

Low-wage work and the segmentation of the German labour market. Is there a growing segmentation between good and bad jobs?

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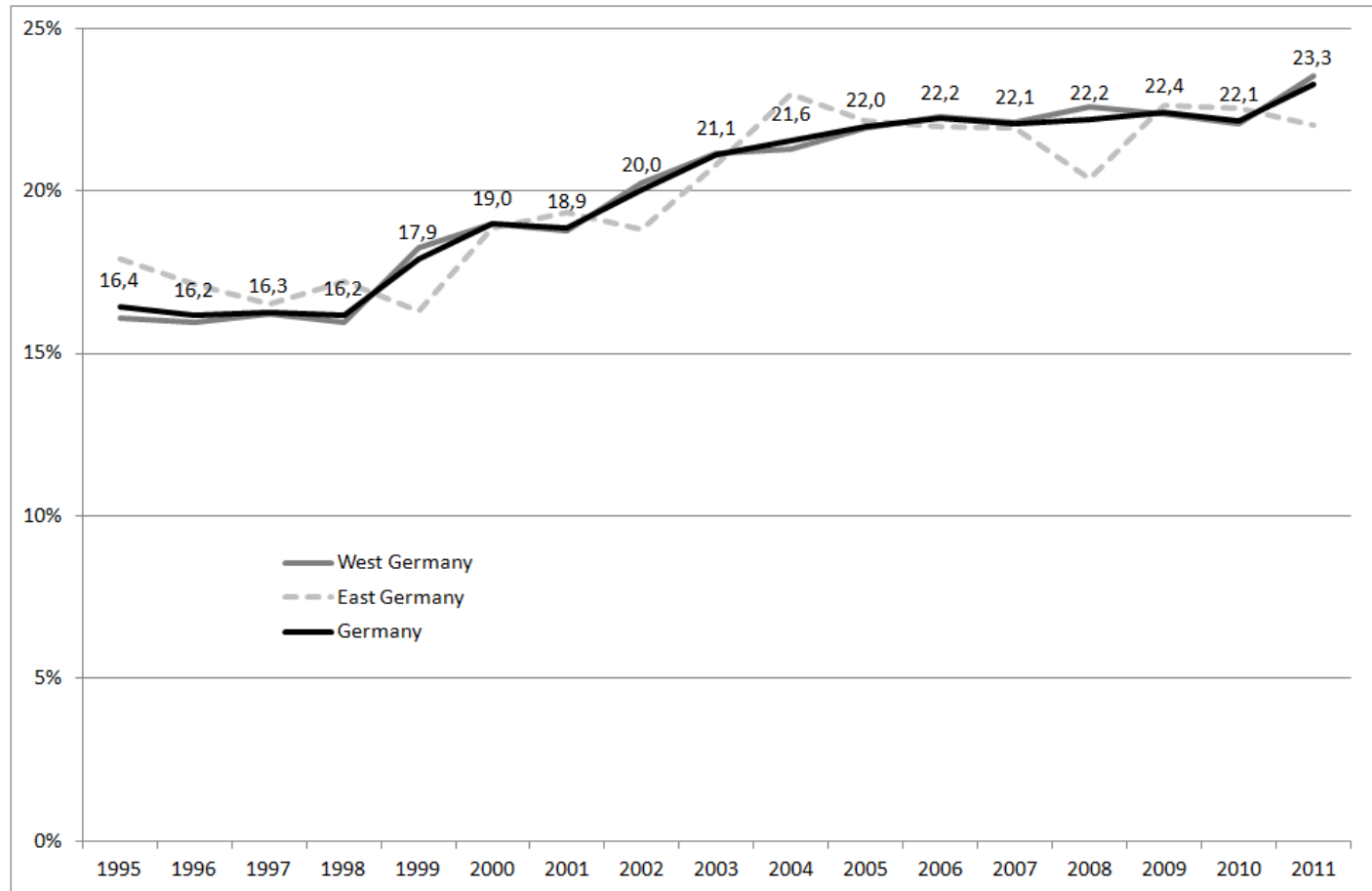
## Content:

