

From deregulation to re-regulation: Trend reversal in German labour law and possible implications for the labour market

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Significant changes in labour market performance and composition of employment in Germany over time

Trend reversal in German labour market institutions in recent years

Possible implications of institutional changes?

- Comprehensive reform 2003/2005 (so-called „Hartz reforms“)
- Focus on deregulation and enforcement by
 - more flexible employment (temporary work agencies, marginal part-time employment)
 - less generous unemployment benefits (particularly long-term unemployment, and older workers)
- Institutional change complemented by pension reforms (particularly : increase of retirement age)

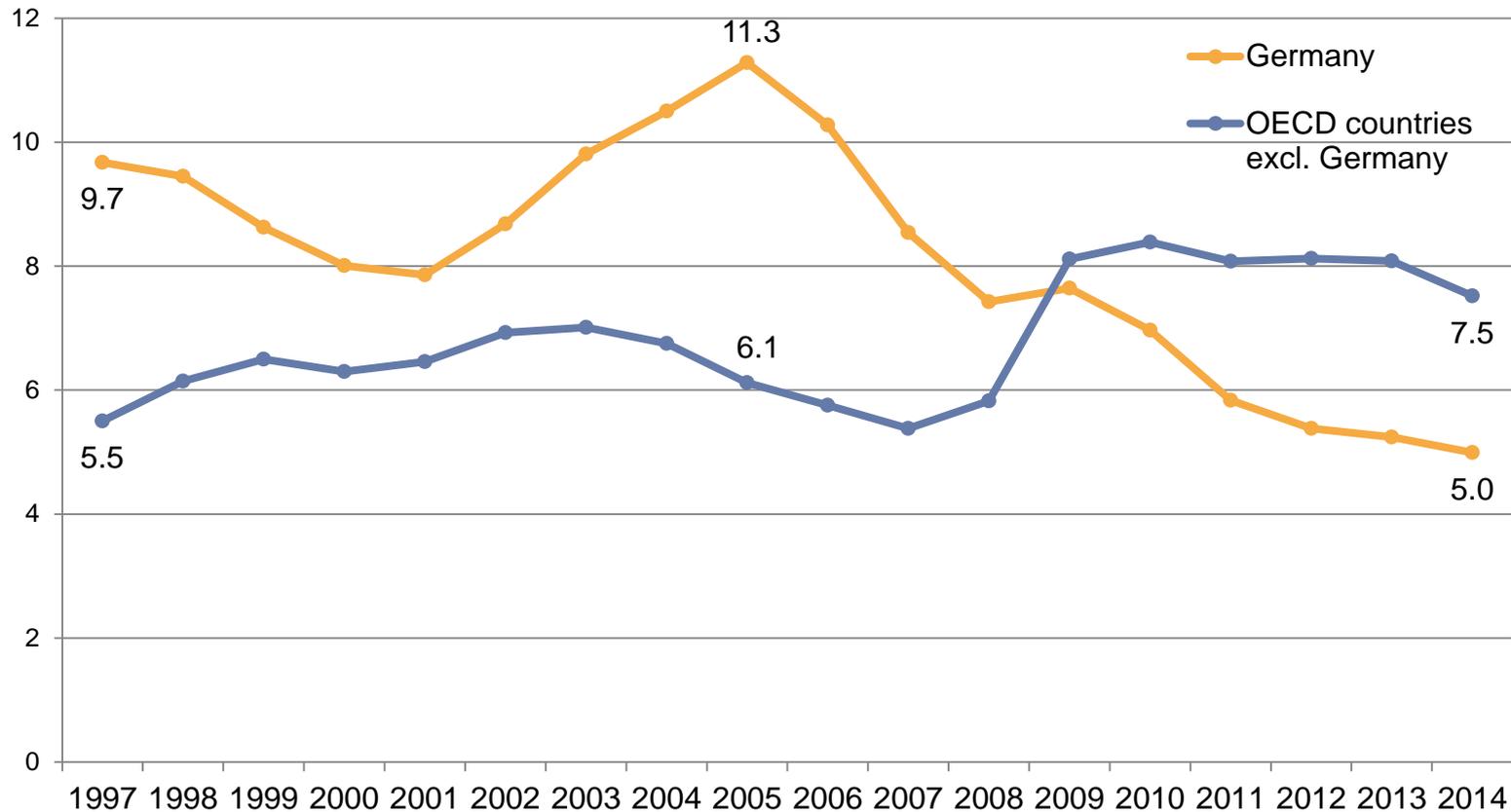
Re-regulation in recent years



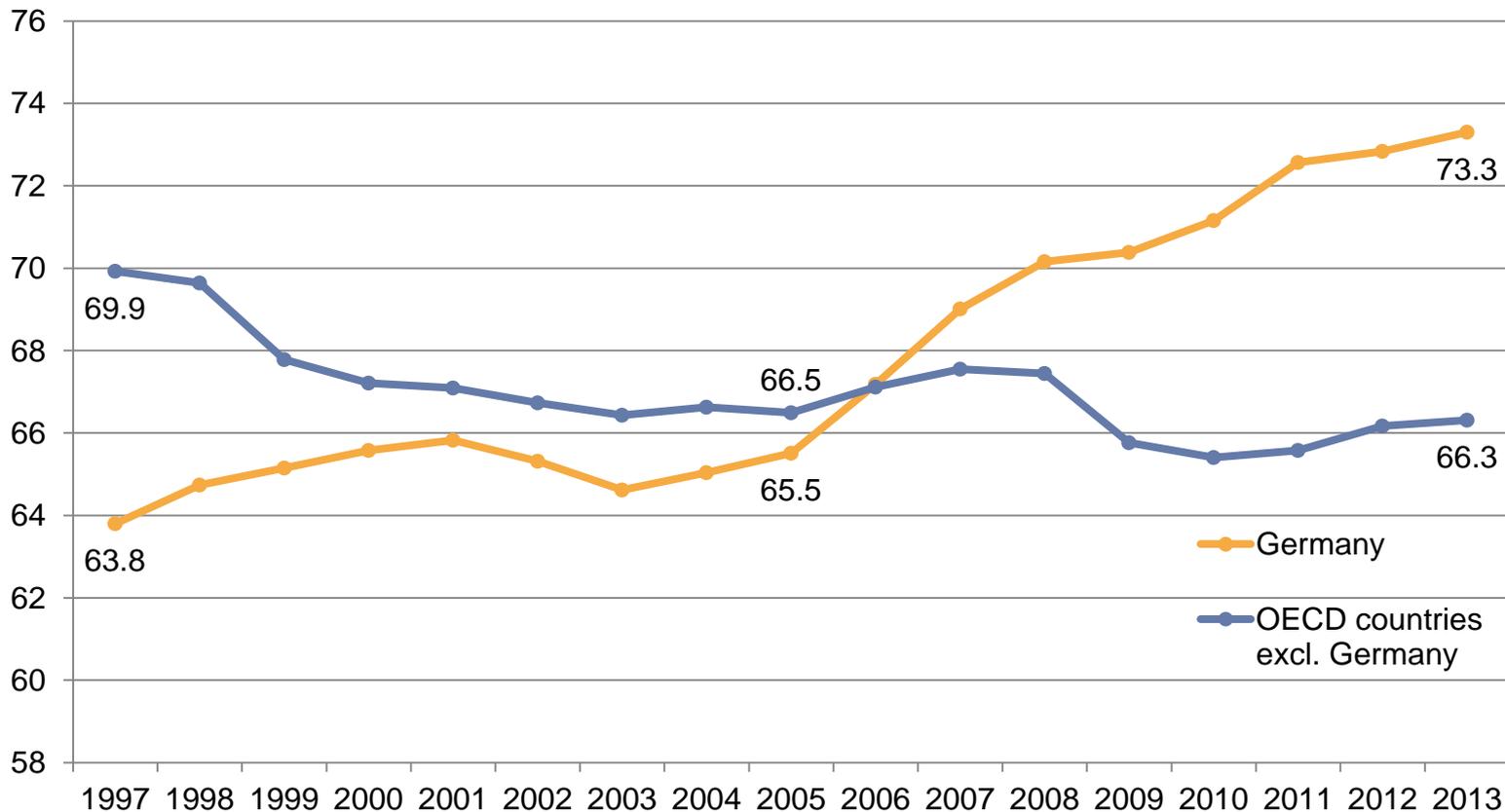
- Tighter regulations of temporary work by law and collective agreements: sector specific minimum wage, strengthening of equal pay, ban on companies setting up own agencies and hiring out these agency workers
- Extension of sector-specific minimum wages; introduction of general minimum wage (2015)
- Slight changes with respect to benefits (older workers) and retirement age (employees with long working life)

