

# The state of the social pact in Germany and Beyond: Lessons for Brazil?

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# Can/should Germany serve as a “model”?

Jein:

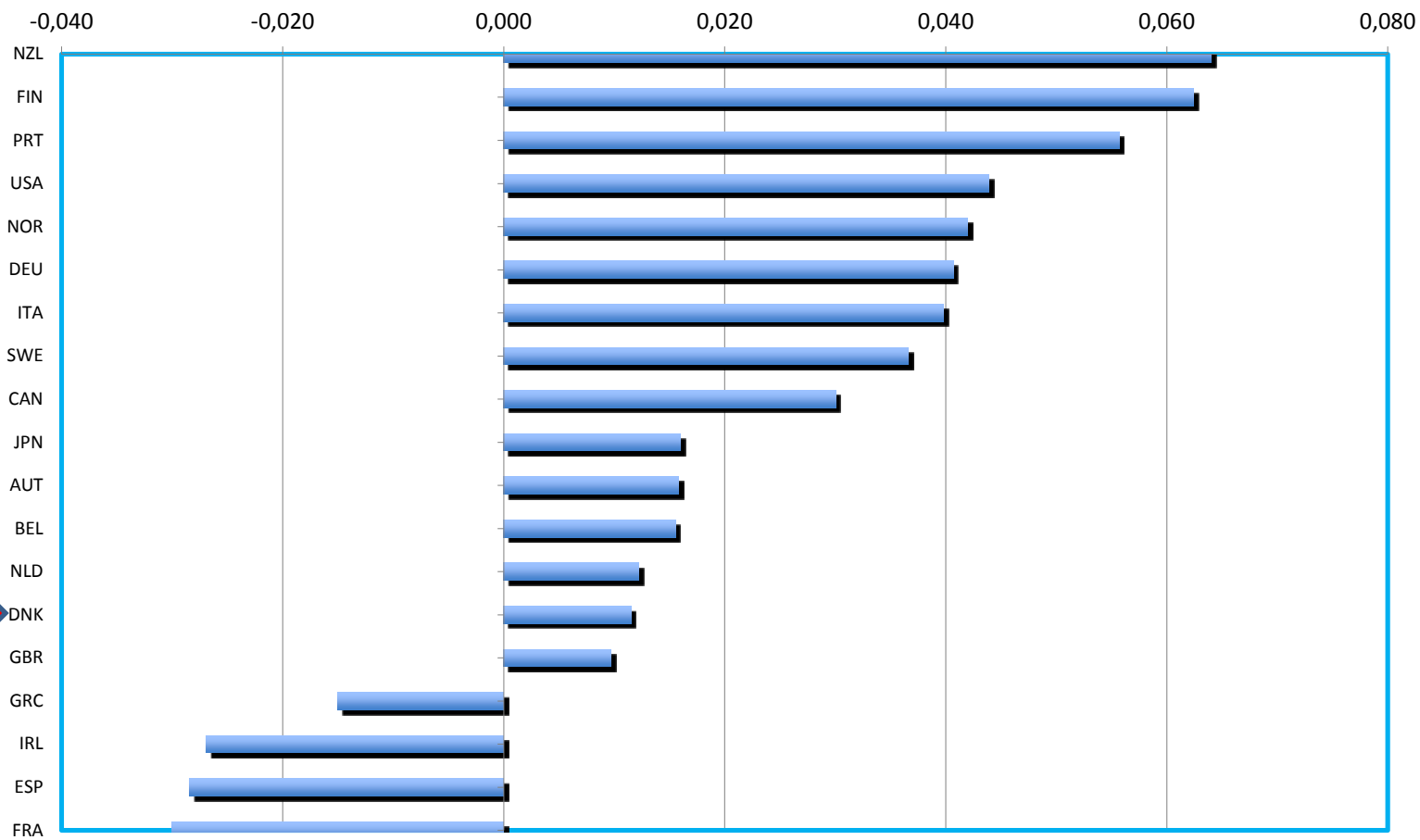
German economy performing well, but inequality is growing rapidly nonetheless

Germany's social pact is alive and well....  
...but it is shrinking! (dualization)

