

## LEARN FROM THE CRISIS. REQUIREMENTS FOR THE CONSTITUTION OF LABOR MARKET AND WELFARE STATE REFORMS\*

by Olaf Struck, Matthias Dütsch

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External interactions become crises if existing resources for handling changes are not enough respectively are not experienced sufficiently. That means crises are challenging existing resources for activity, economic, social and cultural resources or institutional standards as well as aspirations. So they offer reason to reconsider aims and instruments, to introduce learning processes and reforms. This also refers to the changes after 2008, experienced as global economic crisis. Accordingly good material is being offered in order to examine successful and not so successful patterns of handling. The emphasis of the following paper is on the Federal Republic of Germany, presently being comparatively successful in managing the crisis. At the same time the development in other European countries is included to gain an outline for the present short analysis and to derive first generalizable conclusions.

Le interazioni con l'esterno divengono crisi quando le risorse preposte a gestire i cambiamenti non bastano o non sono abbastanza utilizzate. Ciò significa che le crisi sono una sfida alle esistenti risorse sociali, culturali ed economiche, oppure alle aspirazioni o ai parametri istituzionali. Così, esse costituiscono la ragione per rivalutare mezzi e fini, per introdurre processi d'apprendimento e riforme. Ciò si riferisce anche ai mutamenti del dopo 2008, vissuti come crisi economica globale. In base a ciò, del materiale viene offerto al fine di esaminare gestioni della crisi efficaci e non. Il *focus* del testo è posto sulla Germania, al momento relativamente efficace nel gestire la crisi. Al contempo, gli sviluppi determinatisi in altri paesi europei viene incluso nel testo per ricavarne uno schema utile alla presente analisi e alcune conclusioni generalizzabili.

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### 1. INTRODUCTION – AIMS OF RESEARCH

External interactions become crises if existing resources for handling changes are not enough respectively are not experienced sufficiently. That means crises are challenging existing resources for activity, economic, social and cultural resources or institutional standards as well as aspirations. So they offer reason to reconsider aims and instruments, to introduce learning processes and reforms. This also refers to the changes after 2008, experienced as global economic crisis. Accordingly good material is being offered in order to examine successful and not so successful patterns of handling.

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development in other European countries is included to gain an outline for the present short analysis and to derive first generalizable conclusions.

## 2. INITIAL POSITION

In all European countries we can see a phase of transition to flexible employment markets. The European Commission is considering this most suitable for handling the crisis. For a long time especially in Germany alleged rigidity has been made responsible for economic stagnation and for internationally compared high unemployment, here especially long-term unemployment.

Low external flexibility on the employment markets based on institutional restrictions was regarded an important reason. The emphasis was on a too strong protection against dismissal, insufficient opportunities to employ repeatedly temporary for longer periods, insufficient labour leasing and insufficient pressure for taking up work in case of unemployment due to high and long-term payment of unemployment compensation.

The second important reason was too high unit labour cost, which weakens an export-oriented country like Germany in international comparison. Restrictions for social security taxes for employers as well as restrictions for wage increase were demanded.

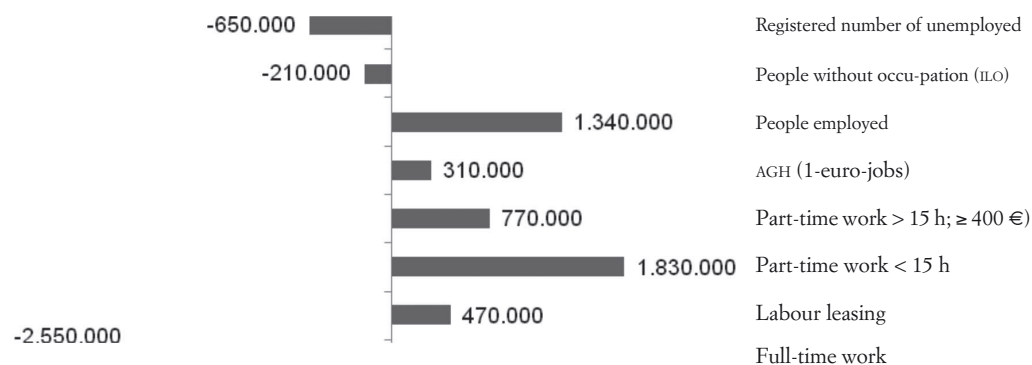
Particularly during the last 10 years considerable changes have been carried out in the mentioned sectors. They have been governed by the employment strategy of the OECD as well as the European Commission (2010). Here deregulations were demanded in order to promote open, mobile labour markets, which in turn count as pre-condition and incentive for economic dynamic, positive amendment of social welfare and for better employment (OECD, 2009a, p. 118). Moreover, the reforms followed the experiences of Great Britain, Denmark and the Netherlands, which were transformed into specifically designed measures according to the structural and institutional conditions in Germany.