- Deregulation (re-regulation) increases (reduces) the absorbability of the labour market and the inequality of employment
- Paper does not aim at a causal analysis, it uses a wide range of circumstantial evidence

Unemployment rates in Germany compared with OECD average (excl. Germany), 1997 to 2013, percentages



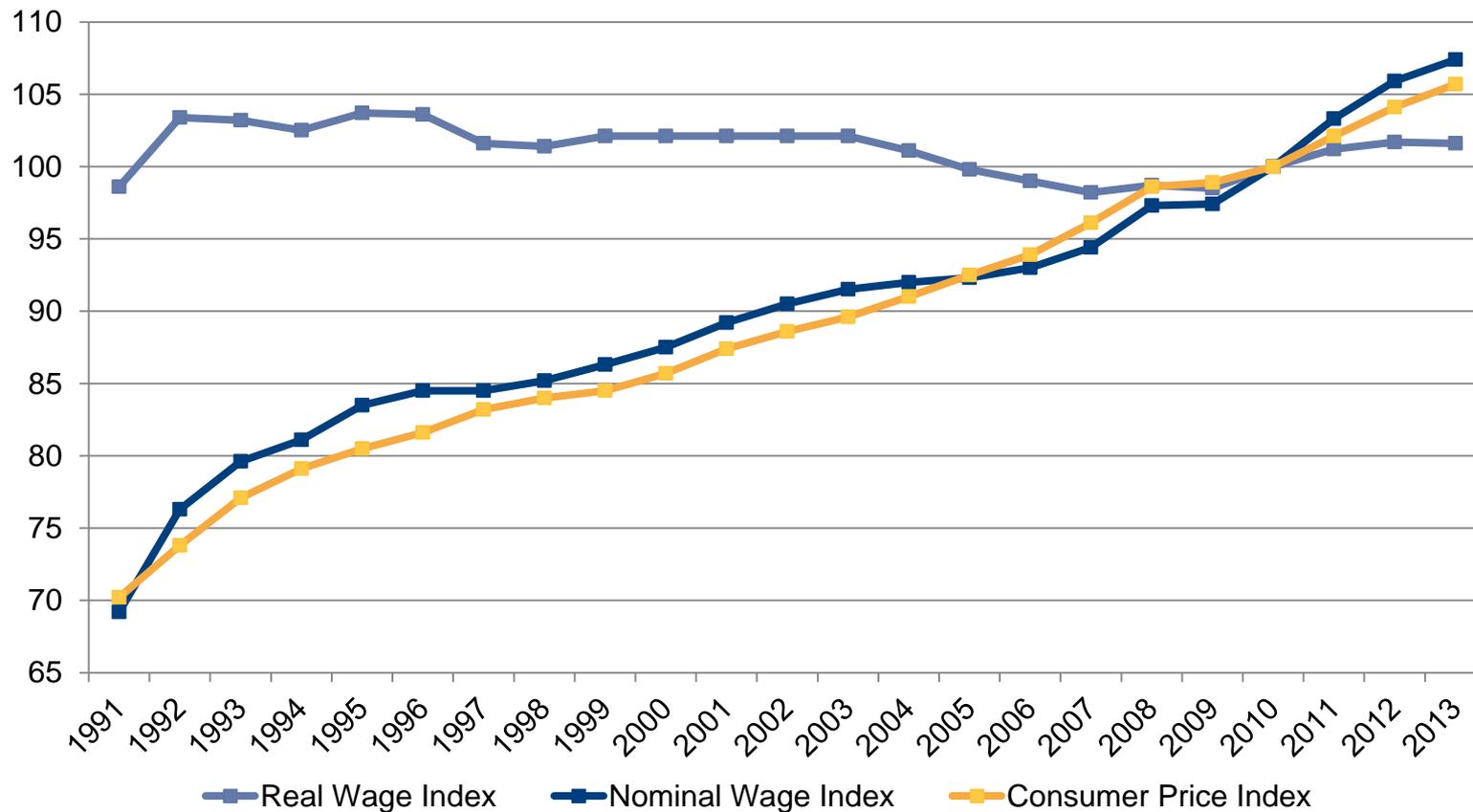
Employment rates in Germany compared with OECD average (excl. Germany), 1997 to 2013, percentages



