

# Focus on Economics

No. 81, 29<sup>th</sup> January 2015

## Decline in working hours threatens to exacerbate the consequences of an ageing population

Authors:

Martin Müller, phone +49 (0) 69 7431-3944,

Dr Klaus Borger, phone +49 (0) 69 7431-2455, [research@kfw.de](mailto:research@kfw.de)

There are currently over 42 million people in work in Germany – more than ever before. At the same time, the total number of hours worked per year is actually slightly lower than in the 1990s. This is mainly due to the growth of part-time work. With around 27% of its workforce working part-time, Germany has the second-highest proportion of part-time workers in the EU, with the average worker now working 5.5 hours each work day. If this trend continues, it would add substantially to the already strong demographic pressure on the potential for growth. Economic policy action is called for, including measures to combat involuntary part-time work. We are already in a situation where one in six part-time workers would be available to work full-time.

Despite rising employment, the number of hours worked in Germany has fallen since 1991. This has mainly been due to a rise in part-time employment. If this trend continues, it will exacerbate the effects of the reduction in the available workforce anticipated from 2020. This would not only lead to bottlenecks in terms of quantity. Forecasts are projecting a growing shortage of graduates in particular by the year 2030 – and it is especially this group who are working less and less.

### Reduced working hours have helped reduce unemployment figures

Employment reached a record low for reunified Germany in 1993 at 37.8 million people, since when it has risen 11.9% to 42.3 million. The trend has been con-

sistent since 2005. The number of people in employment even held steady in the crisis year of 2009, despite an almost 6% drop in GDP. This "employment miracle" was made possible by the fact that the number of part-time workers rose to the second-highest level recorded in the history of the German Federal Republic.

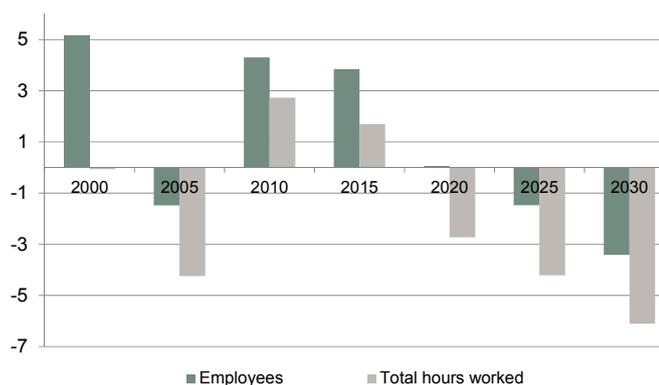
This has been accompanied by an opposing trend in the number of hours worked per capita. While German employees were still working 1,565 hours per year on average in 1992, this had fallen to just 1,363 in 2013, representing a 12% reduction in per-capita working hours. Today the average German employee works 5.5 hours each work day. This trend is mainly due to the increase in part-time work. According to the EU Labour Force Survey, the number of part-time workers as a proportion of the total workforce rose from 19.1% in the year 2000 to 27.3% in 2013. This equates to an increase in the absolute number of people working part-time from

about 7.5 million to around 11 million. Germany now has the second-highest proportion of part-time workers among the 28 EU countries. The Netherlands, where half of the workforce works part-time, are way out in front in this respect. As a result of the two opposing trends for the number of people in employment and the number of hours worked, the total amount of hours worked in Germany has fallen 1.1% over the last two decades to 57.6 billion in 2013. Even though the proportion of people working part-time has only risen slowly in recent years, the trend towards shorter working hours has continued.

### Reduced working hours threaten to exacerbate shortages of specialists in the future

A realistic scenario assumes a roughly 5% fall in employment to 40.6 million by 2030. This assumes that efforts to further reduce unemployment (by just under one percentage point according to the base scenario in the KfW growth potential model<sup>1</sup>) and attract an even greater share of people of working age to the labour market succeed (the participation rate should increase by about three percentage points by 2030). Although this will not come about of its own accord, it is certainly realistic. If, however, the trend towards reduced working hours continues, the fall in the number of hours worked in Germany (relevant for total

**Figure: Labour market scenario 2030: Working hours fall more than the number of employees (change in percentage each over 5 years)**



Source: VGR, own scenario

economic output) would be much more pronounced (13%) and the achievements of labour policy with respect to unemployment and participation would be negated (figure).

