

Internal and External Labour Market Flexibility in Germany – a Critical Overview

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Paper prepared for the informal Workshop
“The Transformation of Internal and External Labour Markets
in Eastern and Western Europe”

December 4/5 2004 in Jena, Germany

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Introduction

There can be no doubt that fundamental social, economic, technological, and political changes have taken place during the last two decades. Those changes are often summarized, for example, in terms like “globalisation” (c.f. Reich 1992) or “individualisation” (c.f. Beck and Beck-Gernsheim 2002). It can be suggested that these changes have had a significant impact on employers’ as well as employees’ behaviour. Therefore, the transition from an industrial to a service economy¹ and its impact on modern societies and individual employment histories has received considerable attention for at least 20 years. What seems to be indisputable is that all these fundamental changes caused an increasing demand for flexibility of both employers as well as employees. However, flexibility is a multi-dimensional phenomenon as we can see, for example, with regard to the flexibility of the allocation of labour within firms: On the one hand we can distinguish internal from external flexibility and on the other hand there are differences between quantitative and qualitative flexibility (c.f. Goudswaard and Nanteuil 2000); furthermore, wage flexibility could be regarded as an additional dimension (c.f. OECD 1989).

There is no doubt that the flexibility of labour market actors is determined not only by individual needs or by market performance but also by the institutional framework the labour market actors are embedded in. As Hall and Soskice (2001) have pointed out we can distinguish “liberal market economies” and “coordinated market economies” as two ideal types of production regimes because of their fundamental differences in the institutional organisation for example in labour market regulation or educational systems. Whereas the United States are often described as the prototype of a “liberal market economy” Germany is suggested to be the prototype of a “coordinated market economy”. However, due to global changes the traditional German system of “regulated flexibility” has come under pressure during the last two decades and there have been repeated efforts to de-regulate labour market institutions for example by lowering the dismissal protection since the mid-1980s. But not least because of the path dependencies of institutions the

¹ It is a well known empirical fact that the number of people “producing” services rather than goods have strongly increased during the last decades. But even if goods are still produced the share of service activities within the related production processes has increased too (“tertiarisation”) (Freeman and Schettkat 2000; Anxo and Storrie 2001). Therefore, the period between the 1970s and the 1990s could be characterised as the period of transition from ‘old’ industrial to ‘new’ service economy/society.

German labour market is still highly regulated compared to liberal market economies (Fuchs and Schettkat 2000). Thus, it is an important question, how employers and employees in Germany have adapted to fundamental changes that have occurred since the 1970s?

The German Debate

If we take a closer look at the German debate on labour market flexibility, we can discover two different main streams of argumentation. On the one hand there is a stream I would like to call the “*Sociological Stream*”. Within this Sociological Stream some authors especially emphasise that the old division between ‘core’ and ‘peripheral’ workforces (Doeringer and Piore 1971; Sengenberger 1987) seems to dissolve into general employment instability (increasing “external flexibility”). These commentators start from the assumption of a long-established but now strengthening general trend towards a ‘high-velocity labour market’ that is increasingly shaping the ‘future of work’. In such a turbulent labour market, individual employment histories will, over time, become increasingly unpredictable and chaotic compared with those of the past. The consequence of this process is said to be a levelling out of employment opportunities and risks. Uncertainties that in industrial societies were unevenly distributed along clearly defined socio-economic demarcation lines are expected to become increasingly generalised. Today this ‘de-structuring process’ is hypothesised to be at a very advanced stage (see for example Beck 1986; 1997; Mutz et al. 1995; Bonß 1999).²

On the other hand there is a stream I would like to call the “*Economic Stream*”. In total opposition to the Sociological Stream the supporters of the Economic Stream claim that during the last decades labour market flexibility in Germany has sharply decreased rather than increased. Those commentators characterise the German labour market as extensively sclerotic and inflexible. This inflexibility is mainly blamed on the traditional institutional framework of the German labour market with its strong regulations (for example dismissal protection or collective bargaining arrangements). The main argument brought forward in support of this hypothesised sclerosis is that since the 1970s the unemployment rate in Germany

² For the UK or the USA similar arguments can be found in Rifkin (1995), Castells (1996), Sennett (1998) or Bauman (1998).

has steadily increased and has not been reduced remarkably by economic upturns (“hysteresis”) (see for example Berthold 2001).

