

Panel 2

Keynote Address by

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The German economy is performing incredibly well. We have a so-called ‘German job miracle’. Public confidence in our economy is high, so basically I could say everything is fine now. But if we go on like this – especially if we consider social security – we will have a huge problem. If we manage to change our work patterns, we might be able to handle the problem. The challenge we are facing is demographic change. In the last 50 years the average pension term has almost doubled in Germany, from ten years half a century ago to 18 years today. In 1960, when I was born, one pension was financed through the contribution paid by five individuals in gainful payment. This figure has already fallen to three. And when I turn 80 (in 2040), there will be twice as many 80-year-olds in our country as there are today. And the ratio of people of working age to those in retirement will be just two to one. These are the well-known key demographic figures that have steered our adjustments to the pension system.

As most people know, the German pension system consists of three pillars: the statutory pension insurance, which is the strongest pillar, occupational pension schemes, and private pensions. The focus within the last decade has been to bolster the second pillar, the company pension pillar, and ten years ago the government introduced the third pillar, the so-called Riester pension, a form of government-aided private retirement provision. A particularly high number of low-income earners and families with children are already benefiting from this scheme. Contributions start from as little as 5 euros a month. With these subsidized additional pension provisions, there was a very clear message sent to contributors. And the message is: only those individuals who make additional provisions will be able to maintain their standard of living once they retire. The second message was also clear and simple: maintaining the same standard of living will not be possible on statutory pension insurance

alone. That message has been understood. Half of all employees who are subject to pay social security contributions are also entitled to occupational pension, and at present the number of so-called Riester savers stands at 14.6 million, which is quite a good figure.

This was not enough, however. There had to be more reforms. If we had left everything as it was, for example, at the time of German reunification, the contribution rate would have continued to rise dramatically, up to 36 percent. So three major reforms were implemented. The first was that the pensions of those who opted out early were subject to deductions. That was fair and it reduced the incentive to retire early. The second was that the pension adjustment had to be curbed, i.e., pensions no longer increase automatically in line with wages. And the third step was implementing a statutory retirement age of 67, which will be reached in 2029. In return we have limited the contribution rate to 22 percent until 2030.

As far as risks go, I think what counts is the mix of the pension system. Despite the crisis, which as far as returns were concerned was worse than originally anticipated, no company pension schemes failed and no cuts were made to private pensions. This shows that the pay-as-you-go system has its advantages if the risks are mixed and combined with a privately-funded scheme. So far the pension system in Germany appears to be demographically solid. This will all work out if there are enough people who earn a living and pay into the social security system. The huge risk is thus the development of a very dramatic trend towards a lack of skilled labour force for Germany. The key issue of the coming decades is the question: will we be able to tackle the skilled labour deficit in Germany? The shortage we face is not one of work but of people. If we fail to take action, if we do not change the patterns of work we have now, the German workforce will shrink by more than 6.5 million in the next 15 years. At the moment already a third of companies are facing difficulties in finding qualified workers.

In other words, if we fail to plug the skilled labour gap, companies will have to resort to alternative

strategies. There are basically three alternatives: increase automation, which will reduce opportunities for low-skilled workers and lead to a rise in unemployed low-skilled workers. Or companies will invest less in Germany, which is also bad. Or we will have to work longer hours with the same amount of people. This is exactly the opposite of the efforts taken now to improve the work-life balance, especially for women with children. If we have to work longer hours, we will push them out of the labour market. The good news is that the skilled-labour supply can be raised considerably. If we had an extra million employees paying social security contributions, that would generate a good 9 billion euros in additional income for the German social security system, and this means approximately 5 billion euros that would go into the statutory pension system.

So the question for us is who will do the work. The largest and most important group is women. It is the largest source of potential that can be tapped most quickly. The employment rate of women at the moment is 70 percent. It has risen a full ten percent in the last decade. Despite this momentum, there is still considerable room for improvement. It will require a change in behavior and work patterns, however. More than one-quarter of the female population aged 15–65 are not employed right now, and many of them have median-level or advanced education qualifications. They are not employed because they face a huge problem reconciling work with family duties – finding family-friendly jobs, sufficient child care and all-day schools, which are not widely spread in Germany. In addition, up to 45 percent of women work part time and if we compare the numbers of female part-time workers across the Eurozone, there is an exceptionally low rate of women working full time in Germany. In terms of weekly working time, German female part-time workers work the shortest number of hours. So if we were able to increase the percentage of women who work up to 77 percent, which in Denmark or Iceland is the standard, and if we were able to raise the proportion of those working to 66 or 70 percent, we could generate up to 1.5 million more skilled workers in Germany in the next 15 years. But this would mean a huge effort with respect to all-day schools, high-quality child care and the reconciliation between work and family. We also need to see more women in managerial positions, which is why we are considering a quota. The proportion of women on the executive and supervisory boards of listed companies is only 3 and 10 percent respectively. That puts us behind Brazil, China and Russia and at the same level

as India. As the OECD recently put it in a headline, “It’s all about babies and bosses”.

The second group is comprised of older workers. Of course demographic change means we live longer, so why not work longer? The unemployment rate of those over 55, which is the so-called ‘older worker’, is a good 57 percent. This is an average figure at the international level. If we were to follow the lead set by the best-performing countries in Europe, which is around 70 percent in Sweden, for example, our labour force could increase by 1.2 million by 2025. If Sweden can do it, why not Germany? Here the principal duty lies with the companies. The government just sets the framework for this issue (in contrast to women’s issues). The main duty of the government was to remove disincentives. We phased out the partial retirement act, which was a strong incentive to get rid of workers early, we gradually increased the retirement to 67, and we made it more difficult to continue relying on unemployment benefits as a means of financial support until retirement, which was a kind of bridge from employment to unemployment benefits and then to retirement. But the measures to employ older employees must originate largely within the companies themselves.

The third group is young people, a very important group. Although we have improved, the number of school dropouts – those who receive no certificate – is still 7 percent. Additionally, 10 percent of all trainees quit their vocational training. Both facts will inevitably lead to long-life unemployment for those concerned. Without a certificate and without vocational training there are no opportunities on the modern labour market. It is our plan to halve these numbers. If we are successful, this will give us another 600,000 qualified skilled workers over the next 15 years.

The last step concerns skilled migrants. Germany needs migrants and the pre-requisite is a complete change in mind set: first we have to be open to the topic in order to welcome migrants. Since 1 May there is now full freedom of movement for labour in the EU. Although many were fearful of how many might come, the fact is that there are more opportunities than risks. The experience of our neighbours who have already opened their border has shown that most migrants are well trained, young and mobile. The experts from the Institute of Employment Research expect an additional migration to Germany – resulting from this movement within Europe – of 100,000 per year, which will not be enough if you remember that

we need 6.5 million skilled workers. In other words we also need to recruit talent from beyond Europe's borders. And that means we will have to remove any bureaucratic obstacles facing them and of course obstacles in our minds. We need a change in our mindset and a change in the discussion about the migration of skilled workers. We have discussed migration itself but we have never differentiated between skilled and unskilled migration. What we have to learn is to be open to the world because if we are not, those talents from different parts of the world will of course go elsewhere. Being highly skilled, they have many options.

In summary, to maintain Germany's social market economy, Germany has to change its work patterns substantially and therefore the motto is: "Let's get to work".