

Akdeniz University
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Yaşar IRMAK

A CRITICAL ASSESSMENT OF GERMANY'S PERFORMANCE DURING THE
FINANCIAL CRISIS 2008 IN THE CONTEXT OF GERMAN INDUSTRIAL
RELATIONS: IS GERMANY SUCCESSFUL AND ITS TRADE PARTNERS ARE
UNSUCCESSFUL?

Joint Master's Programme European Studies Master Thesis

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Akdeniz Üniversitesi
Sosyal Bilimler Enstitüsü Müdürlüğüne,

Yaşar IRMAK'ın bu çalışması jürimiz tarafından Uluslararası İlişkiler Ana Bilim Dalı
Avrupa Çalışmaları Ortak Yüksek Lisans Programı tezi olarak kabul edilmiştir.

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Tez Başlığı : Endüstriyel İlişkiler Bağlamında Almanya'nın 2008 Finans Krizi
Sırasındaki Performansının Kritik Değerlendirmesi: Almanya
Başarılı mı ve Ticari Ortakları Başarısız mı?

A Critical Assessment of Germany's Performance during the
Financial Crisis 2008 in the Context of German Industrial
Relations: Is Germany Successful and Its Trade Partners Are
Unsuccessful?

Onay : Yukarıdaki imzaların, adı geçen öğretim üyelerine ait olduğunu onaylıyorum.

Tez Savunma Tarihi : 26.09.2014

Mezuniyet Tarihi : 13.11.2014

Prof. Dr. Zekeriya KARADAVUT
Müdür

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SUMMARY

A CRITICAL ASSESSMENT OF GERMANY'S PERFORMANCE DURING THE FINANCIAL CRISIS 2008 IN THE CONTEXT OF GERMAN INDUSTRIAL RELATIONS: IS GERMANY SUCCESSFUL AND ITS TRADE PARTNERS ARE UNSUCCESSFUL?

This paper provides a study on specific features of industrial relations, labour markets and employment regimes in German socio-economic model and its reactions to the financial crisis in these areas and the effects of the Financial Crisis of 2008 on German economy would be assessed.

I will first try to explain economic performance of Germany. Because Germany stands as a proper case to examine in order to understand the Financial Crisis of 2008. The financial crisis in 2008 has negatively affected the Germany's employment regime which provides "institutional comparative advantages" to Germany in certain sectors those require "incremental innovation". Its ongoing relative success in exporting relies not on Germany's deregulative economic policies; rather on that its trade partner countries have not yet enhanced their institutional comparative advantages." With other words, since its trade partners could not maintain price competition as the gap between Unit Labour Costs of Germany and its trade partners has not yet closed, Germany had a room for maneuver, despite of the deregulative policies.

The argument will be tested via the Varieties of Capitalism Approach as theoretical background would be elaborated. The VoC approach is useful with its "institutionalist historical understanding" to comprehend both the institutional reforms carried out before and during the crisis and also the special position of Germany within European economy.

The model consists of the stable (not increasing) unemployment rate and women employment are scrutinized as positive effects; precarisation of working conditions and increasing poverty are attributed as negative effects. The reason behind this preference is that to reveal that the ongoing deregulative economic policies do not produce merely positive results, unlike it is mostly acknowledged; rather they cost at the expense of distortion of fair income distribution. This study tries to analyse what changes women's employment has gone through and how atypical works' trends (including part-time and mini-jobs) have changed before and after the crisis.

Keywords: German labour market, trade union, employment regime, unit labor cost, bargaining power of labour, unemployment, work council, skill composition

ÖZET

ENDÜSTRİYEL İLİŞKİLER BAĞLAMINDA ALMANYA’NIN 2008 FİNANS KRİZİ SIRASINDAKİ PERFORMANSININ KRİTİK DEĞERLENDİRMESİ: ALMANYA BAŞARILI MI ve TİCARİ ORTAKLARI BAŞARISIZ MI?

Bu tezde, Almanya’nın sosyo-ekonomik modeli, endüstriyel ilişkileri, işgücü piyasaları ve istihdam rejimlerinin yapısı ve bunların 2008 Küresel Finans Krizi’ne karşı göstermiş oldukları reaksiyonlar ve etkiler çalışılmıştır.

İlk olarak, Almanya’da ekonomik performansını açıklamaya çalışacağız. Çünkü, Almanya 2008 Finans krizini anlamak için incelenecek önemli bir vaka olarak duruyor.

Almanya’ya "kurumsal karşılaştırmalı avantajlar" sağlayan ve "yavaş artan inovasyon" gerektiren belirli sektörler Almanya’nın istihdam rejiminin şekillenmesinde başat faktörlerdir. Almanya’nın ihracatının devam etmesinin nedeni Almanya’nın deregülatif ekonomi politikaları uygulaması değil; Almanya’nın ihracat yaptığı ticaret ortağı ülkelerin henüz „kurumsal karşılaştırmalı avantajlar“ geliştirmiş olmamasındandır. Başka bir deyişle, Almanya’da ile ticaret ortakları arasındaki Birim İşgücü Maliyetleri uçurumunun henüz kapanmamış olması, deregülatif politikalarına rağmen, Almanya’ya bir manevra alanı yaratmaktadır.

Bu argümanlar teorik olarak Kapitalizmin Çeşitleri Yaklaşımı’nın incelenecek ve sektörel metodoloji ile test edilecektir. Almanya’nın Avrupa ekonomisinin içinde önemli bir konumda bulunmasından dolayı, hem kriz öncesi ve hem de kriz sırasında yürütülen kurumsal reformları anlamak için "kurumsal tarihsel anlayış" ile incelemek önemlidir.

Bu model irdelendiğinde istikrarlı (artmayan) işsizlik oranı ve artan kadın istihdamı olumlu yönleri olurken; çalışma koşullarının kötüleşmesi ve yoksulluğun artması ise olumsuz yönler olarak ortaya çıkmıştır. Bazı sonuçların gösterdiği gibi, hala devam eden deregülatif ekonomik politikaların sadece olumlu sonuçlar üretmediği gibi, adil gelir dağılımının bozulmasına da neden olmuştur.

Anahtar Kelimeler: Alman işgücü piyasası, sendika, istihdam rejimi, birim işgücü maliyeti, emeğin pazarlık gücü, işsizlik, iş konseyi, beceri kompozisyonu

ACKNOWLEDGEMENT

I would like to thank;

Firstly to all my family members who always helped me and have supported my academic process despite the difficulties; especially to my dad Mehmet Irmak, a tired worker in Germany and to my mother Schecha Schichmus, a strong woman, who has always encouraged me to study. To my brothers Azad and Ahmet Irmak, my sisters Gurbet and Nalin Irmak, for their trust in me;

To my supervisors Dr. Martin Sauber and Prof. Dr. Can Deniz Köksal for their criticism, comments and friendly supports;

To my best friend Ilhan Dögüs who has always supported me and helped me a lot of by the thesis and my master studies, and to Önder Dolutas who corrected English-grammar mistakes; to EuroMaster Coordinators Tamer Ilbuga and Johannes Janßen;

To University of Hamburg and to my wife Berivan Upcin who has supported me for 10 years by the all difficulties in the life. We have always shared hard times and good times together. She has always motivated me during the master study. She is for me my bosom friend, confidant, my darling, my lady and joy of life.

Yaşar IRMAK

Hamburg, 2014

INTRODUCTION

German economy and its socio-economic model are of great importance in the context of the European Union. Germany is the largest economy in the EU with its GDP accounting for more than 27% of Euro area and 20% of EU-27 GDP in 2010. It is also an economy in which gross national saving increased in 2010 compared to the year 2000 while the trend was vice-versa in most other EU countries.

With the hit of financial global crisis in 2007-2008 economic activities in Germany decreased at a size which has not been experienced since World War II. Germany implemented strong policies to help avoid a deep recession. After a sharp fall in real GDP in the first half of 2009, policy support and an increase in demand lifted the economy in the second half and kept the GDP contraction to 4.9% for 2009. The recovery started at a moderate pace, with real GDP growth projected to reach 1.2% in 2010 and 1.7% in 2011.

Because of its economic performance, Germany stands as a proper case to examine in order to understand the Financial Crisis of 2008.

This paper provides a study on specific features of industrial relations, labour markets and employment regimes in German socio-economic model and its reactions to the financial crisis in these areas and the effects of the Financial Crisis of 2008 on German economy would be assessed.

The hypothesis to be tested is as following:

“The financial crisis in 2008 has negatively affected the Germany’s employment regime which provides “institutional comparative advantages” to Germany in certain sectors those require “incremental innovation”. Its ongoing relative success in exporting relies not on Germany’s deregulative economic policies; rather on that its trade partner countries have not yet enhanced their institutional comparative advantages.” With other words, since its trade partners could not maintain price competition as the gap between Unit Labour Costs of Germany and its trade partners has not yet closed, Germany had a room for maneuver, despite of the deregulative policies.

The paper is structured as following:

The second chapter deals with the tension between specific skills-based labour markets and the flexibilisation which indeed fits to general skills-based labour markets, such as USA,

UK. This chapter provides a holistic image of German employment regime and labour market characteristics. In the third chapter, financial crisis and its interactions are evaluated with a focus on labour markets and social partners in Germany. In this context, it is attempted to explore what labour market instruments and reforms Germany have applied during the crisis. In that context, in subparts of second chapter, economic institutions of Germany and their evolution would be discussed.

In the fourth chapter, the Varieties of Capitalism Approach as theoretical background would be elaborated. The VoC approach is useful with its “institutionalist historical understanding” to comprehend both the institutional reforms carried out before and during the crisis and also the special position of Germany within European economy. In the fifth chapter, the hypothesis would be examined through Sectoral Comparative Analysis.

In the sixth chapter, both positive and negative effects of the crisis are critically discussed. Whereas stable (not increasing) unemployment rate and women employment are scrutinized as positive effects; precarisation of working conditions and increasing poverty are attributed as negative effects. The reason behind this preference is that to reveal that the ongoing deregulative economic policies do not produce merely positive results, unlike it is mostly acknowledged; rather they cost at the expense of distortion of fair income distribution. This study tries to analyse what changes women’s employment has gone through and how atypical works’ trends (including part-time and mini-jobs) have changed before and after the crisis. The paper ends with a conclusion.

CHAPTER 1

AN OVERVIEW OF GERMAN LABOUR MARKET AND EMPLOYMENT REGIME

This part deals with the tension between specific skills-based labour markets and the flexibilisation which fits to general skills-based labour markets, such as USA and UK. It means lower unemployment and employment protections might distort sharper a specific skills-based economy than a general skills-based economy. In other words, flexibilisation damages Germany's "institutional comparative advantages". This point would be discussed in detail in 5th chapter.

1.1 Flexibilising the Specific Skills-Based Labour Markets

German economy relies on its high value products produced by highly-skilled and experienced workforce for remaining competitive in the international market. Thus training of specific skills is a feature of crucial importance for this system. The strong vocational training systems trains specialized skills from skilled manual workers to engineers and researchers. German training system paves the way for transition from school to work and it so integrated to the labour market that it has to consult employer associations and trade unions when introducing a new profession through a new training scheme. Higher unemployment rates are witnessed among people with low qualifications much more frequently than among those who have medium or high qualification levels. For on-the-job-training, Germany has *well-established, extensive and differentiated* training systems with recognized vocational qualifications; high qualification levels and continuing training for employees at the upper end of the qualification scale. In the last decade as the share of the private service sector increased more low-skilled jobs spread through the market. Mainly in private sector, with the aim of cutting costs, the number of low-skilled and low-paid workers has increased during the last few years. Just recently some *new professions have been defined to improve the employability of persons in low skilled jobs*. In the fast food service industry which constitutes a large proportion of low-skilled jobs, these new profession are provided to improve the career chances of employees.