The baneful alliance of the Sociological and the Economic Stream

At first sight the Sociological Stream and the Economic Stream seem to be highly incompatible. But taking a closer look we will see some very important similarities between both debates:

- (1) External flexibility of firms plays a prominent role in both streams. The Sociological Stream argues that regardless of still existing labour market regulations most labour market participants are already facing higher employment risks, for example through a decrease of job security and job stability. Among other things the Economic Stream demands for a far-reaching reduction of dismissal protections to increase external flexibility of firms as a very important step to re-vitalise the German labour market.
- (2) Both streams are ignoring any theoretical trade off between firms’ internal and external solutions to the allocation of labour. While the Sociological Stream takes the ultra-flexible employee already for real the Economic Stream adopts the ultra-flexible employee as an ideal still to be achieved.
- (3) The Sociological as well as the Economic Stream support a far-reaching de-regulation of labour market institutions. On the one hand the Sociological Stream at least implicitly supports de-regulation because the traditional institutional framework is suggested to be totally inappropriate to come up to the needs of post-modern labour market participants. On the other hand the Economic Stream supports de-regulation because the traditional institutional framework is said to be the principal cause of unsatisfactory labour market performance. Hence, from both streams a very similar political rhetoric is derived. This is an important reason why there is such a politically heterogeneous but practically powerful alliance between conservative and left wing parties, employer associations and some trade unions, religious organisations, the media and the ‘public opinion’ in Germany with regard to the “future of work”: Despite certain conflicts about social policy details there seems to be some kind of public agreement that it is inevitable to reform the old-fashioned labour market and employment institutions in Germany fundamentally by de-regulation.

The German Labour Market: Neither sclerotic nor de-structured

There are some strong empirical facts which confute both the Sociological Stream and the Economic Stream. Especially in the German coordinated market economy we can find that employers have strengthened their internal labour allocation strategies for example through flexible working time schemes or by increasing the functional flexibility of staff members (Schulze Buschhoff 2000; Bosch 2001). As a result, and contrary to the perception within the Sociological Stream, job stability has increased rather than decreased (c.f. Erlinghagen and Knuth 2004; Winkelmann and Zimmermann 1999). However, even if there has been a slight increase in job stability, external flexibility is not as low as the Economic Stream would like to make us believe. Thus, approximately 50 percent of newly started jobs are terminated within one year or less and a Labour-Turnover-Rate of about 25 to 30 percent means that, on average, each job in Germany is filled with a new employee every third year (Erlinghagen and Knuth 2004). And even in international comparison the inflow into employment is relatively high (Holst and Spieß 2004). Hence, it is totally misleading to describe Germany either as a de-structured high-velocity labour market or as a sclerotic labour market.

Since the end of the 1990s several research groups in Germany have presented empirical findings with regard to the evolution of labour market mobility, job stability and job security. Besides the analyses that have been done at my home institution, the IAT in Gelsenkirchen, there is, for example, an important research group located at the Max Planck Institute for Human Development in Berlin that is headed by Karl Ulrich Mayer (c.f. Mayer and Hillmert 2004). In addition the large GLOBALIFE-Project headed by Hans-Peter Blossfeld at the University of Bamberg has investigated the impact of globalisation on employment histories in international comparison (c.f. Blossfeld and Mills 2003). And last but not least there have been some important empirical as well as theoretical contributions by the group of Christoph Köhler and Olaf Struck from the Universities of Halle and Jena (c.f. Grotheer and Struck 2004; see also Struck and Köhler 2004). If we compare the empirical findings and also the interpretation of these results there are on the one hand some differences between the several research groups. However, on the other hand there seems to be a broad consensus in rejecting the main features of the Sociological as well as the Economic stream both for theoretical as well as empirical reasons.

Explaining the Re-Structuring of the Labour Market in Service Society Theoretically

The following chapter makes an attempt to explain why the Sociological as well as the Economic Stream are so misleading. The point will be made that besides a lack of empirical evidence there are major theoretical weaknesses in both arguments:

(1) The theory of labour market segmentation points out that firms can use several strategies to improve the flexibility of different segments of their staff (c. f. Doeringer and Piore 1971; Sengenberger 1987). In areas where first of all unskilled employees are needed it is likely that employers prefer a “hire and fire strategy” to adapt the allocation of labour to their demands of production. In contrast to this kind of “external numerical flexibility” employers should prefer an internal solution in areas where skilled employees with sector or firm specific qualifications are needed. But obviously there is a trade off between external and internal flexibility of labour allocation by firms. In firms’ perspective an absolute flexible staff would be extensively inefficient. Why should a firm, for example, introduce long-term working time accounts if it is intended to dismiss the employees anyway. At least within certain staff segments firms have to make choice whether to improve flexibility primarily through external *or* through internal labour allocation strategies (Bellmann et al. 1996).