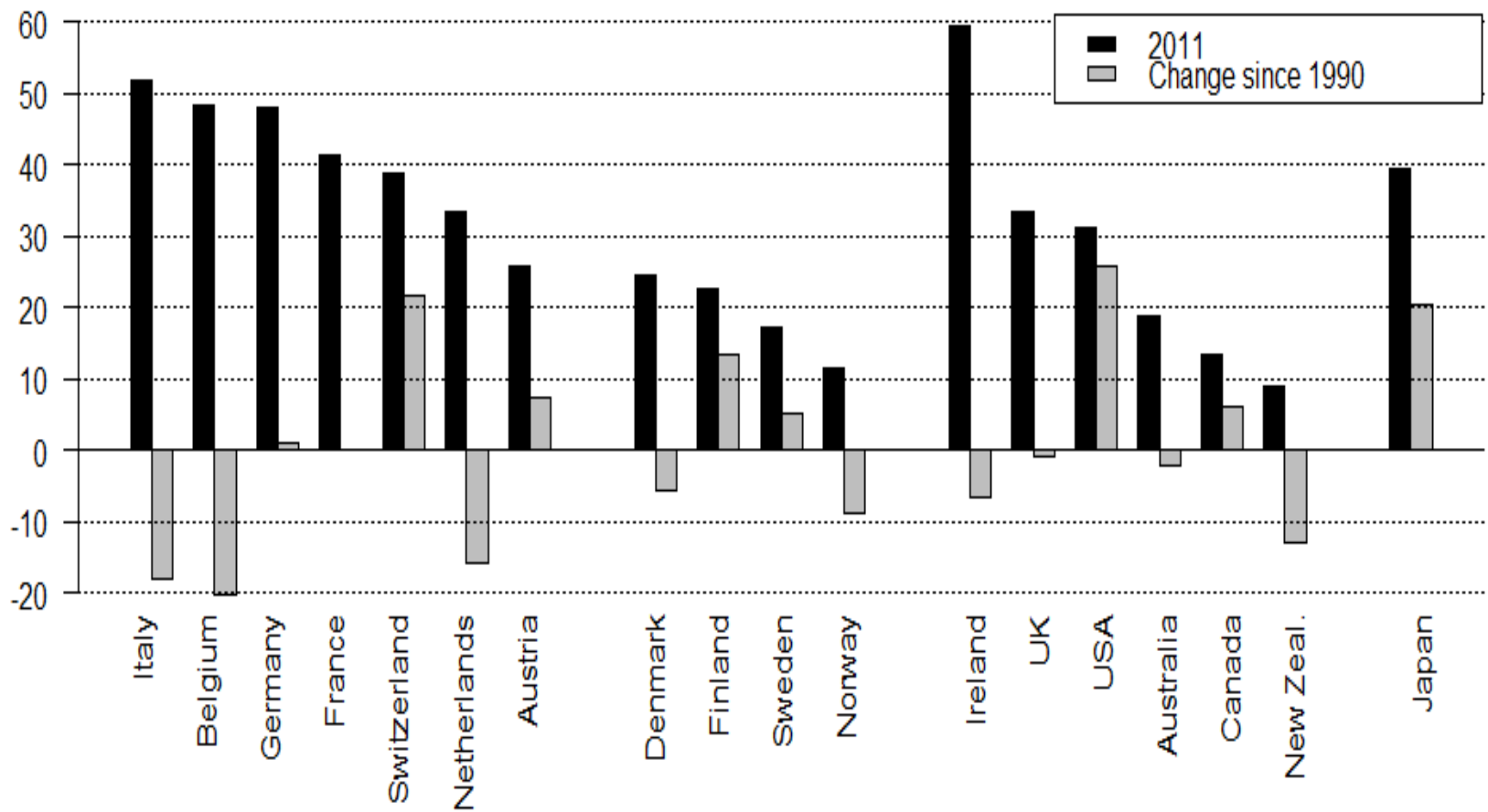
Elements of a Danish alternative

## Trends in income inequality

change in Gini coefficient, mid 1980s to mid 2000s



### Percent of unemployed out of work 12 months or more



# Change in three arenas of relevance to in/equality

1. Industrial relations: shrinking collective bargaining coverage
2. Labor market policy: growth of low-wage sector
3. Apprenticeship training: dualization in the training market

# 1. Industrial relations: signs of stability

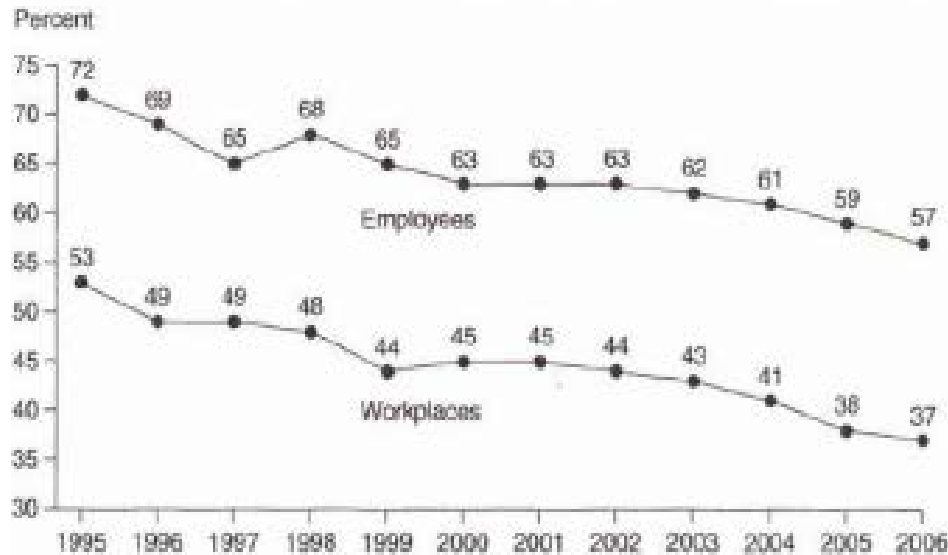
Continued, maybe even intensified cooperation in manufacturing core:

**plant level:** pacts for employment and competitiveness

**industry level:** continued support for industry-wide bargaining

# But ...

**Erosion in collective bargaining coverage (esp. accompanying shift in employment to services)**



Percent of employees and workplaces covered by industry-wide contracts

Source: Streeck 2009.

