

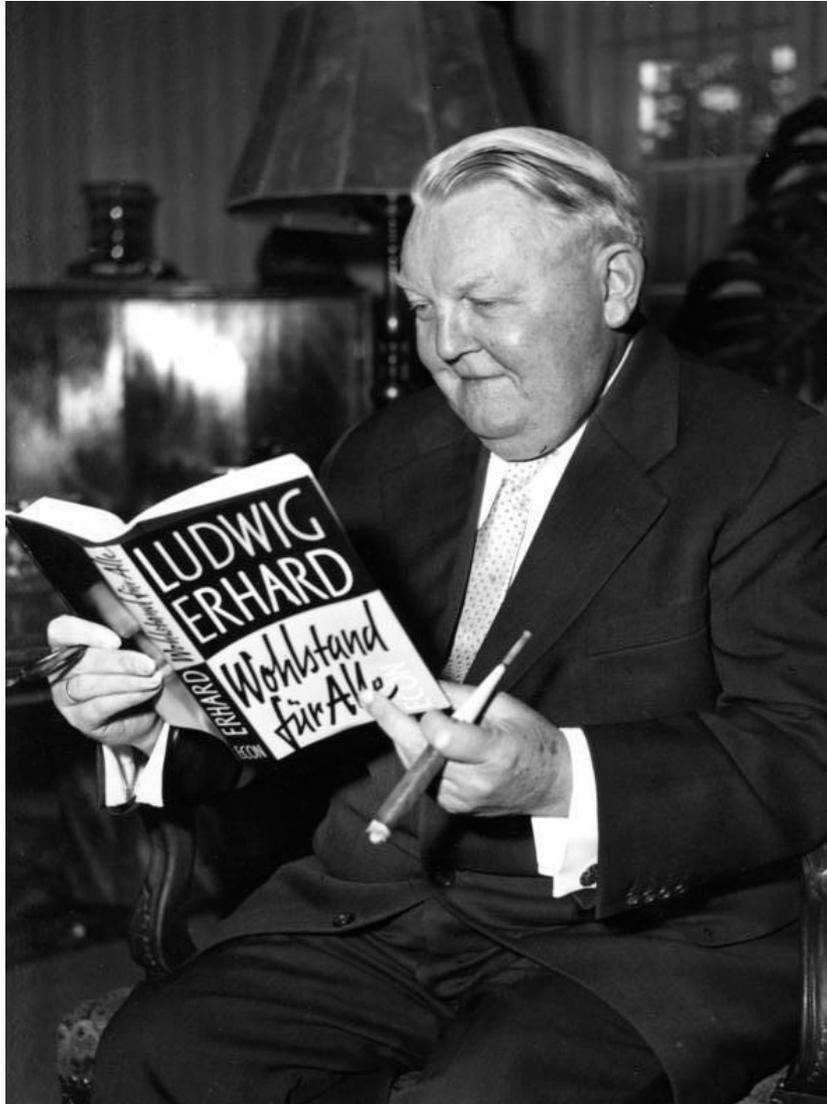
Hartz and the Consequences: Did the Labor Market Reforms Destroy the German Model?

International Workshop
The Transformation of the German Model
February 13-14, 2014

Prof. Dr. Dr.h.c.
Joachim Möller

What characterizes the German Model?

The *Wirtschaftswunder* Model: Ludwig Erhard “Prosperity for Everyone”



Bundesarchiv, B 146 Bild-F00-204-0003
Foto: Adman, Boris T 28. Januar 1967

The German model: Definitions

- Helmut Schmidt (1975): “*Modell Deutschland*”
- Michel Albert (1991):
 - productive model based on diversified quality production
- Wolfgang Streek (1995):
 - corporatist egalitarian high wage economy combining high competitiveness with strong social cohesion
- Hall, Freeman (2001):
 - coordinated market economy with generous social security net juxtaposed to the liberal market capitalism

The German model: Dimensions

- Fuzziness of the definitions!
 - Varieties of capitalism along several dimensions
 - political
 - institutional
 - historical
 - structural
 - Behavioral
- eclectic approach

Characteristics of the German model (1)

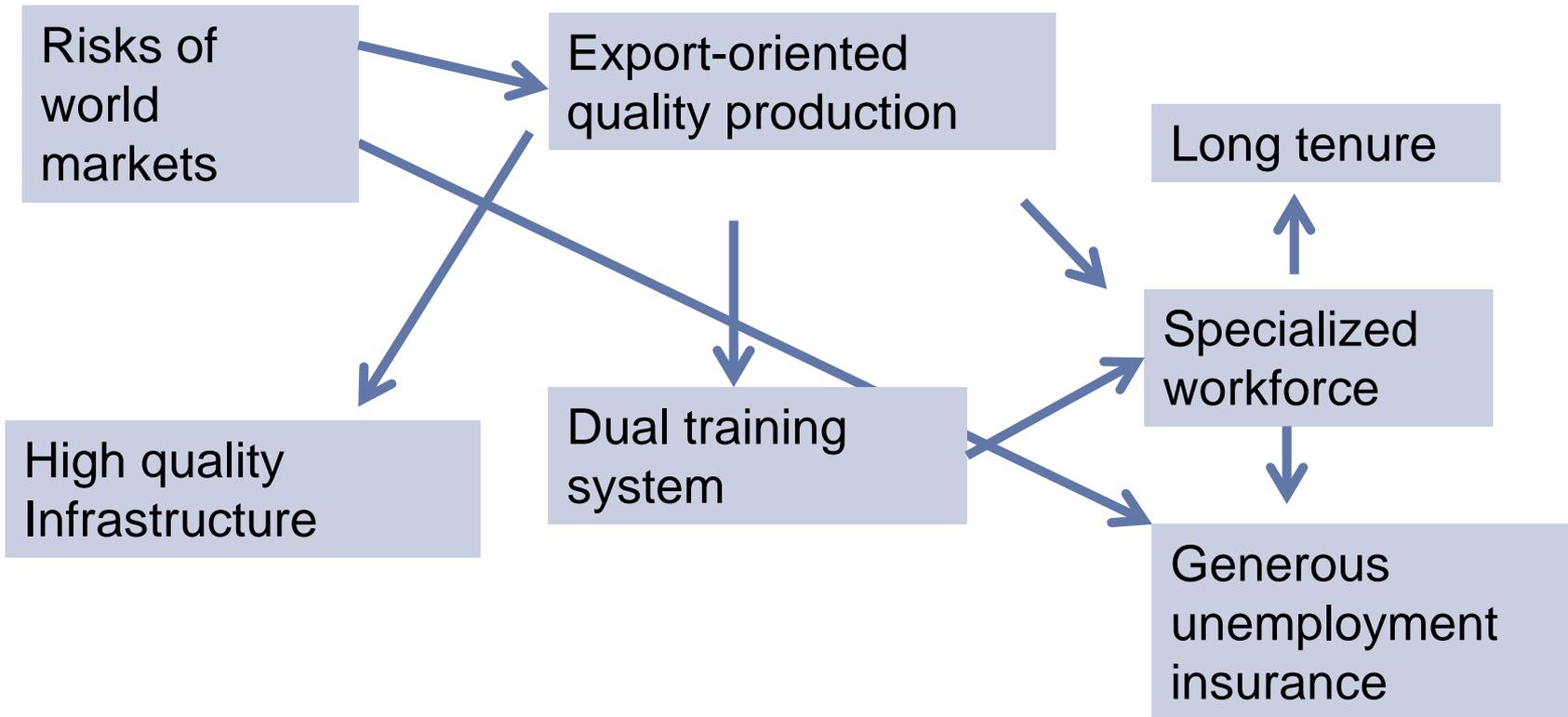
- *Governance*: corporatism, coordinated market economy, industry policy
- *Social security*: relatively generous net financed through wage-related contributions (Bismarck type)
- *Labor relations*: social partnership, co-determination, long tenure
- *Policy*: active labor market policy, short-time working allowances, job protection and other regulations
- *Education*: dual system of vocational training, in-house training measures

Characteristics of the German model (2)

- *Wage setting*: collective bargaining at intermediate level, egalitarian policy stance, productivity (not employment) orientation
- *Economic structure*: strong role of export-oriented manufacturing, diversified quality production
- *Finance*: house-bank system, “patient capital”
- *Infrastructure*: highly efficient transport system, reliable legal system.

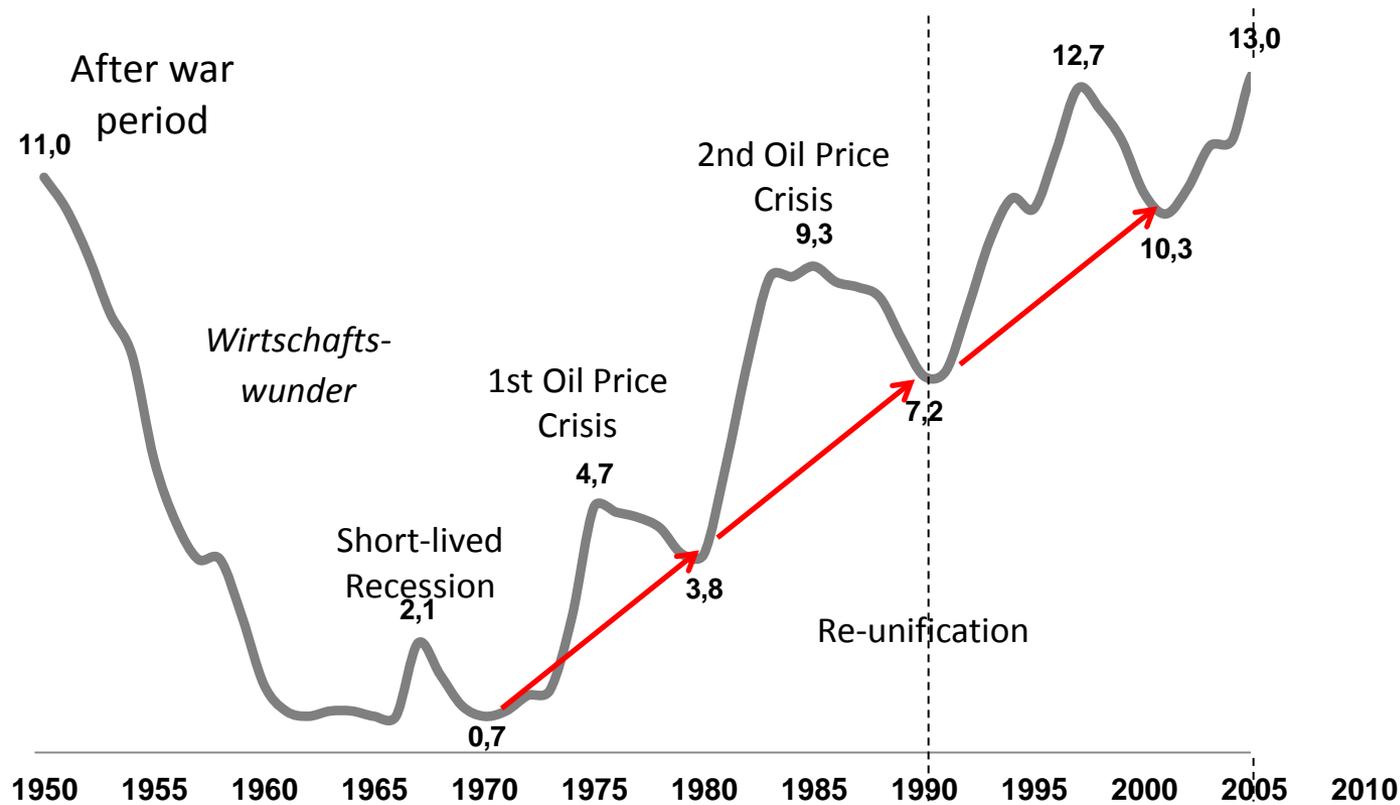
- Importance of firm-specific human capital
 - Vocational training within the firm
 - Long tenure
- Low *external/ high internal (within-firm) flexibility*
 - Lay-off aversion
 - Adjustment mechanism within the firm (working hours, working-time accounts ...)
- Relatively low wage dispersion
- Generous social security net

