

Institut für Arbeitsmarkt-
und Berufsforschung

Die Forschungseinrichtung der
Bundesagentur für Arbeit

IAB

Financial Crisis and Labour Market - The German Case

**Conference of International Institute for
Labour Studies (IILS)**

**„Overcoming the Jobs Crisis: What do
we know about experiences that work?“**

Geneve, 22nd March 2010

Dr. Ulrich Walwei

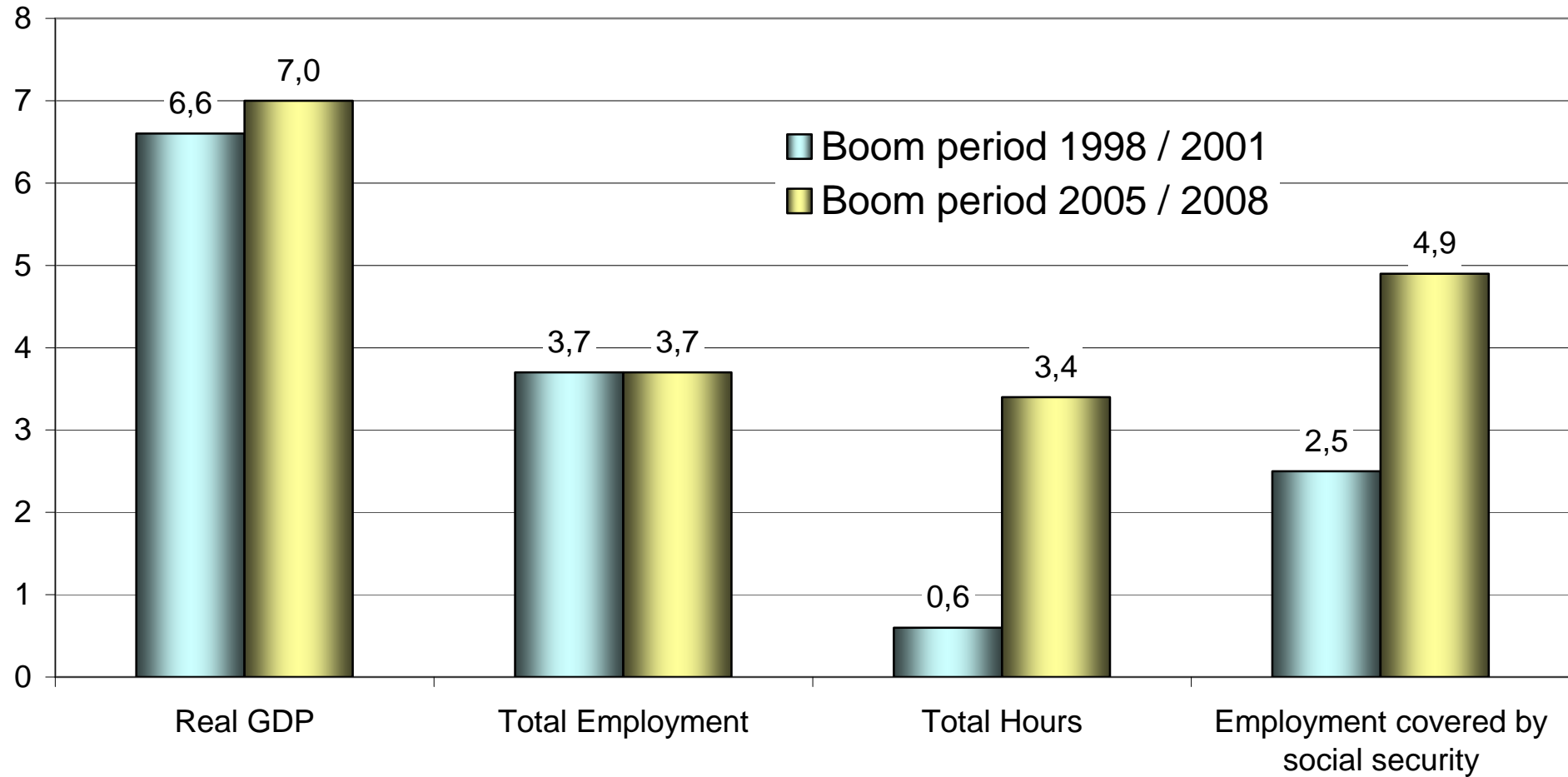
Financial Crisis and Labour Market - The German Case

- Financial Crisis Met Labour Market Boom
- Labour Market Effects of the Financial Crisis
- Challenges in the near Future

Financial Crisis Met Labour Market Boom

Employment Trends during different Boom Periods

- changes in % -



Source: Destatis, IAB

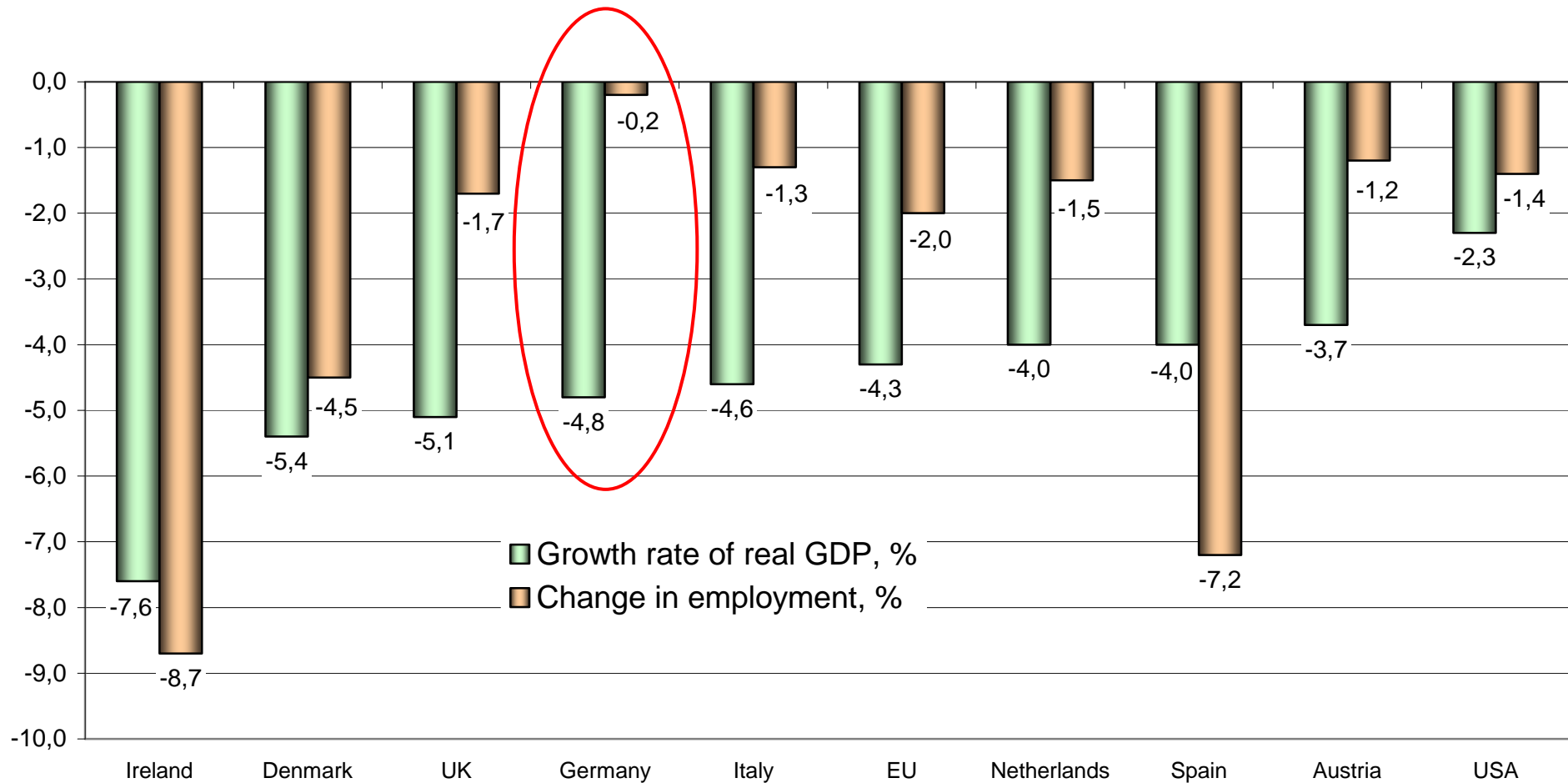
Labour Market Effects of the Financial Crisis

Recent Labour Market Impacts of the Financial Crisis

- Significant job losses in manufacturing
- Increasing unemployment in Western Germany, particularly in southern regions
- Sharp decrease of employment in temporary work agencies
- Increasing problems of outsiders to enter the labour market

Changes in Real GDP and in Employment in Selected OECD Countries

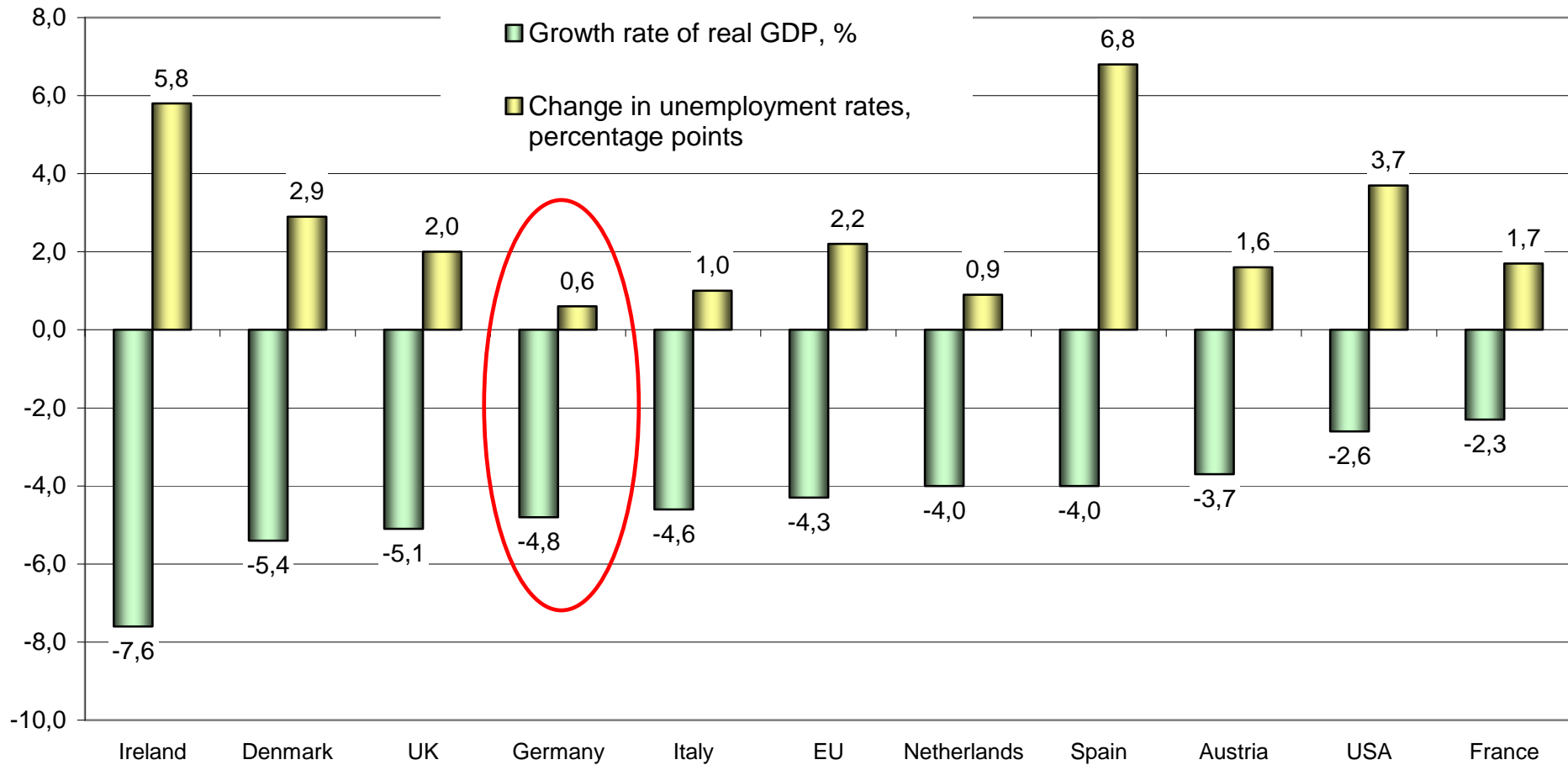
- third quarter 2009, compared to previous quarter -



