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# The German labour market after the financial crisis – miracle or just a good policy mix?

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# Structure of presentation

1. Industrial relations in Germany
2. GDP, Employment and Unemployment 2008 -10
3. Internal Flexibility
4. Short-time work
5. Comparion France - Germany
6. Youth Unemployment and VET
7. Conclusions

# 1.1 IR in Germany – main characteristics (I)

1. Voluntarist system – low state intervention
2. Unions
  - DGB more than 6,15 Million members in 8 national unions (IGMetall and ver.di more than 2 Million)
  - DBB 1,2 Million members (civil servants and professional unions)
  - Christian unions (yellow unions)
3. Industry-wide bargaining – IG Metall mostly set pattern agreement - no MW – low wage inequality until 1995

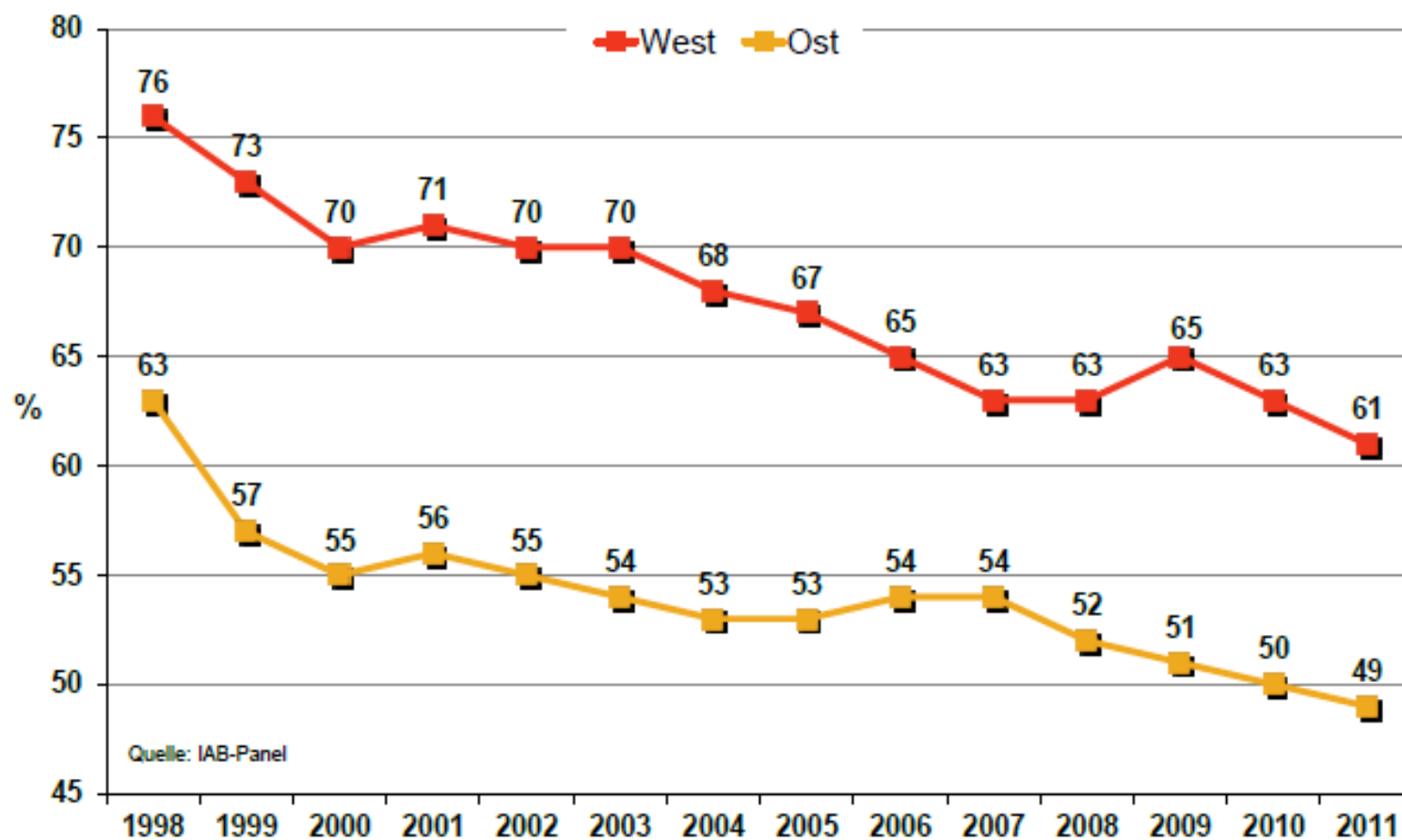
## 1.2 IR in Germany – main characteristics (II)

4. High coverage - because of high membership of employers and some extension of agreements
5. Co-determination:
  - plant-level- works councils (elected by all employees) – strong rights of co-determination – main actor of enforcement of laws and agreements at enterprise level
  - Company level (supervisory boards)
6. Corporatist governance (apprenticeship-system, social insurances)

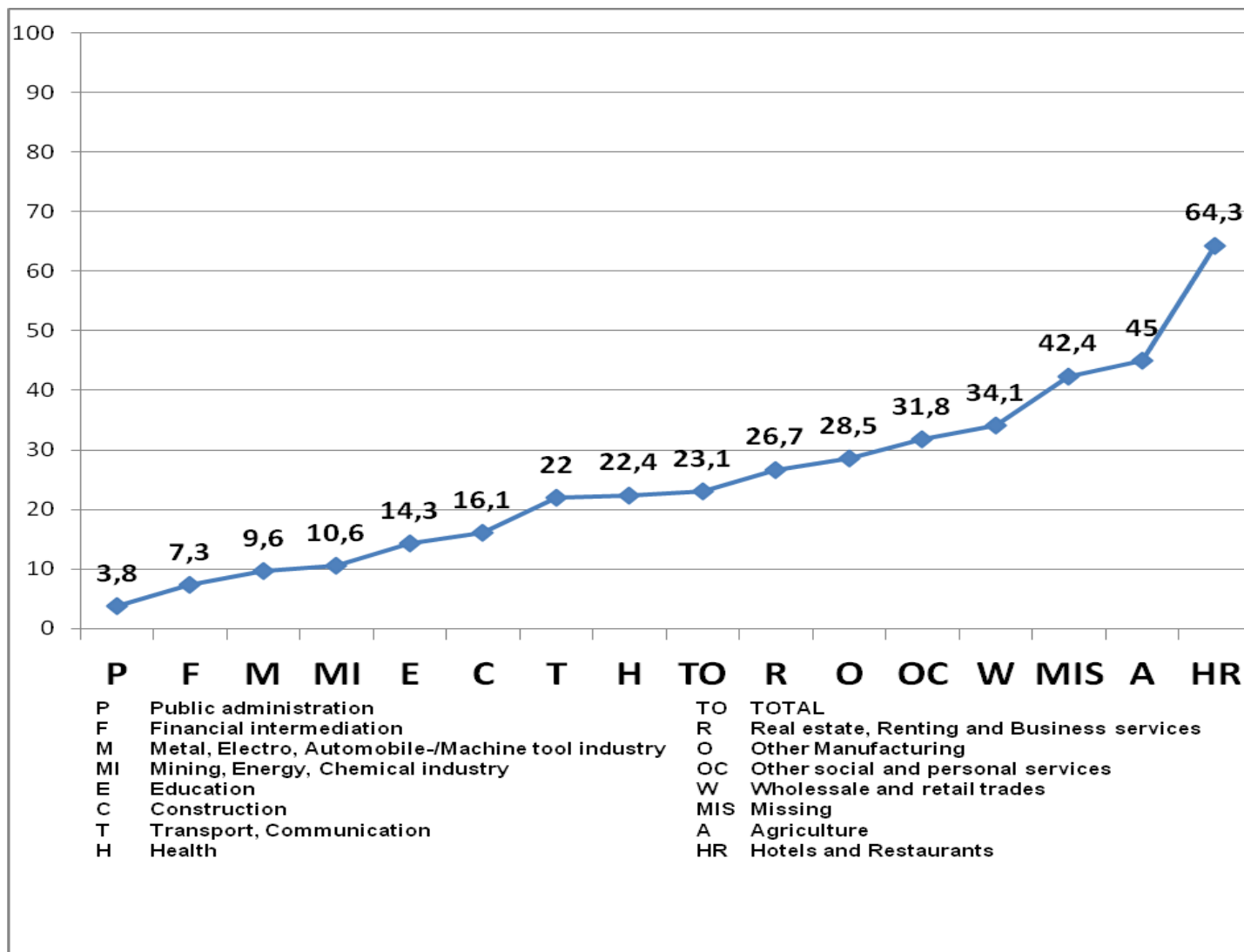
## 1.3 IR in Germany – changes since 1990

1. Decrease of coverage from 80% to 60% : main reasons
  - decreasing membership of unions and employers
  - outsourcing into non-covered industries or SME`s without works councils
  - privatization of public utilities
  - Posted workers form other EU countries
2. German wage system open to outsider competition  
change from inclusive to exclusive system
3. Increasing share of low wage earners: Mainly in service industries

## 1.5 Coverage by collective agreements



# 1.6 Low pay incidence in various industries, 2010



Source: SOEP 2010, own calculations

## 1.7 Works-Councils (WC) by size of enterprise and by employees (empl.) 2009 (private industry enterprises with 5 and more employees)

Size of enterprise						
Share in %	5-50 empl.	51-100 emp.	101-199 empl.	200-500 empl.	500+ emp.	Total
<b>West-Germany</b>						
Enterprises with WC	6	37	64	79	89	10
Employees with WC	10	38	65	80	92	45
<b>Ostdeutschland</b>						
Enterprises with WC	7	36	57	70	90	10
Employees with WC	13	37	59	71	91	38

Source: Ellguth/Kohaut 2010: 207.



