Trends in employment stability and labour market segmentation

Current debates and findings in Eastern and Western Europe
Burkart Lutz

The mentor of Occupational Labour Markets

To his 80th birthday
Controversies on Internal and External Labour Markets

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Chapter I

Introduction - Debates on the erosion of Internal and External Labour Markets in Europe

by Christoph Köhler, Kyra Junge, Tim Schröder, Olaf Struck

This book documents the contributions to a workshop, held in December 2004 at the Friedrich-Schiller-University in Jena (East Germany). The institutional background is formed by an interdisciplinary research group on economic and social change in Eastern and Western Germany (SFB 580), with four long-term projects on the development of labour market structures (see appendix I). In the following introduction we will firstly situate our workshop in the international debate on changing labour market structures and secondly explain our objectives.

Debates on the erosion of Internal Labour Markets

The worldwide debate on the erosion of standard or long-term employment deals with changing labour market structures, but centres around different empirical fields:

- Standard and non-standard employment (focused on employment contracts).
- Employment stability and security (focused on duration of employment and turnover)
- Mobility within and between firms (focused on inter-firm mobility and turnover)
- Flexibility, employability, gender/ethnicity (focused on political regulation).

The Western debate unfolded in two long waves of research and findings:

- The first wave (mid-80s to mid-90s) centred on the thesis of strongly eroding employment security and a far-reaching structural change of labour markets. Empirically it focused on the question of non-standard employment (defined by contracts deviating from unlimited term and full-time contracts); and case studies in the “new economy” and other flexible sectors (media, software, arts). Diagnostics and prognostics were based on empirical findings of a growth in non-standard employment in Western countries.

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1 Christoph Köhler, Kyra Junge, Tim Schröder, Olaf Struck are members of the Interdisciplinary Research Group 580. See appendix I, B2.
2 See also http://www.sfb580.uni-jena.de.
- The second wave of research and findings (mid-90s until today) centred on theses of continuity or moderate modifications of a rather stable labour market structure. Empirically it focused on job tenures and wages. Data bases consisted mainly of mass scale employee- or employer-data. Long-term observations of average job tenures as well as the duration of completed employment spells in survivor functions demonstrated continuity rather than structural change.

Meanwhile, a third wave of research is building up with more comparative analyses (e.g. by the ILO and OECD) including Eastern European and Asian countries. We also find more theoretical work on labour market structures combining old and new concepts (like Internal/External, Informal, and Transitional Labour Markets). The question here is: what is behind the ups and downs of non-standard employment, job tenures, inter-firm mobility, and work biographies of individuals? What is the structure of labour markets like and what are its major determinants?

The Jena-Halle research on East and West Germany

Our interdisciplinary research group at the Friedrich-Schiller University in Jena and the Martin Luther University in Halle partakes in this third wave of research and compares East and West Germany. From an international perspective, East Germany looks like an example of luxury transition in a small and strongly supported region where a complete adaptation to West Germany is just a matter of time. From our point of view East Germany forms a different society as a result of strong challenges and responses in the past. With the monetary union and reunification in 1990 it received a fast and very radical shock therapy with a loss of about half of its employment within two years.

Despite a transfer of West German institutions, East Germany remains to be different with respect to its economic, social and political structure. Thus in comparing both societies, we can take advantage of the benefits of international comparisons in one nation, where similar public statistics exist and where the set of formal institutions is identical. We think that the lessons learned here are helpful for a broader East-West perspective.

Our research group is convinced that it is necessary to combine comparative analyses of empirical data in Western and Eastern European countries with conceptual work on Internal and External Labour Markets:
Most of the work in the first two waves of research focused on Western and Asian Nations, whereas post-socialist countries were more or less neglected. We need more comparative research and hereby Eastern European countries should be included. 15 years after the change from socialist to capitalist economies and with the integration of new countries into the European community, labour markets in Eastern Europe have reached a level of stability that allows us to identify relatively persistent patterns and structures. Meanwhile research and knowledge on these countries are growing; therefore, international comparisons must take this into account.

The rich tradition of research on Internal/External Labour Markets was mostly separated from empirical research within the framework of the “erosion-debate” that focused on empirical indicators such as non-standard contracts, tenure, duration of employment spells and mobility. Few colleagues have tried to reframe the ongoing debate on structural change in labour markets and political regulation in terms of this long and rich tradition. We believe, however, that this line of reasoning is very fruitful and should be continued and deepened in international networks.

Objectives and research questions of the workshop

Our workshop was following to two objectives: The first was to get an overview on the state of the art in different countries concerning the controversies on findings and concepts on labour market structures. The contributions therefore summarise the state of the art with its major findings as well as open questions. To document ongoing debates, we were also interested in open and hidden controversies and asked commentators for a written version of their statements. The second objective was to initiate international cooperation. Therefore, the papers report on data bases, research institutions and national and international networks.

