

# Fiscal Pulse

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## Are “Mini-Jobs” a Responsible Substitute for Canada’s Temporary Foreign Workers?

- **Germany provides a template and food for thought.**

The Government of Canada’s recent reforms to the Temporary Foreign Worker Program (TFWP) have shifted the spotlight onto new domestic initiatives to better match post-secondary programs with employers’ needs, expand apprenticeship training, remove barriers to labour mobility, and create greater labour market flexibility. As Canada scans global labour market best practices, one option is Germany’s initiative to allow for non-traditional, flexible work arrangements. These jobs are essentially separate from the traditional labour market with their own set of rules, captured statistically under the classification “small/marginal employment” (*geringfügige Beschäftigung*), but popularly referred to as “mini-jobs”. The model is thought-provoking because Germany is a comparable developed jurisdiction, known for its elaborate system of social protections as well as its competitiveness. The “social state” principle is enshrined in Germany’s constitution and commits the government to ensure social security and equity.

Interestingly, it was a left-leaning Social Democratic government, with extensive ties to the country’s powerful unions, that put into place the legal framework for mini-jobs in April 2003, providing greater flexibility for part-time work. The essential characteristic of mini-jobs is that wages cannot exceed €450 per month (C\$660). By definition supplementary work arrangements, mini-jobs are not captured by the country’s dense web of collective agreements and guilds/trades-based compensation structures. Any employer in any industry can create mini-jobs at a rate that attracts qualified employees.

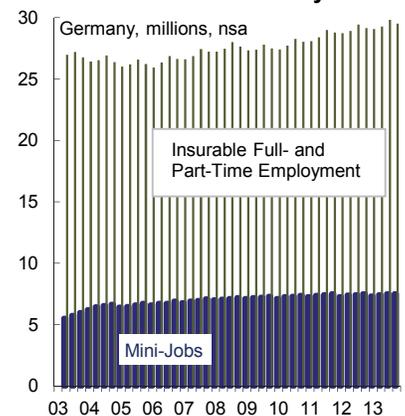
Critically, Germany’s mini-jobs are exempted from income taxes, boosting the value to the incumbent compared with traditional forms of employment. Also, incumbents are exempt from other source deductions, except for a 3.9% contribution to the state-run pension plan. Approximately three-quarters of mini-job holders, however, have this contribution waived by demonstrating existing coverage or a statutory exemption (e.g., they are retired, have a full-time job, or are apprentices or high-school/university students). Overall, mini-job wages are often paid without deductions, offering a low-wage “subsidy” that distinguishes mini-jobs from Germany’s “insurable/taxable” jobs market.<sup>1</sup>

Employers pay social security contributions for mini-jobs at a flat-rate of 30% of gross wages. In addition, they provide occupational accident/safety insurance. Workers are entitled to sick pay, holiday pay, maternity/paternity leave and, generally, are covered by any German regulation that applies to traditional employment relationships.

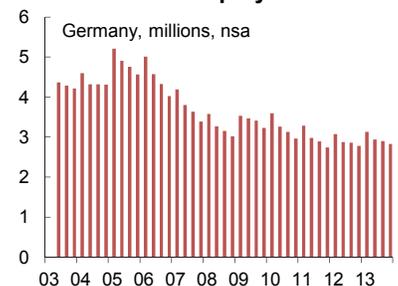
In keeping with the concept of alternative employment arrangements, mini-jobs do not make contributions to, and are not eligible for, employment insurance (EI). However, workers who lose a full-time job and are eligible for EI can work a mini-job without forfeiting their EI benefit payments.

