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**Tackling the Jobs Crisis
The OECD Employment Outlook 2009
and Prospects for Germany – A Comment**

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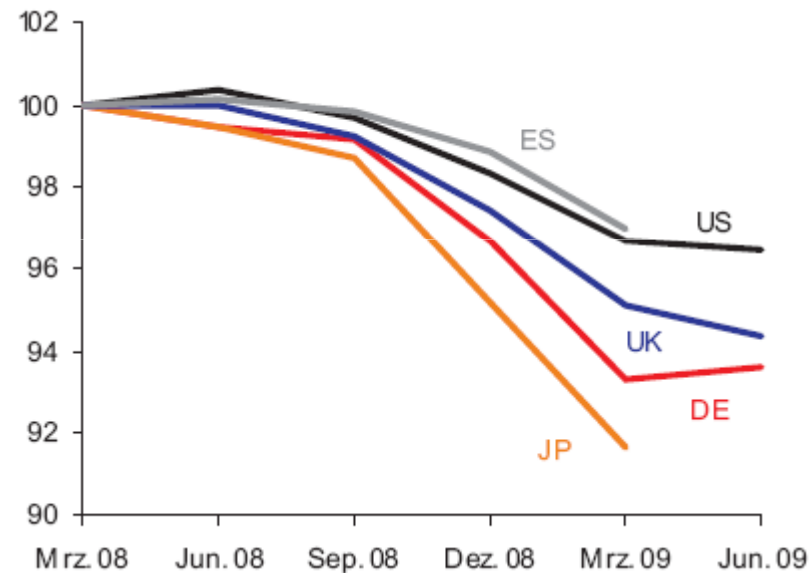
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Tackling the Jobs Crisis: The OECD Employment Outlook 2009 and Prospects for Germany

1. The German labour market in the crisis
2. The role of labour market policy in the crisis
3. In work benefits, minimum wages and poverty
4. Importance of institutional linkages

1. Development of GDP (1st quartile 2008 = 1000)



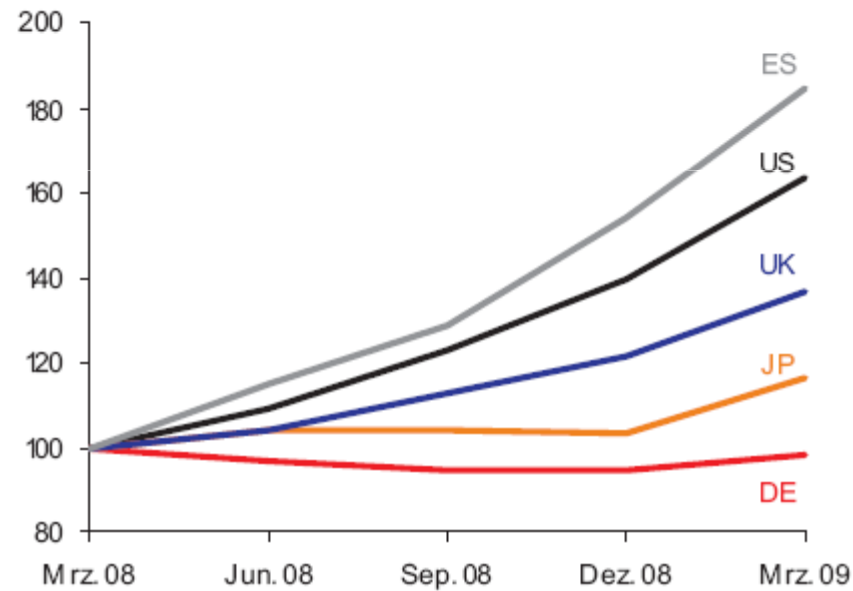
Gesamtwirtschaft, erstes Quartal 2008=100

Bruttoinlandsprodukt preisbereinigt, jeweils in nationaler Währung

DE = Deutschland, ES = Spanien, JP = Japan, UK = Großbritannien, US = USA

Quellen: Reuters-EcoWin: OECD; BIP-Daten: nationale Statistikämter; Berechnungen des IMK.

