

# **Informalisation of Employment in Germany?**

## **Current Labour Market Trends and Measurement Problems**

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### **1 From informal employment to informalisation of employment**

There is some ambiguity about the definition of informal employment. The problems start with some confusion about the difference between employed in the so-called informal sector and informal employment itself (either inside or outside the informal sector). According to the definition of the ILO, the “informal sector” is referred to as the part of production covered by “household unincorporated enterprises” (UNSD 2008) with little or no division of labour and labour relations based on casual employment, kinship or personal and social relations rather than contractual agreements with formal guarantees. Employment in the informal sector includes all jobs in the informal economy. In contrast, informal employment comprises all jobs “outside the framework of regulations” as defined by labour laws, social protection benefits and the like (see Hussmanns 2004; Williams / Windebank 1998).

Secondly, there might be substantial differences in the definitions depending on the perspective of the researcher. From a perspective of national accounts, the main objective is to achieve GDP exhaustiveness. Consequently, the key aspect is to cover all kinds of market production (as well as few kinds of non-market production) in a given economy. From that perspective the concept of the informal sector is particularly useful, as it covers types of production which are typically not captured by statistics focusing on the formal sectors. Adopting the perspective of the social sciences and social policy experts, the focus is more on labour market integration and living conditions of the employed, so that the concept of informal employment tends to be more relevant in this context.

The operationalisation of informal employment is not straightforward for at least two reasons:

(1) Being in “informal” employment is always depending on a given legal and institutional framework. Due the enormous differences in the national labour markets and social protection systems of various countries (even within the European Union), a job might have to be classified quite differently. Also the criteria used for identifying an informal job might change according the institutional context. Criteria for defining what is referred to as informal include official registration, legality, income taxation, paid leave, sick leave payment, the general integration in social protection systems, etc. Similarly, the synonyms often used for informal employment like non-standard, atypical, alternative, irregular or precarious employment (see, e.g., Hussmanns n.d.: 4) indicate that the criteria for determining an informal employment are rather widespread. Given the importance of the institutional context the focus of the study of informal employment is probably differing for the study of situation in developing countries, transitions countries and developed countries.

(2) As various types of regulations might be referred to when operationalising informal employment, it is quite clear that there is no sharp borderline between completely unregulated (“informal”) and fully regulated (“formal”) employment. For this reason, it has been argued that there rather is continuum between fully regulated and protected “formal” employment and fully unregulated and unprotected “informal” employment on the other (ILO 2002: 12). On this continuum there are varying degrees of (in)formalisation of employment.

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This point is of particular importance when studying informal employment in developed countries where extreme cases of informalised employment tends to be quite rare.