More employment through labour market reforms?

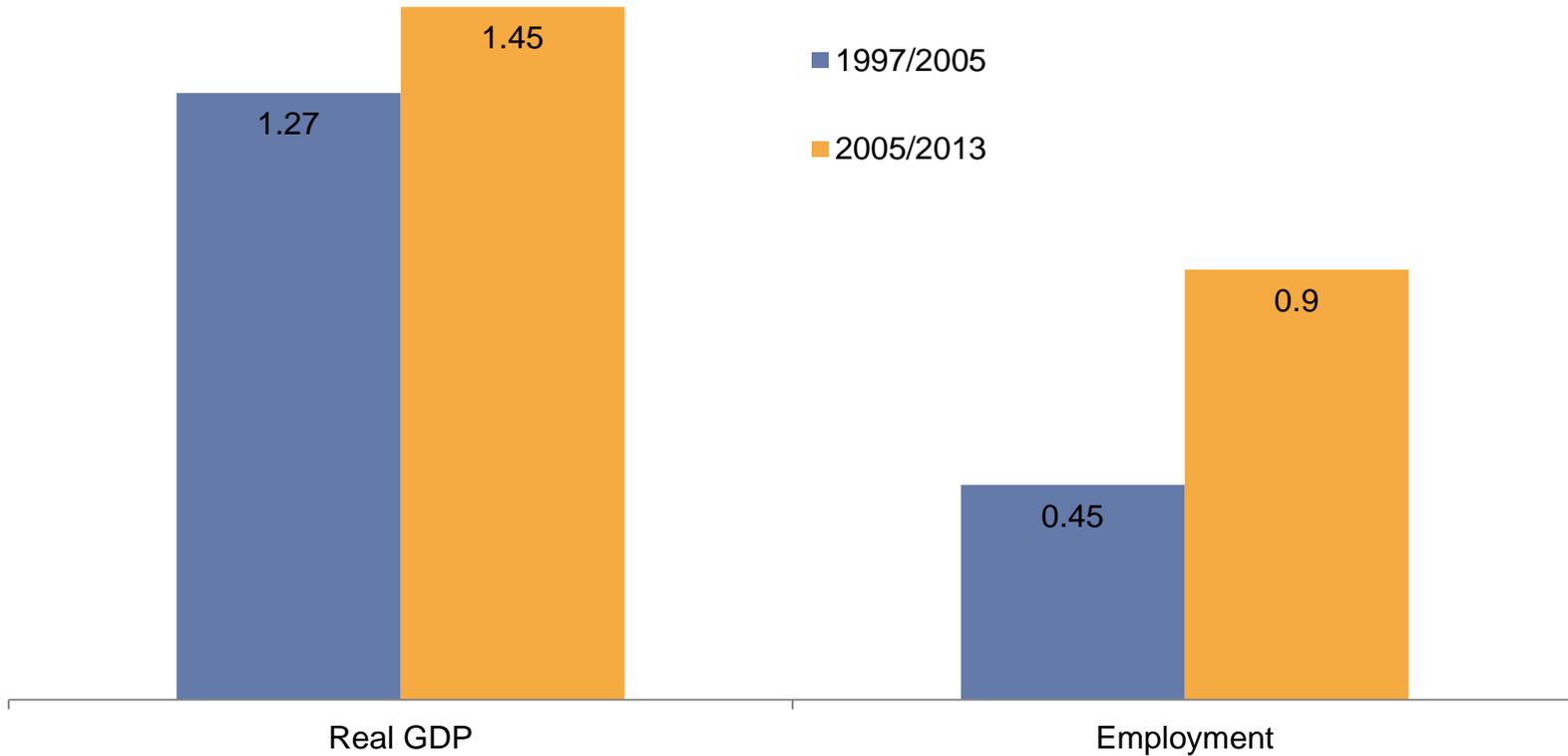
- Decrease in structural unemployment: unemployment did not reach new record level during recent downturn
- GDP-employment decoupling since 2005 (Klinger/Weber 2014); decrease of productivity per worker and productivity per hour ➡
- Labour market reforms were one decisive reason for improvement
- Due to reforms unemployed being more willing to make concessions (Kettner/Rebien 2007) and non-standard workers increase search intensity (Himsel/Walwei 2014) ➡
- Other reasons: highly competitive manufacturing (Möller 2014); ongoing wage moderation even in boom period 2005/2008 (Dustmann et al. 2014)