By the end of 1990s, German labour market was more strictly regulated than the Anglo-Saxon socio-economic models like Britain. It covered higher employment protections and had higher labour costs. While in IMF and the OECD's view, the regulation of the labour market is an obstacle to economic growth, Germany is on the 4th rank of employment protection measures after Italy, France and Sweden. With recommendation from the OECD,

deregulating labour market was put on the political agenda but in the mid-1990s Germany had still regulated labour relations and labour market. The push of firms for reducing labour costs in the 90s was a crucial actor. With the end of Cold War and new Eastern Europe economies entering the market, employers in Germany wanting to remain competitive and avoid stagnation in the economy asked for more deregulation (longer working weeks, flexibilisations and cuts in payments and incomes) in line with other cost reducing programs. Yet in 2008 a survey by the OECD states: “The government should consider easing employment protection legislation for regular job contracts, which is strict by international standards, in order to use the current upswing to create as many regular jobs”.

The German production type, its skill specificity and the training costs for achieving company-specific skills acts as a discouragement for employers to fire and change their workforce frequently. This fact had made life-long employment a feature of German labour market but since the Hartz-reforms which contained measures of deregulation of non-standard work, this trend has changed. This marginal flexibility of labour market and thus non-standard works include *part-time employment* (and mini-jobs), *fixed-term contracts* and temporary *agency work* and *low wage employment*. While in 1995 the proportion of workers with fixed-term contract and low wage (67% of median income) was 25.4% it has increased dramatically to 43.2% in 2007. The decline in standard employment can be traced through social security contributions as well which has dropped from 75% in 1995 to 67.5% in 2006. Between 1990 and 2004 full-time jobs declined by 19%. The share of full-time employment differs across sectors with manufacturing and construction having a higher share than private or business services.

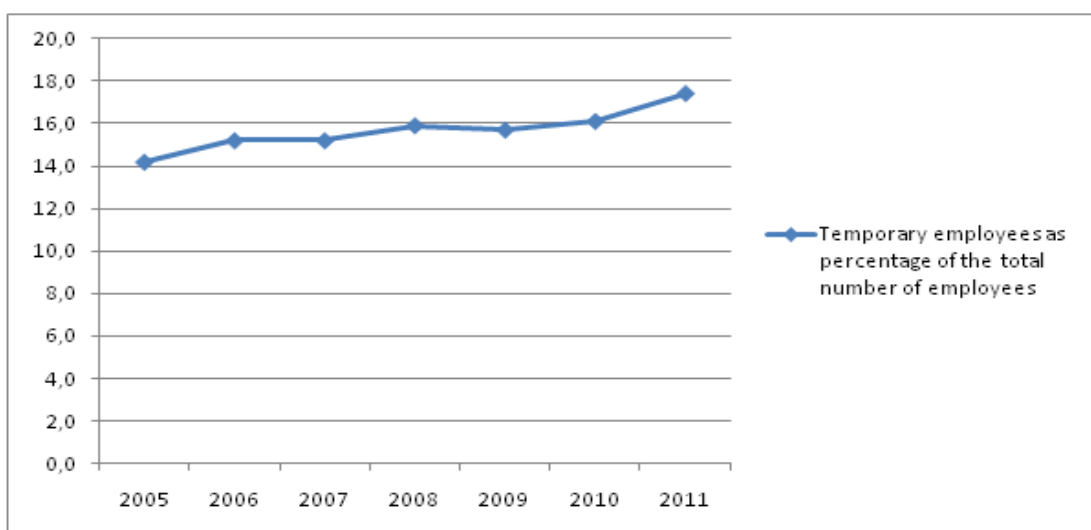


Figure 1.1 Temporary Employment Trend in Germany (Eurostat).

Temporary agency work has increased since 1990s and when promoted by Hartz Reforms, it was to be applied at special production peaks but developed as an employment format with two application ways. The first one is regulated by *the Temporary Employment Act (Arbeitnehmerüberlassungsgesetz/ AÜG)*, and the second type - in cases of existence of a collective agreement between social partners- happen in the form of sending *workers by one employer to another in the same craft or industry* presuming that different firms in the same industry are affected differently in times of crisis or stagnation. The temporary agency work accounted for 1.7% of atypical contracts in 2001, in 2005 the proportion grew to 3.7%. Additionally, since 2003 temporary work has been almost *entirely deregulated, leading to a sharp increase in low paid employment. The annual average number of temporary workers for 2010 was 780,000, in contrast to only 330,000 in 2003.*

Other atypical employments will be discussed separately as they play important roles in managing labour market during the crisis as well as during the ‘boom’ between 2005 and 2008 which was characterised by its labour costs per hour staying below the macroeconomic distributional scope and paving the way for new recruitments and increases in employment as well as enabling the firms to burden the higher cost of labour hoarding at the time of decline in productivity.

1.2 German Employment Regime

Germany has been identified as a model of Coordinated Market Economy (CME), but when it comes to employment regime it performs as a *dualist regime* with features like *a consultative involvement of labour in the decision-making system (Mitbestimmung)* which for its effectiveness the political orientation of the government is an important factor. Labour costs in private sector in Germany came 8th considering hourly labour costs, (€28 per hour) when EU average was €26. Labour costs in the manufacturing sector had the fourth place but labour costs in private services were at the European average level. In this economy the *easily mobilizable core workforce of employees in larger firms* mainly in industry is the decisive factor for which regulations would provide strong employment protection, good employment conditions, and generous welfare support (See Chapter 4). The ones with non-standard contracts will have less favourable conditions including lower unemployment protection. Consequently, a great difference between the conditions of employees on *standard* and *non-standard contracts* is expected to be witnessed.

German’s socio-economic model has been characterised by its medium employment rate, mass unemployment and early retirement rout by the turn of the century, yet it has gone

through many policy changes especially since 2002 which had great influence on its performance in labour market during the financial crisis.

During the past thirty years German firms like Siemens, BMW and Volkswagen have expanded their activities in order to remain competitive in the market. In the 1990s, as low-skilled jobs were decreasing, highly-skilled jobs were growing which would keep the employment rate in balance. Nevertheless since 1970 unemployment rate has increased unsteadily from about 1% to 7.7% in 2009 with its peak in 2005 with 11%. Before 2005 a combination of high unemployment and low participation in the labour market had resulted in a low rate of employment with the employment rate in industries above the international average, the economy was experiencing *low employment growth in services*. The unemployed were receiving rather liberal unemployment benefits and early retirement was an attractive option. Other reasons for low participation in the labour market can be found in longer periods of studies and lower female participation .

Long-term unemployment (12 months or more) accounted for 53% of the whole unemployment in 2005 and grew to 56.6% in 2007. Since the economic growth could no longer burden the cost of such non-employment and the public benefits a series of reforms were applied from 2002 to 2005 to modify the situation and encourage employment. Thus a commission responsible for sustainability in financing the German social security system headed by Peter Hartz cut the duration of unemployment benefits from 32 to 18 months especially for older people. This reform resulted in *higher individual search intensity* and the unemployed were more willing to get employment in less attractive jobs. This might result in mismatch between skills of workforce and jobs (Cedefop, 2010). In 2004 the Commission also proposed reforms on retirement age: to increase it from 65 to 67 years which faced with resistance of trade unions. Later in 2006, the coalition government consisting of the Christian Democratic Party, its Bavarian associate Christian Social Union and the Social Democratic Party increased the normal retirement age to 67 years which will be implemented gradually from 2012.

1.3 Institutions and Processes of German Industrial Relations

In order to understand the institutional settings of Germany, this subpart is dedicated to study work councils, employers' organizations and trade unions and their co-evolution.

German socio-economic model was described as a system where labour force and employers follow their interests through "centralized organization" . A look at the characteristics of the work force can provide an explanation to this: higher skill levels and

thus higher quality of employment, the fact that *complex products favour the devolution of decision-making responsibilities to employees* and that the production type requires the employees ‘to work in ways (especially autonomous group environments) that are costly for management to monitor and impossible to explicate contractually’ enables employees themselves to have *key problem-solving knowledge*. In this production type *unilateral control over decisions is less efficient than consensus-based approaches to decision-making*. Consequently a more cooperative industrial relations is created where cooperation and participation in decision-making from highly skilled and hence powerful employees is ensured. This leads to the great role of employee representational bodies in the whole industrial relations system. The most important feature of the German model is the dual (TU, WC) system of interest representation. The System is based on trade unions, works councils and employers representation. Only trade unions and employers are responsible for collective bargaining –usually at the industry level- in this system. The work councils are the main institutes of collective interest representation outside collective bargaining and have some co-determination rights . Here we will discuss about these three representative bodies: trade unions, employers’ representatives and works councils and how they function in a special system of labour relations called “social partnership”.

Since the World War II, Germany has three types of business associations that function in different areas: *employers’ associations (Arbeitgeberverbände)*, *trade associations (Industrieverbände)*, and *chambers of industry and commerce (Industrie- und Handelskammer)*. Their division of labour composes of employers’ associations acting in the fields of *collective bargaining, labour law and social legislation*, trade associations in *business law, marketing abroad, product and process regulation, subsidies, trade and tax policy* and the chambers of industry and commerce coordinating *training* and some other services. Employers’ associations are of great importance in German industrial relations model: social partnership. They can be organized at local, district or regional level.

German employers are rather highly organized. The organized employers cover more than 90% of all employees. The coverage has the ration going up to 80% in manufacturing industry, banking and insurance while with the existence of many non-organized small enterprises in other sectors the ratio is lower in them.

Four organisations are usually named as leading employers’ associations in German economy: *the German Confederation of Employers’ Associations (Bundesvereinigung der Deutschen Arbeitgeberverbände, [BDA](#))*, *the German Confederation of Skilled Crafts (Zentralverband des Deutschen Handwerks, [ZDH](#))*, *the German Chambers of Industry and*

Commerce (*Deutscher Industrie- und Handelskammertag, [DIHK](#)*) and the Federation of German Industries (*Bundesverband der Deutschen Industrie, [BDI](#)*). They all actively participate in bi-/ tripartite or multilateral consultations on *labour market and economic issues*.

BDA is the largest umbrella organization in private sector –with its membership open to employers in complete industries–which has 1,000 affiliates from industry, the skilled crafts, trade and services. It states to have *two million companies of all sizes, employing 80% of the workers* in Germany. As a central confederation it does not take part in collective agreements directly but harmonises the pay policy of its members in *sectors, regions and bargaining strategies*. Apart from labour market issues, BDA is concerned with *education and training, European and international social policy, developing its own positions on all these issues and also advising on legal matters*. The pattern in BDA is that its branch associations at the regional (Länder) level are concerned with both *cross-sectoral regional (Länder) associations* and *sectoral national associations*.

For the past two decades employers' associations – especially in small and medium-sized enterprises - like the trade unions have experienced membership decline. The reason for the decline is usually perceived as so: “as a result of globalisation the member firms become more sensitive to industrial action so employers' associations will accept more generous collective bargaining agreements and while large companies rise productivity growth to compensate it, small ones, unable follow suit and drop out.” A study by Schroeder , et al., 2006, however, proves this to be an unrealistic picture of the situation since there has been very little compensation during the decline eriod and so the argument is not a correct one. Actually the membership of large firms did not drop because the bargaining process still provides their interests: industrial peace and region wide contacts that *preclude unions from extracting a premium wage from individual firms*. The case was different for small enterprises, since they *have not been seeing the productivity increases that were their traditional payoff in the bargain*, they dropped out of employers associations.

To reverse the membership decline –apart from opening clauses discussed in trade unions part- employers' associations offer their members an opportunity called 'Ohne Tarifbindung' (OT) status. This means a member can opt out of collective bargaining coverage. Many BDA affiliates receive a full range of services but do not have to comply with *the standards set by an industry-wide collective agreement*. In 2004 , there were calls for even more deregulation of sectoral bargaining in general, and for strengthening more decentralisation through

highlighting the role of company management vis-à-vis sectoral employers' associations in particular.

It should be mentioned that although small establishments may not be covered by collective agreements at sectoral level, they still also use the *existing sectoral-level collective standards* for determining their wage negotiations. As a result, *national peak and sectoral employer organisations still play a decisive role in industrial relations*.