Mini-jobs have grown at a rapid rate to exceed 7.5 million in December 2013 (one in five workers now holds a mini-job). Several

### Insurable Employment and Mini-Jobs Grow Concurrently . . .



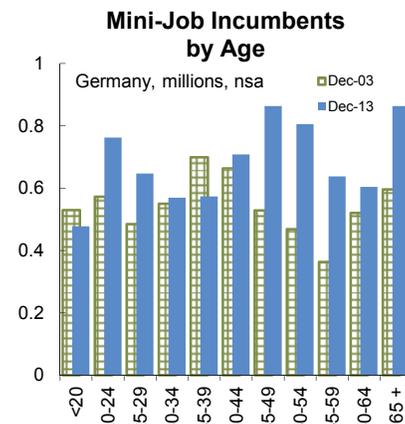
### . . . While Unemployment Falls



<sup>1</sup> In December 2013, 29.5 million workers were in the taxable category, subject to mandatory social insurance deductions. Mini-job workers totaled 7.5 million (top graph, p.1), of which 2.7 million concurrently held traditional jobs that are included in the insurable/taxable category, leaving 4.8 million workers exclusively in the mini-jobs category. Source for data, charts and table: *Bundesagentur für Arbeit*, (Germany’s Federal Ministry of Labour).

features of mini-jobs have made them attractive to various segments of the workforce.

- i) Mini-jobs were originally designed for stay-home spouses. Under the German tax code, mini-jobs permit stay-home spouses to supplement income without reducing the benefit of income splitting and without mitigating their derived entitlement to social protection as “inactive” spouses.
- ii) One mini-job can be combined with a full-time job to supplement a worker’s income tax-free. In December 2013, 2.7 million Germans took advantage of this option. Two or more mini-jobs added to a full-time job will be taxed at the worker’s marginal rate and are subject to social security deductions.
- iii) Mini-jobs can be structured as full-time temporary jobs, so long as they do not exceed 50 working days per year. This allows for seasonal work in tourism, agriculture, and restaurants, for example. One mini-job and one temporary mini-job can be combined tax-free. However, any two or more temporary and/or mini-jobs will be added together and become fully insurable and taxable. Consequently, no advantage can be derived from splitting a full-time job into five mini-jobs and asking an existing full-time employee to work five mini-jobs back-to-back.
- iv) A breakdown by age shows that 25% of mini-job holders are younger than 30 and 20% are older than 60. Mini-jobs help to fill a critical void for unemployed youth and the growing numbers of Seniors looking for scaled-back employment.
- v) Not all mini-jobs are low-wage on an hourly basis. Workers with professional designations or academic degrees represented 36% of the mini-job market at the end of 2013. For example, translation services once per month, requiring 12 hours of work, might pay close to \$660 per month, reflecting an hourly rate of about \$55.
- vi) Private households can create mini-jobs and pay a reduced social security contribution flat rate of 12% of gross wages plus a 1.6% standardized occupational accident insurance rate.



No professional degree	Male	5.3
	Female	8.2
With professional degree	Male	11.6
	Female	21.1
With academic degree	Male	1.6
	Female	2.0
Education unknown	Male	19.4
	Female	30.9

The supply of mini-jobs is fueled by at least two factors. The first is the flexibility of mini-jobs, which allows employers to vary hours and the number of employees to meet seasonal or other demand fluctuations. Restaurant owners argue that they pay the same rate for all workers, but derive significant benefits from the flexibility of mini-jobs. Second, there is evidence that German employers have been able to lower their wage costs for low-skill labour in areas such as retail sales. Full-time retail sales staff in Germany generally fall under collective agreements that employers can circumvent with mini-jobs.

Not surprisingly, Germany’s home-grown solution is not without critics who point to the large number of females in mini-jobs (totaling almost a two-thirds share at the end of 2013). Another concern is that mini-jobs can trap workers in low-wage positions that may not provide a ladder up. However, mini-job creation did not happen at the expense of insurable employment growth. From Q2 2003 to Q4 2013, mini-jobs climbed by 2 million alongside a 2.5 million expansion in Germany’s insurable jobs market. As an illustration of the benefits possible from “out-of-the-box” solutions, the mini-job model has spurred discussion in the U.K. and other European nations. As this model is considered, tailoring it to each jurisdiction’s tax and social program structure is key to ensuring that the flexibility of mini-jobs benefits both workers and employers.

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