the working-age population, in economies where dual-earner couples have become the norm, this means putting in place policies on full-time work and full employment policies that do not foster atypical forms of work. This requires, from a macroeconomic point of view, growth or job-sharing (and the associated income-sharing) and, from a microeconomic point of view, meeting needs with respect in particular to childcare, training and transport. While these policies are costly, more economical measures, such as strengthening financial incentives, have failed to demonstrate that they can actually reduce overall poverty.

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[i] The *Allocation de solidarité spécifique* (ASS), means-tested benefits paid to unemployed persons whose right to unemployment benefits has expired.

[ii] In total, 1.5 million penalties were applied in 2009, for 2.8 million on jobless benefits, compared with 360,000 in 2004, for 4 million on jobless benefits (according to [Alber and Heisig, 2011](#), Tables 6-8, pp. 24-30).

[iii] Set at the threshold of two-thirds of median salary.

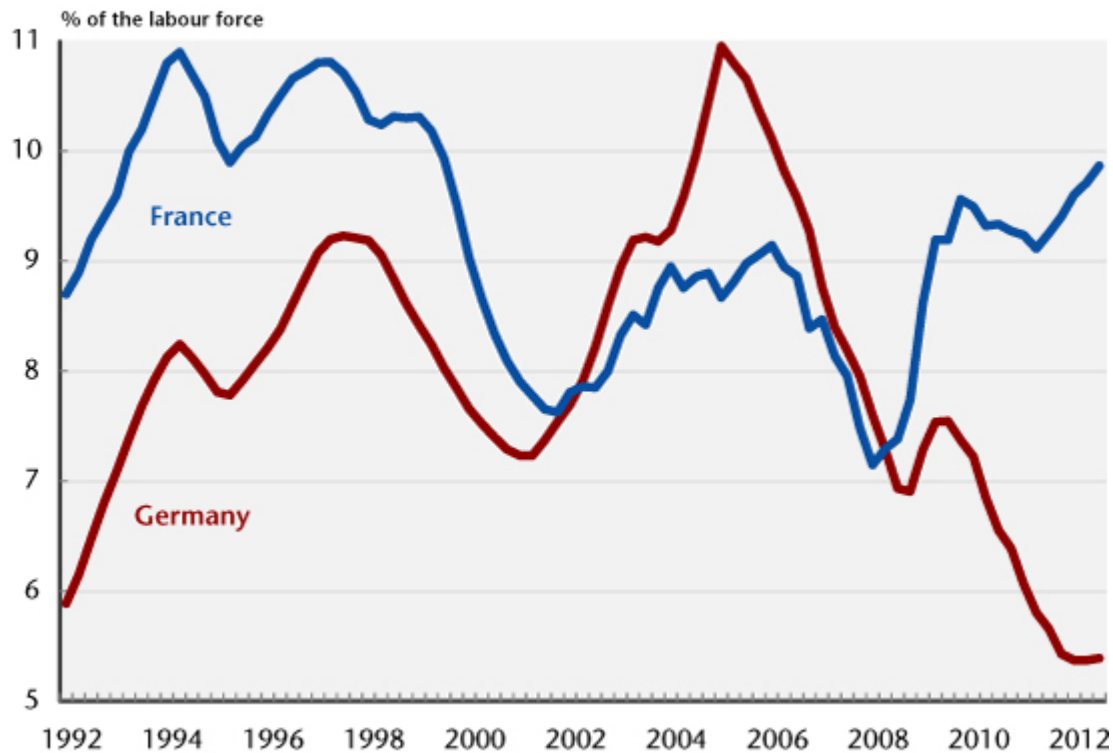
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# Higher unemployment in France, greater poverty in Germany

By [Eric Heyer](#)

Will France be the new Greece, as *The Economist* has argued? Should French reforms be accelerated and be modelled on those implemented in Germany ten years ago? For German public opinion, for its authorities and for a large number of economic experts, the answer is obvious. Not only does Germany have a lower deficit, but unlike its French neighbour it has also managed to significantly reduce its unemployment rate. Starting from a similar level in the early 2000s (close to 7.7% at end 2001), the unemployment rate now stands at 5.4% of the labour force in Germany, 4.5 percentage points below the level in France (Figure 1).

Figure 1 : Changes in unemployment  
in Germany and France over the last 20 years