1.3.1 Works Councils

Works councils (Betriebsräte) are elected at the establishment -at least with five employees and organized under private law - level and beside information and consultation they enjoy a number of co-determination rights in issues like principles of pay, overtime, holidays, and health and safety. They represent interests of their fellow workers in such areas: *staffing and dismissals (collective redundancies), distribution of working time, work organization, and the introduction of new technology*. Since collective bargaining does not happen in the workplace and is the responsibility of trade unions, works councils are engaged rather peacefully in company-level negotiations with management about issues not covered in the bargaining process and usually collaborate with management. Germany with 113,000 committees has the largest number of works councils in the EU. In 2009, only 10% of all eligible workplaces were covered by the works councils but *they covered 45% of all employees in the West and 38% in the East*. In larger firms (with more than 500 employees), *89% had works councils in West Germany and 90% in East Germany*. While works councillors are not directly union members, they have strong relations as 77.3% of councillors were DGB unionists in 2010. Although WCs are composed of employee-side only, their legal basis asks them to work closely with the employers "in a spirit of mutual trust for the good of the employees and the establishment". In co-determination procedures where an agreement cannot be reached between works councils and employers, the issue goes to an arbitration committee (Einigungsstelle) where both partners have neutral chairs. *In areas where positive agreement is required, the works council can also make its own proposals which must be considered in the same way as proposals coming from the employer*.

During the crisis, *employment protection regulation and works councils make redundancies costly for firms*. Studies show that firms with works councils have higher employment levels in normal times and have hoarded more labour during the crisis.

In a research by the Institute of Economic and Social Research, it was revealed that 51% of all establishments (mainly in raw materials and investment goods) with a works council are

affected by the crisis. *However, only a minority of companies have massively laid off workers.* The most widespread methods used to cut costs while maintaining employment levels have respectively been: working time accounts, short-time work, internal posting, schemes for paid leave, cuts in pay, other changes in working time and finally cuts in benefits.

1.3.2 Trade Unions

After the World War II, unified trade unions (*Einheitsgewerkschaften*: trade unions open to *all workers regardless of their ideological leanings or political convictions*) in favour of the Social Democratic Party were dominant in Germany. While the right to organize in trade unions is guaranteed in the German constitution, it is voluntary to join them. Trade unions are the only units which have the legal right to strikes and lockouts in the context of collective bargaining but for maintaining industrial peace such actions are forbidden for the duration of a collective agreement. The German trade union movement is quite committed to legalism and the DGB trade unions –looking back at the German courts verdicts against unions for *illegal strike action in the 1950s*- take strike action in line with the law and reject law-violating actions. *Street blockades are extremely rare and demonstrations virtually never, and strikes only in isolated instances, lead to clashes with the police.*

Germany was traditionally pictured as a country with *tight regulation enforced by strong trade unions* which bargain for issues like higher wages, equal pay, reduced working hours and fair working conditions. But this trend has changed in recent decades in many ways. Trade unions have faced a decline in membership and coverage in the past decade. As shown in table 7, the steep of downward trend was sharper in the period between 1993 and 2007. In ten years (1991-2001) the decline was almost 4.5 million members. Although data since 2008 *do not signal a prospective halt* to this decreasing in membership, they prove the slowing down trend of membership reduction. At the end of 2010 only 19 per cent of employees were members of a trade union (union density). This represents a decrease of around 5 per cent over 10 years. The decline was not evenly widespread among all sectors but before exploring the decline in different sectors the composition of trade unions in Germany is of importance. *Deutscher Gewerkschaftsbund (DGB) or Confederation of German Trade Unions* is an affiliation of eight unions which has 85% of total union members in the country. The largest share in DGB belongs to the German Metalworkers' Union (Industriegewerkschaft Metall, IG Metall) with 2.25 million members in 2011, followed by the United Services Union (Vereinte Dienstleistungsgewerkschaft, ver.di) with 2.07 million members where the share of women in membership is more than half which can be explained through higher proportion of female employment in its branches such as banks and insurance companies, health care, social and

educational services. The DGB acts just as a confederation of different unions and does not negotiate with employers' representatives directly, this is confined to each trade union separately. The most collective agreements are agreed upon between DGB trade unions and employers. The second largest confederation after DGB is the *German Civil Service Association (Deutscher Beamtenbund und Tarifunion, dbb)* consisting of 40 associations (with around 1.2 million members) linked to the public and private *services sectors*. Civil servants compose 908.000 members of DBB but do not have the rights of strike and collective bargaining so the remaining of members are represented by the DBB Bargaining Union (Traifunion) in collective bargaining. The smallest confederation with 283.000 members in 2010 is the Christian Confederation of Trade Unions in Germany (Christlicher Gewerkschaftsbund Deutschlands, CGB) composed of 16 individual trade unions. Some unions have 270,000 in 2010 members involved in collective bargaining are a part of these confederations.

As for the decline in membership, different affiliations inside the same confederation do not suffer equally. For instance inside DGB, EVG - the union for railways and rail transport - lost more than 5% of its members between 2010 and 2011. Meanwhile membership in Food industry and hotels trade union grew by 1.09% followed by IG Metall with 0.28% growth.

In a survey for distribution of union membership in 2003 it was shown that 29% in industry, 24% in public administration (including public education), health and social services and 16% in services are members of trade unions and the ration among professional and managerial staff (white-collars) and skilled blue-collar workers was higher.

For the reason of the general decline a study by Bernd Fitzenberger et al. in 2006 scrutinizes the union density trend in West (1985-2003) and East Germany (1993-2003). They use decomposition analyses and conclude that “*changes in the composition of the work force do in no case explain more than one third of the observed decline in NUD over time*” and that their “*findings quantify the influence of socio-demographic personal characteristics, such as age or marital status; the influence of workplace characteristics, i. e., match, firm, or industry specific effects; and the influence of attitudinal factors for the individual choice to be or not to be a union member.*”



Figure 1.2 Total Trade Union and DGB Membership (ICTWSS, Eurofound)

There seems to be an *emerging consensus of the recent German literature in that changes in the composition of the workforce have played a minor role in the decline in union density.*

Trade unions are involved in “collective bargaining” with which has also suffered decline in its coverage. Characterised as *strictly, regional industry-wide bargaining*, in 1970s sectoral agreements at local level aiming at *improvements in working life and protection of employees against dislocations caused by rationalization and technical change* term as “qualitative bargaining policy,” were dominant but later in the 90s with the system collective bargaining and the size of its coverage changed due to *the pressures of globalization, high unemployment, and unification*. Ever since bargaining coverage has inclined mainly in the *Eastern states and among smaller manufacturing firms and in health, education, and other business services*. Sectors like utilities, construction, hotels and restaurants, transport and communications, and financial services have above average coverage. Coverage of collective bargaining has also been much less in the East (47% of employees in 2003) than in the West (70% of employees in the same year). The declining trend is higher among small and medium-sized firms which prefer not to bargain in the sectoral agreement, *though many follow the agreement in some aspects voluntarily, without being formally bound by it.*

Another trend that can be followed in collective bargaining is a move from sectoral level agreements to plant-level deals (decentralisation) and introduction of “opening clauses” which allow deviations from the terms of the collective agreements and allow flexible working time

regulations like working time accounts. The opening clauses covered one fifth of agreements in 2005.

Even though collective bargaining in Germany has a history of *sectoral wage bargaining* since the World War II, bargaining in this issue turned to be very flexible as well, for example in the chemical sector, due to pressure from tyre manufacturer Continental and with the introduction of ‘pay corridor’, pays could reach down even to 10% below agreed rates so not only pay grades have been widely differentiated but also lower pay grades have been introduced.

Trade unions had a role in keeping labour costs low during the boom. They agreed on a large degree of *wage restraint* in years before the crisis and collective bargaining process resulted in moderate wage growth. These changes and other adjustments kept labour income at a level behind capital income but also resulted in more competitiveness of companies in 2008 which in turn prevented from collective layoffs by the firms during crisis.



Figure 1.3 Collectively Agreed and Real Wage Increases Between 2000 and 2010

Collective agreements on wages and salaries are usually valid for one or two years, while for other issues, the period of validity is three to five years. There is a growing gap between the negotiated and actual work condition both in pay and working time.

A study by T. Addison, et al. in 2010 which explores the collective bargaining trend in Germany between 1998-2004 shows that still the most predominant form of bargaining is sectoral bargaining which are ten times more common than company-level agreements. They find out that the larger an establishment is the better it is covered by agreements and that the decrease in coverage mainly happens when a firm has less than 200 employees. While single establishment or independent firms constitute 80% of private sector, this factor plus foreign and establishment 'youth' decreases the possibility of coverage. Probability of being covered, especially in Germany. In this study also no particular pattern could be traced in workforce composition.

CHAPTER 2

GERMAN LABOUR MARKETS AND SOCIAL PARTNERS AT THE TIMES OF FINANCIAL CRISIS

As Hassel (2009) introduces that during early 2000s debates in German public opinion those focused on employment friendly policies promoting economic growth were the preliminary factors behind the flexibilising economic policies such as Hartz Reforms and Agenda 2010. The dominating discourses on economic change made easier introducing the reforms for the Government. Hassel (2009) also puts forward that despite Germany's liberalising institutional reforms in the last decade has made some changes, core pillars of Germany's institutional settings are still in place.

Besides tax cuts, the cuts in unemployment benefits and health care system have been charged in order to reduce "non-wage labour costs", since "wage labour costs" were already reduced through wage negotiations under the circumstances of an economic downturn: Worsened economic conditions coerce trade unions to accept lower wages in order to save the level of employment, as it is discussed in detail in subpart 4.1.3. This point might be more applicable to comprehend why DGB has failed to oppose effectively against Agenda 2010 and Hartz Reforms, rather than the speculative argument that DGB is depressed by SPD.

During the crisis Germany (having a highly export-oriented production system) suffered because of the reduction of external demand (especially for capital goods) caused by world trade contractions and hence trade unions couldn't struggle for higher wages. German economy suffered a cumulative GDP loss of (-6.6%) between peak and through the crisis with industry sector contributing to (-5.4%) of GDP decline followed by private services (-1.3%) and construction sector (-0.2%) of it . The largest output was reported in federal states like Baden - Württemberg where many manufacturing companies and export-oriented small-and medium-sized firms are located while the GDP decline was less in states such as Berlin and Schleswig- Holstein with low international exposure.

Based on Eurostat data, public deficit changed from (0.3 % of GDP) in 2007 to (-3.3% of GDP) in 2010. During the crisis, compared to the banking sector –the initiation point of the crisis- the manufacturing sector in Germany has been hit more severely, a sector in which 21.5% of employees liable to social security contributions are employed. According to a report by Institut für Arbeitsmarkt- und Berufsforschung, conducted in the second quarter of 2009, 39% of companies have been negatively affected by the economic downturn, while 7% revealed that the crisis could even endanger their survival. Service sector which covers 70%

of establishments with more than two thirds of employees liable to social security contributions was less affected by the economic crisis. Yet, within this sector financing, housing and business-related services were largely affected by job losses due to the financial crisis.

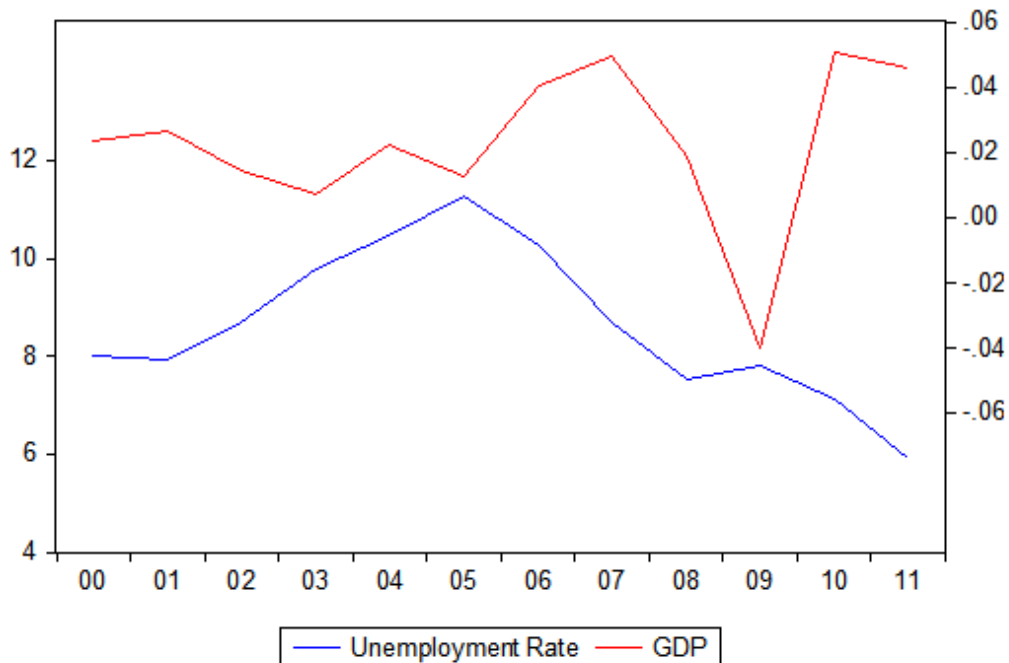


Figure 2.1 GDP Growth Rate and Unemployment Rate in Germany (Eurostat).