**And failure or stalemate on compensatory measures**

- Employers now regularly veto extension clauses (*Allgemeinverbindlichkeitserklärungen*)
- Political stalemate on statutory minimum wage

## 2. Labor market policy

Multiple protections for workers in the manufacturing core: strong employment protection legislation, collective contracts, strong works councils

Further augmented by state-sponsored short-time work (*Kurzarbeit*) policies

- *80% of workers on subsidized short-time work in June 2009 were in manufacturing (manufacturing accounts for approximately 20% of total employment)*

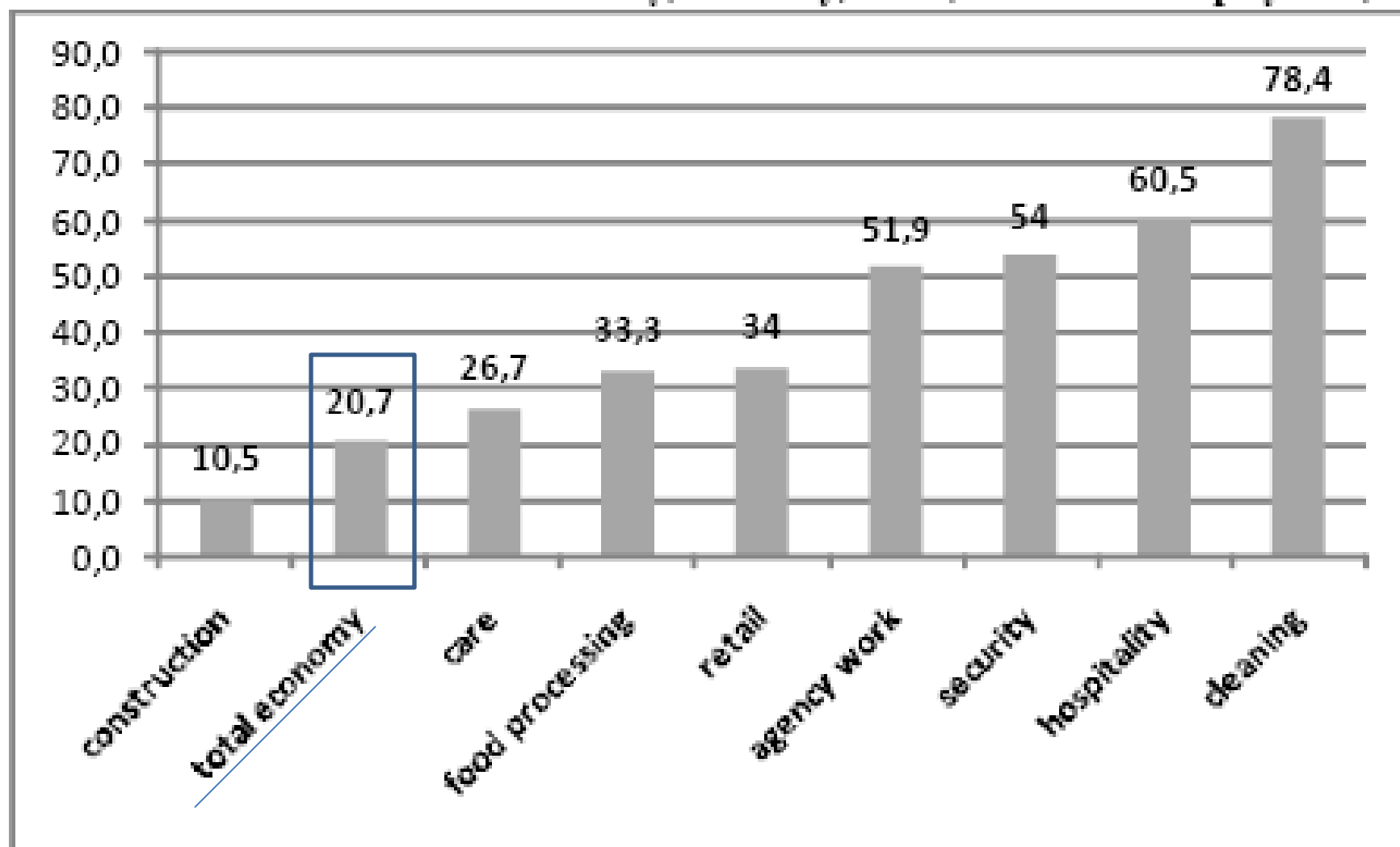


# Meanwhile...

Growth of “atypical” employment outside the core

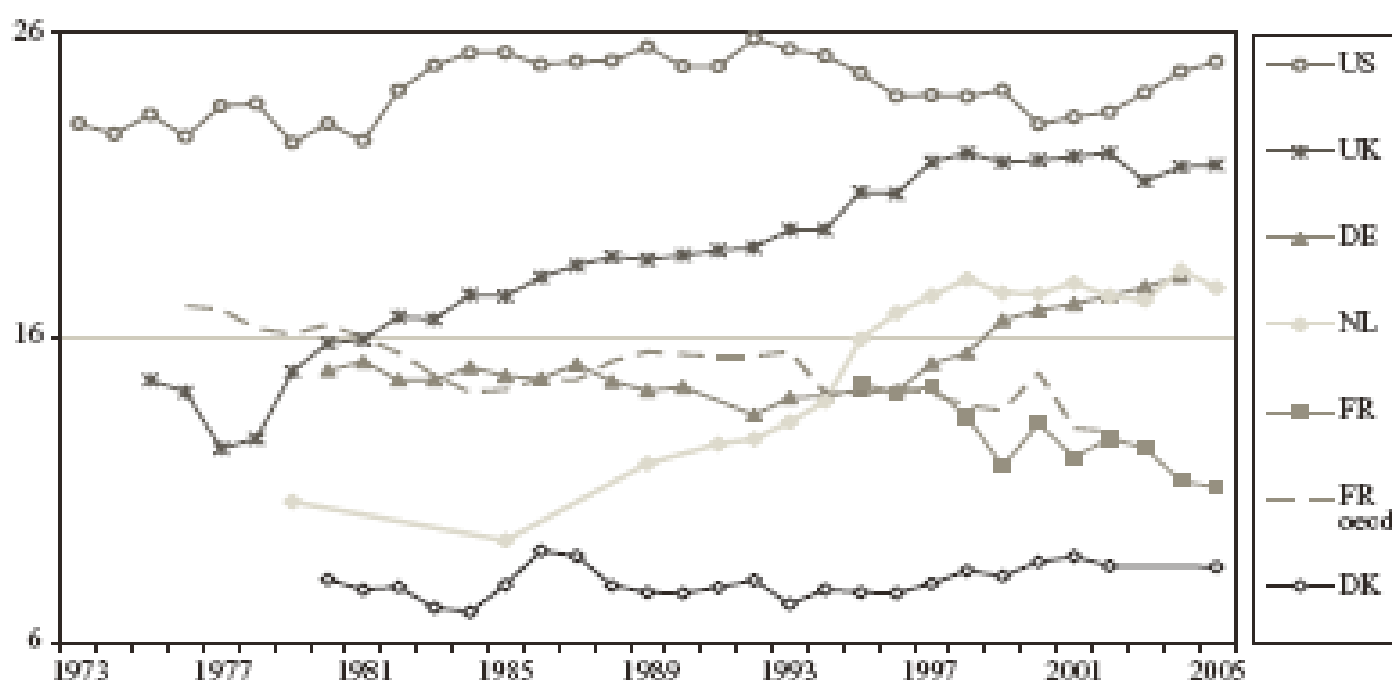
- liberalization of fixed term contracts and agency work
- Increase in “mini-jobs,” especially in services
  - # minijobs has risen by 30% since 2003
  - 1 in 3 jobs in service sector is minijob
  - 2/3 of minijobbers are women
  - 92% of mini-jobs are low-pay