Source: OECD

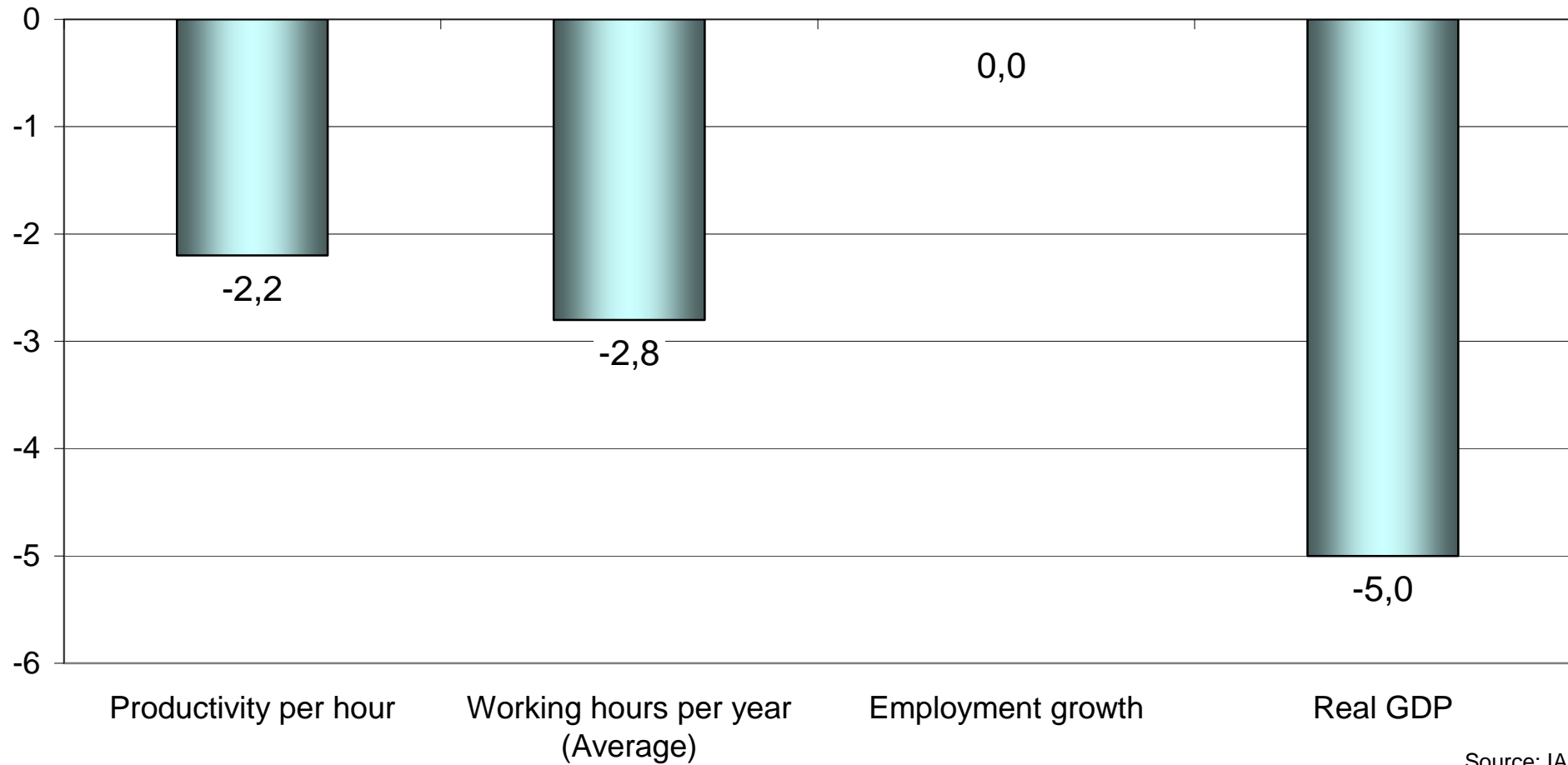
Changes in Real GDP and Unemployment Rates in Selected OECD Countries

- third quarter 2009, compared to previous quarter -



Source: OECD

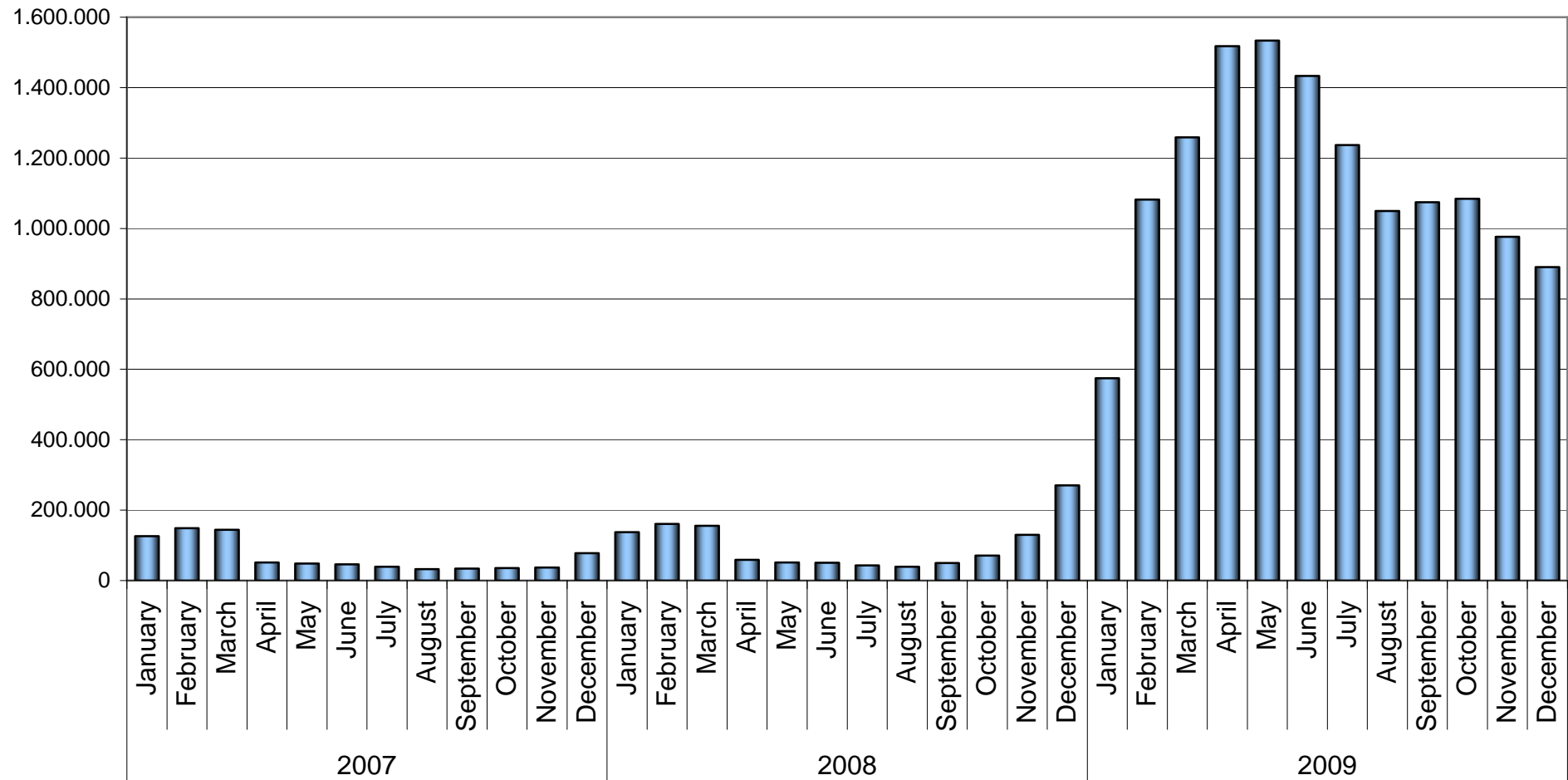
Decomposition of Changes in the German Real GDP in 2009 - changes, % -