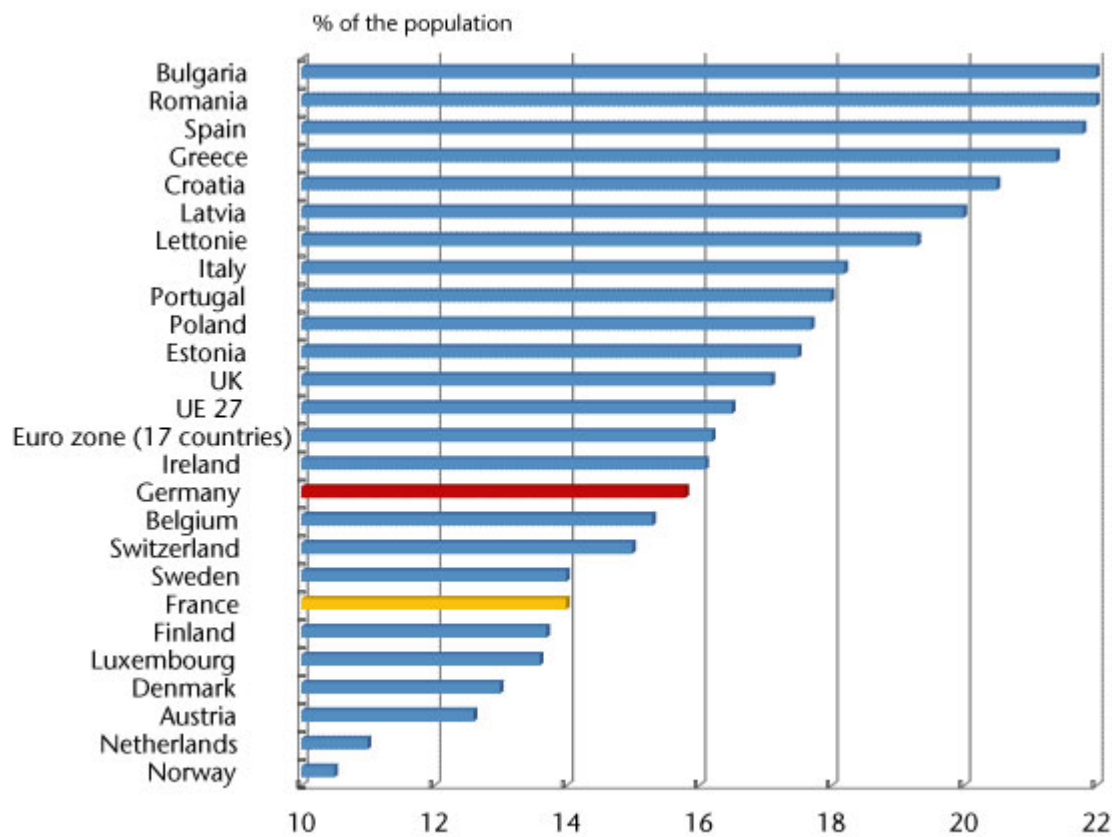


Source : ILO.

The purpose of this note is not to revisit the reasons for this difference, which have already been the subject of posts on this blog (see in particular the impact of demography, by [G. Cornilleau](#), of the reduction in working hours, by [E. Heyer and M. Plane](#), and of the rise in male-female inequalities, by [H. Périvier](#)). The point rather is simply to note that the reduction of unemployment in Germany has been accompanied by a steep rise in poverty.

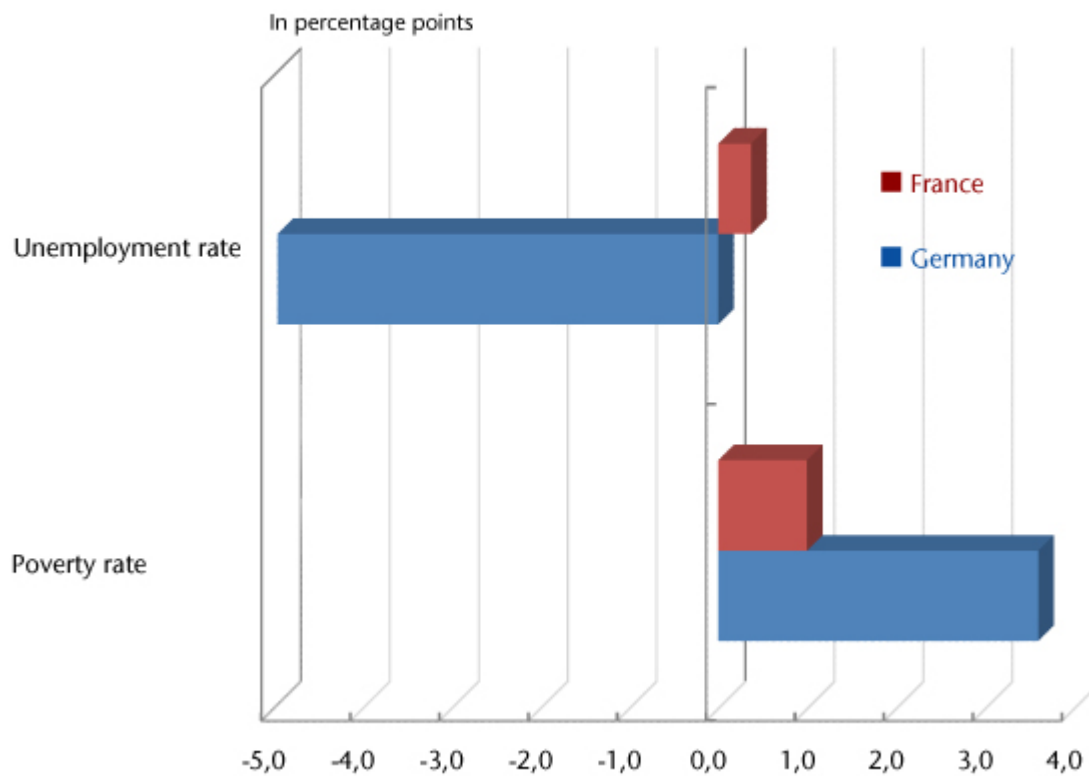
According to Eurostat, over the past six years the poverty rate (measured at the threshold of 60% of median income) has risen by 3.6 percentage points in Germany, four times more than the rise observed in France (0.9 point). In 2011, despite the sharp drop in unemployment and the large differential with France, the poverty rate in Germany was 1.8 points higher than the level observed in France, *i.e.* a difference of over 11% (Figures 2 & 3).

