

Working time reductions in the former Federal Republic of Germany: A dead end for employment policy

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The reductions in working time introduced in recent years have left the Federal Republic of Germany with the shortest standard annual working time of all western industrialized countries (see table 1). While most trade unions in the neighbouring European countries did not consider working time reductions a suitable instrument of employment policy and therefore did not follow the German lead in demanding further reductions,¹ in the Federal Republic the unions successfully used the 1990 bargaining round to push through their demands and in some cases secured agreement on the introduction of a 35-hour week in the mid-1990s.² The demands for further reductions in the working week were based primarily on employment policy arguments. And yet, past reductions in working hours have neither had appreciable employment effects nor have they in any way contributed to the decline in unemployment. On the contrary, as we shall demonstrate, both long-term and international comparisons show that reduced working time is not the answer to the employment problem.

In this article we shall examine a number of hypotheses concerning shorter working time and its effect on employment, before drawing some conclusions from recent experience in this field and its lessons for the future.

1. Employment trends are dictated by growth prospects, not by shorter working hours

Whether we take the long- or the short-term view, employment trends are determined above all by economic growth prospects, not by standard working hours.

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¹ This is implicitly admitted by the West German trade unions; see, for example, G. Bosch: "Arbeitszeiten in Europa", in *WSI-Mitteilungen* (Düsseldorf), 10/1989, pp. 631 ff.

² A review of the agreements for the phased introduction of the 35-hour week is contained in the BDA's Annual Report (*Jahresbericht*) for 1990 (Cologne), pp. 51 ff.

Table 1. International comparison of standard annual working time for workers in manufacturing industry, 1 October 1990

Country	Average working week (hours)	Working days off			Average annual working time ³ (hours)
		Average annual leave	Additional time off ¹	Public holidays ²	
Germany, F. R.	37.7	30	—	12.5	1 648
Denmark	37	25	—	8	1 687
Netherlands	39	24	8 ⁴	7	1 732
Belgium	38 ⁵	20	—	11	1 748
France	39	25	—	11	1 755
United Kingdom	38.8	25 ⁶	—	8	1 769
Italy	40	26	5	8	1 776
Luxembourg	40 ⁷	27	—	10	1 792
Spain	40	22 ⁸	—	14	1 800
Ireland	39	20	1	8	1 810
Greece	40	22	—	9	1 840
Portugal	44 ⁹	22 ⁸	—	14	1 980 ⁹
Austria	38.6	26.5	—	12.5	1 714
Finland	40	25	12.5	9	1 716
Norway	37.5	21	—	10	1 725
Sweden	40	25	—	11	1 800
Switzerland	40.8	23.5	—	8	1 873
United States	40	12	—	11	1 904
Japan ¹⁰	...	7.9	—	14	2 143

¹ Negotiated time off per annum in addition to annual leave. ² Working days lost per annum through public holidays. ³ Basis 1990 — 261 potential working days. ⁴ Netherlands: standard annual working time reduced by an average of 62 hours = eight additional days off. ⁵ Belgium: under 38 hours per week in some sectors and firms. ⁶ United Kingdom: the commonest entitlement. ⁷ Luxembourg: 38-hour week in the steel industry. ⁸ Spain and Portugal: 30 calendar days' annual leave = an average of 22 working days. ⁹ Portugal: according to information from the employers' association, the 44-hour standard working week is to some extent theoretical. A working week of about 43 hours is usual in many enterprises, and normal annual working time is about 1,935 hours. ¹⁰ Japan: figures relate to actual leave taken and average annual working hours in 1989. Most small and medium-sized enterprises operate on public holidays.

Sources: Calculations by the Confederation of German Employers' Associations (BDA) on the basis of information from European sister organizations; Japan Ministry of Labour; US Bureau of Labor Statistics.

