

Bernd Fitzenberger, Olaf Hübler, Kornelius Kraft

Potentials for increasing flexibility in heterogeneous labour markets – an introduction

For quite some time, there has been a discussion as to whether labour market flexibility is insufficient in Germany. This low flexibility is frequently referred to as one reason for Germany's persistently high unemployment rate. This policy discussion requires careful economic analysis. The otherwise quite helpful assumption of homogenous workers and homogenous companies is not suitable for analysing problems of insufficient flexibility and possible potentials for improvement, as different segments of the labour market may be in very different situations. During recent years the manifold modifications of the basic conditions have led to very different reactions on part of supply and demand. At the same time, different groups of employees companies have reacted in quite dissimilar ways, which has led to a growing heterogeneity concerning labour market conditions between workers with different qualification levels, occupations, companies, industries and regions. One example is the occurrence of a shortage of qualified labour and an oversupply of unskilled workers. Obvious flexibility problems exist, which inhibit the equilibria in submarkets.

Economic theory no longer just considers homogenous agents, but in recent years progress has been made towards a more realistic analysis of obstacles to flexibility by including heterogeneity. One example is the modelling of institutions such as unions and, in the German context, works councils and codetermination. Furthermore, individual incentives are taken account of and also situations with information problems are analysed, which for instance imply search processes on the labour market. Game theoretical contributions investigate strategic behaviour. Another very important aspect is certainly the analysis of investment in human capital encompassing general as well as further education/training and publicly funded training programmes for the disadvantaged.

Similarly, empirical research has started to take account of recent developments. Instead of using aggregate data, nowadays individual, firm and linked employer-employee data are analysed. In order to deal with heterogeneity, specific methods of microeconometrics have been improved and newly developed. Experimental economics tries to analyse the behaviour of individual players in different situations and to identify the separate steps required until equilibrium is reached. This makes it possible to collect data which are rarely available in real world situations. New data sets and advanced methods are improving the possibilities for measuring different behaviour and for testing economic theories and hypotheses.

Despite having made progress, we still do not know enough about the question of what adjustment behaviour is successful under which circumstances on the labour market. Due to the changing structure of employment relations, the increasing heterogeneity between groups of workers and a growing divergence of the targets that workers and companies are trying to achieve, it is becoming more difficult to identify a suitable and successful strategy which makes it possible to achieve the goals. There is not just one single optimal strategy, but several adjustment strategies may be successful. The general task of this DFG-funded research network is to investigate the sources of flexibility problems and to look for solutions.

For instance, there is a need to investigate the fundamental reasons for the growing heterogeneity of employment relationships. Is it a reaction to a lack of flexibility of the established employment relationships? Are developments outside the labour market responsible or has the relationship between forces inside and outside the companies changed? Will movements between dependent employment and self-employment become more frequent? What effects will the observed modifications of working lives have?

Another emphasis of the analysis is the importance of institutions with respect to results on the labour market. Which interactions between market forces and institutions are observed? To what extent do collective bargaining agreements, unions and works councils limit adjustment processes, or are they on the contrary helpful? In addition, the effects of labour market regulations have to be taken into account.

The German system of vocational training has also received international attention. Is it still a cornerstone for the professional career or is it losing in importance? Are recent trends, for example concerning technical progress and modifications in trade and international finance, leading to a deterioration of the classical occupational areas?

Since 2004, the DFG has financed the research network “Flexibility in Heterogeneous Labour Markets”, which intends to uncover potentials for more flexibility and to identify relations between heterogeneous labour markets. The general target is to make a scientific contribution to answering the questions mentioned above. The establishment of this network also aims to reduce deficits in Germany concerning research on labour markets in general. More than 20 projects contribute to the scientific discussion on labour market flexibility. The groups meet twice per year to discuss their results in workshops. In addition, once per year an international conference is held on a specific topic, where international experts from all over the world participate. This special issue of the Journal for Labour Market Research serves to document the work of our research network.