As shown in Figure 2.1, German GDP increased about 4% in 2010. When considering this rapid economic recovery and tracing Germany going through the crisis one should remember that Germany had very little indebted households and its firms were financially in a healthy position enabling Germany to implement policies to lessen the impact of the crisis.

The unusual positive relation between GDP growth rate and unemployment rate might be explained through lower indebtedness ratio of German firms and also work councils as it was discussed in

Firstly as an immediate response to the financial crisis, to prevent individuals from withdrawing large amount of money from their accounts German government secured *private savings*. For more stabilisation the government also rescued banks through *public letters of credit*. Secondly, a strong funding impulse was implemented: automatic stabilisers. Automatic stabilisers in Germany are saved from higher tax revenues in boom periods and lower tax revenues during a crisis. They derive from differences in public expenditure. In a stable situation *government expenditure* (unemployment insurance, welfare benefits as well as

the pension scheme) *increases automatically in economic downturns and decreases in periods of upswing*. The government also applied two fiscal stimulus packages with many different measure addressing public, private investment and private consumption amounting to about €36 billion in 2009 and €47 billion or 1.9% of GDP in 2010.

2.1 Labour Market Instruments at the Time of Crisis

German economic system faced the crisis when the reforms in the labour market had made non-standard employments and low-wage jobs increase. Germany was almost the only country in Europe which did not only experience an increase in unemployment rate, but also this rate had a declining trend throughout the crisis. Despite the hard hit of manufacturing sector by the crisis very few companies laid off workers. This labour hoarding was mainly a voluntary reaction companies made because of stable *financial positions* and a long period of *employment restructuring* and existence of *skills shortages* prior to the crisis. So refraining from firing their workers and to keep them for the time when international demand increases again, some policies were put in place largely initiated by employers, rather than the government-sponsored schemes.

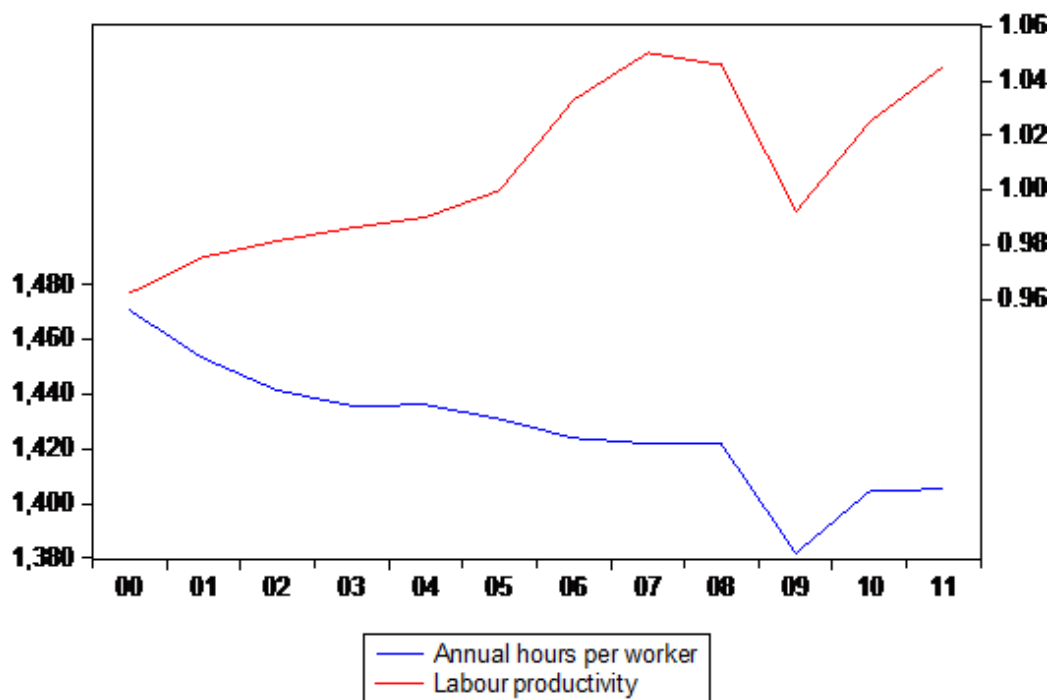


Figure 2.2 Annual Working-Hours per Worker and Labour Productivity in Germany (OECD)

One of the crucial labour market instruments is reducing working-hours with rising labour productivity in order to keep down the unit labour cost. As it seen by Figure 2.2, there is a

negative relationship between working-hours and labour productivity in the period of 2000 and 2008 in which GDP growth rate is positive. On the other hand, the negative relationship between working-hours per worker and labour productivity over rising flexible and short-time jobs helps to keep the employment level stable. Strangely, despite Germany pursues an export-based growth model which is based on depressed wages and thus domestic demand; keeping employment level stable corresponds to a “Keynesian demand management”.

In Germany, more flexibility was the hope of labour market policy. An important instrument that was used in labour market to safeguard jobs during the crisis was Short-time Work Scheme (STW). Short-time work or Kurzarbeit has existed as an instrument of labour market policy in Germany since 1957. At the time of crisis the eligibility coverage was widened and the procedures were facilitated. STW was a scheme mainly for employees with standard jobs—especially in industrial sectors- in conditions of *unavoidable and temporary reduction in normal working hours affecting at least 1/3 of staff and resulting in a loss of income from work of more than 10% of monthly gross salary*. 60% of wages for employees without children and 67% of the ones with at least one child, up to a monthly ceiling is paid to them. The normal duration of the scheme is 6 months maximum but can be extended to 12 months in exceptional labour market circumstances. Employers are responsible for paying social security contributions for pensions and health insurance on 80% of prior earnings of workers on STW. The government exempted the employers using STW schemes from paying social security contributions for the hours not worked to reduce labour cost and shift some of the costs of labour hoarding to the government.

STW has also worked out to hide the real unemployment rate. The number of short-time workers strongly increased to more than *1.5 million in May 2009* but during the second half of *2010* the number of short-time workers has *stabilized below 300,000* individuals. At the end of 2009, out of every six employees in machine construction and metal production subject to social security contribution, one worked in the STW scheme which in automobile industry the ratio was one in every seven employees. For example, in the German car manufacturer Daimler after an announcement of a €1.3 billion loss because of decline in sales in the first quarter of 2009, an agreement with cost-cutting measures was signed between the works council and the employer to save the company €2 billion in labour costs. The agreement content included: reduction of working time of all employees at Daimler Germany by 8.75% with no pay compensation, short-time workers receiving an additional payment plus the normal short-time allowance to minimise income losses up to between 80.5% and 90% of their net income for all employees and to 80.5% and 93.5% for the ones in Baden-

Württemberg and postponing pay increase and bonus payment. This was in return for *limited job guarantee*: workers employed at the time of the 2004 agreement on *exclusion of forced redundancies until 31 December 2011* are protected as agreed and the ones employed later (16,000 workers) are covered with same condition until June 2010. However, if the economic situation of the company was remaining bad, it could cancel the agreement with effect from the end of 2009 which still means forced redundancies being excluded until the end of 2009. In addition to this the company guarantees to employ *80% of apprentices -who started their training in 2006 and 2007-* permanently after finishing their apprenticeship.

Another instrument used in German labour market as an automatic stabiliser Working Time Account. ILO reports that 51% of all German employees had working time accounts in place and this account is used increasingly at the times of deduction in demand because it enables companies to *smooth employment levels* and adapt working time according to crisis situation. That means allowing for longer working hours during ‘boom’ and having them as *a buffer stock* to compensate for the reduction in working time during periods of lower activity to spread the labour cost through all the production activity period so on one hand it smoothes the cost of crisis and on the other hand guarantees income stability for workers.

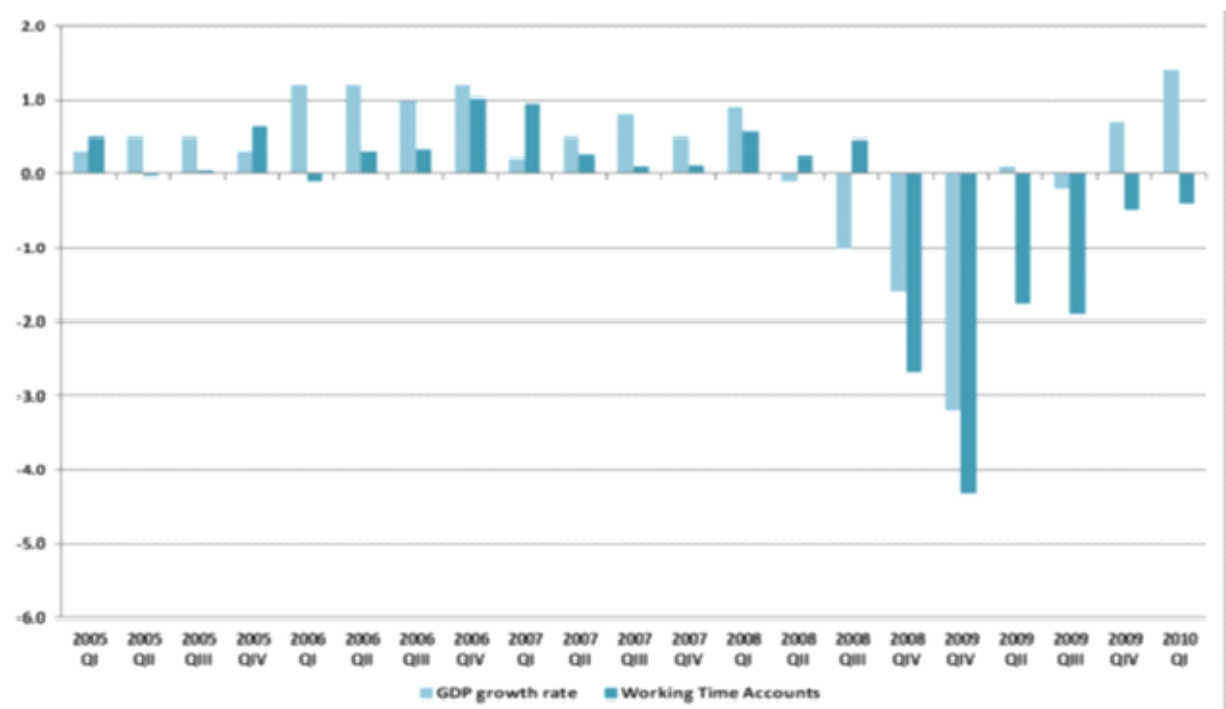


Figure 2.3 Trend of Working Time Accounts in Germany (Federal Statistical Office and IAB).

As illustrated above in the late 2008 and the beginning of 2009 the accounts sharply declined. However, in cases where firms allowed accounts to be negative, employees will have to work longer when the period of economic recovery starts to make up for *their debt in hours and to build up new assets*.

Despite the rather wide spread use of working time counts the reduction in working hours caused by them was about half of the size of the reduction due to short-time work in 2009. In terms of jobs that might have been lost, the jobs that working time accounts saved were about 320.000 while the same number for short-time work was 400.000. More than 51% of companies carrying out STW also used WTAs but less than 10 % of firms with WTAs made use of STW schemes. (Boeri and Brücker, 2011) This pattern shows that companies have firstly used working time accounts for adjusting at the intensive margin, and *when individual accounts were close to zero*, they started short-time work scheme. Based on regulations, STW schemes can be used only when all other measures including WTA are already taken. Also when considering these two instruments the financial situation of companies should be taken into account: in using STW costs faced by companies are lower than the those firms with WTAs since no compensation is made by the Federal Employment Agency while firms pay full salaries to their employees. These costs limit carrying out WTA during the crisis just available for firms in a sufficiently good financial situation.

