

In the Aftermath of the German Labour Market Reforms – Is there a Qualitative-Quantitative Trade-off?

**European Workshop on
Labour Markets and Demographic Change
Vienna, September 12-13**

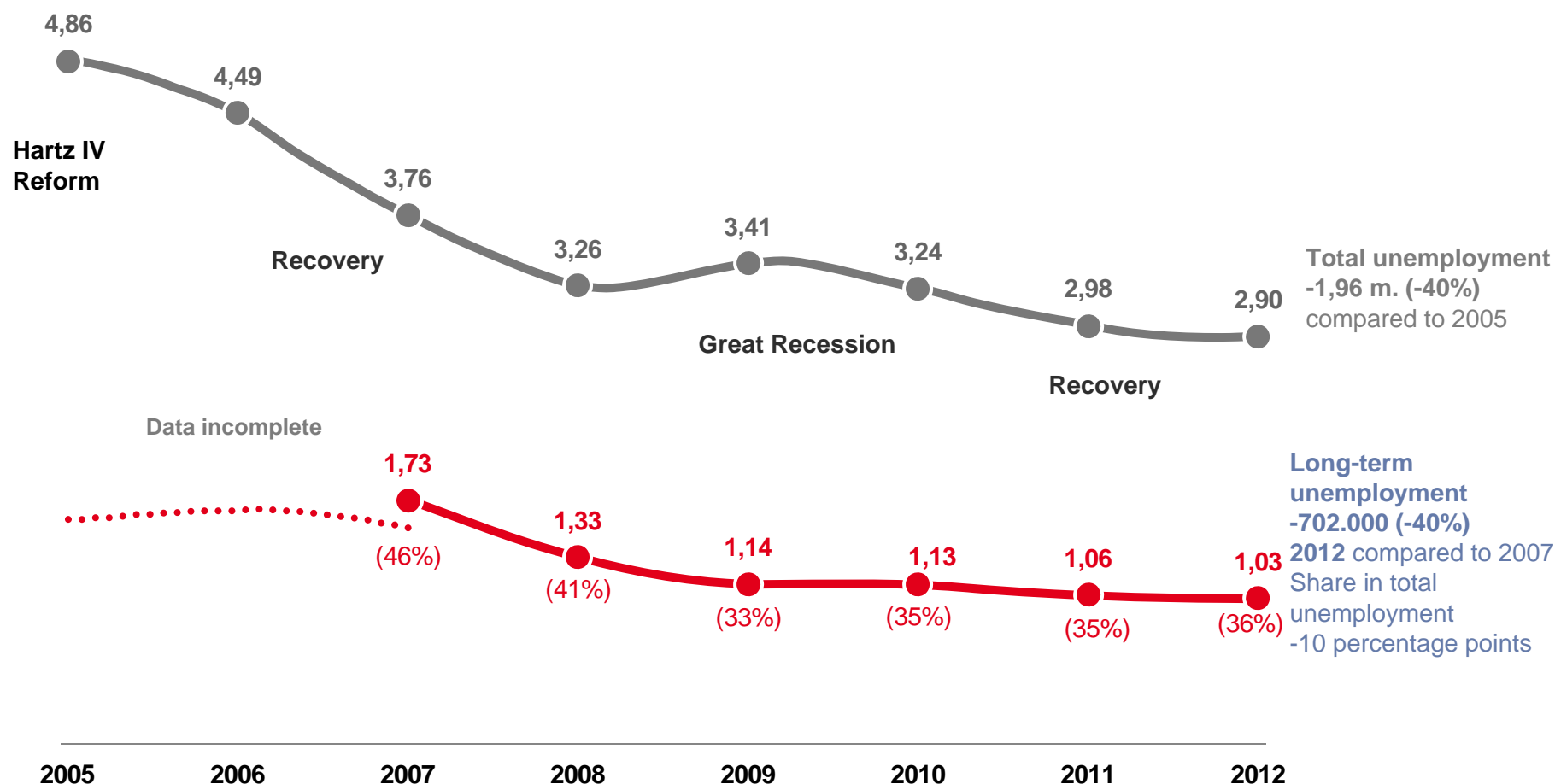
**Prof. Dr. Dr. h.c.
Joachim Möller**

The Sunny Side: The German Job Miracle

Unemployment and long-term unemployment after 2005 decreased by 2/5



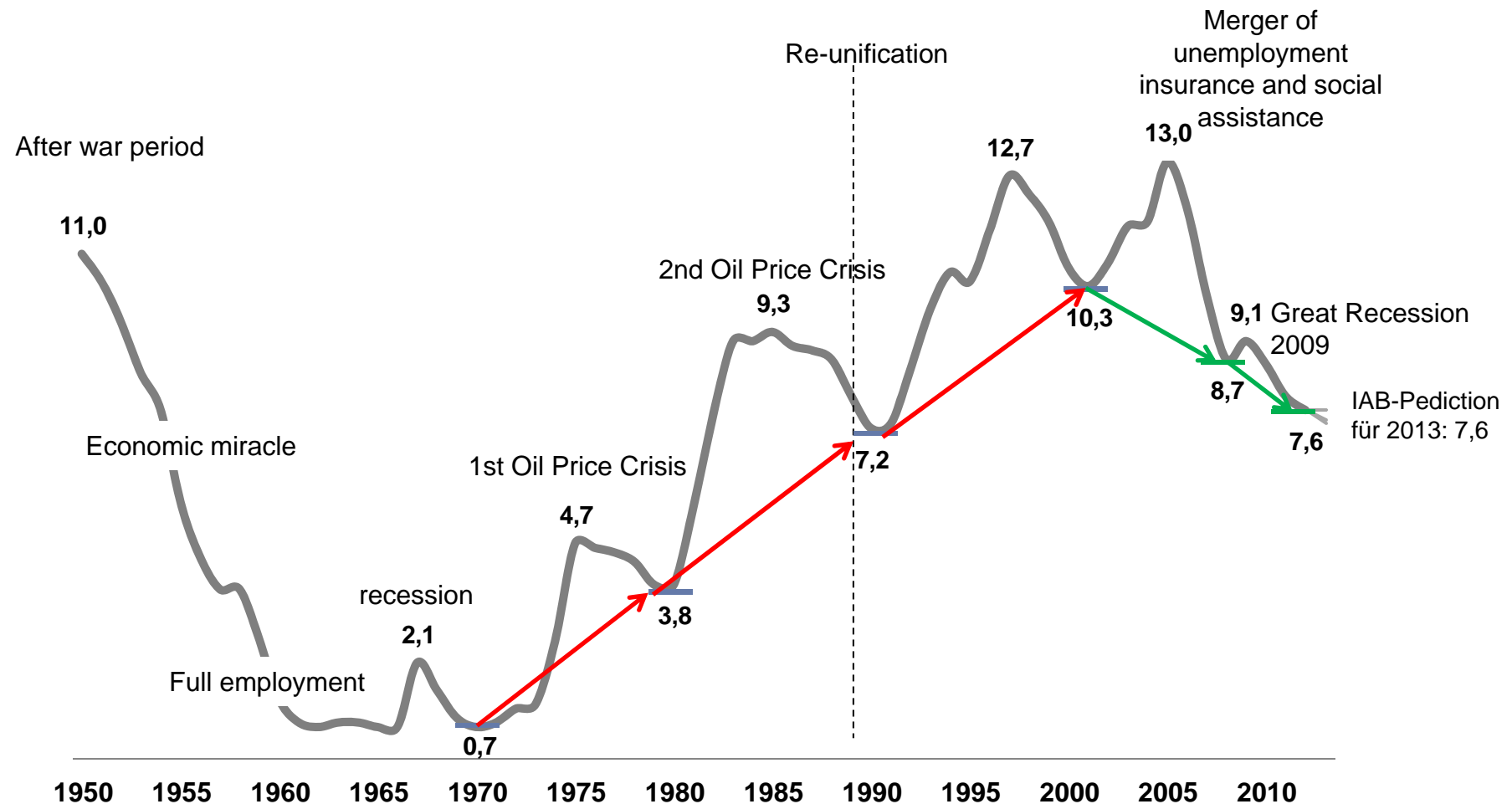
Total number of unemployed and long-term unemployed
Average in millions, Germany 2005 to 2012