Complementarities



The crisis

Trend in systemic unemployment: Hysteresis at work



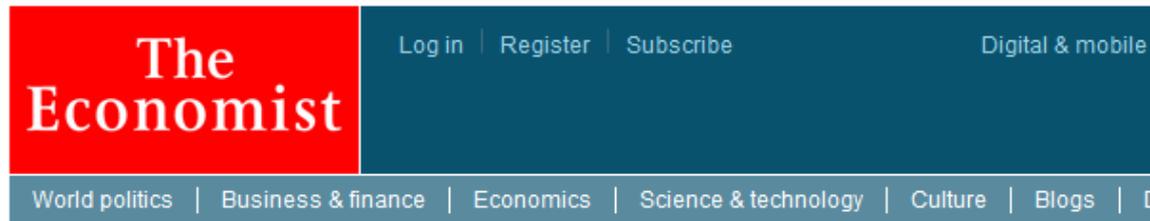
*Unemployment rate (in percent of civil labor force. Germany
1950 to 2010)*

Symptoms of crisis

- 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 1995-2004

Moreover, Germany blamed as ...

- ... a laggard in structural change
 - under-developed service sector
- ... the “paradigm of Eurosclerosis”
 - inflexibility of wage structure, low mobility, over-regulation



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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

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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 cure

Chancellor Schröder in March 2003:

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

Motto:

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

The Prince of Salina in Tomaso di Lampedusa’s *Leopard*

The Teutonic Turnaround (M.Burda)

- Reforms in different steps between 2003 and 2005
- Motto: “supporting and demanding”
- Key elements:
 - Lower job protection (easing fix-term contracts)
 - Reduction of the maximum period for unemployment insurance benefits
 - Tightening of job acceptance regulations for the unemployed
 - De-regulation of temporary work agencies
 - Reform of the Federal Employment Agency
 - Merger of unemployment assistance and welfare (“Hartz IV”)



Consequences of Hartz reforms

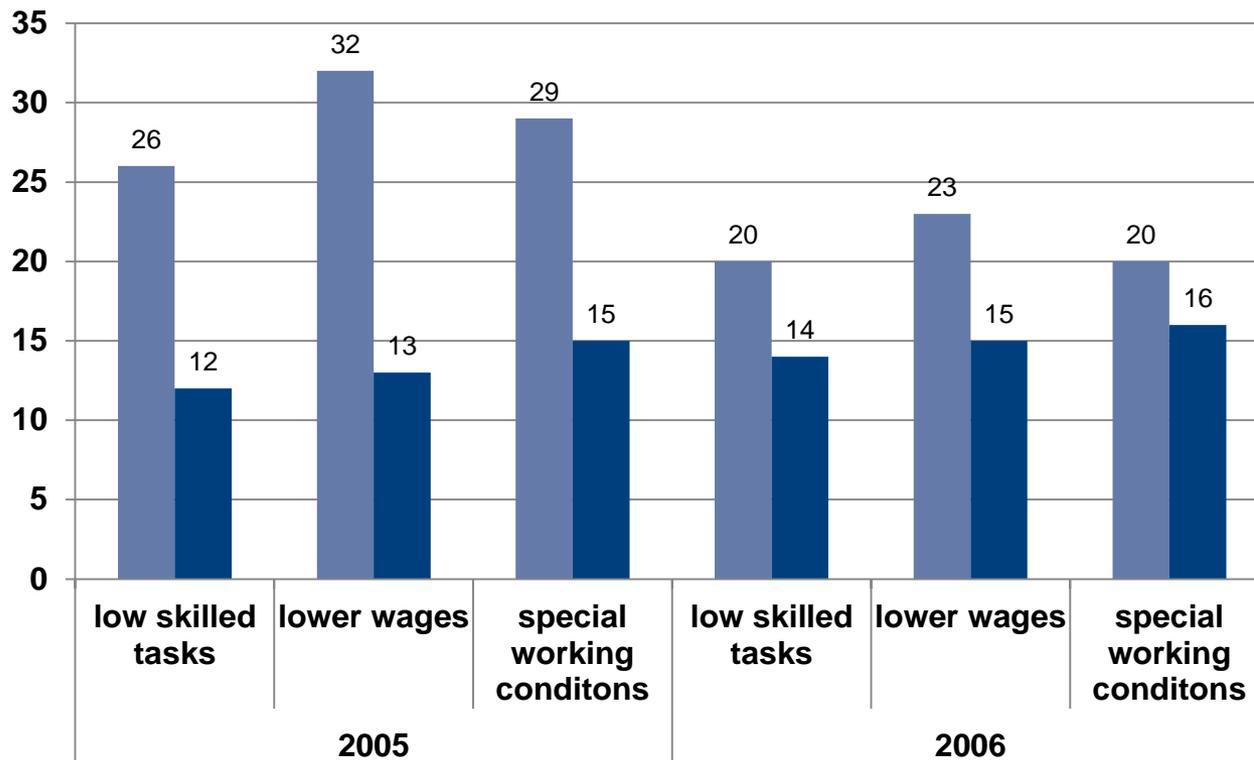


- Welfare recipients generally considered to be available for the labour market if being able to work at least for 3 hours a day (→ unintended by-product: 0.5 m increase in unemployment)
- Unemployed obliged to accept any reasonable job
- Benefits from unemployment insurance means-tested after certain 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)

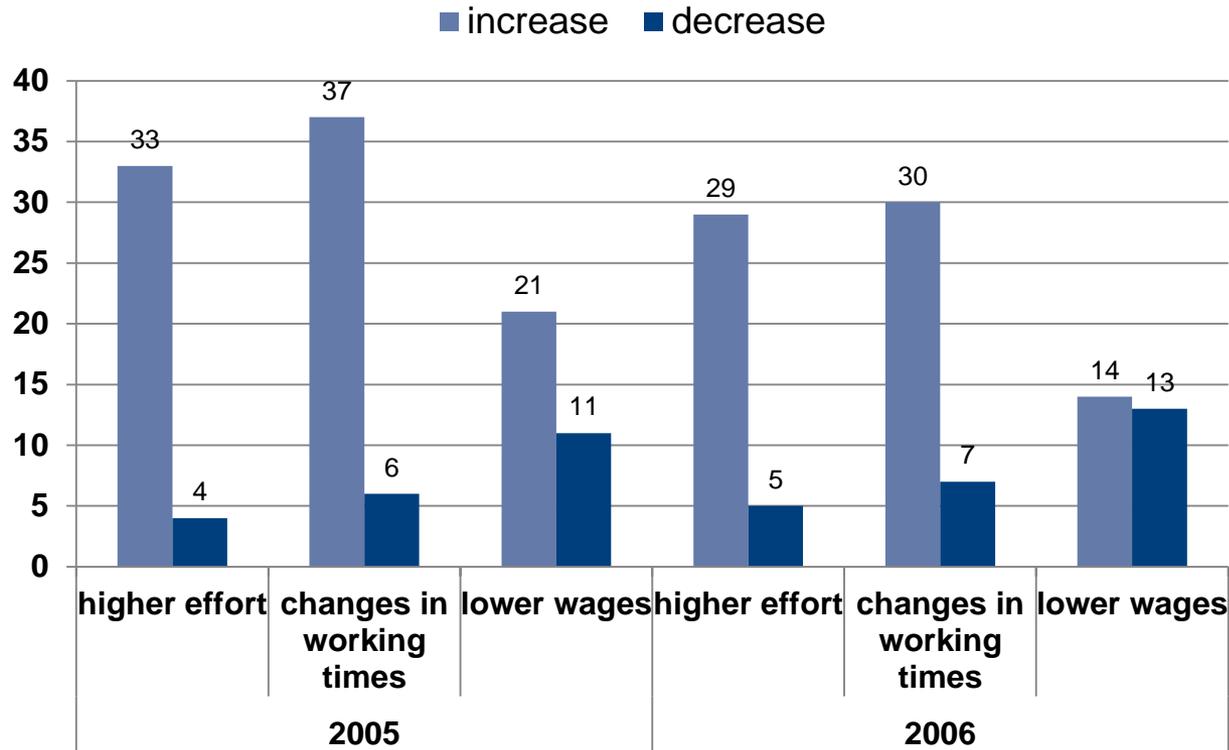
Willingness of jobseekers to accept ...

■ increase ■ decrease

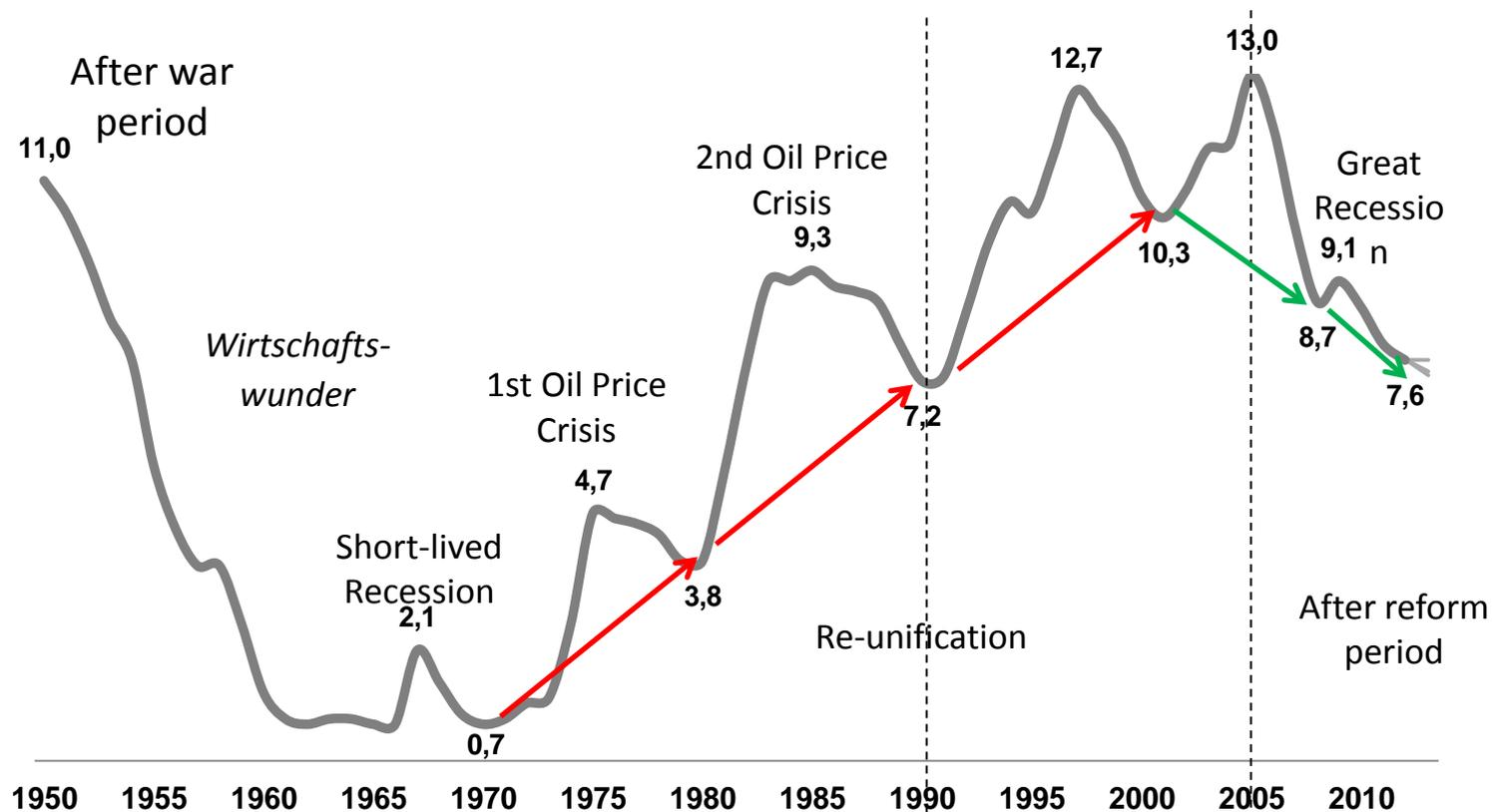


Change in Behavior of the incumbent Workforce (relative to previous year)

Willingness of the incumbent workforce to accept ...



