The German Labour market

* Relatively high hourly wage rates: 6th in EU.
* Non- wage costs: eg. medical insurance. (Lohnnebenkosten)
* Most holidays in the EU which is also a labor cost.
* Productivity: GDP per hours worked. 8th highest productivity in Europe. Corresponds with wage costs.

Labour market rigidity

* Not as flexible in comparison to other countries.
* Strict employment protection legislation.
* Work councils veto dismissals- A lengthy , high from employers POV.
* • Dismissals subject to WC codetermination
* • Long notice periods: e.g., 7 months for workers with 20 years service (OECD average = 3 months)
* • Average tenure 10 years (UK: 8 years; US: 6 years)
* • Low labor mobility

Recent Changes: Increased Contingent Work

**Contingent workers**

• Workers hired on a temporary basis, in the absence of an implicit or explicit contract for ongoing employment

**Types of contingent employment**

• Fixed-term contractors – directly employed for fixed period

• Temporary agency workers – man power, regular employees with agency, if rented out to client company the company pays a fee to the agency whilst worker continues to receive fixed salary.

• “Mini jobs” (geringfügige Beschäftigung)

• Part-time jobs below €450/month

• Exempted from medical, long-term care and unemployment insurance

• Simplified taxation (Pauschalsteuer)

• Form of low-cost labour (esp. common in smaller firms in service sector)

**Legislation on Contingent Work**

• Legal constraints on use of contingent work

• Partially lifted since early 2000s

• Temp agency workers: no more limits on duration

• Can in principle be employed indefinitely

• Fixed-term contracts

• Up to 2 years

• Exceptions: longer contracts permitted if one of eight material factors apply (e.g., regular employee on leave of absence)

• (Law on Part-Time Work and Fixed-Term Employment Contracts—Gesetz über Teilzeitarbeit und befristete Arbeitsverträge, TzBfG)

**Goals of Increased Use of Contingent Work**

* Allows for employment flexibility, to accommodate demand eg. decline or increase in product demand.
* Stabilize profits
* Employment risk shifted to employees

Macro- economic

* Increased willingness to hire employees during upswing
* Pos employment effects
* Low unemployment rate among young people thanks to apprenticeships programme

**The Flipside: Issues Around Contingent Work**

* Worsened from workers perspective
* • Experience of employment from workers’ perspective
* • Increased prevalence of insecure, low-paid jobs
* • Segment of lower quality work which has not existed like that before
* • Dualisation of the labour market- primary have secure well paid jobs, secondary are insecure, low level of pay and little movement to break into primary pool. Therefore increased inequality.
* • Increased inequality
* Low quality of work

Gini coefficient: measure of inequality in terms of income. The higher means higher inequality.

* Slight increase in inequality following the Hartz reform.
* P90- amount top 10% of earners are making.
* P10- Amount the bottom 10% of workers are making

The Flipside: Issues Around Contingent Work

• Experience of employment from workers’ perspective

• Increased prevalence of insecure, low-paid jobs

• Segment of lower quality work which has not existed like that before

• Dualisation of the labour market

• Increased inequality

• Insider-outsider problem

• Traditional ER institutions protect interests of those with a job, at the expense of the unemployed • Trade-off between lower-quality jobs for more workers versus higher-quality jobs for smaller number of workers?

Consequences for Modell Deutschland?

• Standard wages as one of the puzzle pieces in institutional system (see Lectures 1 & 2)

• Precluding employers from competing primarily on basis of labour costs

• Agency workers as quasi-permanent component of workforces (Kalleberg, 2001, 488)

• Employers may potentially pitch contingent workers against regular employees

• Introducing an element of labour cost competition

• Arguably at odds with traditional institutional logic

Institutional Safeguards

• Legislation to protect existing institutional logic

• Law on Labour Leasing (§14 Arbeitnehmerüberlassungsgesetz, AÜG, and §99 (2) BetrVG)

• Empowers the works council to veto the substitution of regular employees by agency workers- limits possibility of pitching contingency against regular workers. Only if there are works councils- not common in smaller companies.

• However, works council cannot veto the staffing of vacant positions with agency employees.

• Equal Treatment Principle (EU Directive on Temporary Agency Work 2008)

• Temporary agency workers and fixed-term contractors must receive the same pay as regular employees performing equivalent jobs • Exception: Temporary agency workers may be paid less only if their temporary worker agency is covered by a collective agreement stipulating the lower rate.

**Which Unions are Covering the Temp Agency Sector?**

• Tarifgemeinschaft Zeitarbeit

• DGB initiative across member unions

• Collective agreements with both major associations of temp worker agencies (IGZ and BZA)

• Also, agreements between temp worker agencies and CGZP (federation of Christian unions)

• “Yellow” unions with practically no members among temp agency workers

• Agreements signed to undercut DGB agreements

• Federal Labour Court ruled them illegal as collective bargaining agents in 2010 →Degree of resilience of traditional corporatist system in reformed labour market

Kurzarbeit (Short- time working)

• Traditional instrument for German companies to achieve employment flexibility

• Dates back to Weimar Republic

• Betriebsvereinbarung – assume there is a recession, employers signs collective agreement on company level with works council.

• Reduced working hours (e.g., 10 hours; zero hours)

• Reduced wage costs and social insurance contributions (employer)

• Job guarantees (employees)

• Kurzarbeitergeld

• State subsidy: 60% - 67% of wage reduction (‘Nettoentgeltdifferenz’)

• Max. 12 months, can be extended

• Conditions

• ‘erheblicher Arbeitsausfall’ – decline in demand for employer’s product, must be temporary. Demand should return to regular levels at a later time

• vorübergehend

• Approved by Bundesagentur für Arbeit

Assessing Short-time Working

• Extent

• Great recession 2008/9: 1.5 million

• Prevented 500,000 redundancies in 2009

• Benefits

• Employees:

• shared burden

• lower unemployment

• Employers:

• retained human capital (temporarily not needed but valuable in longer term)

• reduced costs of recruitment, socialisation and training

• avoiding costs of redundancy compensation