Other features also contributed to rather stable labour market in Germany. Mainly policies applied by the government at the time of crisis in form of packages (mentioned in chapter 3) which include tax rebates such as a personal income tax deductibility of health care contributions, increase in commuters tax allowance and a reduction in unemployment insurance contributions.

The Government considered reduction in income caused by a temporary reduction of wages or STW irrelevant for the calculation of unemployment benefit so that workers would use the same benefits allocated to their normal wage in case they were laid off. Such a policy motivated employees for accepting lower working hours without any wage compensation during the crisis.

Another part of the packages were related to increasing funding and expanding the staff of Public Employment Agency to reduce the impact of crisis on labour market situation. The government eased access to training for existing workers and apprentices. To ease re-employment for job-seekers, job search assistance services in public sector were funded.

2.2 German Social Partners at the Time of Crisis

Since social partner system in Germany stands in the core of German industrial relations and institutional setting, it was the most challenged and discussed issue in terms of flexibilising and deregulation. However it has also played a central role for Germany to survive and overcome financial the crisis.

“Social partnership refers to the nexus and central political and economic importance of bargaining relations between strongly organized employers (in employer associations) and employees (in trade unions and works councils) that range from comprehensive collective bargaining and plant-level codetermination to vocational training and federal, state and local economic policy discussions.”

Collective bargaining at sector-level defines the general framework of the dialogue between social partners and no form of national level tripartite agreement (government and the social partners) on the design and implementation of public policies on social and economic issues exist. Since the bargaining side of social partnership is rather explicit now, we look at the social partners’ role in *federal, state and local* related institution.

Germany is a federal country and Public Employment Services (BA) has a three-tier structure: national Headquarters, 10 Regional Directorates and 176 Employment Agencies whose by three-member boards are appointed by Management Board. The BA is headed by a three-person Management Board representing the BA and managing its daily operations and has a Board of Governors which monitors, advises, and is legislative body. In Boards of Governors which is consulted by Management Board on all important issue, the social partners are crucial actors *as they are members in the 21 member Board of Governors*. The social partners are also represented in committees responsible for *strategic decisions, budgetary and self-governance issues*, and for *dealing with questions related to labour market policy, labour market research, and financial benefits*. The collaboration between BA, its Board of Governors and the social partners facilitated transferring the information and revising the instrument where needed.

New dynamics were triggered between enterprises and trade unions as when facing financial difficulties the trade unions support the firms’ demands for state bridging loans. *IG BCE and IG Metall, advocated state action to help the branches of industry which they organize and VERDI called for the expansion of public services with the help of extensive economic stimulus packages.*

Remembering what was mentioned about the wage difference strengthened by the crisis between standard employees and agency workers, an achievement by the IG Metall in 2010 is worth to mention. The social partners came to an agreement on sectoral level based on which agency workers received the same remuneration as core employees. The steel company would be responsible for a remedy if the agency does not make the same payment.

CHAPTER 3

THEORETICAL BACKGROUND: VARIETIES OF CAPITALISM APPROACH

The Varieties of Capitalism (VoC) Approach which deals with the institutional foundations of diverse national patterns of coordinating the activities of firms is one of the most useful approaches to understand how German economy differentiates itself over in which sectors specialized.

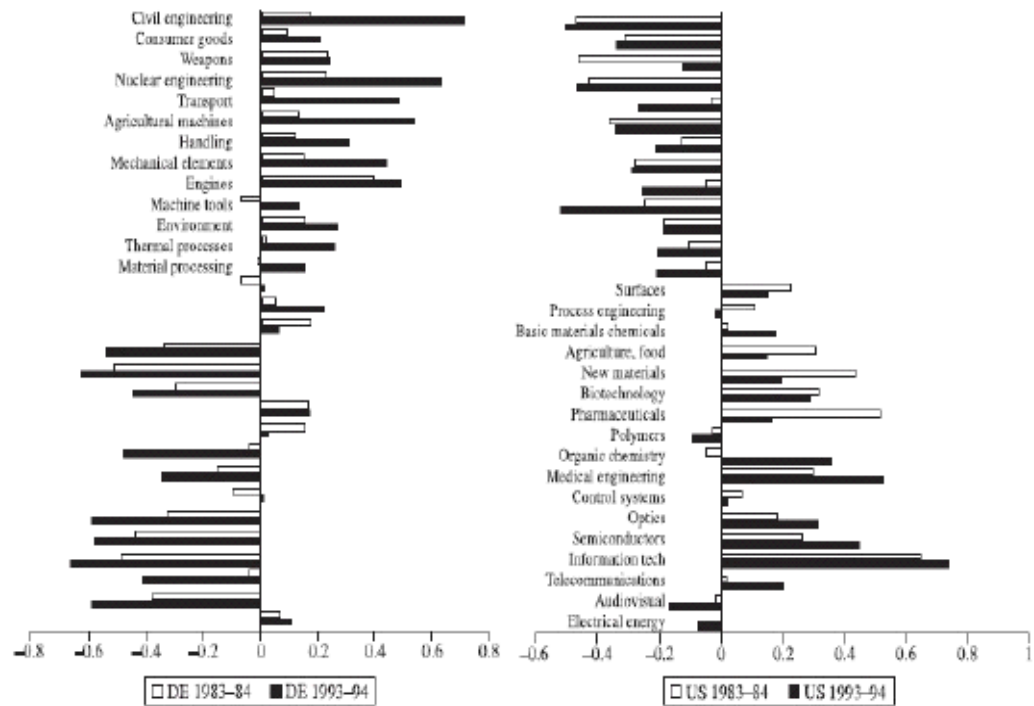
Soskice and Hall (2011) create a basic category among national economies: Liberal Market Economies (USA, UK, Austria, New Zealand and Australia) and Coordinated Market Economies (France, Germany, Denmark, Sweden, Spain, Netherlands etc). The CME is *characterized by non-market relationships, collaboration, credible commitments, and a deliberative approach to solving coordination problems.* (Soskice and Hall, 2011:7) The essence of LME is that *relationships are competitive and arms' length and rely on formal contracting and supply-and-demand signaling.* (ibid: 8-9).

LMEs and CMEs distinct each other through following items: Type of financing (through deepened capital markets or banks and government agencies), type of workforce training, regulations on markets, competition policy. USA, UK, New Zealand and Australia are clustered within LME and Continental Europe countries are included in CME.

According to the VoC Approach, the core factor which differentiates LME and CME is the type of innovation:

“Radical innovation, which entails substantial shifts in product lines, the development of entirely new goods, or major changes to the production process, and incremental innovation, marked by continuous but small scale improvements to existing product lines and production processes. Incremental innovation tends to be more important for maintaining competitiveness in the production of capital goods, such as machine tools and factory equipment, consumer durables, engines, and specialized transport equipment.” (Soskice and Hall, 38-39)

Table 3.1 portrays that German firms were more active innovators in industries dominated by incremental innovation meanwhile, firms in the United States entrepreneurs were more active in industries which are radically innovative.

Table 3.1 Patent Applications of Germany and the US.

Note: Higher scores indicate greater specialization in innovation in that particular type of technology.

Source: Charts reproduced here with data obtained through the cooperation of Thomas Cusack, David Soskice, and Peter Hall. See also Hall and Soskice 2001, 42-43.

Source: Soskice and Hall, P 42-43

As “incremental innovation” requires workers’ participation in decision-making and design processes, work councils (*Betriebsräte*) work out for “institutional comparative advantages” for Germany to specialize in these sectors, such as *capital goods, machine tools and factory equipment, consumer durables*. To be able to attend in decision-making process in terms of innovation, workers are subject to have firm and industry-specific skills. To promote workers to invest in specific skills, higher employment and unemployment protections are required. Table 3.2 shows the configuration among skills and protection levels of unemployment and employment. On the other hand, radical innovative sectors, such as biotechnology, semiconductors, and software development, require general skills which are applicable all sectors and expected to adapt themselves to rapid changes are not awarded employment and unemployment protections since general skills have a broader scope in external labour markets than specific skills which have *an incentive to take advantage of internal career opportunities* (Sockice and Hall, p. 163)

Table 3.2 Unemployment and Employment Protections and Skill Composition

		Employment protection	
		Low	High
Unemployment protection	High	Industry-specific skills Example: Denmark	Industry-specific, firm-specific skill mix Example: Germany
	Low	General skills Example: United States	Firm-specific skills Example: Japan

Regulations on labour markets based on employment and unemployment protections have been the distinctive component of a “social market economy”. German economy has widely been described as a leading representative figure of “social market model”, opposing to the Anglo-Saxon model of “pure market economy”. The post-war era (in which the states played stronger roles in most of Europe), for Germany is associated with the terms “social market economy” (soziale Marktwirtschaft) introduced by Minister of Economy Ludwig Erhard in 1948 and the “economic miracle” of this socially conscious model of capitalism. For many years Germany was famous for fiscal stability meaning no budget deficit of more than 3% of GDP and no public debt more than 60% of GDP.

An important characteristic of this social market economy has been discussed in the VoC literature as “patient capital” (also “long-term capital”) provided by banks. As it is explained within VoC literature, “incremental innovative sectors” are prone to finance through long-term oriented bank credits; whereas “radical innovative sectors” tend to take advantage of short-term oriented stock markets. The strong link between the banks and “patient capital” can be explained with the historical conditions under which German industry grew with a delay compared to Britain. German industrialisation happened through mainly heavy industries (like coal and steel) requiring high capital investments which only “Hausbank”’s could provide resulting in close connections between the two. This connection enables industries to *design long-term strategies compatible with skill acquisition, job security, and high wages*. This specific banking sector, acting in line with other German institutional forms like co-determination and coordinated bargaining can be used to explain the stability of the

model. Germany has been a great example of “coordinated market” economy depending to a large extent on non-market arrangements. In this economy highly skilled workers ask for social security policies in order to protect their skill investment and come to agreements with employers to maintain social protection and training policies that keep the balance of skills high. These demands have created a special welfare system that promises life-long benefits to industrial highly skilled workers. The German social security system relies mainly on an insurance system based on contributions covering: (1) *the old age pension scheme*, (2) *the health and long term care insurance*, (3) *the unemployment insurance* among which the first and the last one link benefits to previous pay. However, in the past, the idea of ‘Lebensstandardsicherung’, or the ‘securing of living standards’ was paid more attention to and as soon as one could achieve a certain living standard that was guaranteed by the system in times of unemployment as well as retirement.

CHAPTER 4

METHODOLOGY: SECTORAL QUANTITATIVE ANALYSIS

In order to test the argument, sector-level analysis will be employed because of two main reasons. Firstly, as sectors represent the intermediary level between firms and macroeconomic structure, the interaction between agents and the structure could be easily captured and reflected. Secondly, examining “institutional comparative advantages” through sectors might be more comprehensive.

Figure 4.1 depicts the foreign trade performance of Germany between 2000 and 2011. As it seen, trade surplus has dramatically risen since 2000 and even after the Financial Crisis started to rise. At first glance, this picture might work out to legitimize German deregulating economic policies.