1 Development of unemployment (1st quartile 2008= 100)



Gesamtwirtschaft, erstes Quartal 2008=100

Arbeitslose, harmonisierte Zahlen für EU Länder

DE = Deutschland, ES = Spanien, JP = Japan, UK = Großbritannien, US = USA

Quellen: Reuters-EcoWin: OECD; BIP-Daten: nationale Statistikämter; Berechnungen des IMK.

1. Why this low increase of unemployment?

1. High internal flexibility (working time accounts, functional flexibility, strong EPL for core workers)
2. Changes of short-time schemes (increased duration, decrease of costs for firms, easier access)

High labour hoarding – Good or bad??

1. Sceptical evaluation of short-time schemes by OECD

Positive:

- Lowest costs for affected workers – work-sharing across the workforce – no scar effects of unemployment
- Lowest costs for companies, if they need the workers in the recovery
- Lower numbers of job-seekers - keeps labour market policy efficient

Negative:

- Favour „old“ jobs over „new“ – protection of jobs not of workers
- obstacle to sustained recovery by propping up declining firms and making it harder for expanding ones to hire new workers

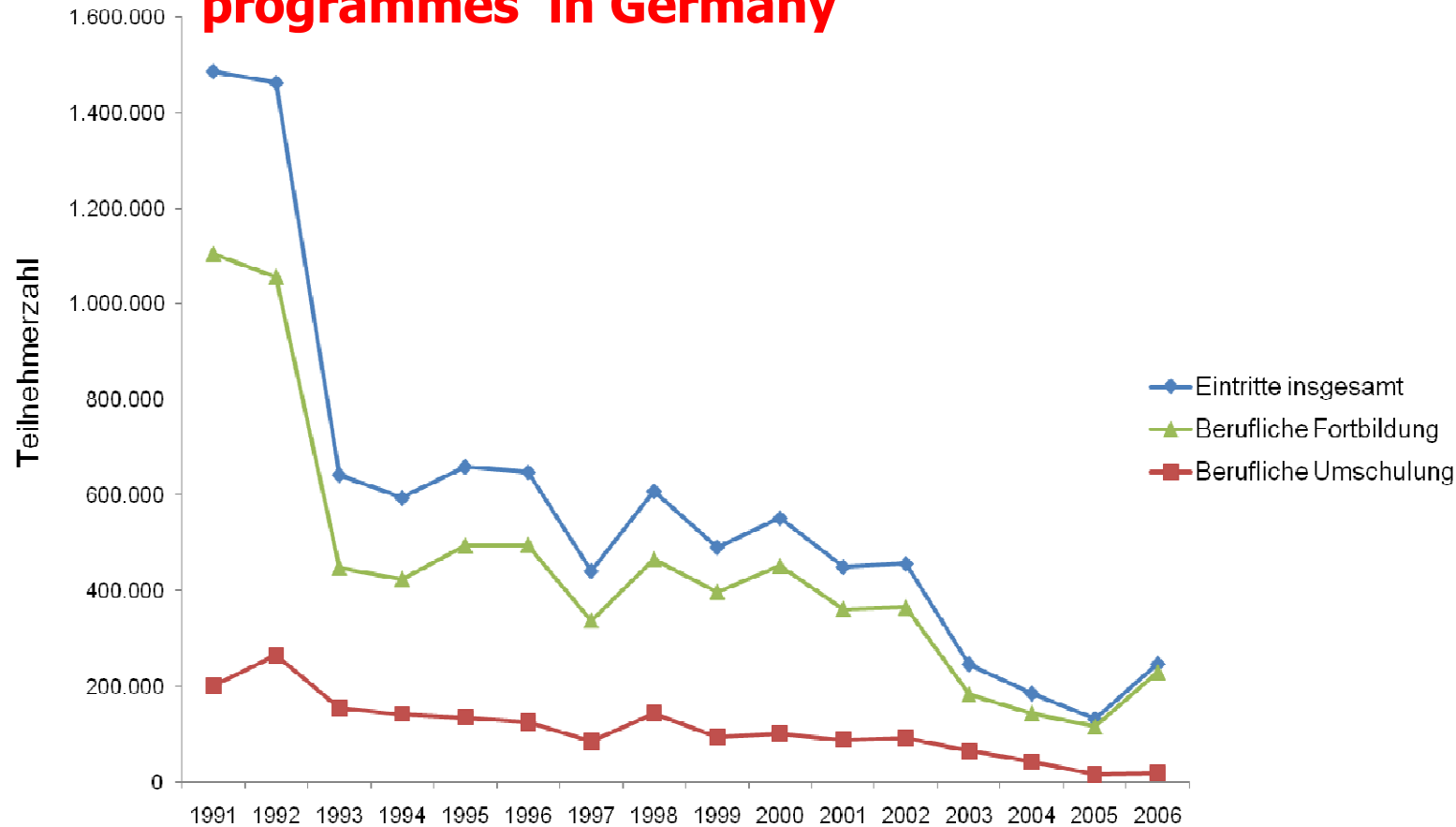
1 OECD Recommendation: Schemes should be temporarily and well-targeted

