

How Germany detected a new version of flexicurity

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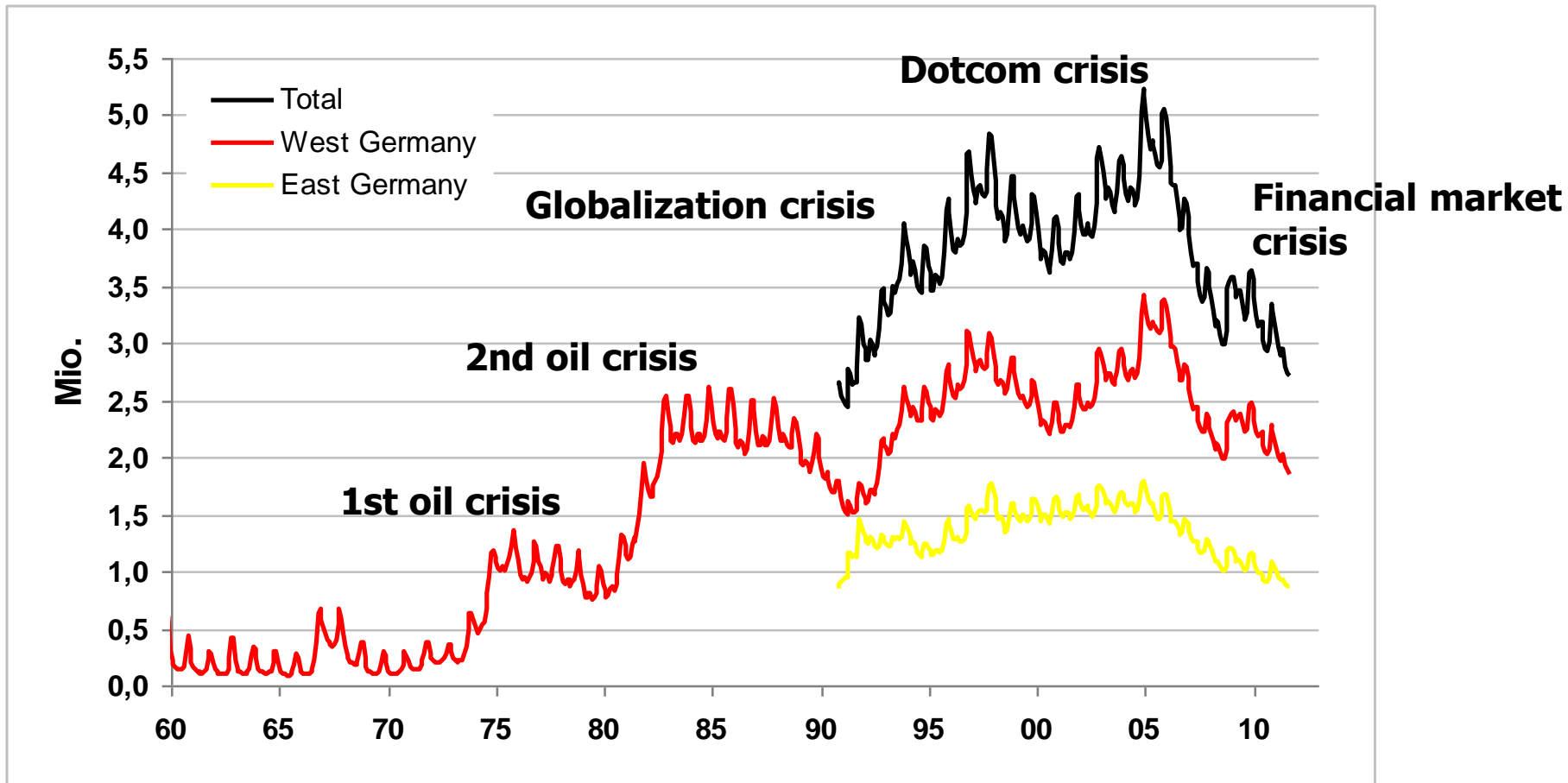
„Balancing the labour market by 2020: Integrated strategies to deliver high levels of employment“
Policy Research Centre Work and Social Economy
Leuven, December 12, 2011