# 1.8 Collective bargaining coverage, employers' organisations and union density 2006

	1-10	11-20	21-30	31-40	41-50	51-60	61-70	71-80	81-90	91-100
<b>France</b>	<b>U</b>							<b>E</b>		<b>Cov Ex</b>
<b>Netherlands</b>			<b>U</b>					<b>E</b>	<b>Cov Ex</b>	
<b>Denmark</b>						<b>E</b>		<b>U</b>	<b>Cov</b>	
<b>Germany</b>			<b>U</b>			<b>E</b>	<b>Cov</b>			
<b>UK</b>			<b>U</b>	<b>Cov, E</b>						
<b>USA</b>	<b>E</b>	<b>U, Cov</b>								

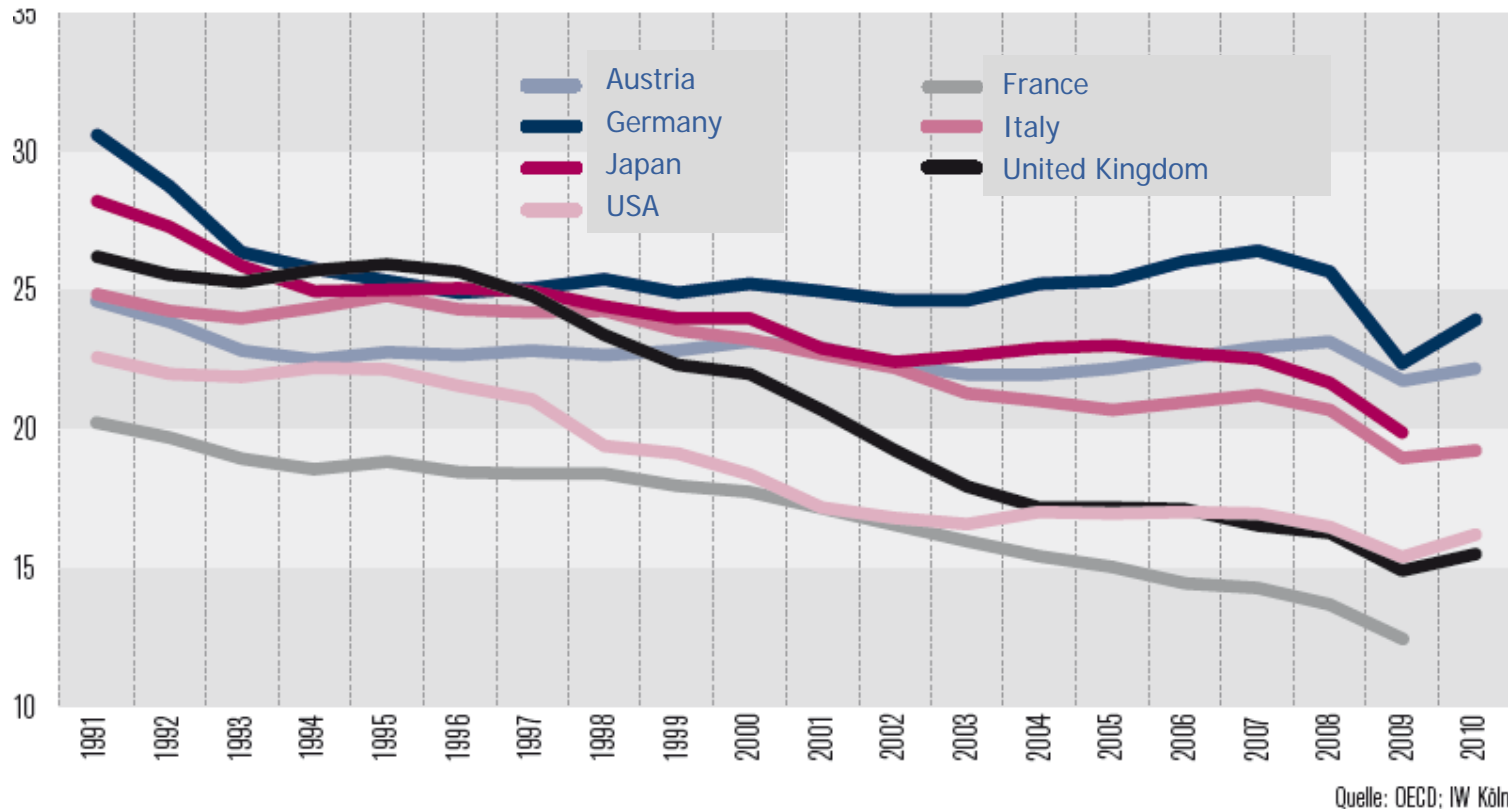
Cov = Bargaining coverage non-standardised;  
 Ex = Extension of collective agreements  
 E = Employer organisation rate (private sector);  
 U = Union density rate

Source: J. Visser 2011, ICTWSS database, own calculations

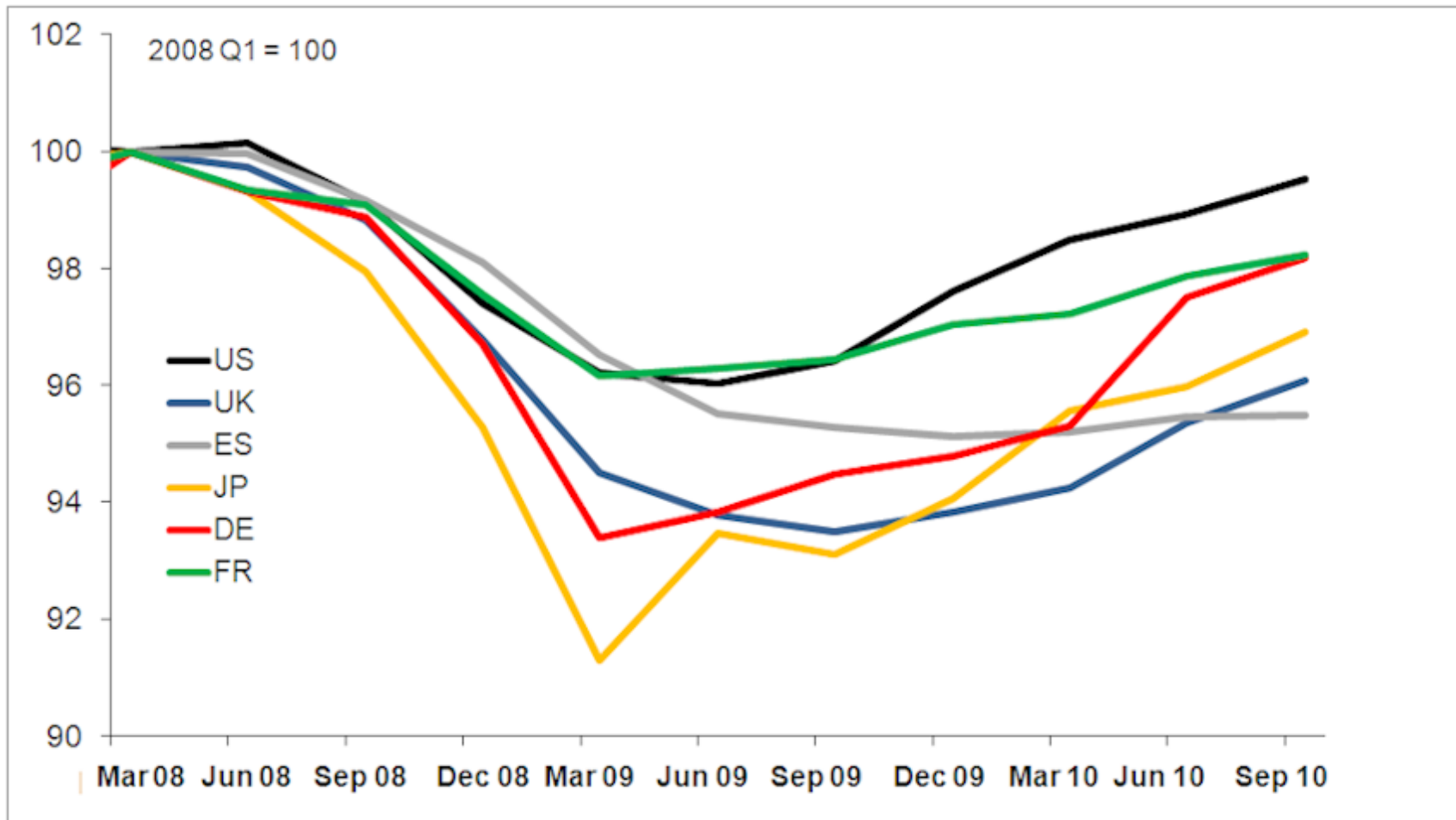
# 1.6 Coverage by CA in exclusive vs inclusive labour markets

	Within an establishment	Within an industry	Across industries	Trans-national
Ex-clusive	Not all employees	Only establishments with strong employee bargaining power	Only industries with strong employee bargaining power	Only posted workers in companies with strong bargaining power
<b>LOW WAGE</b>				
In-clusive	All employees	All establishments within an industry	All industries + low wage differentiation between industries	All posted workers