- 1. Main questions**
- 2. Low-wage work in Germany – Development and structure, reasons for growth**
- 3. Labour market segmentation theory**
- 4. Development of labour market segments over time**
- 5. Low-wage employment in different labour market segments**
- 6. Growing polarization of the German labour market?**
- 7. Conclusions**

## Main questions:

1. Does the expansion of low-wage work lead to an erosion of core elements of the German employment system in form of the internal or occupational labour market?
2. Or is the expansion of low wages limited to the lower margin in form of the unstructured segment?
3. Is there a growing polarization of the German labour market?
  - Shift of employment from the middle (primary occupational segment) to the margins (primary internal and secondary unstructured segment)
  - Growing distance between lower and upper margins in employment conditions

# Share of low-wage work in total employment over time



Source: GSOEP v28, own calculation.

## Reasons for the increase of the low-wage sector

- The **German reunification** that made huge transfers from West to East necessary, funded by increases in taxation and social security contributions
- **EU-driven deregulation** of many public institutions (like hospitals) with the establishment of governance structures similar to those in the private sector
- Growing importance of the **service sector** with high shares of female workers
- Changes in **corporate governance** in the direction of maximising short term returns
- **Declining coverage** of collective agreements - Competition between firms bound by **collective agreements** and those not bound by collective agreements
- **Outsourcing** of activities to firms not bound by collective agreements or substitution of regular employment by **precarious employment** forms
- Abolition of the income-related **unemployment assistance** for the long-term unemployed
- Tightening of the **acceptability criteria for job search**, forcing qualified unemployed to take up “low-skill” jobs
- **Expansion of Minijobs, temp work agencies**

## Structure of of low-wage employment, 2011, in %

Structure of low-wage employees		Incidence (in category)	Distribution (share in total low-pay)
<b>Educational level</b>	Unskilled	46.3	23.5
	Skilled	23.4	68.8
	College or university	7.9	7.7
<b>Sex</b>	Men	16.2	35.5
	Women	30.6	64.5
<b>Age</b>	under 25 year	58.8	14.5
	25 – 34	25.7	23.0
	35 – 44	18.6	19.5
	45 – 54	17.1	22.5
	55+	25.9	20.6
<b>Nationality</b>	German	22.2	87.0
	Non-national	35.0	13.0
<b>Fixed-term contract?</b>	Fixed-term	42.2	23.3
	Open-ended	18.4	76.7
<b>Working time form</b>	Full-time	14.4	42.5
	Part-time	25.5	24.0
	Minijob	85.4	33.4
<b>Total economy</b>		23.3	100.0

Source: SOEP v28, own calculation

## Problem/open question:

- Some incidence, that low-wage work is affecting the margins of the labour market (e.g. high risk of low pay in atypical employment)
  - Majority of low-wage workers is skilled, has open-ended contracts, works full-time ...
- Use of Labour Market Segmentation Theory to analyse if the expansion of low-wage work is affecting the core of the employment system or is just limited to the margins.

## Classical scheme for the analysis of the German labour market

	<b>Internal</b>	<b>External</b>
<b>Primary</b>	Primary internal	Occupational
<b>Secondary</b>	Secondary internal	Unstructured

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Basic assumptions of labour market segmentation theory

**Alternative to neoclassical labour market theory. Allocation, gratification and qualification of workers different in labour market segments:**

- **Internal labour markets:** allocation, gratification and qualification by **institutionalized rules**.
- **External labour markets:** Allocation, gratification and qualification by **market** mechanism.

**Primary vs. Secondary labour markets:**

- Differentiation by employment conditions (e.g. remuneration, opportunities for advancement, atypical employment).