Graphique 2 : Poverty rate (60 % of median income) in 2011



Source : Eurostat.

Figure 3 : Changes in the unemployment rate and poverty rate (60 % of median income) in France and in Germany (2005-2011)



Source : Eurostat.

There is, therefore, a hidden side to the reforms implemented in Germany over the past ten years, which have led to lower unemployment but greater poverty.

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# France-Germany: The big demographic gap

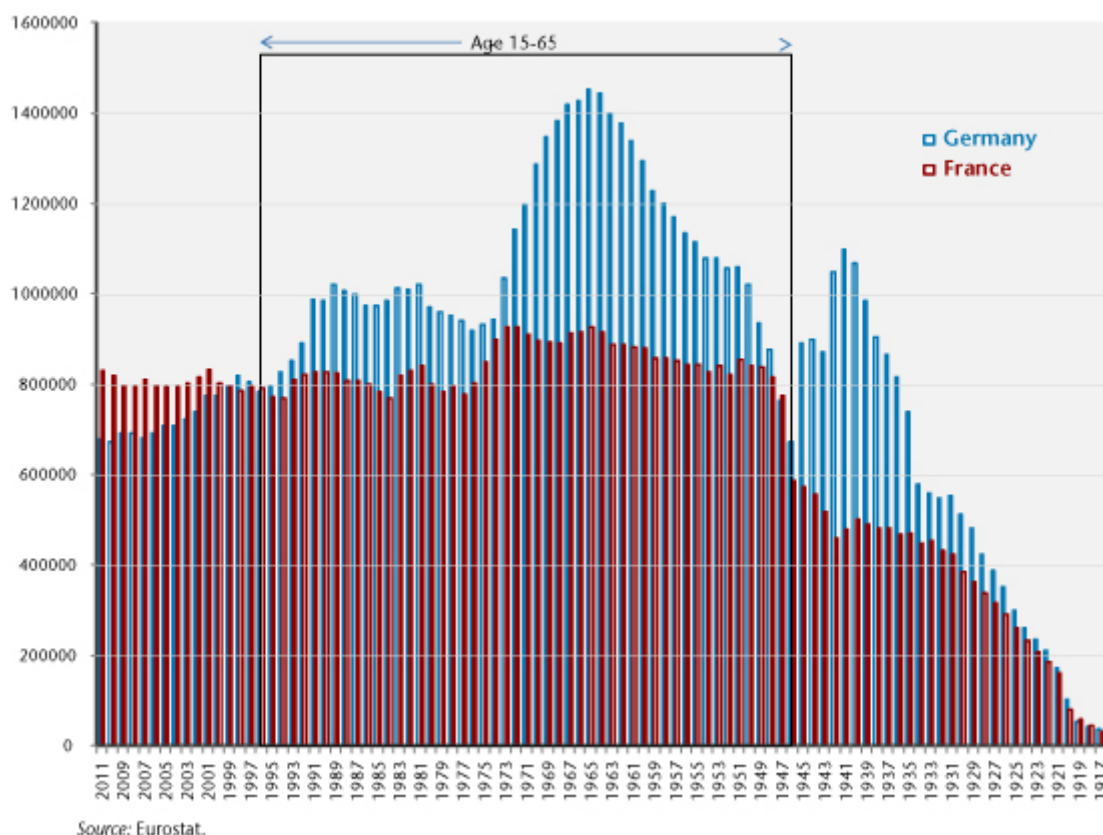
By [G rard Cornilleau](#)

The divergence in the demographic trajectories of Germany and France will have a major impact on social spending, labour markets, productive capacity and the sustainability of public debt in the two countries. The implications are crucial in particular for understanding Germany's concern about its debt. These demographic differences will require the implementation of heterogeneous policies in the two countries, meaning that the days of a "one-size-fits-all" approach are over.