Figure 4. Low pay incidence (hourly wage below two thirds of median) in the selected sectors and total economy, Germany, 2008 (in % of total employment)



Source: Bosch and Weinkopf 2010

**Figure 2: Evolution of the rate of low-wage employment (%) in six countries, 1973–2005**



*Notes:* For some countries these data are not directly comparable with the estimated shares of low-paid employment in Tables 1 and 3, which cover part-time as well as full-time workers. In this chart the data for France (dotted line) are estimated from OECD data on the earnings distribution of full-time workers only. For Germany the data refer only to full-time workers excluding civil servants; the calcu-

### 3. Vocational education and training

- Apprenticeship training has traditionally provided a path for working class youth into stable and relatively well-paid employment
- Vocational training system still popular among all stakeholders
- Ongoing positive adaptation to changes in technology and production
- Quality of training high and growing (e.g., new “dual study” programs)

....but

Declining firm participation and structural  
excess demand for apprenticeship

→ rationing of apprenticeship

State-sponsored “transitional system” does not  
confer full occupational credentials and is  
stigmatizing

→ “dualization” in youth training market as well

# What is Denmark doing differently?

- **Industrial relations:** decentralization but with continued high collective bargaining coverage and coordination through the state
- **Vocational education and training:** flexibilization of training and improved access to training—including especially adult education and continuing vocational education and training
- **Labor market policy:** “activation” as in Germany but with stronger state support (including especially state subsidies for re-training)

# German and Danish Social Pacts compared

## Germany:

- No free fall into US-model but significant growth in inequality over 10-15 years
- Not across-the-board deregulation but erosion in coverage of traditional supports for equality