## 2.1 Shares of manufacturing in GDB in international comparison (1991-2010)

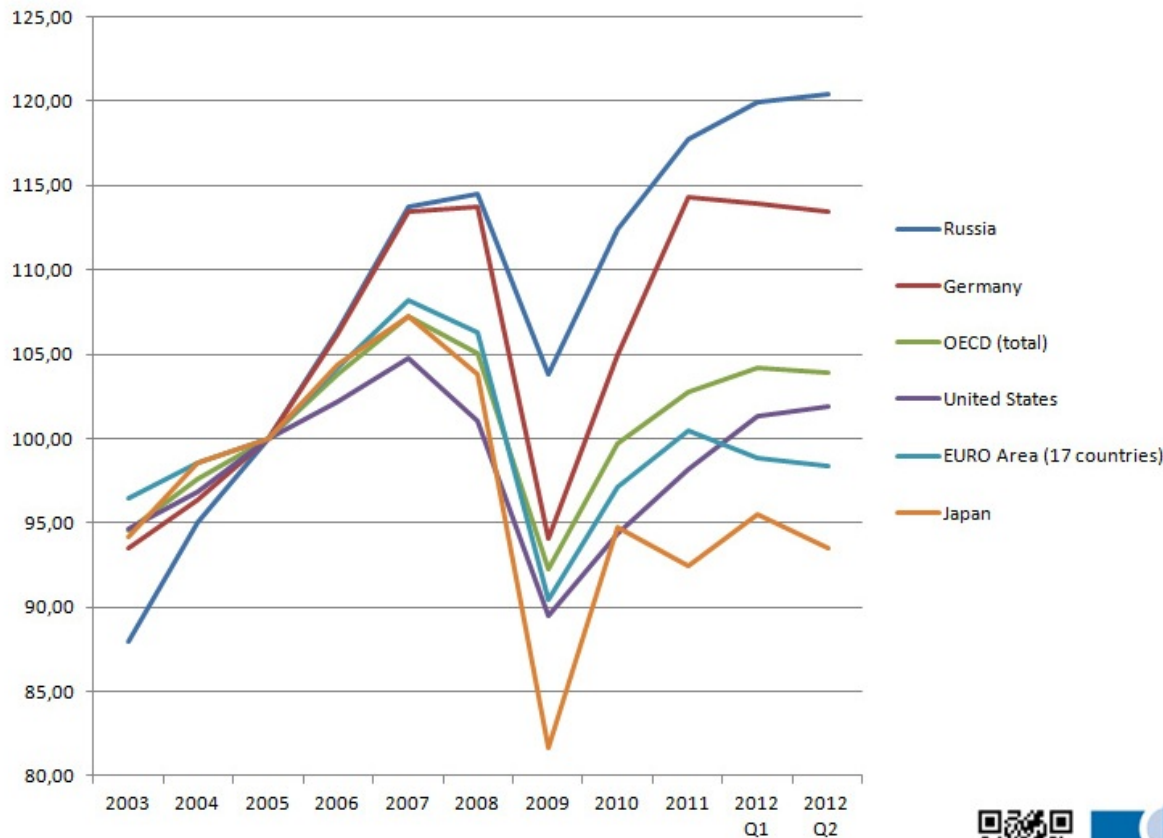


# 2.2 Evolution of gross domestic product in constant prices in five countries, Germany, 2008-2010 (1st Quarter 2008 = 100)



Source: Reuters-EcoWin; OECD; GDP Data national Statistical Offices; Calculation by IMK Düsseldorf.

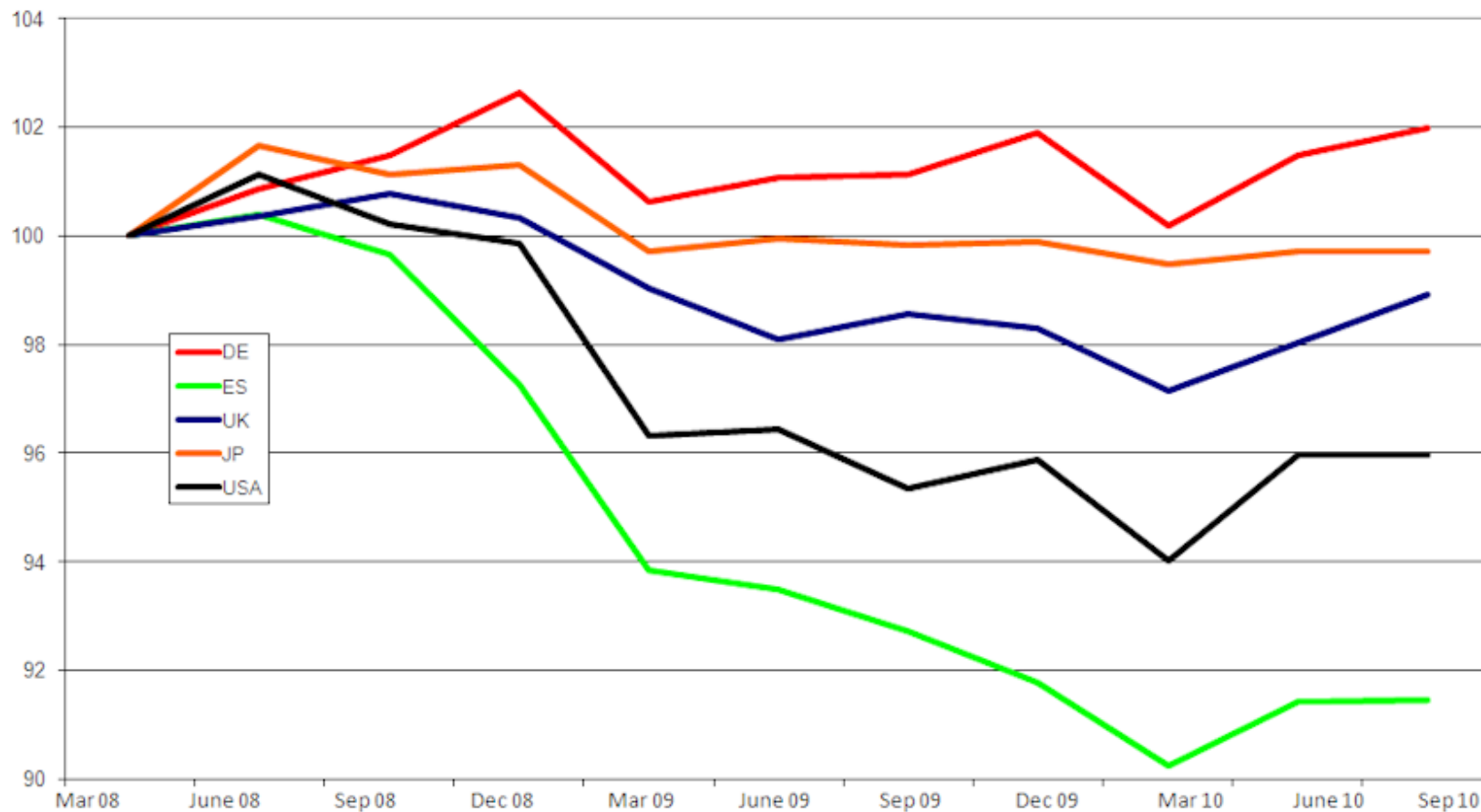
## 2.3 Production of manufacturing sector (2005=100)



Quelle: OECD 2012, Production and Sales (MEI)