Development of wages in Germany (Index 2010 = 100)



Changes in real GDP and Employment

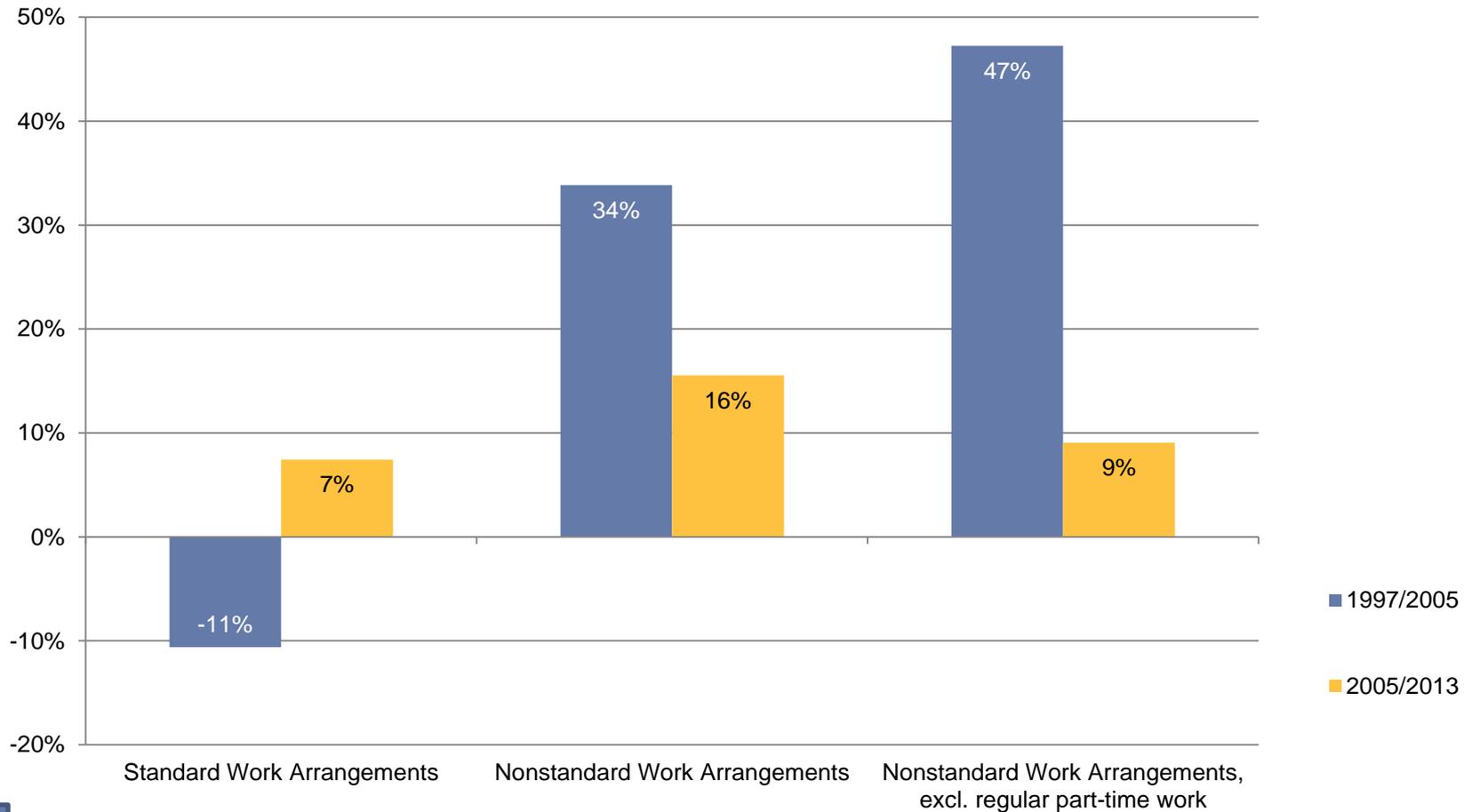
- growth rates 1997/2005 and 2005/2013 -



More inequality through labour market reform?

- Non-standard work arrangements and low wage employment have recently increased
- Changes in the composition of employment already started long before labour market reforms in 2005 ➡
- Non-standard work arrangements did also rise because of shifts in employment (Walwei 2014) and as a response on rising unemployment (push factor)
- Low wage employment did also rise earlier because of lower coverage of collective agreements (Antonczyk et al. 2010) as well as growing international trade and outsourcing trends (Autor 2013)