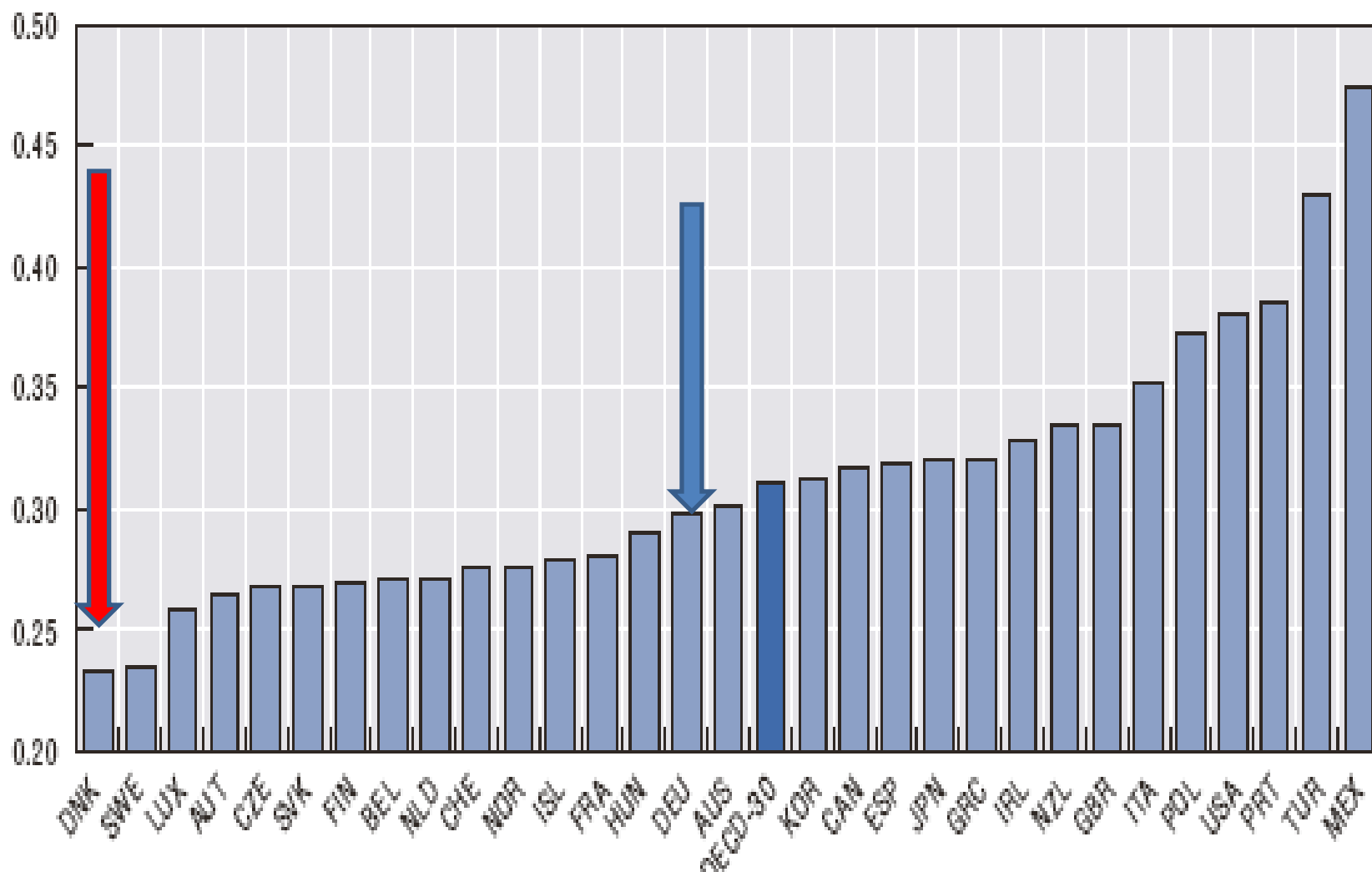
## Denmark

- Stronger “social investment model” (access to training at all points in the life cycle)
- “The state defines the model of capitalism” (Bresser-Pereira)