The contributions to our workshop raised four sets of research questions and policy issues:

(1) The first question picks up the worldwide debate on the erosion of standard employment and Internal Labour Markets: how strong are Internal and External Labour Markets and what are the major trends? Is there a decline of Internal and a corresponding growth of External Labour Markets like many authors suggest? Are there nation-specific patterns in labour market structures? What about the post-socialist economies? Do they represent a “Wild East” in terms of deregulation and labour market flexibility?
(2) While the first question asks for the quantity of External Labour Markets, the second and third question is related to the quality of External Labour Markets. Is there a tendency to growth of Secondary External Markets with low wages and high employment instability and insecurity? Do phenomena of this type include the long-term exclusion of parts of the active population from primary labour markets or employment at all?

(3) The third question raises the issue of primary, i.e. “good” External Markets which grant high wages, security and flexibility at the same time. Are there old and persistent traditions of Occupational Markets in some countries and what about new or growing External Markets for academic professions? What is the relation of the concept of Occupational Labour Markets to the flexicurity and employability concept?

(4) The fourth question is related to concepts of Internal and External Labour Markets? Are there new and better approaches to labour market structures today? Is segmentation theory a dead dog?

The objective of this booklet is to document ongoing debates and work in progress on the stability and segmentation issue and to foster international research discussion and cooperation. We therefore asked for short papers with minimalistic and – if possible – English language references as well as a description of the data sources and the home institutions of the authors.

Following the agenda of the workshop the contributions are grouped into three sections. The first series of papers focuses on conceptual questions and historical trends. The second section presents the results of country reports on national findings and debates from Northern, Southern, Eastern and Central European states. The third section is about methodological questions and research desiderata.

This booklet owes a lot to the pioneering work of Norman Bowers. Within the framework of the OECD Employment Outlook he has for decades contrasted theoretical and political controversies with empirical and comparative analyses and given significant impulses for the international research community. We are also indebted to Peter Auer, Sandrine Cazes and Alena Nesprorova from the ILO whose work on Western and Eastern European employment systems forms the background for our analyses.
The workshop was held during cold and snowy December days in Jena. Special thanks go to all participants for their stimulating contributions and comments, to Kai Loudovici (organising committee), Anja Möhring and Michael Hofmann from the SFB 580 management.

We would also like to thank Alexander Isenmann. He was responsible for the language editing and translations of some German papers. The objective was to arrive at a correct and understandable English.

The main objective of this workshop was to explore possibilities for international cooperation in the field of exchange of researchers, discussion networks and common projects. We do hope that our initiative meets your interest.

Jena, November 2005
Theoretical Controversies on Concepts of Labour Market Structures
Chapter II
What follows the era of Internal Labour Markets?
Preconditions for the (re-) emergence of External Labour Markets
Theses, open questions, and theoretical tasks
by Burkart Lutz∗

1. The rise of Internal Labour Markets

In the middle of the 20th century and in the first decades following the 1950s all mature industrial nations show an extension of structures which since Doeringer and Piore (1971) have been termed “Internal Labour Markets”.

The most important traits of these structures are:
- stable bureaucratic organisations moulded by a strong segmentation of labour,
- long-term employment with a tendency towards life-long employment,
- exchange with External Labour Markets focused on low-skilled workers and low-skilled jobs as ports of entry into the hierarchy,
- opportunities of internal promotion in job ladders with step by step on-the-job training and partially high skilling effects.

2. Advantages for employers and employees

These structures generated significant benefits to employers as well as to employees. Employees - having surmounted the "entry level selection" - could expect high employment security and attractive opportunities for promotion.

Employers gain a high degree of sovereignty over their employment system. Job ladders with step-by-step training can generate high skill and competency levels with relatively low costs and independence of the general system of education and training. Investments in firm-specific skills are safe because workers have no alternative on the External Labour Market.

These advantages seem to increase in significance with the size of the corporation, the stability of the economic environment (e.g. technologies and markets), the stability of internal structures and the extent to which internal dynamics are supported by a steady growth of

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economy and prosperity. The variant of Internal Labour Markets existing in the planned economy of real socialism also shows strong advantages, although of a completely different structure.

3. Norms and institutions

In most industrial nations, a large amount of the norms and institutions regulating the employment relationship has been adapted over the last decades to the dominating structures of Internal Labour Markets.

This is true for labour law, industrial relations, the manner of settling industrial conflicts, the system of social security and elements of the tax system. It is especially true for large parts of national systems of education and training which step by step shifted into the role of suppliers for Internal Labour Markets, thereby losing their autonomy.

4. The erosion of the preconditions of Internal Labour Markets

The last two decades have shown an increase in signs indicating an erosion of the economic and social preconditions for Internal Labour Markets. They indicate a decrease in the benefit employers can obtain from these structures. The most important factors are:

- The increasing turbulences many companies face in their key markets which destabilises internal structures previously taken for granted,
- the acceleration of technological progress and organisational change which require a faster adaptation of the organisation of work, skills and competencies,
- the increasing number of knowledge-intensive jobs requiring science-based and abstract skills and competencies in the face of which traditional step-by-step on-the-job training seems inadequate,
- the high costs and consequent reduction of hierarchical job ladders reducing opportunities for promotion and thus important incentives for workers,
- the renaissance of small businesses and companies with high revenues and high labour turnover, which is in conflict with the logic of Internal Markets.
Despite of these far reaching changes of the historical pre-conditions the actual erosion of Internal Labour Markets (ILM) is a slow and contradictory process; they have a high degree of inertia and resistibility.