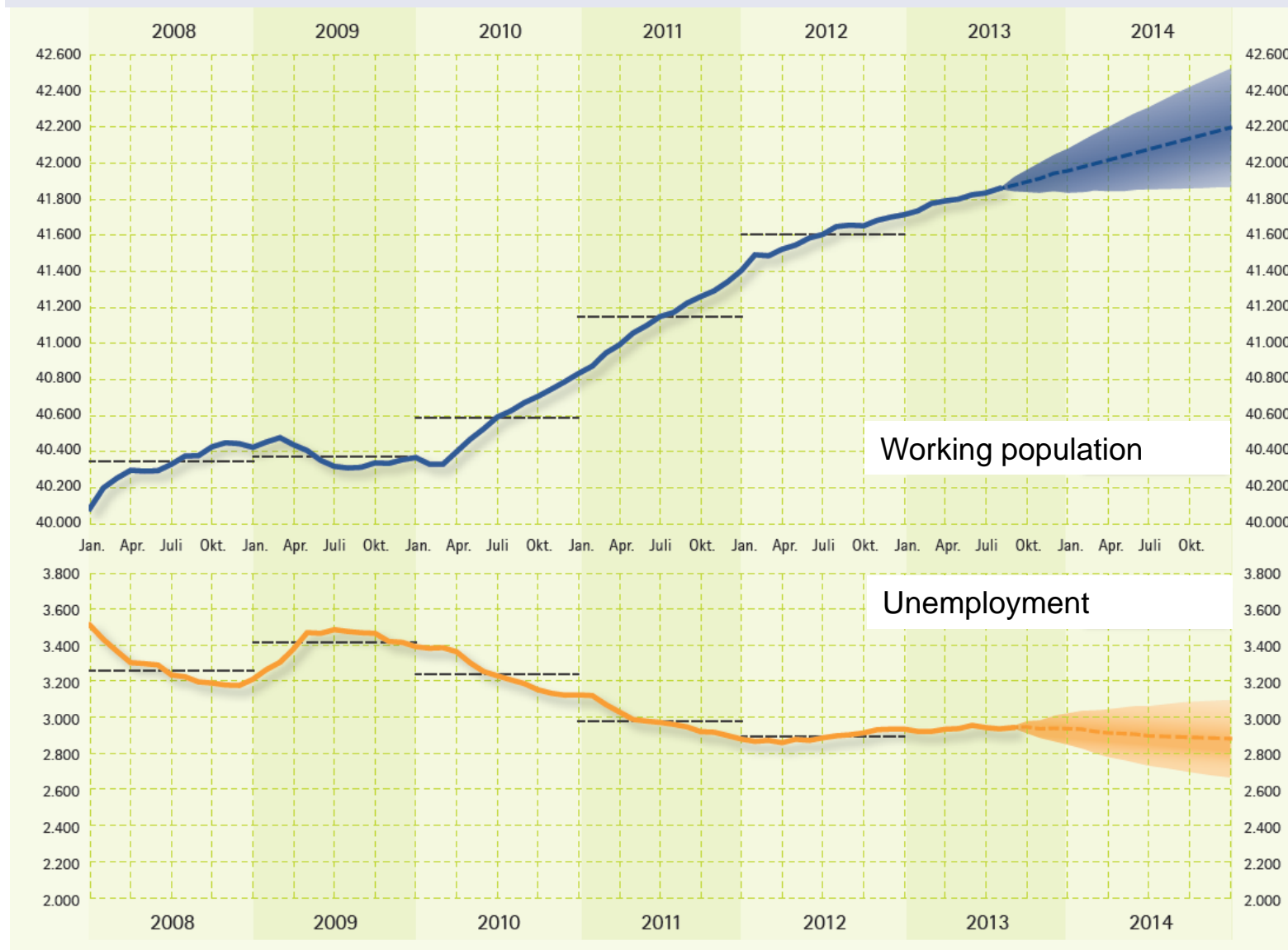
Lower systemic unemployment



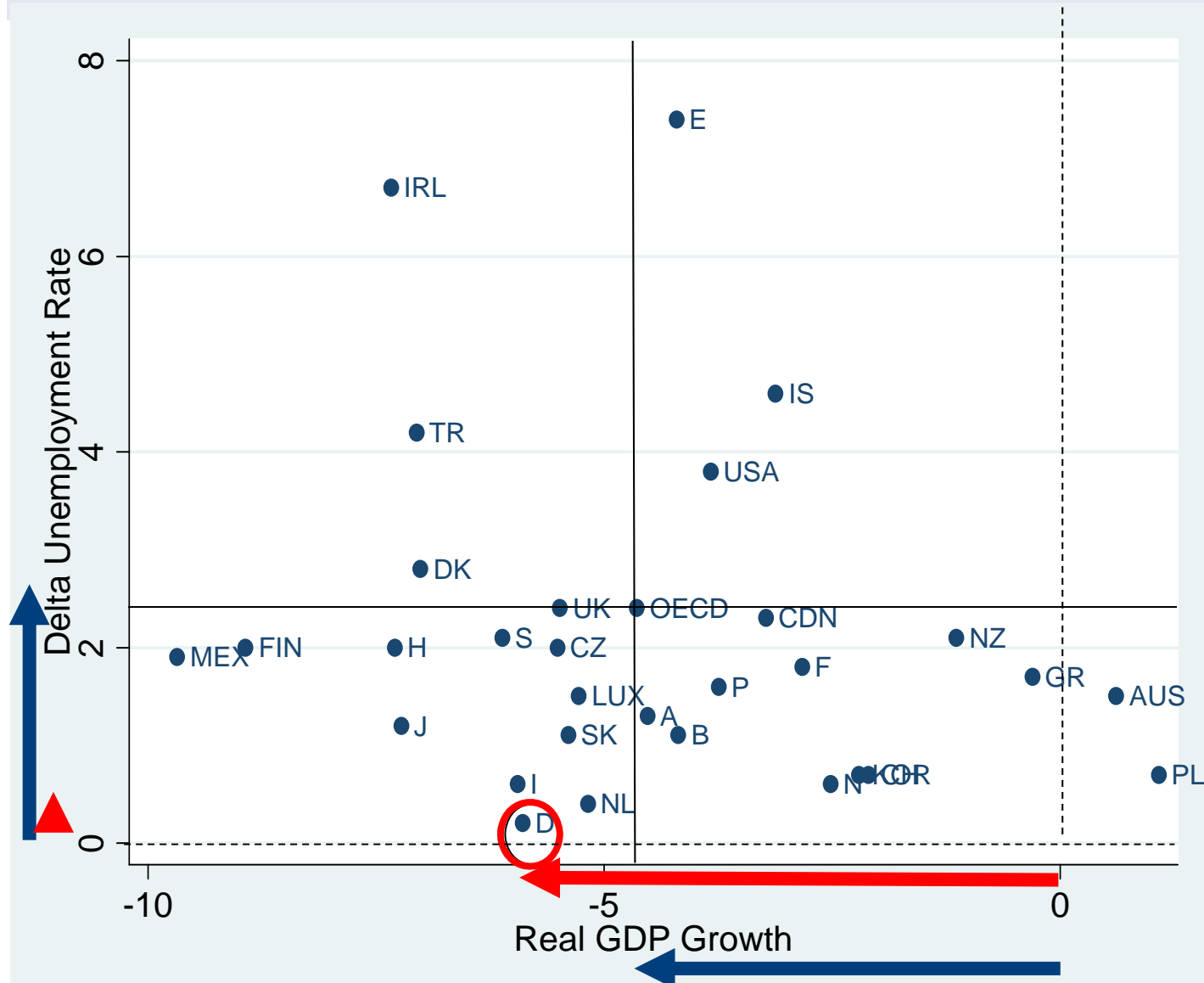
Arbeitslosenquote (bezogen auf alle abhängigen zivilen Erwerbspersonen) in Prozent
Deutschland, 1950 bis 2012, IAB Prognose für 2013



Working Population and Unemployment 2008-2014 (actual and predicted)



Real GDP shock and change in the unemployment rate in the OECD-countries



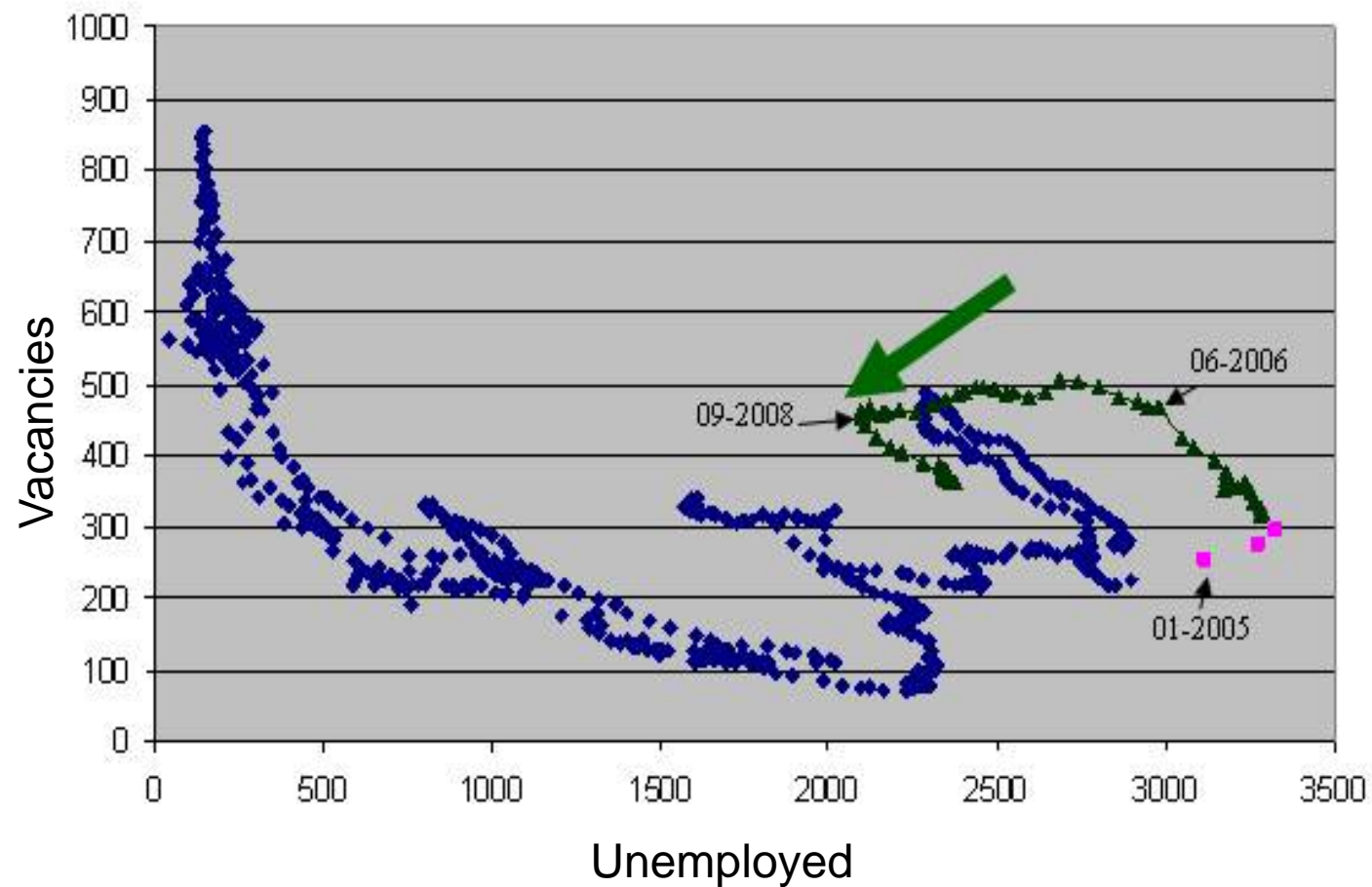
Germany's Jobwunder (Paul Krugman, New York Times, 12.11.2009)