**Figure 1: Schematic representation of the continuum between formal and informal employment**

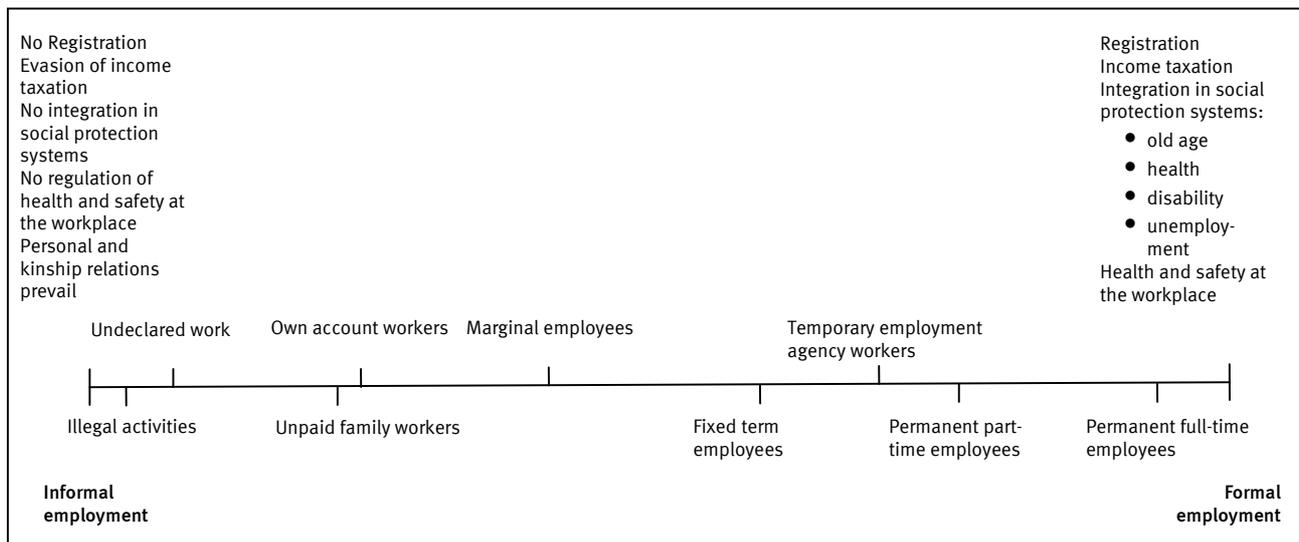


Figure 1 illustrates a possible schematic representation of the continuum between formal and informal employment. For several types of jobs a tentative position on the continuum (in the sense of an ideal type) is given. One should note that there are important differences within the selected job types mentioned. For example, for part-time employees, the number of hours worked tends to have substantial influence on the effectiveness of the integration in the social security systems. Looking at both ends of the continuum, it is quite clear that permanent full-time employees show the highest degree of formalization whereas illegal activities and undeclared work are the most informal types of employment. Marginal employees are type of employees specific for Germany: The wage is limited to 400 Euro per months, with very low taxation and reduced social security contributions (and benefits). The classification of the different types of self-employed is particularly problematic: By definition, self-employment is highly informalised. However, it is not obvious where to locate this group on the continuum. Given that the profits of a self-employed allows for regular contributions to private health care or pensions insurance etc., there might be dramatic differences for different self-employed. For the purposes of this paper, we focus on own account workers who in a significant number of cases might have only limited access to private systems of social protection.

The statistical measurement of the various types of employment is differing a lot. Generally one could argue that the more formalized a type of employment the easier it is to be measured. Nevertheless, labour force surveys are suitable to cover all types of employment, except maybe illegal work and undeclared work. Some examples for the measurement of informalised work in Labour Force Surveys are given in section 2. This paper focuses on results from the German Labour Force Survey, but discusses important other data sources in section 3.

## 2 Current informalisation trends on the German labour market

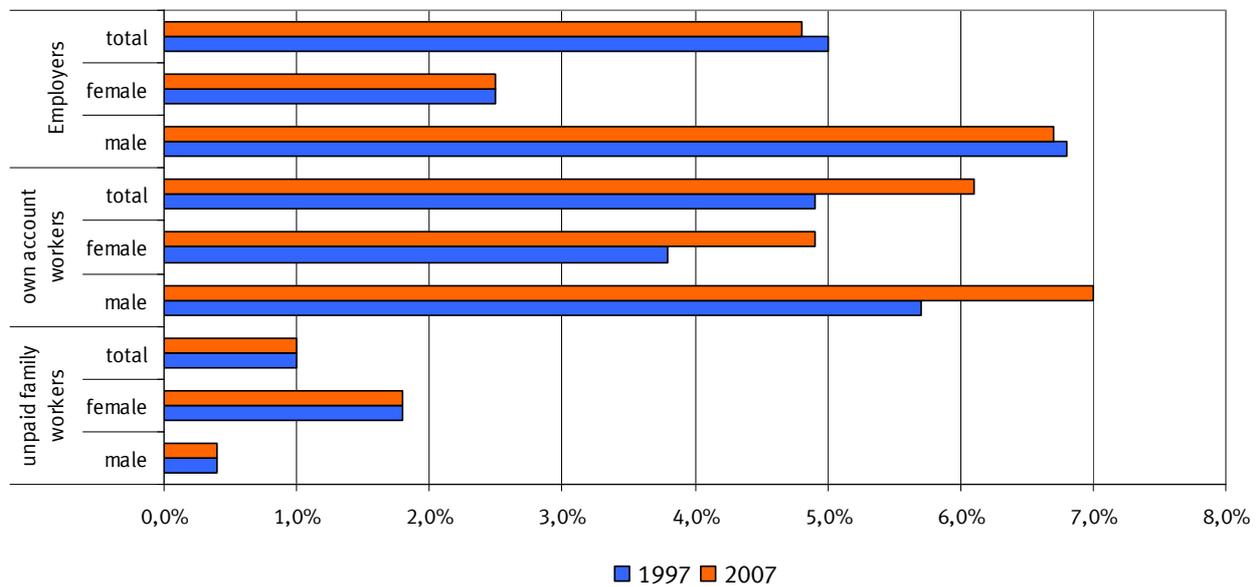
Recent research has pointed out that in many developed countries there is an ongoing trend towards the informalisation of employment (see, e.g., Hussmanns 2004; ILO 2002; Benería 2001; Sassen 1997; Williams / Windebank 1998: 147 sq.). This trend can also be found in developed economies with highly institutionalised social protection systems, like in the case of Germany. Nevertheless, the different forms of informalised employment show distinct development patterns and different social groups are concerned at different degrees. This section presents the main changes that can be found in the period from 1997 to 2007. Unless otherwise

