Demographic Changes: Conflict in Germany

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Two important demographic trends for advanced industrialised nations are: rapidly ageing populations and falling birth rates (Buck and Dworschak 2003; Henseke *et al.* 2009; Kirpal and Kühl 2006; Thun *et al*. 2007). These shifts are expected to lead to a rise in the average age of workforces and a long-term decline in the size of the working population (Köchling 2003). Demographic change, as a topic, has increasingly gained currency in recent years, especially since 2012 has been designated the *European Year for Active Ageing* by the European Commission. The European Commission has stated that the aims of their initiative are to improve working conditions and increase labour market participation for older people. However, these aims must be placed within the wider political-economic context of the global financial/economic crisis or, to be more sceptical, alongside a European-wide dismantling of the welfare state.

Irrespective of wider political-economic factors, the likely outcome of demographic shifts is a shrinking pool of workers to finance a growing number of pensioners. Whilst this pension problem afflicts almost all developed countries, such as the USA and the UK, neither country offers such generous benefits for senior citizens as Germany, nor is the working population ageing as quickly in the USA or in the UK as in Germany. Germany, therefore, has interesting insights for other countries, especially the UK. Furthermore, as this article reveals, Germany makes an interesting case in how the tension between the German Stakeholder Model and the neo-liberal agenda of the Merkel government is reflected within the demographic change problem.

The recent past

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Historically, German nationals tended to retire earlier than their other European counterparts (Teipen and Kohli 2004), especially due to the existence of an *early exit culture*, meaning that older employees look forward to, and aspire towards, early retirement (Teipen and Kohli 2004). An *early exit culture* is based on a social contract between the generations. The younger people accept the senior principle, by which they accept lower wages in the understanding that their wages will go up as they rise in seniority. The older generation accepts the moral principle that they must leave in order to create vacancies for younger staff. In previous times, offering early retirement, which carried generous severance packages, meant that organisations were able to displace employees aged fifty (George 2000). In other words, early retirement was a *soft landing* for older workers (Delsen 2003). This *early exit culture* was supported by the German state, in order to adapt the labour market to a process of economic transformation, as well as to evade conflicts between the social partners. With the end to government financial support of these schemes, however, this strategy has become less feasible and change is needed. As a consequence, companies have begun to re-think their strategy for managing elderly employees.

The near future

It has been estimated that, between the years 2000 and 2035, Germany will witness a 60 per cent increase in the number of people aged 65 and above (Kirpal and Kühl 2006). In 2009, twenty percent of the population was aged 65 and above; this is expected to rise to just over 30 per cent, with every 7th person being 80 years old or above in the coming decades (Destatis 2009). In 2009, the population of Germany was 82 million; this is estimated to sink to 65 million in 2060 (Destatis 2009). Henseke *et al.* (2009) argue that the influx of foreign workers over the past 30 years artificially raised population figures. However, immigration in Germany has not reached the same peak as in other industrialised economies, such as Canada. This is not to say that Germany has not welcomed foreign workers: waves of *Gastarbeiter* from Italy and, later Turkey, entered Germany between the 1950s and 1960s. But immigration in Germany remains incremental as the country relies on a steady supply of immigrants to maintain a workforce sizeable enough to maintain the rising cost of pensions. And, it should be noted, because *Gastarbeiter* do not obtain (automatically) German citizenship, a rise in unemployment can be offset by the return of *Gastarbeiter* to their country of origin.

Helmut Kohl, the German Chancellor during the 1980s and 1990s, famously spoke of Germany as having the oldest students and the youngest pensioners in the world; this situation remains unchanged in today´s Germany. Nevertheless, since the 1990s, it has been argued that the existing system disadvantages the younger working generation whose contributions finance current pensions, instead of being reinvested to grow future pensions. With younger workers mindful of how their economic future will differ to what of their older colleagues, as well as different attitudes towards organisational commitment[1], organisations, to a certain extent, are also faced with the possibility of an inter-generational conflict becoming part and parcel of managing demographic change.