Source: IAB

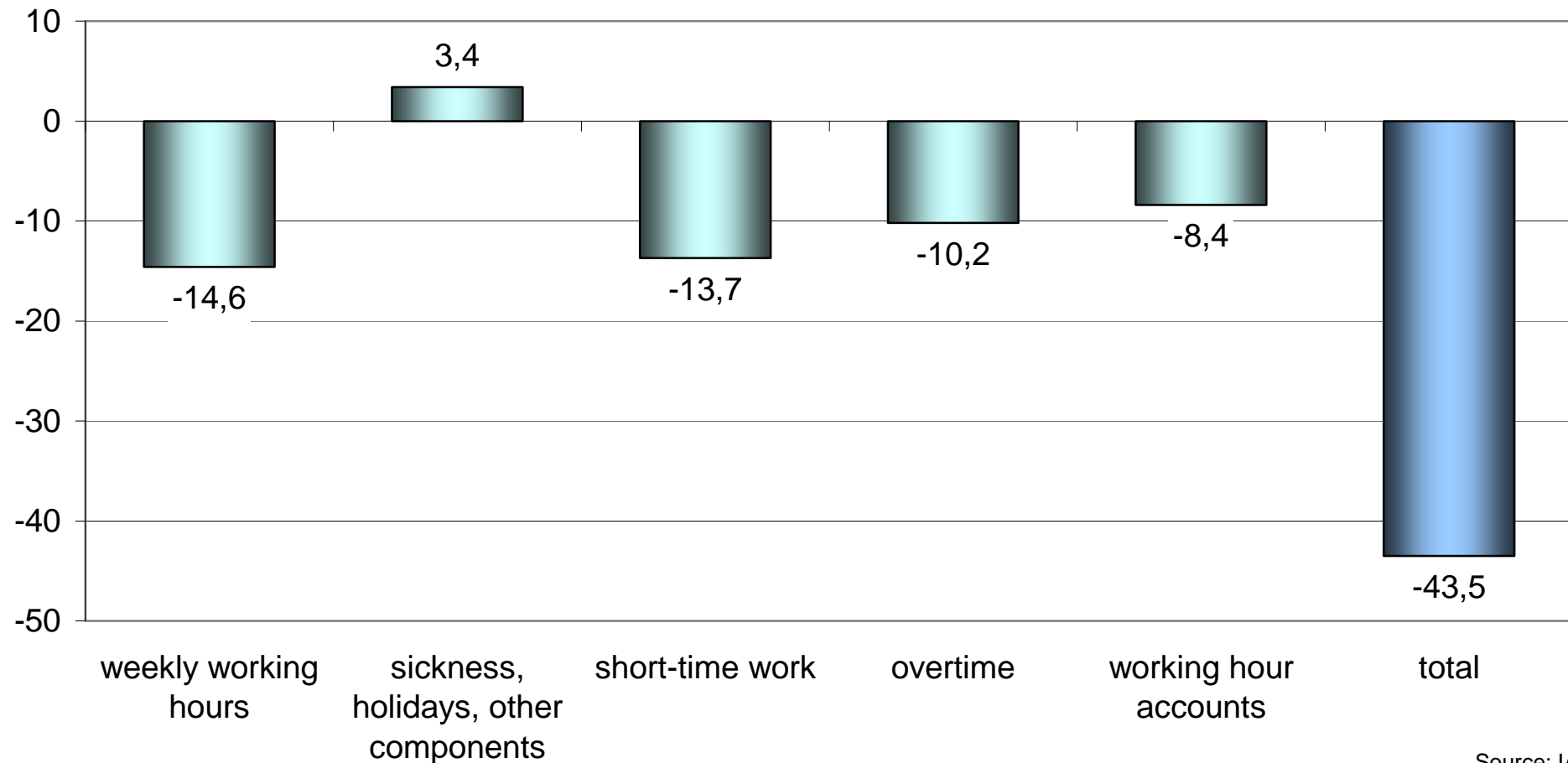
Development of Short-Time Work in Germany

- thousands, January 2007 until December 2009 -



Changes in Working Hours per Year in Germany, 2009

- yearly averages, changes in hours -



Source: IAB

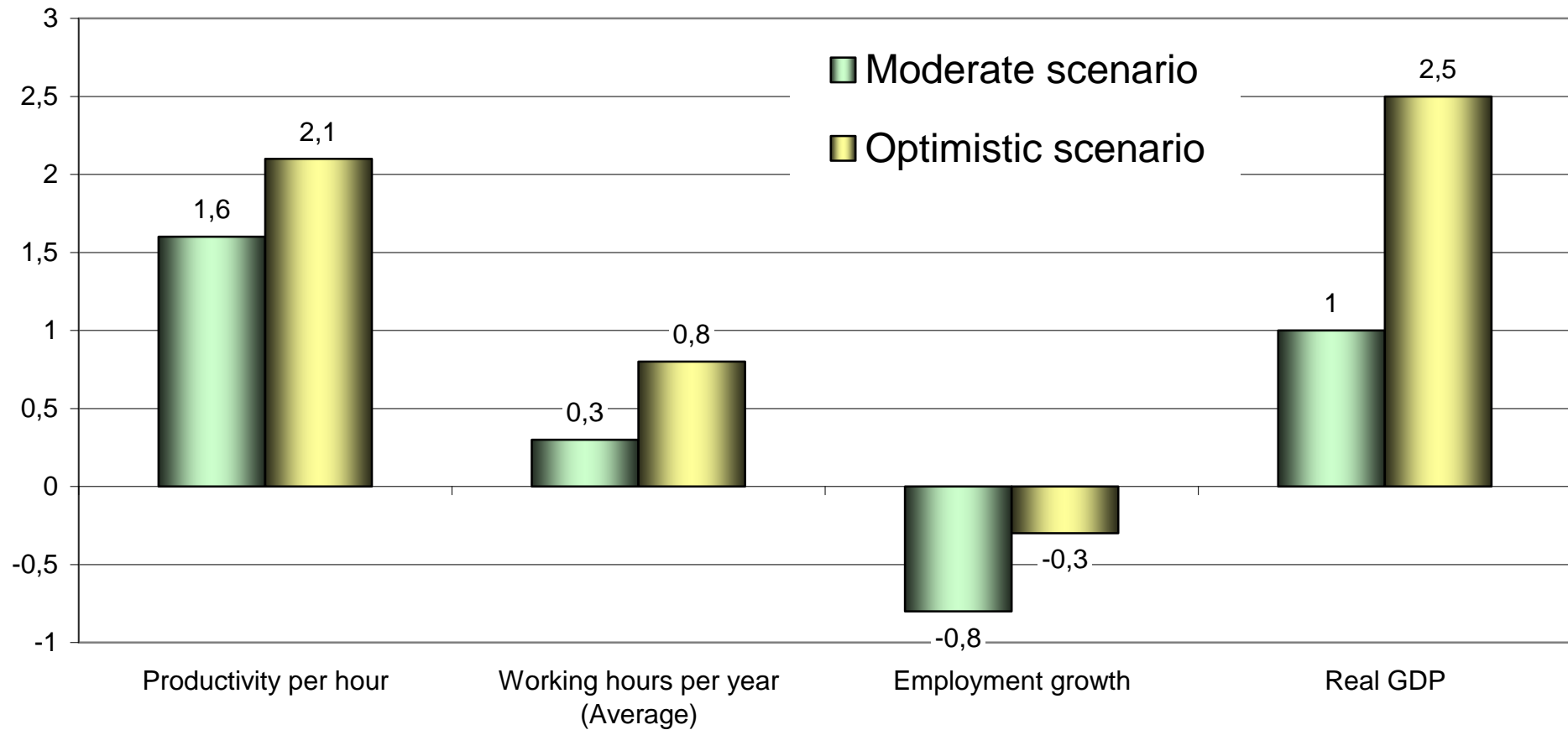
Reasons for Labour Market Stability

- Unknown level of internal numerical flexibility
- „Culture of maintaining jobs“ via short-term work
- Labour market reforms induced wage moderation
- Impact of the crisis is asymmetric (dualism of the economy)
- Crisis mainly affects financially strong companies
- Industries in which demand went down experienced severe skill shortages in the recent past

Challenges in the near Future

Decomposition of Changes in the German Real GDP in 2010

- changes, % -



Source: IAB

The German Labour Market in the medium Term

- Decisive question: How far can companies maintain internal flexibility and how far are employees willing to accept such a strategy?
- Even if the economy recovers quite soon a period of jobless growth is very much likely.
- The shrinking labour force takes some of the burden off the labour market, but may increase skill shortages at the same time.

Options for labour market policy (1)

– What does not work?

- Extending the duration of unemployment benefits
(Risk: may increase persistence of unemployment)
- Early retirement
(Risk: wrong signal in an ageing society)
- Massive expansion of job creation schemes
(Risk: recovery of regular employment could be decelerated)

Options for labour market policy (2)

– What does make sense?

- Adhere to labour market reforms because work incentives need to be stable over time
- Facilitating structural change of the economy (effective training, fostering and demanding mobility)
- Balance between insiders and outsiders (less competitive workers need to be addressed in a proper way)
- Sustainability regarding the demographic development