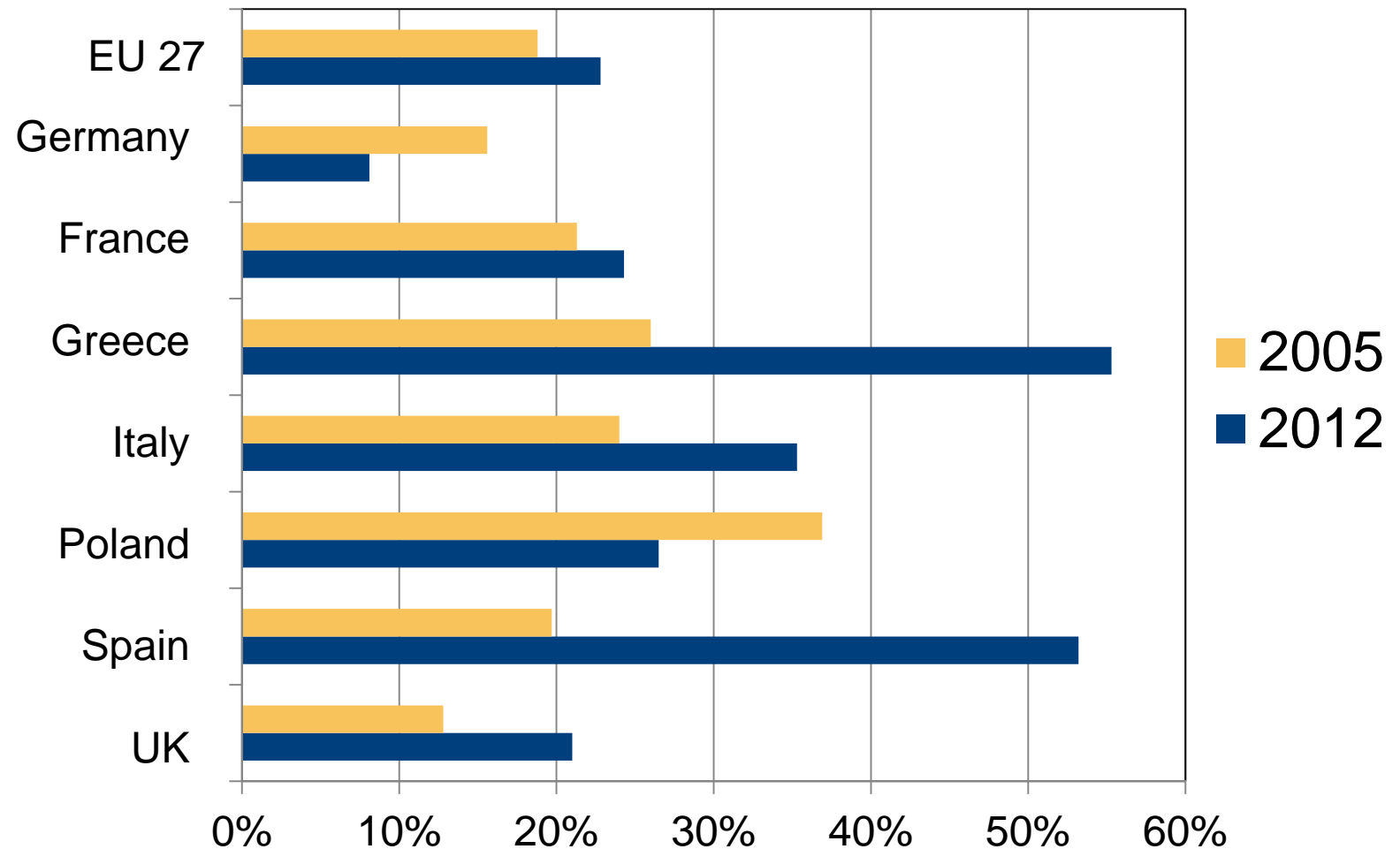
Explanation of the "Miracle":

- Labor hoarding
- High flexibility within firms
 - "Working-time accounts"
 - Short-time work schemes
 - Other forms of working time flexibility
 - collective opening clauses
- Well-functioning of social partnership:
positive role of work councils
- Nature of the crisis: demand driven

The Beveridge-Curve 1950:M1 to 2010:M3



German youth unemployment markedly lower than in other countries (age 15 to 24)





The Shady Side: Segmentation, Inequality, Instability

- **Stability of employment:** e.g. long-term labor contracts, duration of spells
- **Sufficient earnings:** e.g. adequate wages to ensure the means of subsistence
- **Social insurance:** e.g. unemployment insurance; avoiding the risk of poverty after retirement
- **Care of sustainable employability:** e.g. offers for training, development of career chances, safety at work, health care
- **Sovereignty over working time:** e.g. possibilities of flexible organization of working time by the employee, telework

Share of “Normal Employment Contracts” by Age and Skill Level

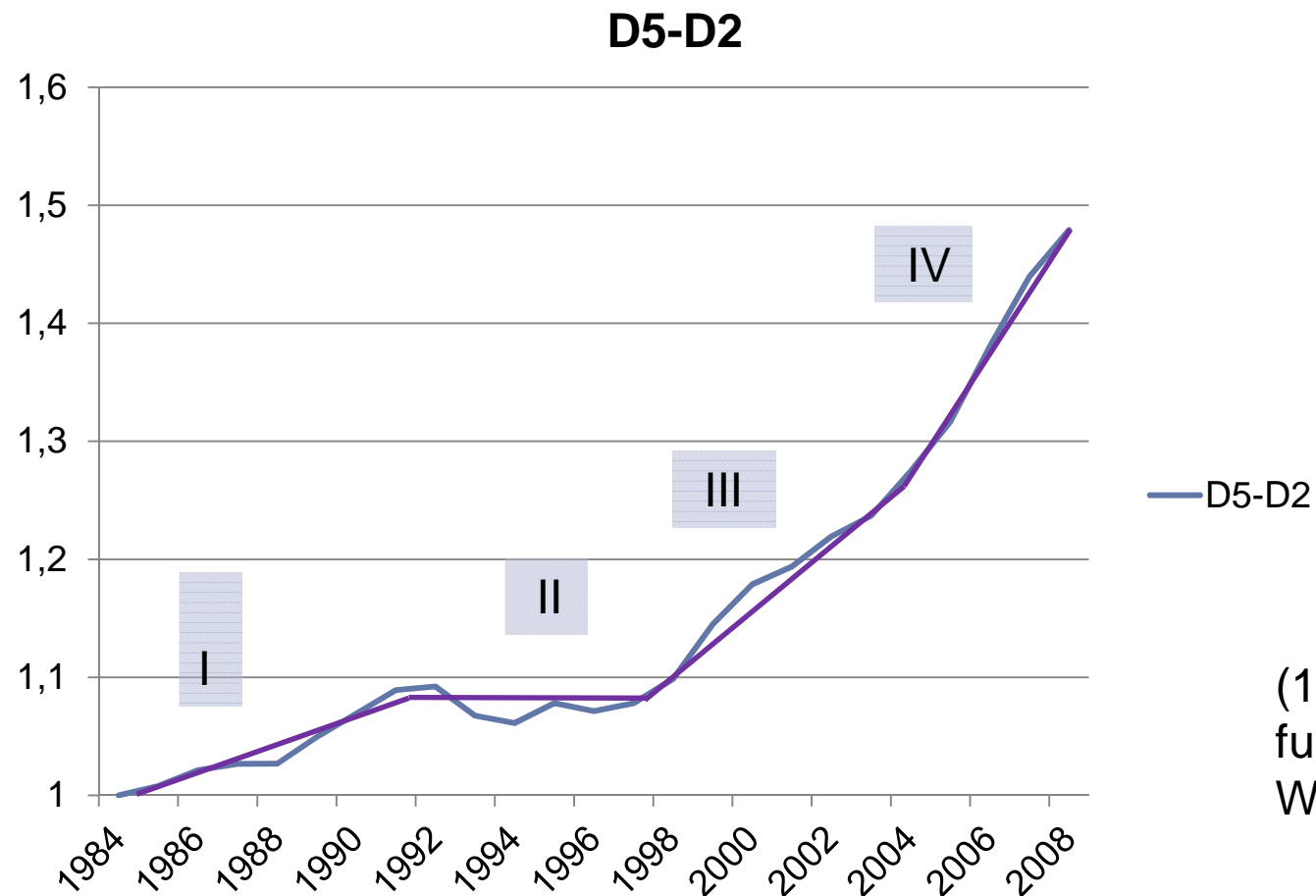


	1991	1999	2007
Age			
15-24	56,2%	35,9%	28,1%
24-49	75,0%	70,4%	63,9%
50-64	73,9%	69,4%	65,3%
Skill level			
low	54,9%	46,9%	34,0%
intermediate	77,0%	71,0%	64,8%
high	75,7%	71,9%	67,5%

* full-time employment, permanent contract eligible to social contributions;
working with the same employer (no temps)

Inequality Index (1984=1) 1984-2008

(Log. decile distance in the lower (D5-S2) tail of the distribution¹⁾)