(2) During the last decades, in all industrialised countries the demand for unskilled labour was on the decrease (Nickel and Bell 1995) whereas the number of employees with an occupational or university degree increased. Beside these quantitative increase of the importance of formal qualifications there has been also a shift in the qualitative demands on unskilled labour that is partly described by the concept of “employability” (c. f. Falkinger 2002: 8). Not only for skilled but also for unskilled employees the importance of “soft” or “social” skills has become more and more important in order to find a job and respectively to avoid the experience of unemployment. Therefore, we can expect that even in the segment of formal “unskilled” labour the importance of internal labour markets has increased.

(3) It is important to note, that not only the service sector but also the production of goods is more and more dominated by and geared towards what can be called a ‘logic of tertiarisation’. Therefore, we can suggest that the more important the immediate and direct relationship between a specific customer and a specific em-

ployee becomes the more difficult it will be for the firm to substitute this specific employee. In addition, the possibilities of control are changing. In the past it was relatively simple to measure employees' performance by evaluating the output or by the input based normally on fixed working time schemes. But the performance monitoring is becoming much more complicated when the production process is organised according to the logic of tertiarisation because input and output are no longer easy to ascertain. If employees act within flat hierarchies and within an increasingly flexible internal surrounding, they become more independent of employer's instructions and, therefore, the asymmetry of information between employee and employer is shifting at the expense of the latter. Hence, the performance of these employees can at best be evaluated in the long run on the basis of outcome. In such a situation building up trust and mutual commitment is a good and practicable possibility especially for employers to insure against opportunistic behaviour (Breen 1997). But building up trust and commitment requires durable employment relationships and, therefore, job stability should not generally decrease during the transition to service society. However, this is only true for skilled employees. The employment opportunities of individuals who are provided neither with formal nor with sufficient "soft" skills shrink dramatically.

(4) Female emancipation and a changed gender relationship in combination with an increase in the formal qualification of women has led to an enormous growth in female employment and, therefore, to changes in the organisation of the private household production. Today more and more households have not only to coordinate two careers. At the same time an elaborated arrangement of informal work and outsourcing of household related services has to be found. And once such an arrangement between male and female employment, affordable housing, adequate school location, public transport connection, car use, child care by grandparents or availability of a nanny or kindergarten is established, the individual labour market mobility of men and women is limited in favour of a principally increased flexibility of the private household as a whole (Blossfeld and Drobnic 2001). By following such a double earning strategy the private household is able to increase flexibility because its economic base is strengthened (Oppenheimer 1997; Sweeney 1997). If this is true it becomes obvious that nowadays there have to be very strong mobility incentives for men *and* women before they accept a destabilisation of the balanced and fragile arrangement of their private household produc-

tion (Blossfeld and Drobnic 2001). Therefore, looking at the labour market in general the increase of female employment must inevitably lead to a stabilisation of employment relationships and to an increase of job stability.

(5) Although sociologists as well as economists talk about “labour market flexibility” their theoretical concepts are largely underdeveloped. An institution like a market cannot be flexible as such. Only market actors can behave flexibly, and this depends on institutional options and constraints as well as on individual preferences. Therefore, labour *market* flexibility depends not only on the intentions of employers but also on the simultaneously existing intentions of employees (and vice versa). Thus, job stability as an important indicator of labour market dynamics can only be understood as an outcome of an interactive market process (Erlinghagen 2004).

Final remarks: Labour Market Research in Germany almost 15 years after unification

This brief overview of the German debate regarding internal and external flexibility has shown that we need more sophisticated and internationally comparable theoretical as well as empirical analyses in the future. Knowing more about the interdependence of internal and external flexibility of both firms and private households will help us develop a deeper insight into the functioning of labour markets. Thus, it will be possible to identify, for example, “winners” or “losers” of the re-structuring process of the labour market that will go on during the transition towards a service society in the next decades.

However, in the end of this paper we finally should pay attention to another very important point: The Federal Republic of Germany is the only industrialised country that has to manage the social and economic integration of a former socialist country. The argumentation I have presented above is always talking about “Germany” but honestly the Sociological and the Economic Stream as well as my critique both just concentrate on the long term evolution of the West German labour market. Since there are many analyses of the evolution of the East German labour market, too, this research makes indisputably clear that even almost 15 years after unification the East German labour market is functioning still in a totally different way as the West German labour market (Lutz and Grünert 1996; Diewald and Solga 1997; Solga et al. 2000; Brüssig and Erlinghagen 2004). Thus, it is still ab-

solutely necessary to make separate analyses for the West and the East with separate explanations and interpretations.

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