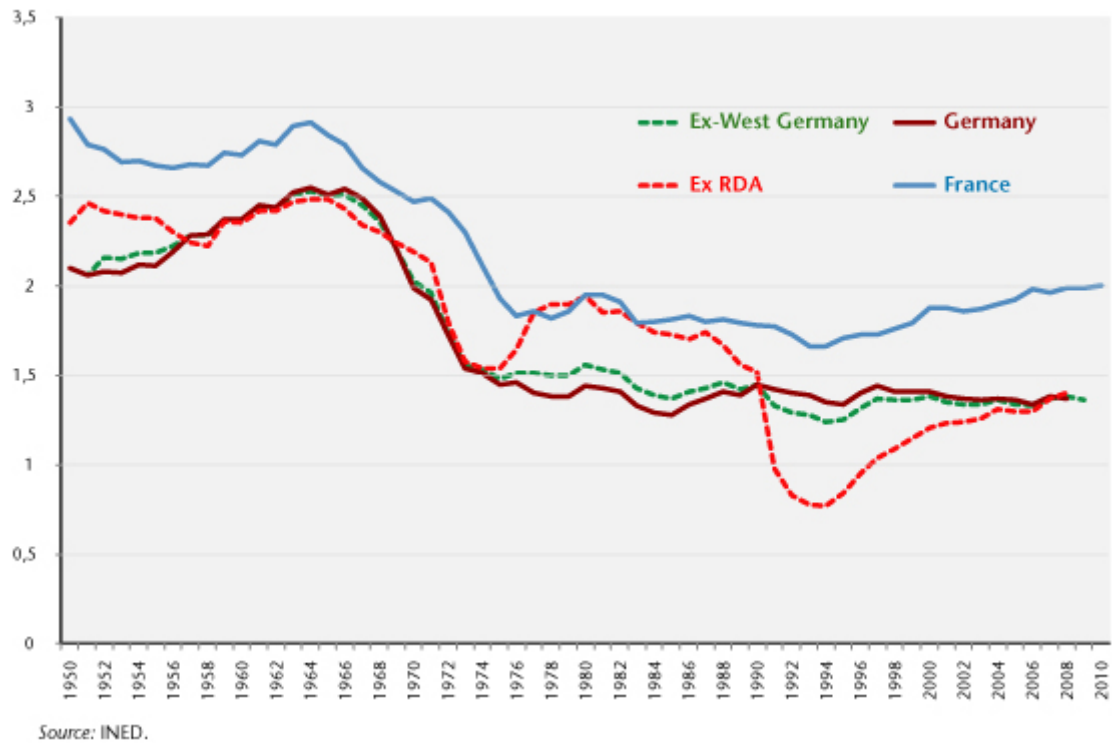
The demographic trajectories of France and Germany are the product of Europe's history, and in particular its wars. The superposition of the age pyramids (Figure 1) is instructive in this regard: in Germany the most numerous generations are those born during the Nazi period, up to 1946; then come the cohorts born in the mid-1960s (the children of the generations born under the Nazis). In contrast, in France the 1930s generation is not very numerous. As a consequence, the baby-boomer generation which, as can be easily understood, kicked off earlier than in Germany (starting in 1945, at a time of a baby crash in Germany that ended only in the early 1950s, with

the German baby boom peaking somewhat late, in the 1960s), was limited in scale, as people of childbearing age were not numerous. On the other hand, the birth rate in France slowed much less in the wake of the 1970s crisis, and most of all it has risen again since the early 1990s. This has resulted in the fertility rate remaining close to 2 children per woman of childbearing age, so that the size of the generations from 1947 to the present has remained virtually constant. German reunification led to a collapse in the birth rate in former East Germany, which converged with the rate in ex-West Germany in the mid-2000s (Figure 2). Overall, French fertility has generally been higher than German fertility in the post-war period, with the gap widening since the early 2000s. As a result, the number of births in France is now substantially higher than the number in Germany: in 2011, 828,000 compared with 678,000, *i.e.* 22% more births in France.

**Figure 1. Age pyramids in 2011**



**Figure 2. Instantaneous fertility indicators in France and in Germany**



From a demographic standpoint, France and Germany are thus in radically different situations. While France has maintained a satisfactory fertility rate, almost sufficient to ensure the long-term stability of the population, Germany's low birth rate will lead to a substantial and rapid decline in the total population and to much more pronounced ageing than in France (Figures 3 and 4).

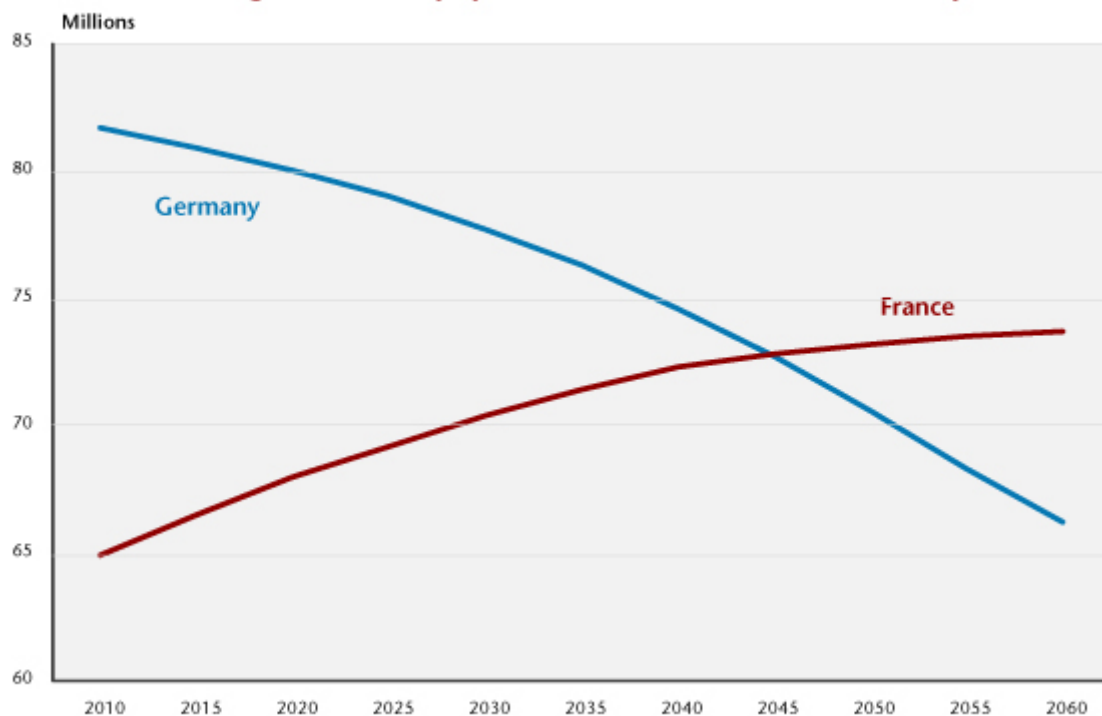
According to the population projections adopted by the European Commission [\[1\]](#), Germany should lose more than 15 million inhabitants by 2060, while France gains just under 9 million. By 2045, the populations of the two countries should be the same (a little under 73 million), while in 2060 France will have approximately 7 million more people than Germany (73 million against 66 million).