Protection against dismissal was relaxed and repeatedly temporary deployment was made easier. Labour leasing was deregulated, however, in Germany effective equal treatment is not the case, with newly-created tariff structures for labour leasing below the tariff pay grade of permanent employees and minor professional training – compared the Netherlands. The so – called Hartz – law anyway increased the pressure on taking up work again by means of reducing the unemployment compensation and a policy of mobilization. With high unemployment companies had excess supply of employees at their disposal, at the same time getting relieved conditions of numerically flexible deployment. This in turn increased the pressure on wage reluctance, particularly for jobs with rather low demand of qualification. The number of employees with low wages rose considerably. All in all the number of employees actually increased. This refers most to part-time and short-time employment, labour leasing and solo freelance work respectively to low compensated employment (FIG. 1). However, the volume of work in Germany already declined before the crisis.

In nearly all European countries we can notice this kind of development towards a transition to flexible labour markets by reduced protection against dismissal and mobilization, by a more rigid employment market policy as well as by the extension of atypical employment and as a consequence also increasing pressure on so-called normal employees (Clauwaert, Schömann, 2012).

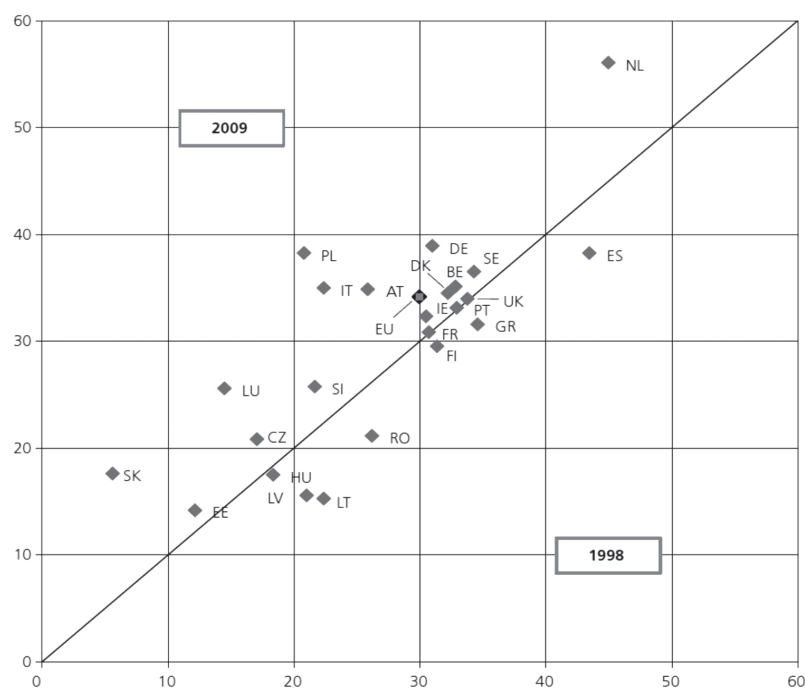
The share of atypical employment increased within the European Union between 1998 and 2009 from 30% to 40% in total (FIG. 2).

Figure 1. Transformation of the number of employees in Germany 2000 until 2010



Source: IAB, as per February (2011).