The broken trend



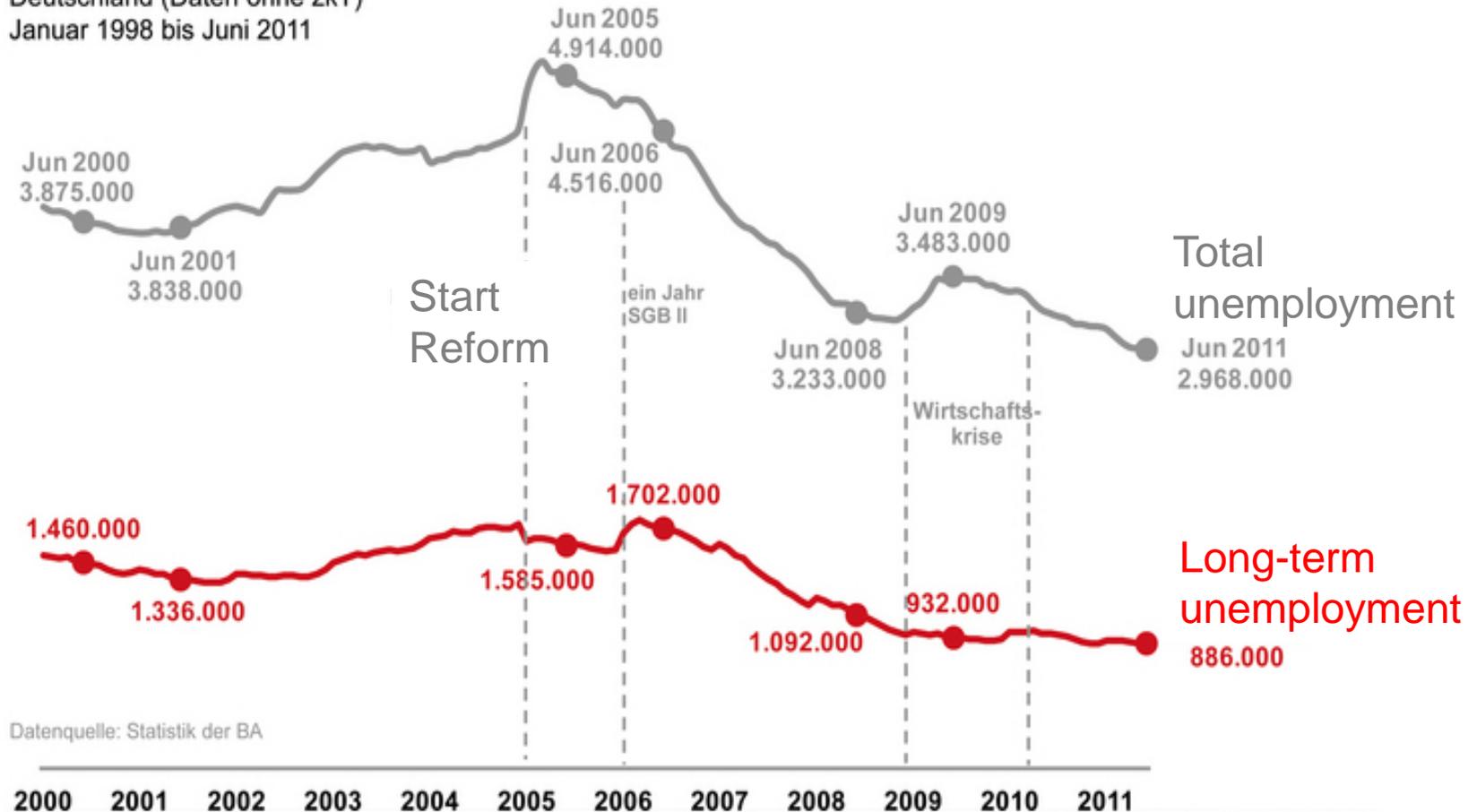
Unemployment rate (in percent of civil labor force. Germany 1950 to 2013)

Lower long-term unemployment

Bestand Arbeitsloser und Langzeitarbeitsloser

Deutschland (Daten ohne zKT)