noted, the following analyses are based on the German Labour Force Survey (Mikrozensus), focusing on the main job. No information is available from the German LFS on employment in illegal activities and undeclared. Some measurement aspects regarding these groups are addressed in section 4.

### 2.1 Self employment, own account workers and unpaid family workers

As noted above, the self-employed are the classical type of informal employment as it is known from the discussion in developing countries. However, analysis is difficult, as there are diverse forms of self employment. One should at least distinguish own account workers (i.e. self-employed without employees) and unpaid family workers who are the clearest cases of informalised employment. From 1997 to 2007, the share of the self-employed in all employed has grown slightly from 10,9% to 11,9%. This growth is mainly due to a growth in the number of own account workers: Whereas in 1997 4,9% of the employed worked as own account workers, their share increased up to 6,1% in 2007. This is not surprising, as German labour market politics during the last decade advocated and supported small business start-ups as one strategy to decrease unemployment. At the same time, the share of the self-employed with employees and that of the unpaid family members remained quasi constant (around 4,9% for the employers and 1% for the unpaid family workers). The increase was almost entirely due to an increase of self-employment in the services sector. The share of own-account workers in all employed is higher for men than for women (2007: 7% compared to 4,9%). However, there have been only small changes regarding gender-specific developments over the last ten years, i.e. the increase of the share of own account workers affected men and women similarly (see figure 2). Finally, it should be noted that the increase in the share of own account workers has been stronger in the eastern parts of Germany, a region which is marked by a much higher unemployment rate compared to the other parts of Germany.

**Figure 2: Share of employers, own account workers and unpaid family members in all employed in Germany by sex**



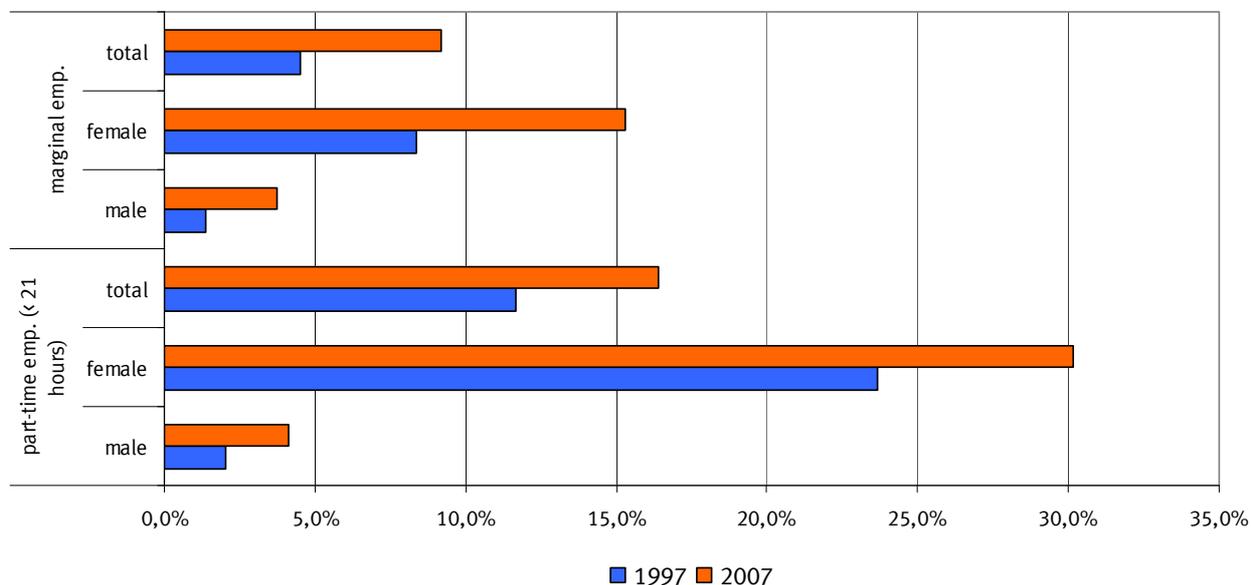
### 2.2 Part time employees and marginally employees