**5. The restructuring of labour markets as a complex societal process**

The aforementioned erosion of Internal Labour Markets does not mean that the employment policy of firms can simply switch to External Labour Markets (ELM). The supply of labour with skills for specific jobs and occupations depends on highly complex and institutionalised structures like Occupational Labour Markets (OLM). Functioning External Labour Markets require inter-firm systems of training, allocation and gratification that cannot be generated by individual employers at will.

Firm-employment systems are deeply embedded in an economic and societal context. This is one reason why the ongoing process of the erosion of Internal Labour Markets is highly complex and contradictory.

Important elements of this process are:
- different impulses inducing change, which do not always lead into the same direction, and are sometimes even in complete disaccord with one another,
- more or less rational, more or less short-term reactions to these impulses by the management,
- strong interests of individual and collective actors either in preserving the status quo or in sudden change,
- strong conservative forces based on economic and institutional structures that have developed during the era of Internal Labour Markets,
- moreover, these processes occur simultaneously but not at the same velocity.

To summarise my argument: a change from internal to external strategies requires functioning inter-firm systems of training, allocation and gratification as functional equivalents to Internal Markets. The restructuring of labour markets is a complex micro-macro economical and societal process and a challenge to socio-economics. It posits a series of empirical and theoretical questions.
6. East Germany

The problems related to a change from internal to external strategies are particularly serious in post-socialist East Germany where we expect a rapid process of externalisation when the strong cohorts of transition survivors leave the employment system to retire. There will be two conflicting processes: On the one hand increasing pressure for externalisation of the companies´ employment policy because of the employers´ increasing demand for external recruitment of skilled workers; on the other hand, stark defective institutional regulation and low efficiency of External Labour Markets, as far as supplying skilled work force is concerned.

Throughout Eastern Germany we can expect an increase in mis-match phenomena concerning skilled personnel. This results from a lack of compatibility between the system of education and training, the interests of adolescents and the development of employers´ demand. This expectation stems from the fact that the constitutive mechanisms of the West German model of vocational labour markets do not work sufficiently in East Germany.

7. Empirical questions

The arising empirical questions are:
- Which employers are especially fast to tread the path of externalisation and which employers remain conservative?
- Are there interdependencies to the changes occurring simultaneously to job structures and job content?
- Which groups of the work force - young or old, high or low-skilled, women or men, locals or immigrants – are first affected by the insecurity of jobs?
- What kind of change can we observe in income structures and wage systems?
- Are there new forms of labour market segmentation, for example a new kind of secondary market for academics with basic general skills or new “professionals”?
- Who are the winners and who are the losers of these processes?
- Which new forms of social inequality and social marginalisation are emerging?
- What will be the reactions of the different sectors of the public educational system?
- How and when do industrial relations change, what about unions, works councils and labour law?
- How do the institutions of labour markets and social policies adapt to the development? What sort of friction and conflict evolves over time?

The answering of all these questions requires a very detailed and up-to-date observation and description of all contributing factors. This can only partly be realised by available data, consequently the need for further empirical studies, preferably in form of a panel, is imminent. The interest in intelligent international comparisons is obvious, but so are the inherent difficulties of such a venture. I suppose we will be discussing this in detail today and tomorrow.

8. Two sets of theoretical questions

From the theoretical perspective there are two sets of interrelated questions, which arise when preconditions of Internal Labour Markets erode and companies more and more fall back on the External Labour Market.

One set of questions deals with economic, social and political preconditions of External Labour Markets for skilled labour. What are the new economic structures, norms, and institutions that become necessary to generate a sufficient supply of skilled workers for specific jobs, occupations and professions?

The other set of questions is concerned with the level and type of skills and competencies, which until now have been generated in ILM and more and more are exchanged in External Labour Markets.

Up to now, the structure of and the processes in Internal Labour Markets have been at the centre of empirical and theoretical research on labour markets. Consequently, sociologists, economists, and scholars of organisation theory alike are not very well prepared to deal with the two sets of questions. Therefore the following considerations are of a provisional and rather idiosyncratic nature.
9. First theoretical question: Institutions

A strong regulation and institutional re-structuring is a necessary precondition for External Labour Markets which are more than spot markets for unskilled labour. As functional equivalents to important structural elements of Internal Labour Markets a consistent set of norms, institutions, incentives and sanctions is indispensable. How this institutional regulation is to be shaped and if fundamental innovation is necessary or whether a reform of existing institutions is sufficient, is of considerable scientific interest.