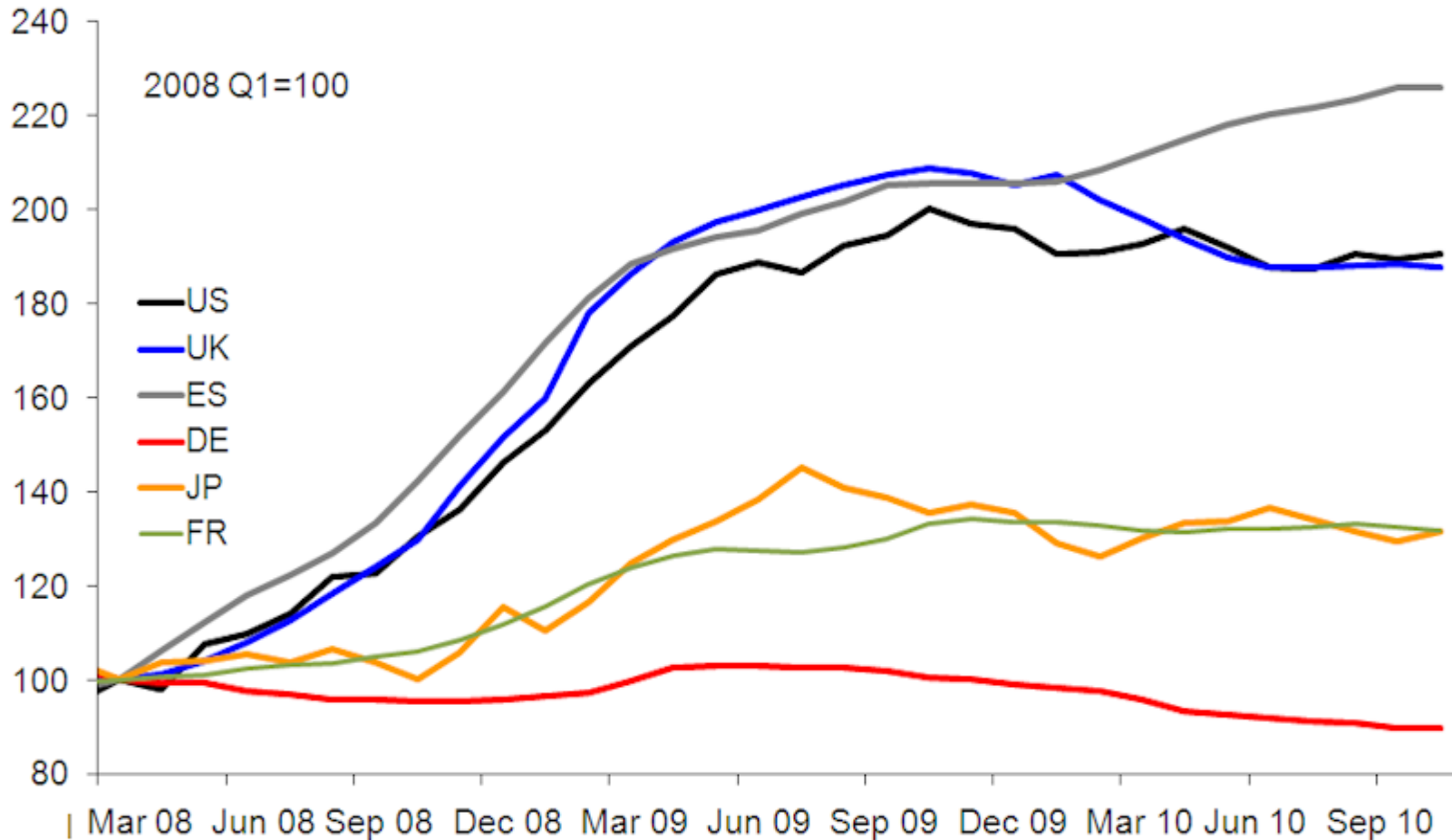


## 2.4 Evolution of number of employees in five countries, Germany, 2008–2010 (1st Quarter 2008 = 100)



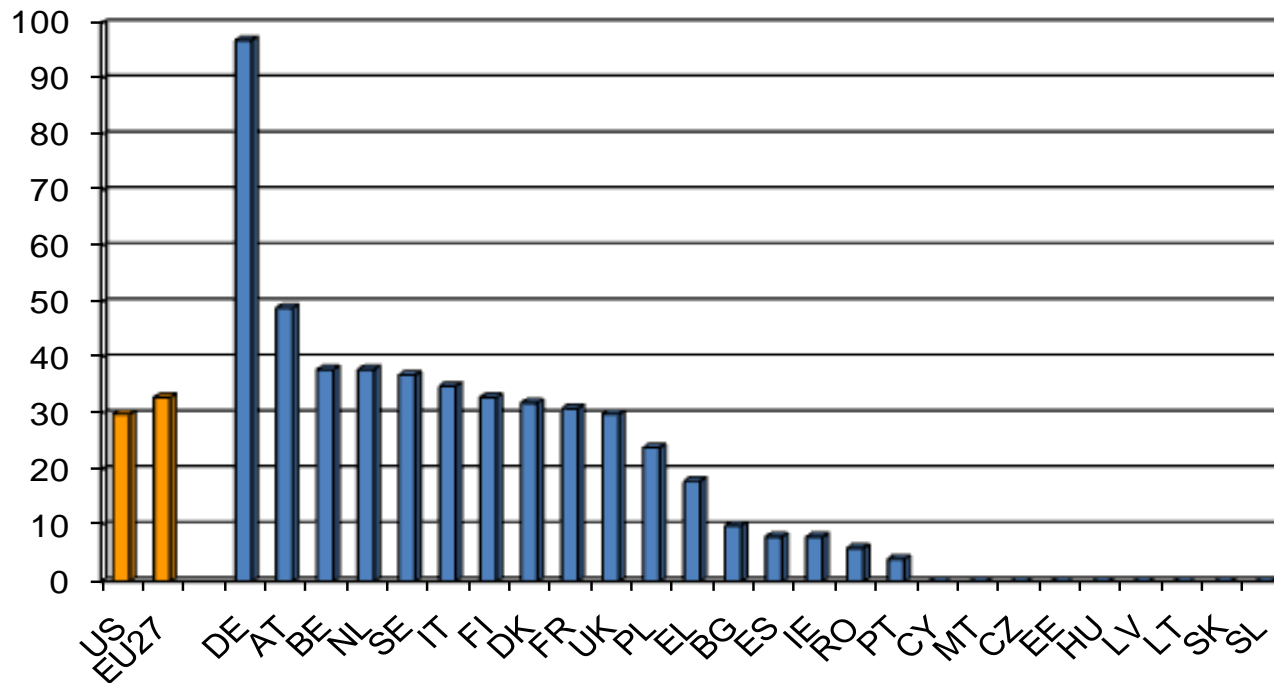
Source: Reuters-EcoWin; OECD; GDP Data national Statistical Offices; Calculation by IMK Düsseldorf.

## 2.5 Evolution of unemployment in five countries, Germany, 2008-2010 (1st Quarter 2008 = 100)



Source: Reuters-EcoWin; OECD; GDP Data national Statistical Offices; Calculations by IMK Düsseldorf.

# 3.1 Percentage of fall in total labour input due to fall in working hours per employee, Germany, 2008–2009



Source: <http://www.conference-board.org/economics/database.cfm> EUROSTAT (2010a).



## 3.2 Tool box for internal flexibility in Germany

- Short-time scheme dating back to 1924 - improved in 2008 (up to 2 years, no social contributions after 6 months)
- Model case: 1993 Volkswagen WT reduction from 35 to 28,8 hrs per week to save 30 000 jobs
- All major collective agreements allow for working time reductions without wage compensation to save jobs
- New agreement in engeneering (wt down to 26 hrs)
- Agreements on working time accounts in 50% of enterprises – well filled in upswing 2005 - 2008
- High functional flexibility due to high share of skilled workers

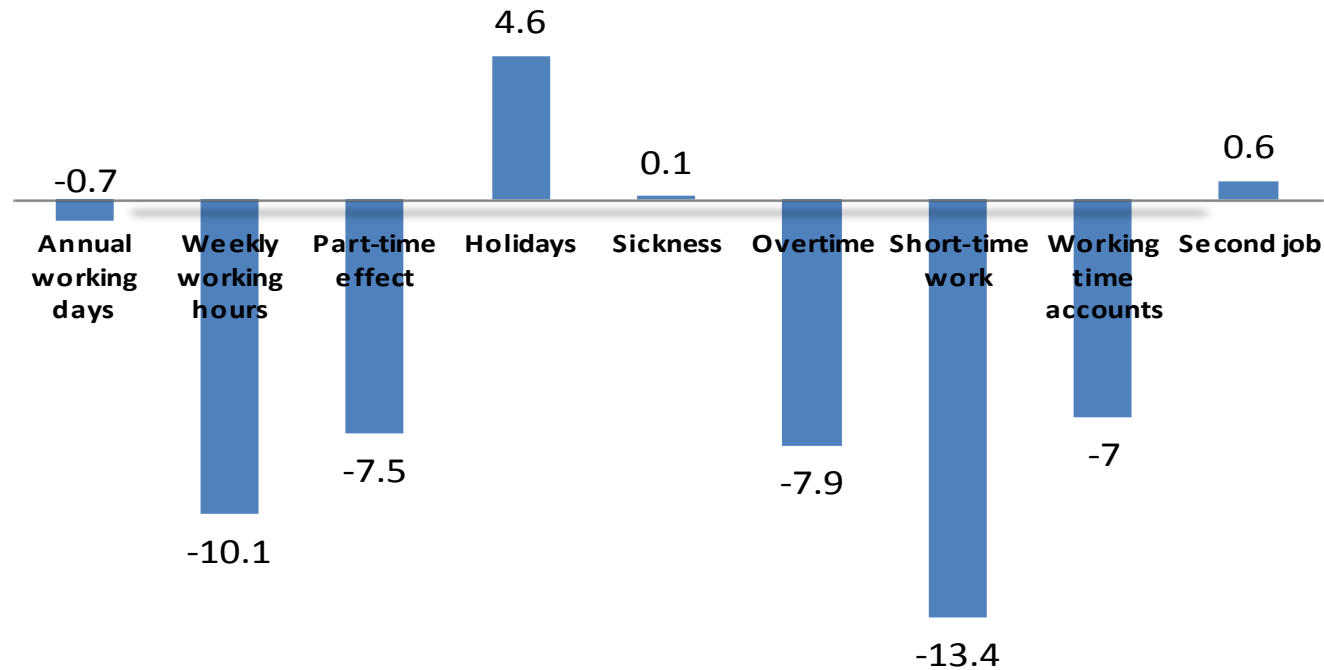
### 3.3 Collective agreements on possible temporary working-time reduction in different industries DE

Industry	Standard working time	Working-time reductions
	In hours	To ... hours
Banking	39	31
Printing industry	35	30
Iron and steel industry	35	28
Wood and plastics <b>Westphalia/Saxony</b>	35/38	32/30
Motor trade and repairs <b>Lower Saxony</b>	36	30
Metalworking industry <b>Baden-Württemberg/Saxony</b>	35/38	30/33
Local government <b>East</b>	40	80-75% of standard working time
Paper processing	35/37	30/32
Travel agencies	38.5	30
Textile cleaning services	38.5/40	33.5/35
Insurance	38	30
		by.... per cent
Clothing <b>West</b>	37	6.75
Textile industry <b>Westphalia/East</b>	37/40	6.75
		possible
German old-age insurance	39	x
Energy <b>NRW (GWE)/Used(AVEU)</b>	38	x
Confectionery industry <b>West/Used</b>	38/39	x
Transport industry <b>NRW</b>	39	x

Source: WSI-Tarifarchiv as of April 2009

# 3.5 Contribution of different components to the development of annual hours per employee, Germany, 2008–2009 - Total reduction of annual working hours in hrs. 41.3 hrs per employee