Figure 2. Atypical employees of all employees within the EU (age 15 to 64) in percent, 1998 and 2009



Note: EU 2009 including BG, CY, MT. Atypical employees are defined here disjunct as employees with temporary contracts; full-time working solo freelancer; part-time employees with permanent position; part-time working solo freelancer (working time > 15 hours/week), who define themselves as part-time working; part-time working employees with permanent position or as solo freelancer (working time ≤ 15 hours/week).

Source: Schulze Buschhoff (2011). Basis: EUROSTAT, Labour Force Survey.

Here Spain is an exception. The government tried to slightly limit the very high level of temporary employment. Further exceptions are a few East European countries, where traditional forms of employment predominate. It is important to point out that not all so-called atypical forms of employment are precarious, there exist sectorial and national differences. In Germany for example part-time employment is favored more frequently than in East European countries or temporary employments (often stages of job training) result more often in permanent employments than in South European countries etc. The point here is to show that the transition to a flexible labour market has been increased in the course of changed general regulations visibly.

The interesting fact is: These measurements for a reduced protection against dismissal and for increased mobilization and transition to flexibility on the one hand fulfilled in Germany, and even more in many other countries, the desired effect of flexibility and increase of employment and the associated partial relief for the social security funds (Möller, 2010). On the other hand they definitely miss the aim of reform necessities in economic and employment situations.

*First* this becomes apparent because they – regarded in medium-term perspective – contributed very little to the handling of the last crisis. The crisis was handled in Germany especially by the possibilities of transition to flexibility, which focused on the internal labour market. Moreover, it becomes evident that in countries where external forms of modification were used, much bigger problems exist. This will be topic in the following chapter 3.

*Second* and in long-term perspective for the preservation and development of economically efficient internal forms of flexibility, which are accompanied by chances for participation, above all measures for qualification and for protection in transition are to be reconstructed. They are in Germany as well as in many other European countries insufficiently arranged. This will be discussed in chapter 4.

### 3. THE SUCCESS OF NATIONAL FRAMED INTERNAL MEASURES FOR INCREASED FLEXIBILITY AIMING AT PRESERVATION OF EMPLOYMENT

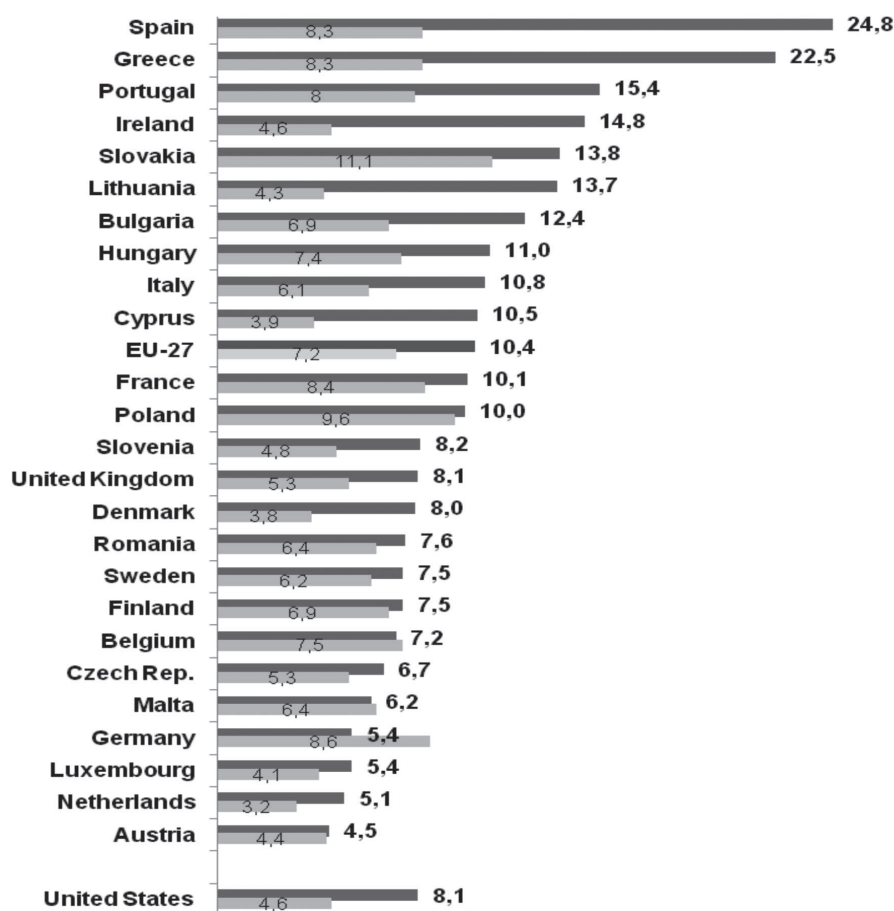
We take a closer look at the first argument, being the last crisis and its handling.