Since 1983, when employment figures were at their lowest point in the 1980s, the number of employed persons in the Federal Republic of Germany has risen by over 2 million. This increase has been even more dramatic in recent times. In 1990 alone there were 750,000 more people in employment than in the preceding year. With an average of about 28.5 million gainfully employed in 1990, we have probably reached the highest employment level ever recorded in the history of the Federal Republic. The positive employment situation in the 1980s was due primarily to the following factors:

- fiscal and economic policies which improved conditions for growth and employment;

Table 2. Federal Republic of Germany: Average annual change in economic growth, employment and working time, 1960-89 (%)

Period	GDP in 1980 prices	Employment	Annual working hours	
			Standard	Actual
1960-73	4.4	0.2	- 1.1	- 1.1
1973-82	1.6	- 0.2	- 0.4	- 0.8
1982-89	2.5	0.5	- 0.7	- 0.6

Sources: Institut für Arbeitsmarkt- und Berufsforschung: "Jahresarbeitszeit- und Arbeitsvolumenberechnung", in *Beiträge zur Arbeitsmarkt- und Berufsforschung* (Nuremberg, 1988), No. 123, updated in *Mitteilungen aus der Arbeitsmarkt- und Berufsforschung* (Nuremberg), 4/1989, p. 481; Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung: *Jahresgutachten 1990/91* (Wiesbaden, 1990).

- a favourable economic climate abroad;
- increased investment activity throughout Europe in anticipation of the European Community's Single Market in 1993;
- increased profits, stimulating greater investment;
- compared with the 1970s, a wage policy better geared to general productivity growth;
- greater differentiation and flexibility in the labour market; and
- more recently, the economic impetus created by German reunification.

Nowhere – at either national or sectoral level – is there any evidence of a connection between employment levels and longer or shorter working hours. Out of the more than 2 million jobs created since 1983, two-thirds are in the private service sector, where working time reductions have been few and far between. The remaining third are in the fast-growing branches of manufacturing industry, banking and insurance, commerce, and to a lesser extent, regional administrative bodies. Even within the individual economic sectors, there seems to be no positive correlation between employment trends and shorter working hours. Jobs in the metalworking industry, where hours have been sharply reduced, have increased by over 400,000 or at least 11 per cent since 1984. The variations in employment levels within the industry, however, range from +27 per cent in aviation to -26 per cent in shipbuilding. This clearly supports the argument that it was not the shorter working hours – which are standard throughout the sector – but the varying growth rates, dictated by economic factors, that determined employment trends in each case.

This point is corroborated by the longer-term comparison illustrated in table 2. During the 1970s actual annual working time was reduced by twice as much as standard (contractual) working time; in the 1980s these two figures followed a more or less parallel trend. However, while employment declined by 0.2 per cent annually in the 1970s, it has been increasing by an average of

Table 3. International comparison of economic growth and employment: Average annual change between 1983 and 1989 (%)

Country	Real GDP	Employment
Germany, F. R.	2.6	0.9
France	2.6	0.2
United Kingdom	3.5	2.1
Italy	3.1	0.4
United States	4.0	2.5
Japan	4.6	1.1

Source: Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung: *Jahresgutachten 1990/91*, op. cit.; author's calculations.

0.5 per cent per annum since 1982. The essential difference between the two periods lies more in the national economic growth rate, which was greater by an average of 0.9 percentage points in 1982-89 than in 1973-82.

Since an employment effect resulting from working time reductions cannot be proved empirically, the trade unions have for some time been using the argument that working time reductions not only created new jobs but, above all, safeguarded existing jobs. This makes the employment-effect theory proof against any kind of rebuttal, as there is no way of establishing beyond doubt why an existing job has continued to exist, no matter how many surveys, opinion polls or econometric assessments might try to persuade us otherwise.

2. Reduced working time increases the pressure to rationalize, thus reducing the employment potential of economic growth

Notwithstanding the positive employment trend of recent years, employment growth rates in the Federal Republic of Germany have been below those of certain other leading industrialized countries (see table 3). This is to be attributed to the increased investment in rationalization of production rendered necessary by reduced working time, which resulted in growth in this country being relatively less employment-intensive than in the case of our main trading partners and competitors. The increased rationalization intensity of investment (see table 4) – clearly reflected in the investment patterns of the metalworking industry, which was hard hit by working time reductions – was also apparent in the 1950s and 1960s, when the 40-hour week was introduced.³ Then as now, this led to a situation in

³ See the detailed empirical surveys conducted under the joint research project of the Ifo-Institut für Wirtschaftsforschung (Munich), the Max-Planck Institut für Arbeitsphysiologie (Dortmund) and the Deutsches Institut für Wirtschaftsforschung (Berlin): "Arbeitszeit und Produktivität – Untersuchungsergebnisse wissenschaftlicher Forschungsinstitute", Berlin, 1958-62.