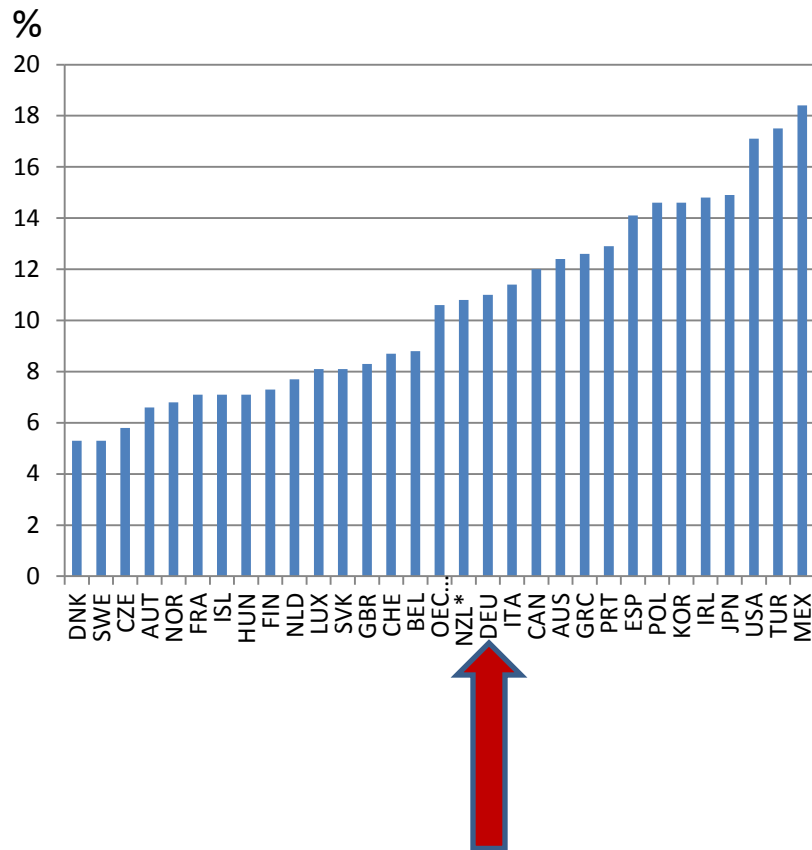


Figure 1.1. Gini coefficients of income inequality in OECD countries, mid-2000s



# Relative income poverty

Share of population in households with disposable income below 50% of median



Changes in relative income poverty at 50% median level, mid 1980s-mid 2000s

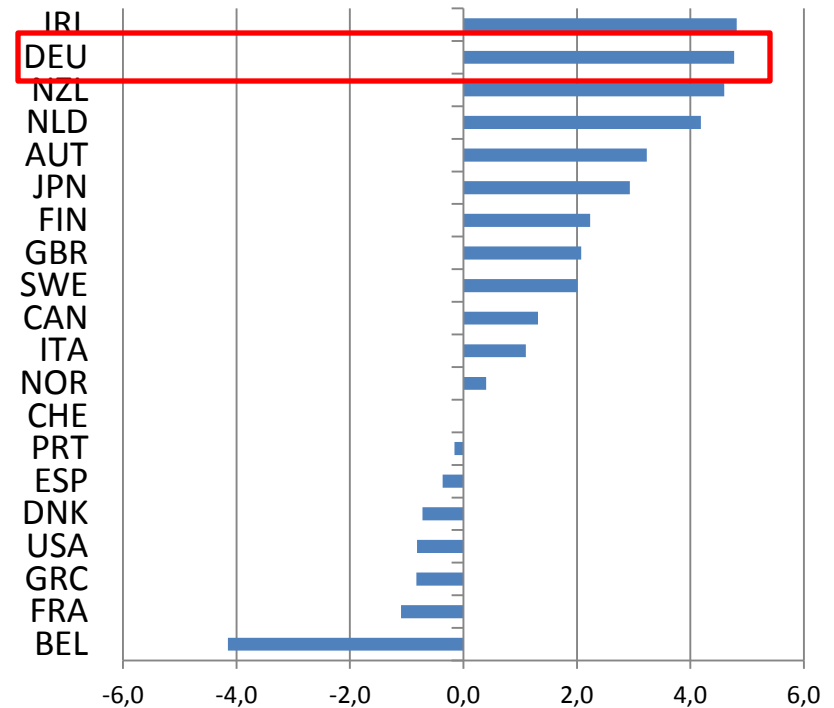
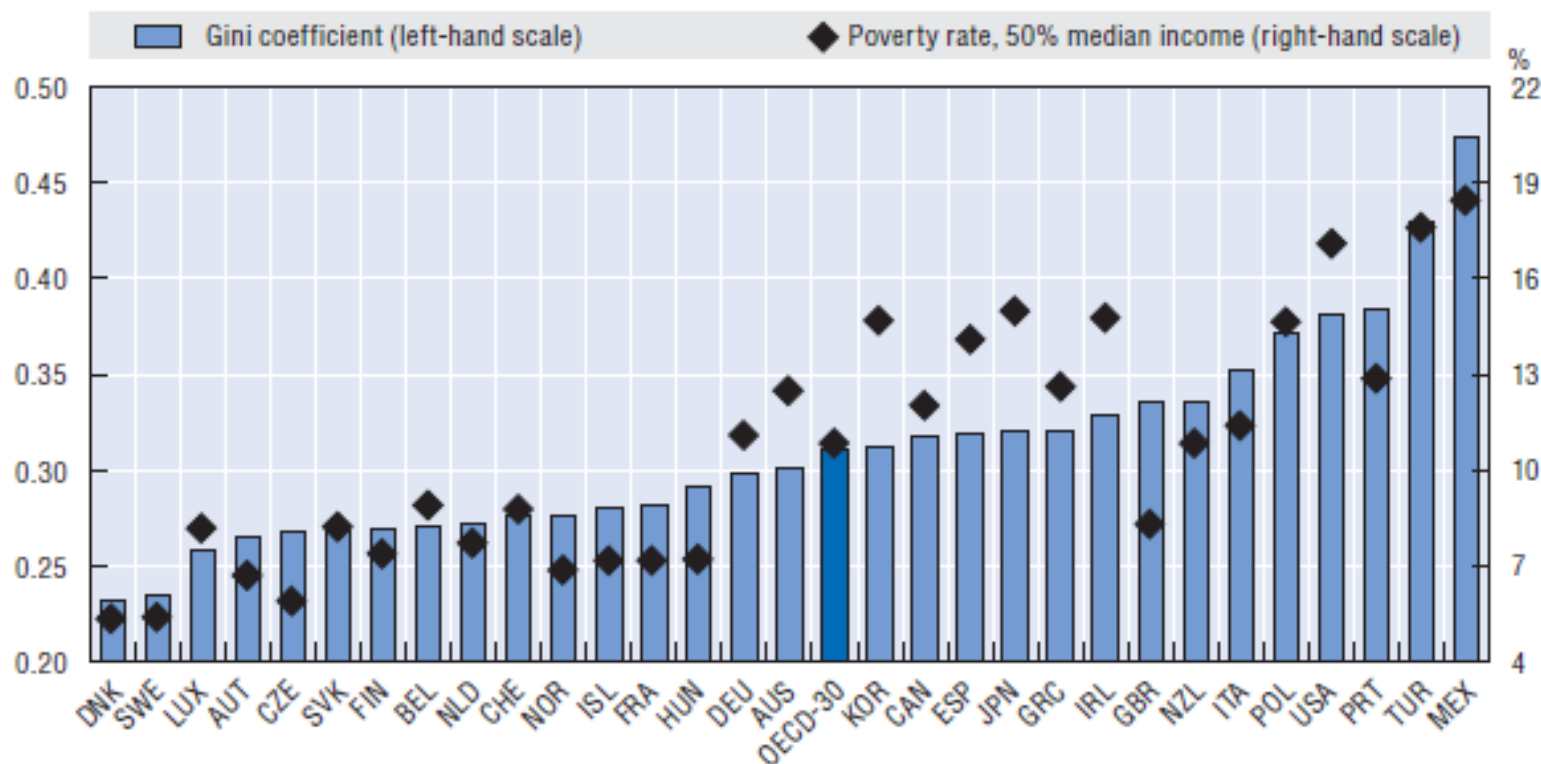



Figure 11.1. Levels of income inequality and poverty in OECD countries, mid-2000s