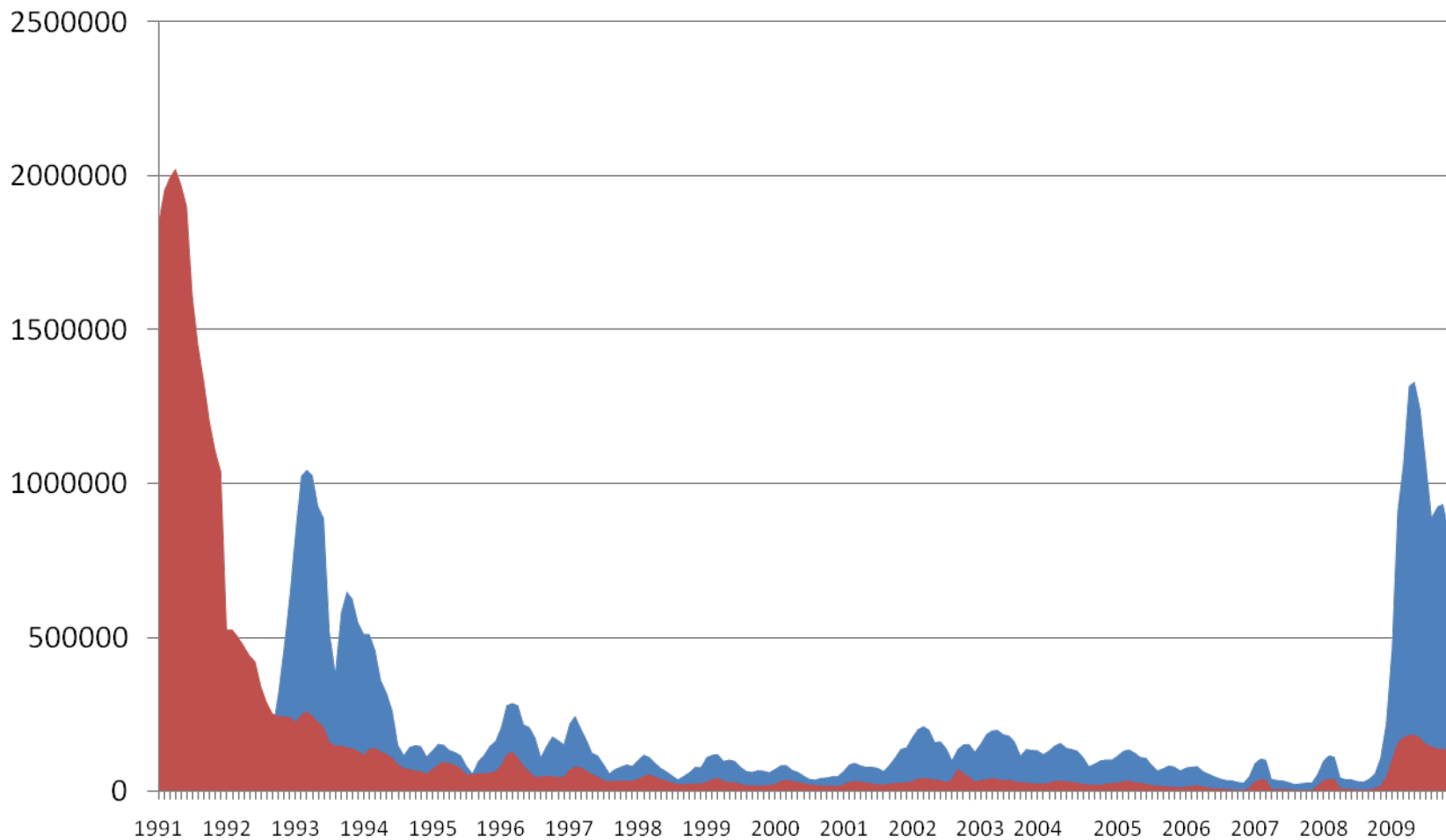
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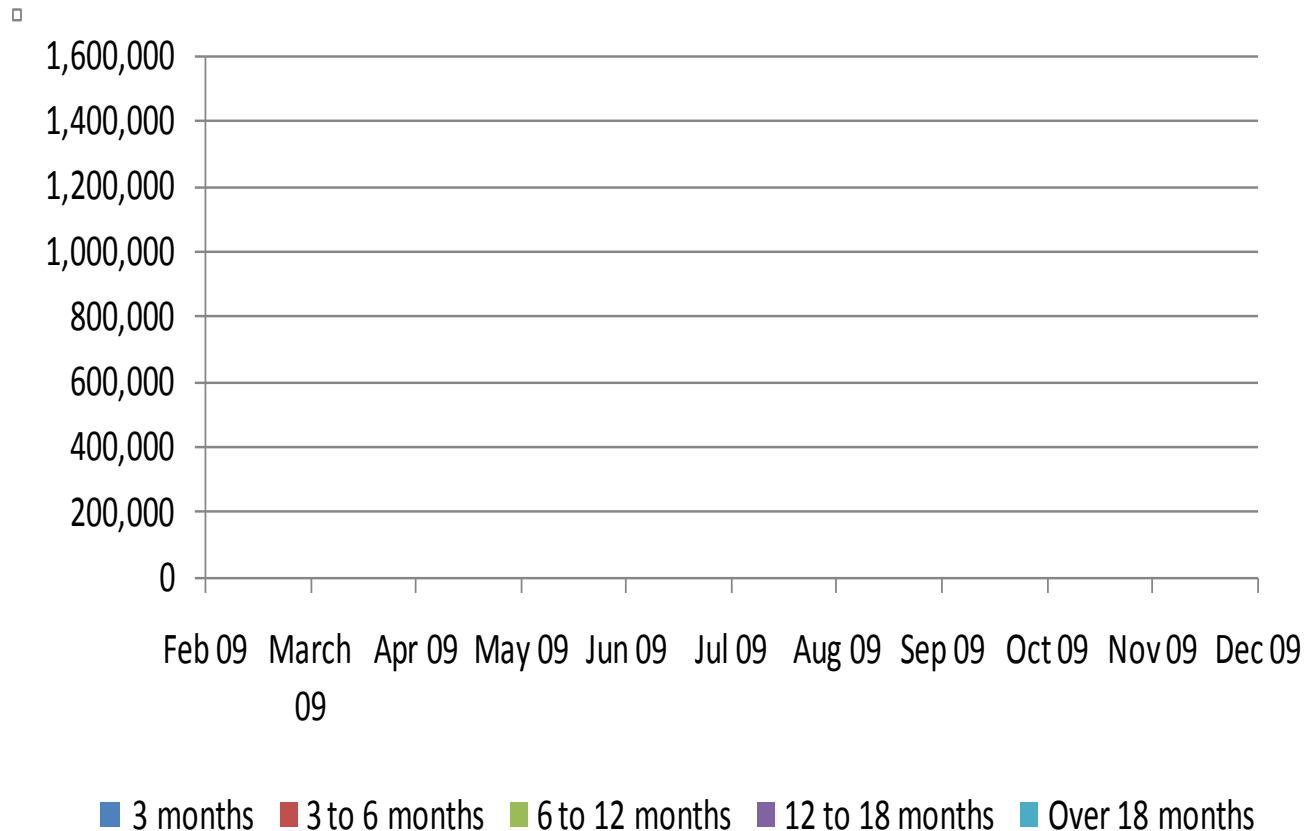
Source: Fuchs et al. (2010:2).

Abb.1

■ West-Germany ■ East-Germany



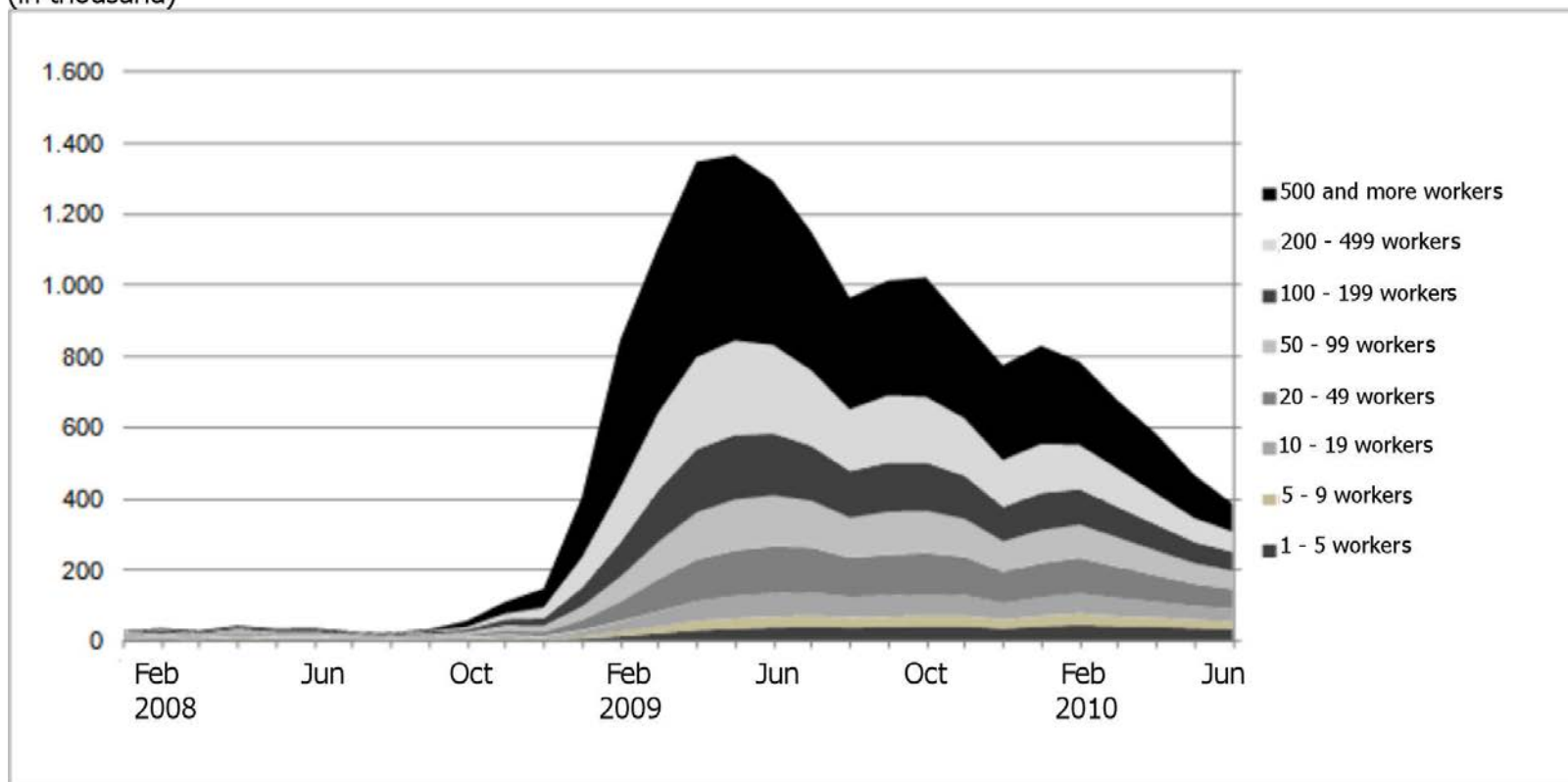
### 3.7 Short-time working by duration in months, Germany, February 2009–December 2009



Source: Brenke, Rinne and Zimmermann (2010).