We believe that the institutional regulation of External Labour Markets primarily has to solve three problems:

- **Costs and Investment:** How can a fair distribution of costs and benefits from investing in training and skills be realised (i.e. the free-rider problem)?

- **Time and Inertia:** How to deal with the time lag between the moment when the need for new competencies has become apparent and the moment when adequately skilled personnel becomes available due to the implementation of new training modules (time-lag problem)?

- **Signals and Information:** How do the labour market parties solve the ex-ante information problem about the matching of skills and jobs? How can a fast, cost effective communication between employers and future employees be established, which ensures congruence between supply and demand for certain competencies (information problem)?

10. Second theoretical question: specificity of skills

Skills, competencies, professionalism and capabilities are the terms forming the core of a second set of questions. To forestall misleading interpretations and associations, we will use a traditional concept of segmentation research, the concept of skills specificity.

The level of specificity can be measured by three indicators: the cost of acquiring the specific knowledge and skills, the time needed for doing so, and the degree to which an employee with a specific skill can be substituted by someone with different skills. In accordance with human capital theory, we assume that higher specificity of skills requires higher investment, longer education and training periods and restricts substitution by others.
Identifying specificity’s role in External Labour Markets requires close examination and correlation of three dimensions. These dimensions are:

- **Generation of specificity**: specific competency is no natural resource; it has to be generated by the means of organised school training, by on the job training or a combination of both.

- **Marketing by employees**: the more important the role of External Labour Markets in allocation and wage setting in a given national economy, the more important it becomes to the worker – or organised workers with the same qualification – to perceive and take advantage of opportunities on the labour markets.

- **Utilisation by employers**: very specific competencies are of an ambivalent nature to the employers; they constitute a very useful resource, but at the same time integrating them in long-established structures of organisation and division of labour is often extremely difficult.

The analysis of these three dimensions of specificity obliges us to link with very different kinds of theories and empirical knowledge – which is an additional conceptual challenge:

- theories of education/training and qualification - generation of specificity;
- life course and traditional labour market theories - utilisation of skills by employees;
- theories of work, firms and organisations – utilisation of skills by employers.

There is evidently a correlation between the degree of specificity and the demands posed on efficiency of processes of allocation and wage setting on External Labour Markets. This means that imbalanced labour markets are more likely to occur and more difficult to absorb, the more specific the labour in demand and the labour supply.
Seven remarks on Lutz’s theses on Internal and External Labour Markets – A comment on Burkart Lutz
by Christoph Köhler∗

(1) Burkart Lutz presents a strong historical thesis, but to fully understand him we need to go back to his previous work. Lutz, together with Werner Sengenberger, was the founding father of German segmentation theory in the 1970s. The starting point was the US concept of vertical segmentation of labour markets in primary and secondary sectors or “good and bad jobs” (see Piore 1980). With their comprehensive empirical and conceptual knowledge of the historically strong German system of vocational training and Occupational Labour Markets (OLM), Lutz and Sengenberger emphasised the horizontal axis in segmentation analytics and the differentiation between Primary Internal and Primary External Markets for workers with standardised vocational or professional skills. Stable income and employment security can be realised in both segments.

This innovation in segmentation analysis was not only important to fully comprehend the German particularities, but it also was the basis both for a normative position on labour market structures: according to Lutz and Sengenberger, good External Labour Markets (ELM) are in many cases superior to Internal Labour Markets (ILM) with respect to economic and social efficiency. They provide, in an economical perspective, a constant supply of vocational and professional skills that allows for a high degree of internal and external flexibility and socially, workers have alternatives to their employer on the labour markets which gives high inter-firm employment security and bargaining power (Lutz 1992; Sengenberger 1992). Occupational Labour Markets are, however, highly dependent on economic and extra-economic institutions and therefore, they are extremely fragile.

(2) In the 80s, Lutz develops his historical thesis on Fordism, Taylorism, the rise of Internal and the fall of External Labour Markets (Lutz 1990; Lutz 1992), which was further developed in the 90s and specified to East German transition. Lutz shows how deeply labour markets are embedded in and changed by macro level economical, social and political development trends. The major mechanism of internalisation is the

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historically unique economic growth and corresponding shortage of skilled labour during the Fordist boom. This forces employers to recruit workers with basic general skills and consequent on-the-job training in internal promotion ladders, which in turn leads to the expansion of Internal Labour Markets. Hence, volatile sales markets, downsizing of companies, privatisation of public sector employment, and high unemployment lead to an erosion of the preconditions for ILM. However, this happens without the parallel process of re-emerging External Vocational Labour Markets as a functional equivalent.

In his historical interpretation of the rise of Internal Labour Markets and the problems of their erosion, Lutz focuses on the problem of the formation of skills and competencies. This focus is – from my point of view - too narrow for a full historical explanation of the processes of internalisation and externalisation in labour markets. Neo-institutionalist economics and sociology have shown the need for broader concepts (see chapter III in this booklet).