This would in particular reduce the supply of highly qualified employees. This is because the trend towards part-time work has gathered pace among these in recent years. Between 2010 and 2013, the proportion of graduates working part-time rose from 19.3 to 21.0%. Amongst those who left education after graduating from high school or with a non-academic, vocational qualification there was on the other hand a less pronounced increase in the proportion of part-time workers, from 27.8 to 28.4%.

#### However, the demographic trend could reverse this process

A growing number of pensioners combined with a shrinking number of people in employment points to an increase in taxes and social security payments. This could prompt women in particular to expand their professional activities. Almost half of all working women in Germany work in part-time positions, compared with one in ten men. Many are likely to only want to increase their hours to a limited extent though. That is because almost half of those surveyed say they work part-time due to family or personal commitments, with another one in seven undergoing training or only able to work in a limited capacity. But one in six of those working part-time would prefer to work full-time.

#### Combating involuntary part-time work

Combating involuntary part-time work in particular should therefore be a priority, as it would not only accord with the preferences of those who would like to work and earn more, but would also constitute an important building block for safeguarding material prosperity in the future.

Given the predetermined shrinking of the population, it will be an important task for employers and policymakers in the decades to come to interest a larger share of the dwindling number of working-age people for the labour market and for longer working hours. That is the only way that we will be able to separate the trend for volume of labour and output from the negative underlying demographic trend, at least to a certain extent. An immigration policy geared towards the labour market could make an important, complementary contribution in this regard.

#### Safeguarding prosperity requires an end to increasingly shorter working hours

The moderately optimistic baseline scenario of KfW's growth potential model assumes that the fall in the average hours worked each year per worker observed in recent decades will have slowed considerably by 2030, more specifically from -0.5% per year on average for the years 1991 to 2012 to just -0.1% on average for the years 2013 to 2030. This will help stabilise average per-capita growth at its current level of 1.2%. The more ambitious scenario of a return to per-capita growth of 2% by 2030 would require (among many other things) the trend towards shorter working hours to be stopped completely in order to avoid asking too much of other policy levers. Despite the uncertainties inherent in these kinds of modelled findings, the message remains clear: we are only likely to be able to safeguard material prosperity in the face of an adverse demographic trend if the long-standing trend towards fewer average annual working hours does not continue in the future.

#### Flexibility creates favourable conditions

The high proportion of part-time workers could work in our favour. A large number

of people in employment must offer more flexibility than if the same volume of work were to be distributed among much fewer people working full-time, as was customary in the past. This flexibility is to be welcomed not only from a micro-economic perspective because it makes it easier for individuals to realise their income/leisure preferences or because partners within a household can better divide up their time for work, family and other non-market activities as well as their leisure time according to their personal preferences and relative strengths.

From a macro-economic perspective it can also be exploited in connection with an increase in the volume of work, provided the underlying conditions are right. Part-time workers already have "one foot in the door", have the necessary qualifications and are familiar with the demands of working life. The additional capacity of involuntary part-time workers in particular would therefore be easy to mobilise if the obstacles associated with the involuntary part-time work were to be removed. Investment in the expansion of full-day childcare for young children and school facilities is likely to play an important role in this respect and is also desirable from the perspective of education and integration policy. This is supported not only by the aforementioned survey findings, in which almost half of part-time workers are working part-time due to family or other personal commitments, but also by experiences in eastern Germany. There, the proportion of children under the age of three in childcare is almost 50%, more than twice the figure for western Germany. At the same time, the workforce participation rate for women is considerably higher. In 2012 it stood at 76% – more than five percentage points higher than in the federal states of western Germany. Working mothers in eastern Germany also work longer hours on average. ■

<sup>1</sup> Cf. Zeuner, J.: Wege aus der Demografiefalle ("Solving the demographic problem"), KfW Research, Focus on Economics No. 34 (November 2013). Borger, K.; Lüdemann, E.; Zeuner, J. and V. Zimmermann: Deutsches Wirtschaftswachstum in der Demografiefalle: Wo ist der Ausweg?, KfW Research, Studien und Materialien (Oktober 2013) (Only available in German).