Compared to the developments for the self-employed the changes in the field of part-time employment are much clearer. For the purpose of this analysis, we refer to part-time employees as employees normally working 20 hours a week or less. Part-time employees working more than half of the usual working hours in Germany might be considered more similar to full-time employees regarding the degree of formalisation of their employment, unless they are marginal employees. Marginal employees (or persons holding a “mini-job”) are a

type of employee which is specific for Germany. They are defined in the German social law as employees working for a salary of at maximum 400 Euros per month, irrespective of the hours worked. Marginal jobs are subject to a very much reduced flat-rate income taxation of only 2%. Although employers have to pay (reduced) social insurance contributions, marginal employees are entitled to strongly reduced social benefits only. Statistically, marginal employment is of particular interest as, since 1999, marginal employments have to be registered so that quite reliable information is available on this group from a register. There is a large overlap between part-time employees and marginal employees.

Since 1997 the share of marginal employees in all employees has increased from 4,5% to 9,2%, the share of part-time employees (up to 20 hours weekly working time) from 11,7% to 16,4%. The share of marginal employees in all employees was 15,3% for the women compared to 3,7% for the men (part-time employment: 30,2% (women), 4,1% (men)). In the last ten years, the difference between men and women did only change slightly (also see figure 3).

**Figure 3: Share of marginal resp. part-time employees in all (male/female) employees (15-64 years, without pupils, students, apprentices and conscripts)**



It should be noted that the increase of marginal as well as part-time employees can be found in all socio-demographic groups. Nevertheless it is more pronounced for migrants from non-EU countries, persons with low professional training and the 15-24 years old. The increase in marginal employment is also due to changes in the conditions laid down in the social law. For instance, a reform of the mini-jobs which promoted this type of employment (e.g. by changing the income threshold from 325 to 400 Euros) and lead to a considerable rise in the number of marginal employees (which, in contrast, seems to be only slightly influenced by changes in the economic cycle).

### 2.3 Fixed-term employees and temporary employees

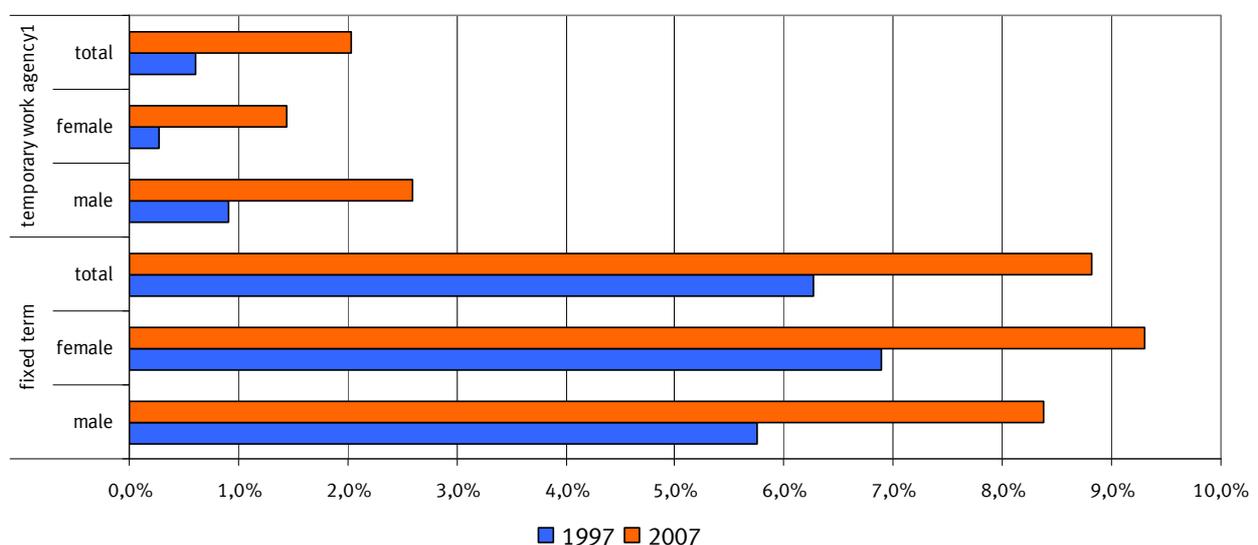
Another group of informalised employment are employees with fixed-contracts or working for a temporary work agency. Both are lacking a long-term perspective for the employee guaranteeing full integration in the social

<sup>2</sup> For the purpose of this analysis, the target population has been defined to civil population at main residence from 15 to 64 years, and not currently being pupils, students or apprentices, so that secondary jobs of students, old persons are not included. It should be noted that, due to methodological improvements the increase is probably slightly over-estimated in the LFS compared to the register information (see section 3).

protection system. Employment for temporary work agencies is furthermore often connected with limitation in salary, number of days of paid leave etc.