# Internal labour markets

- Entry positions
- Hierarchies and ladders for advancement
- Company-specific skills, "learning on the job"
- High employment security
- Examples: public administration, steel industry

## Unstructured labour markets

- Low skills levels of tasks
- Work performance measured in number of items/amount
- Short employment tenure
- Oversupply of employees
- Close to neoclassical labour market model (price mechanism for coordination)
- Example: simple tasks in agriculture

# Occupational labour markets

- **Vocational training:** standardized, transferable over single company.
- **Standardisation** by institutions (unions, employer associations)
- **Certification** of skills □ entry barriers
- **Structure of jobs** corresponds with structure of vocational training system
- **Product market** organised by similar principles (e.g. limits to access for certain tasks)
- **Example:** Construction industry

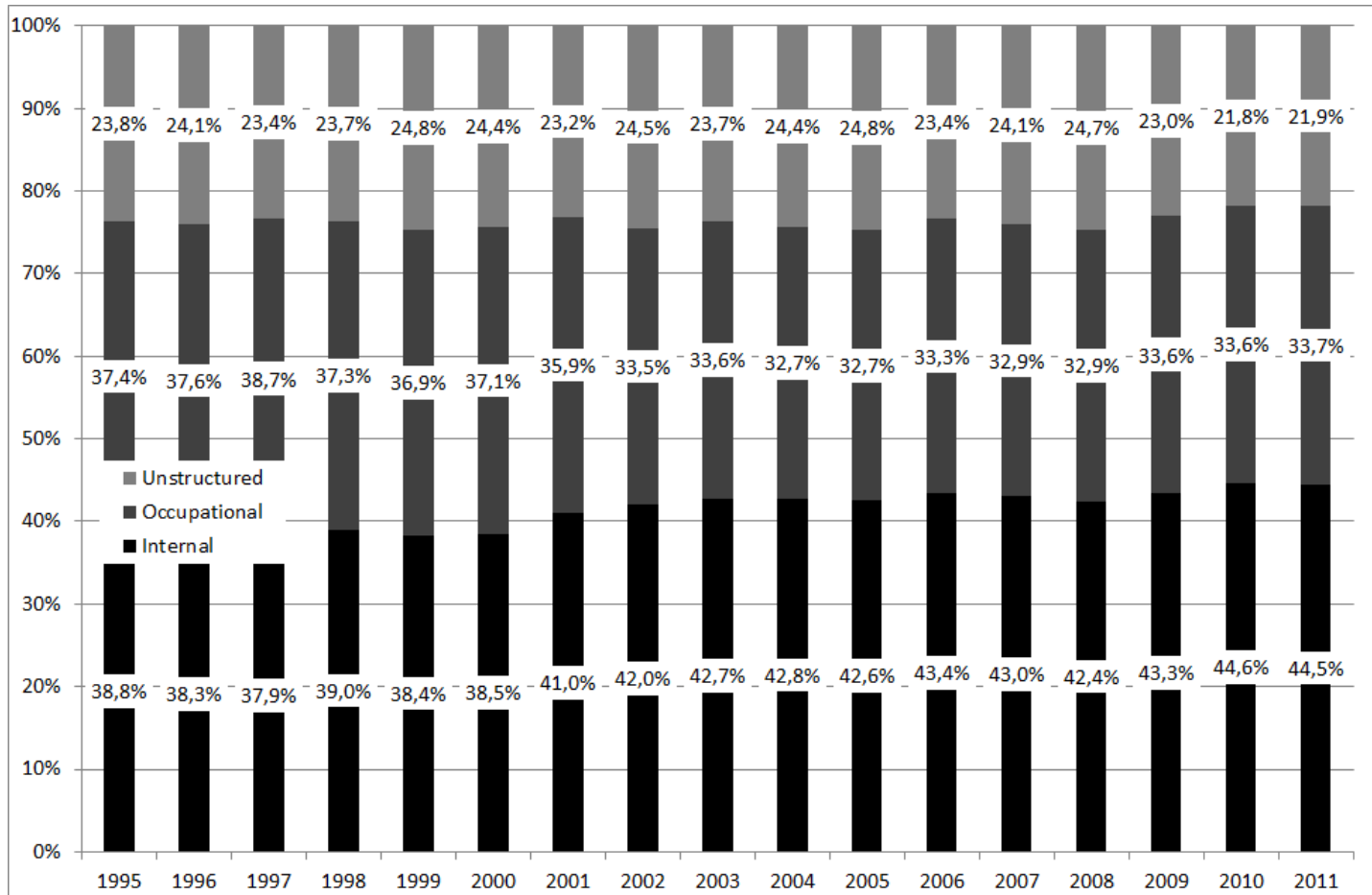
# Low-wage work by segments – a modified segmentation concept