Table 4. Rationalization investment as % of all investment in capital goods industries, 1986-89: Selected EC member States

Country	1986	1987	1988	1989
Germany, F. R.	55	55	57	62
Belgium	...	16	19	14
France	38	40	36	37
United Kingdom	49	46	44	46
Italy	...	51	47	50
Netherlands	...	18	30	32

Source: Commission of the European Communities: "Survey results on trends on investment and in retail trade", in *European Economy* (Luxembourg), Supplement B, Mar. 1989, table 2.

Table 5. International comparison of rationalization intensity of investment and productivity: Average annual change between 1983 and 1988 (%)

Country	Real investment in equipment	Labour productivity	Labour productivity per investment unit
Germany, F. R.	5.2	2.0	0.38
France	4.1	2.2	0.54
United Kingdom	6.0	1.9	0.32
Italy	9.7	2.7	0.28
United States	8.4	1.4	0.17
Japan	11.7	3.5	0.30

Sources: *Economic Outlook* (Paris, OECD), various years; author's calculations.

which the increase in labour productivity per investment unit was particularly high. On average, between 1983 and 1988 (more recent data are not yet available), a 1 per cent increase in plant and equipment investment led to an increase of almost 0.4 per cent in labour productivity (see table 5). This figure was considerably lower in nearly all our main competitors. In the United States the productivity effect triggered off by investment was not even half as high.

3. The so-called productivity gap is the result of working time reductions so cannot be offset by them

The relatively high productivity growth rates, in comparison with other countries, are now being invoked by the unions as a justification for further working time reductions. The argument advanced to support this demand, namely that working time reductions are necessary merely to keep employment at the same level because productivity is increasing faster than

Table 6. Evolution of total hours worked and standard working hours in the economy as a whole, 1960-89

Year	Total hours worked (million)	Average annual standard working hours
1960	56 085	2 123.8
1989	43 634	1 719.1
1960-89	— 22.2%	— 19.1%

Source: Institut für Arbeitsmarkt- und Berufsforschung: "Jahresarbeitszeit- und Arbeitsvolumenberechnung", in *Beiträge zur Arbeitsmarkt- und Berufsforschung* (Nuremberg), No. 123, updated in *Mitteilungen aus der Arbeitsmarkt- und Berufsforschung* (Nuremberg), 4/1989, p. 481.

economic growth, turns the facts upside down.⁴ It is based on the theoretically and empirically untenable assumption that growth and productivity are predetermined and unalterable autonomous factors. On the contrary, there is a close interdependence between economic growth and trends in employment levels and labour productivity.⁵ All three factors are influenced by working time. Reductions in standard working hours, as we indicated earlier, induce rationalization measures with the result that, while employment does not necessarily increase, productivity certainly does. Productivity increases which exceed economic growth rates can thus not be compensated for by working time reductions, as it was these that made increased productivity necessary in the first place. This interdependence is, however, ignored or denied by the unions today. They also overlook the fact that the same link was invoked in the late 1950s and early 1960s as an argument to push through working time reductions despite a sadly depleted labour market. At that time reduced working hours were supposed to force the economy into introducing rationalization measures which would increase the margins available for distribution. Working time reductions are indeed spurs to rationalization; this is as true today as it was in the past.

4. The decline in total hours worked is basically the result of agreed reductions in working time and not of an "autonomous" productivity increase

In view of the interdependence outlined above, it is also false to claim that the total volume of hours worked must inevitably and automatically decline as the result of a supposedly autonomous productivity increase. On the contrary, the reduction in total hours worked, by over 22 per cent since

⁴ For the trade union point of view, see I. Kurz-Scherf: "Tarifbewegungen 1988", in *WSI-Mitteilungen*, 3/1989, p. 115, and R. Henschel: "Weniger Arbeitslose – auch bei schwächerem Wachstum", in *Sparkasse* (Stuttgart), 5/1984, pp. 183 ff. For an opposing view see J. Husmann: "Mehr Beschäftigung durch Wirtschaftswachstum", *ibid.*, pp. 186 ff.