The share of employees with fixed term contracts in all employees has been rising over the last ten years from 6,6% to 8,3%. In contrast, the employees having their contract with a temporary work agency, albeit still being the smallest group discussed in this paper, show the most dynamic development. From 1997 to 2007 their number increased by 240%, the share of temporary agency workers in all employees rising from 0,6% to 2%. Compared to part-time employees and marginal employees the differences by sex are much less distinct (see figure 4). It should be noted that the strong increase of temporary agency workers is also due to legal changes, which stimulated a wide use of this kind of employees. Again, these developments are most pronounced for persons from non-EU-countries, with low professional training degree as well as young persons.

**Figure 4: Share of fixed term resp. temporary employees in all employees (15-64 years, without pupils, students, apprentices and conscripts)**



<sup>1</sup> 1997: Estimation based on register information

Comparing these developments with the development of permanent full-time employees (which decreased from 1997 to 2007 by 3,6%), the increase of the number of employed persons is considerably arising from an increase of informalised types of employment. Nevertheless, formalised types of employment still prevail as more than three quarters of all employees have more formalized types of jobs (for further details, see Statistisches Bundesamt 2008).

### 3 Current measurement issues

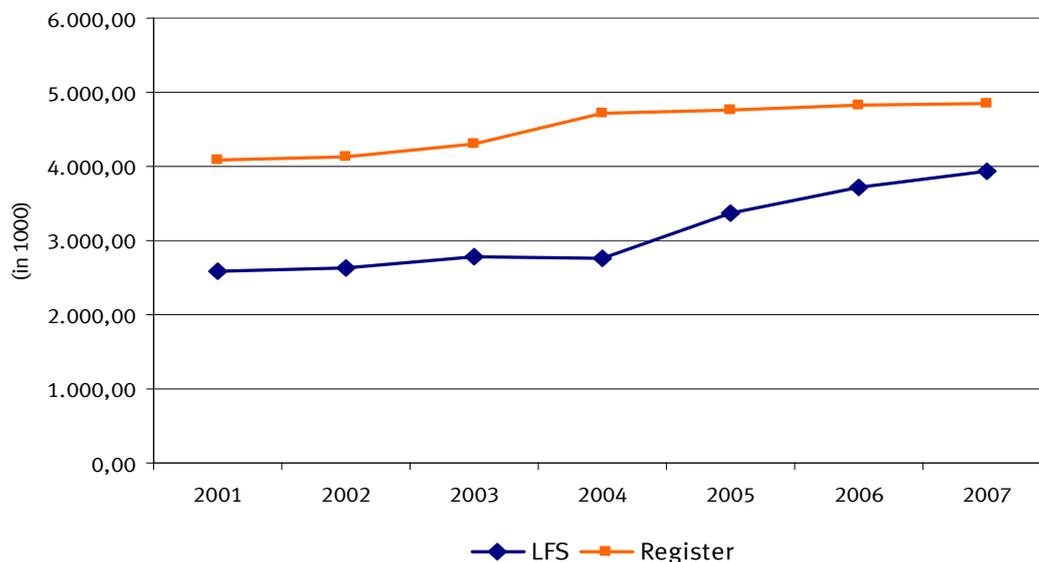
The statistical measurement of informalised employment is problematic in several respects. Only in few cases registers are available covering such types of employment. Some of the types are illegal or undeclared and therefore highly unlikely to be reported in household surveys. And finally, from the German experience, there is some evidence that respondents tend not always to report small jobs thus also affecting the number of employed in informalised jobs. In this section, we focus on the measurement of small jobs in household surveys, a topic on which research activities of the FSO have focused in recent years.