Characteristics of the German labour market

Employment	41.5 Mio. (10/2011)
Unemployment rate	6.4% (11/2011)
Long-term unemployed	32.1% (06/2011)
Self employed	10.9% (2010)
Minijobbers	11.9% / +6.0% (03/2011)
Temporary contracts	14.7% (2010)

Source: Bundesagentur für Arbeit; Eurostat; Statistisches Bundesamt; own computations

The Evolution of Unemployment in Germany

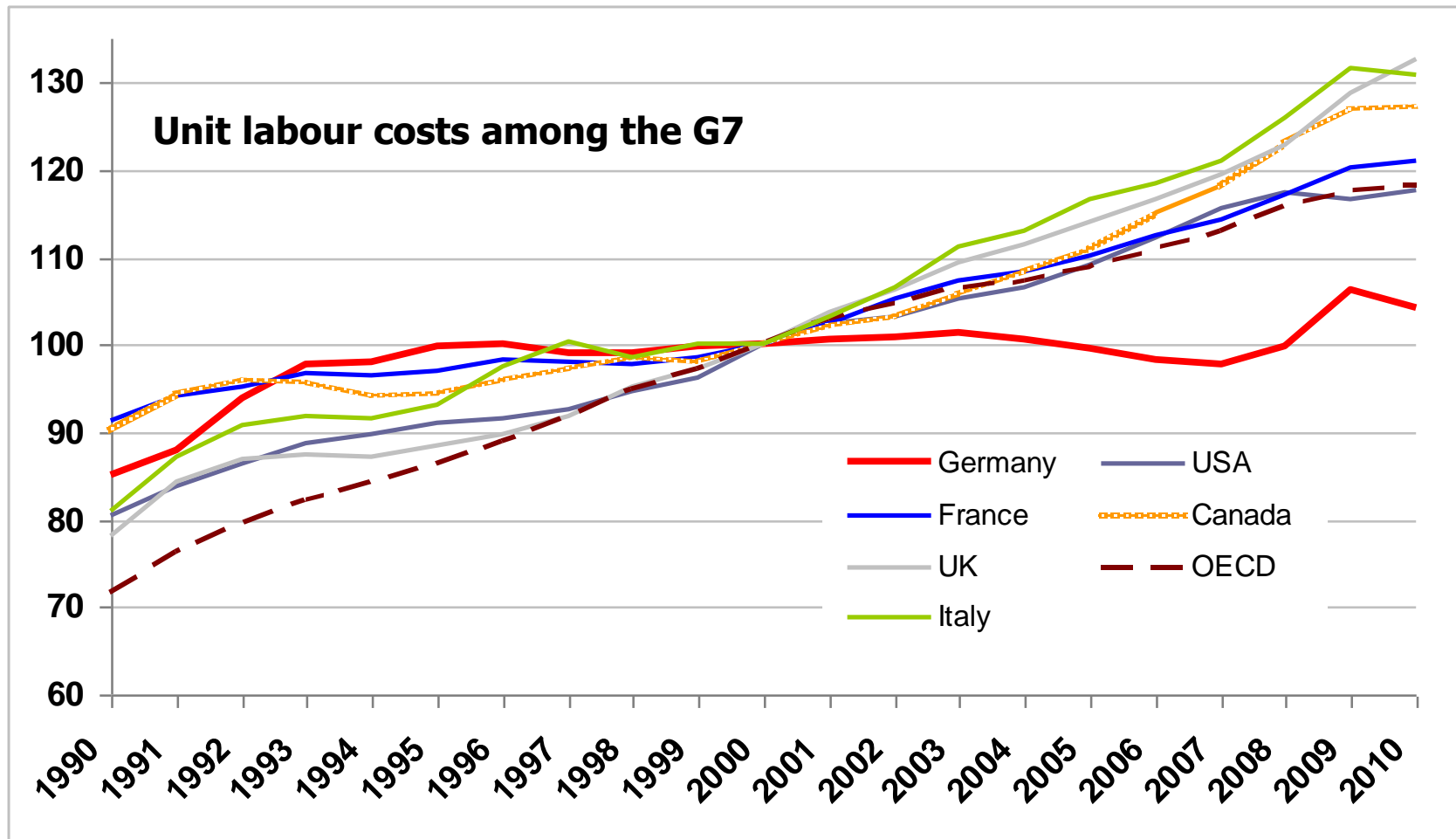


Source: Bundesagentur für Arbeit

Three reasons why Germany reached the turning point

- Wage retention
- The Labour market reforms 2003-2005
- The German way of flexicurity