⁵ P. J. Verdoorn drew attention to this as early as 1949.

Table 7. Overtime trends, 1960-90

Year	Average annual overtime hours per worker	Year	Average annual overtime hours per worker
1960	95.0	1986	66.6
1973	126.6	1987	61.5
1982	66.0	1988	64.6
1983	64.1	1989	68.6
1984	65.5	1990	68.4
1985	66.5		

Source: As for table 6.

1960 (see table 6), is nearly 90 per cent the result of a reduction in standard annual working time. To put it in another way: had it not been for working time reductions the total volume of hours worked would have fallen by no more than 3 per cent since 1960. The decline in total hours worked can therefore not be used to justify a further reduction because it was almost exclusively the contractual reductions in working time that caused the decline in the first place.

5. Working time reductions curtail growth potential by reducing total hours worked and shortening capacity utilization time

Shorter working hours not only lead to increased rationalization, thus reducing the labour intensity of economic growth; they also diminish the growth potential itself by reducing the total volume of hours worked and shortening capacity utilization (operating) time.

The curtailment of growth potential through the reduction of total hours worked becomes clearly apparent when we examine the progression of standard working time reductions since 1960. Working time reductions in the 1960s took place against a background of expanding demand and an exceptionally tight labour market; they therefore definitely acted as a brake on growth. These negative effects were partly offset up to the early 1970s by a steady increase in overtime (see table 7). In 1973 the average worker put in about 32 more hours of overtime than in 1960. In the 1980s, with increasing capacity utilization, standard working time reductions again acted as a brake on production and growth, but sharply rising costs precluded recourse to overtime on a similar scale and indeed kept it down to the bare minimum required for operating purposes. Unlike earlier periods of economic growth and reductions in working time, there was scarcely any increase in overtime working during the 1980s. The "redistribution of work among more people", which is the purpose of the latest working time reductions, does not work in practice, because:

Table 8. Operating hours in the metalworking industry

Firm size (no. of workers)	Operating time in 1989 (hours per week)	Balance of firms reporting decrease since 1984 ¹ (%)
20-49	38.8	66
50-199	40.3	51
200-499	42.5	54
500-999	49.0	45
1,000-4,999	52.3	24
5,000 and over	54.1	16
Average	46.5	57

¹ This column shows the percentage of firms reporting a decrease in operating hours since 1984 less the percentage of those reporting an increase.

Source: Ifo-Institut für Wirtschaftsforschung: "Betriebszeit der Produktionsanlagen – Auswirkungen der Arbeitszeitverkürzung seit 1984", unpublished survey carried out for the metalworking industry; see also footnote 7.

- work cannot be arbitrarily divided;
- the shortage of skilled workers is increasing, which hinders the employment of other categories of worker;
- the unemployed rarely possess the skills that are in demand, so cannot easily make good the hours lost through working time reductions.

In spite of unemployment, firms are therefore increasingly complaining of production bottlenecks caused by manpower shortages. The shortage of skilled labour was somewhat alleviated last year through the immigration of ethnic Germans from eastern Europe and citizens of the former GDR.

It has, moreover, become obvious that in the majority of firms not even increased recourse to flexible working can prevent operating time from being reduced as a result of shorter working hours. The inference drawn by the Kieler Institut für Weltwirtschaft (Kiel Institute for World Economy) that firms' operating time was curtailed by working time reductions in the 1970s ⁶ holds true in the case of the most recent working time reductions in the metalworking industry – despite intensive efforts to dissociate working time from operating time. In April 1989, according to the survey conducted by the Ifo-Institut für Wirtschaftsforschung (Ifo-Institute for Economic Research), weekly operating time in 57 per cent of all metalworking enterprises had decreased over the previous five years; only 10 per cent had been able to extend it.⁷ Small enterprises employing fewer than 50 workers were especially

⁶ See K.-D. Schmidt and F. Gundlach: *Investitionen, Produktivität und Beschäftigung – eine empirische Analyse für die Bundesrepublik*, Schwerpunktthema zum 3. Strukturbericht (Kiel, 1987), table 20.