Januar 1998 bis Juni 2011



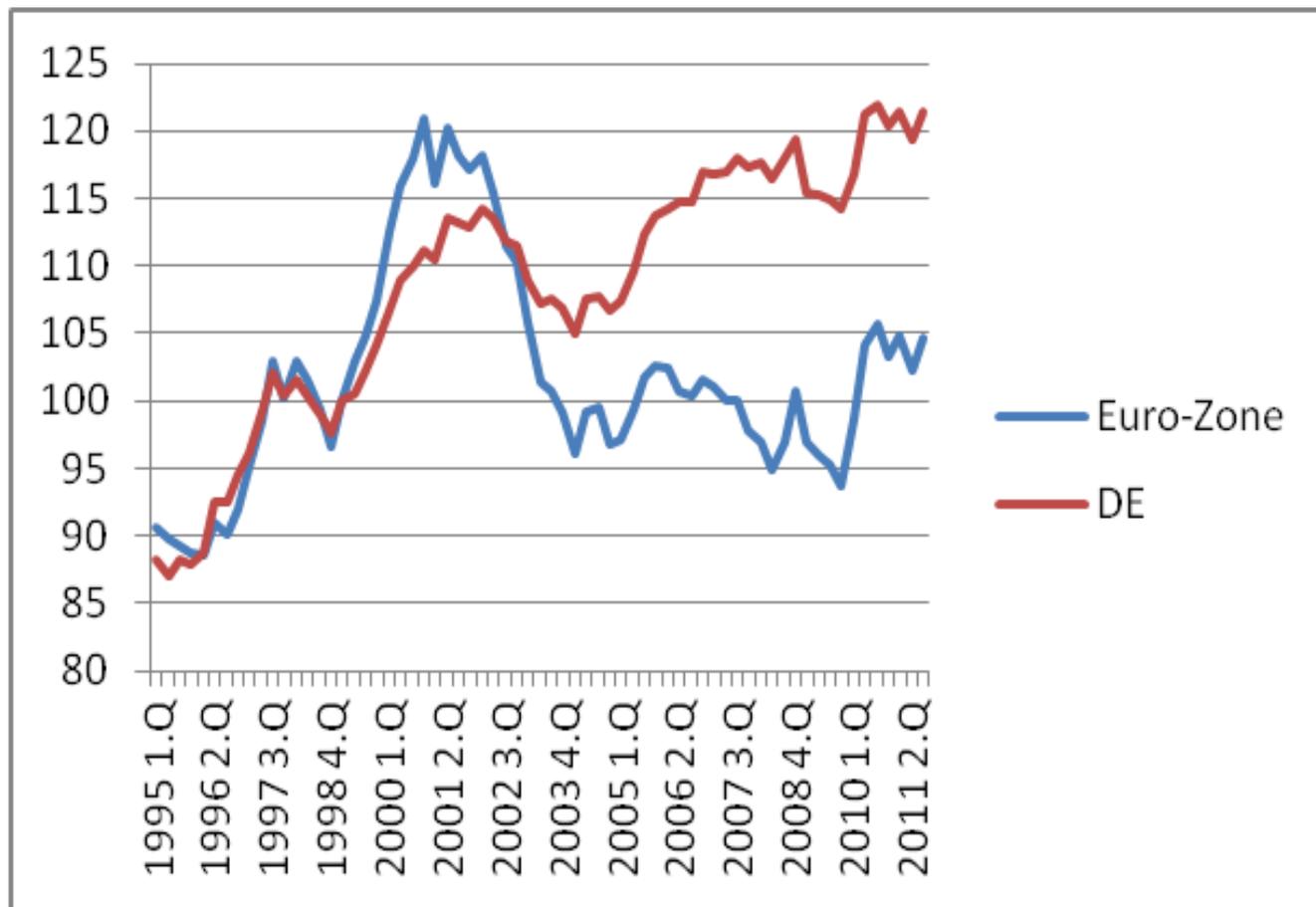
Datenquelle: Statistik der BA

arbeitsmarktberichterstattung@arbeitsagentur.de

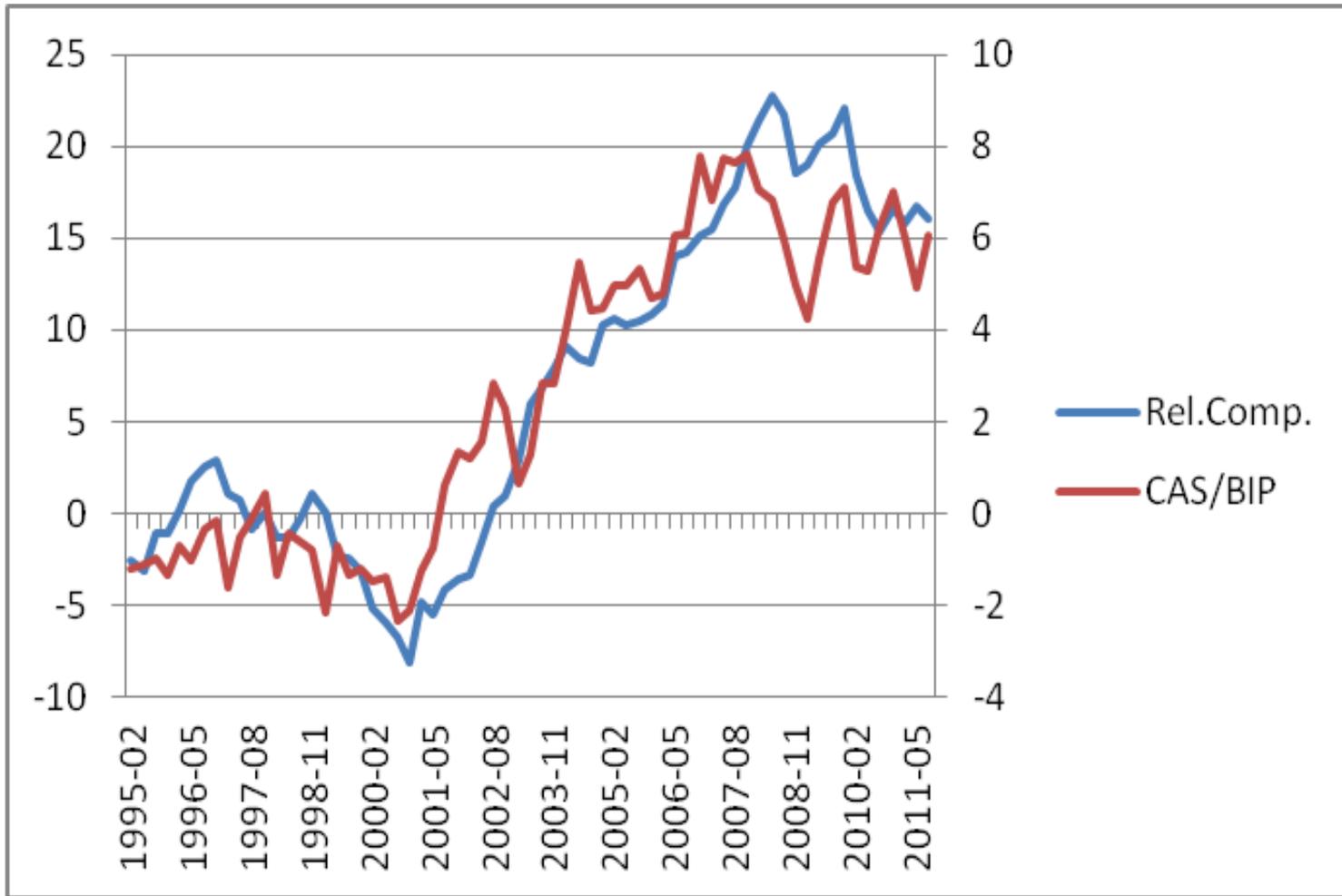
Abbildung 3

Competitiveness Gap – Germany vs. Euro-Zone

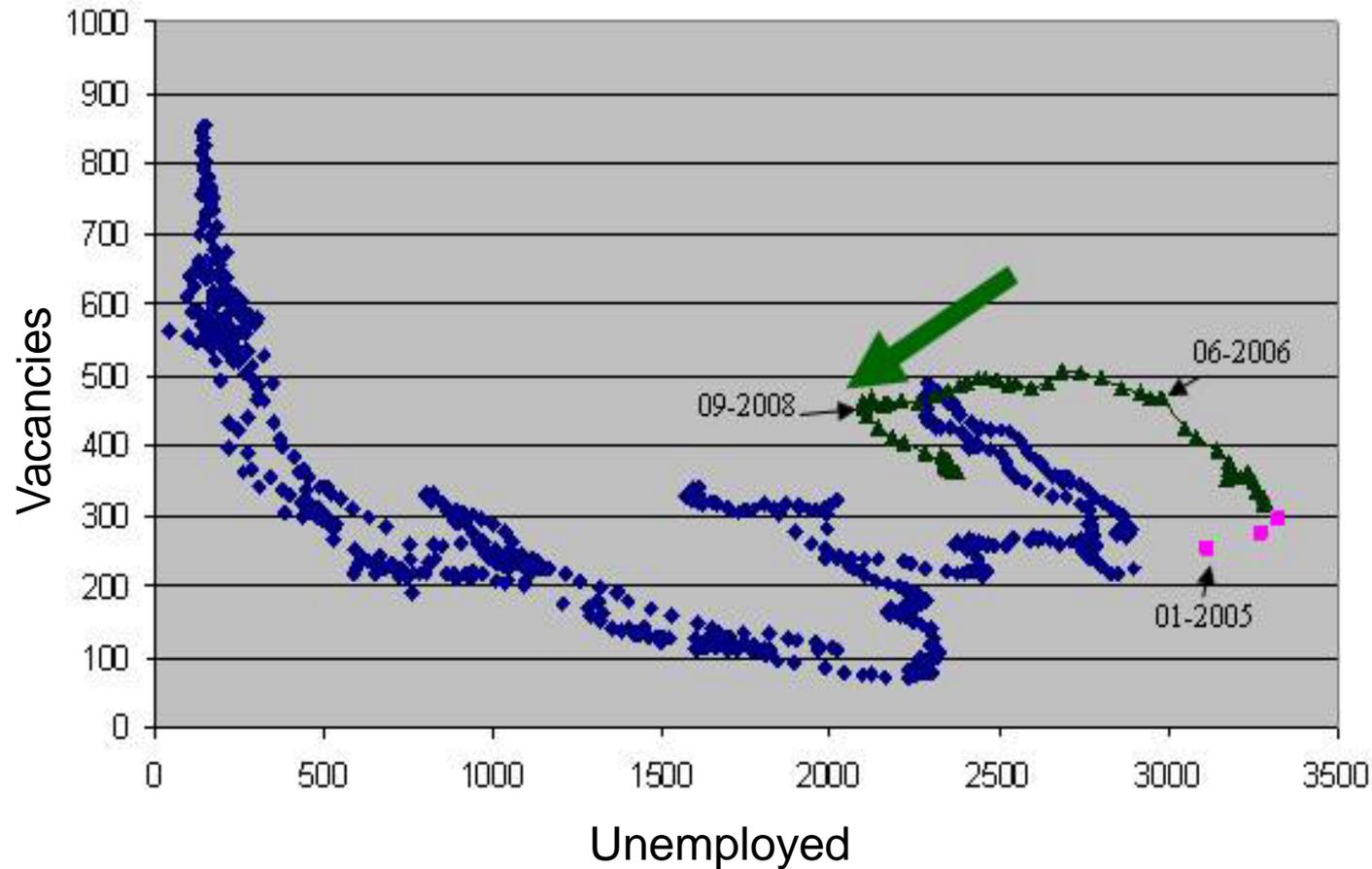
(Inverse effective real exchange rate on the basis of unit labor costs)



Relative Competitiveness and Current Account Surplus



Improved Functioning of the Labor Market: The Beveridge-Curve 1950:M1 to 2010:M3



The litmus test

Great Recession: Real GDP shock and change in the unemployment rate (OECD-countries)

2008,Q2 to
2009,Q2



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

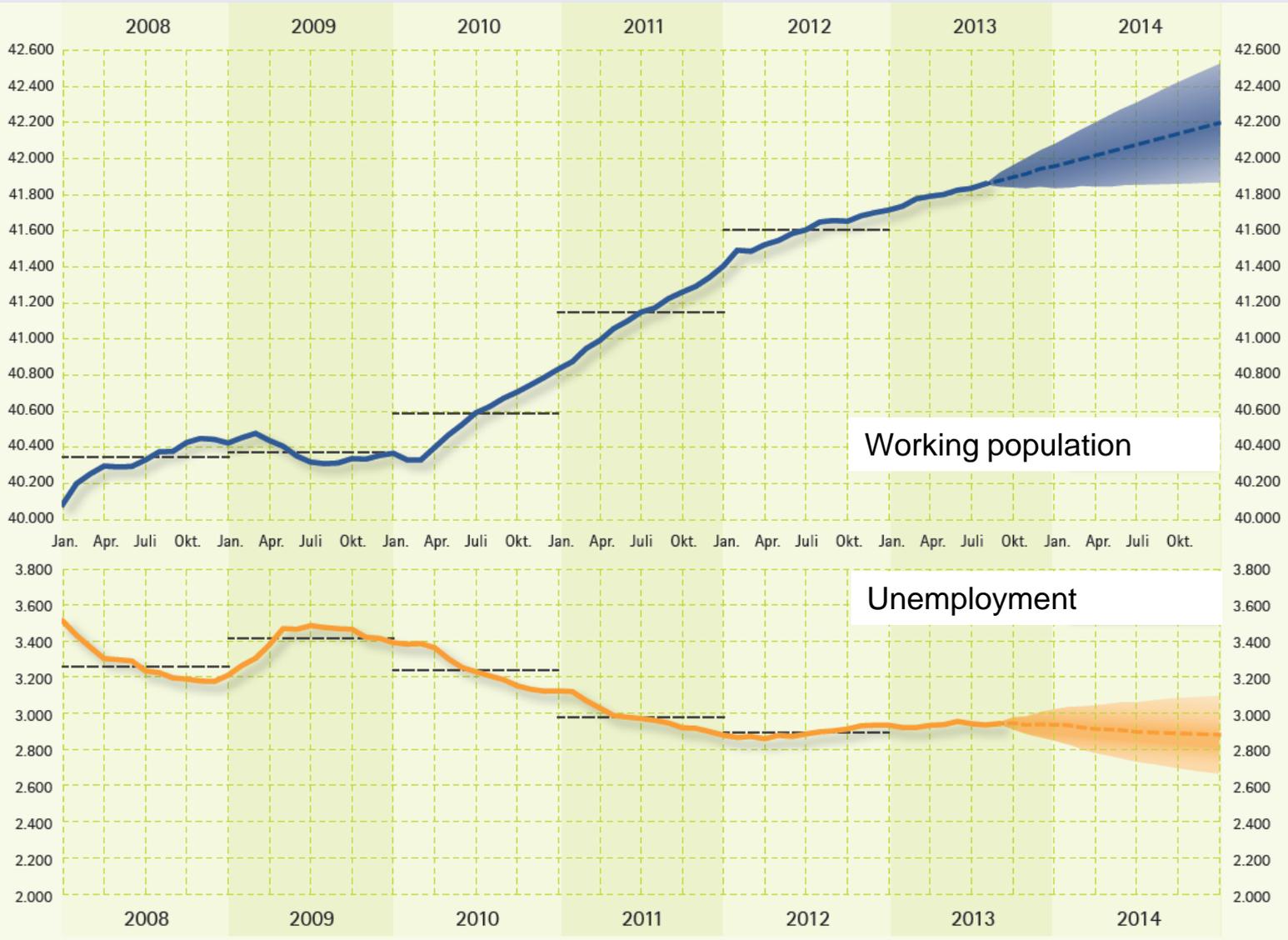
Explanation of the "Miracle":