Reason No. 1: Wage retention

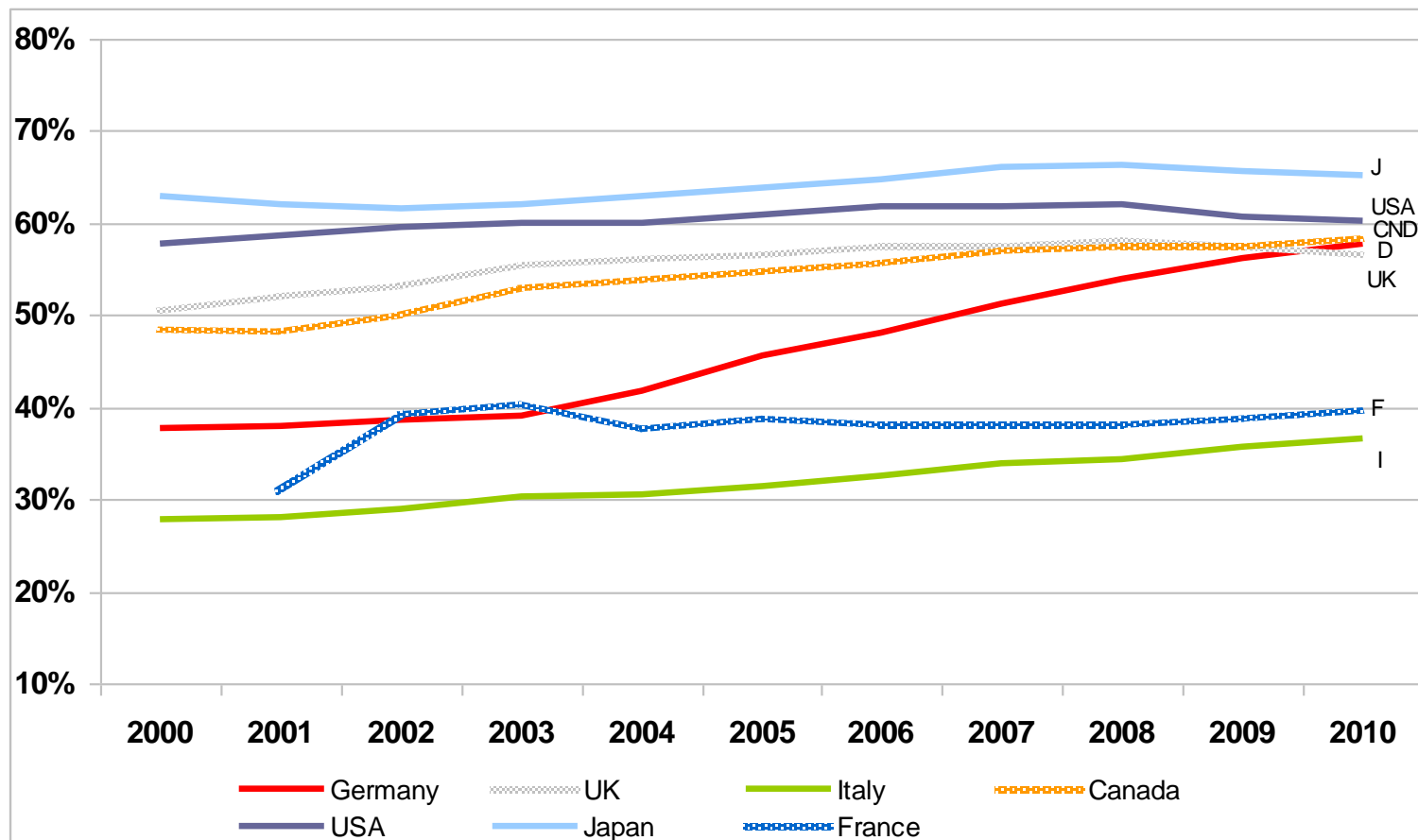


Source: OECD.Stat

Reason No. 2: The labour market reforms 2003-2005

- Abolishment of incentives for early retirement
- Abolishment of unemployment assistance
- Liberalization of temporal agency work

The evolution of the German employment rate of elderly compared to the G7



Source: OECD; Employment Outlook 2011

Reason No. 2: The labour market reforms 2003-2005

- Abolishment of unemployment assistance has dramatically changed search behaviour of the unemployed and the employed
- Strong increase of pressure on unemployed to accept job offers
- Job seekers not finding a new job within 12 (24) months may have to reduce their assets
- Willingness of job seekers to compromise has remarkably increased
- Inflows into welfare reciprocity has not increased during the crisis

Reason No. 3: The German way of flexicurity

- The abolishment of early retirement has reinforced employment protection
- The reinforcement of employment protection has increased the need for alternative forms of flexibility

Reason No. 3: The German way of flexicurity

- Employment protection regulations are as strict as always
- Forces German companies to working time flexibility instead of flexibility by „Hire and Fire“
- In previous crises employment protection was effectively abrogated by generous early retirement incentives
- The recent crisis was the first crisis in German post-war history, where employment protection fully came into its own
- Working hours credits and short-time work subsidies allowed firms to cope with the crisis without significant lay-offs
- As soon as the world demand for goods recovered, German exporters were in place with full capacities

