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Up-to-date analyses by IAB

In brief

- Whether employment relationships in Europe have become more instable and whether there has been an increase in the turnover in employees is analysed here by comparing six countries: roughly 80 per cent of the people of the former EU-15 live and work in Denmark, Germany, France, the United Kingdom, Italy and Spain.
- While it is true that the spread of temporary working contracts has risen in most countries since 1992, they are nevertheless little suitable as an indicator for the actual stability of employment as temporary contracts are often used to extend trial periods of employment or for training purposes.
- There are clear differences between the countries as regards the average duration of an employee's belonging to one company and these do not change significantly over the course of time. However a downward trend cannot be observed in any country – with the exception of Denmark.
- Nevertheless, if there were a trend towards destabilisation, this would show up in the macroeconomic labour turnover rate. Yet the ratio of entry into and exit from employment to the average number of employees largely confirms the other findings.
- Hence a general trend towards a speeding up of the labour market in Europe cannot be documented.

Comparing employment dynamics internationally

Is Europe on the way to becoming a "high-speed labour market"?

by Thomas Rhein

According to current widespread belief, stable employment careers in developed economies are gradually become the exception rather than the rule. According to this hypothesis, labour market mobility is increasing, and employees are being forced to find a new employer more and more often in the course of their working life. A comparative international study investigates how employment dynamics have really developed since the 1990s.

The explanation partially given for the speeding-up-hypothesis is the existence of "megatrends" such as globalisation or sectoral change towards a service society. At the same time it would appear to be a plausible result of labour market policy measures: since the 1990s a number of European countries have implemented reforms in order to make their labour markets more flexible – in Germany, for example, the so-called Hartz reforms. More flexible labour markets are intended to increase the employment chances of the unemployed and to cope better with technological and organisational change. However the drawback of this could be that, in the course of their working lives, employees have to reckon with increasing insecurity.[1]

Is this diagnosis at all accurate? Are the European countries really on the way to becoming "high-speed labour markets"[2] with more and more frequent changes of jobs, similar to the US American pattern?

[1] This implies, among other things, an increased risk of being hit by unemployment during the course of one's working life. This aspect is not dealt with here, however.

[2] In German, the corresponding term is "Turbo-Arbeitsmarkt" which was mainly used and critically assessed by Erlinghagen/Knuth (2001).

For six selected EU countries, the current Brief Report examines whether, and to what extent,

- employment stability has dropped,
- general labour market mobility has risen, and
- whether, at the same time, trends in countries have been gradually converging

since the beginning of the 1990s.

Selection of countries and data basis

For the following analysis six European countries were chosen, including the five largest states in the European Union. Roughly 80 per cent of the citizens of the EU-15 – that is, the EU Member Countries before the beginning of the extension eastwards in 2004 – live and work in these six countries.

At the same time, these countries represent a certain variety of social state traditions and institutional arrangements. Germany and France stand for the "continental welfare state" type with relatively high social security and well developed employment protection; the United Kingdom stands for the opposite type of the liberal Anglo-Saxon welfare state; Italy and Spain are representatives of the "Mediterranean" type with sketchy social security and high (Spain) to moderately high (Italy) employment protection. In addition, Denmark has been included as a representative of the Scandinavian welfare state type, combining a high level of social security with low employment protection and therefore representing a classic case of "flexicurity".

The European Labour Force Survey (LFS) serves as a basis for data. The LFS data are collected in the individual EU countries by the national statistical authorities – in Germany by the Federal Statistical Office within the framework of the Microcensus – and then processed by Eurostat, the statistical office of the EU. It involves annual representative surveys of persons in employment and persons not in employment on various aspects of their labour market participation. In the case of those who are in dependent employment, for instance, they provide information on whether they have a temporary or permanent contract, since when they have been working for their current employer, and what their employment status was a year ago.

It is on this group of persons – that is, dependent employees – that the following analyses are based. In the EU-15 countries, roughly 85 per cent of all persons in employment are employees. The LFS understands the term "employee" in a relatively wide sense: along with civil servants, persons in training relationships[3] are included as well, just as are those workers in marginal part-time employment (in German "geringfügig Beschäftigte"). Most of the data that are relevant to the following analyses are available up to 2008.

Labour market policy reforms in the countries to be compared

The reforms mentioned at the beginning of this brief were intended to increase the absorption capacities and the dynamics of the labour market. On the one hand they concerned the liberalisation of employment protection. In the United Kingdom and Denmark this had already been by and large deregulated at the beginning of the 1990s. In Denmark employment protection was de facto clearly lowered again in 1994 via the deregulation of temporary agency work. In Germany and Italy there was likewise liberalisation in the area of temporary agency work and temporary employment, while the protection of permanent contracts essentially remained the same. In Spain on the other hand deregulation occurred above all in the area of regular, permanent employment relationships which had still been the most protected in western Europe at the beginning of the 1990. Finally France was the only country where employment protection largely remained at a relatively high level. With the exception of France, one can speak of a tendency towards deregulation, although in 2008 the United Kingdom was still the "most liberal" country in Europe in this respect (OECD 2009).

