Labour market adjustments during the crisis: The role of working time arrangements

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I- Introduction

During the crisis, huge differences between countries concerning labour market adjustments

- External adjustment made to the detriment of the employment situation
  Spain: productivity acceleration
- Internal adjustments through short time working schemes and temporary layoffs
  Germany: no job destruction and no unemployment increase
- Other countries: intermediate adjustment

This paper:

- Highlights these different adjustments (II-)
- Characterises the reasons for these differences (III-)
- Discusses job protection strategy and the balance between job protection and employee protection (IV-)
- Concludes (V-)

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#### II- Different adjustments

Labour market evolutions from the first quarter of 2008 to the first quarter of 2009

In some OECD countries

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP Growth</th>
<th>Total Employment Growth</th>
<th>Annual Hours per Employee Growth</th>
<th>Productivity per Employee Growth</th>
<th>Productivity per Hour Growth</th>
<th>Unemployment Rate Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>-3.9</td>
<td>-1.6</td>
<td>-0.5</td>
<td>-2.3</td>
<td>-1.7</td>
<td>2.0</td>
</tr>
<tr>
<td>Germany</td>
<td>-6.0</td>
<td>0.2</td>
<td>-3.0</td>
<td>-6.2</td>
<td>-3.2</td>
<td>0.0</td>
</tr>
<tr>
<td>Ireland</td>
<td>-9.5</td>
<td>-10.8</td>
<td>-2.5</td>
<td>1.2</td>
<td>3.8</td>
<td>7.0</td>
</tr>
<tr>
<td>Italy</td>
<td>-6.9</td>
<td>-1.7</td>
<td>-0.5</td>
<td>-5.2</td>
<td>-4.6</td>
<td>1.1</td>
</tr>
<tr>
<td>Portugal</td>
<td>-3.1</td>
<td>-2.1</td>
<td>-1.0</td>
<td>-1.0</td>
<td>-</td>
<td>1.5</td>
</tr>
<tr>
<td>Spain</td>
<td>-4.5</td>
<td>-8.0</td>
<td>-</td>
<td>3.5</td>
<td>-</td>
<td>8.6</td>
</tr>
<tr>
<td>Euro Area</td>
<td>-4.7</td>
<td>-1.8</td>
<td>-</td>
<td>-2.9</td>
<td>-</td>
<td>2.2</td>
</tr>
<tr>
<td>Japan</td>
<td>-7.5</td>
<td>-2.1</td>
<td>-3.4</td>
<td>-5.4</td>
<td>-2.0</td>
<td>1.3</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>-6.1</td>
<td>-2.0</td>
<td>-0.7</td>
<td>-4.1</td>
<td>-3.4</td>
<td>2.6</td>
</tr>
<tr>
<td>United States</td>
<td>-3.9</td>
<td>-4.1</td>
<td>-0.9</td>
<td>0.2</td>
<td>1.1</td>
<td>4.3</td>
</tr>
</tbody>
</table>

Data sources: OECD

#### Annual average growth of productivity per employee

In %

![Graph showing annual average growth of productivity per employee](image)

Data sources: OECD
**II- Different adjustments**

GDP contraction in all industrialised countries

Contraction accompanied, with variable proportions, by

- Adjustment of employment levels
- Decrease of productivity per capita

Two contrasted situations

- Spain: productivity acceleration; Impressive unemployment increase
- Germany: employment stability; Impressive productivity decrease

United States and Ireland: similar adjustment to Spain

France, Italy, Japan and the United Kingdom: intermediate evolutions

Well documented. Among others, see Arpaia and Curci (2010), Mandl et al. (2010), Elsby, Hobijn and Sahin (2010) for the US...

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**II- Different adjustments**

The adjustment type of Spain, the United States or Ireland already observed in the past

The employment inertia in Germany contrasts with usual evolutions in times of recession

The main puzzle to solve is the German one
III- Main reasons for these differences

A wrong candidate: labour market rigidities, and more particularly dismissal ones

See Table 2

- Spain: Rigid labour market regulations
- Germany labour market regulations not more rigid than in France or Portugal
- These indicators provide relevant explanations only for the United States and Ireland: few rigidities for these two countries

These indicators fail to explain the specific German answer to the economic downturn

III- Main reasons for these differences

Few studies propose a deep analysis of the German labour market adjustments during the crisis

For Burda and Hunt (2011), German employment stability during the crisis can mainly be explained by important productivity gains in the previous period, because of reticence to hire

The data do not really support this point of view:

During the 2001-2007 period, just before the crisis, the annual average growth of the productivity per employee was 1.1%

- Same as the one of the 1995-2006 period
- Same as the one observed in France
- Below those observed in Japan, the United Kingdom or the United States
III- Main reasons for these differences

For OECD (2010), Bosch (2010), Mandl et al. (2010) among others, the German “job miracle” is explained by a combination of different instruments:

- A decrease of overtime hours
- The use of individual working time account (Arbeitszeitkonto)
- A subsidized transitory reduction of working time (Kurzarbeit)
- Mainly (40% at least), a transitory reduction of wage and working time implemented through collective agreements

III- Main reasons for these differences

III-1. The use of short time working schemes

In numerous OECD countries, particularly in Europe, policies have been implemented to reduce transitorily the impact on employment of negative cyclical shocks, with a financial contribution from the State.