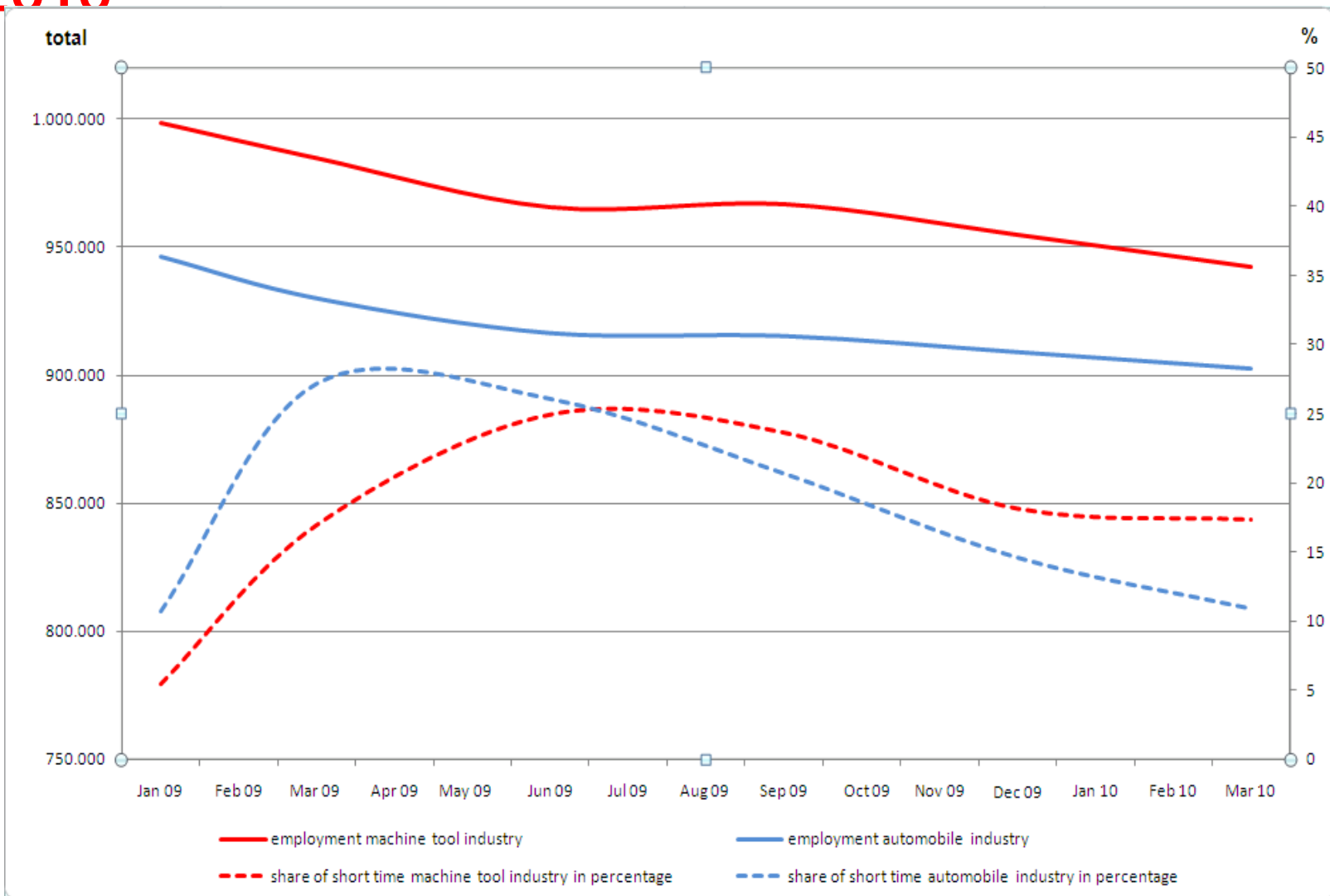
# 3.8 Short-time workers and firms using short-time working by size, Germany, January 2008 – June 2010

Short-time workers by size of establishment  
(in thousand)



Source: Bundesagentur für Arbeit 2010

# 3.9 Employment and short time in machine tool and automobile industries, Germany, January 2009 – May 2010



Source: own calculation

### 3.11 Conditions supporting work-sharing in the crisis with high impact on LM

- High competitiveness of companies
- High employment protection – supports internal flexibility
- High share of skilled workers
- Flexible working hours with time accounts
- Strong social partners – negotiating industry wide agreements
- Support through public short-time schemes



## 4.1 Use of work-sharing France and Germany

**Both countries improved conditions for short-time/chomage partiel**

**DE (since 1924): 2008/9**

Prolongation to 24 months (since 2010 18 months)

Cost-reduction: no social contributions after 6 months

Easier take up

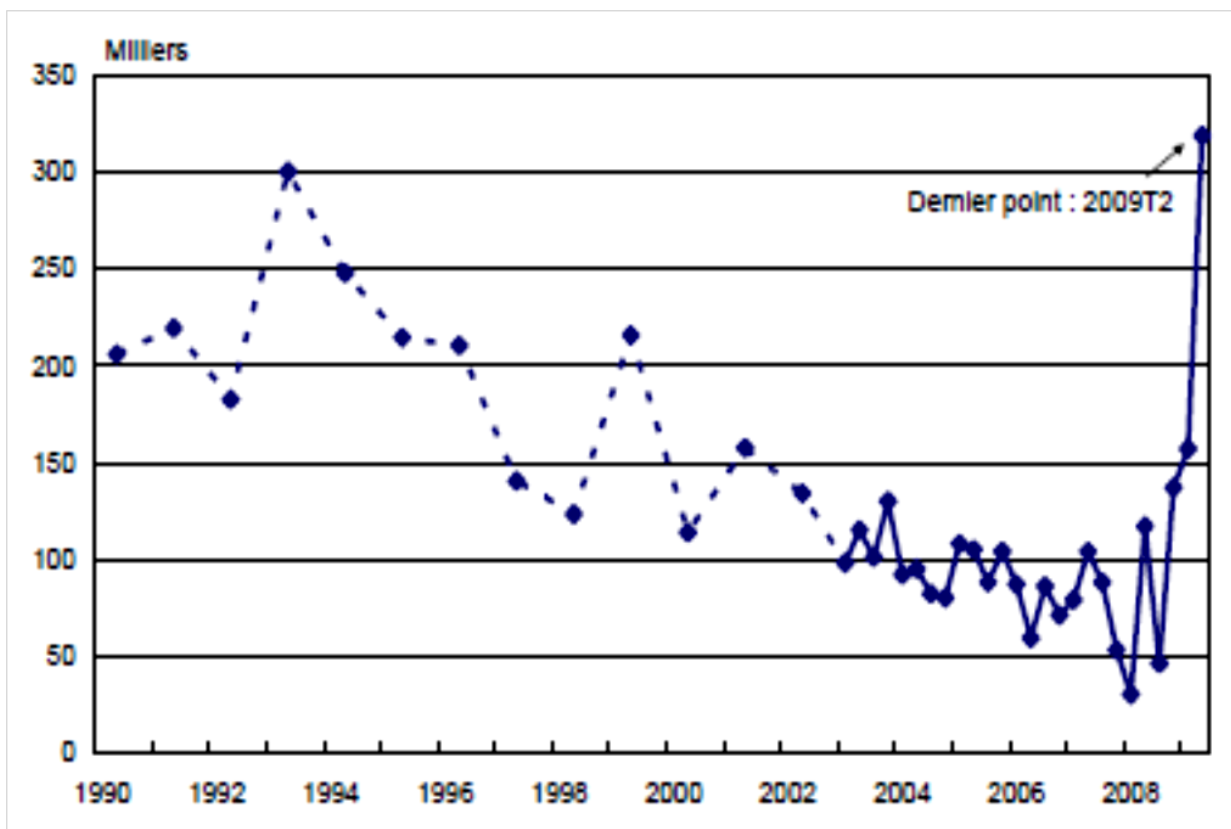
**FR (since 1968): 2008/9**

Prolongation from 600 to 800 hrs (some industries 1000hrs) per year

Maximum 6 instead of 4 consecutive weeks

Minimum compensation increased from 4,42 € to 6.84 € per hour

## 4.2 Number of employees in short time in France 1990-2008



Source: INSEE; taken from Liégy 2009: 3

## 4.3 Why there is higher internal flexibility in Germany than in France (I)

### Possible Explanations

- traditional use of short-time work as a mean of retention (DE) preparation of dismissal (FR)
- Early retirement entitlements abolished in DE / still prevalent in FR
- More working time flexibility in German companies
- Higher volumes of credit hours and overtime before crisis in DE because of export boom
- Different business models
  - Business model based on skilled workers (D)/ high investments in vocational training/ low investments in F
  - More specialization in diversified quality production in D than in F