- 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



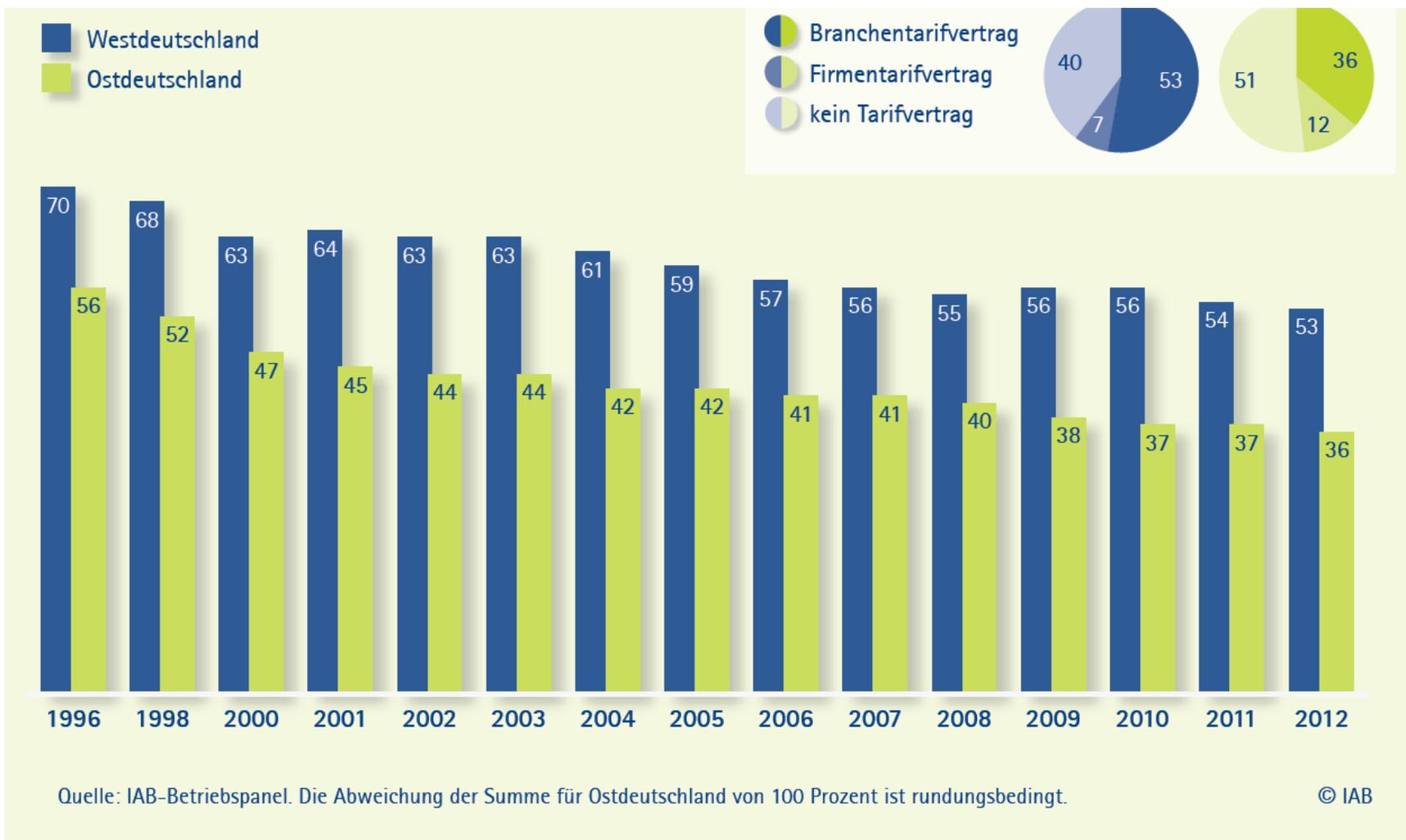


Working Population and Unemployment 2008-2014 (actual and predicted)



Challenges

Declining coverage of collective bargaining



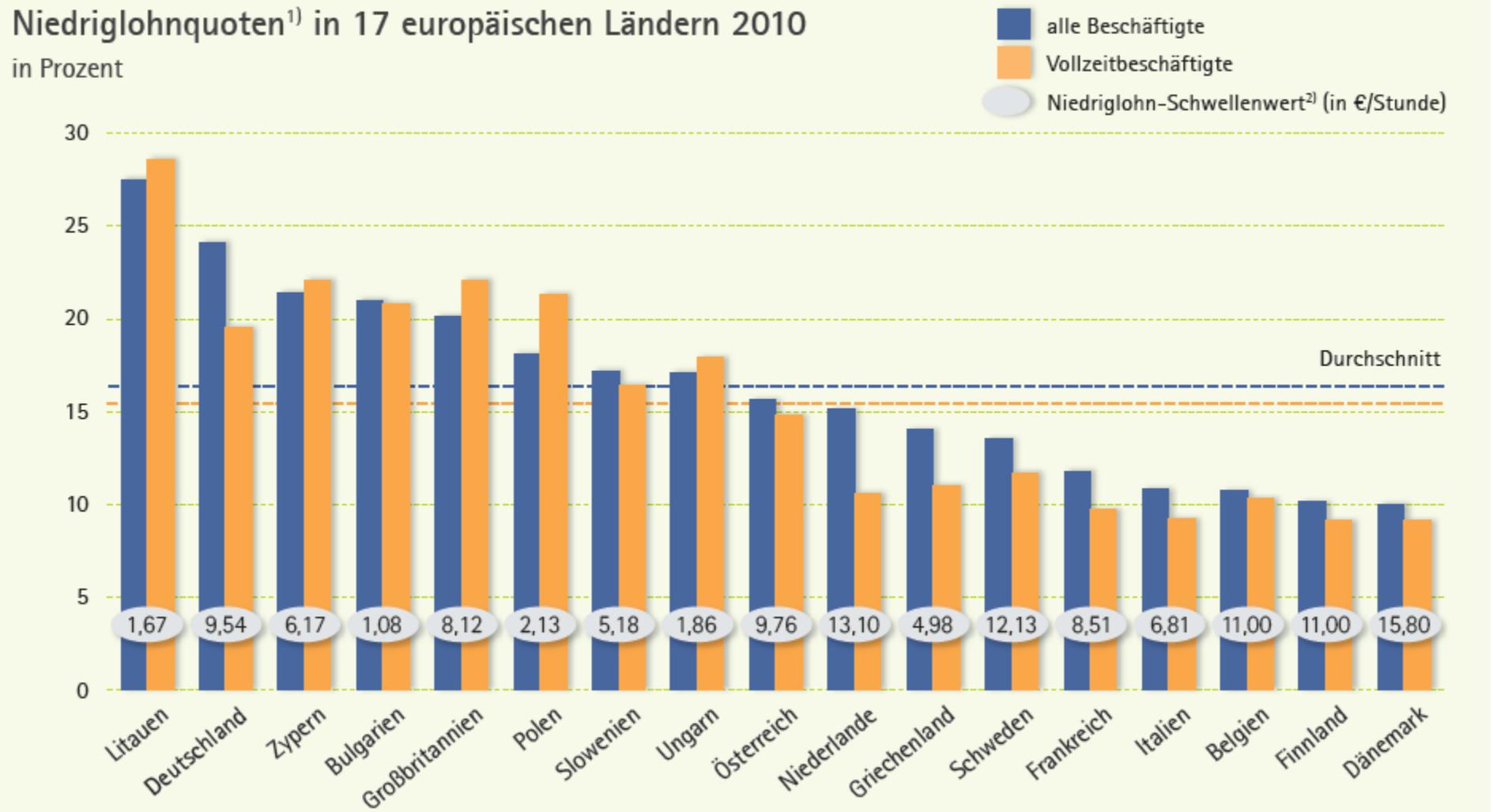


Woes of the reform



- Increasing segmentation of the labor market
 - decrease of “normal” employment contracts
 - working poor
 - job instability
 - wage inequality
 - real wage losses
- Limits of activation
 - right balance between “supporting” and “demanding”?
 - specific problems of long-term unemployment

Growth of the low-pay sector

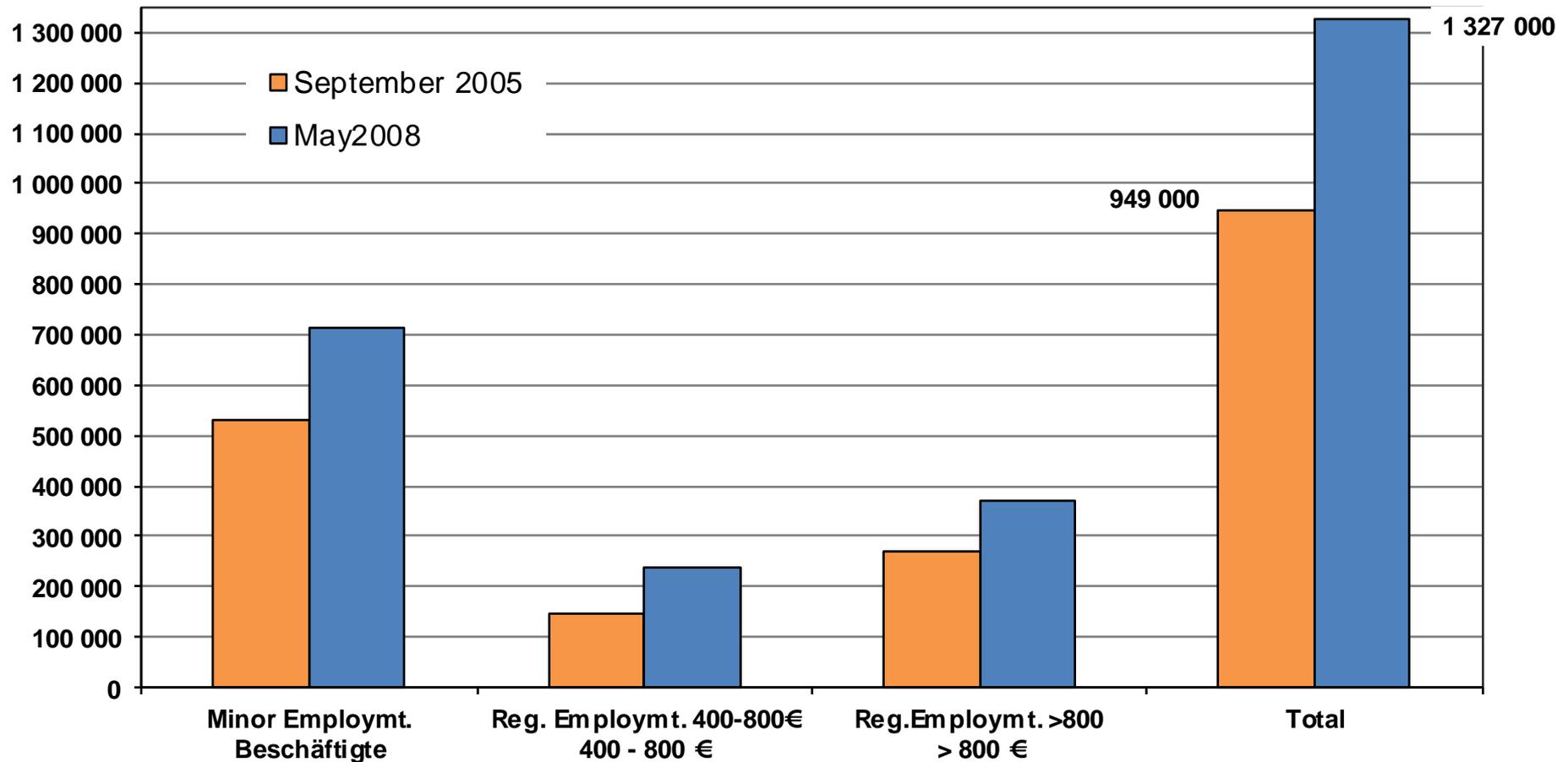


Fallen share of “normal” employment contracts* especially for the young and the low skilled