a) Presently we are facing a worldwide economic and financial crisis which affects the countries in very different ways. In Greece and Italy and partly in Portugal consumption was financed on loan in view of low actual interest rates within the Eurozone. In a phase when investment programs for the support of economy and employment market are necessary, they are in a debt trap. As a consequence of this minor flexibility in adaption very high unemployment could not be avoided during the economic crisis (FIG. 3). Here as well as in the most countries especially younger and marginal qualified employees are affected most by dismissals.

There are different reasons for the high unemployment in Spain. Here the national budget was widely balanced before the breakout of the sub-prime crisis and the gross national debt was in 2007 with a share of less than 40% of the GDP rather low. Instead of the government mostly private households got into the debt trap because they slid into a housing bubble due to low real interest rates. Many loans bounced and until today neither the credit users nor the lending Spanish banks recovered from the consequences. In addition Ireland and Iceland focused on an expansion of the financial sector, which

was attracted into the country by means of an extremely generous administration. The Iceland nation could do little about it and full impact of the crisis took place. In Ireland as well as in Greece the government furnished guarantees for the ailing banks. The formerly very low national debt (in 2007 ca. 30% of the GDP) exploded to more than 100% of the annual GDP. Also here this leads to a small flexibility in adaption and to an increased rate of unemployment (FIG. 3).

Figure 3. Unemployment rates in international comparison, June 2012 and 2007



Note: UK and Greece = May 2012.

Source: EUROSTAT, Labour Force Survey. Seasonally adjusted data.

Compared to that the situation in Germany. The national debt which bounced up in the course of the German east-west reunion could be driven down step by step and scope for action existed at government's side. Quickly infrastructural programs were created, which however in the case of government-funded building measures only took effect delayed.

A significant element for the quick handling of the economic and financial crisis in Germany achieved the social insurance. For example, a trade cycle stabilizing effect came from the social pension program because it kept up the spending capacity of the retired people. The retirement income adjustment takes place delayed in public systems, based on the development of wage growth. On the other hand funded pension insurance systems have the problem that they immediately react on a crisis and have a destabilizing effect on the trade cycle (OECD, 2009b, p. 1).

More important is the unemployment insurance. On the one hand in Germany the potential for domestic economy stabilization of the trade cycle has been reduced by the reduction of means of preceding reforms for increased mobilization. On the other hand the unemployment insurance contributed by financing short-time work to preserve employment which is subject to social insurance contribution. Between 2008 and 2009 the number of short-time workers bounced up to 1.5 million in May, 2009. The annual average was far above one million. Also companies from other countries could revert to short-time work regulations. This refers to Austria, Belgium, Denmark, France, Italy, Lithuania, Luxembourg, Norway and Sweden. Other countries quickly reintroduced short-time work regulations, like the Netherlands or they quickly created such regulations, as Bulgaria, Hungary, Romania and Slovenia (EUROFOUND, 2009). The significant difference to Germany was that short-time work has been utilized in Germany more comprehensively and quicker, compared to those other countries. This was successful because the coffers of the exporting companies in the processing industry, which were affected by the crisis in Germany, as well as the coffers of the Federal Employment Agency were rather nicely filled. In addition, the government financed period of 24 months for working short-time is very long, compared to other countries. This strengthens the security of people affected, which in turn is responsible for the financial stability of the domestic economy. Countries which could not revert to short-time work, such as Ireland, Greece, Great Britain or Spain had the biggest rise in the rate of unemployment.

b) An even more important module of handling the crisis was the use of flexible working hours within the companies. Nicely filled flextime wage records were emptied, which are being used by half of the employees in Germany (Groß, Schwarz, 2010). In addition there are agreements for more flexibility in wages, which allow the temporary suspension of wage increase or the reduction of wages or working hours within companies with economic problems. These agreements supported by the tariff organizations on industry branch level are to be found especially in Belgium, Germany, Finland, the Netherlands or Sweden. They are frequently completed by company agreements which besides the above mentioned countries can also be found in Italy.