Labour market type	Internal labour markets	Occupational labour markets	Unstructured labour markets
Primary Segment	Primary internal	Primary occupational	Primary unstructured
<b>Low-wage threshold</b>			
Secondary Segment	Secondary internal	Secondary occupational	Secondary unstructured

<b>Internal market</b>	<ul style="list-style-type: none"> <li>• Tenure of ten years and more</li> </ul>
<b>Occupational market</b>	<ul style="list-style-type: none"> <li>• Tenure below ten years</li> <li>• Employee has a certified degree of vocational training or a higher skills level</li> <li>• Employee is not working in a „low-skill“ position</li> </ul>
<b>Unstructured market</b>	<ul style="list-style-type: none"> <li>• Tenure below ten years</li> <li>• Employee does not have a certified degree of vocational training or</li> <li>• Employee is working in a „low-skill“ position.</li> </ul>
<b>Differentiation primary/secondary market</b>	By a low-wage threshold of two-thirds of the median hourly gross wage.

Source: own presentation.

# Development of labour market segments over time (share of segment in total employment in %)



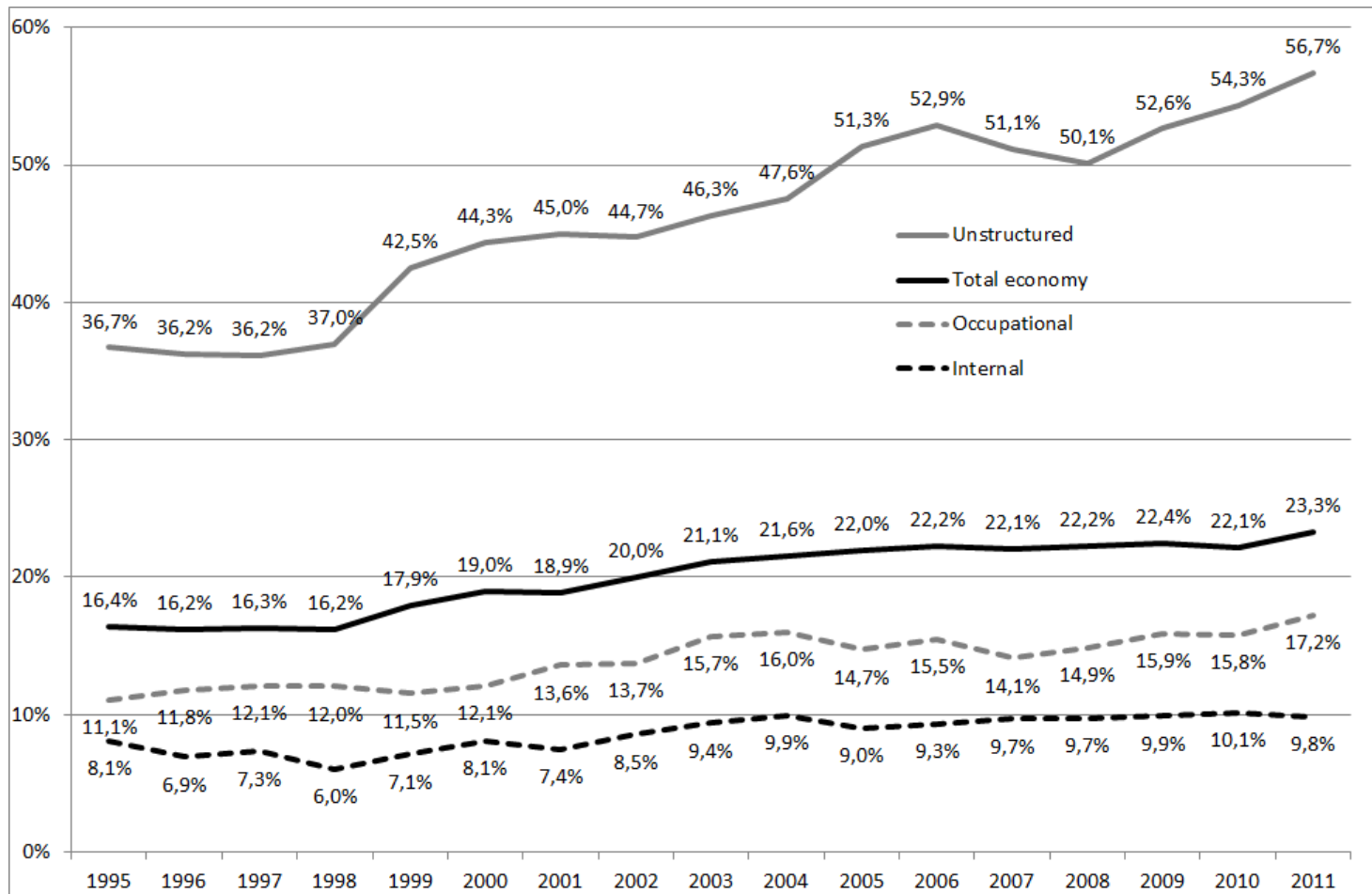
Source: GSOEP v28, own calculation.