Lutz is however interested in policy options, which lead him to specific definitions of problems in labour markets. This particularly could be a good starting point for a focused international network as Lutz’s framing of the question is very productive:

- It allows looking at the heart of the problem: demand and supply of labour and the transactions on the labour market.
- It looks at the interrelation of the labour market, with job structures in companies, training systems and the social security system: the complexity of the question reaches the complexity of the object of research.
- It refers to a rich theoretical and conceptual tradition in analyses of labour markets and systems of education and training.

(5) Lutz’s segmentation language allows for a different perspective on many ongoing debates:

- Flexicurity – how can we combine more external mobility with social security (focus on social security system)?
- Training system – how can we improve the supply of young and skilled personnel for occupations, vocations and professions (focus on education and training)?
Employability – how can we foster re-employment of workers after job loss (focus on further education and training – general key skills/competencies as one catchword)?

(6) With respect to the theoretical problems outlined by Lutz (theses 8-10), we would like to add some short remarks. As far as the pre-requisites of External Labour Markets are concerned (Lutz’s thesis 8) we have to underline his argument on the demand side: External Labour Markets depend on a solution to the free-rider problem, the time-lag problem, and the signalling problem. From my point of view we have to add the incentive problem for the supply perspective: what makes workers work, when the employment perspective is limited and there is no long-term commitment to the firm? One answer is: money and inter-firm job security. But this is very difficult to establish: many employers have to create and locate jobs within specific External Markets to generate job opportunities, good wages and employment security.

(7) This leads to a short remark on Lutz’s concept of skills specificity. In human capital and segmentation theory up to now, specificity denominates the number of jobs that skills or competencies of workers can potentially cover. Human capital theory and transaction cost theory distinguishes between firm-specific and general skills. According to this approach, many firms create jobs with an idiosyncratic mix of tasks that are more or less unique to a group of jobs in one firm. Workers with these skills cannot, by definition, be replaced from the External Labour Market. Consequently firms have a high interest in long-term employment. The term “general skills” applies to those competencies that can be used in many firms and therefore, they are subject to the public-goods and free-rider problem. These can be occupational, vocational, and professional skills.

Lutz redefines specificity as a continuum, which allows sorting all types of skills according to their degree of specificity from low to high. He then uses the term to predict an actual or potential shortage of skills in labour market segments. His hypothesis is: the risk of a shortage of labour directly depends on the time and cost of training and on restrictions to replacement, i.e. the level of specificity.
This is an interesting hypothesis but there is some empirical evidence against it: When having a look at physicians, for instance: training is costly and time-consuming; they are difficult to replace by people with other qualifications, but over several decades there was no shortage because of the relative attractiveness of physicians’ careers and strong demographic cohorts. Thus, we need additional variables in the equation: which is the relation between supply and demand that cannot be reduced to Lutz’s specificity levels.

There is no doubt that Lutz’s question, which he relates to the term, is highly relevant to our debate: If companies have problems with the in-house generation of skills and the want to switch to external supply – what kind of problems do they face? What is the risk of shortage? So the question is appropriate but the terminology is misleading or at least should be redefined.

References


Chapter III

Firm-employment systems and labour market segmentation – An old approach to a new debate?
by Christoph Köhler, Ina Goetzelt, Tim Schröder∗

1. Introduction

The Jena project focuses on the question of employment stability and security in East and West Germany (see appendix I, B2). The purpose of this paper is to give a short summary of our conceptual work on segmentation and firm employment systems and to present first findings from our employer survey in ten branches in East and West Germany. The results from other research of our projects with analyses of representative employer and employee data for East and West Germany are summarised by Grotheer and Struck in chapter X. In the following we are, firstly, going to explain our concept of firm employment systems and labour market segmentation. Secondly, we will summarise first empirical results for East and West Germany.

2. Strengths and weaknesses of classical German segmentation theory

To fully understand the dynamics of labour markets, we need a theory of labour market structures. The classical US segmentation approach with its vertical distinction between Primary Internal and Secondary External Markets or “good” and “bad” jobs is still a good starting point for this endeavour. The German concept of craft and vocational labour markets by Lutz and Sengenberger (see chapter II) has shown that we need to go beyond the approach of dual and vertical segmentation and introduce a horizontal axis into the picture. Inter-firm Occupational Markets can grant high incomes and employment security. We then arrive at the classical German three-field matrix: 1. Internal Markets with on-the-job training of firm-specific skills and job ladders; 2. Occupational and External Markets for institutionally-standardised and recognised skills and jobs and inter-firm mobility; 3. Secondary External Markets for low skilled jobs with a high degree of flexibility and mobility.