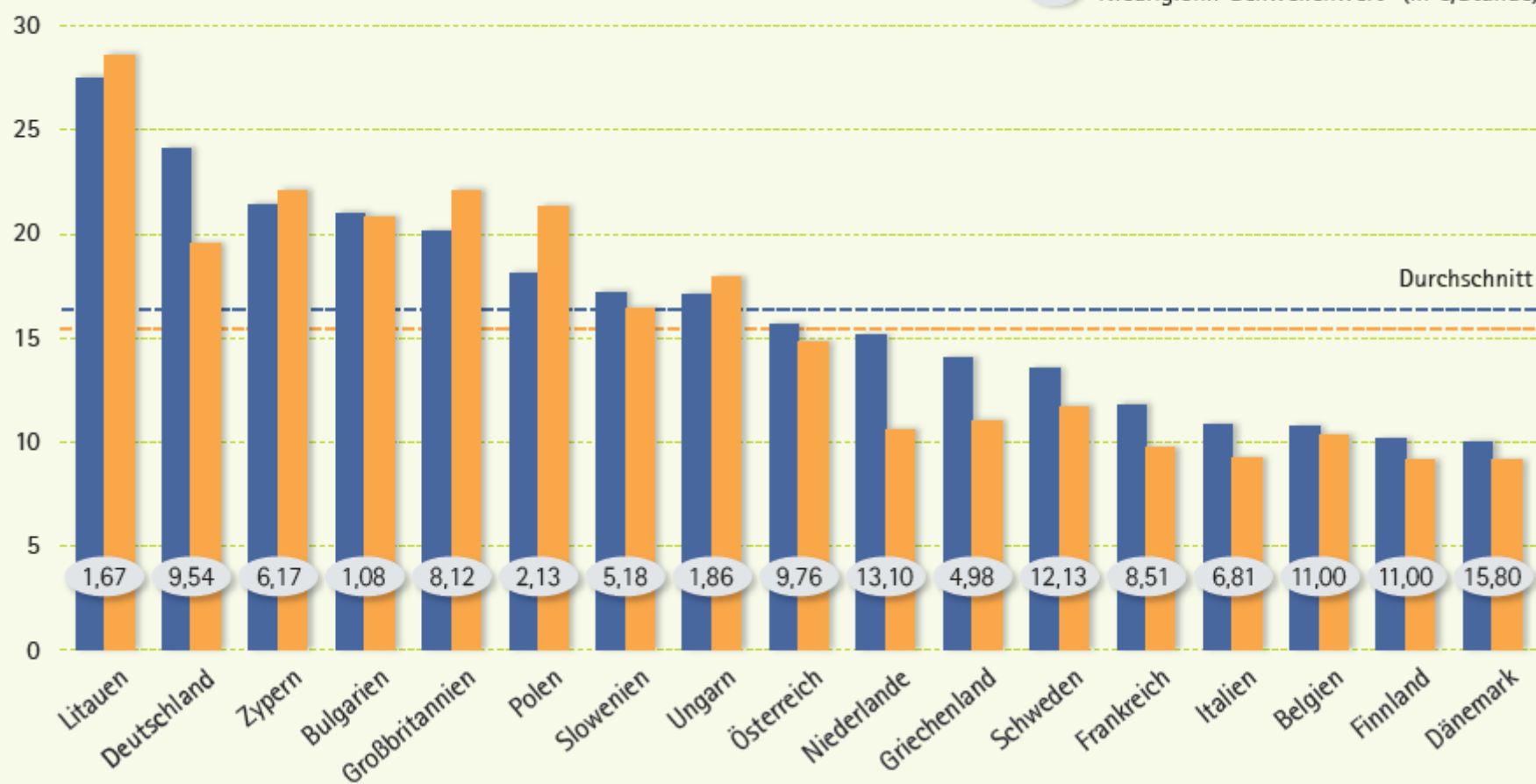
(1984=100, male
full-time workers,
West, only)

Share of low-pay sector in 17 European countries

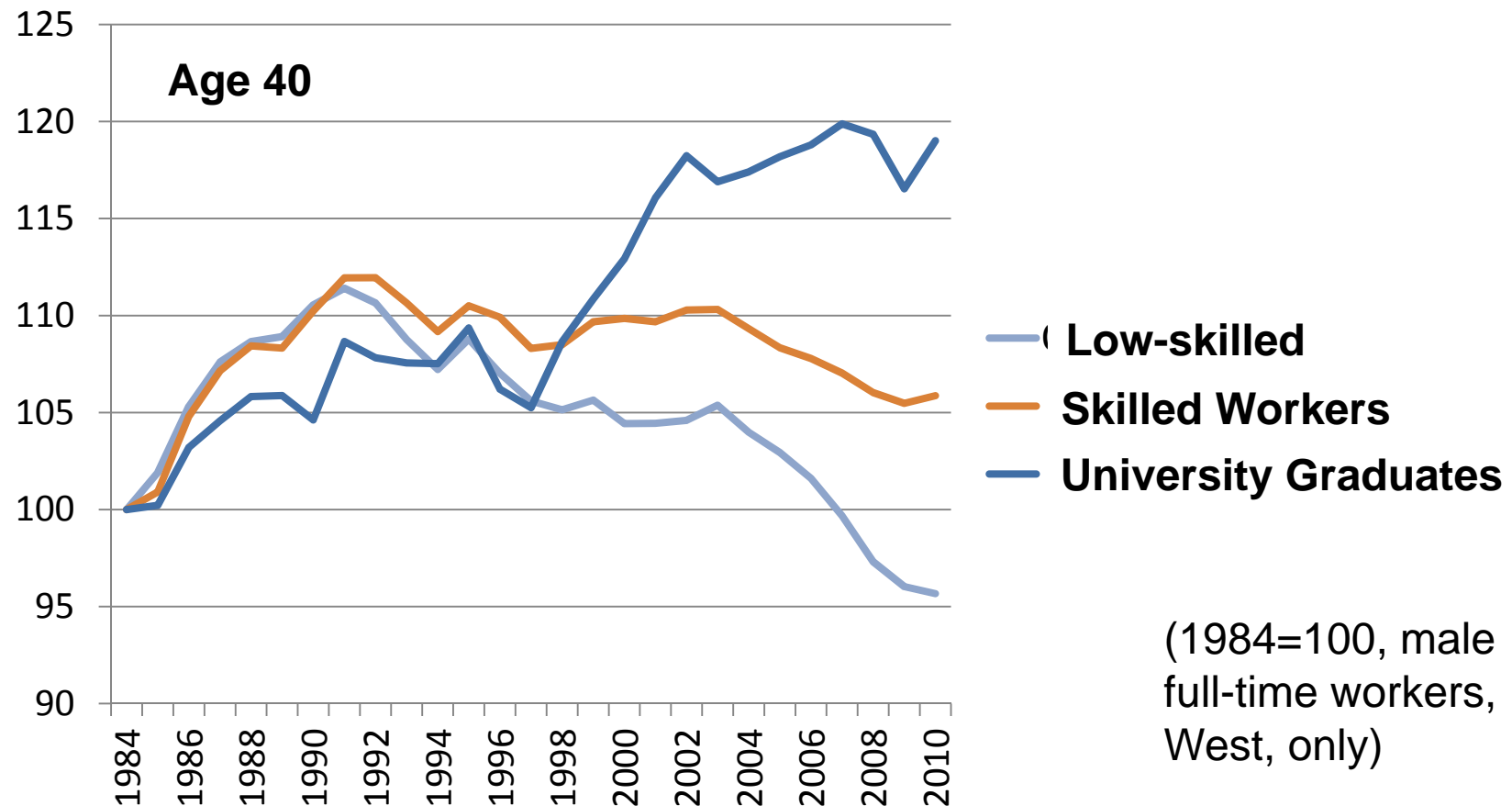
Niedriglohnquoten¹⁾ in 17 europäischen Ländern 2010

in Prozent

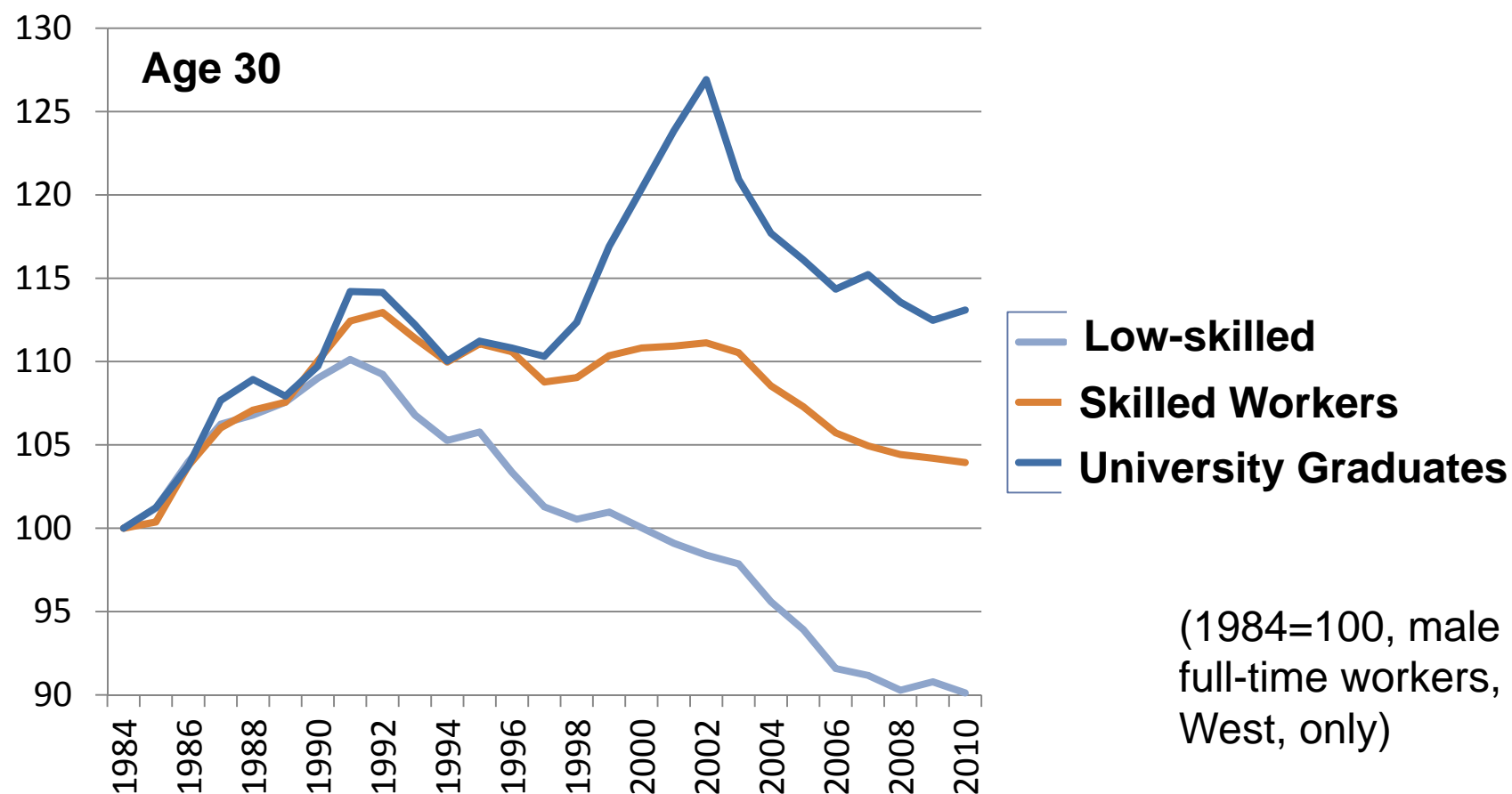
■ alle Beschäftigte
■ Vollzeitbeschäftigte
○ Niedriglohn-Schwellenwert²⁾ (in €/Stunde)