- Strengthens social partnership, trust and cohesion
- In exceptional severe crisis makes sense to support jobs temporarily: to avoid loss of tacit knowledge in core industry- difficult to rebuild after crisis
- Costs for employers (5 billion € of 14 € Billion total) reduce deadweight
- Short-time schemes, public investment programmes and tax reliefs complementary measures in a package
 - Short-time schemes: Immediate impact,
 - Investment programmes: lag of 6 to 10 months
- Need to understand the role of labour market policy within the national fiscal stimulus packages
- My recommendation: Prolongation – linking with recruitment incentives for young people

2 Role of labour market policy in crisis

- Difficulties of activation if labour market slack is high
- Shift the focus from „*work-first*“ to „*train first*“, approach – especially increased emphasis on longer forms of training
- Lock-in effect of less concern when less vacancies
- Problems: Difficulties to expand training capacities in the short run

2. Participation in further training programmes in Germany



Ab 1997: Berufliche Umschulung inklusive betrieblicher Einarbeitung.

Quelle: BA, Berufliche Weiterbildung, verschiedene Jahrgänge, BA, Arbeitsstatistik -

2 Role of labour market policy in crisis

- „Training first“ : Important message for Germany: strong occupational labour market
- Cuts in training programmes, especially longer training, after Hartz-Laws went to far
- Recent evaluation of training programmes show positive medium (1-3 years) - and long term (4-6 years) effects (Fitzenberger et al)
- Severe bottlenecks for skilled workers in the last upswing
- Increase of retirement age to be linked with a „second chance“ in training

3 In work-benefits, minimum wages and poverty

- Work good antidote to poverty but correlation between employment performance and poverty rates low – design of transfer systems key determinant
- Fight against poverty cannot rely entirely on labour market performance
- For working poor underemployment (part-time) and children are major problems
- MW one useful complement to IWB but taken in isolation limited effectiveness – many low wage workers do not live in poor households
 - MW prevents employers from „pocketing“ the value of IWB by lowering wages – reduction of IWB payments

3 In work-benefits, minimum wages and poverty

- IWB and MW often seen in Germany as alternatives and not as OECD as complements
- Strategies of „pocketing“ especially in low wage services increasing – unintended permanent subsidies of low wage jobs and industries (70% of IWB recipients in West and 80% in East-Germany earn less than 7,50€)
- German IWB (1,35 Mil recipients) not well designed:
Strong incentives
 - for employees in remaining in marginal employment
 - for employers offering mini-jobs
- New government plans to extend mini-jobs and improve work incentives: does not go together

4 Importance of institutional linkages

- 2006 Employment Outlook. Evaluation of the OECD Job strategy
- One of main conclusions: Not *one* best way
- Institutional linkages important:
 - Example: Active labour market programmes can reduce the disincentive effects of high unemployment benefits (Denmark)
- In „other successful countries“ labour market policy higher responsive than in „market-led countries“