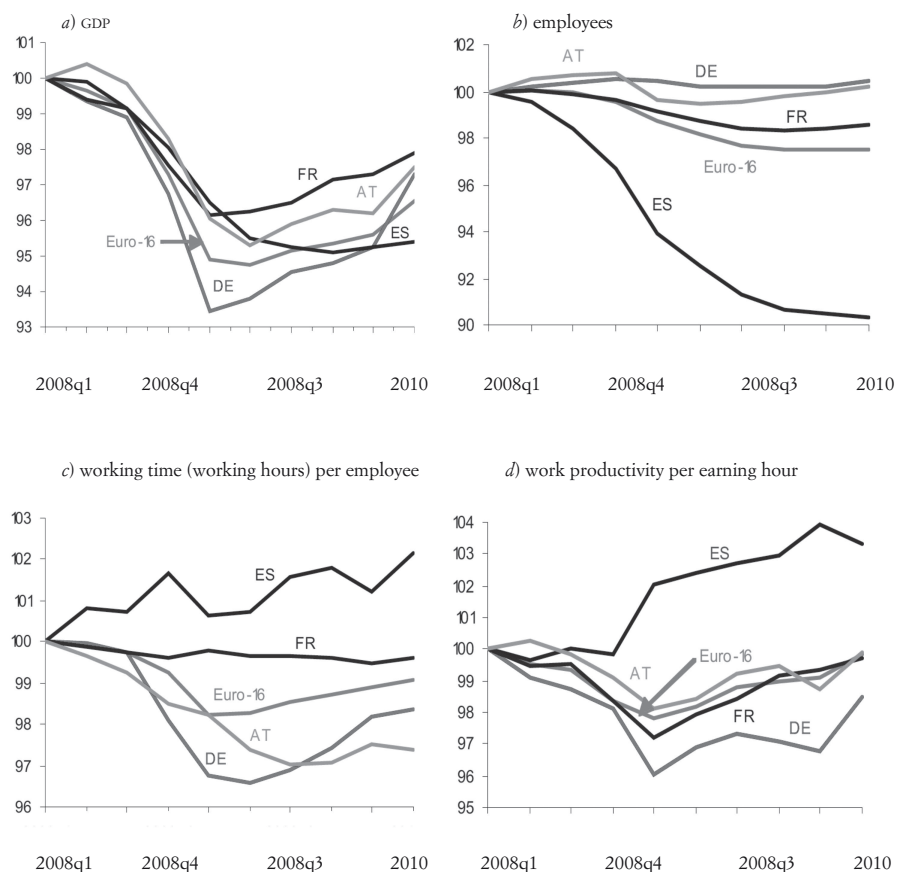
An important influencing factor which has helped to overcome the crisis was next to the opportunity of national support also the responsible behavior of the social partners in order to enhance the trade cycle. Instead of discharging employees due to the crisis they have been kept in the companies (Herzog-Stein *et al.*, 2010). The fact that just the German employers got themselves into it has its reason in a characteristic which mostly is to be found less distinctive in other nations. Affected by the crisis have been especially successful exporting industrial enterprises in the fields of engineering, automotive engineering and chemistry with a high share of well qualified craftsmen and technicians. Due to their professional and specific qualification they are protected and steadily employed. Furthermore especially these companies in Germany anticipate the demographic change and the problems coming along with that to gain young craftsmen in the future.

From the employers point of view the strategy to keep this in European comparison rather big workforce has been very reasonable, even though a temporary increase of the unit labour cost – which was reduced substantially in recent years – had to be accepted.