[3] This applies in cases where their training is not purely of a scholastic nature and they are paid for their work. This means that trainees participating in Germany's "Dual System" are regarded as employees.

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On the other hand labour market policies were also reformed in three of the six countries in order to activate those who were out of work and to integrate them more quickly into employment. That might also contribute to a speeding up of activities on the labour market. For instance, earnings-replacement benefits were lowered or the duration of entitlement to these shortened; moreover they were coupled more strictly to the efforts the unemployed made to look for a job in parallel to intensified advisory services. This took place step-by-step in Denmark in the course of the 1990s, even if the level and duration of unemployment benefits remained relatively high there; in Germany this took place via the reforms introduced as of 2002, in particular the introduction of the SGB II (measures in accordance with Book II of the Social Code, 2005). In the United Kingdom, similar aims were pursued with the introduction of the Job Seeker's Allowance (1996) and the so-called New Deal (as of 1998).[4]

The temporary employment share as an indicator of employment (in-)stability

The distribution of temporary working contracts is often used as an indicator for employment stability. They way it has developed since 1992 is shown in **Table 1**.

The distribution of temporary contracts is strongly dependent upon how they are legally regulated and how strict such regulation is in comparison to employment protection for permanent employees. For instance, temporary contracts are frequent in Spain to circumvent relatively strict employment protection. There the difference between temporary and permanent contracts is much more significant than in Denmark or the United Kingdom, both countries with deregulated employment protection.

The temporal development in the individual countries can also be partially explained by these institutional conditions. The trend towards temporary contracts clearly rose in France, Germany and Italy up to 2008. In the latter two countries, temporary contracts were made easier; in Spain however – where permanent contracts were somewhat liberalised – the quota for temporary contracts dropped, remaining however still at a very high level. What is interesting, though, is that the quota for the year 2009 fell in most countries. This was a result of the economic crisis as temporary employees were frequently the first to be hit by personnel reductions.

Table 1

Share of those in temporary employment of all 15- to 64-year-old employees

1992 bis 2009, in Prozent

	1992	2000	2008	2009
Denmark	11.0	10.2	8.3	8.9
Germany	10.5	12.8	14.7	14.5
France	10.4	15.4	14.1	13.5
United Kingdom	5.5	6.6	5.3	5.5
Italy	7.1	10.1	13.3	12.5
Spain	33.6	32.4	29.3	25.5
EU-15	**11.5***	**13.6**	**14.4**	**13.6**

* Value for 1995

Source: European Labour Force Survey (LFS). © IAB

With a temporary employment share of 14.7 per cent in 2008, Germany lay slightly above the average for the EU-15. However here one must not forget that trainees in the Dual System were included in this figure.[5] In the other countries in the comparison pure school education plays a greater role.

Often temporary working relationships end once again relatively quickly, especially if they have been used by individual employers to compensate strongly fluctuating demand. Having said that, they can have a different motive: they may be concluded for trainee purposes or also act as a type of (extended) trial period. For these reasons, the temporary employment share only has limited meaning as a measure of employment stability and its temporal development.

Duration of job tenure

A more meaningful indicator is the average duration that an employee remains with his/her current employer.[6] This mirrors the actual stability of employment relationships. See **Figure 1** (on page 4) for the period 1992 to 2008.

[4] See Konle-Seidl (2008) for the details of these individual reforms.

[5] When trainees in Germany are excluded, the temporary employment share for 2008 is just under 10 per cent.

[6] This refers to employment contracts that had not been ended at the point of time when the survey took place. That is why one also speaks of the unfinished duration of job tenure – in contrast to the finished duration of employment relationships that have ended. The latter cannot be calculated using LFS data.