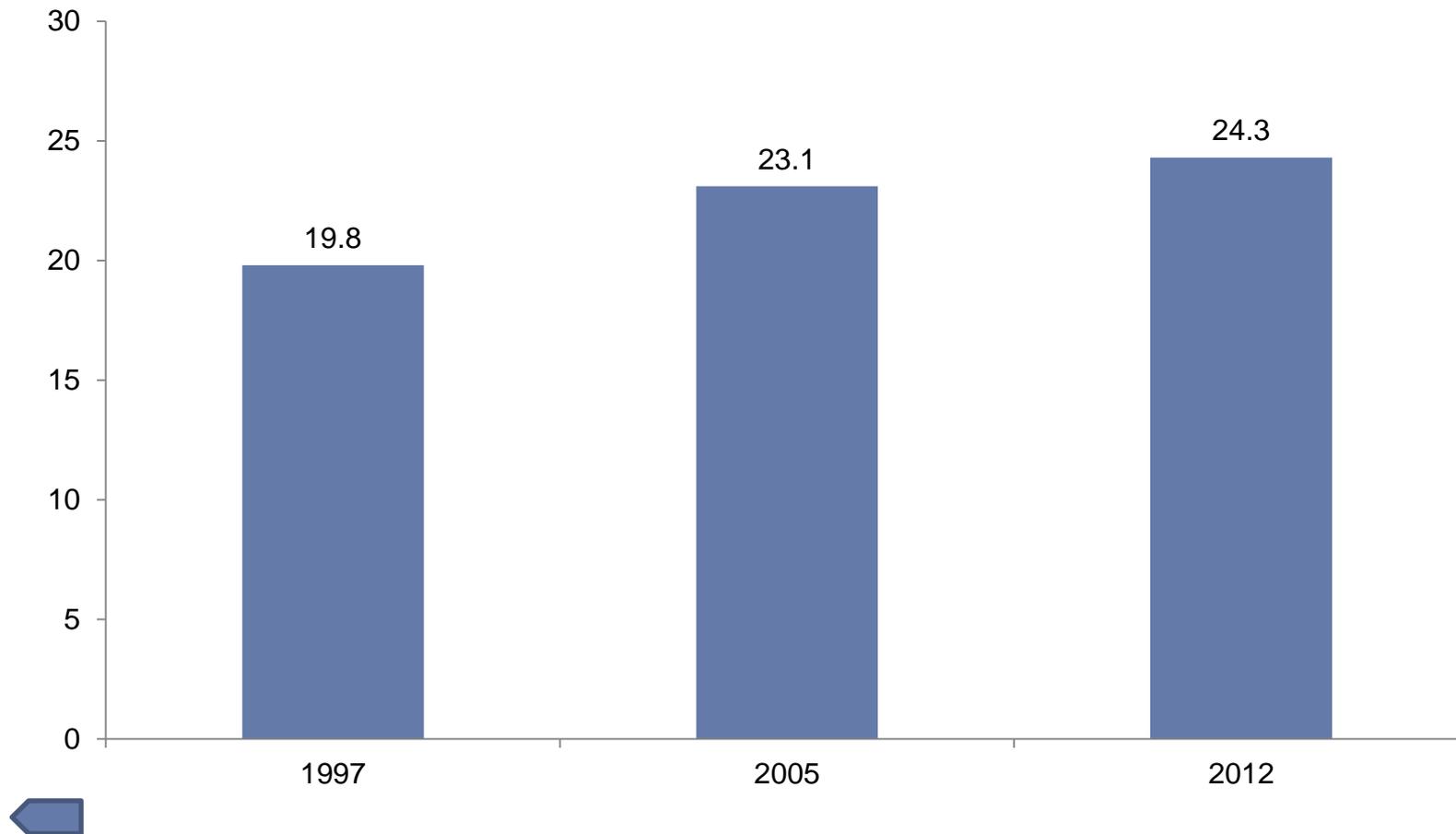
Development of standard and nonstandard work arrangements, 1997/2005/2013, growth rates¹⁾



¹⁾ Excluding specific types of employment such as family workers or apprentices.

Source: Destatis 2014 (Labor Force Survey); Federal Employment Agency; own calculations

Share of workers with low hourly wages, 1997/2011, percentages



Source: German Socio-Economic Panel (SOEP) 2012

Less employment and more equality through re-regulation?



- Impacts of re-regulation should rather be limited because
 - of the current labour market performance
 - the level and composition of employment are not only driven by regulations
 - new regulations are more or less moderate
- This is even true for the new minimum wage which can be seen as a rather strong intervention

The new minimum wage – A first assessment



- A general minimum wage is not per se good or bad; main problem is to determine in advance a suitable wage level
- New minimum wage (8.50€ per hour) may have affected 10-15% of all dependent employed; partly through an “announcement effect”
- It particularly affects parts of the economy: regions (East Germany), types of employment (marginal part-time employment) and groups of workers (low skilled; women; long-term unemployed)
- Early observations neither confirm large employment losses nor considerable reductions of poverty rates

- Circumstantial evidence shows that strong labour market upturn was fostered by labour market reforms; reforms were accompanied by a competitive industry and moderate wage increases
- Greater wage inequality and more atypical employment are not solely due to labour market reform; changes began long before
- New regulations are confronted with a fundamental trade-off: equality of employment versus access to the labour market

Thank You!

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