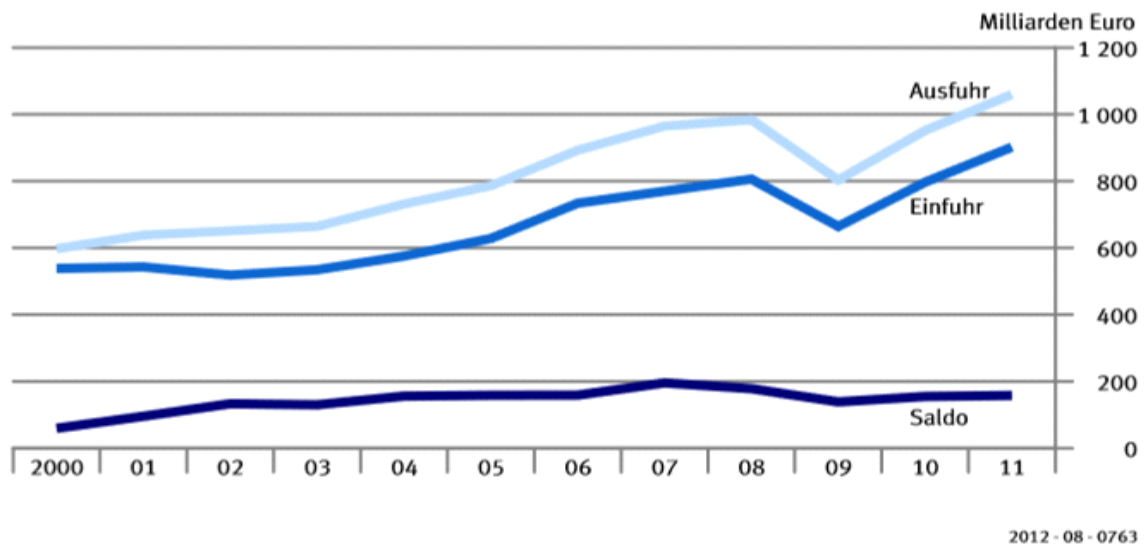


Figure 4.1 German Import and Export.

Source: Statistisches Bundesamt, 2011

As it is mostly acknowledged, the leading factor behind trade surplus is not-increasing Unit Labour Cost (Flassbeck, Spiecker 2011). Figure 4.2 unveils that Germany has executed trade surplus over wage depression, in other words “internal devaluation”, at the expense of wage earners’ wealth. It is quite interesting that ULC in Germany hit bottom after Hartz Reforms and Agenda 2010 have been charged.

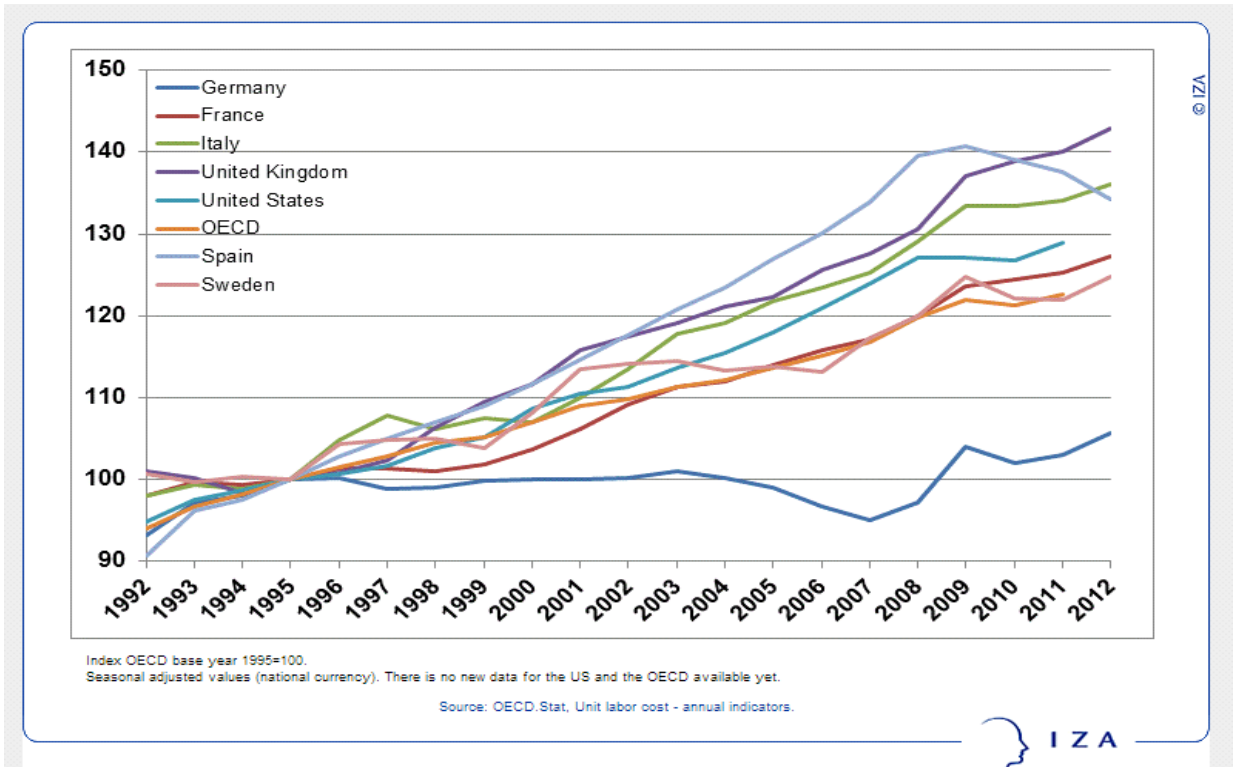


Figure 4.2 Unit Labour Costs Comparison

Source: iza.org

In order to reveal that Germany's success in trade surplus has been achieved at the expense of wage earners' wealth, the change in situation of workers in leading export-sectors should be indicated. In terms of sectors constituting the economy it should be mentioned that in 2007 services sector had 68% of all employees and contributed to 70% of the GDP while manufacturing and construction have held their share of 30% of GDP since the early 1990s. The automotive, machinery and chemicals sectors - together accounting for 46% of all German exports in 2008- contribute to Germany's leading role on the world export market . Figure 4.3 represents the export shares of sectors in Germany. It should be noted that highest share having sectors are capital-intensive sectors which require industry-specific skills.

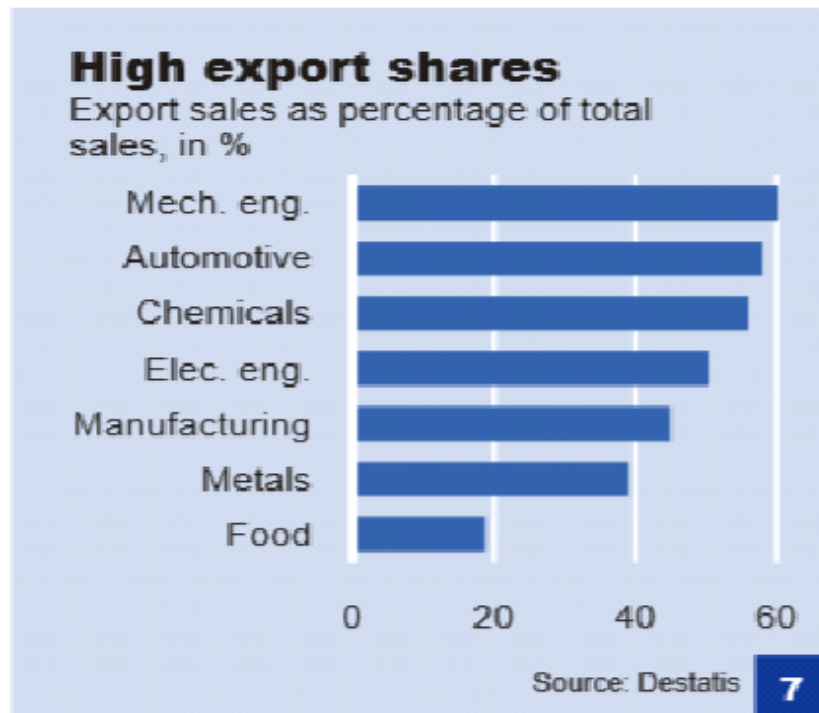


Figure 4.3 Export Shares of Sectors

Source: Deutsche Bank Research Brief, June 2010

After the year of 2009 approximately 38% of respondents stated that the economic situation of their employing organization had worsened; 44% indicated that their situation has not changed; and on average under a fifth (18%) reported a progress. The metalworking industry was the most effected; when 65% of respondents reported a worsening in the business situation of the establishment they worked in – in the mechanical engineering branch increasing to 68%. „The chemical industry was also hard hit, with 43% of respondents noting a worsening of the position of their organization. However, overall a majority of respondents in the chemical industry indicated either no change or an improvement in the economic situation since the beginning of 2009“. (Hans Böckler Stiftung Report, 2010)

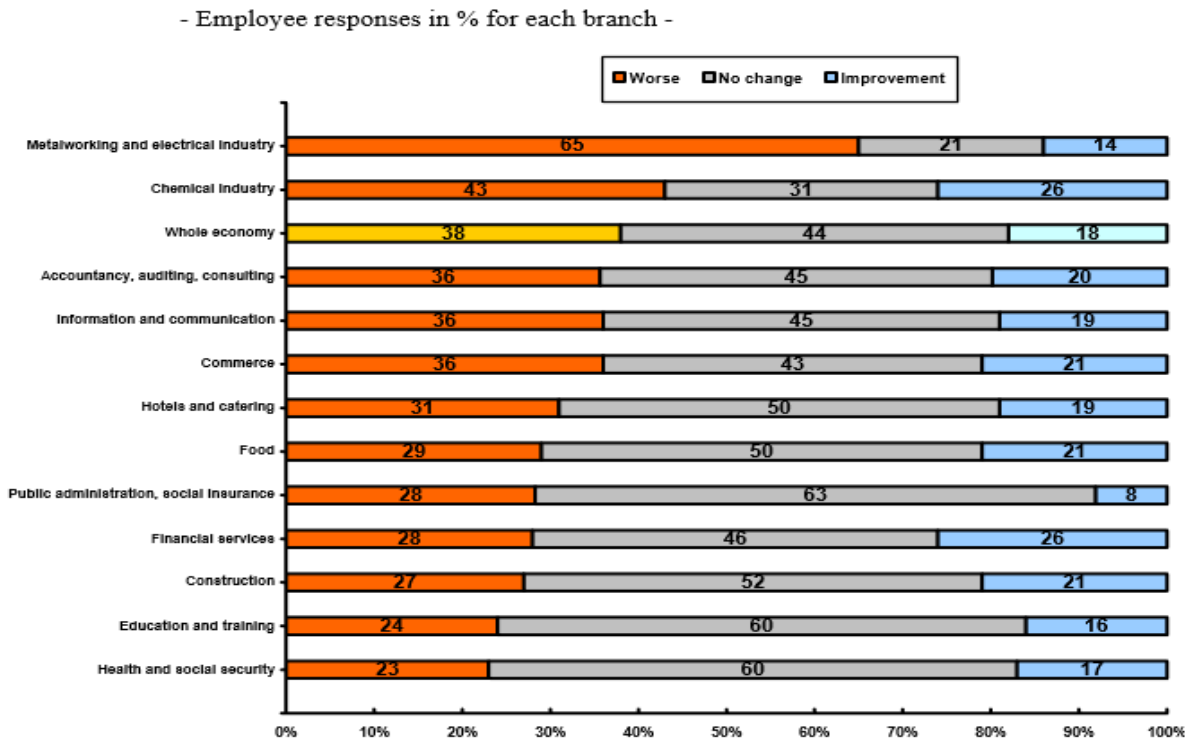


Figure 4.4 Economic Situation of Workers in Certain Sectors

Source: lohnspiegel.de

If we incorporate Figure 4.3 with Figure 4.4, we would see that mostly in these export-leading sectors, workers feel that their situation has worsened. This verifies our argument that success in trade surplus has been achieved at the expense of workers' wealth. And one of the distinguishing ways to depress the wages is derogating the scope of collective agreements. As long as more workers are out of collective agreements, bargaining power of workers diminish as replacing a new worker is easier and less costly through an individual agreement. Figure 4.5 shows the explicit decline in coverage of collective agreements. It should be emphasized that in Western Germany coverage rate of collective agreement has started to fall faster after Hartz Reforms which have intended to liberalize German labour markets.



Figure 4.5 Coverage of Collective Agreements.

Source: Dribbusch und Birke, April 2014, Frederick Ebert Stiftung Report

Labour market liberalizing policies have been defended and legitimised over the success in trade surplus. However, this study would like to demonstrate that Germany's ongoing success in export relies on that other countries have not yet created "institutional comparative advantages" in these sectors.