Share of internal markets by establishment size, employment change in the size-category

Establishment size	Share of the internal segment in the size-category		Employment change (of absolute number of employees)	
	1995	2007	Internal segment	Total
1 to 19	21,2%	28,1%	43,1%	7,6%
20 to 199	33,4%	37,1%	13,3%	2,1%
200 to 1999	43,0%	50,3%	16,1%	-0,8%
2000+	51,9%	55,7%	0,3%	-6,6%
<b>Total</b>	37,4%	42,2%	14,7%	1,7%

Source: SOEP 2007, own calculation

# Share of low-wage work in different labour market segments over time (in %)



Source: GSOEP v28, own calculation.

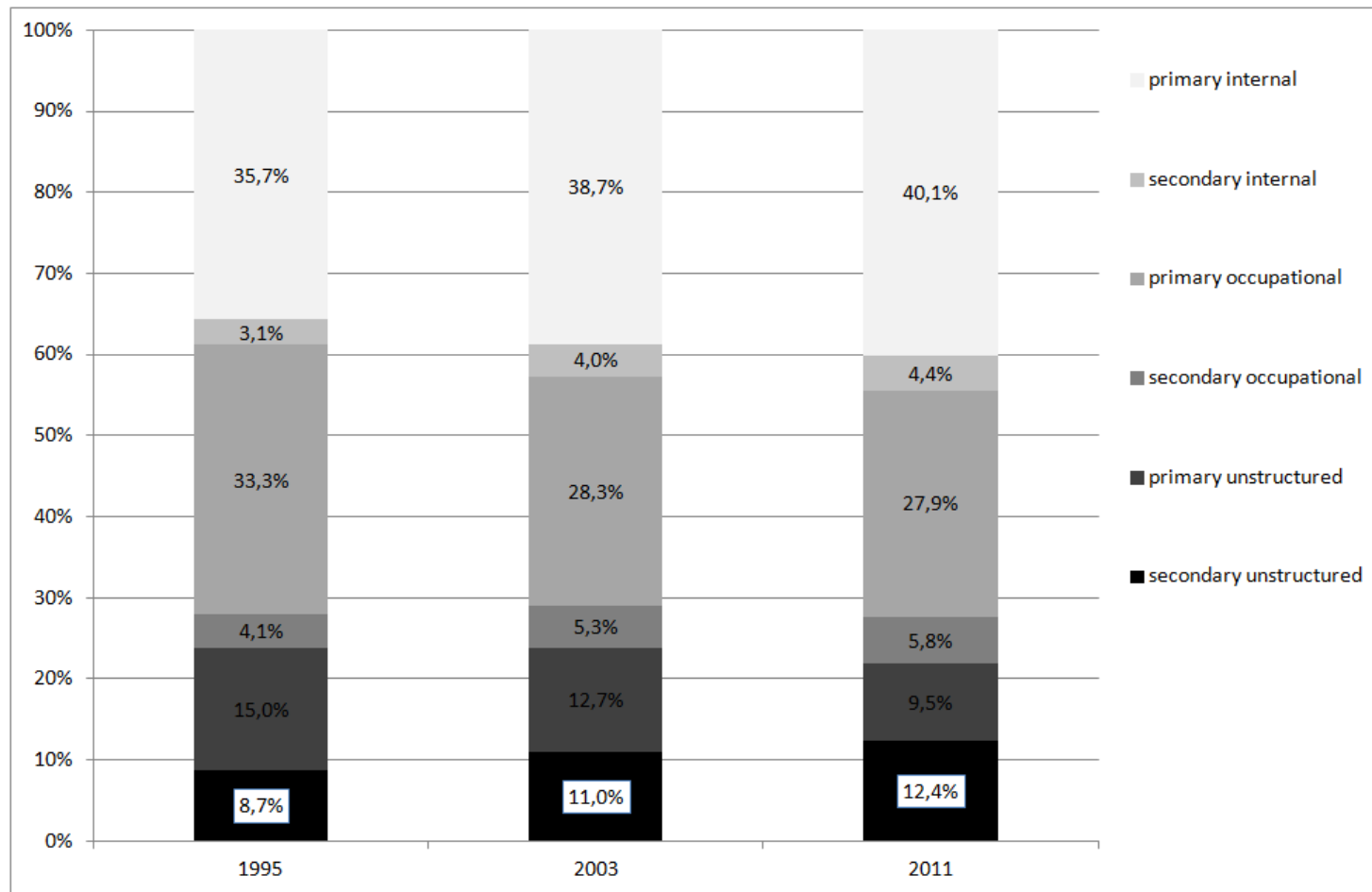


## Low-wage work by segments (absolute number of employees and change over time)

Year	Internal	Occupational	Unstructured	Total economy
1995	972,016	1,279,467	2,692,404	4,943,886
2011	1,465,708	1,943,746	4,162,988	7,572,443
change abs.	493,693	664,279	1,470,584	2,628,556
change in %	50.8%	51.9%	54.6%	53.2%
share in abs. change	18.8%	25.3%	55.9%	100%