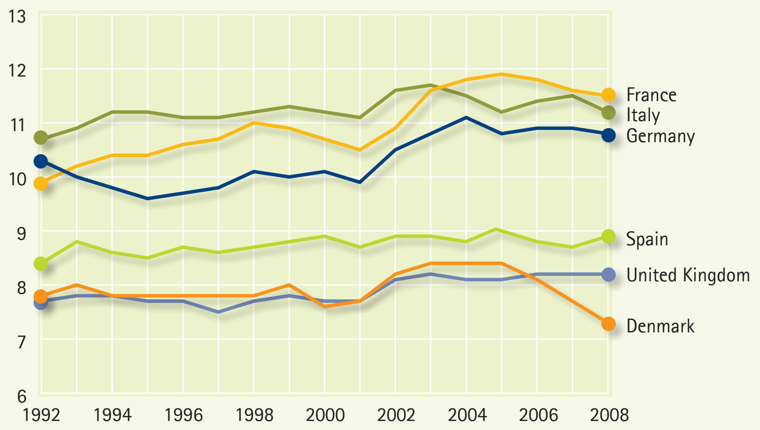
Here two groups of countries stand out: France, Italy and Germany constitute the first group with a relatively high average length of job tenure, lying between 11.5 years (France) and 10.8 years (Germany) in 2008. The second group includes Denmark and the United Kingdom with a lower duration – which is not surprising in view of the institutional differences in comparison to the first group of countries that have already been mentioned – and Spain with somewhat higher values. There is no clear downward trend in any country. On the contrary: the values increased slightly between1992 and 2008, with the exception of Denmark. This also applies to Germany where the average duration of employment in the new Federal States sank temporarily as of 1993 as a result of the labour market crisis[7] but has been clearly above 10 years as of 2001.

In sum, neither a general downwards trend in employment stability nor a convergence of the countries towards each other is to be seen. However the average duration of currently existing employment relationships is strongly influenced by employees who have been employed for many years. Perhaps, though, it is not these employees whose jobs are becoming more insecure: it may be that, instead of this, workers employed for a short time are changing their jobs more frequently than before. That might mean, for instance, that people entering the employment market for the first time or those re-entering it have an increasingly difficult time in finding a permanent job. This trend is not necessarily implied by the development of the average length of job tenure. A further indicator that would likely show such a trend is described below.

Figure 1

Average duration of job tenure (to date) of 15- to 64-year-old employees

1992 to 2008, in years



	F	I	D	E	GB	DK
1992	9.9	10.7	10.3	8.4	7.7	7.8
2008	11.5	11.2	10.8	8.9	8.2	7.3

Source: European Labour Force Survey (LFS). © IAB

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On the measurement of labour turnover

The definition of annual labour market turnover used in this report is oriented on OECD (2009) and EU Commission (2009). For a given year – taking 2008 here as an example – the rate is calculated as follows: One begins by ascertaining for 2008 the number of employees who have been employed at their establishment for less than a year, that is, who were newly recruited in the course of the previous 12 months. Persons who have left the establishment where they were employed a year before in the course of the last 12 months are then added to this. The sum thus arrived at is then set in relationship to the average total number of employees. The latter is determined by adding the average number of employees for 2008 to that of 2007 and dividing by two. This is simplified in the following formula:

$$\text{fluctuation rate} = \frac{\text{begun + ended working contracts}}{\text{average number of employees}}$$

Here short-term working relationships that those surveyed began and ended once more within the previous 12 months are not taken into account. If one wanted to include such short-term jobs as well, one would have to adjust to smaller intervals of time than a year and would thus get a more precise picture of economic and seasonal labour market dynamics: during economic upturn, turnover increases; in a recession it recedes. This movement is not mirrored so strongly in the rate used here.

Labour turnover rate

"Labour turnover rate" or "worker reallocation rate" are the terms often used in English for this, however they are not defined in a consistent way. The method used here to calculate this variable is explained in detail in the Info box (left).

The macroeconomic labour turnover rate comes about via entries into new and exits from existing employment relationships. Entries are new recruitments to an establishment; exits are the result of terminations of contract (either on the part of the employee or the employer), the coming to an end of temporary contracts or the termination of a contract for other reasons (e.g., transition to retirement). When one adds up entries and exits and puts them into relationship with the average number of emplo-

[7] Average job tenure declined strongly in the eastern part of Germany up to 1992, rose again however as of 2000 and in 2008 almost reached the level of western Germany (Erlinghagen 2010).

yees, one arrives at the macroeconomic labour turnover rate. It represents a measure of general labour market mobility and is dependent not only on institutional conditions but also on economic development: it rises during economic recovery because establishments recruit more new workers and because more terminations of contract take place, especially on the part of employees who use the good conditions on the labour market to improve their professional status. During a downturn on the other hand, both entries and exits take place less often (Rothe 2009). Whether this cyclic trend is shown to be stronger or weaker depends on the way this turnover rate is calculated. The latter applies to the method of calculation used below. However this need not be seen as a disadvantage because what is of interest here is primarily the long-term trend.

The fluctuation rates shown in **Figure 2** reveal the same country groups as in **Figure 1**: Germany, France and Italy have a relatively low turnover rate of under or just over 30 per cent; Denmark, Spain and the United Kingdom lie clearly above this.

In France, the United Kingdom and Germany no clear trend is apparent over time.[8] It may be true that the German rate has risen from 2005 to most recently 31.6 per cent (2008), but this level had already been reached in 2001, at the end of the economic upswing in the second half of the 1990s. The increase since 2005 may also be a result of the economic upswing that lasted into the second half of 2008.