In contrast to many other countries, in Germany, the largest part of small jobs is covered by a register. Due to the obligation to contribute to the social insurance for marginal employees, all (declared) marginal jobs are covered by a register which is a highly valuable source for comparison with the results of household surveys, like the LFS. Comparisons with the LFS figures show that there are only small differences for the number of

employees underlying full obligation to contribute for social insurance, whereas considerable deviations can be found for the number of people with marginal employment. Since the mid 1990s, various actions have been taken to improve the measurement of marginal employment in the LFS. The most substantial changes took place from 2005 onwards in the context of an action plan aiming at an improved measurement of the ILO employment status in the German LFS. In the context of this action plan, the following actions have been taken:

- The wording of the questions regarding employment has been focused more strictly on the ILO concept and additional instructions targeted towards persons with marginal employment have been added. The examples of marginal employment guiding the respondent have been revised and updated.<sup>3</sup>
- A new question was added aiming at capturing casually employed persons whose (self-declared) main status is not employed, but student, pensioner, homemaker or (registered) unemployed.<sup>4</sup>
- Some cognitive pretesting has been carried out in order to further improve the questions on employment.
- An extra question (following the question on the attendance of schools and universities) was tested regarding the employment of students and pupils (from 2007 onwards). The results from this question indicated that a considerable number of the employed pupils and students were not captured with the questions on employment.
- The interviewer manual was revised and improved regarding the instructions for the employment part. A standardised module for interviewer training on the ILO concept was introduced. Training and communication with the interviews were improved regarding the ILO concept.

**Figure 5: Number of marginal employees in Germany according to the LFS and the register of marginal employees**



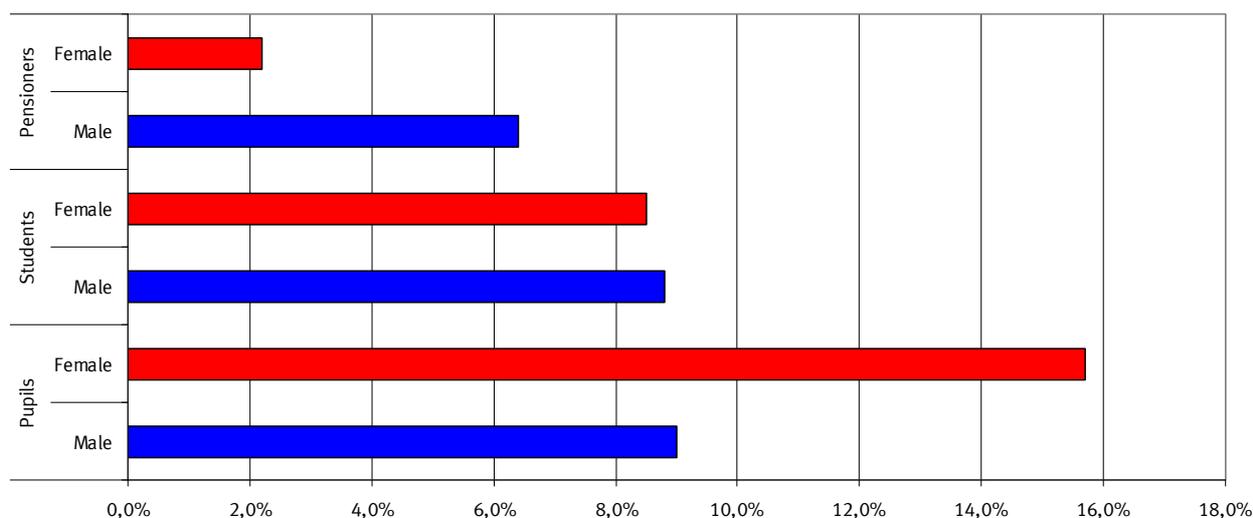
<sup>3</sup> Up to 2004: „Waren Sie in der Berichtswoche erwerbs- oder berufstätig?“ („In the reference week, were you employed or working?“); from 2005: „Haben Sie in der vergangenen Woche eine Stunde oder länger gegen Bezahlung oder als Selbstständiger gearbeitet?“ („Last week, did you work one hour or more against pay or as self-employed?“)

<sup>4</sup> „Auch wenn man nicht hauptsächlich erwerbstätig ist (z. B. als Schüler/in, Hausfrau/Hausmann oder Rentner(in)) kann man trotzdem nebenbei etwas arbeiten, um Geld hinzuzuverdienen. Wie ist das bei Ihnen: Übten Sie regelmäßig oder gelegentlich eine solche bezahlte Tätigkeit in der vergangenen Woche aus?“ („Even if the employment is not ones main activity (e. g. as pupil, student, homemaker, or pensioner), one can additionally work on a casual basis, in order to earn some extra money. Last week, did you have such a paid activity?“)

As figure 5 shows, these actions clearly resulted in reduced differences between the results from the LFS and the register of marginal employees. The difference reduced from 1,5 million persons before 2003 to 0,9 million in 2007. It should be noted that in 2005, besides the action plan, other important methodological changes have been implemented (modified weighting scheme, full scale use of CAPI, reduction of the number of interviewers, change to a continuous survey), which probably also have contributed to the improvements.