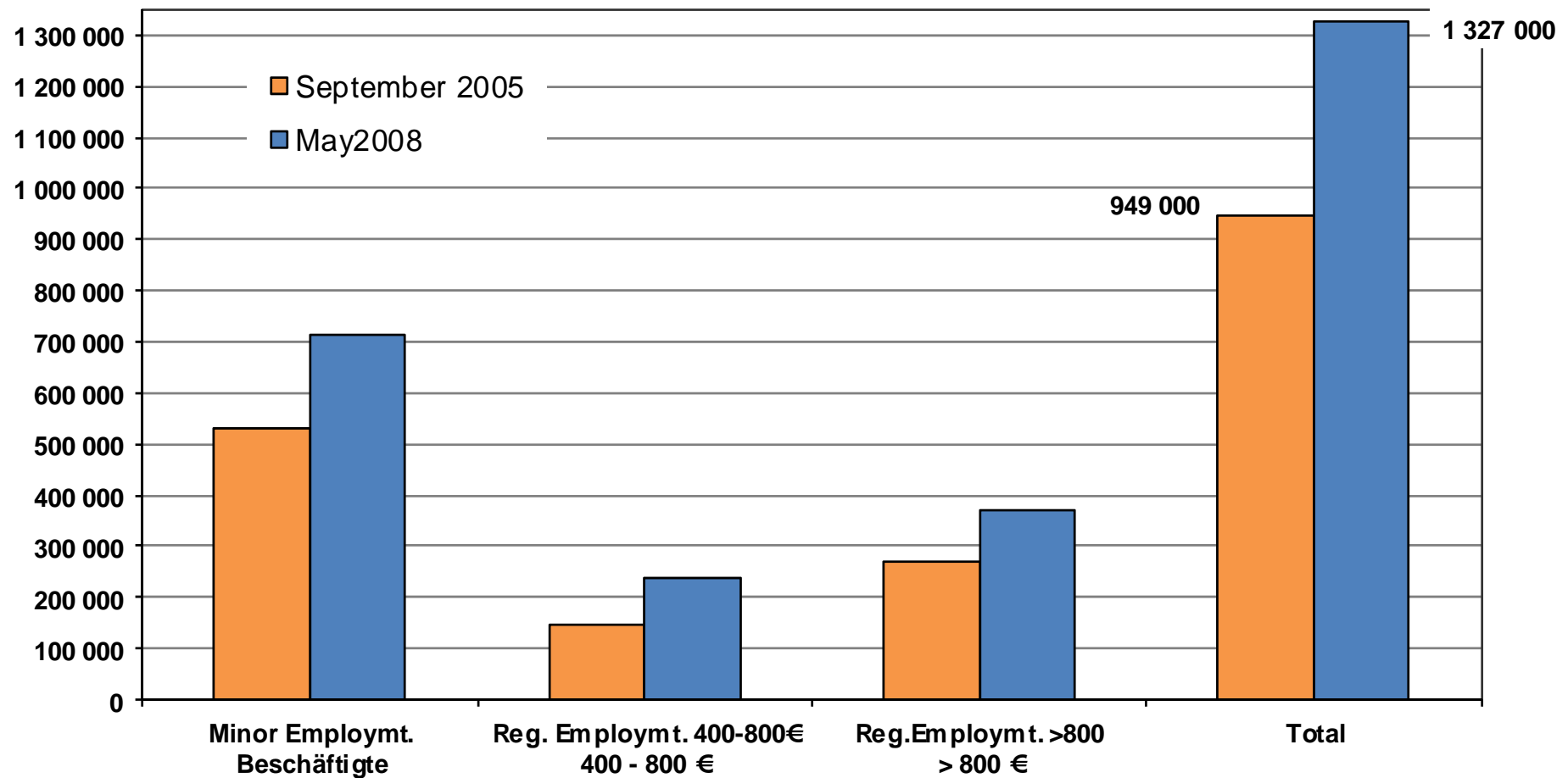
Index of Real Gross Earnings 1984-2010 of Workers at Age 40 by Skill Level



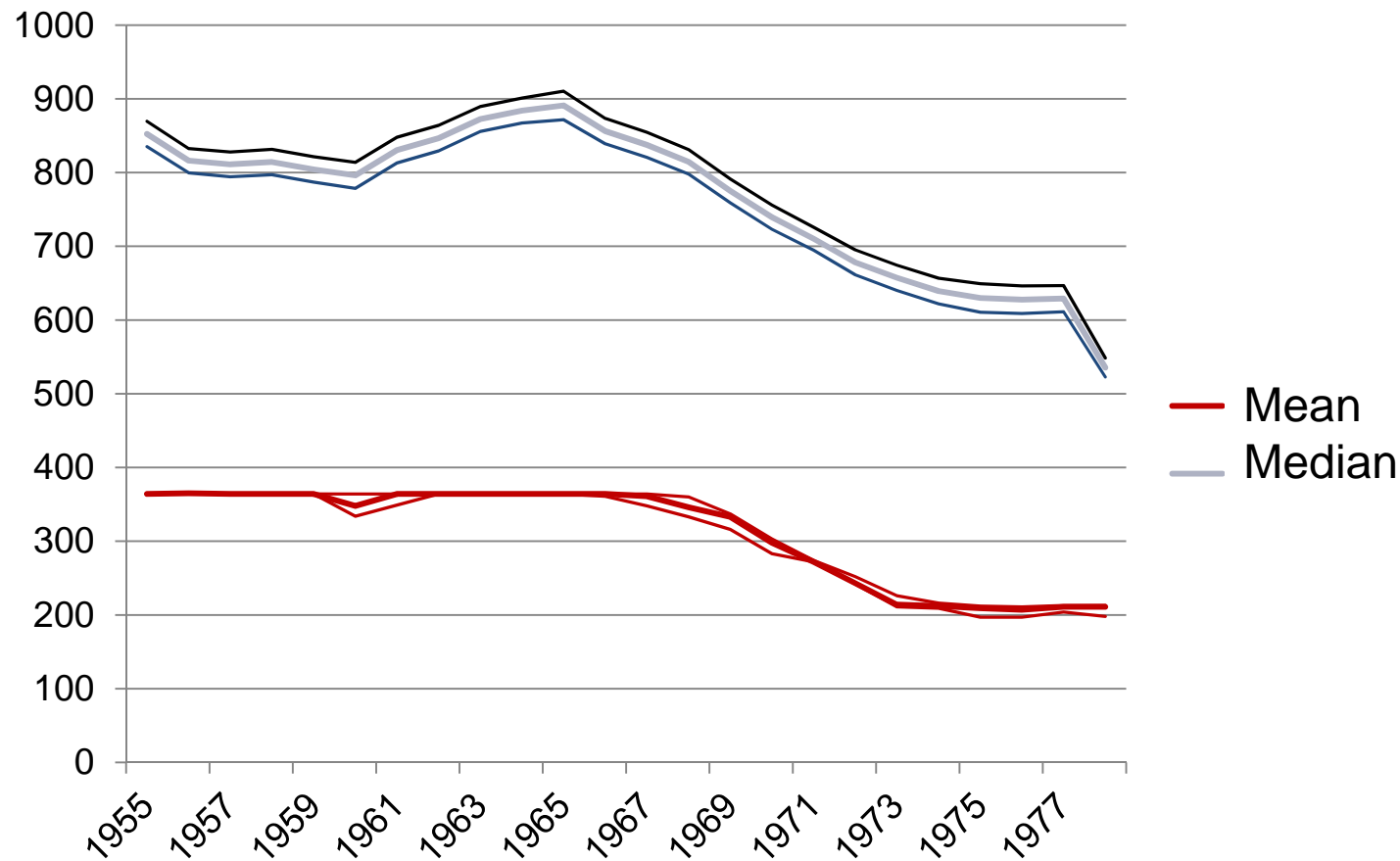
Index of Real Gross Earnings 1984-2010 of Workers at Age 30 by Skill Level



Sharp increase in working poor between 2005 and 2008



Higher job instability for young adults (age <30): declining average and median job duration



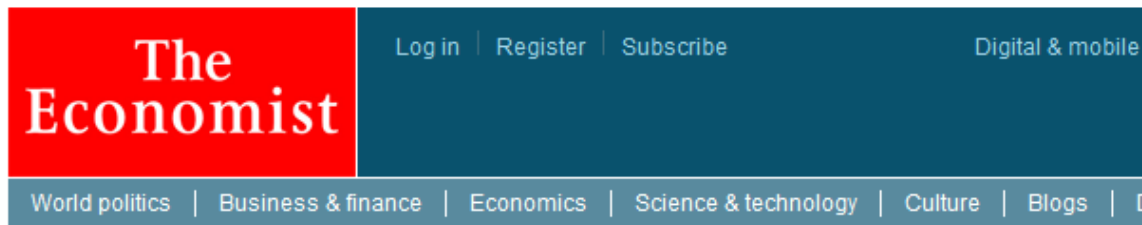
Did the Hartz Reforms destroy the German model?

Elements of the (traditional) German model



- Dual training system → No!
- Relatively high job protection → No, but more fixed-term contracts especially for young adults!
- High coverage of collective bargaining → No, but declining trend!
- Strong role of social partnership (and co-determination) → No!
- Generous social benefits → Clearly weakened by the reforms!
- Low wage dispersion → Significant increase!

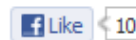
Germany's problems prior to the reforms



The sick man of the euro

The biggest economy in the euro area, Germany's, is in a bad way. And its ills are a main cause of the euro's own weakness

Jun 3rd 1999 | FRANKFURT | From the print edition



THE social-market economy devised in Germany after the second world war, with its careful blend of market capitalism, strong labour protection and a generous welfare state, served the country well for several decades. But it is now coming under pressure as never before. As economic growth stalls yet again, the country is being branded the sick man (or even the Japan) of Europe. This is inevitably casting a cloud over Europe's single currency, the euro, for Germany accounts for a full third of the euro countries' output. When Germany sneezes, its neighbours feel a chill—and nervous markets are likely to sell the euro. Thus the biggest economic problem for Europe today is how to revive the German economy.