Institut für Arbeitsmarkt-
und Berufsforschung

Die Forschungseinrichtung der
Bundesagentur für Arbeit

IAB

German Labour Market

Back - up

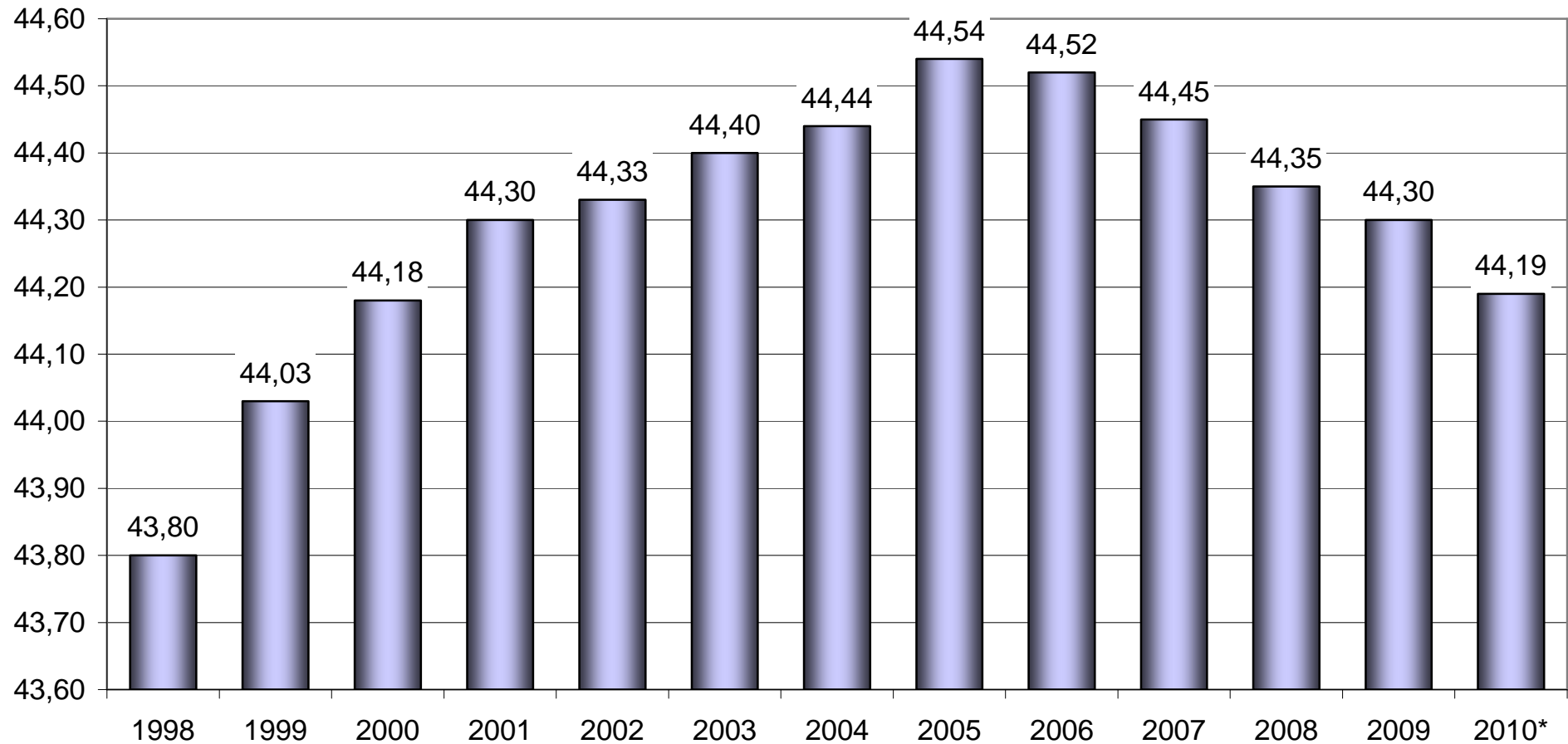
Dr. Ulrich Walwei

Conclusion: Financial Crisis and Labour Market

- The consequences of the crisis can not be overcome easily and quickly
- The crisis significantly harms the labour market
- Decisive for a sustainable improvement in Germany are:
 - Recovery of the world economy
 - Well operating financial markets
 - Conditions for a sustainable economic growth
 - Agreements on securing jobs at firm level