Despite the improvements, a considerable difference remained. Analyses have shown that the differences vary considerably by age and sex. Whereas, in 2007, there have been very small differences for men and women who are 25 to 54 years old, large deviations can be observed for the 15 to 24 years old as well as (particularly men) aged 55 years and older. This leads to two hypotheses which were analysed in a follow-up survey carried out in 2008: (1) The “main status thesis” (small jobs of pupils, students and pensioners might not always be fully captured in the LFS as respondents tend to answer according to their main social status) and (2) the “proxy thesis” (small jobs are not fully covered in proxy interviews, with proxy rates being high for pupils and students). In the follow-up survey, a reduced questionnaire was used, which is specifically targeted towards the measurement of small jobs (see annex). Respondents who participated in the LFS were contacted for a re-interview, and the results linked on micro-level. First results of the follow-up survey show strong evidence for the main status thesis. For more than 10% of the pupils, nearly 9% of the students and about 4% of the pensioners an employment was detected in the follow-up survey, but not in the LFS (see figure 6). Analyses of possible interaction effects of the proxy effects and the main status effects suggest that the main status thesis has higher relevance.

**Figure 6: Share of employments captured in the follow-up survey, but not in the LFS**



The results from the follow-up survey show that targeted survey strategies need to be developed to fully capture small jobs in household surveys. Nevertheless, it is yet to be determined whether the results of the follow-up survey can explain the entire difference in the results. In order to investigate possible measurement problems in the register, a similar follow-up survey is planned for marginal employees included in the register.

#### 4 Topics for further research

Marginal employment constitutes only a part of the measurement problems regarding informalised employment, albeit the most important one in terms of the number of employed persons. Nevertheless, further topics require further research. In this section, we briefly describe the most important outstanding problems:

- Self employment: As shown in section 2, the structure of the self-employed has somewhat changed over the last ten years. The increase of the number of own account workers suggests that a new type of self-employment is getting more and more important. It is not unlikely that these changes somehow blurred the boundaries between self-employed and employees, which might have implications for the coverage of the self-employed in household surveys. Further information would be needed on how, e.g. own account workers, who work exclusively for one client would respond to the questions on employment. At the same time specialized studies should be carried out regarding the concrete characteristics of self employment.
- Contributing family members: The only information we have on this group stems from the LFS (question on occupational status), so that it is difficult to guess whether this group is always captured completely. Again, the concept of contributing family members in the German context comes from taxation laws and might not always be clear for respondents of household surveys. Sometimes the distinction between contributing family members and marginal employees (although legally being very distinct items) might not be straightforward in the interview. Specialised surveys on this topic might help a lot to clarify the situation.
- New types of part-time employment: There seems to be anecdotal evidence that more flexibility is required from part-time employees in terms of working time. In such cases, the contractual working time might be restricted to only few hours. At the same time, employees are requested to be flexibly available at various times and to often work extra-hours largely exceeding the contractual number of hours worked when needed, thus making it impossible, e.g., to take up a secondary job. As most Labour Force Surveys are only partly suitable to cover such developments, further research is needed to learn more about and quantify such tendencies.
- Undeclared work: Whereas most other informalised types of employment can be captured in household surveys, it is very unlikely to achieve a reliable measurement of undeclared work or even illegal activities. In order to achieve at least a rough estimation of the extent of undeclared work at least in private households, one promising approach is to look at the demand side of these activities, i.e. to survey private households whether they do (or intend to) have persons helping them with services connected to the household (like cleaning or old age care) against pay. Based on such studies an admittedly rough estimation of the extent of undeclared employment could be achieved albeit lacking socio-demographic details of the employed. A further important source which should be used more widely and carried out more regularly are time-use surveys.

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Annex1: Employment questions in the German LFS and in the LFS follow-up survey