	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%

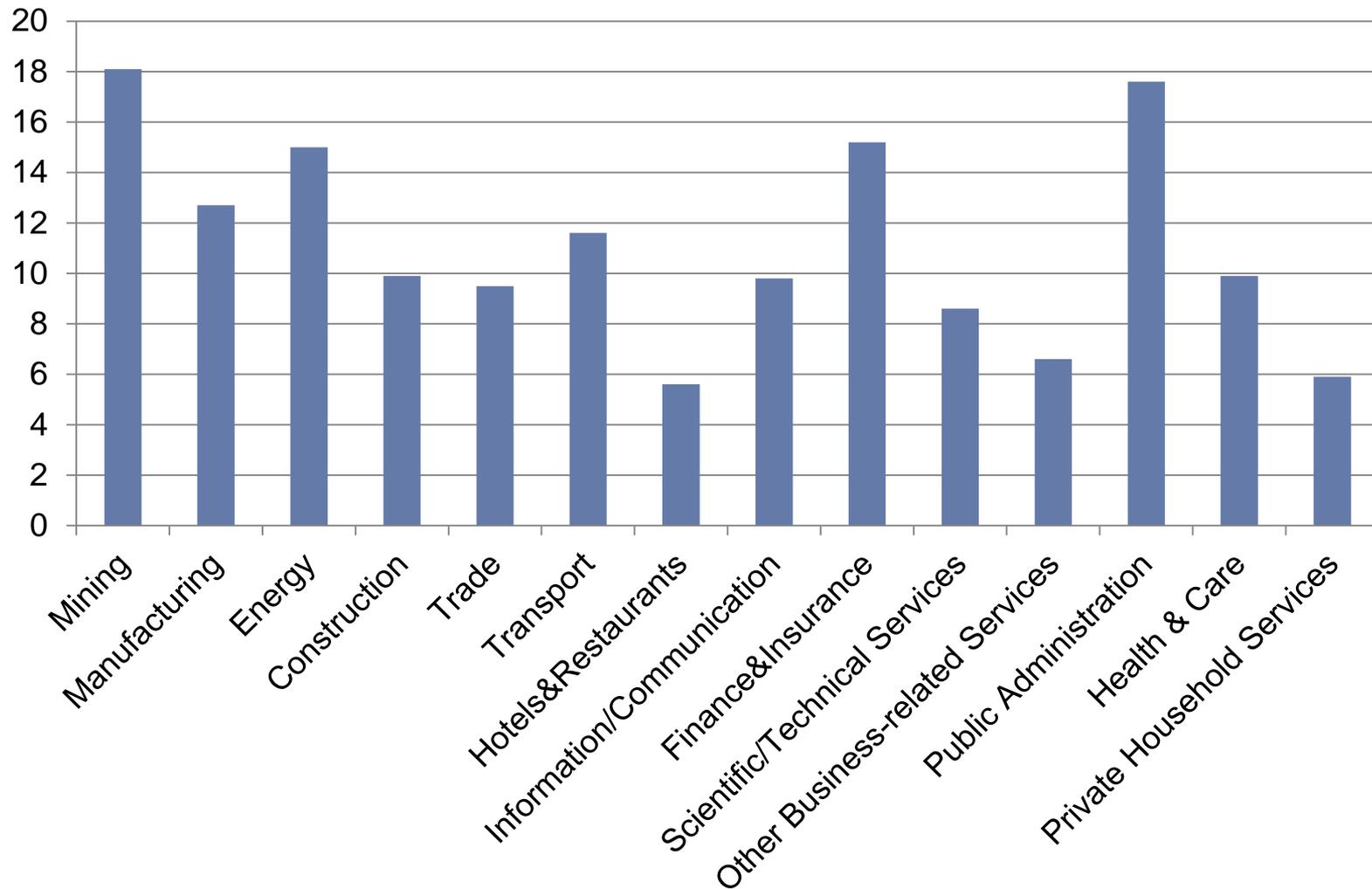
* full-time employment, permanent contract eligible to social contributions; working with the same employer (no temps)

Increase in working poor between 2005 and 2008

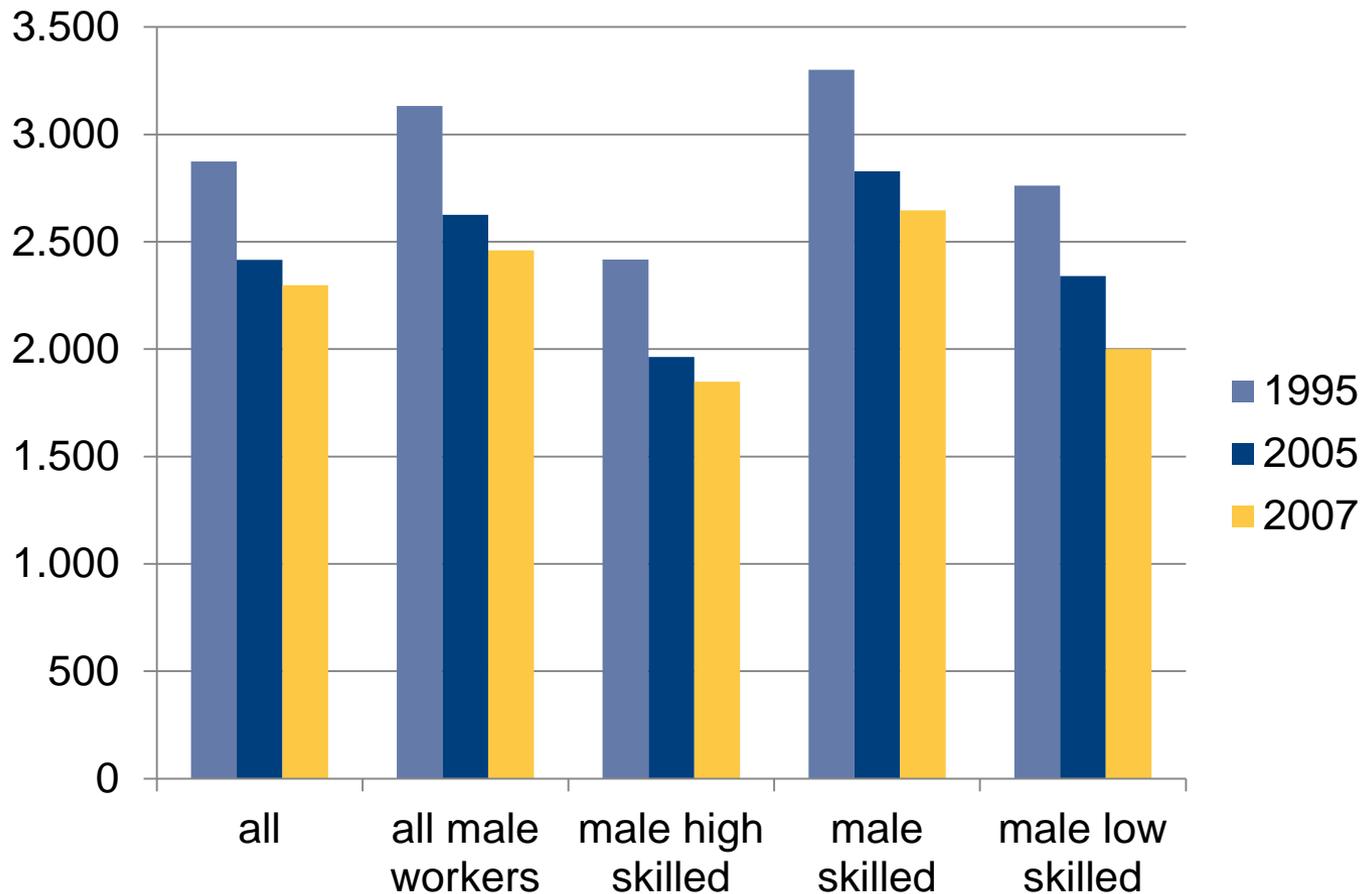


Job stability

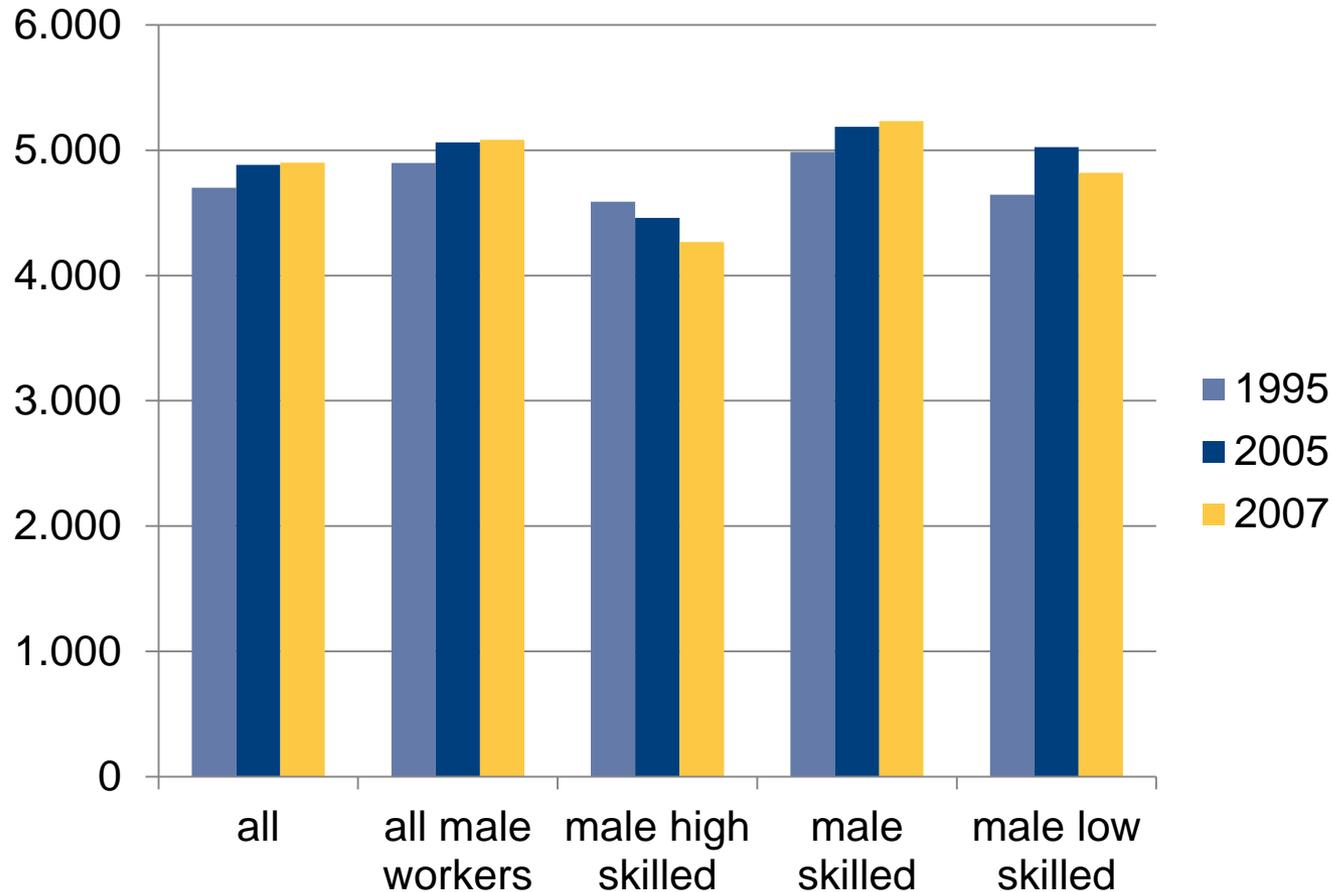
Previous employment spell length of workers by sector



Mean employment spell length of workers of age 30 (in days)