Potential Labour Force in Germany 1998-2010

- millions -

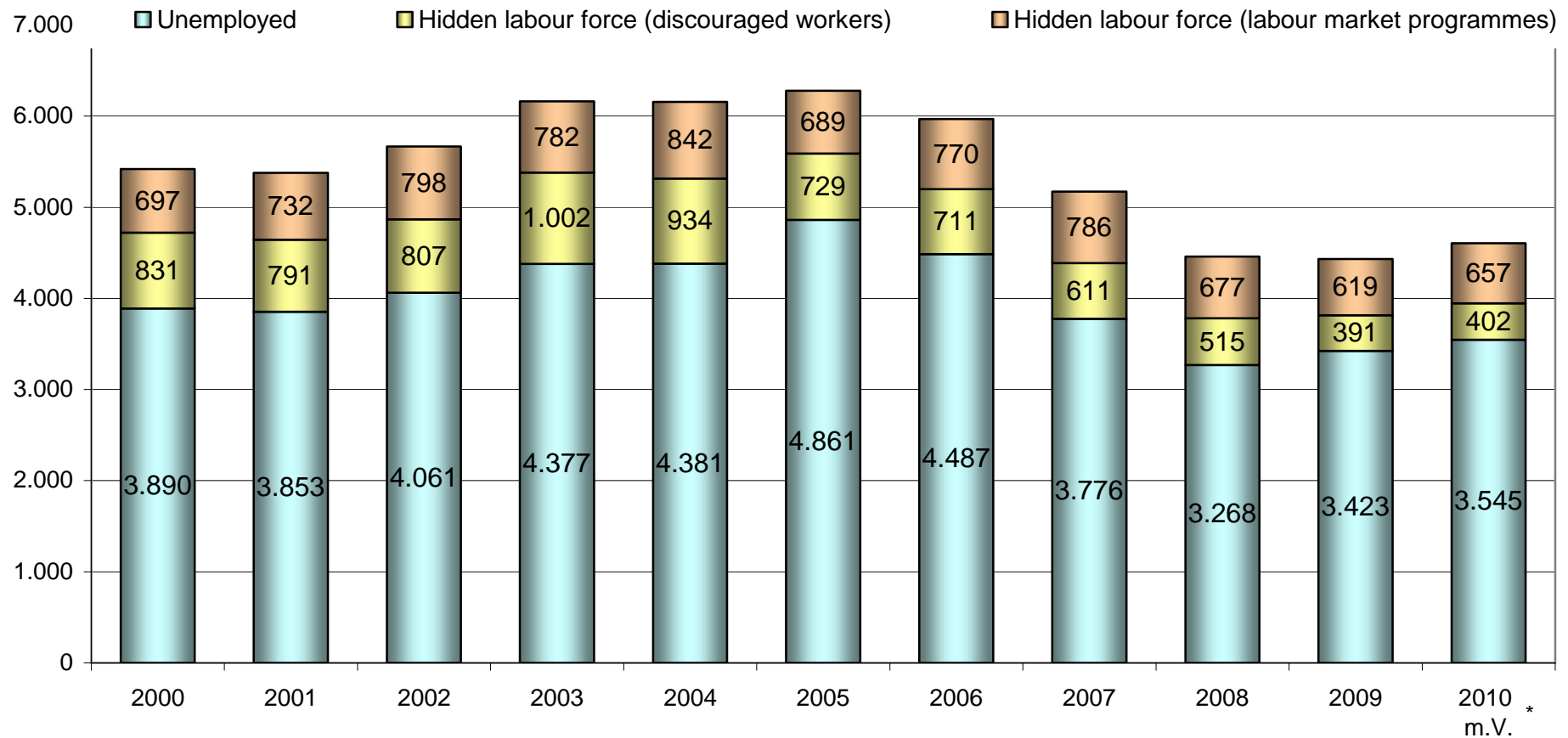


* Projection

Source: IAB

Unemployment and Hidden Labour Force in Germany from 2000 to 2010

- thousands -

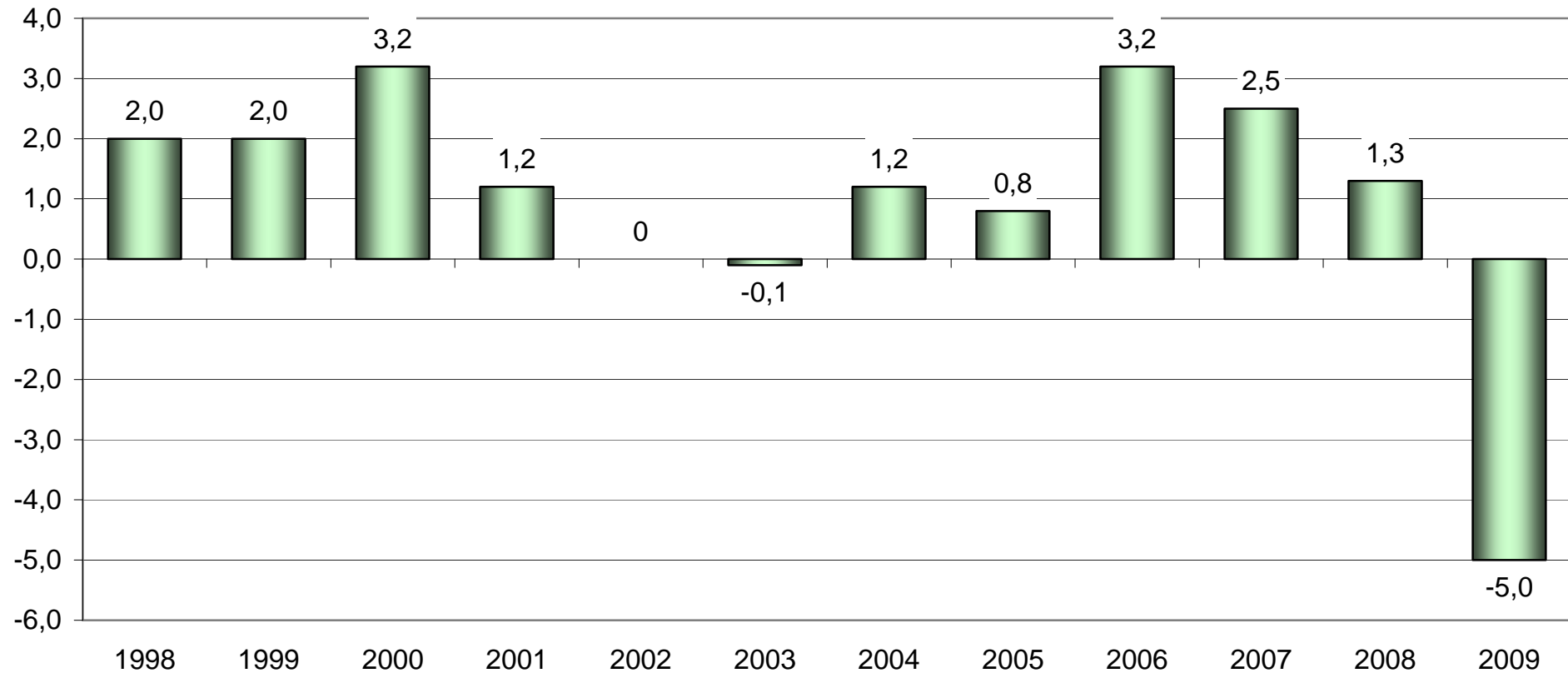


* Assumption: GDP growth 1,75 % in 2010

Source: IAB

Real Gross Domestic Product

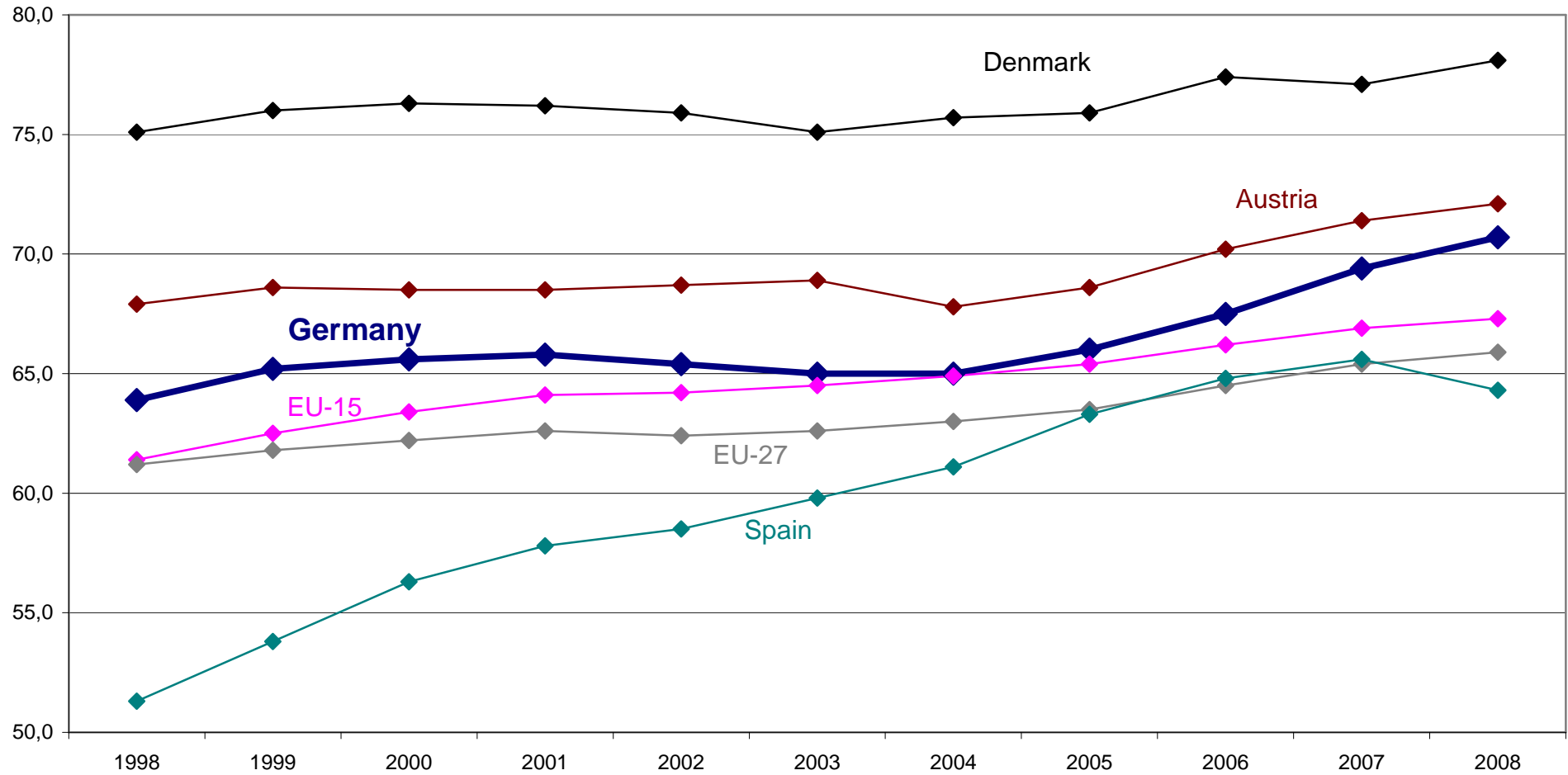
- constant prices, growth rates per year -



Source: Destatis

Employment Rates 1998 - 2008

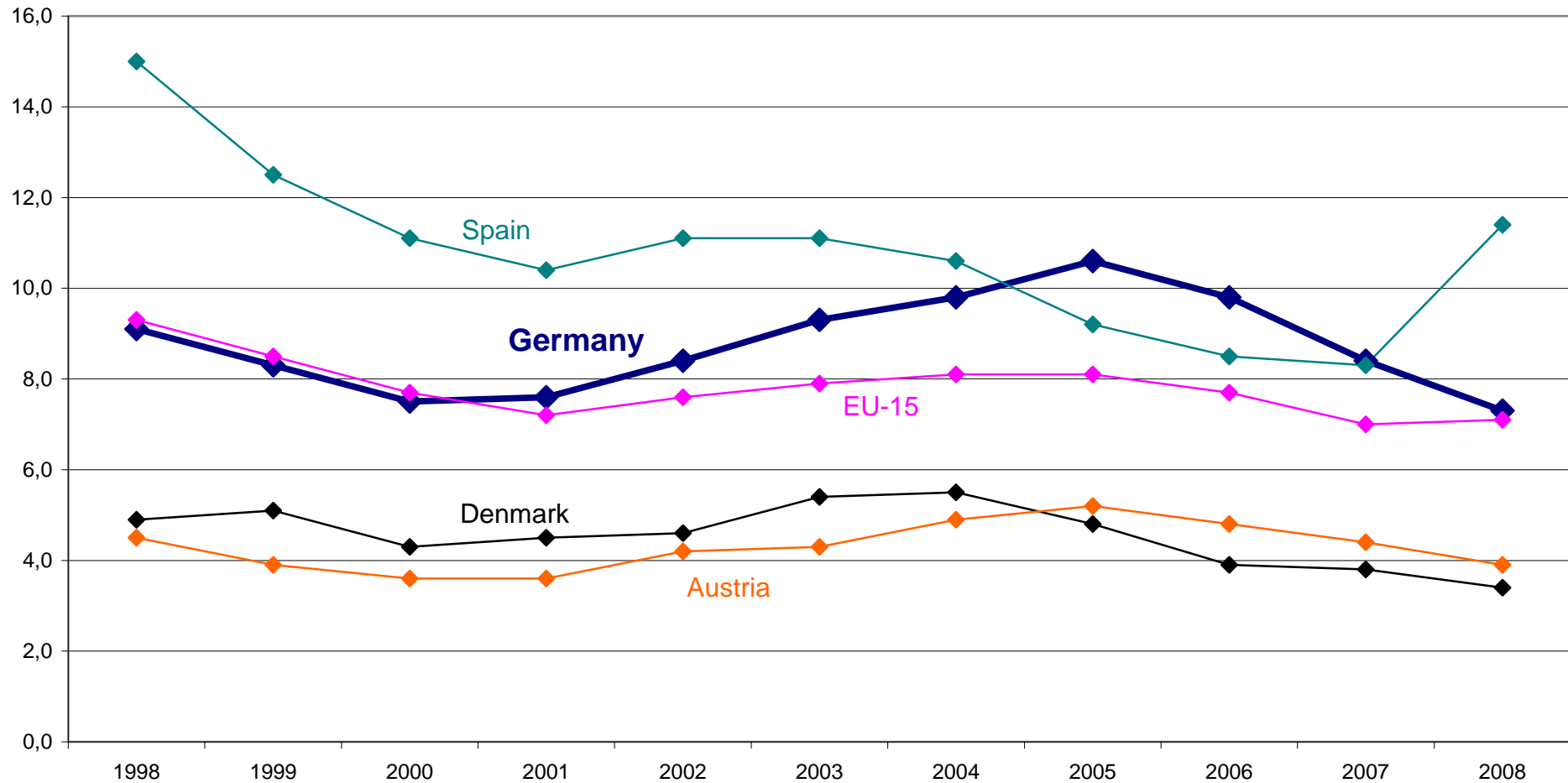
- percentages -



Source: Eurostat

Unemployment Rates 1998 - 2008

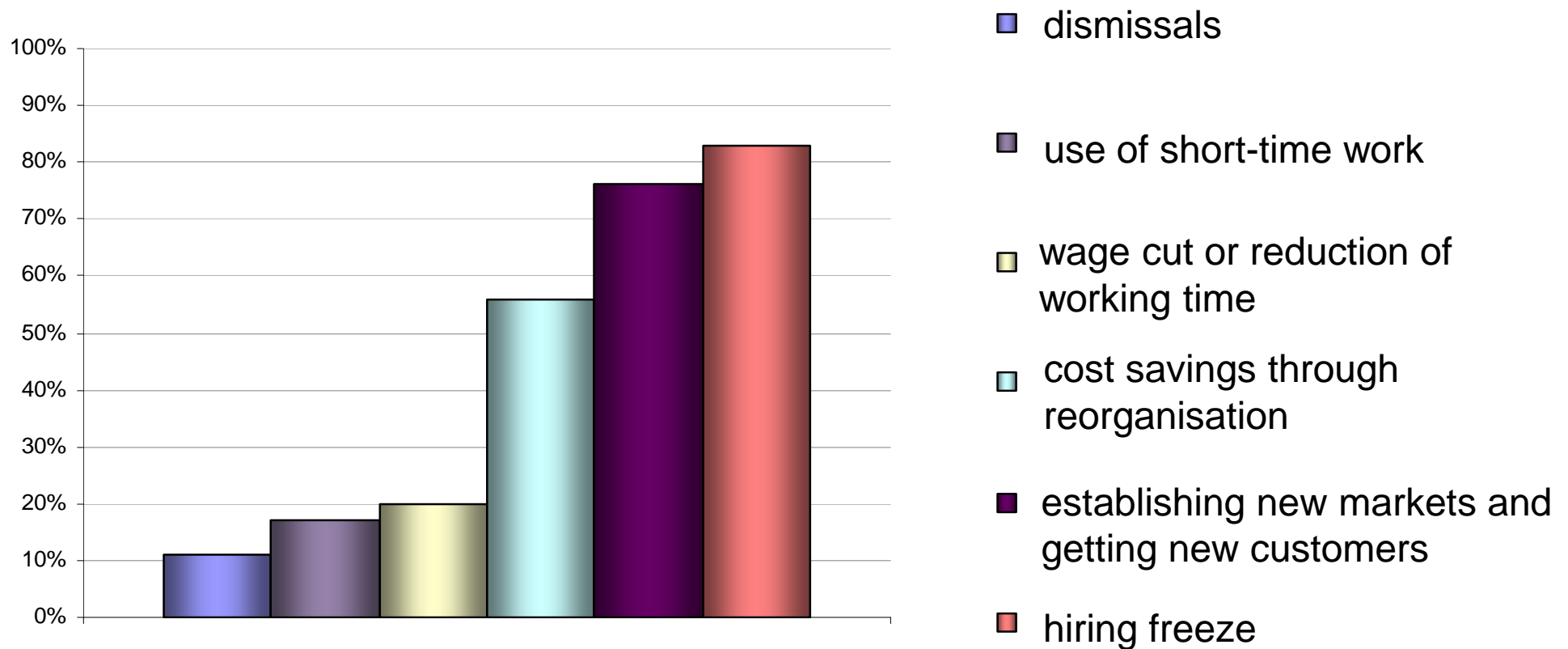
- percentages -



Source: Eurostat

Responses of Firms to the Financial Crises 2009

- percentages of all firms -



Source: IAB

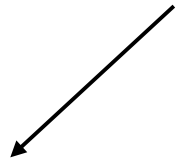
Labour Market Trends in Germany (I)

- Unemployment in Eastern Germany is much higher than in Western Germany – almost twice as high
- Employment rates of women and men are converging, but less with respect to full-time equivalents
- Unemployment rate of youth is still quite low, but increasing problems for less educated youngsters
- Employment rate of the elderly is still low compared to other age groups, but has increased recently

Labour Market Trends in Germany (II)

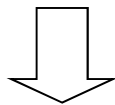
- Less qualified bear a comparatively high risk of being without any job
- Non-standard work arrangements such as part-time work, fixed-term contracts and temporary agency work have gained in importance
- Low wage employment has increased significantly over time

Main Elements of German Labour Market Reform



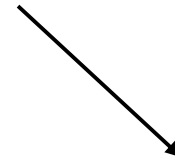
More flexible employment

- Dismissal protection
- Agency work
- "Mini"- and "Midi"-Jobs



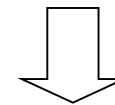
Expected effect:

- Stronger permeability of the labour market



New labour market policy

- Activation as a guideline
- Changes of the organisations involved
- Less generous benefits for long-term unemployed
- More effective programmes

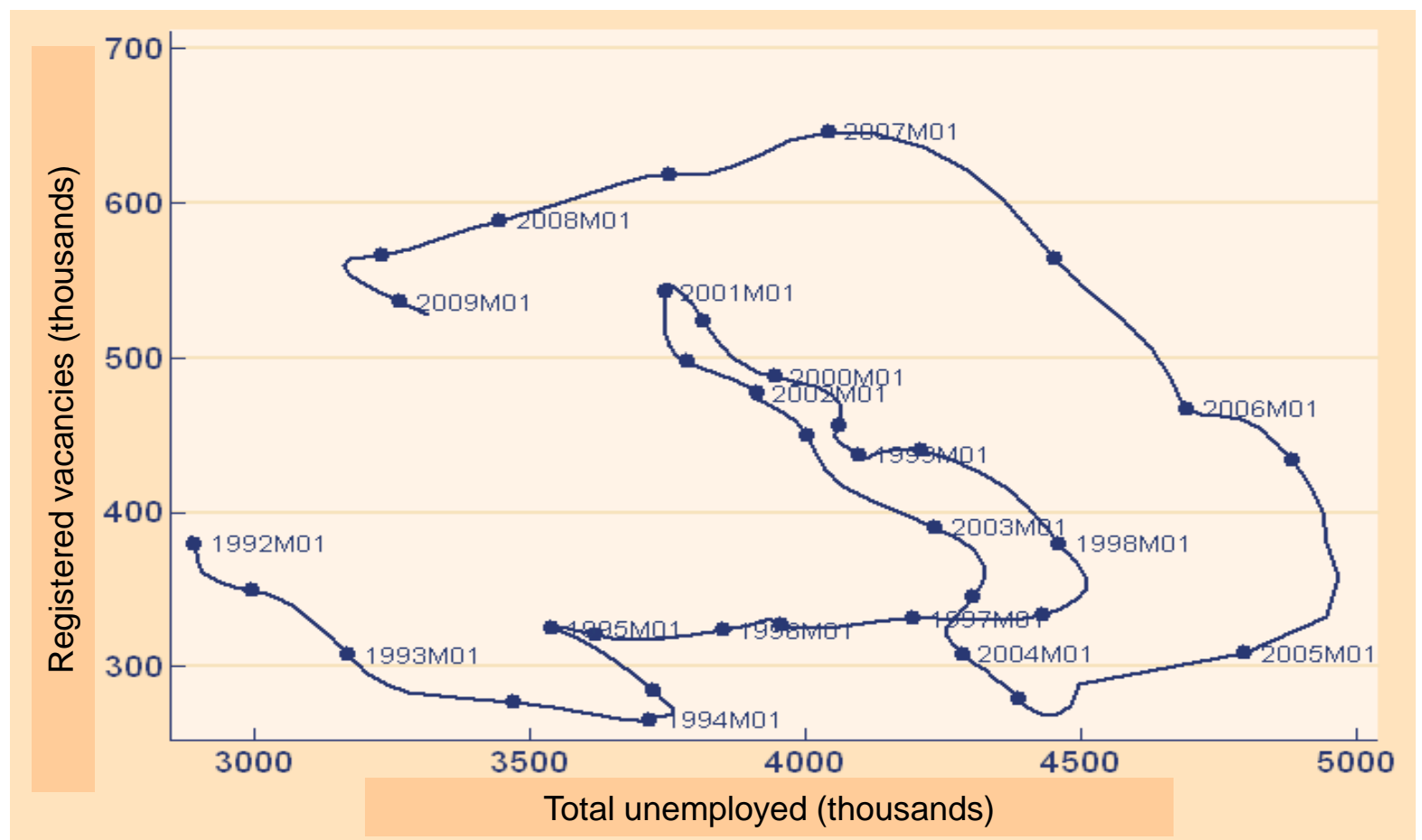


Expected effect:

- Improved matching
- Intensive job search

Matching Efficiency

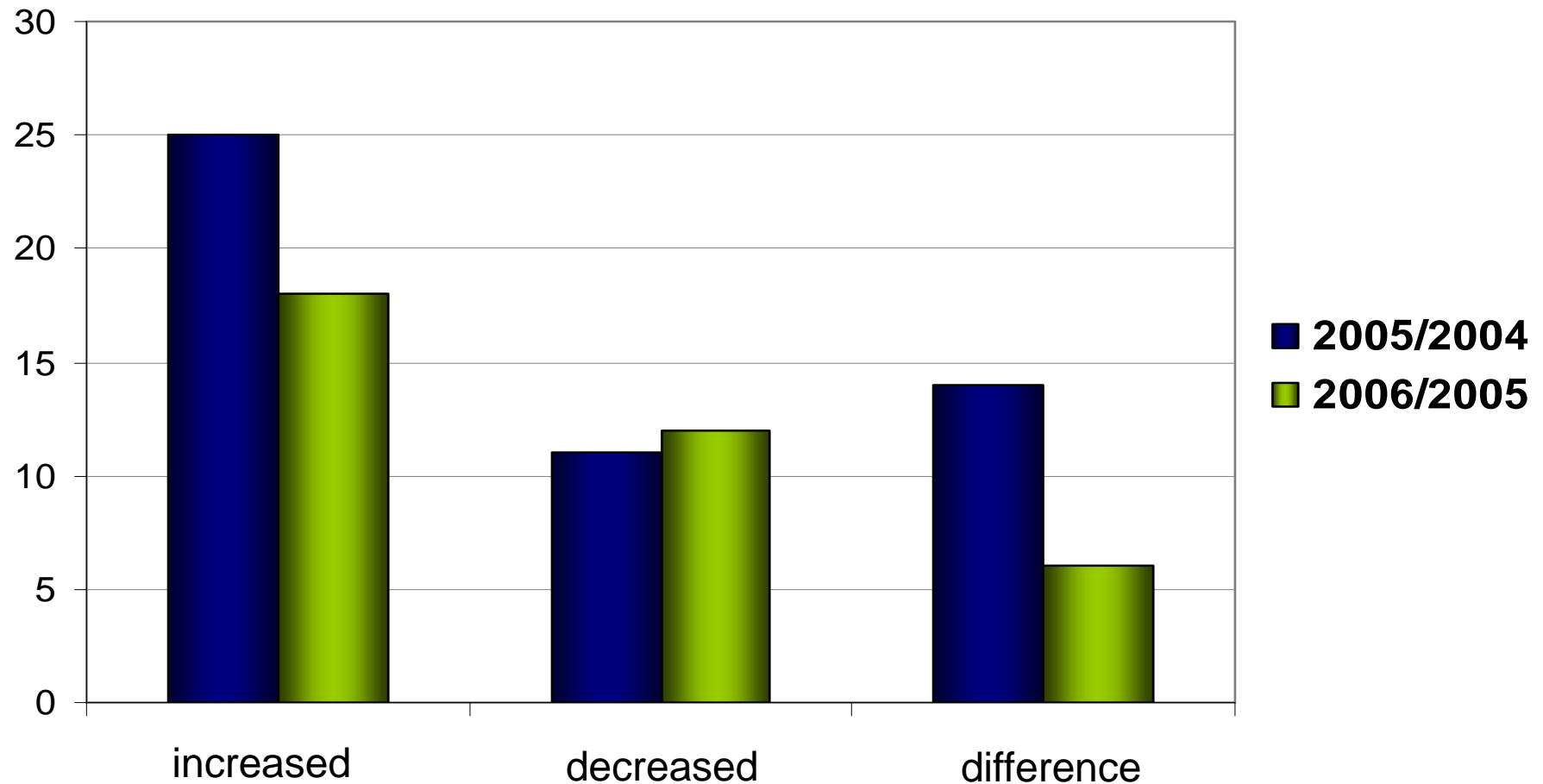
- Beveridge-Curve: Registered Vacancies and Unemployed 1992 to 2009 -



Source: BA, IAB

Labour Market Reform: More acceptance of lower wages

- Findings from an establishment survey -

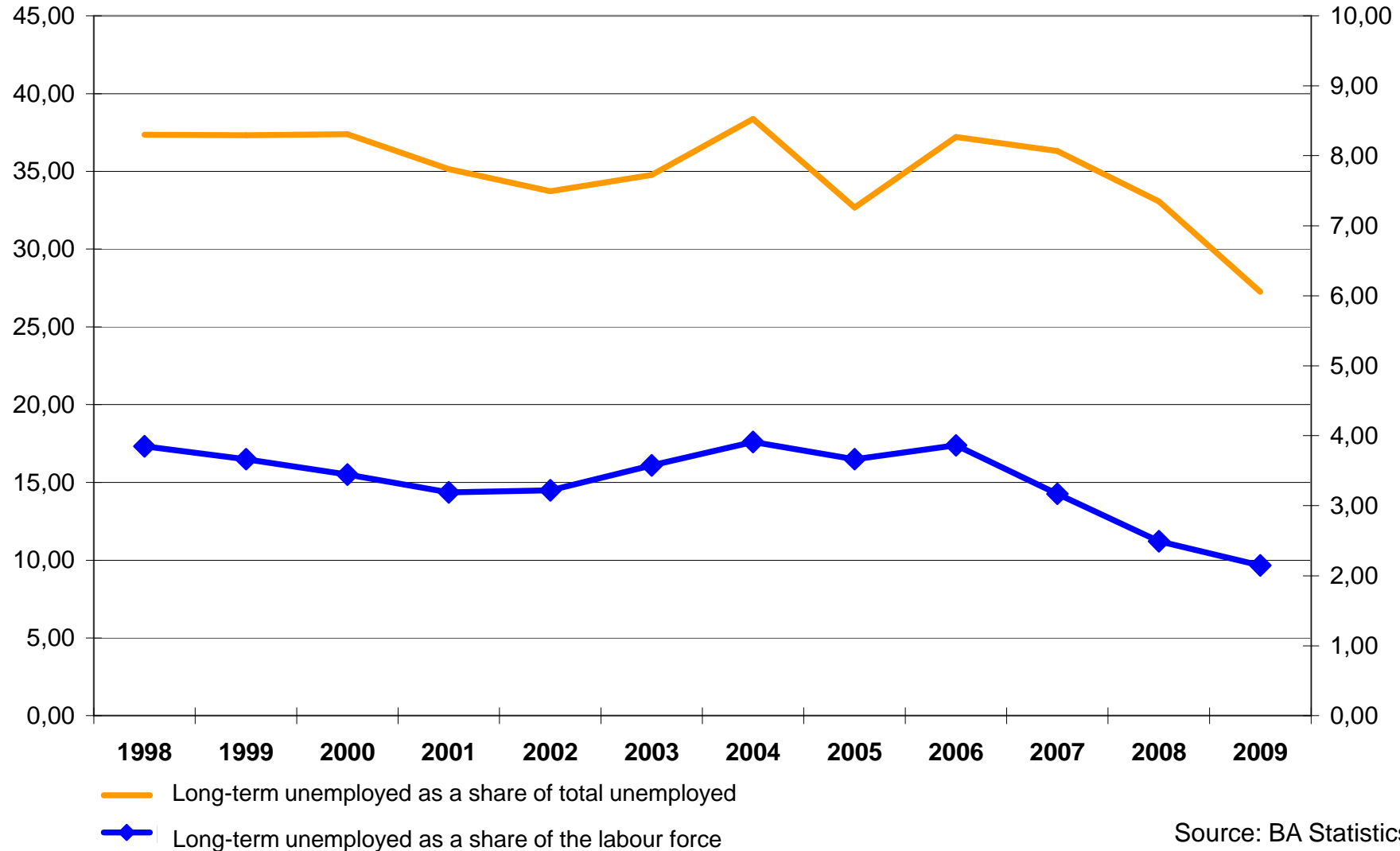


Source: Vacancy Survey of the IAB

Long-Term Unemployment Rates (1998-2009)