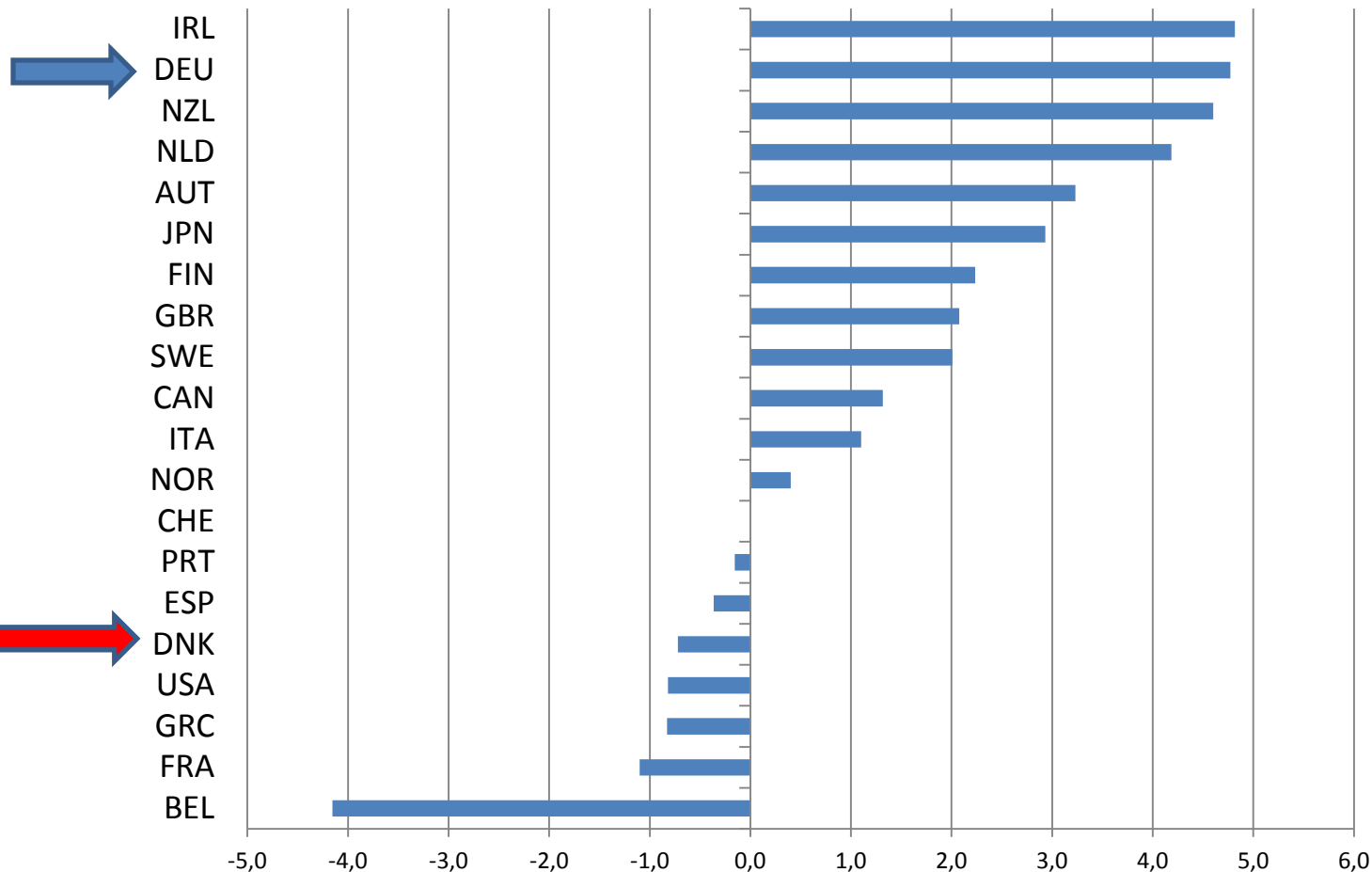


StatLink  <http://dx.doi.org/10.1787/424316682284>

Note: Countries are ranked in increasing order of the Gini coefficient of income inequality. Data refer to the distribution of household disposable income in cash across people, with each person being attributed the income of the household where they live adjusted for household size.

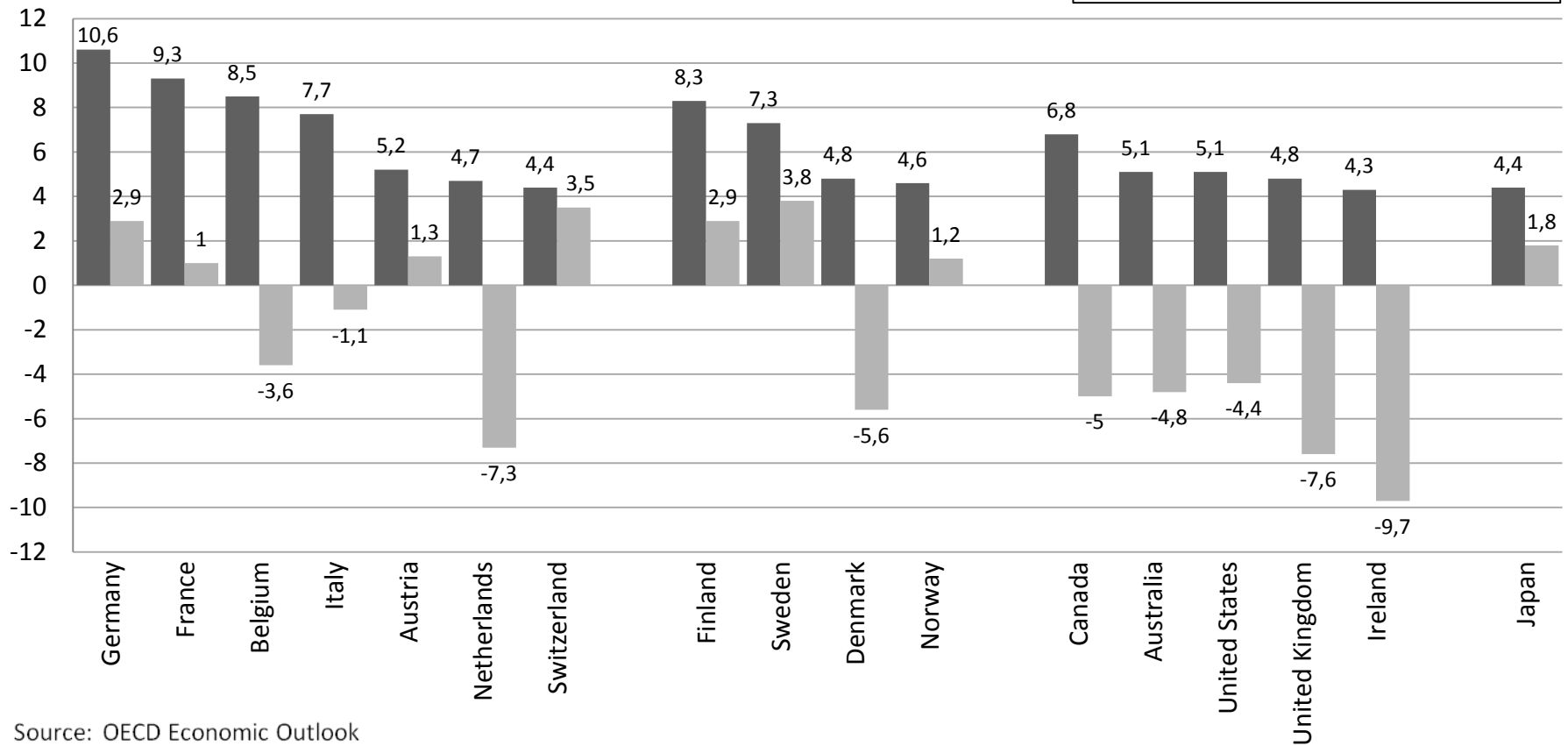
Source: Computations based on OECD income distribution questionnaire.