Migration is contributing to population growth in both countries, but only moderately. Net migration has been lower in Germany during the most recent period, with a rate of 1.87% between 2000 and 2005 and 1.34% between 2005 and 2010 against,



respectively, 2.55% and 1.62% in France [2]. The net migration rates adopted by the European Commission for France and Germany are similar, with a contribution to population increase by 2060 on the order of 6% in each country [3]. The UN [4] uses a similar hypothesis, with the contribution of migration growing steadily weaker in all countries. This reflects a general slowdown in overall international migration due to rising incomes in the originating countries. In this situation, Germany does not seem to have a large pool of external labour available, as it has limited historical links with the main regions of emigration.

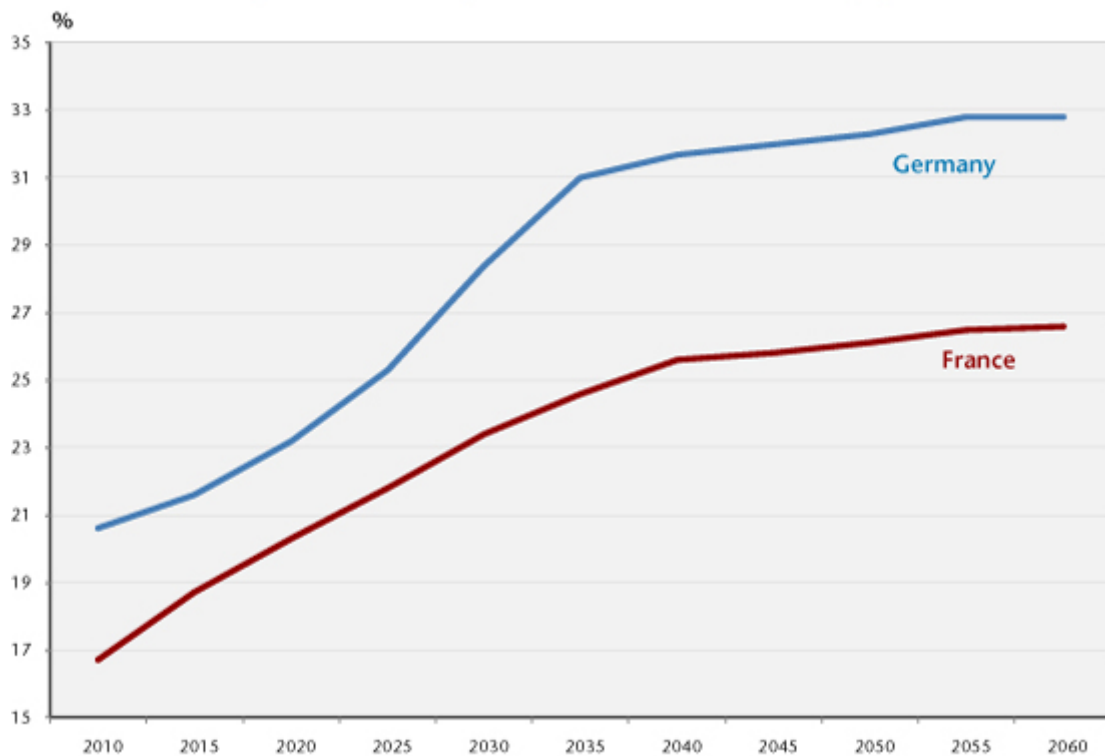
**Figure 3. Total populations in France and in Germany**



Source: European Commission, "The 2012 Ageing Report".

This inversion in demographic weight thus seems inevitable, and it will be accompanied by a divergence in the average age of the population, with considerably more graying of the population in Germany than in France (Figure 4). By 2060, the share in the total population of those aged 65 or older will reach almost one-third in Germany, against a little less than 27% in France.

Figure 4. Share aged 65 and over in the total population



Source: European Commission, "The 2012 Ageing Report".

As a consequence, and in light of the reforms implemented in the two countries, the share of GDP that goes to public spending on pensions would increase a little in France and a lot in Germany. According to the Report of the European Commission (*op. cit.*), between 2010 and 2060 this share would rise in France from 14.6% to 15.1% of GDP, up 0.5 GDP point, but by 2.6 points in Germany, from 10.8% to 13.4%. This is despite the fact that the German reform of the pension system provides for postponing the retirement age to 67, while the French reform postpones it only to 62.