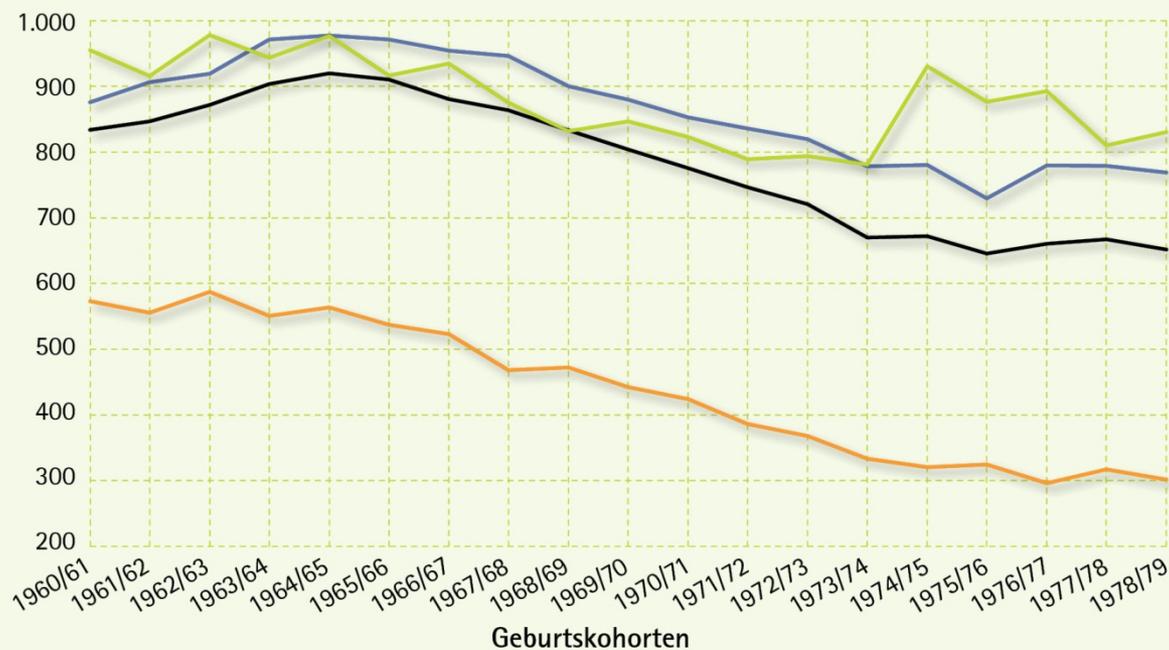
Mean employment spell length of workers of age 40 (in days)



Average tenure for young workers by skills

Durchschnittliche Beschäftigungsdauer (in einem Betrieb) von westdeutschen Personen bis zum 30. Lebensjahr – nach Qualifikation

Dauer in Tagen



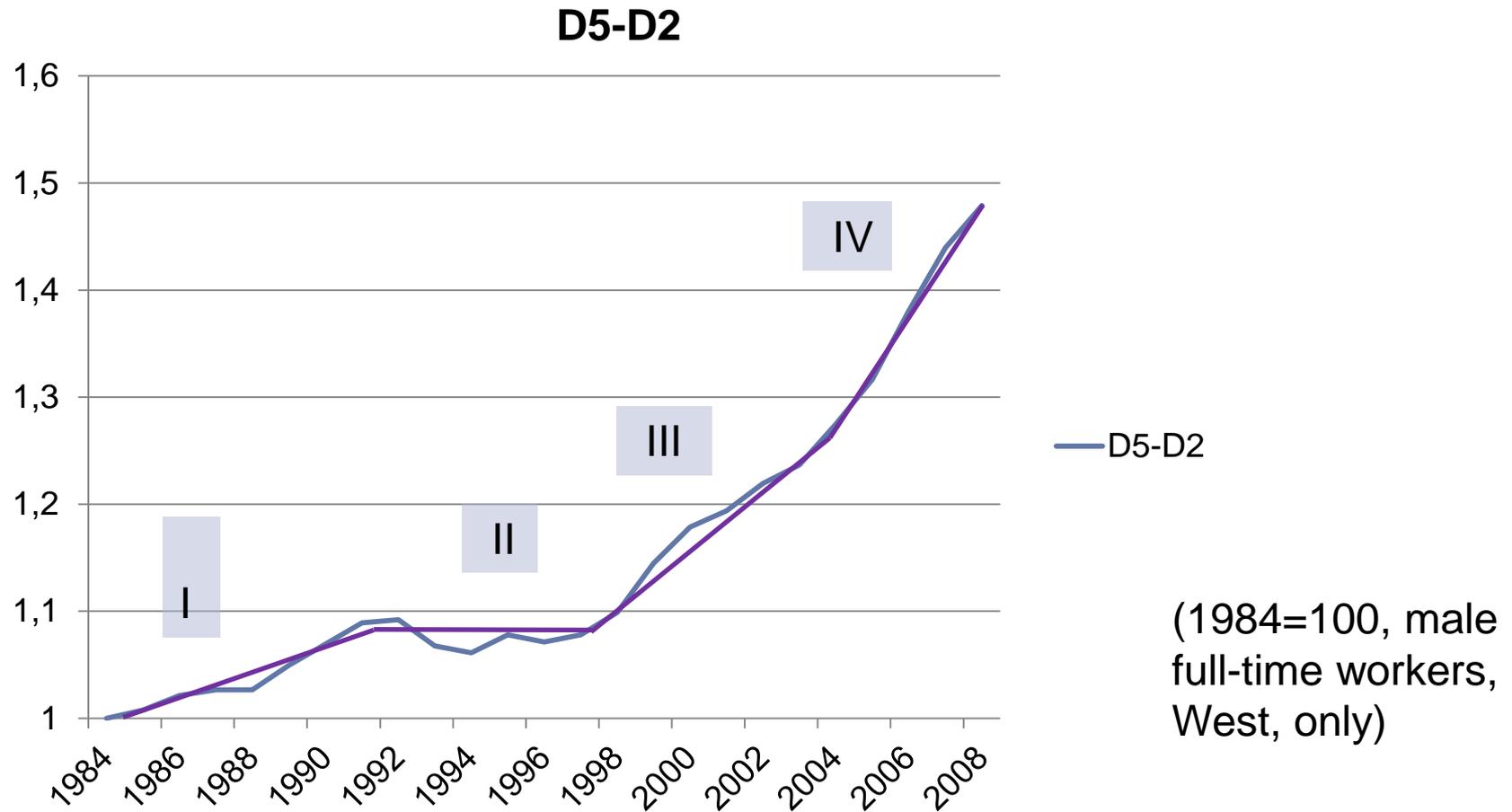
- mit Fach-/Hochschulabschluss
- mit abgeschlossener Berufsausbildung
- alle Personen der jeweiligen Kohorte
- ohne abgeschlossene Berufsausbildung

Quelle: Eigene Berechnungen auf Grundlage der Stichprobe der Integrierten Arbeitsmarktbiografien (SIAB), Westdeutschland.

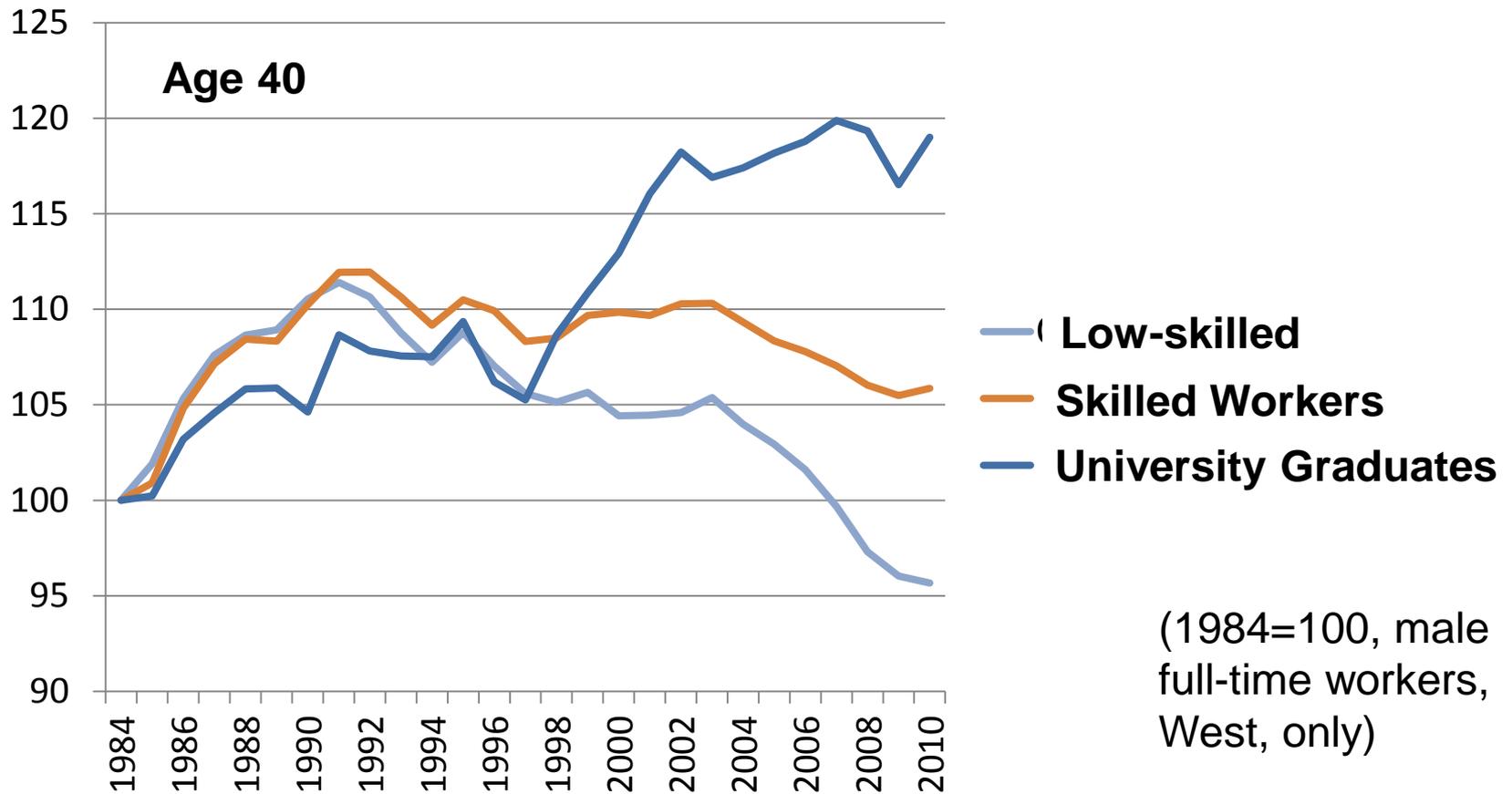
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Wages and wage inequality