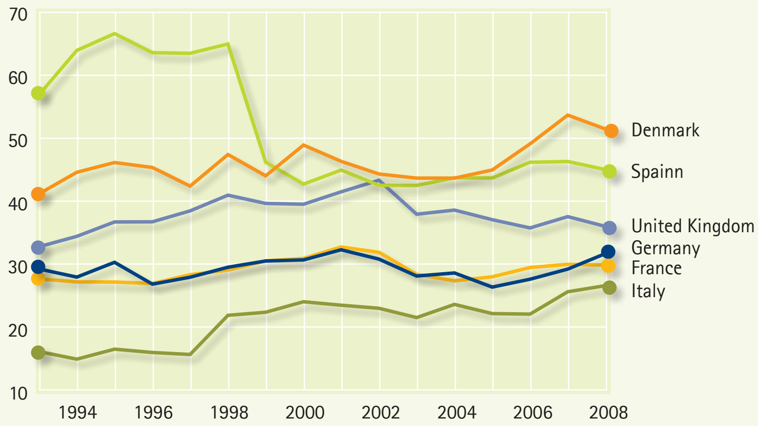
In Italy, mobility rose especially in the 1990s, as in Denmark. In the case of Italy however the turnover rate in the initial year 1993 was very low at 16.1 per cent and remained below the values of the other countries until 2008. In Denmark on the other hand the increase took place from a very high starting point. In both countries the increasing mobility could be linked to the reforms mentioned above. Nevertheless a causal link cannot be substantiated from the descriptive data presented. What is important here is whether labour mobility has risen at all. Why this is the case (or not), can only be explained by multivariate causal analysis which would exceed the framework of this Brief Report.

With this in mind, the following can be said: At most in two of the six countries compared – Italy and Denmark – the labour turnover has risen clearly since the beginning of the 1990s. Spain represents a remarkable special case: here the turnover rate was very high in the 1990s. If one compares Spain

Figure 2

Turnover rate* of 15- to 64-year-old employees

1993 bis 2008, in per cent



$$\text{* fluctuation rate} = \frac{\text{begun + ended working contracts}}{\text{average number of employees}}$$

Source: Own calculations based on the European Labour Force Survey (LFS). © IAB

in this period with Denmark or the United Kingdom, there is indication of a stronger dualisation of the Spanish labour market, for both the average duration of job tenure (see **Figure 1**) and the turnover rate were higher. Hence the employment risks were more strongly concentrated on a partial segment of the labour market than in Denmark and the United Kingdom. All the same, the Spanish turnover rate dropped at the end of the 1990s, even if it remained at a relatively high level until 2008.

Conclusions

There is evidence of a stronger employment dynamic in two of the six countries in the comparison at best, namely Denmark and Italy – in the case of Italy, however, starting from a very low level. Because of this it is not possible to speak of a general European trend towards a "high-speed labour market". Rather the differences between two groups of countries remain surprisingly stable over time: on the one hand Denmark and the United Kingdom with strongly deregulated labour markets, relatively short job tenure and high mobility on the labour market; and on the other hand Germany, France and Italy, to whom the opposite applies. There is no indication of a convergence of the two groups. Spain is a special case in

8 In (western) Germany there is no indication of an increase in labour market mobility for the period between 1975 and 1995 (Erlinghagen/Knuth 2001).

as far as it is relatively strongly regulated and still displays high mobility. This is probably a result of the marked dualisation of the Spanish labour market which also goes along with a higher rate of temporary contracts.

Nonetheless, this all does not imply that the reforms mentioned above were without effect. To judge that, the transition dynamics between unemployment (or inactivity) and employment would have to be more closely analysed because it was the professed aim of the reforms to get more of the unemployed into employment.[9]

Furthermore, in Germany there are signs that subjectively felt employment security has declined since 2001 (Erlinghagen 2010). A possible explanation for this is that employees have been made to feel insecure by the labour market reforms. But the rise in the rate of temporary contracts might also play a role here – a person who is temporarily employed is almost bound to see his situation as insecure, even if he has a fairly long contract or if his contact is constantly renewed.

In conclusion it should be stressed that the above report is concerned with presenting developments since the beginning of the 1990s. That is why employment stability and labour market mobility have only been analysed from the perspective of employees and in a strongly aggregated way. For a complete and comprehensive picture one would have to, for example, include the perspective of the employers; moreover for individual groups of people labour market chances and risks are different from those of the aggregated viewpoint. This applies for instance to temporary agency workers who have strongly increased in number in Germany since 2002. At the same time, however, their share of all employees is still so low that it does not have a substantial effect on the aggregated indicators.

[9] For Germany, current research results show that the transitions between unemployment and employment have speeded up since the beginning of the Hartz reforms in 2003 (Klinger/Rothe 2010).

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