In order to test this argument, countries to which Germany exports over the average (see Figure 4.6) and changes in competitiveness scores and ranks of these countries before and after the Financial Crisis have to be demonstrated.

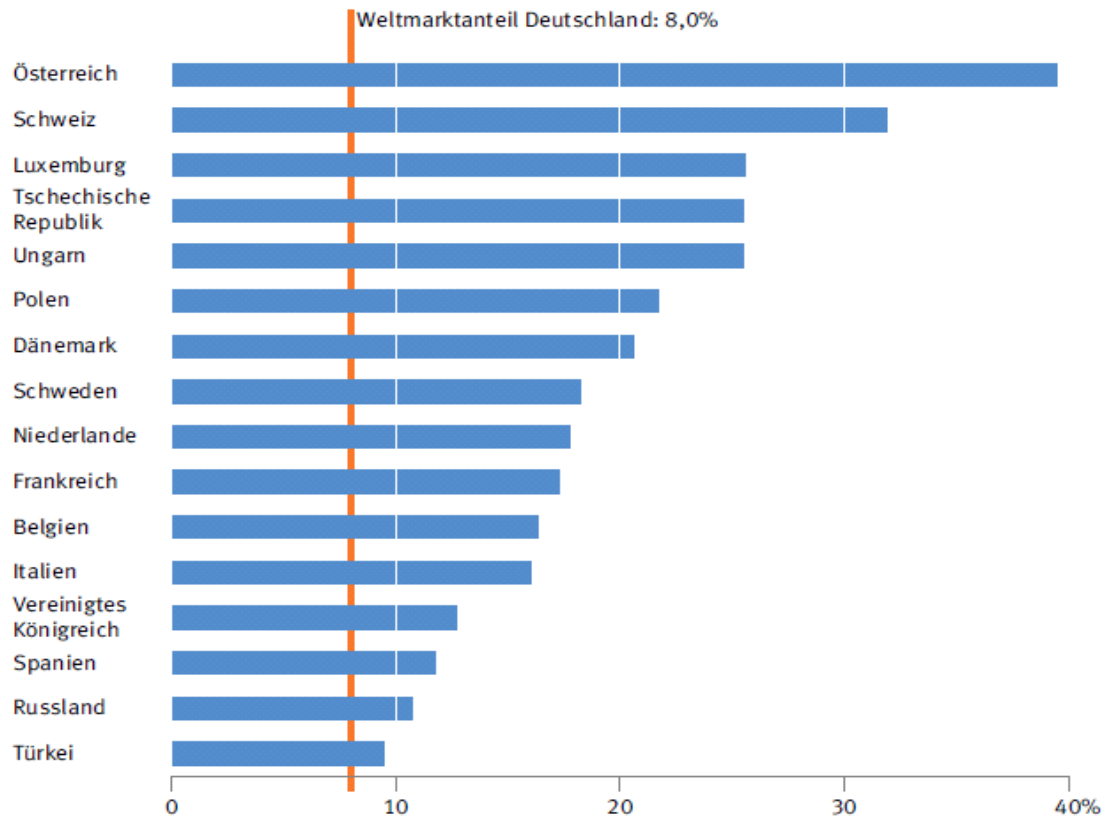


Figure 4.6 Countries to Which Germany Exports Over The Average

Source: Statistisches Bundesamt, Deutscher Außenhandel 2011

As it seen by Figure 4.2; since the gap among ULCs of Germany and its trade partners has yet not closed; Germany can maintain its advantageous position to have trade surplus. This verifies our argument that despite deregulative policies distorted Germany's institutional comparative advantage which relies on workforce skill-composition; Germany has a room for manoeuvre, as its ULC is still lower than others' ULC.

CHAPTER 5

PRO AND CONTRA SIDE EFFECTS OF THE CRISIS

Whereas stable (not increasing) unemployment rate and women employment are being scrutinized as positive effects; precarisation of working conditions and increasing poverty are the negative effects. The reason behind this preference is that to reveal that the ongoing deregulative economic policies do not produce merely positive results, unlike it is mostly acknowledged; rather they cost at the expense of distortion of fair distribution. This paper tries to analyse what changes women's employment has gone through and how atypical works' trends (including part-time and mini-jobs) have changed before and after the crisis.

5.1 Pro Effects

5.1.1 Women's Employment Trends

Distribution of women's employment in different sectors can explain why they were hit less by the crisis. The percentage of women in employment in different sectors in Germany is highest in "private households with employed persons" in private sector followed by "health and social work" and "education" in public sector. Other sectors are respectively "hotels and restaurants" (private), "community, social and personal service activities" (public), "wholesale and retail trade" and "financial intermediation" both in private sector. Share of women in sectors like industry and construction is substantially low. Another important feature is their high share in part-time jobs: always higher than 40% since 2004. In these cases when part-time employment happens during a long time the employee may not be able to accumulate enough pension rights to receive an above poverty income for her retirement.

As was mentioned earlier most of the jobs lost during the crisis were in male-dominated export-oriented sectors and among standard employments. For the self-employment of women the trend has not changes much since 2004: despite the start-up rate of men which fell to 0.8% in 2009 from 1.1% in 2004, the female start-up rate remained at 0.7% .

Considering the coordinated market economy in Germany it is argued that the emphasis on specific skills may give priorities to men *while making women's entry into private sector jobs, particularly higher-level jobs, considerably more difficult than in liberal market regimes*. The employers are more reluctant to train employees who they think might have longer leave periods. In Germany, little private sector opportunities cause rather low levels of female

participation in the labour market. This trend has changed through activation policies recently.

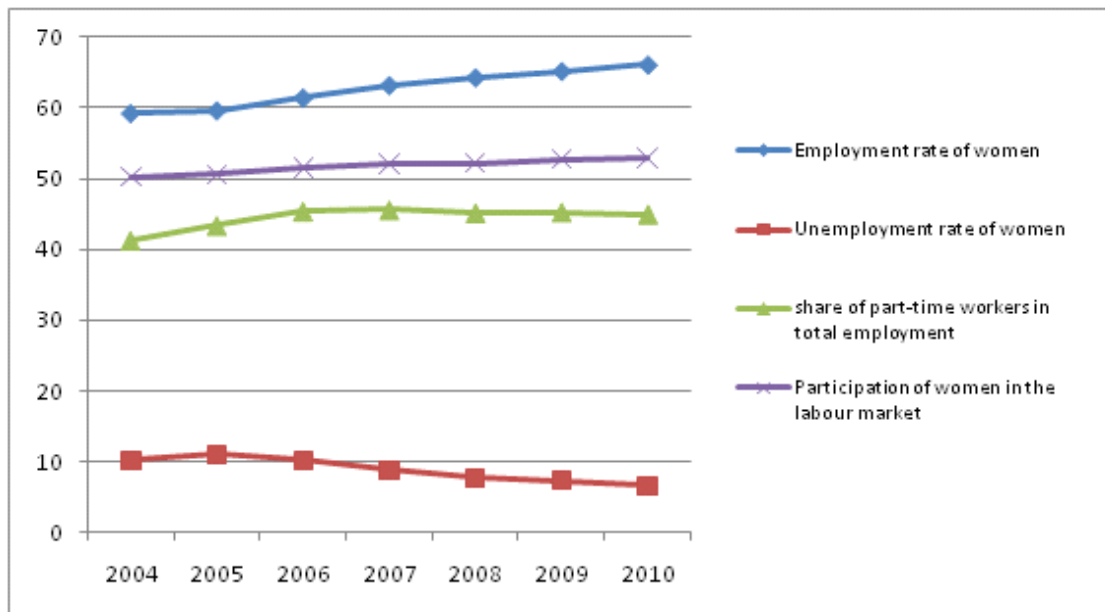


Figure 5.1 Employment Trends of Women in Germany (OECD, Eurostat)

It is worth also mentioning that in 2010 gender pay gap in Germany was between 6 and 14%, far less than 23% in 2007 and among the first five EU countries with the least pay gap.

5.1.2 Stable Unemployment Rate

In terms of employment, the decreased demand companies were facing stopped the unbroken labour market improvement which lasted until the third quarter of 2008. Until the second quarter of 2009 seasonally adjusted employment decreased and unemployment increased. However, since then a great recovery is witnessed: production and the volume of orders and employment have been growing and unemployment has been reducing.

Germany has performed very exceptionally in its employment rate during and after the crisis with its employment rate increasing and unemployment rate decreasing while participation in labour market has never decreased meanwhile. The trend in the UK helps us have a clearer image of the new “German miracle” in labour market: the unemployment rate in the UK was registered between 4.7% and 5.3% before the crisis. This rate increased sharply by 2% and the rate grew up to 7.8% . Germany was also among the five countries which exceeded the Lisbon employment rate target (70%) in the first quarter of 2010 following Netherlands, Denmark and Sweden.

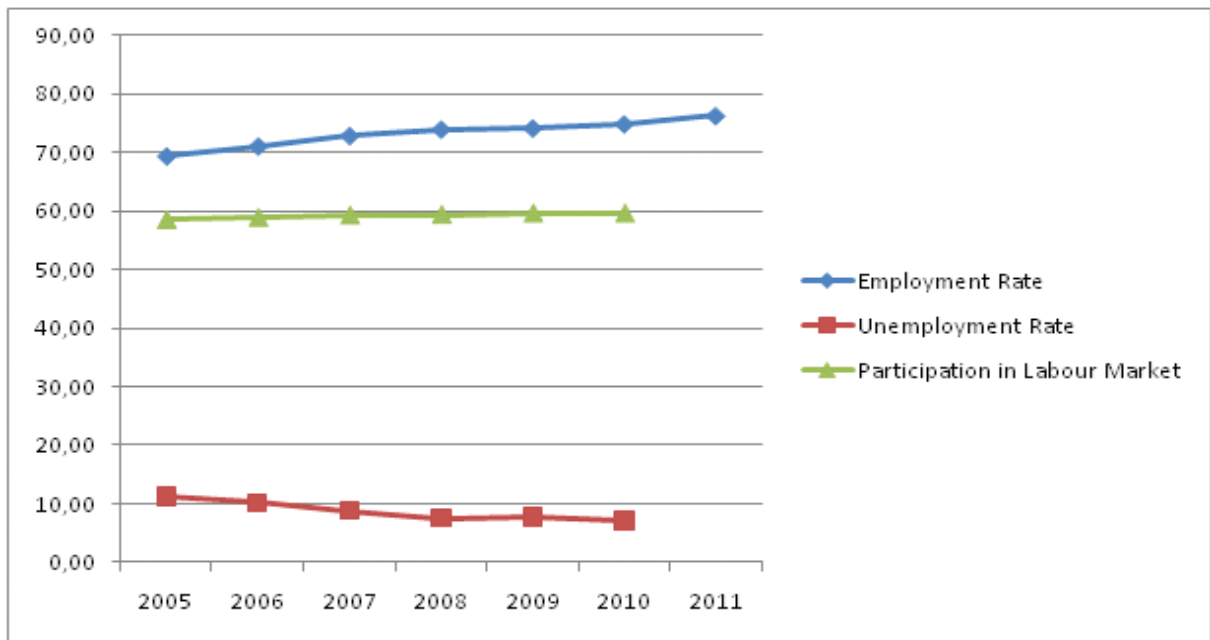


Figure 5.2 Total Employment and Unemployment Rate in Germany (IMF, ILO)

The reforms in the German labour market performed to keep the unemployment rate down and reduce the negative effects of global financial crisis on employees' lives are not themselves without long-term impacts and negative side-effects on the labour market. As was shown above the growth in employment was mainly in atypical employment like temporary agency work or mini-jobs which are state-subsidised and generally low-income jobs. There is evidence that wage difference exists between standard workers and workers with fixed-term contracts and part-time jobs and it is even higher when it comes to mini-jobs and agency work.

Beside short-term effects the growth and continuation of atypical job especially part-time ones where women have a high share of workforce may not enable employees to gather sufficient pension rights to ensure an income above poverty threshold during retirement period.