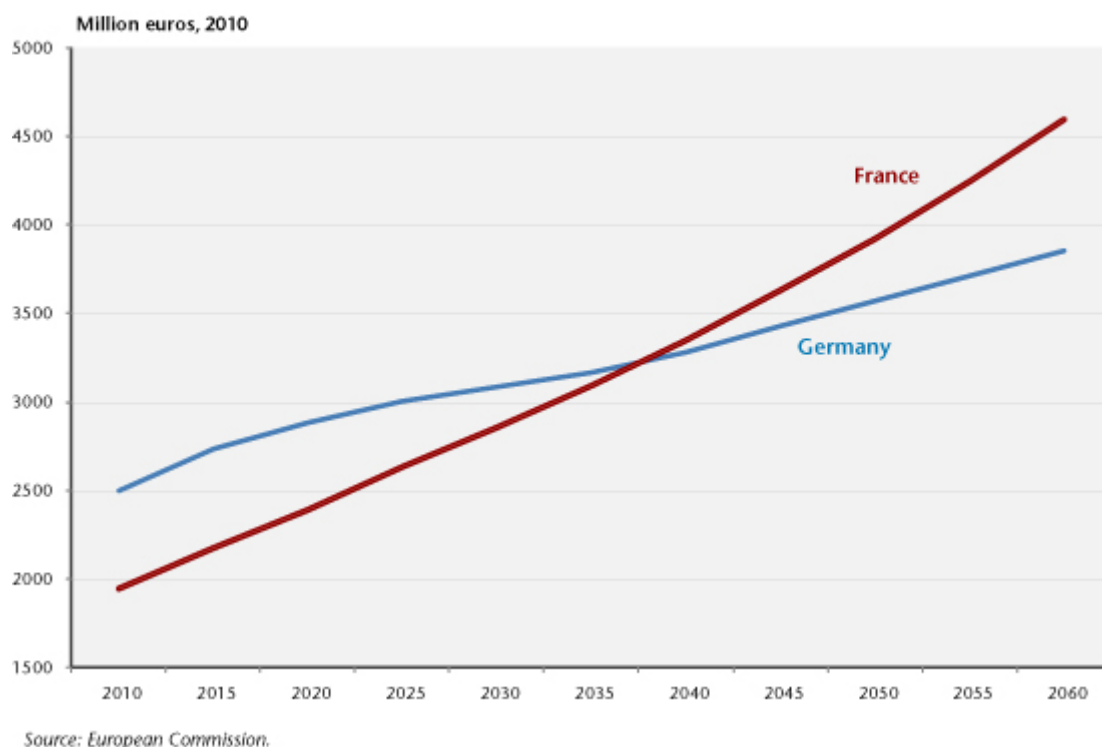
Demography also has an impact on the labour market, which will be subject to changing constraints. Between 2000 and 2011, the French and German workforces increased by the same order of magnitude – +7.1% in Germany and +10.2% in France – but while in Germany two-thirds of this increase resulted from higher labour force participation rates, in France 85% of the increase was due to demography. In the near future, Germany will come up against the difficulties of further increasing its rate. Germany's family policy now includes provisions,

such as parental leave, which aim to encourage female employment through a better reconciliation of work and family life, but female participation rates are already high, so that the problem now is more that of increasing the fertility rate than the labour supply. France, which is starting from a lower participation rate, especially because older workers leave the labour market much earlier than in Germany, has greater reserves to draw on. In recent years, the disappearance of early retirement and the increase in the working years required to receive a full pension have begun to have an impact, with the employment rate of older workers rising significantly, even during the crisis [\[5\]](#). The employment of older workers has also increased in Germany, but it is not possible to continue to make significant increases in this area indefinitely. The most likely result is a long-term convergence in employment rates between France and Germany. Ultimately, then, according to the projections of the European Commission [\[6\]](#), the German participation rate is likely to increase by 1.7 points between 2010 and 2020 (from 76.7% to 78.4%), while the French rate increases by 2.7 points (from 70.4% to 73.1%). By the year 2060, the French participation rate will increase more than twice as much as the German rate (4.2 points against 2.2). But France's rate would still be lower than Germany's (74.7% against 78.9%), meaning that France would still have reserves to draw on.

This divergence in demographics between the two countries has major consequences in terms of long-term average potential growth. Again according to the projections of the European Commission (which are based on the assumption of a convergence in labour productivity in Europe around an annual growth rate of 1.5%), in the long term potential growth in France will be double the level in Germany: 1.7% per year by 2060, against 0.8%. The difference will remain small until 2015 (1.4% in France and 1.1% in Germany), but will then grow quickly: 1.9% in France in 2020, against 1% in Germany.

Just as for the population figures, this will result in a reversal of the ranking of French and German GDPs by about 2040 (Figure 5).

**Figure 5. GDP in France and in Germany**



The demographic situations of France and Germany thus logically explain why there is more concern in Germany than in France for the outlook on age-related social spending. This should lead to a more nuanced analysis of the countries' public debts: given the same ratios of debt to GDP in 2012, over the long term France's public debt is more sustainable than Germany's.

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[\[1\]](#) Cf. "The 2012 ageing report", *European Economy* 2/1012.

