Skills shortage in Germany: Limitation for growth

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Winter Term 2011/12
Lots of good labor market news

- All time high: About 41 millions in jobs (half of population)
- Unemployment rate: 6.5 % (lowest level since 20 years)
- Full employment in some regions
- More vacancies in dual education system than applicants in most regional labor markets
- Germany is now perceived as „champion of flexibility“ (Economist, October 7th, 2010)
- Germany is admired for its „job miracle“
Structural issue: Demographic Change

Demography in Germany:

Higher life expectancy plus low birth rate

→ Less inhabitants: instead of 82 millions only 58 millions in 2060, but that’s not a problem

• Core issue: one third has to work for two thirds

Repercussions for social security systems, but also for skills shortage
Skills shortage and a typical German reaction

Skills shortage
- Reduces GDP growth rate
- Reduces income

„Angst“: „We‘ll get poorer“
However, surprising voices came up this year

Repercussion for the labor market – not that bad:

• Skilled labor shortage pushes wages up
• Better employment security
• Lower unemployment rate

„The future will be fun for talents“
Hypothesis

„Skills shortages are a self-made problem. Therefore, institutional reforms can solve it.“
80s/90s: Lump-of-labor fallacy
... distribute the „cake“
Wrong paradigm leads to wrong labor market institutions for the elderly ...
..., wrong incentives for women
... and labor migrants
Since 2000: Right paradigm on EU-level, but not yet completely understood by policymakers

• More people searching for jobs does not automatically mean more unemployed

• Instead: Higher participation rates could be associated with lower unemployment

• Germany since 2005: Lower structural unemployment rate
How to solve the skills shortage problem

1) Elderly: Longer working life

2) Women: Higher participation rate and hours worked

3) Migrants: More and higher skilled

4) Education and further training
Solutions

1) Elderly: Longer working life
Employment / population ratio for the elderly (55–64)

Lisbon target

<table>
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<th>Year</th>
<th>Sweden</th>
<th>Iceland</th>
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<tbody>
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<td>2004</td>
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<td>2005</td>
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<td>2006</td>
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<td>2008</td>
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<td>2010</td>
<td>57.7</td>
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Sweden: 70.6 % in 2010

Iceland: 80.5 % in 2010

Source: OECD Employment and Labour Market Statistics, Last Update: 31 August 2011
Solutions

2) Women: Higher participation rate and hours worked
Female Employment / population ratio

Iceland: 77 % in 2010

Switzerland: 72.3 % in 2010

Source: OECD Employment and Labour Market Statistics, Last Update: 31 August 2011
Solutions

3) Migrants: More and higher skilled
On the right track in 2011

- Full access to German labor market for 8 MOEL-countries as of May 1st, 2011
- Simplified acceptance of foreign qualifications (March 2012)
- Simplified EU-Blue Card immigration (cabinet decision 2011)
- Consensus Group „Skills shortage and immigration“ recommends: 30,000 immigrants each year independent on job offer

→ Germany is on its long way to a real „welcome culture“. 
Solutions

4) Education and further training
Skill specific unemployment rates

Qualifikationsspezifische Arbeitslosenquoten 1975 bis 2009 – in Prozent

Arbeitslose in Prozent aller zivilen Erwerbspersonen (ohne Auszubildende) gleicher Qualifikation; Erwerbstätige ohne Angabe zum Berufsabschluss nach Mikrozensus je Altersklasse proportional verteilt.

Quelle: IAB-Berechnungen auf Basis des Mikrozensus und Strukturerhebungen der BA.

IAB (2011): IAB Aktuell vom 10.02.2011
5. Conclusion

- German „Angst“ is predominant with respect to structural issues such as demographic change.
- Skills shortage is perceived as a threat rather than a selfmade problem to be tackled.
- But less GDP per head is not deterministic.
- Germany needs higher participation rates for the elderly and women as well as skilled migrants from within Germany, from EU-countries and Non-EU-countries.
- Productivity shifts are the main solution: Education, life-long further training and innovation will allow for economic growth.