In FIG. 4 it can be seen how the different strategies take effect. Either the employees will be dismissed as it happens in Spain, Greece, Portugal or even Great Britain. Or employees will be kept as it happens particularly in Germany – despite strong economic regression. In doing so companies temporarily accept a loss in productivity per hour in favour of maintaining a high-value, professional and specifically qualified work force.

Due to redundancy payment regulations and frequent judicial disputes dismissals are still rather expensive in Germany. Affected by the existing social conditions would have been especially the young, highly valued craftsmen and technicians. Important know-how would have been lost in case of an upswing these employees would have been hard to recruit again by means of external job markets respectively with very high costs for searching and hiring.

Figure 4. Economic recession in international comparison



Note: Index start of the recession = 100; season and calendar adjusted.  
Source: Herzog-Stein *et al.* (2010).



Also in German companies an adaption through external strategies for more flexibility has been carried out. For example labour leasing staff has been dismissed and temporary employees have not been further employed. At the same time however, internal strategies for qualification on access to vocational training or trainee programs have been kept and focus has been set on tools like internal working time flexibility, which is the reduction of working time within the company. By means of short-time work 1,2 million jobs could be maintained and by accepting minor productivity per hour another ca. 2 million jobs could be saved (Herzog-Stein *et al.*, 2010, p. 15).

Summarized it can be said that in relation to the decline of production unemployment especially has been rising disproportionately in those countries where national tools like short-time work or partial unemployment are missing, for example in the Baltic countries, Spain or Ireland. Existing measures or actions supported by recent reforms of external flexibility have contributed practically nothing to overcome the crisis. Germany has not made use of that – compared to Great Britain, Ireland, Greece, Spain and so on. International comparison also shows that countries with high external flexibility (low protection against dismissal, high share of temporary employment) generally have not resolved the crisis well and have to register a much higher rise of unemployment. The “German miracle of the employment market” (Möller, 2011) is based on a still relatively high level of social-governmental action as well as mainly on stabilizing effects which are accompanied by a high-quality and specified production in the core areas of German economy.

#### 4. MEASURES FOR THE PRESERVATION AND THE DEVELOPMENT OF EFFICIENT EMPLOYMENT

Now we reach the second argument mentioned at the start. The long-term measurements, which are also necessary, have the ability to also benefit from economically productive internal possibilities of flexibility in the future and at the same time they are accompanied by chances for participation of the employees. Here we have to focus on significant measurements of suitable qualification. Other important issues such as the financial security of flexible working careers are not considered in this paper.

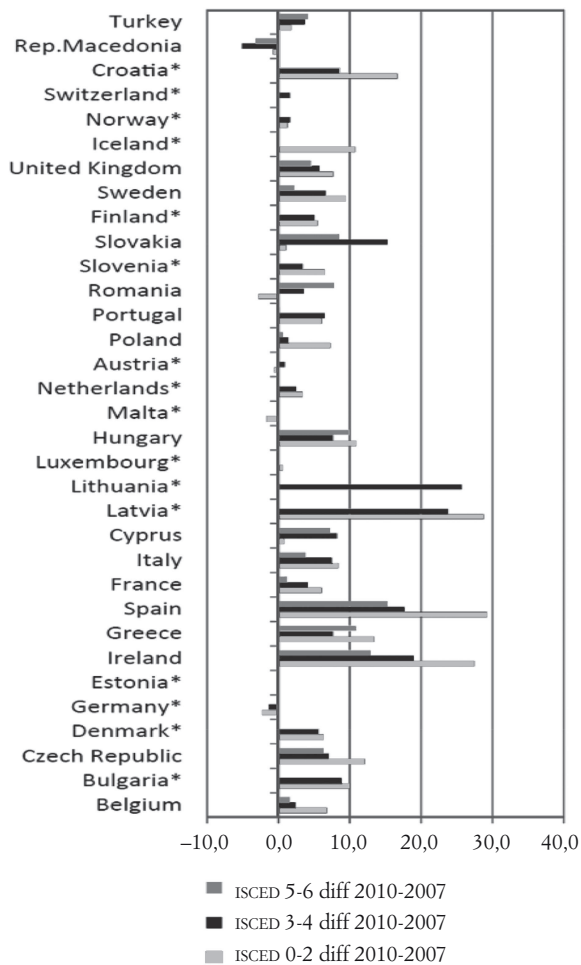
The most important problem of the employment market presently is the skills shortage. A problem, which quickly gains importance in Great Britain, Spain, Poland or Italy, too. Behind it is the also much discussed decline in the birth rate and accordingly in graduates. Furthermore there are also general problems behind it which we can find in many nations. Those are first of all a deficient professional qualification of many adolescents which is accompanied by substantial problems in the transition into qualified employment. In many nations a lot of adolescents do not reach a graduation or only an insufficient graduation or training qualification, at the level 2 of the International Standard Classification of Education (ISCED), which corresponds to secondary education 1 resp. secondary education first stage/second step of basic education. During the crisis also here unemployment especially has affected this group in those countries, which offer for many adolescents insufficient general qualification (FIGG. 5-6).