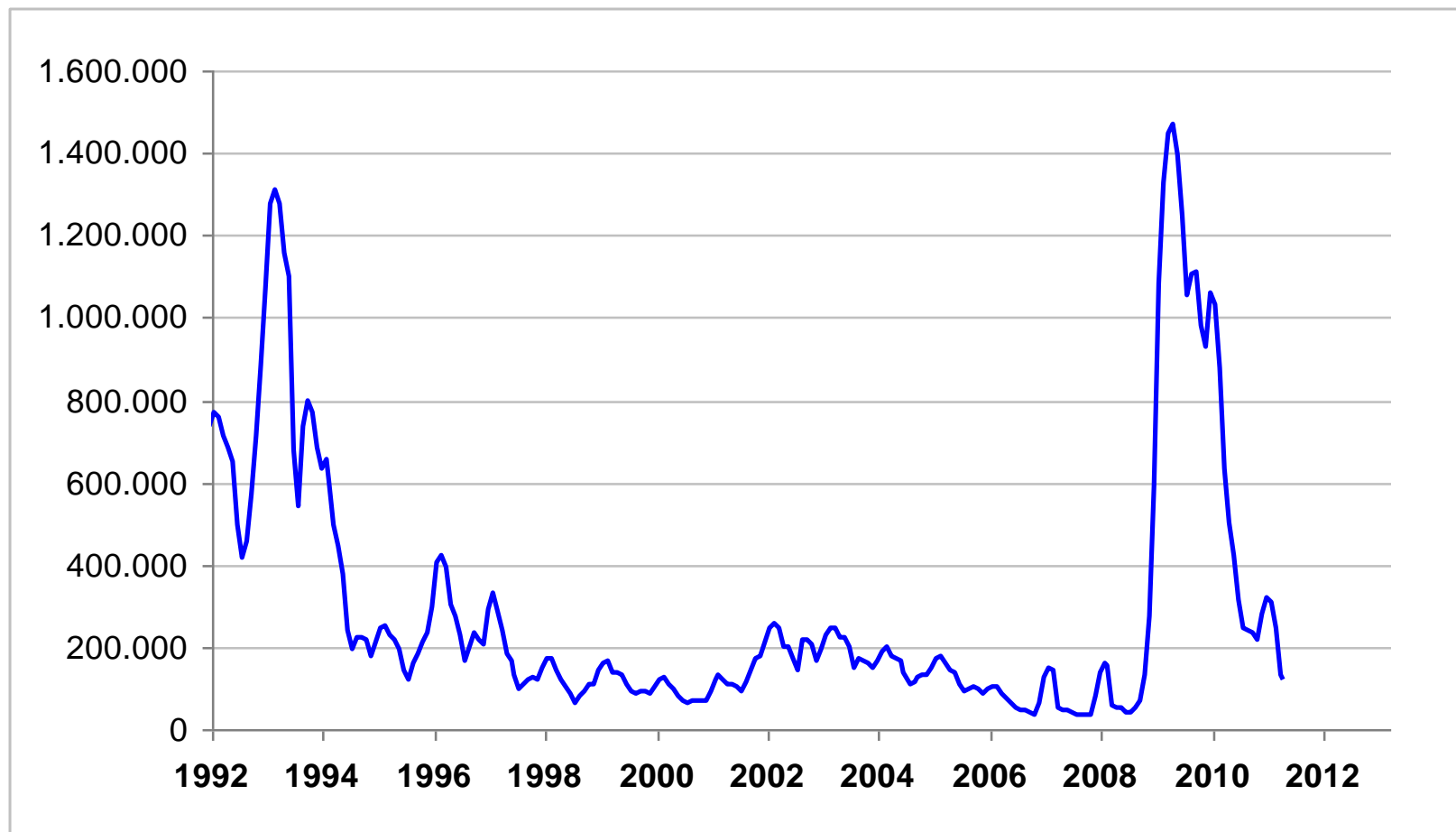
Reason No. 3: The German way of flexicurity

- Without strict employment protection rules, German companies would have laid off their workers as they used to do in previous crises and as companies in other countries did
- Even with a recovery of economic growth, it would have lasted at least two years until employment growth would have followed production growth
- This time is the first time where production and employment are growing simultaneously

How employment protection and short-time work subsidies are related

- Short-time work subsidies became necessary during the crisis in order to protect firms from massive layoff costs
- Without strong employment protection, firms are likely to prefer layoffs instead of short-time work subsidies