[\[2\]](#) Cf. United Nations, Department of Economic and Social Affairs, Population Division (2011). *World Population Prospects: The 2010 Revision*, CD-ROM Edition.

[\[3\]](#) Net migration is projected to be slightly higher in Germany than in France, at a level of 130,000 per year in 2025-2030, but under 100,000 in France. But the overall

difference is very small: in 2060, cumulative net migration between 2010 and 2060 would increase the population by 6.2% in Germany and by 6% in France (as a percentage of the population in 2010).

[4] *Op. cit.*

[5] See the summary of changes in the labour force in 2011 by the Insee: <http://www.insee.fr/fr/ffc/ipweb/ip1415/ip1415.pdf>.

[6] *Op. cit.*

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## Will Germany be caught up in the recession of its European partners?

[Christophe Blot](#) and Sabine Le Bayon

Can Germany avoid the recession that is hitting a growing number of countries in the euro zone? While Germany's economic situation is undoubtedly much more favourable than that of most of its partners, the fact remains that the weight of exports in its GDP (50%, vs 27% for France) is causing a great deal of uncertainty about the country's future growth.

Thus, in the last quarter of 2011, the downturn in the German economy (-0.2%) due to the state of consumption and exports has upset hopes that the country would be spared the crisis

and that it could in turn spur growth in the euro zone based on the strength of its domestic demand and wage increases. Exports of goods fell 1.2% in value in late 2011 over the previous quarter, with a contribution of -1.5 points for the euro zone and -0.4 points for the rest of the European Union. Admittedly, the beginning of 2012 saw renewed growth, with GDP rising by 0.5% ([versus 0% in the euro zone](#)). Once again this was driven by exports, in particular to countries outside the euro zone. The prospects of a recession across the Rhine in 2012 thus appear to be receding, but there is still great uncertainty about how foreign trade will be affected in the coming months and about the extent of the slowdown “imported” into Germany. The question is whether the improvement in the first quarter of 2012 is temporary. The decline in manufacturing orders from euro zone firms to Germany (-7.5% in the first quarter of 2012, after -4.8% in the last quarter of 2011) could spell the end of Germany’s persistent growth, especially if the recession in the euro zone continues or worsens.

With GDP per capita above the pre-crisis level, Germany has been an exception in a euro zone that is still profoundly marked by the crisis. The country’s public deficit is under control, and it already meets the 3% threshold set by the Stability and Growth Pact. Germany is still running a foreign trade [1] surplus, which came to 156 billion euros (6.1% of GDP) in 2011, whereas at this same time France ran a deficit of 70 billion euros (3.5% of GDP). Despite Germany’s favourable foreign trade performance, the crisis has left scars, which today are being aggravated by the energy bill. For instance, before the crisis the trade surplus was 197 billion euros, with over 58% from trade with partners in the euro zone. With the crisis, activity slowed sharply in the euro zone – the zone’s GDP in the first quarter of 2012 was still 1.4% lower than the level in the first quarter of 2008 – which is automatically reflected in demand addressed to Germany. Thus, exports of goods to the euro zone are still

below their level of early 2008 (down 2.9% for Germany and 6.3% for France, see Table 1). Germany's trade surpluses vis-à-vis Italy and Spain – two countries that were hit hard by the crisis – have fallen significantly, mainly due to lower demand from the two countries. German exports to these two countries have decreased by 27% and 4% respectively since 2007.

Nevertheless, although Germany is more exposed to foreign trade shocks than France, it is less exposed to the euro zone. The share of euro zone countries in German exports fell from 44.8% in 2003 to 39.7% in 2011 (Table 2a). In France, despite a fall on the same order of magnitude, 47.5% of exports are still directed towards the euro zone. When the European Union as a whole is considered, however, the gap disappears, as the EU represents 59.2% of German exports compared with 59.8% of French exports. The lower level of dependence on the euro zone has been offset by increasing exports to the new member states of the European Union (the NEM), with which German trade reached 11.4% in 2011. Moreover, Germany has maintained its lead over France on the emerging markets: in 2011 Asia represented 15.8% of German exports and China 6.1%, against 11.5% and 3.2% in the French case. By managing to diversify the geographical composition of its exports to areas experiencing vigorous growth, Germany has been able to dampen the shock of the slowdown in the euro zone. This can be seen in recent trade trends: while Germany's exports (like France's) have surpassed their pre-crisis level, this was due to exports to countries outside the euro zone, where Germany has benefited more than France (Table 1). Germany has in fact succeeded in significantly reducing its deficit with Asia, which has helped to offset the poor results with the euro zone and with Central and Eastern Europe. Finally, Germany has advantages in terms of [non-price competitiveness](#) [2], which reflects the dynamism of trade in automobiles and electrical, electronic and computer equipment. The surpluses in these two sectors regained their pre-crisis level in 2011 (respectively,



103 and 110 billion euros in 2011), whereas the balances in these two sectors have continued to deteriorate in France.

Even if orders from countries outside the euro zone remain buoyant (up 3.6% in early 2012), the weight of the euro zone is still too strong for exports to emerging markets to offset the decline in orders placed by the euro zone to Germany. This will inevitably affect the country's growth. GDP should therefore rise less rapidly in 2012 than in 2011 (0.9% according to the OFCE [3], following 3.1%). Germany might thus avoid a recession, unless the euro zone as a whole experiences even sharper fiscal contraction. Indeed, the slowdown in growth means that the euro zone member states will not be able to [meet their budget commitments in 2012 and 2013](#), which could lead them to decide on further restrictive measures, which would in turn reduce growth throughout the zone, and therefore demand addressed to the zone's partners. In this case Germany would not avoid a recession.