Consists in

- Reducing the working time of part of the workforce
- Sharing the income burden between employees, employers and the State

Old policies: Germany since the 1920s, France since 1968...
III- Main reasons for these differences

III-1. The use of short time working schemes

Important differences concerning the use of these policies. For example at their maximum, within the year 2009:

- In France, around 0.3 million workers were concerned
- In Germany, around 1.6 million workers were concerned

III- Main reasons for these differences

III-1. The use of short time working schemes

In most of the countries, adaptation of these policies during the crisis

- To alleviate the administrative procedures of these policies
- To increase the amount of income support and the duration of benefits for firms and workers
- To extend the scope of employers (type of industry, size of the firm) and employees involved (mainly atypical workers)
- To reinforce the provisions for training during the non-worked hours

In nine countries (mainly new member states but also the Netherlands) such schemes have been elaborated under the pressure of the crisis
III- Main reasons for these differences

III-1. The use of short time working schemes

These policies differ a lot among countries, concerning:

- Employees concerned
- The maximum working time reduction
- The level of income compensation
- Employers and employees social security contributions
- The linkage between short time work and training (only France and Slovenia do not create such a link)

Through an econometric approach, Boeri and Brucker (2011) characterize the following main causes of these differences:

- Employment protection (+)
- Unemployment protection benefit generosity (-)
- Flexisecurity arrangements (-)
- Centralization of the wage bargaining structures (+)
- Cost for the employer (-)
- Net replacement rate for the employee (+)

We could add to these causes:

- The complexity of these policies
- The position of the unions
- Cultural factors...
III- Main reasons for these differences

III-2. Additional contribution of collective bargaining

In Germany, the main explanation is the transitory reduction of wage and working time implemented through collective agreements. See among others OECD (2010), Bosch (2010), Schmid (2010).

Such collective agreements:

- Allow transitory working time and wage reductions
- In exchange for employment stability commitments

Quasi-German specificity
Go with the contractual strength of collective agreements in Germany which gives room to social compromises.

In France, a collective agreement cannot change any substantial labour contract component, the wage being, among others, one of these substantial components.

These types of agreements, in Germany:

- Initiated by the VW agreement in 1993 which have implemented the 28.8h working week in order to save 30 000 jobs.
- Expanded during the 2000s.
- Occurred in the wake of an important increase of the labour market flexibility promoted by the Hartz reforms.
- Concluded in the context of a wage moderation, in place for about fifteen years; situation which is quite specific to Germany among the Euro Area countries.

In 2009 and 2010, new agreements were signed in some industries (see Eurofound, 2011).

Apart from Germany, these types of agreements were also concluded in a few other European countries. Sweden mainly, at a lower scale.
III- Main reasons for these differences

III-2. Additional contribution of collective bargaining

In Germany, these agreements are observed in numerous activities. They can specify:

- The maximum decrease of working time and wages, or
- A corridor of possible upward or downward changes

They are negotiated in detail at the firm level. Their implementation requires the approval of the works councils.

Generally, the wage decrease is equivalent to the working time decrease.

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<table>
<thead>
<tr>
<th>Industry</th>
<th>Standard weekly working time</th>
<th>Minimum working time threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In hours</td>
<td>In hours</td>
</tr>
<tr>
<td>Banking</td>
<td>39</td>
<td>31</td>
</tr>
<tr>
<td>Printing industry</td>
<td>35</td>
<td>30</td>
</tr>
<tr>
<td>Iron and steel industry</td>
<td>35</td>
<td>28</td>
</tr>
<tr>
<td>Wood and plastics – Westphalia/Saxony</td>
<td>35/38</td>
<td>30/32</td>
</tr>
<tr>
<td>Motor trade and repairs – Lower Saxony</td>
<td>36</td>
<td>30</td>
</tr>
<tr>
<td>Metalworking industry – Baden-Württemberg/Saxony</td>
<td>35/38</td>
<td>30/33</td>
</tr>
<tr>
<td>Local government – East</td>
<td>40</td>
<td>30/32</td>
</tr>
<tr>
<td>Paper processing</td>
<td>35/37</td>
<td>30/32</td>
</tr>
<tr>
<td>Travel agencies</td>
<td>38.5</td>
<td>30</td>
</tr>
<tr>
<td>Textile cleaning services</td>
<td>38.5/40</td>
<td>33.5/35</td>
</tr>
<tr>
<td>Insurance</td>
<td>38</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td></td>
<td>In % decrease from the standard working time</td>
</tr>
<tr>
<td>Clothing – West</td>
<td>37</td>
<td>6.75</td>
</tr>
<tr>
<td>Textile industry – Westphalia/East</td>
<td>37/40</td>
<td>6.75</td>
</tr>
</tbody>
</table>