Second casualties in qualification exist in flexible forms of employment which allow rarely transition in steady employment. Flexible forms of employment, particularly labour leasing, short-time and part-time employment have gained importance in many countries –



as mentioned before – due to labour market reforms and have contributed accordingly to a sustainable segmentation of the labour market.

Figure 5. Youth unemployment rate (15-24) by education and European countries, difference 2007-10

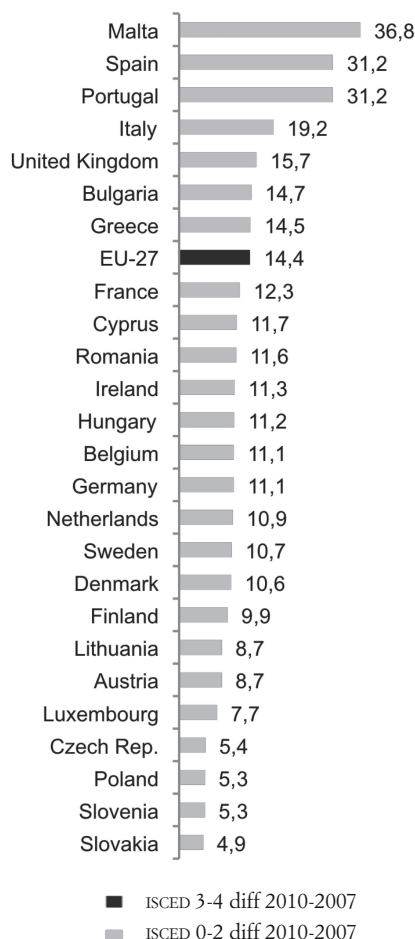


\* Countries with incomplete data or small sample.

Source: Dietrich (2012), EUROSTAT – LFS.

The accomplishment of the frequently discussed demographic change as well as the welfare growth not only needs a mobilization of available employees but mainly the construction and preservation of professional qualification in order to ensure productivity improvement and flexible potential of adaption. This refers mainly to the education of younger age-cohorts, aiming to avoid problems of labour market integration of less qualified employees in the future to the greatest possible extent.

Figure 6. Level 2 as the highest educational and professional degree in European countries 2009



Note: Level 2 = secondstep of basic education.

Source: OECD (2010).

To successfully integrate young people into the labour market it is of particular importance to share a general education as well as a first-class, wide professional qualification with almost all adolescents. Only general professional training is too much removed from reality. An extremely subject-specific training however substantially limits subsequent employment exceeding the specific range of activity. Here we are facing the problem that tight professional layouts are in conflict with the dynamics of skilled work. The superior likelihood of job mobility after earning gaps (Mayer, Grunow, Nitsche, 2010) as well as the analyzed high amortization rate of usability of professional qualifications (Ludwig, Pfeiffer, 2006) can be referred to this above all.