∗ Christoph Köhler, Ina Goetzelt, Tim Schröder are members of the Interdisciplinary Research Group SFB 580. See appendix I, B2.
This classical German segmentation concept by Lutz and Sengenberger (Sengenberger 1981, 1987a, 1987b, 1992; Lutz 1987, 1992) is a good starting point for a conceptual discussion of labour market segmentation. However, to fully exploit the potential of this approach, it has to be further developed and actualised because from today’s perspective, we see four problems:

- **Conceptual Range**: The Classical German segmentation concept intended to describe and explain the functioning of labour markets on the one hand, as well as careers and mobility of individuals on the other. However, social groups are not necessarily confined to labour market segments over the course of their work life. Mobility between segments is far higher than expected in the old concepts. Let us be modest and look first at the functioning of Internal and External Labour Markets. There is a lot to do before we can combine both perspectives. A modest approach would define segments as groups of labour markets with similar patterns of employment, rather than by persistent barriers to mobility over the life course of individuals.

- **Analytics**: The classical German matrix with its distinction between Internal/External Markets and “good”/“bad” jobs is still a useful heuristic. However, the coupling of specific skills with labour market segments has to be questioned. Internal Markets are neither explained nor tied to company-specific skills – they also organise occupational, vocational and professional as well as low level unspecific skills. With regard to Occupational Labour Markets it is an open question if publicly-recognised qualifications are a necessary ingredient (see Marsden 1999). Finally, bad External Markets with low wages and high employment insecurity do not only comprehend low and unspecific skills, but also highly-trained academics (e.g. in journalism and further education).

- **Theory**: New Institutional Economics and Neo-Institutionalist Sociology have opened up new horizons in the understanding of employers and organisations. Sociological analyses of social stratification, gender relations and the life course have given far-reaching insights into the logic of the supply side. Finally, other concepts for the analysis of labour market structures have emerged like the “informal” labour market (initiated by the ILO in the 70s) and “transitional” labour markets (Schmid/ Gazier 2002). This is a challenge for empirical research and theory. We need empirical research on labour market segments and strong explanatory efforts.
Typology: If our assumption of a decoupling of types of skills and market segments is true, we should arrive at a more open and heuristic definition of the matrix. Obviously there are very different types of Internal and External Markets with “good” and “bad” characteristics. Furthermore, for empirical analyses we need a desaggregation of the segments down to the level of the organisation with a concept of firm employment systems. Companies are normally sorted as a whole to labour market segments. They are, however, in most cases with different departments and areas of jobs, connected to (or part of) several different segments. Concepts of firm employment systems have to take this into account.

Accordingly, our project opts for a “skill-free” two-dimensional matrix with a horizontal distinction between Internal and External Markets and a vertical distinction between primary and secondary or “good” and “bad” markets. We then have a four-field matrix with primary as well as secondary internal and external segments and we think that this constitutes a useful heuristic to sort employment relationships and mobility streams:

- The basic distinction between Internal and External Labour Markets refers to the mechanism of control in the allocation and gratification of labour: it is, economically as well as socially, of fundamental importance whether allocation processes are controlled by market forces or by organisational rules of firms (which are at least partially decoupled from markets). In our view, job stability being defined as the duration of completed employment spells, is the best criterion for the distinction between Internal and External Markets. Long-term employment shows that neither employers nor employees are able or willing to take advantage of External Labour Markets: allocation and price setting are controlled by rules of the organisation. Short-term or medium-term employment indicates a continuous exchange with External Markets; allocation and pricing are ruled by market forces. Long-term employment is thus a good indicator for Internal Markets, short- and medium-term employment indicate External Markets.

- Our criteria for the vertical distinction between primary and secondary or “good” and “bad” markets are employment and income security. Primary Internal Markets can then be defined by intra-firm employment security indicated by long-term employment and relatively “good” wages. Secondary Internal Markets also generate employment security, but they pay only poor wages. Primary External Markets comprehend firm
Employment systems with short and medium-term employment, good wages, and inter-firm job security. Secondary External Markets also organise short and medium-term employment, however coupled with poor wages and job insecurity.

3. Firm employment systems (FES) and labour market segmentation

There are many different paths to tackle the challenges of labour market theory. Our project is convinced that looking at patterns of employment within companies on a meso-level between the micro employment relation and the macro labour market is a useful step towards a new segmentation theory. Following Osterman (1987) and others (e.g. Baron/ Hannan/ Burton 1996), we use the concept of firm employment (sub-)systems, with one company having normally several different systems.

Firm employment Systems (FES) are defined as areas of jobs within the organisation, within which workers can be transferred and which operate under distinct rules of allocation (ports of entry, exit, internal mobility and selectivity), training (on the job, vocational training, further training) and gratification (wage and performance systems; monitoring and incentives).

In line with classical segmentation theory we distinguish two basic types of FES: Internal FES and External FES, both can have different subtypes according to the interest and question of research. Following our interest in job stability and security we differentiate according to the degree of openness towards the External Market. With regard to Internal FES, there are worlds between traditional union-controlled and seniority-based systems on the one hand and more open, performance-based, and flexible systems on the other (closed versus partly-closed systems). With regard to External FES, we found strong differences between systems with medium-term and short-term employment perspectives (partly-open versus open systems). The latter operate increasingly with civic contracts and in the framework of temporary work agency employment and develop distinct qualities; some authors (e.g. Marsden 1999) use the term “market mediated employment relation”.