**Point changes in income poverty rate at 50% median  
level,  
mid 1980s-mid 2000s**



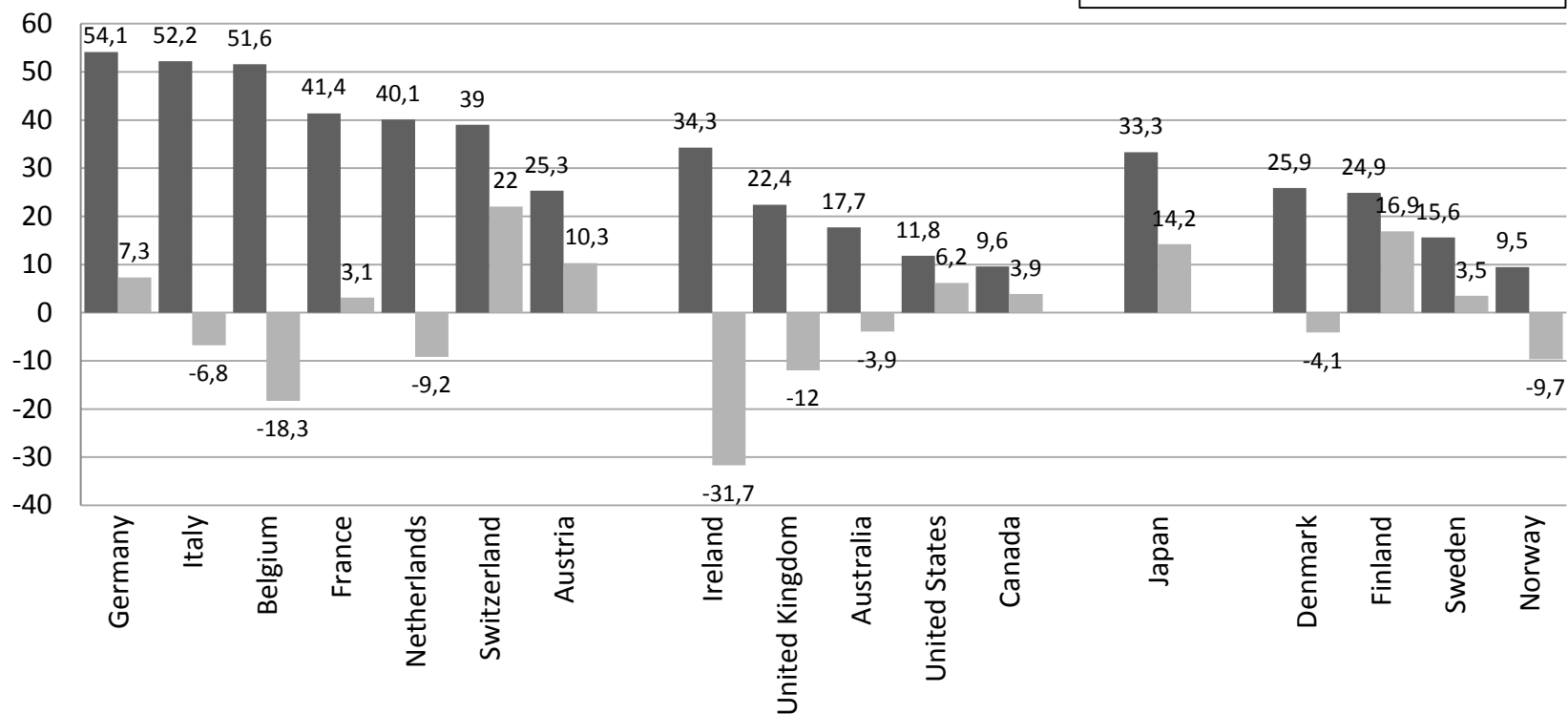
## Standardized Unemployment Rates

■ 2005    ■ Difference 2005 to 1983



Source: OECD Economic Outlook

## Percent of Unemployed Out of Work for 12 Months or More



Source: OECD Employment Outlook