Finally, the role of foreign trade is not limited to growth and employment. It could also have an impact on negotiations between France and Germany about the governance of the euro zone. The relative growth of the two countries will in practice affect the balance of power between them. The expected slowdown in growth in Germany clearly reflects its conflicting interests between, on the one hand, maintaining its market opportunities and, on the other, its fears vis-à-vis the functioning of the euro zone and the cost to public finances of broader support for the countries in greatest difficulty. While up to now the latter consideration has dominated the German position, this could change once its commercial interests come under threat, especially at a time when the German Chancellor is negotiating with the Parliamentary opposition about the ratification of the fiscal pact – an opposition that could demand measures to support growth in Europe, as has the new French president.

**Table 1. German and French exports since the crisis, in value**

2008 Q1 = 100

		2009 - Q2	2012 - Q1
Totale	Germany	76,5	108,4
	France	77,6	101,6
Euro zone	Germany	76,4	97,1
	France	75,4	93,7
Other EU countries	Germany	71,2	103,3
	France	71,4	89,4
Rest of the world	Germany	79,8	123,0
	France	83,1	117,5

Sources : Customs, Destatis.

**Table 2a. The main partners of Germany and France**

%

	2003		2011	
	Germany	France	Germany	France
European Union	65,0	67,0	59,2	59,8
Euro zone	44,8	52,2	39,7	47,5
- <i>France/Germany</i>	10,4	15,8	9,6	16,3
- <i>Italy</i>	7,3	9,2	5,9	8,0
- <i>Spain</i>	4,9	10,0	3,3	7,2
- <i>Netherlands</i>	6,4	3,8	6,5	4,2
- <i>Belgium/Luxembourg</i>	5,8	8,2	5,0	7,5
- <i>Austria</i>	5,4	1,0	5,4	0,9
United Kingdom	8,4	9,5	6,2	6,5
NEM*	9,2	3,7	11,4	4,8
United States	9,3	6,7	6,9	5,5
Asia	11,4	7,3	15,8	11,5
- <i>China</i>	2,7	1,4	6,1	3,2
- <i>Japan</i>	1,8	1,6	1,4	1,5

Note : The NEM include Bulgaria, the Czech Republic, Latvia, Lithuania, Hungary, Poland, Romania, Slovenia, Slovakia and Estonia.

Sources : Customs, Destatis.

**Table 2b. The main suppliers of Germany and France**

%

	2003		2011	
	Germany	France	Germany	France
European Union	61,4	65,2	55,7	58,9
Euro zone	42,4	53,6	37,7	48,2
- <i>France/Germany</i>	9,3	18,9	7,6	17,3
- <i>Italy</i>	6,5	9,4	5,3	7,4
- <i>Spain</i>	3,0	7,6	2,8	6,1
- <i>Netherlands</i>	7,9	4,7	8,4	4,4
- <i>Belgium/Luxembourg</i>	5,1	7,4	4,5	8,2
- <i>Austria</i>	4,1	1,0	4,1	0,9
United Kingdom	6,4	6,7	4,8	4,4
NEM*	9,3	3,2	10,7	4,0
United States	7,8	6,5	5,6	5,7
Asia	15,5	12,5	20,4	15,7
- <i>China</i>	4,1	4,1	9,7	8,2
- <i>Japan</i>	3,8	3,2	2,8	1,9

Note : The NEM include Bulgaria, the Czech Republic, Latvia, Lithuania, Hungary, Poland, Romania, Slovenia, Slovakia and Estonia.

Sources : Customs, Destatis.

[1] Measured by the gap between the export and import of goods.

[2] See also J.-C. Bricongne, L. Fontagné and G. Gaulier (2011): "Une analyse détaillée de la concurrence commerciale entre la France et l'Allemagne" [A detailed analysis of commercial competition between France and Germany], Presentation at the Fourgeaud seminar [in French].

[3] This figure corresponds to the update of our forecast of April 2012, which takes into account the publication of the growth figures for Q1 2012.

# Working hours and economic performance: What lessons can be drawn from the Coe-Rexecode report?

By [Eric Heyer](#) and [Mathieu Plane](#)

Do people work less in France than in the rest of Europe? Is France the only country to have reduced working hours in the last decade? Is the 35-hour work week really dragging down the French economy? The report published on 11 January by the [Coe-Rexecode](#) Institute provides fresh material for answering these questions.

We have produced [a note on the main conclusions of the report](#), which can be summarized as follows:

## **1. People work fewer hours in France than in the rest of Europe.**

- TRUE for full-time employees,
- FALSE for part-time employees,
- FALSE for non-salaried employees,
- UNDETERMINED for the total.

## **2. Working hours have fallen more in France than in Germany over the last 10 years.**

- FALSE

## **3. “The shorter work week has failed to meet the goal of job creation and work-sharing” in France.**

- FALSE

## **4. “The shorter work week has undermined per capita purchasing power” in France.**

- FALSE