Long-term unemployed as a share of total unemployed

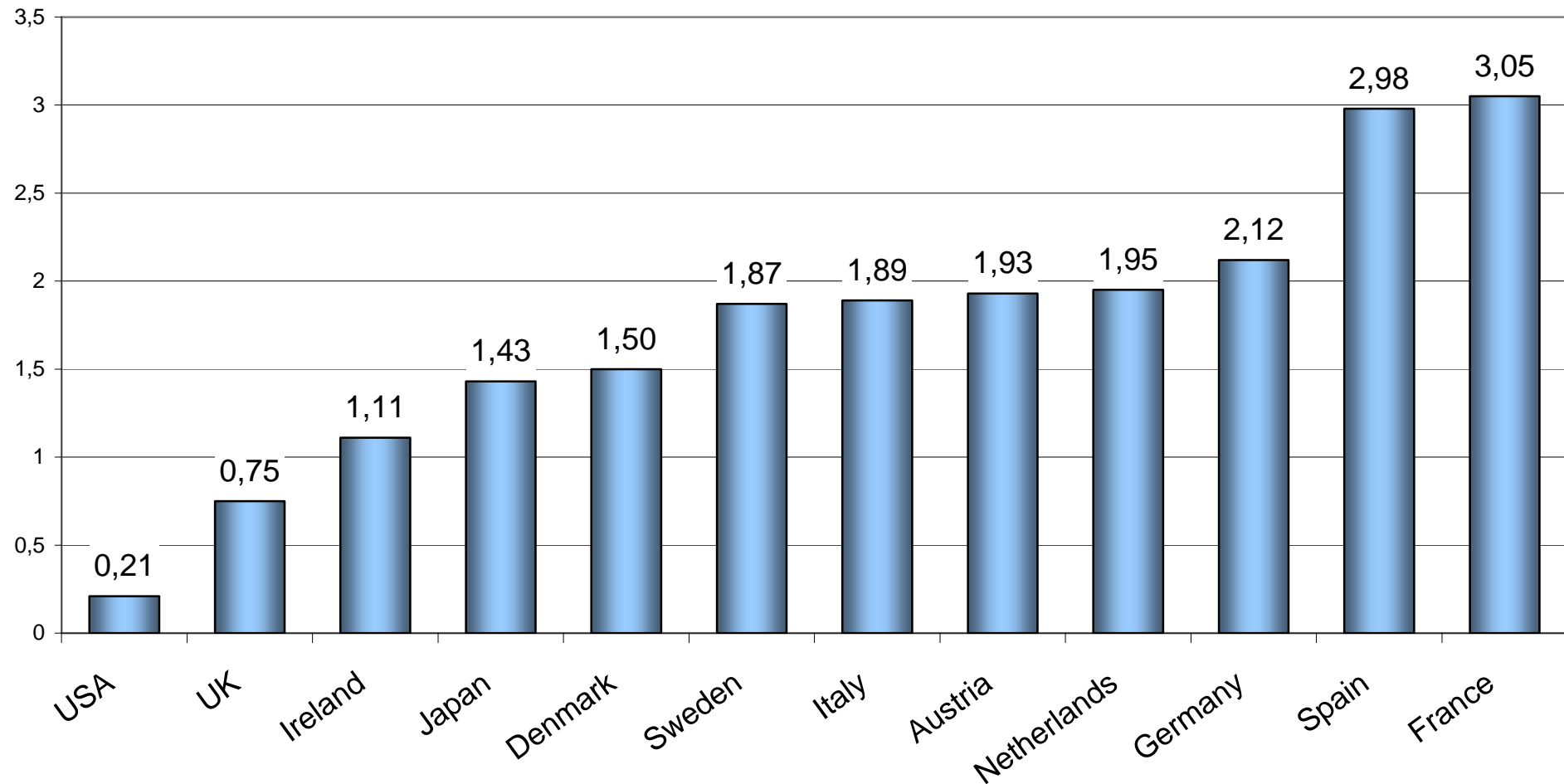
Long-term unemployed as a share of the labour force