We then arrive at the following definitions:
- Internal FES are shielded against External Markets, have predominantly long-term employment and build the basis of the Internal Labour Market segment. Internal and seniority-based FES guarantee high employment security, which is usually connected
to seniority rules (closed systems). Internal and performance-based FES only grant relative security depending on individual performance (partly-closed systems).

- External FES have continuous exchange with External Labour Markets and are thereby a part of them; they organise medium-term or short-term employment. External FES with predominantly medium-term employment perspectives allow for a relative stability of jobs and human capital investment within this framework (partly-open systems). In External FES with predominantly short-term employment perspectives, both parties know about the limitations and therefore they have to look for immediate returns to their efforts (open systems).

These four types of FES can be found and identified in primary as well as in secondary labour market segments (see above). Contrary to classical segmentation theory, we found that all four FES can organise job structures around different types of skills: 1. institutionalised vocational or professional skills, 2. job based and on-the-job trained occupational skills, and 3. low-level unspecific skills. Only predominantly company-specific skills are generated and confined to Internal FES (see Köhler et al. 2004).

This open analytical framework forms a useful heuristic to categorise employment relations and develop explanatory models:

- The underlying distinctions focus on mechanisms of control and employment security which are at the heart of socio-economics of labour markets.
- The matrix avoids theoretical assumptions by human capital or institutionalist approaches and allows testing and developing causal hypotheses.
- It fully covers the field of wage employment, as the segments are mutually exclusive; other theoretically inspired typologies can be integrated.
- The definitions can easily be operationalised by empirical indicators like the duration of employment spells and wages.
Figure 1: **Labour market segments and firm employment systems (FES)**

<table>
<thead>
<tr>
<th>Internal Labour Markets</th>
<th>External Labour Markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organisation-led</td>
<td>Market-led</td>
</tr>
<tr>
<td><strong>primary – good jobs</strong></td>
<td><strong>Occupational Markets</strong></td>
</tr>
<tr>
<td>high income and job security</td>
<td><strong>External FES</strong></td>
</tr>
<tr>
<td>Sub-types</td>
<td><strong>Sub-types</strong></td>
</tr>
<tr>
<td><strong>secondary- bad jobs</strong></td>
<td></td>
</tr>
<tr>
<td>low income and/or job insecurity</td>
<td></td>
</tr>
<tr>
<td>Sub-types</td>
<td></td>
</tr>
</tbody>
</table>

4. **Questions and project design**

Our project started in 2002 and tried to avoid some of the shortcomings of research on the erosion of standard employment. We combined case studies with analyses of representative employer-employee-data and carried out telephone interviews with personnel managers of 800 companies in ten branches in East and West Germany with an explicitly comparative perspective. The first wave of this employer panel was carried out in autumn 2002, the second in autumn 2004; the third will take place in 2006.

The survey focused on FES as indicated by the duration of employment spells. We wanted to know about the distribution of long-term, medium-term and short-term employment in small and medium or large companies (1-49 employees versus 50+) of selected branches. We also tried to identify the occupations and job areas that were filled with these three types of employment relations. Short-term employment was defined by spells of up to two years, medium-term employment by a time span between 2 and 10 years, and long-term employment by ten years and more. We asked managers with personnel functions how many and which positions of their establishment were, according to their experience, filled with short-, medium-, and long-term employment. To control the managerial estimates we additionally
researched all available data of personnel statistics that could function as indirect indicators: the employment history of the firm, the distribution of age, tenure and turnover, etc.

The selection of branches followed our interest to represent the existing variety of employment patterns in East and West Germany: we looked for stable and unstable patterns of employment in industry (chemical industry, mechanical engineering vs. construction and software) and the service sector (banking and health care vs. retail trade, further education, publishing, and consulting).

Computer-assisted telephone interviews with an average duration of 40 minutes were carried out in autumn 2002 and 2004. We firstly explained our interest in letters, then contacted the companies by phone and asked for an appointment, for finally carrying out the interview. Contacting for an appointment was time-intensive but effective in terms of the response rate and the quality of interviews. The managers were well-prepared with personnel statistics of their company. The response rate was quite high (a third) compared to mail surveys. About 30 students needed 1200 work-hours for 800 interviews in two months.

5. Firm employment systems in East and West Germany - selected findings

Eastern and Western Germany can – in many aspects – be considered as two distinct countries.

- West Germany has a strong industrial base with a strong share of medium and large companies which fuels a related service sector. The employment system generates jobs for about 85% of the workforce and high incomes. East Germany, after transition, lost about 50% of its employment volume, up to 75% in industry. Today its economy displays a rather weak industrial sector with predominantly small supplier companies and a rather consumer oriented service sector. There are jobs for only 75% of the remaining active workforce after large scale early retirement. The employment system is in many ways depending on subsidies from the West. Average income levels are 20% below West Germany.