The numbers certainly tell a bleak story. German GDP shrank by 0.2% in the fourth quarter of 1998, against growth of 0.5% for the rest of the euro area. The figures for the first quarter of this year, which will be published next week, are not expected to provide much cheer. A few forecasters—albeit in the minority—think that the economy may have shrunk for a

The rationale behind the German labor market (“Hartz-“)reforms



- High and increasing systemic unemployment since the mid-1970s (ratchet or hysteresis effects)
 - High financial burden through German re-unification
 - Low growth, low rates of job creation
 - Germany as a laggard in structural change (under-developed service industry)
- Germany the “paradigm of Euroclerosis”
- in the late 1990s the Economist blamed Germany the “sick man of the Euro”
- Unsustainable development?

The “teutonic turnaround” (M.Burda)



Chancellor Schroeder in March 2003:

“If Germany refrains from modernizing its labour market institutions then it would be modernized through the brute forces of the global markets leaving barely room for a social protection net.”

It reminds somewhat to the Prince of Salina in **Giuseppe Tomasi di Lampedusa’s** *Leopard*:

“Everything must change if everything is to remain the same.”

Basic elements of the reforms



- Reforms in different steps between 2003 and 2005
- Key concept for the unemployed “supporting and demanding”
- Concrete elements:
 - lower job protection,
 - reduction of the maximum period for unemployment insurance benefits
 - tightening of job acceptance regulations for the unemployed
 - de-regulation for temporary work agencies
- Merger of unemployment assistance and welfare (“Hartz IV”) → far-reaching consequences!

Consequences of “Hartz IV”

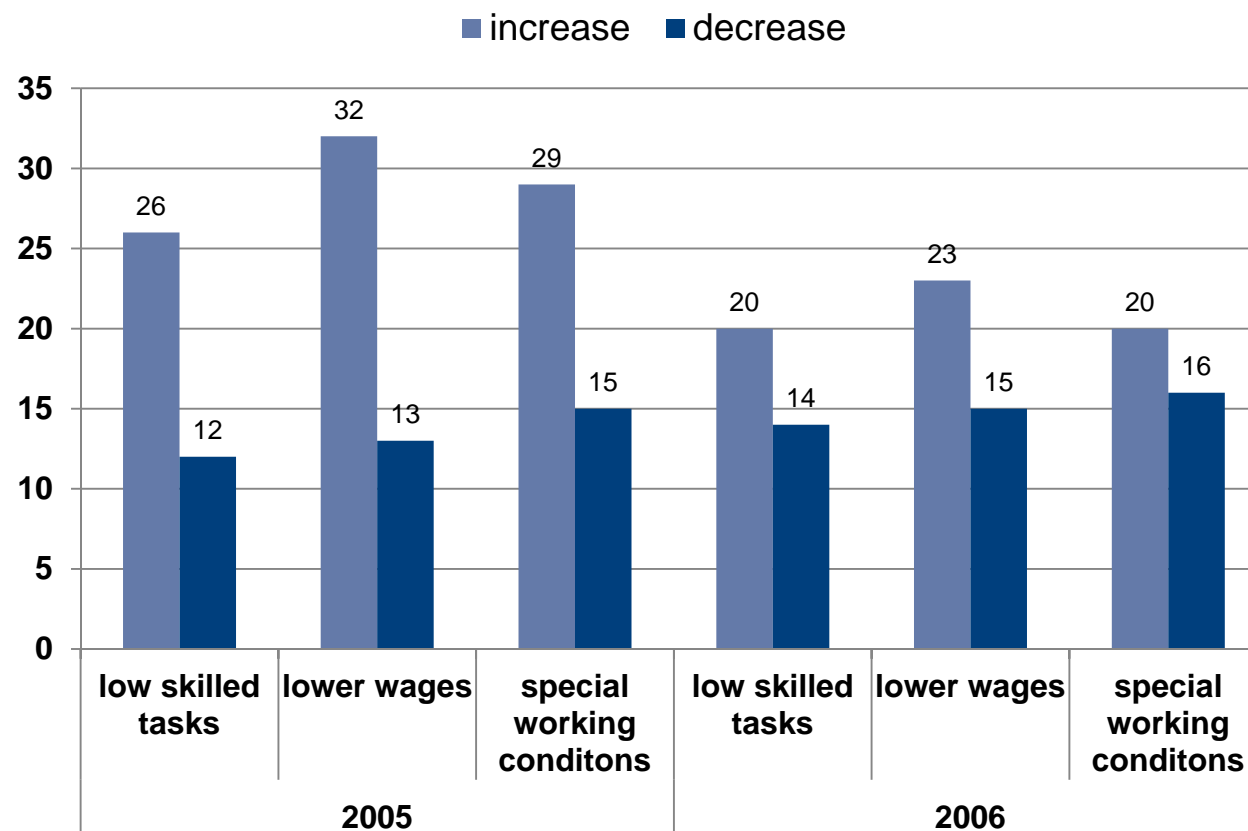


- Welfare recipients generally considered to be available for the labour market if being able to work at least for 3 hours a day (→ unintended by-product: 0.5 m increase in unemployment)
- Unemployed obliged to accept any reasonable job
- Benefits from unemployment insurance means-tested after certain duration (typically one year)
 - social office may access the recipients' private assets
 - pressure for the unemployed to find quickly a new job

Change in behavior of unemployed jobseekers (relative to previous year)



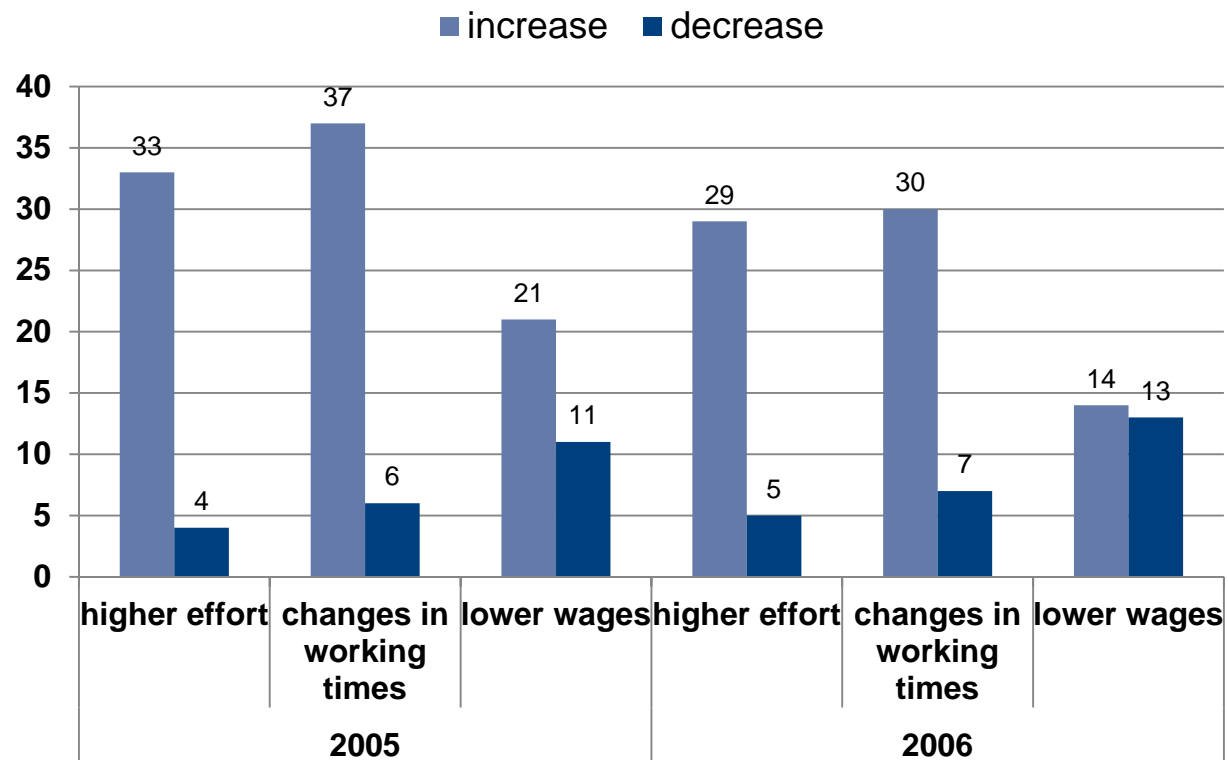
Willingness of jobseekers to accept ...



Change in behavior of the incumbent workforce (relative to previous year)



Willingness of the incumbent workforce to accept ...



The problematic side of the labor market reforms

Drawbacks of the reform



- Increasing segmentation of the labor market
 - decrease of normal employment
 - wage inequality/ working poor
 - job instability (for some groups)
- Limits of activation
 - right balance between “supporting” and “demanding”?
 - instruments of active labor market policy do not fit the individual needs adequately

Rise in Inequality: “Nature of the game” or “Unintended collateral damage”



- Position 1: The marked increase of the low-pay sector was necessary to get the less-productive workers into jobs.
 - Increase in inequality is the “nature of the game”
 - Egalitarianism would cost jobs!

- Position 2: The marked increase of the low-pay sector was not necessary for improving the labor market situation
 - Inequality an unintended “collateral damage” of the reforms
 - Take measures to reduce inequality!

How to decide between position 1 and 2?