Source: Bosch (2010), from different sources.
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III- Main reasons for these differences

III-2. Additional contribution of collective bargaining

Some industry level collective agreements concerning possible transitory reductions of wage and working time, in Germany, 2009

B – Some agreements with a possible working time corridor

<table>
<thead>
<tr>
<th>Secteurs</th>
<th>Standard weekly working time</th>
<th>Corridor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemical industry - West</td>
<td>37.5</td>
<td>35 - 40</td>
</tr>
<tr>
<td>Refractory industry - West</td>
<td>38</td>
<td>36 - 40</td>
</tr>
<tr>
<td>Rubber – West/East</td>
<td>37.5/39</td>
<td>35 - 40/36 – 40</td>
</tr>
<tr>
<td>Papermaking – West/East</td>
<td>38</td>
<td>35 - 40</td>
</tr>
<tr>
<td>Non-metallic mineral processing industry – Bavaria</td>
<td>38</td>
<td>34 - 42</td>
</tr>
<tr>
<td>Volkswagen – production - Support services</td>
<td></td>
<td>25 – 33</td>
</tr>
<tr>
<td>Housing sector</td>
<td>37</td>
<td>34,5 – 39,5</td>
</tr>
<tr>
<td>Cement industry – North-west Germany</td>
<td>38</td>
<td>35 - 40</td>
</tr>
<tr>
<td>Brick making industry – West (excl. Bavaria)/East</td>
<td>38/40</td>
<td>35 - 40</td>
</tr>
</tbody>
</table>

Source : Bosch (2010), from different sources

IV- Balance between job protection and employee protection

Flexicurity has promoted a shift from job protection to employee protection through the improvement of their employability and capacity to manage job to job transitions

A large body of literature shows that job protection:

- May restrain economic mutations which will have to happen sooner or later. Employees will be consequently less prepared for their necessary professional mobility
- Is in fact a protection of the employment of insiders. It does not take into account unemployed outsiders’ interests. Labour market ingoing people, particularly the young, can be penalised by job protection strategies
- May increase the labour market segmentation
IV- Balance between job protection and employee protection

Employment Protection Legislation (OECD indicator) and
A - ... Employment rate (in %) in 2009

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IV- Balance between job protection and employee protection

Employment Protection Legislation (OECD indicator) and
B - ... Precarity rate (in %) in 2009

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IV- Balance between job protection and employee protection

The German strategy is a job protection one

It goes with an important share of long term unemployed people among the unemployed population

<table>
<thead>
<tr>
<th>Country</th>
<th>Proportion of unemployed for...</th>
<th>Unemployment rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>…6 months and more</td>
<td>…12 months and more</td>
</tr>
<tr>
<td>France</td>
<td>59.8</td>
<td>40.1</td>
</tr>
<tr>
<td>Germany</td>
<td>63.5</td>
<td>47.4</td>
</tr>
<tr>
<td>Ireland</td>
<td>69.4</td>
<td>49.0</td>
</tr>
<tr>
<td>Italy</td>
<td>64.6</td>
<td>48.5</td>
</tr>
<tr>
<td>Portugal</td>
<td>70.5</td>
<td>52.3</td>
</tr>
<tr>
<td>Spain</td>
<td>65.4</td>
<td>45.1</td>
</tr>
<tr>
<td>Japan</td>
<td>55.6</td>
<td>37.6</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>52.6</td>
<td>32.6</td>
</tr>
<tr>
<td>United States</td>
<td>43.3</td>
<td>29.0</td>
</tr>
<tr>
<td>OECD</td>
<td>48.5</td>
<td>32.4</td>
</tr>
</tbody>
</table>

Data source: OECD

The German strategy can be relevant in the context of a transitory negative economic shock, to avoid human capital destruction

The opposition between job protection and employee protection seems inappropriate:

- The protection of the persons has to be the main axis of any employment strategy. It needs to maintain and improve the employability of the persons, through training programs which have to be adapted to each person

- Transitory job protection can soften and reduce the social damages in situations of transitory shocks, to avoid the social costs of workers’ dismissals that would not be necessary in the medium and in the long run

One major difficulty is to characterise some economic shocks as firm specific or more global, as transitory or more structural
IV- Balance between job protection and employee protection

Such policies tend to balance flexibility and security for both the employer and the employee:

- Maintain the employment contract during the crisis
- Enhance the competences of their employees through training programs
- Give the security for the firm to be in a position to react immediately when the recovery takes hold

Transitory job protection is no longer in opposition with employee protection and we might detect synergies between the two

Such a disposal is in discussion in France between social partners, named “Contrat compétitivité-emploi”

V- Conclusion

Difficult to propose universal rules to articulate in a relevant way job protection and worker protection

If we compare France with Germany, for example, one question deserves to be raised: which protection strategy has been the most relevant,

- The French wage and working time rigidity, with 500,000 job destructions and an increase of the unemployment rate by 2 pp., or
- The transitory German wage and working time decrease, without any job destruction?

But would the German choice be socially sustainable in case of longer and repetitive negative shocks?