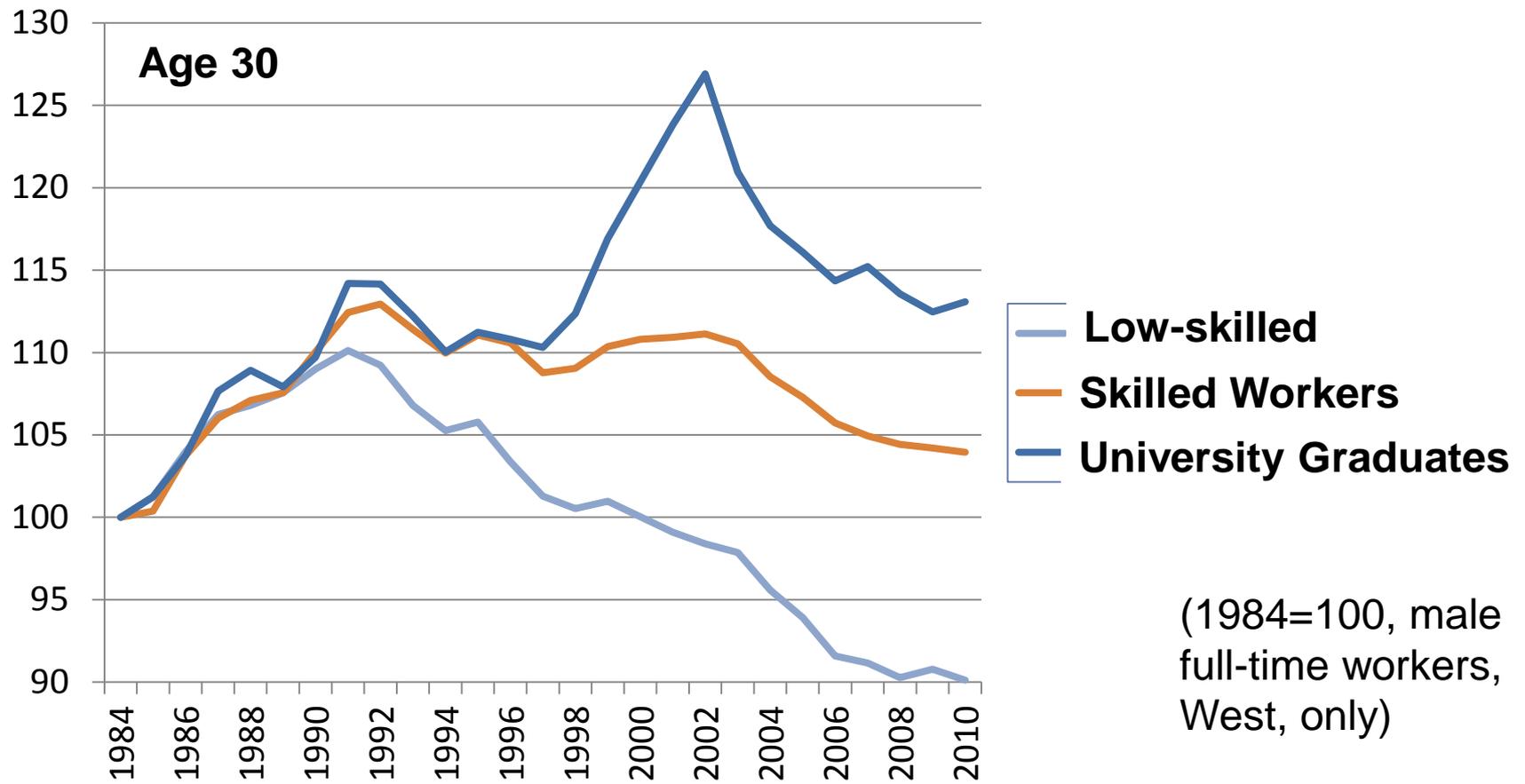
Increase in the inequality Index (1984=1) 1984-2008



Long-run real wage losses for the low-skilled, Increasing wage dispersion (1)



Long-run real wage losses for the low-skilled, Increasing wage dispersion (2)





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



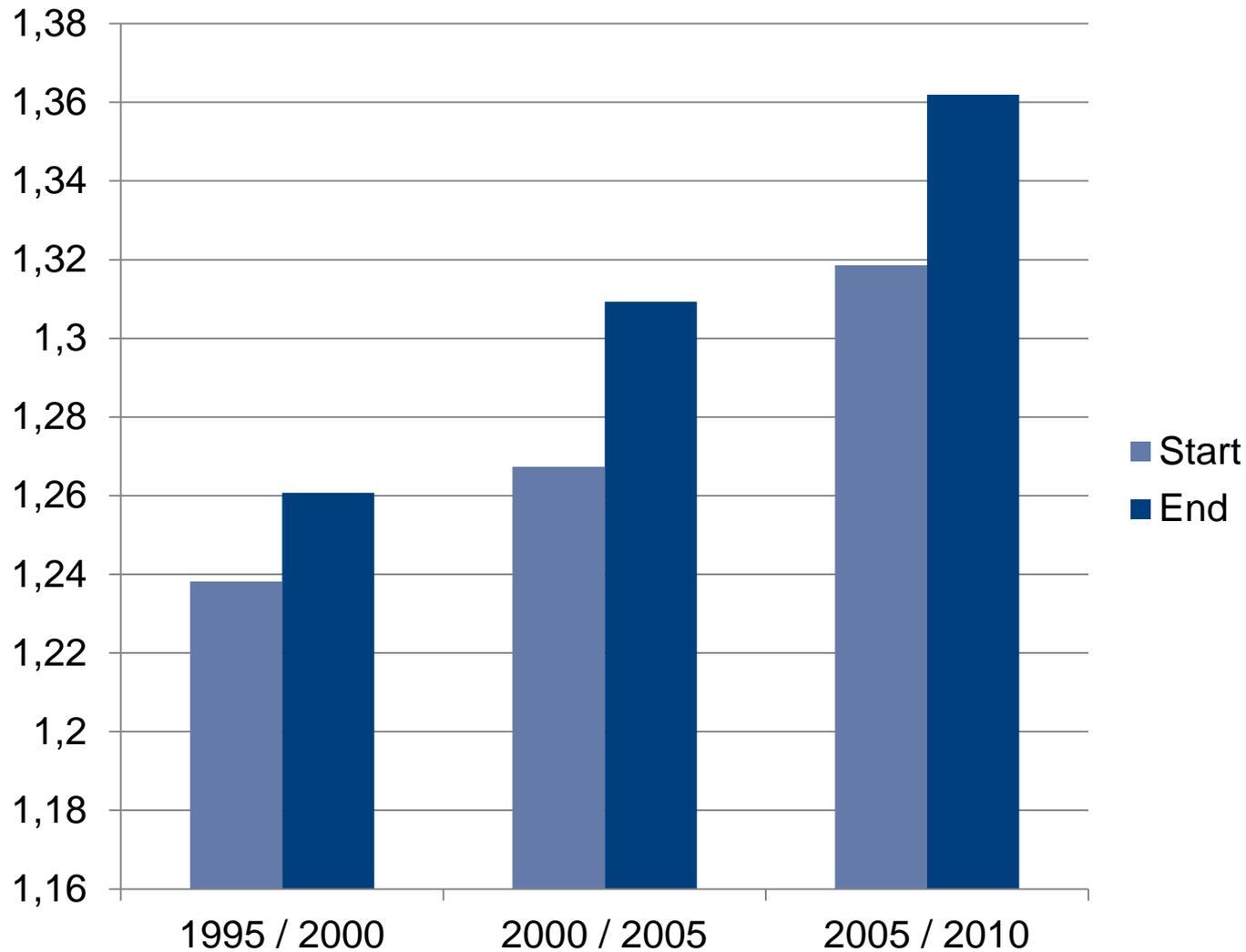
- Position 1: The marked increase of the low-pay sector was necessary to get the less-productive workers into jobs.
 - Increase in inequality is the “nature of the game”
 - Egalitarianism would cost jobs!

- 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?



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



Employed workers only!

Conclusions

Did the Hartz Reforms destroy the German model?

Did the reforms destroy the German model?



- No, but ...



Effects of the Hartz reforms on the German model



- Dual training system → No!
- Relatively high job protection → Some! (more fixed-term contracts especially for young adults, more temps)!
- High coverage of collective bargaining → No, but declining trend!
- Strong role of social partnership (and co-determination) → No!
- Generous social benefits → Some! (lower duration; loss of status after 1 year!)
- Wage dispersion → Yes, significant increase!
- Solidarity → Yes, real wage losses for some groups!

Reform of the reform necessary to keep the German model alive?



- The reforms did not destroy the fundamentals of the German model!
- They were necessary, but improvements are possible with respect to ..
 - ... the integration of long-term unemployment
 - ... inequality
 - ... job stability

Further Information:
www.iab.de

Contact:
joachim.moeller@iab.de

Bildung ist der beste Schutz vor Arbeitslosigkeit

Qualifikationsspezifische Arbeitslosenquoten in Deutschland 1975 bis 2012

Arbeitslose in Prozent aller zivilen Erwerbspersonen (ohne Auszubildende) gleicher Qualifikation 1975 bis 2011



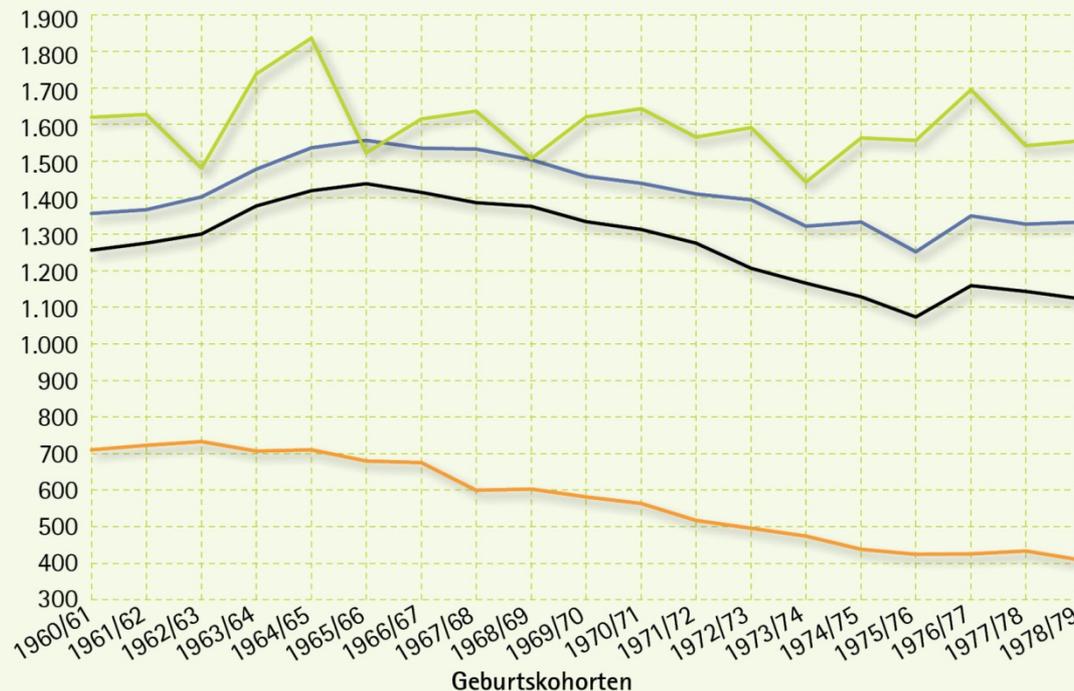
Anmerkung: Arbeitslose in Prozent aller zivilen Erwerbspersonen (ohne Auszubildende) gleicher Qualifikation; Erwerbstätige ohne Angabe zum Berufsabschluss nach Mikrozensus je Altersklasse proportional verteilt; bis 2004 Erwerbstätige im April; ab 2005 Erwerbstätige im Jahresdurchschnitt.

Quelle: IAB: Aktuelle Daten und Indikatoren. Qualifikationsspezifische Arbeitslosenquoten. 14. Oktober 2013

Average employment spell length for young workers by skills

Durchschnittliche durchgängige Beschäftigungsdauer (ggf. in mehreren Betrieben) von westdeutschen Personen bis zum 30. Lebensjahr – nach Qualifikation

Dauer in Tagen



mit Fach-/Hochschulabschluss
mit abgeschlossener Berufsausbildung

alle Personen der jeweiligen Kohorte
ohne abgeschlossene Berufsausbildung

Quelle: Eigene Berechnungen auf Grundlage der Stichprobe der Integrierten Arbeitsmarktbiografien (SIAB), Westdeutschland.

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After the reforms: All indicators of underemployment point in the same direction ...