Source: BA Statistics; Destatis

Strictness of Employment Protection in Selected OECD Countries

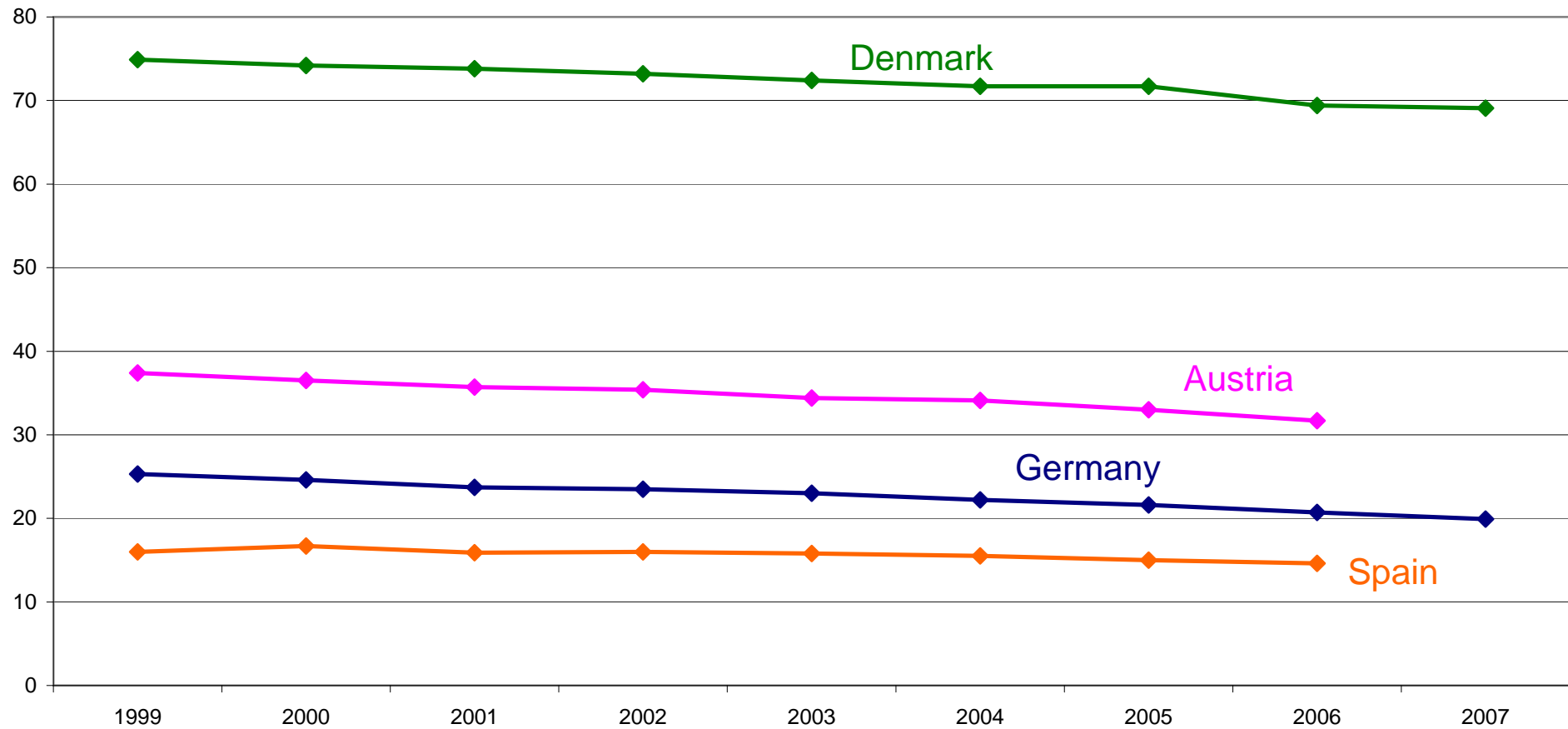
- overall level, 2008 -



Source: OECD

Trade Union Density

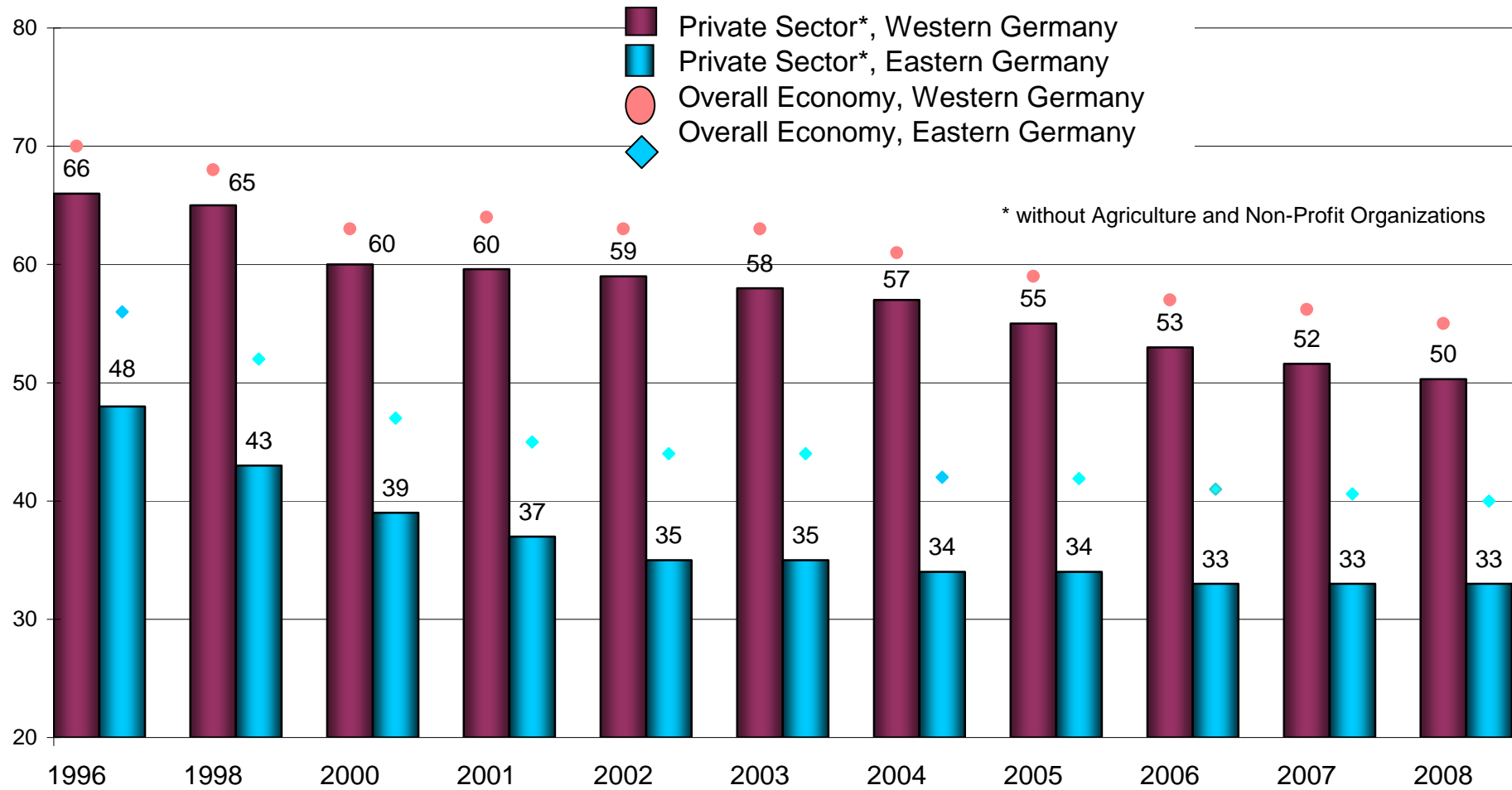
- trade union members as a percentage of wage and salary earners -



Source: OECD

Collective Bargaining in Germany

Proportion of Employees in Firms Covered by Sectoral Agreements, 1996-2008, percentages

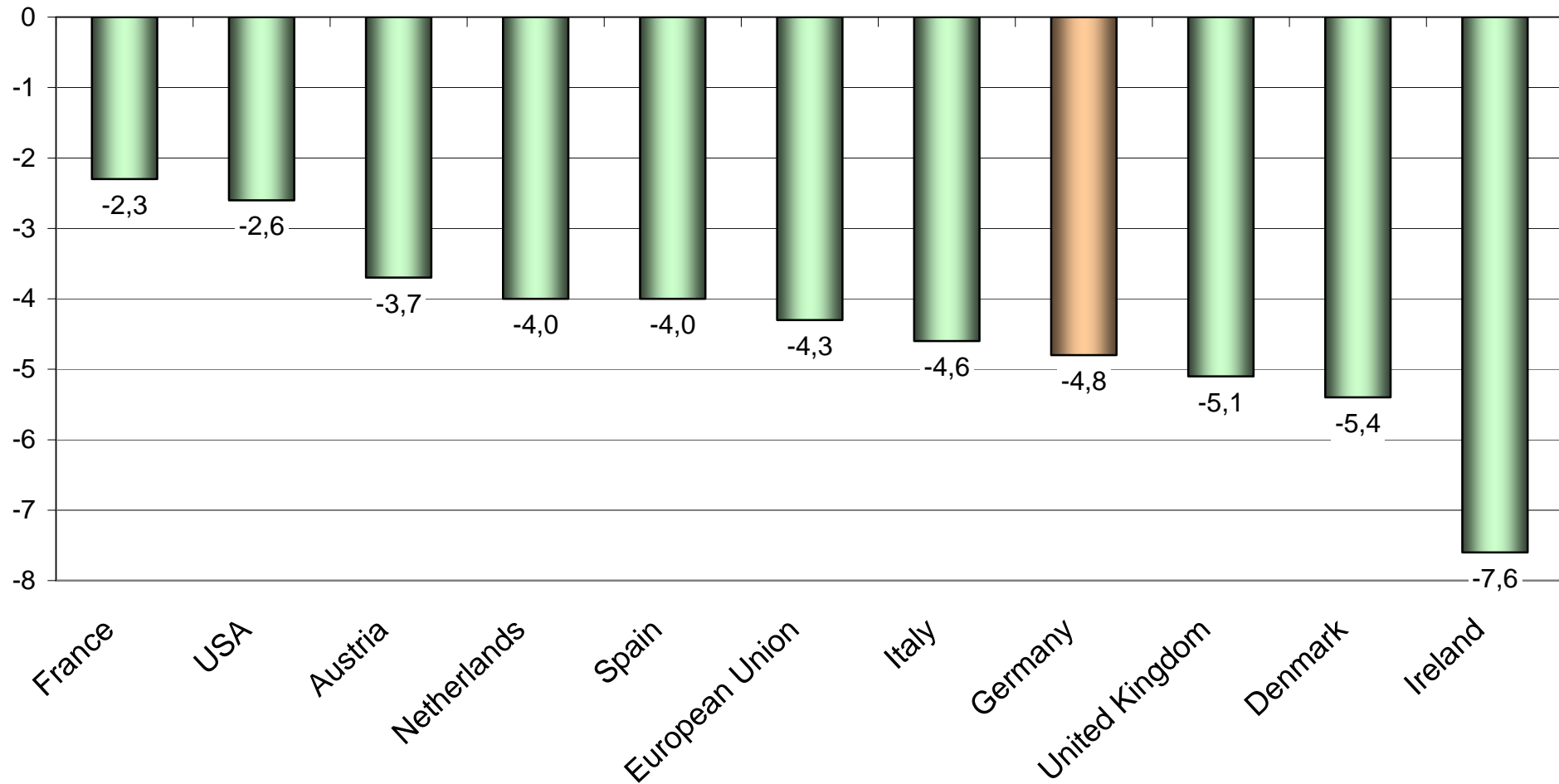


Collective Bargaining and Financial Crisis

- Although trade union density and bargaining coverage is shrinking, collective agreements are still an important point of reference
- Through wage moderation collective bargaining has fostered the employment trend during the previous boom period
- Collective bargaining has become much more flexible through „opt-out clauses“ and „job pacts“
- The strong use of short-term work in 2009 (on average about one mill. workers) also indicates a „culture of maintaining jobs“ and „social partnership“

Economic Growth in International Comparison

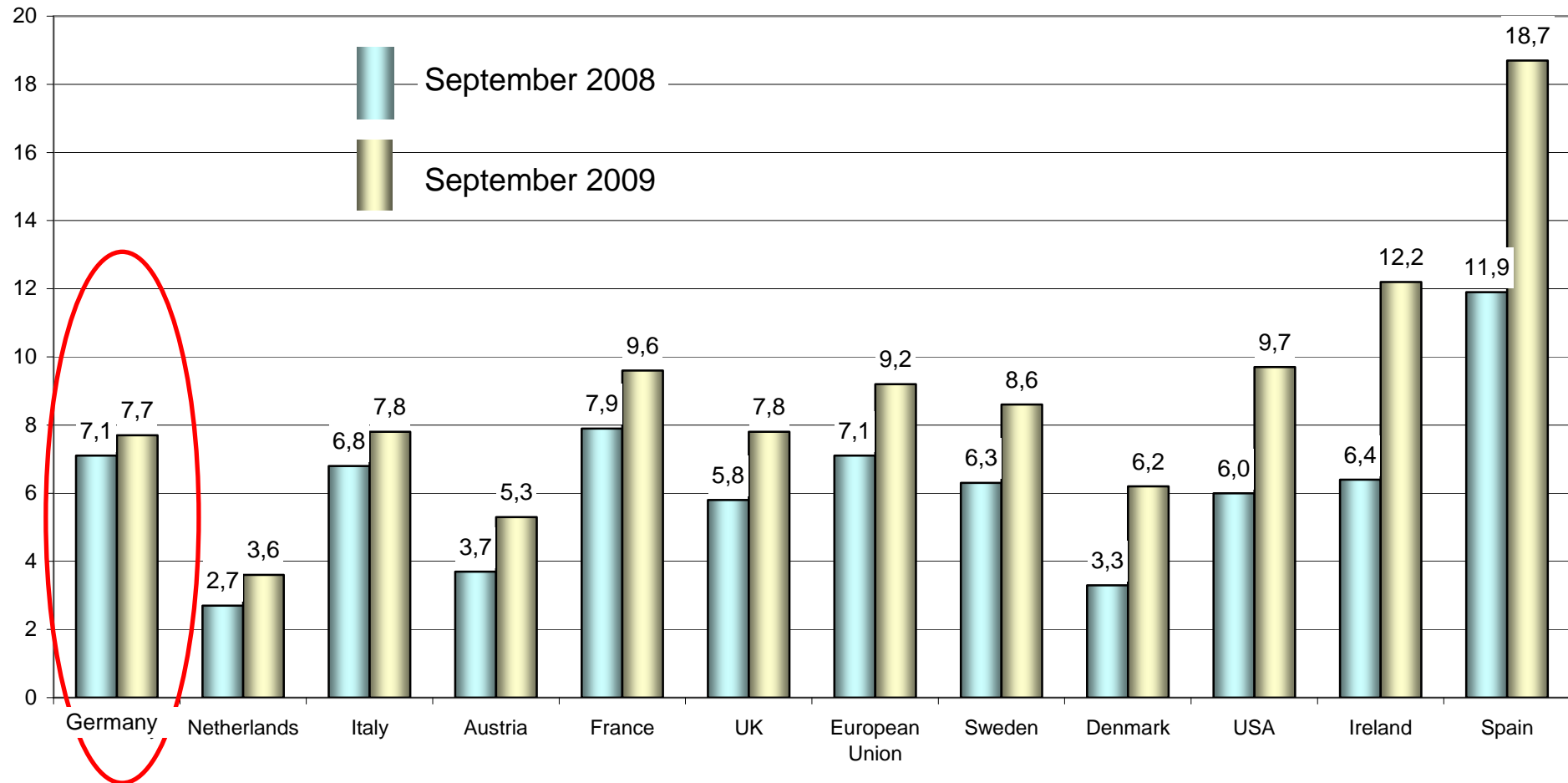
- third quarter 2009, compared to previous quarter -



Source: OECD

Unemployment Rates in International Comparison

- 09 / 2009, previous year -



Source: OECD