## 4.4 Why there is higher internal flexibility in Germany than in France (II)

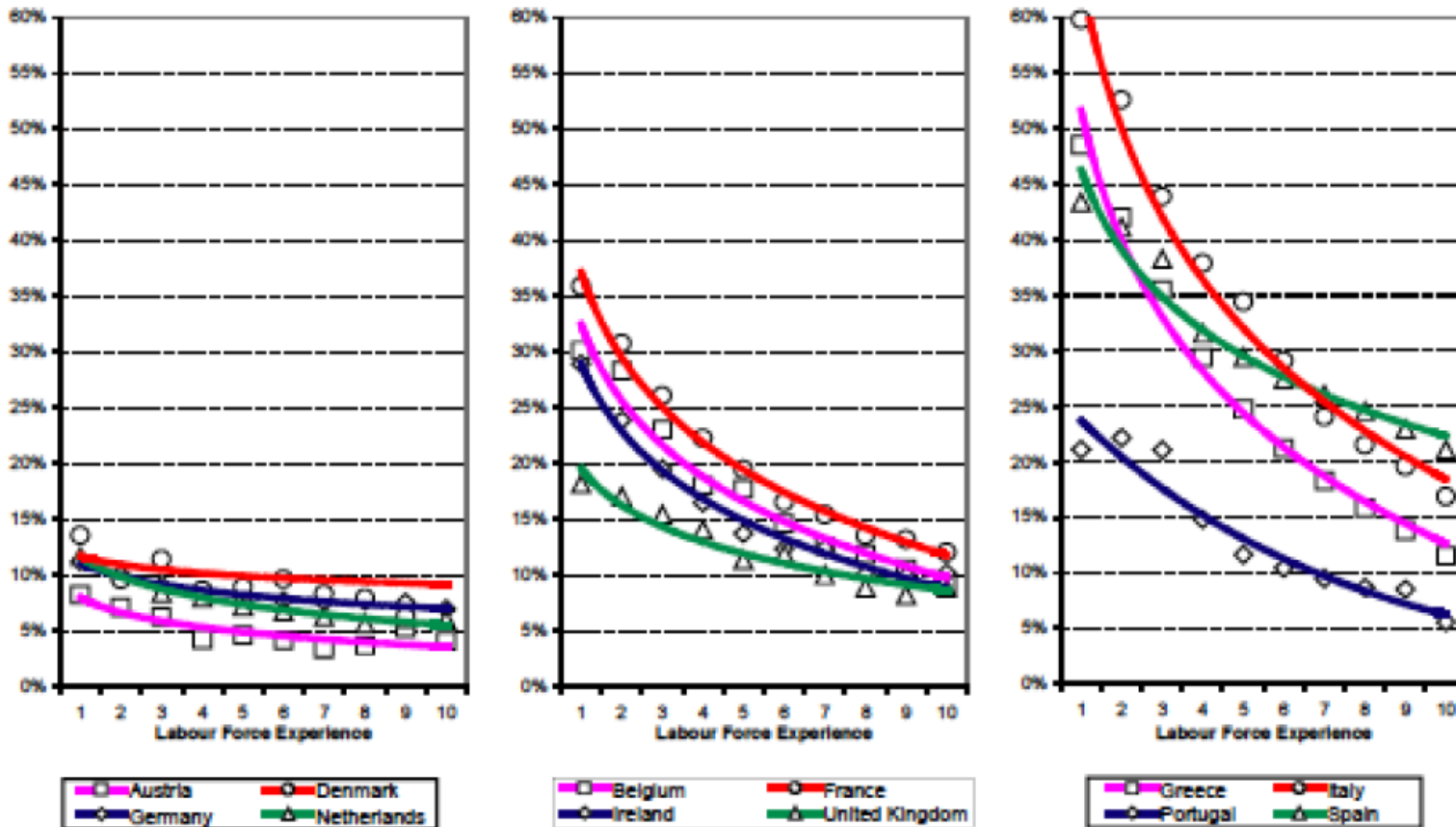
### Possible Explanations

- High trust of German companies in their competitiveness/ less trust in FR
- Higher internal pressure from unions/works councillors strong rights of codetermination in D/ less rights in F
- German state uses short-time work as instrument of industrial policy/ France direct support of national champions
- Federal elections in Germany/elections in North-Rhine-Westphalia 2010: could not be won with neoliberal programm

## 5.1 Youth unemployment and VET

- Around 2/3 of young German employees have a certificate in one of the 350 occupations of the „Dual System of Apprenticeship“
- Since mid 90s – 6% of workforce apprentices
- High reputation of VET among employers and young people: Not second choice for poor school performers
- Occupational labour markets: Links of certificates with work organization, pay and careers
- Participation of social partners – „Their“ occupations
- Myriad studies show fast and stable transitions into the labour market

## 5.2 Transition from Education to Work: Unemployment rates and labour force experience (in years): ISCED 3 leavers (1990's)

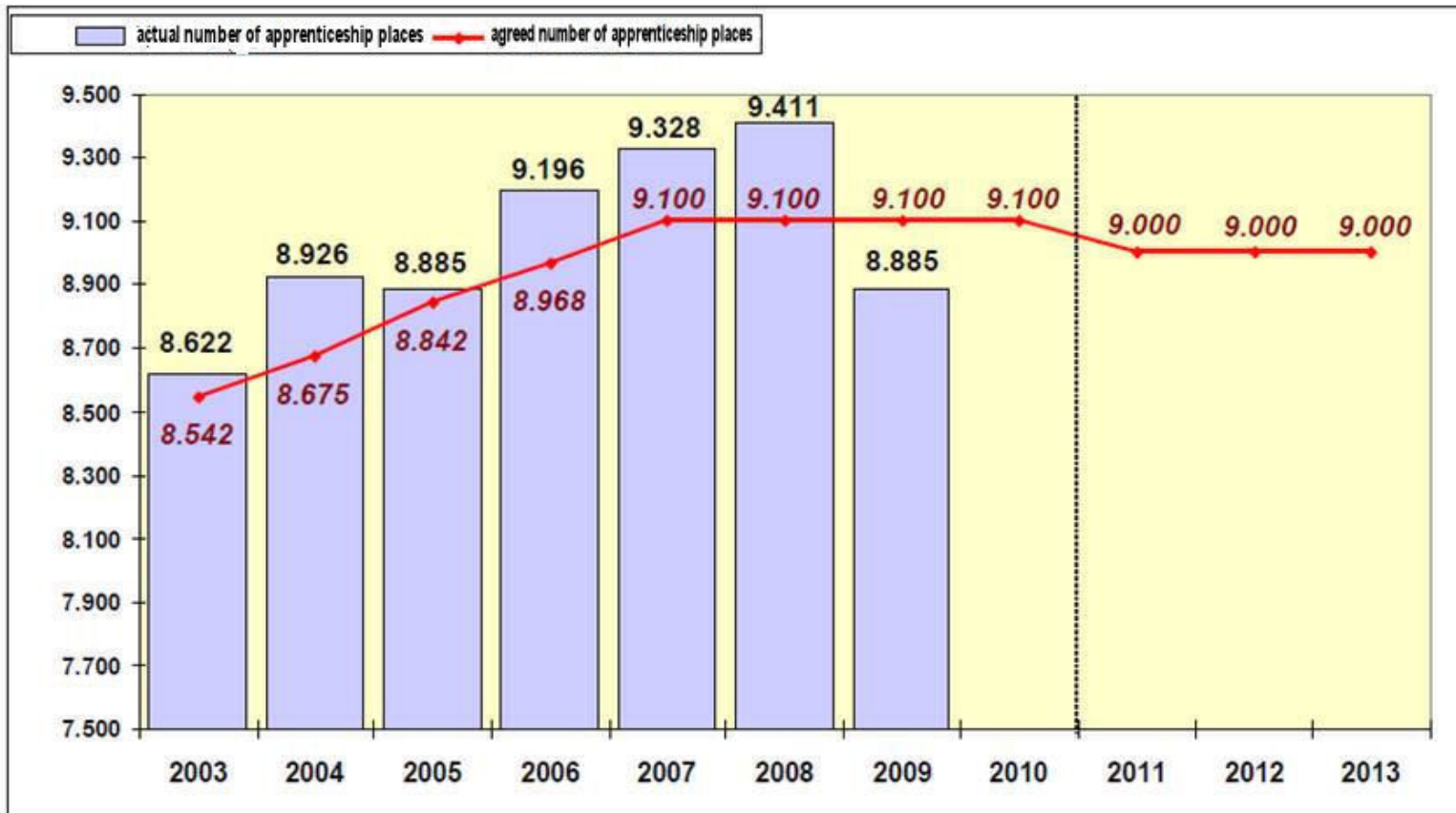


Source: Müller/Gangl, Transitions from Education to Work in Europe, Oxford 2003

## 5.3 Youth unemployment and VET

- 2009 „social pact“ - recruitment of 566 000 new apprentices – 50 000 less than 2008, but in recession with a decline of GDP of -4,7% a big success
- „Social pact“ – moral obligation, but also collective agreements on
  - numbers or shares of apprentices
  - temporary or permanent recruitment after completion of apprenticeship
- Reasons: Ageing of work-force, bottlenecks of skilled labour in the last upswing, fear of future bottlenecks
- Agreements help unions to organize young workers

## 5.4 The 'Future through Vocational Training' collective agreement in the German chemical industry



Source: Bundesarbeitgeberverband Chemie e.V. (BAVC).