⁷ Unpublished survey of metalworking enterprises, "Betriebszeit der Produktionsanlagen – Auswirkungen der Arbeitszeitverkürzung seit 1984". For the survey of industry as a whole, see *Ifo-Schnelldienst* (Munich), 1-2/90, pp. 3-8.

Table 9. Variation in plant operating hours in industry, 1984-89: Selected EC countries

Country	% of firms reporting:				Col. 3 — col. 1	Average operating hours per week in 1989
	Reduction (1)	No change (2)	Increase (3)	No reply (4)		
Belgium	45	32	21	2	— 24	77
France	23	30	43	4	+ 20	69
Germany, F. R.	43	42	15	0	— 28	53
Greece	14	61	23	2	+ 9	64
Ireland	20	62	15	3	— 5	61
Italy	13	71	16	0	+ 3	73
Netherlands	17	52	30	2	+ 13	74
Portugal	3	92	5	0	+ 2	54
Spain	48	29	22	1	— 26	69
United Kingdom	24	28	43	5	+ 19	76
Weighted average	29	43	26	2	— 3	66

Sources: As in footnote 8, tables 3 and 4, p. 4; author's calculations.

hard hit, but operating time also decreased even in the case of most enterprises with over 5,000 workers (see table 8). International comparison further shows that between 1984 and 1989 operating time fell most sharply in the Federal Republic,⁸ whereas some of our leading competitors managed to extend it (see table 9). As a result, the Federal Republic has not only the shortest standard annual working hours, but also the shortest plant operating time in the European Community.

Further working time reductions would only cut back production capacity even more and drive capital costs up still higher because of reduced operating time and increased rationalization costs. This means sacrificing growth and employment potential, as is clear from the international comparisons made in tables 1 and 3.

6. Even reductions in lifetime working hours have had no appreciable employment effect

For a while, reductions in weekly working hours were accompanied by moves to reduce lifetime working hours. This took the form of early retirement, and the provision of substantial state subsidies in cases where the vacancies thus created were filled by other workers. Despite grants from the Bundesanstalt für Arbeit (Federal Labour Office) to employers who recruited

⁸ Commission of the European Communities: "Labour market survey in industry", in *European Economy* (Luxembourg), Supplement B, Nov. 1989.

unemployed persons for jobs vacated by those taking early retirement, the total employment effect, amounting to some 90,000 persons,⁹ was of limited significance. It turned out that this type of solution could be extremely costly and still not trigger off the desired employment growth. Besides, the shorter working life can no longer be reconciled with long-term demographic trends. This scheme has therefore been discontinued.

7. Differentiated, not shorter, working time is the way to ease labour market strains, remove production bottlenecks and reconcile individuals' preferences with the firm's operating requirements

The collective agreements concluded in 1990 introduced wider options in respect of flexible working schedules. Whereas the 1984 and 1987 agreements had allowed greater freedom in the distribution of working hours, the latest agreements introduce the possibility of individually differentiating working hours. This should make across-the-board reductions in working time a thing of the past.

The new collective agreement for the metalworking industry makes it possible to negotiate a regular working week of up to 40 hours with individual workers on a voluntary basis, i.e. without the intervention of the works council. The number of workers covered by such an arrangement may not exceed a certain proportion (ranging between 13 and 18 per cent) of the firm's employees.¹⁰ If this new regulation (in force since April 1990) is exploited to the full, working hours for skilled workers could go up by one hour in comparison with the previous situation despite working time reductions, and even with a 36-hour week could still be a quarter of an hour more than before April 1990. Not until the 35-hour week is introduced would skilled workers' hours be shorter than before the new regulation came into effect, and even then by only half an hour. Admittedly, individually differentiated hours are not an adequate solution to the skilled manpower shortage, which is likely to become more acute. However, there is no doubt that, for some time to come, the new system will be better than the status quo ante. In conjunction with the pragmatic new regulations on part-time work and the retention of overtime regulations that are sympathetic to the needs of medium-sized enterprises, there are now an unprecedented number of possibilities for varying working times and schedules.