Especially people in wide-spread apprenticed professions, where comprehensive knowledge on the operations are communicated to shape business- and working processes, can more easily travel at will between intersectoral but cognate professions. This is about promoting so-called key-qualifications and universal operational competence. In the context of a professional training here knowledge-based working and learning (methods, “languages”, analytic and abstraction capability, acquiring of knowledge-pools, ability of self-organisation etc.) as well as integrated mastery of tasks (operational background, operational knowledge, capacity for teamwork, appreciation for clients and products) are being communicated practically and in real work references (Fischer, 2000; articles in Rauner, 2006). The wide job profiles and with that the communication of fundamental qualifications and comprehensive competencies make it possible for companies to flexibly adapt job profiles in case of changing requirements as well as to change working organization (Marsden, 1999). This group of people is far less affected by boom-bust-cycles and status appropriate re-entries into the first labour market are common. It also makes clear that the existence of such broad qualifications increases the potential for availability not only on intern but also on extern labour markets, because people with wide qualification profiles and comprehensive competencies are much less bound to individual companies and to specific occupations. If a shortage of a rather big group of qualified employees develops there is a risk that companies increasingly introduce polarizing models of logical reasoning in order to reduce the problem of availability in a cost-saving way by means of technical and organizational measures of standardization. Employees which are widely qualified are being provided with broad professional education or trainee programs as well as following employment security, further education possibilities, career advancement as much as extensive competences for controlling and planning. This group will be in charge of executive functions, developmental tasks and controlling, which will be executed according to graduation on different levels.

In contrast there are groups of unemployed or training and college graduates, who acquired in short academic courses of education standardized, explicit knowledge in their individual levels. Accordingly they are employed for comparatively simple and standardized work references which are formed by well-educated experts on the basis of their long-term acquired explicit and implicit knowledge. Since simple instruction or simple textbook-knowledge is sufficient for accomplishing the duties, they can be accomplished without significant learning effort and on-the-job training by employees. Respectively competition is high and commitments for security of employment are uncommon.

The development of higher and wider general qualification, which in view of the supply of knowledge on proceedings etc. is acquired practically within the educational system, are a fundamental basis for companies to aim their labour organization at more all-round, more qualified and more responsible work references, because a well-educated supply-side of the labour market stronger requests such tasks. On such a basis life-long learning in changing fields of activity in-plant or cross-plant is possible, and like that erosion tendency of professional qualification can be avoided, which presently appears in open, unstructured employment systems of labour leasing, in part-time and short-time employment.

## 5. CONCLUSION

Taken as a whole it can be said for all countries, also for those who in comparison managed the crisis more successfully: The primary victims of the crisis are those, who

already before the crisis belonged to the problematic groups, employees with flexible contracts of labour, being in employments with little or nonspecific qualification requirements. Provided that political measurements for handling the crisis have been executed they were restricted more to higher qualified employees with unlimited contracts of labour or they were applied by the companies for the protection of groups with specific qualifications. Measurements which actively focus on prevention and avoidance of segmentation and which can avoid long-term social exclusion are to a great extent missing. Here has to be mentioned particularly investment in further education during professional life as well as a professional education. Provided that a company-orientated and practical professional education is available which offers wide and in-plant transferrable professional qualifications there are incentives for companies to develop internal strategies for more flexibility as well as strategies for more long-term employment. Furthermore, the fact is well-established that insufficient professional training is accompanied by unemployment amongst young people as well as with instable early professional careers. These risks leave deep “scars” for the future conditions of life and work. Basically flexible employees only have limited access to further training and they are to be found in a financially precarious position.

The last point refers even more to countries with less comprehensive social security systems and decreasing possibilities of family protection. Here we see high national debts and need to economize as in Greece, Portugal and Italy or high strain on formerly solid national finances caused by considerable government guarantees for ailing banks in Ireland and Spain. That means in these countries where quality-oriented and competitive production models are to be developed and where there is a high unemployment rate especially of adolescents, investments in high quality professional education and in career opportunities – oriented on a wide qualifying, high-value dual system of professional education – are most necessary. However, especially in these countries the necessary governmental investment measures for a sustainable transformation are missing. The policy of consolidation will further dig off the financial basis. Consequence will be a further increase in social inequality. On the one hand it affects the social inequality within the European countries. However, it also affects the existing inequality between production- and employment regimes and the associated risks of unemployment and poverty between individual European countries and regions. A very important building block to secure the foundation of the European Union is good professional education. Frequently to be found and often EU-financed short-term measures for education and transition for adolescents do not provide compensation for that.

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