An empirical approach

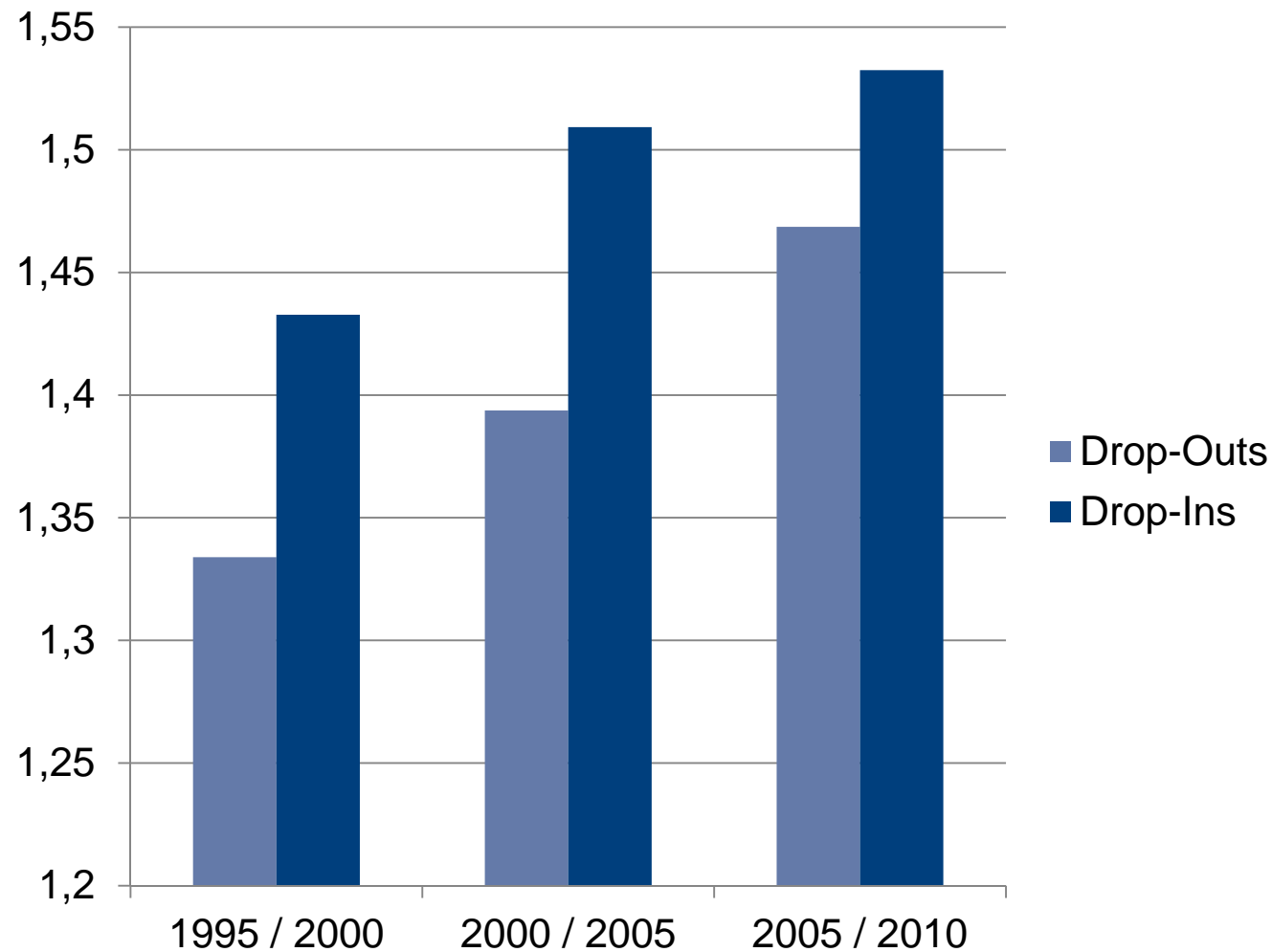


- Consider only workers that are employed in period t and in period $t+1$
- Analyze the change in inequality for this group
- Because the persons in the groups were already employed in the previous period:
 - A higher inequality of their income cannot be justified with the need to get the least productive into jobs!

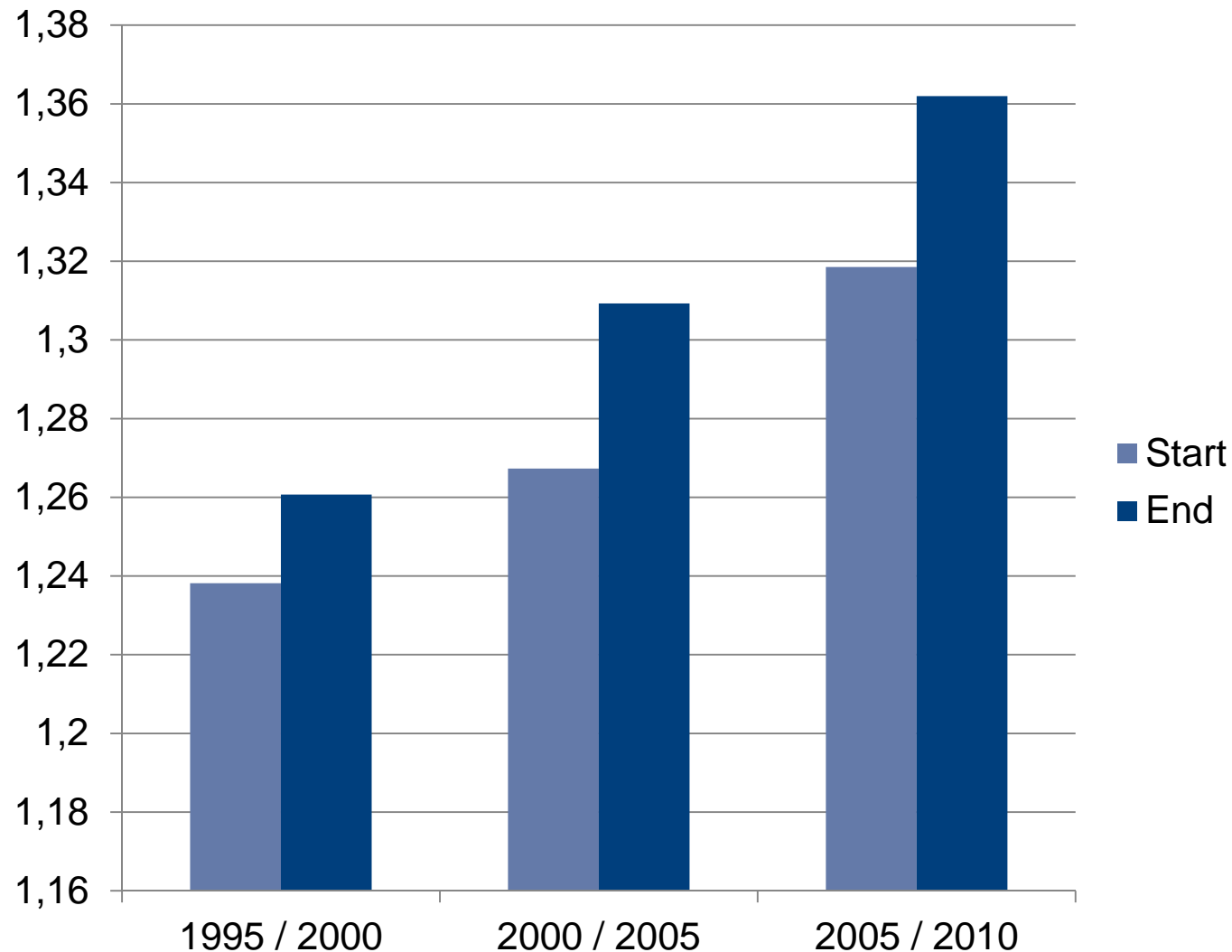
Moreover: consider workers who newly appear in the data as employed (“drop-ins”) or disappear (“drop-outs”)

- SIAB
- West Germans only
- Only full-time employees
- Only males because of too many part-timers among females
- Only workers between age 25 in the initial period and 55 in the end period

Results: Measure of inequality (D5/D2) for drop-in and drop-out workers



Results: Measure of inequality (D5/D2) at the beginning and end of a 5-year period



Employed
workers only!

Conclusions

Is there a quantitative/qualitative trade-off?



- Maybe in the short-run, but not in the long-run
- Increase in precarious employment not sustainable
- Inequality: “Too much of a good thing” (Alan Krueger)
- Within certain limits there is no conflict between efficiency and equality!
- Required: More forms of intelligent regulation

Reform of the reform?



Reforms were necessary, but...

Improvements required with respect to ..

- the precise fitting of active labor market instruments
→ more qualified case workers
- limiting inequality → minimum wage
- the control logic of labor market policy
→ fostering job stability, especially for temps

Chances, Conflicts...

- ... development towards a supplier market
- ... likely supply shortages on sub-markets (in specific regions/ occupations)
- ... wage increases, profit squeeze
- ... increasing opportunity for reaching full employment

Challenges ...

- ... danger of higher mismatch
- ... increasing problems when melting on the edges of hard core unemployment

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Melting the Edge of Hard-Core Unemployment