Notwithstanding or perhaps because of these possibilities, there is increasing debate in the Federal Republic on whether maximum working times should be laid down in collective agreements. If maximum working times are established, the individual worker will no longer have the possibility

⁹ According to the calculations of the Institut für Arbeitsmarkt- und Berufsforschung in IAB-Kurzbericht (Nuremberg), No. VII/I-Kw, 9 Aug. 1989, p. 3.

¹⁰ The varying proportions arise from the fact that collective agreements vary in their coverage of employee categories.

of working longer hours and thus augmenting his or her earnings. This is being increasingly considered a violation of the *Günstigkeitsprinzip* (principle of advantage) (s. 4, para. 3, of the *Tarifvertragsgesetz* or Collective Agreement Act), which stipulates that German collective agreements may contain only minimum conditions, which may not be departed from in individual contracts unless it is in the employee's favour.¹¹ That this is no mere academic question is borne out, for example, by the unequivocal priority given to earning opportunities in the eastern part of Germany. Working time reductions that puncture the prospects of increased income will not prove very popular in that part of the world at the moment.

Apart from the question of Sunday work, Germany has lately developed a considerable freedom in the distribution of working time.¹² Restrictions on working time schedules, when averaged over the course of a year, are in fact imposed only by the statutory working time regulations, certain aspects of which are of course in need of reform.

The extent to which firms can take advantage of flexible working time schedules will depend largely on the attitude of the works councils, which, under the terms of the *Betriebsverfassungsgesetz* (Works Constitution Act), have a far-reaching right of co-determination in the organization of working time. In the past this co-determination right (s. 87, para. 1, of the Act) was frequently misused by certain trade unions, which prolonged the bargaining talks at the workplace in order to block the introduction of more flexible arrangements. This gave rise to considerable friction when it came to implementing the working time reductions. None the less a wide variety of working time patterns have come into effect at the enterprise level over the past few years, and these have led to a better harmonization of workers' preferences and firms' operating requirements.¹³

Conclusions

The following inferences can be drawn from the experience of the past few years:

- From the employment policy point of view, weekly working time reductions have proved a failure.

¹¹ Referred to by W. Zöllner: "Sind im Interesse einer gerechteren Verteilung der Arbeitsplätze Begründung und Beendigung der Arbeitsverhältnisse neu zu regeln?", in *Gutachten D zum 52. Deutschen Juristentag in Wiesbaden* (Munich, 1978), p. 43.

¹² A. von Schönaich-Carolath: "Arbeitszeitverkürzung, Arbeitszeitflexibilisierung, Sonntagsarbeit – Aktualisierter internationaler Vergleich 1990", in *Internationale Sozialpolitik* (Cologne, Bundesvereinigung der Deutschen Arbeitgeberverbände), No. 2/1990.

¹³ For a detailed review of the prospects and possibilities of flexible working hours, see E. Neifer: *Tarifliche Arbeitszeitpolitik – ein Instrument der Beschäftigungspolitik?* (Frankfurt-am-Main, 1989).

- Workers give greater priority to higher earnings than to extra leisure time.¹⁴
- The public health argument long since did an about-turn with the realization that working time reductions intensify work pressure and increase the incentive to moonlight.
- The solution of future problems – fiercer competition in the European Community's Single Market, environmental protection, and new demands arising from German reunification and developments in eastern Europe – calls for the maximum use of the economy's growth potential, which is curtailed by working time reductions.
- Working time has become an increasingly important international locational factor. The present working time difference, which is to Germany's disadvantage, must not be allowed to increase. Therefore, before any further stages of the negotiated working time reductions come into effect, it is essential to examine closely whether they will jeopardize the competitiveness of the German economy.

¹⁴This is borne out in all surveys; see inter alia M. Landenberger's synthesis, "Arbeitszeitpräferenzen der Erwerbsbevölkerung", in G. Buttler, K. Oettle and H. Winterstein (eds.): *Flexible Arbeitszeit gegen starre Sozialsysteme* (Baden-Baden, 1986), pp. 137-157.