## 5.5 Case study: Collective agreements on apprentices in the German chemical industry

Collective agreements in April 2010:

- employers guarantee 9000 apprenticeship places each year until 2013 (prolongation of old agreement).
- employers set up a fund with 25 Mil € to help companies in economic troubles to continue employment of apprentices which completed their training for up to one year: Companies receive 1000€ per month per person up to one year
- a commission with equal representation of unions and employers decides upon this subsidy. Only companies which are members of the employers association and are covered by the agreement and trade union members will get the subsidy.

## 5.6 Case study: Collective agreements on apprentices in the German chemical industry

- Fund has been set up (1% of gross wage sum 50% in 2010, 50% in 2011) - joint institution of employers and union (which existed before – other levies)

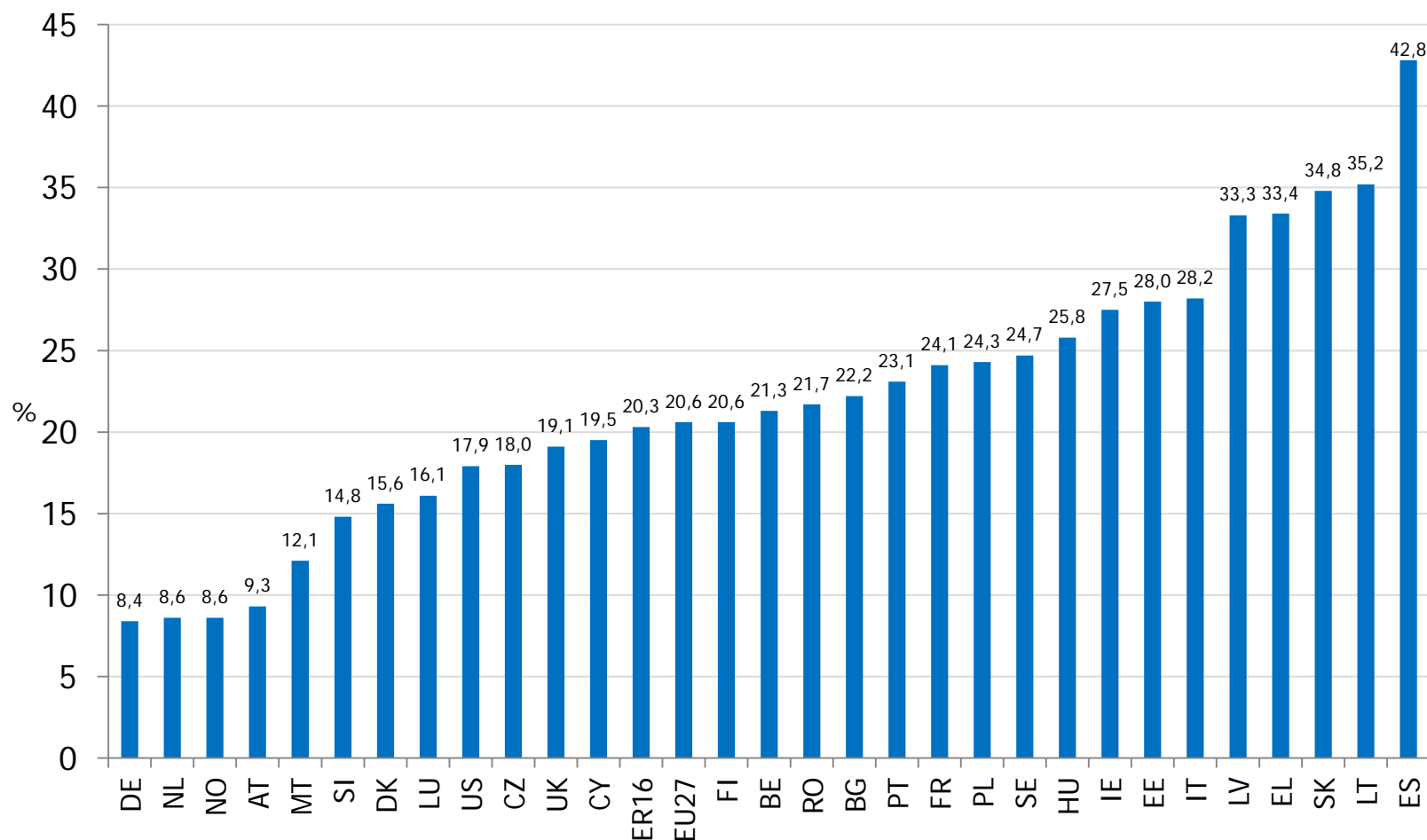
Applications of 150 mainly small and medium sized companies

Continuation of employment of 225 skilled young people subsidized

Because of fast recovery numbers smaller than expected (1000 expected)

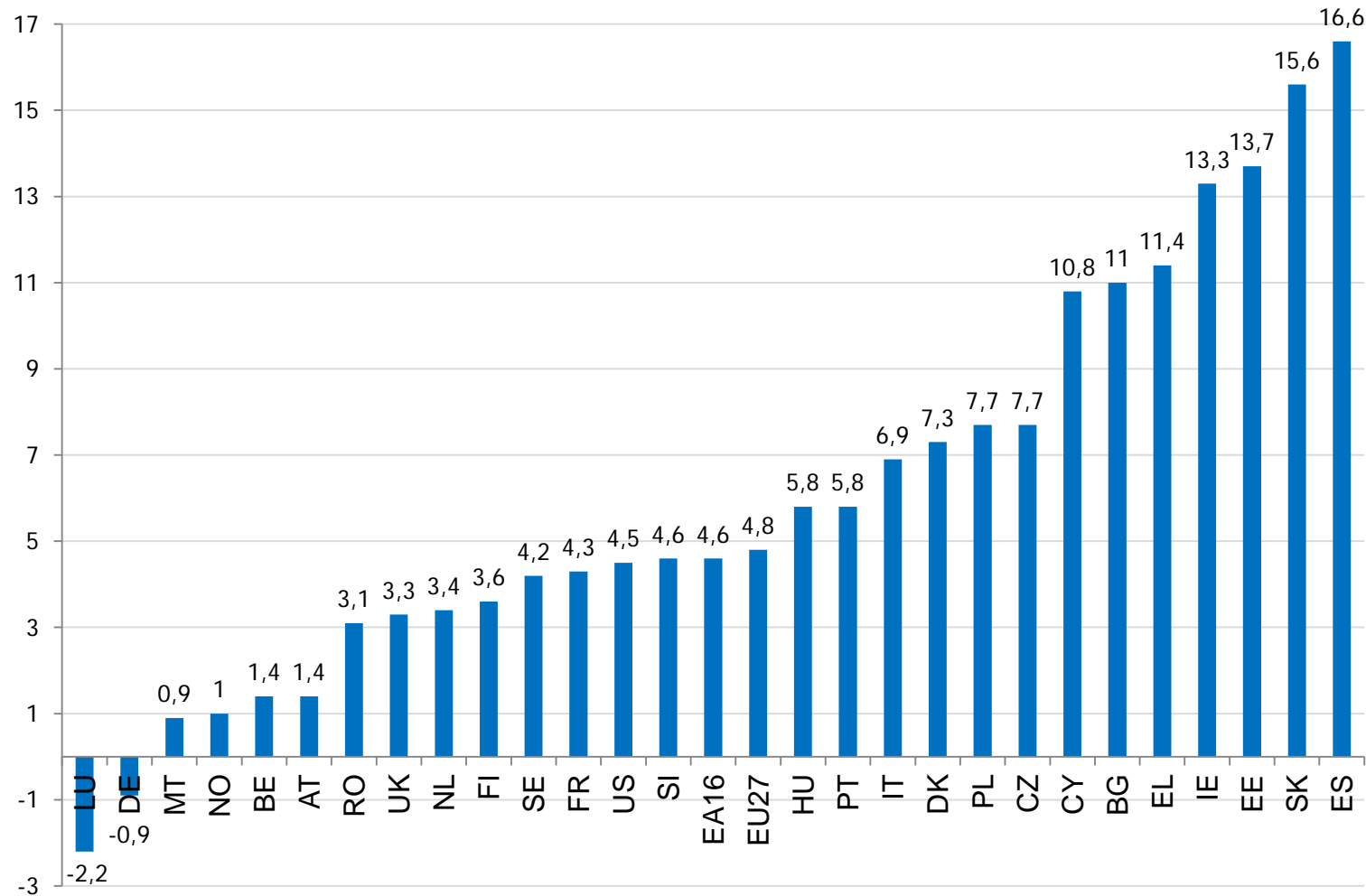
Remaining money will be used to increase the budget for another existing programme – preparatory vocational courses for weak school leavers (both practical and theoretical) – high transition rates into apprenticeships

## 5.7 Youth unemployment rate in EU (under 25) Sept. 2009 in %



Quelle: Eurostat

# 5.8 Increase of youth unemployment rates in percentage points (Sep. 08 – Sept. 10)



Quelle: Eurostat

## Conclusion

- Traditional inclusive system of IR has been weakened since 1995
- Old corporatist system still strong in manufacturing industry and in VET system
- Good policy: “Retention” of workers maintained production capacity and allowed for fast recovery afterwards
- Luck: BRIC economies not affected by financial crisis – allowed for high exports
- Dualisation not so visible in the crisis, but in the recovery – recruitment of precarious workers

## Publication

**Bosch, Gerhard**, 2011: The German labour market after the financial crisis: miracle or just a good policy mix? In: Vaughan-Whitehead, Daniel (ed.): Work inequalities in the crisis? Evidence from Europe. Cheltenham [u.a.]: Elgar, pp. 243-277

**Bosch, Gerhard / Mayhew, Ken / Gautié, Jérôme**, 2010: Industrial relations, legal regulations, and wage setting. In: Gautié, Jérôme / Schmitt, John (eds.): Low-wage work in the wealthy world. New York: Russell Sage Foundation, pp. 91-146