The evolution of short-time work in Germany

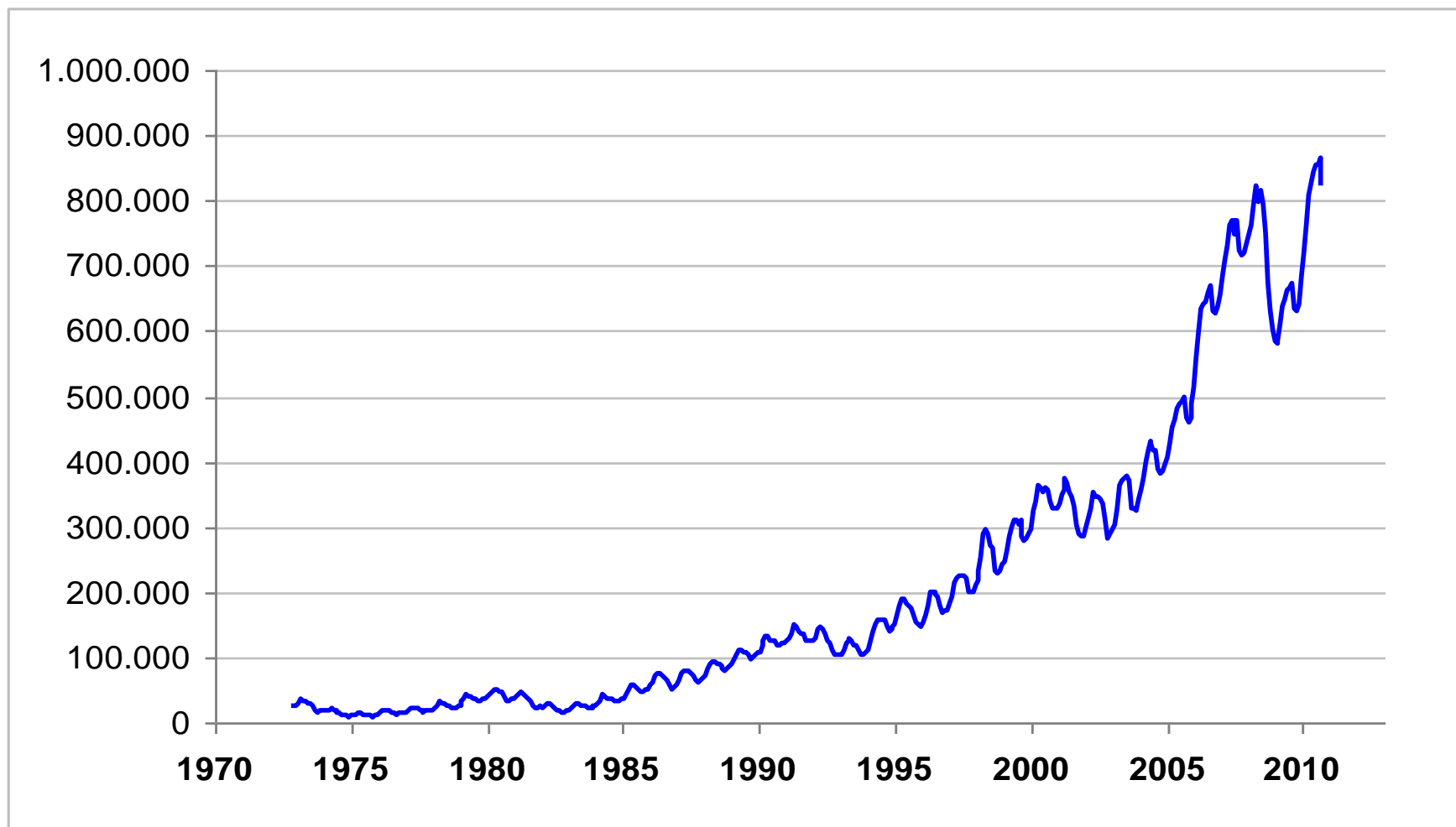


Source: Bundesagentur für Arbeit

How employment protection and temporal agency work are related

- The growth of temporal agency work is reflecting the effective enforcement of employment protection
- Temporal agency work also benefitted from the abolishment of the so-called synchronization ban
- Temporal agency work also benefitted from the increased willingness of job seekers to compromise