Considering the instrument widely used during the crisis (short-time work), the questions raises that *how far it could have been substituted by non-subsidized types of labour hoarding and how far displacement effects are of certain relevance.*

5.2 Contra Effects

Germany is among the countries in which non-standard work is prevalent, well-embedded and has been regulated for some time. It was expanded through the Hartz reforms as well.

While full-time work has been declining, Germany has the second highest level of part-time employment in the 27 EU Member States. In Germany more than 25% of working population have part-time jobs. Based on IAB (Institut für Arbeitsmarkt- und Berufsforschung) full-time employees decreased from 25.5 million in 2001 to 23.6 million in 2010. During the same period part-time employees grew from just under 10 million to 12.5 million.

The increasing share of part-time jobs was mainly because of job losses in manufacturing sector which has high share of full-time employment. Another explanation is job increases in services sector with higher share of part-time employment.

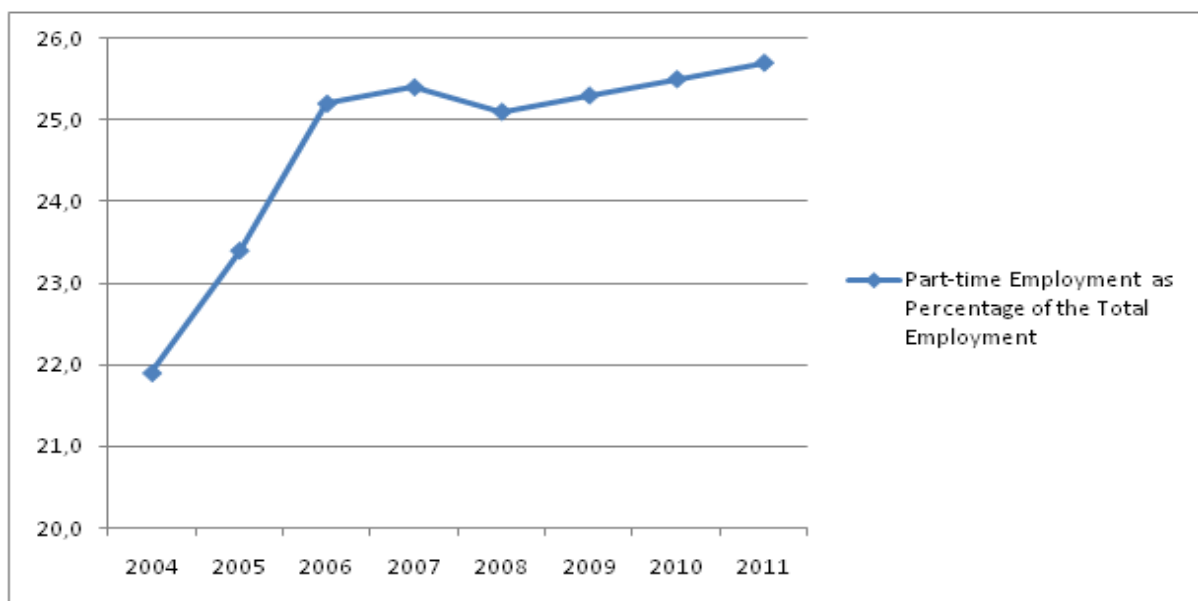


Figure 5.3 Part-time Employment in Germany (Eurostat)

5.2.1 Mini-Jobs

‘Mini-jobs’ or “geringfügige Beschäftigung” are marginal part-time with about 15 hours a week work and maximum monthly payment of € 400 since 2003 (equal to the threshold for social security contributions). These jobs had a special increase from 1998 to 2001 and after 2003. One of the crucial motivations behind Hartz IV was veiling the real unemployment rate by accounting Hartz IV-receptants as employed.

Though mini-jobs are not liable to SSC, employers must still pay a fixed percentage (30%) of the amount paid to the employee in *taxes* (2%) and *contributions to pensions* (15%) and *healthcare insurance* (12%). In 2008, 17.4% of total employments were ‘mini jobs’, this share has grown to 20% in 2011. More than 2 million employees had a ‘mini-job’ as a side job. ‘Mini-jobs’ are usually low-paid jobs and although employers still pay some

contributions, since they lower labour cost through lower wages such jobs become very attractive to them.

These jobs are widespread in private households and in the private service industries. A study found that in sectors with large shares of so-called low-skilled jobs (e.g. cleaning, hotel and catering, retail) ‘mini-jobs’ are more probable to replace standard forms of employment. Also young workers (15 to 24 year olds) have a higher employment rate in these jobs (8.8%) than the total share of this employment (7.2%) in 2009.

As an example of mini-jobs, consider the hotels and restaurants sector which based on Bundesagentur für Arbeit contains more 11% of employees in all mini-jobs but has just 3% of the standard employment in Germany. In the period of one year since June 2009 while standard employment (liable to social security contributions) increased by 2.2%, number of mini-jobbers grew by 3.1%.

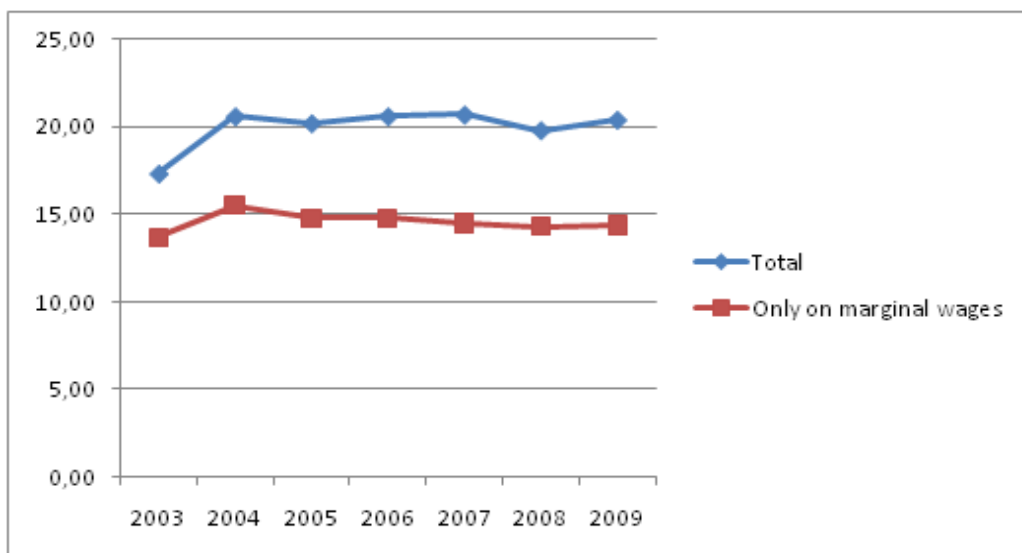


Figure 5.4 Share of Total and Only Marginal Wage Earners with Mini-Jobs in Total Employment

5.2.2 Increasing Poverty in Germany

One of crucial implications of deregulative economic policies is the distorted income distribution. As wages are suppressed with the support of precarious working conditions and of reduced social spending, it is expectable poverty to rise since the effects of the crisis were also reflected in employment: male employees, working in export-oriented sectors, in southern Germany, or in full time, were affected by unemployment more severely than women, older workers, workers in part-time, or in mini-jobs.

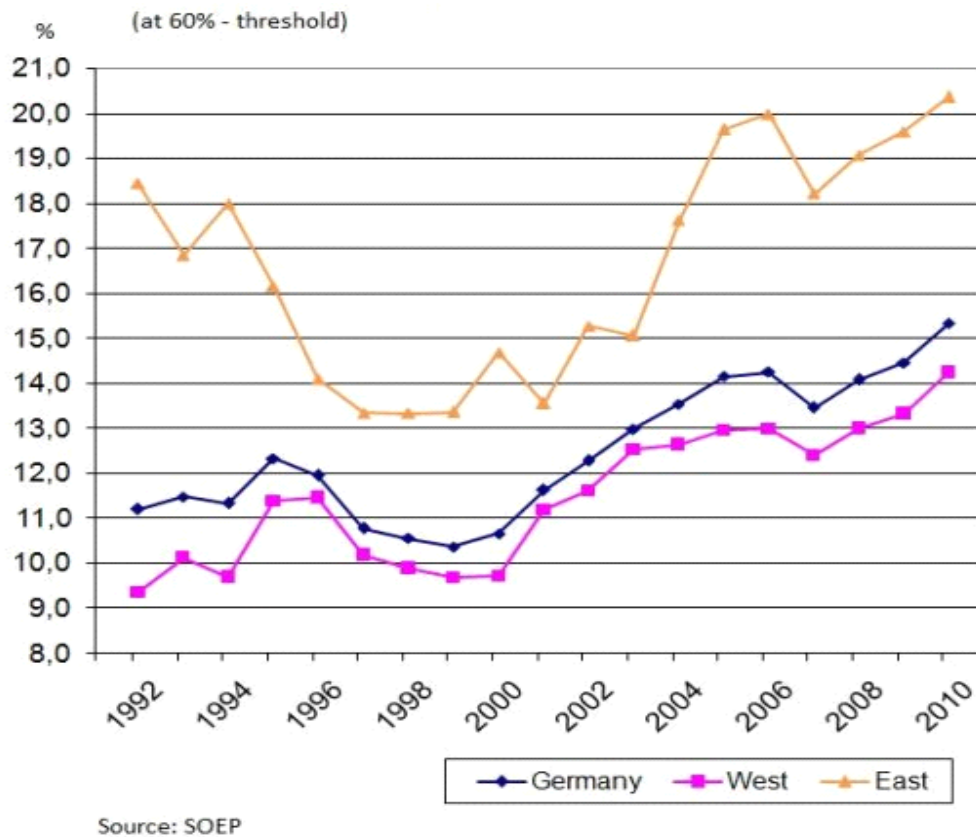


Figure 5.5 Poverty in Germany

As can be seen, after 2000, i.e. after “internal devaluation” to promote export, poverty has risen dramatically. The interesting is that after Hartz reforms have been charged poverty started to rise faster. From 2006 to 2012, poverty went up severely from 10.7% to 15.2%. It only slowed down in 2007, but thereafter starts to go up.

CONCLUSION

This study was an attempt to explore the reasons and dynamics behind the performance of German socio-economic model in labour market at the time of financial crisis. The growth of employment rate and the decline in unemployment rate despite a sharp decline in GDP was a phenomenon mainly documented in Germany in 2008 crisis across the European Union countries. This phenomenon was carried out mainly through mini-jobs which were charged by Hartz IV in order to veil the real unemployment rate.

To find out the reasons, this paper investigated the employment situation in German economy before the crisis to see under what circumstances Germany has been able to put its labour market policies in action. It is started with the characteristics attributed traditionally to the German employment regime and moved on to the Hartz reforms during 2002-2005 through which a lot of deregulations in the labour market happened and some incentives for unemployed as well as older workers to reintegrate into the labour market and get jobs. The low growth (or sometimes decline) of labour income during the years leading to the crisis had enabled firms not to lay off their workers but to keep them for times of high demand. In this study it is portrayed the government packages to combat the crisis impact on labour market through tax and direct subsidies.

This paper mainly puts forward that the performance of Germany in export and relative lower unemployment during crisis was not a miracle, as opposed to believed, rather it was caused by unsuccess of trade partner countries. The main argument of this thesis which was generated within VoC Approach has not been falsified over sectoral quantitative analysis.

To be more precise, the deregulating reforms in the pursue of reducing the unit labour costs have damaged indeed German industrial relations which provides to Germany „institutional comparative advantages“ based on specific-skills in certain sectors. Despite flexibilising the labour markets through reduction of collective bargaining coverage, social spendings, unemployment and employment protections does not fit to Germany's institutional path, as such these policies might work out in general skills-based labour markets. As it is portrayed by the performance of ULCs across Europe, Germany's ULC is lower with compare to its trade partners. That's why Germany could keep in trade surplus.

However, this success in trade surplus has cost in rising precarisation such as atypical works, diminishing wages, rising poverty, thus distorting income distribution; despite stable

(not increasing) unemployment rate and rising women employment trend might be described as positive side effects. The main reason why DGB could not effectively oppose these deregulative economic policy reforms is that worsened economic conditions coerce trade unions to accept lower wages in order to save the level of employment; despite DGB is stronger compare to trade unions in other European countries.

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