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A closer look at early retirement mechanisms

Early retirement has, historically, been supported by the German pension system and through legislation. Many firms made use of the Old-Age Part-time Act (*Altersteilzeitgesetz*), a law introduced in 1996, which made it possible for employees to reduce their working hours by 50 per cent, thereby reducing the number of older workers (Reday-Mulvey 2005). Originally, the law only applied to workers aged between 60 and 65, but the law was amended in 1998 to include workers aged 55 and above (Reday-Mulvey 2005). The aim of the law was to create more space within the labour market so that older workers could retire and new, younger workers could enter work. The Old-Age Part-time Act was accepted as a socially responsible instrument to reduce the workforce by most of the trade unions and later collective agreements. The public sector also used the Block Model. The Block Model extended the possibilities for partial retirement set out in the Old-Age Part-time Act in that, instead of working part-time for five or six years and then retiring, employees

[1] To a certain extent, German organisations are faced with a huge paradox in terms of managing (outgoing) older workers and (incoming) younger workers. Both groups of employees are conscious of (perceived) advantages for the other side and this is partly related to a wider shift within psychological contracts. I will discuss this further in my next CESR article.

could work full-time for two and a half years and then enter into full retirement (Reday-Mulvey 2005). Despite the benefits for firms who were looking to reduce their workforce, the partial retirement options set out in the Old-Age Part-time Act were never an inexpensive method of shedding labour (Muller *et al*. 2009; Reday-Mulvey 2005). Arrowsmith and McGoldrick (1997) argued, nonetheless, that most firms implemented the system.

Under the partial retirement system, although an employee only worked part-time, the employer is legally obliged to pay 70 per cent of the original salary and the largest proportion of pension insurance contributions (Müller *et al*. 2009). In order to promote flux in the labour market, the German government then covered any further costs if the organisation agreed to recruit an employed person or a newly qualified trainee to fill the vacant position (Müller *et al.* 2009; Reday-Mulvey 2005). However, the provisions set out by the *Altersteilzeitgesetz* came to an end in 2010 after the government declared that it would no longer offer financial support to firms which opt for this method of labour displacement (Müller *et al*. 2009). This was, of course, a deeply political decision – and one in keeping with neo-liberal labour market policies.

Angela Merkel, the German Chancellor, has labelled the previous support of the state for early retirement as *grottenfalsch* (dead wrong) and called for better opportunities for older employees to remain in the labour market, to be up-skilled and to become more integrated within organisations (BAGSO 2009). But, most importantly, the end of the state support of the law allowing partial retirement for older workers can be considered as the greatest indication of the German government's current intention to implement free market principles and to reduce the role of the welfare state.

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The impact of the Stakeholder Model

To a certain extent, German companies have embraced changes within the legislative framework as a means of enhancing their ability to adjust the workforce in accordance with their needs. But the shifting demographic situation for German employers is further compounded by factors including legislation, which offers a high degree of job protection. Older workers are guaranteed certain rights under the Basic Law and are further protected by the German legislative framework, including an anti-discrimination clause in the Works Constitution Act (Müller *et al*. 2009; Teipen and Kohli 2004). The Works Constitution Act also enables works councils to promote the employment of the over-50s, especially in terms of gaining more opportunities for training and part-time working (Bispinck 2005).

Hence, the conflict between the neo-liberal agenda and the Stakeholder Model is well-represented in the tensions surrounding the management of older workers. The displacement of workers aged fifty-five and over has become an increasing issue for German firms torn between advocating wider forms of organisational flexibility and being a socially responsible employer.

The future – so far?

Despite literature (see, for example, Kirpal and Kühl 2006; Leyhausen, 2009; Müller *et al*. 2009; Thun *et al*. 2007) arguing that German firms are failing to address the problems associated with demographic change, recent research[2] suggests that measures are being implemented by companies in Germany. Yet these measures tend to be based, once again, on the Stakeholder Model, with initiatives rooted in widening employee participation and improving working conditions through primary and secondary well-being initiatives. Thus, the real tools needed to

[2] Drew (2012) – unpublished PhD thesis

respond to the end of state-funded early retirement and to resolve the pressures on pensions have yet to be developed. German firms seem to have put their faith in the government, hoping that a less restricted labour market will find its own solutions to demographic problems. In the short term, this ostrich approach might be good for business, but what will be the outcome for workers?

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