The evolution of temporal agency work in Germany

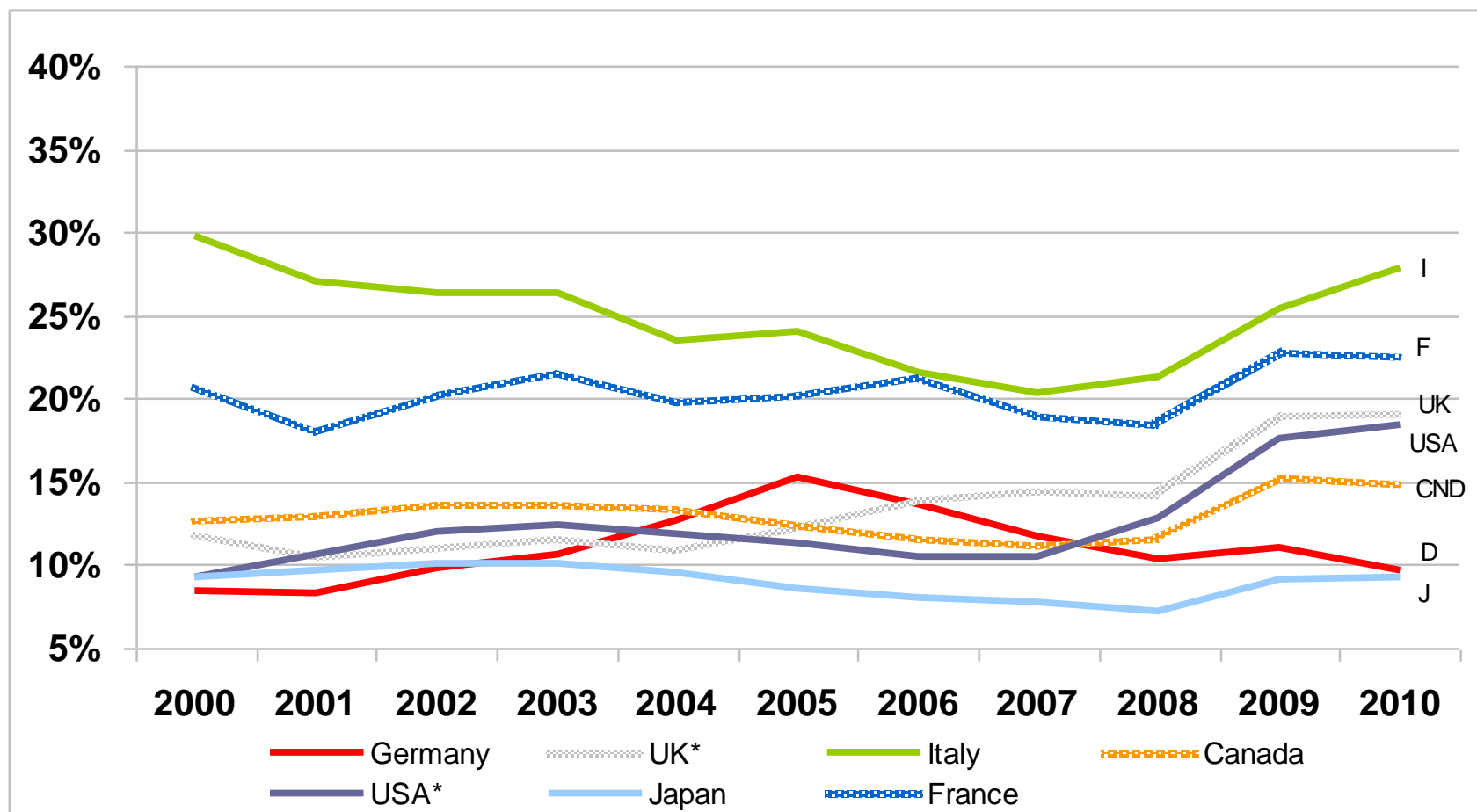


Source: Bundesagentur für Arbeit

How employment protection and occupational training are related

- In general, strong employment protection increases the cost of hiring mistakes
- Groups mostly affected:
low-skilled, unexperienced youth
- Occupational training may effectively compensate for the risk of hiring mistakes

The evolution of youth unemployment in Germany



Source: OECD Employment Outlook

Summary

- Germany has – by accident – detected a remarkably successful combination of flexibility and security
 - Security by employment protection
 - Flexibility by working time accounts, temporal agency work, temporary work and Minijobs

- Nevertheless, Germany is haphazardly about to destroy the conditions of this success model again:
 - Strengthening of explicit minimum wages
 - Strengthening of equal pay principle for temporal agency work

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