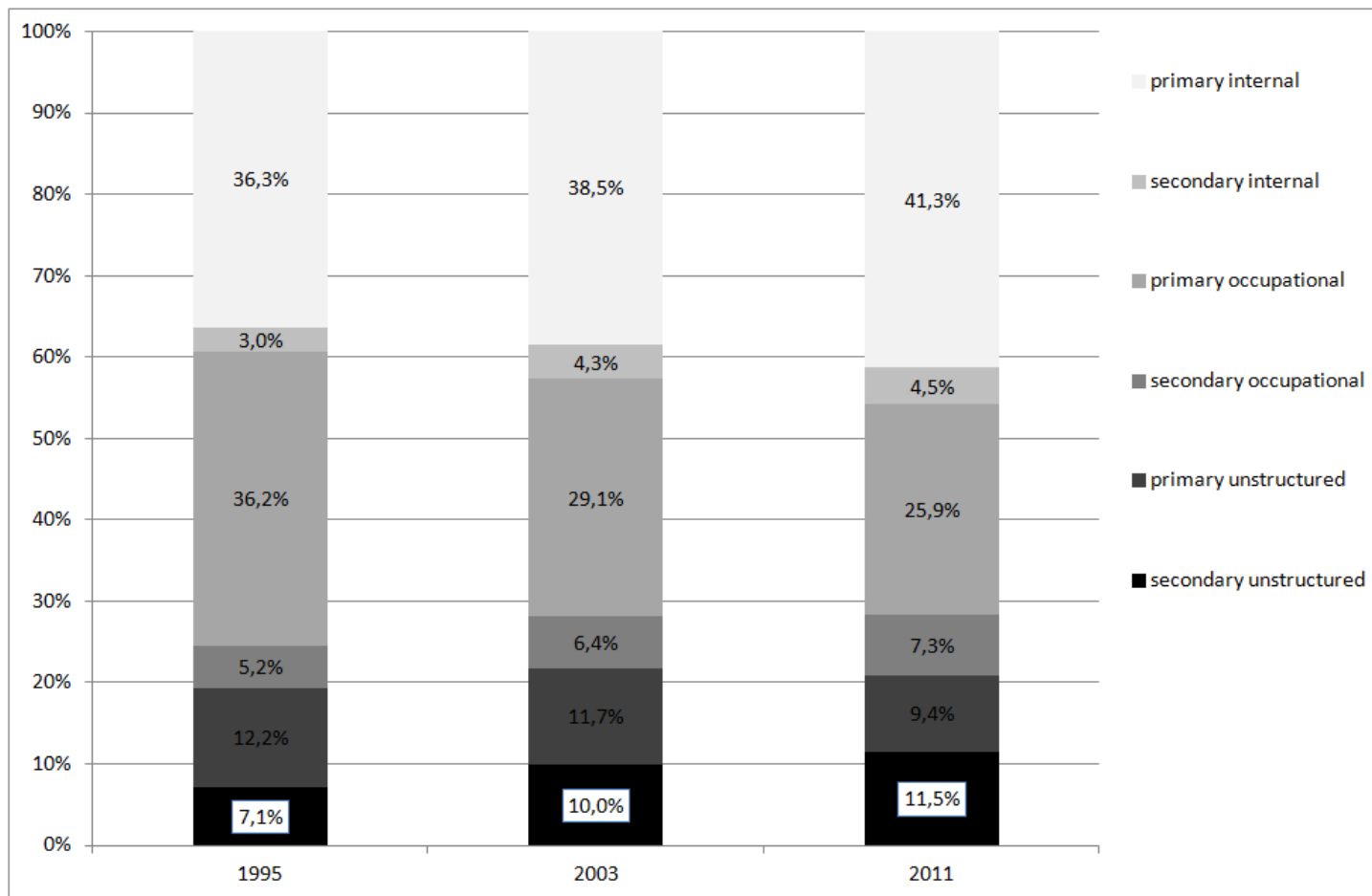
*Source: GSOEP v28, own calculation.*

# Share of labour market segments in total employment over time (in %)



Source: GSOEP v28, own calculation.

# Share of labour market segments in employment of vocationally skilled employees over time (in %)



Source: GSOEP v28, own calculation.

## Distance of upper and lower margin of the employment system

Share of atypical employment in segments (in %) – change over time

	<b>1995</b>	<b>2000</b>	<b>2005</b>	<b>2011</b>
<b>Primary internal</b>	8.2%	8.5%	9.0%	10.7%
<b>Secondary internal</b>	36.1%	33.4%	38.8%	44.5%
<b>Primary occupational</b>	14.6%	14.8%	17.3%	22.2%
<b>Secondary occupational</b>	29.6%	31.5%	47.4%	45.2%
<b>Primary unstructured</b>	22.5%	28.7%	32.3%	40.6%
<b>Secondary unstructured</b>	43.4%	48.1%	59.1%	67.6%
<b>Total economy</b>	18.0%	20.0%	24.4%	28.2%
<b>Relation secondary unstructured/primary internal</b>	5.3	5.6	6.6	6.3

*Source: GSOEP v28, own calculation.*

## Conclusions:

- Employees in the unstructured segment have the highest risk of being on low pay.
- Unstructured segment had the highest share in low wage expansion in absolute numbers, but about 44% of increase in other two segments.
- Shift of employment from middle of the employment system (primary occupational segment) to the lower margin (secondary unstructured segment) and upper margin (primary internal segment).
- Expansion of (primary) internal segment, mainly in small companies.
- Growing distance between upper and lower margin
- Clear incidence for a polarization of the employment system.
- Expansion of the low-wage sector affects core of the employment system

## Policy implications:

Erosion of occupational labour markets in the form of a deterioration of employment prospects for skilled workers and internalisation of occupational labour markets

- Problem for dual apprenticeship system and economy with focus on high skill products
- Counter-measures: Generally binding minimum wage; Re-regulation of Minijobs.

## Thank you for your attention!

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### Further IAQ-research on the topic:

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