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### **Temporary layoffs: A “new” strategy for increased flexibility in Germany?**

In the German debate on firms' flexibility strategies, one strategy for handling the fluctuation of labour requirements is mainly ignored: the temporary laying off of employees and their subsequent reemployment by the same employer (recalls). This paper focuses on describing the extent of recalls in Germany and analysing their determinants. It can be shown that even in Germany recalls are used as a firm-specific strategy to respond to cyclical labour demands, which is not only restricted to certain sectors or branches.

The paper first locates recalls within the context of different flexibility strategies discussed in current labour market research. It then goes on to discuss why it is rational both from the viewpoint of a single company and from the viewpoint of laid-off workers to implement recalls and to wait to be rehired. Firms use recalls for the purpose of increasing their external-numerical and external-monetary flexibility in order to reduce labour costs and – in the case of reemployment – transaction costs and to maximize their investments in human capital. Although employees often have no other opportunities, the firm-internal benefit is contingent on their willingness to wait. Employees can also reduce their transaction and mobility costs and optimize their investments in human capital if they are recalled. Moreover, firms can provide an incentive and offer competitive and income advantages in the case of reemployment. The use of recalls depends on at least three further external preconditions. Firstly, labour law must permit layoffs, secondly, there must be an oversupply of labour on the labour market, and thirdly, social security systems must exist which support employees during the time of their layoff.

Descriptive results using the linked employer-employee dataset (LIAB) of the Institute for Employment Research (IAB) show that from 1993 to 2001 between 12 % and 20 % of all new recruitments after a period of unemployment compensation were cyclical recalls in Germany. They increase in number if there is an oversupply of labour on the labour market as this reduces the risk for firms of former employees finding work with another firm. Multivariate results at company level support the assumption of an intersectoral and firm-specific use of recalls. In addition to the descriptive results, it can be seen that firms which do not compete with many other firms in personnel recruitment use recalls more often than firms which are confronted with a highly competitive situation. Furthermore, the number of recalls increases both in firms with high labour costs and firms with a large proportion of skilled workers. While the former use recalls for the purpose of increasing monetary flexibility, the latter halt the loss of firm-specific human capital. Firms which already use external-monetary flexibility strategies and benefit from federal or state subsidies use more recalls than others. Multivariate results on the level of employees support the assumption that employees who are reemployed by their former employer gain income advantages. Additionally, the length of the previous firm-specific employment has a positive wage effect.

Finally, the relevance of the results is discussed against the background of the current debate about flexibility strategies in Germany and topics for further research are indicated. Presumably, increasing unemployment and high cyclical fluctuations of labour requirements encourage the expansion of firm-specific labour markets. Moreover, it can be assumed that an increasing number of recalls intensifies asymmetries between employers and employees and affects the social security system.