Risk Factors for Long-term Unemployment

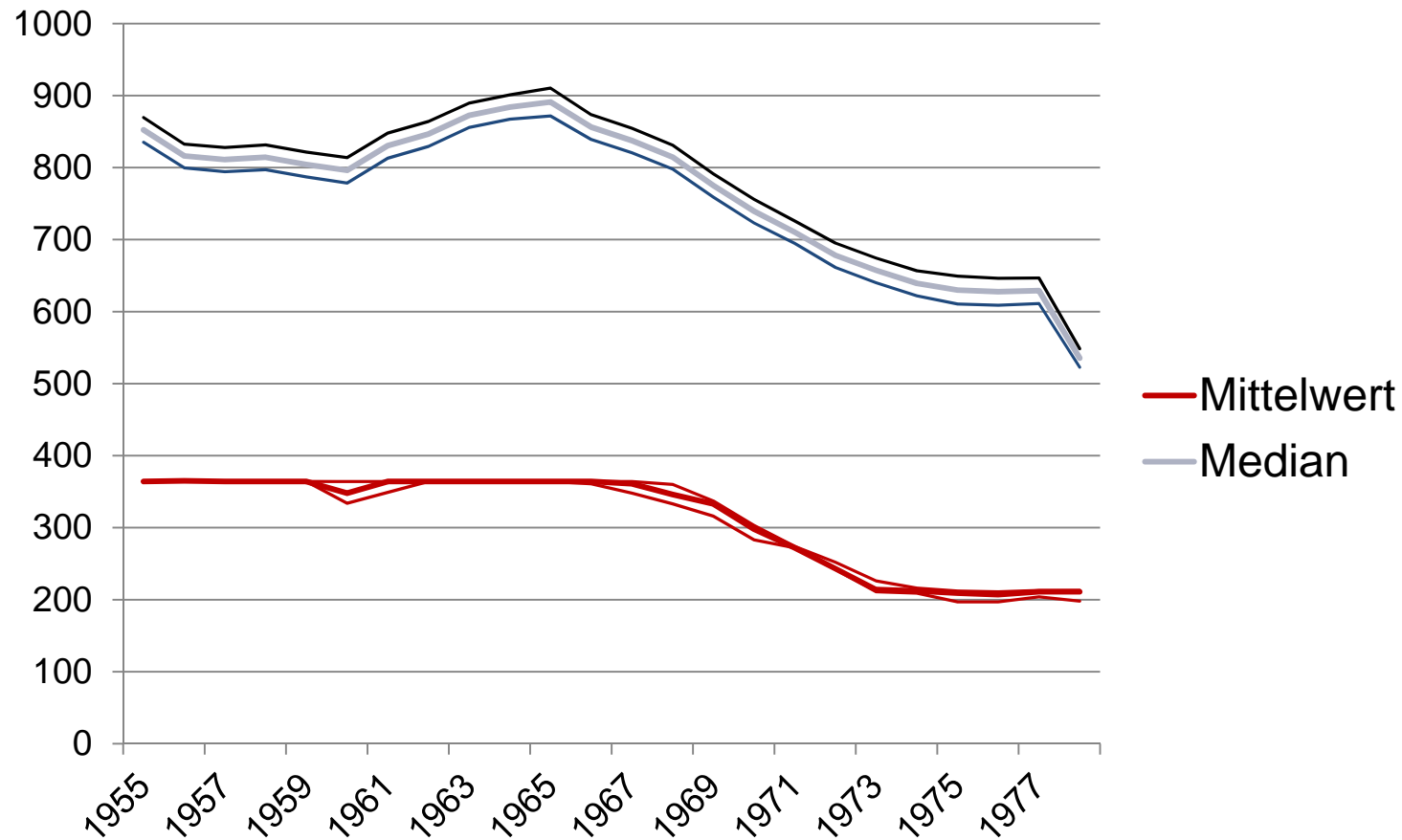


1	No school-leaving qualification
2	No vocational training certificate
3	Long-time recipient of social assistance
4	Higher age (50+)
5	Health restrictions
6	Migration status
7	Insufficient knowledge of German language
8	Nursing care for family members
9	Parenthood

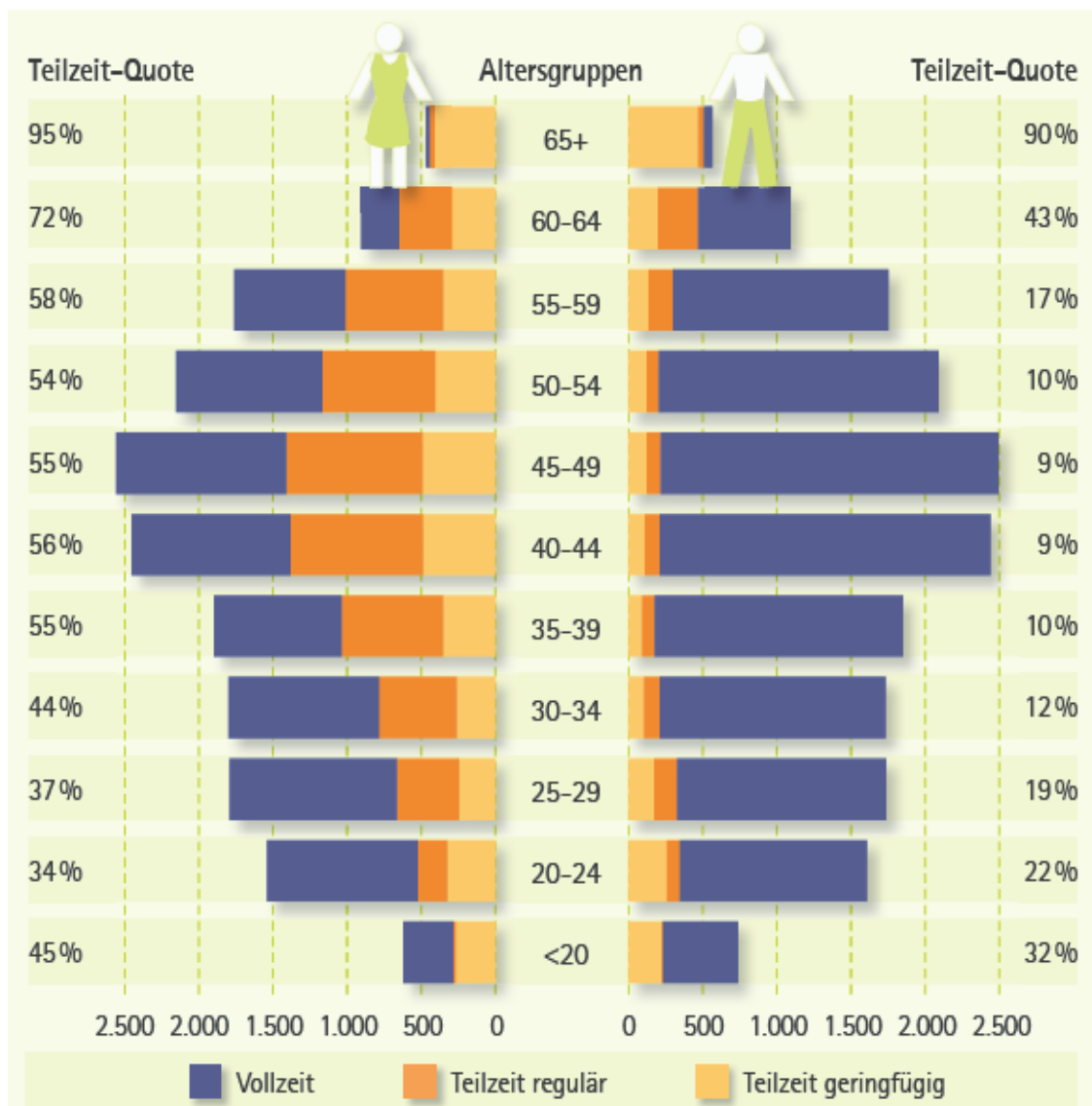
- Lion's share of long-term unemployment in basic social security system (SGB II)
- „hard core” ALG II recipients
 - 2,2 million persons
(receiving 5 years of assistance without interruptions since 2005) (Kupka et al. 2011)

Dauer der bis zum Alter von 30 begonnenen Beschäftigungsverhältnisse in Tagen

ohne Auszubildende nach Geburtskohorte 1955-1978, Kaplan-Meier-Schätzer



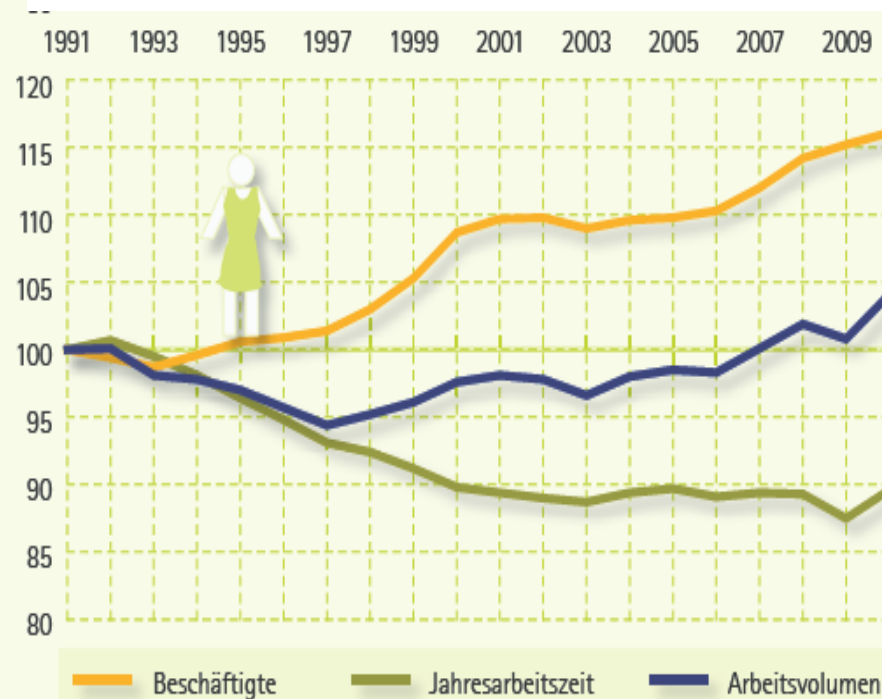
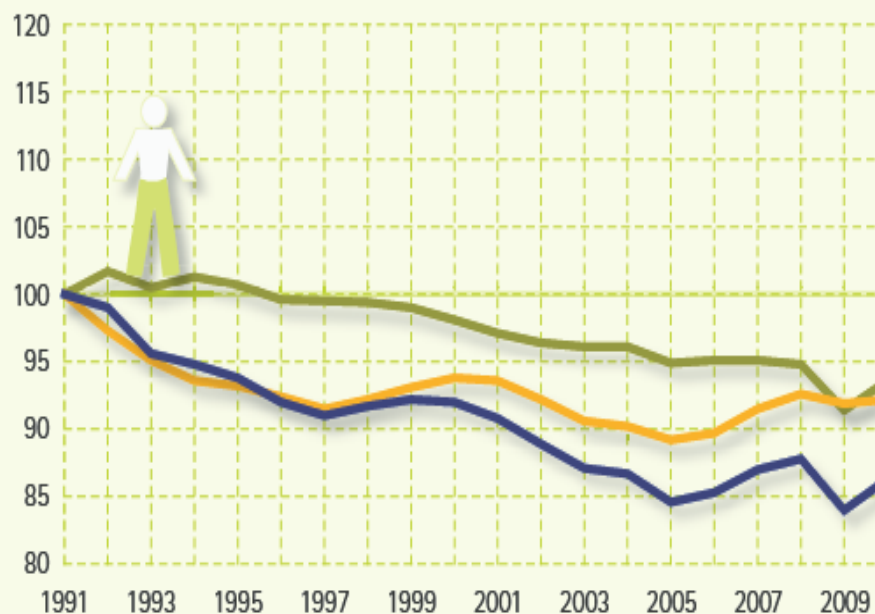
Erwerbsformen und Teilzeitquoten nach Geschlecht und Alter, Personen in Tsd.



Entwicklung von Beschäftigung und Arbeitsvolumen 1991 bis 2010 nach Geschlecht

Beschäftigte, Arbeitszeit und Arbeitsvolumen in Deutschland

Jahresdurchschnitte 1991 bis 2010 nach Geschlecht, Indexwerte (1991 = 100)



Quelle: IAB-Arbeitszeitrechnung, Stand: Februar 2011.

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(Index 1991=100)