- The predominant gender arrangement in West Germany still is the male breadwinner model with female support. In East Germany the socialist double breadwinner model prevails, with the position of women in many cases strengthened where men are unemployed.
The West German model of collective bargaining and “dual vocational training” is – despite signs of crisis - still in place. In East Germany, collective bargaining only covers a small percentage of the economy; the system of vocational training depends to a high degree on state subsidies and is more public than “dual”.

From a researchers point of view these differences offer opportunities for an “international comparison” in one country. Because of its relative economic and institutional stability we expected a hegemony of long-term employment and Internal FES for West Germany. We expected a “wild East” in terms of non-standard employment, employment instability and insecurity for East Germany, because of the high unemployment and weak institutional stabilisers.

The Distribution of short-, medium- and long-term employment by branches

A first glance at the distribution of employment patterns in Eastern and Western Germany reveals surprising results (see figure 1). Contrary to the expectations for West Germany, the project discovered a co-existence of long-term with medium- and short-term employment, rather than a hegemony of Internal FES: Our survey shows that more than two fifths of all positions are filled with short- and medium-term employment (see figure 1), organised in External FES. Contrary to the “wild East” hypothesis, we found a rather similar distribution of employment relations and FES in East Germany. The transition shock and the high unemployment seem to have contributed to the “social closure” of employment systems. However, detailed analyses of labour turnover and survivor rates for new entrants demonstrate, that there is a strong insider/outsider difference behind the overall picture (see Grotheer/ Struck in chapter X). A similar share of long-term positions in Internal FES goes along with a higher degree of turnover in External FES than in West Germany.
Figure 2: Average share of long-, medium- and short-term employment in companies by branches

There are strong differences between the branches: in West Germany traditional industry (like chemical and machine-building industries) and service branches (banking) have more long-term employment than “new” economy branches (software, publishers, consulting) and low wage and female-dominated service sectors (retail trade, further education).

The strong east-west differences in long-term employment in some branches can be traced back to different factors. Many companies of traditional industries in East Germany (like chemical industry) have an old workforce with no alternative on the External Labour Markets, resulting in “social closure” and a large share of long-term employment. This is a late result of the large-scale staff reductions during the early 90s, with average job losses in industrial
plants in the range of four fifths of personnel. After the dismissal of the young and an early retirement of the old cohorts, mid-aged personnel were the survivors who over time grew older (see Ketzmerick in chapter IX).

Firm employment systems (FES) and clusters of companies

The higher share of long-term employment in some branches with predominantly female employment in East Germany (like health care) can be explained by the particular gender arrangement. For women in East Germany there is more economic necessity (high unemployment of men) and orientation (following socialist traditions of the double-breadwinner model) towards stable and full-time employment than in West Germany.

One of the objectives of our study was to identify employment patterns and FES on company level (see figure 3). All firms in our survey use short-, medium- and long-term employment in parallel, which indicates a company-specific mix of Internal and External FES. As a first step of analysis we clustered companies according to their shares of long-, medium- and short-term employment. As a result, we can distinguish three groups of firms: 1. predominantly Internal FES with long-term employment; 2. predominantly External FES with short-term employment; 3. predominantly External FES with medium-term employment (see figure 3).

- Companies in the first cluster, with predominantly Internal FES, have an average of 84% of long-term, 13% of short-term, and 28% of medium-term employment. They are concentrated in traditional branches of the industry and service sector (see figure 3). While most of the traditional industry and service companies (machine-building, chemical industry, retail trade, health services) have a low percentage of short-term and medium-term employment (average of 15%), companies with more discontinuity in production and markets (in construction, software, printing) use short- and medium-term employment to a higher share (about 20 to 25%) parallel to long-term employment.

- Companies in the second cluster with predominantly External FES based on short-term employment (open systems) have an average of 63% of short-term, 11% of medium-term and 5% of long-term employment. These firms are to be found mainly in further education with a large share of teachers. Here a few “stable” planners organise

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1 We used a K-means cluster analysis. The companies were clustered on the basis of the z-transformed shares of short-, medium- and long-term employees. The explained variance accounts for 71.5% of the total variance which underlines the good performance of the model.
many courses and teachers which are employed on demand and on a contract basis. Likewise, in the construction industry there is a high share of companies using External FES with short-term employment. This is an answer to the strong seasonal and cyclical fluctuations construction companies have to deal with.

Companies in the third cluster with predominantly External FES based on medium-term employment (partly-open systems) have an average of 62% of medium-term, 25% of short-term, and 12% of long-term employment. These companies mostly have project-based markets and are situated in the construction and software industry. Here, labour is often organised in medium-term projects and employees change employers after completion of job. The use of External FES with medium-term employment is another way to deal with marked discontinuity.

A comparison of the distribution of the three clusters in East and West Germany confirms our insider/outsider hypothesis. While there is an equal share of companies with Internal FES, the share of External FES with predominantly short-term employment is significantly stronger than in West Germany.

We are presently carrying out detailed causal analyses for the distribution of short-, medium and long-term employment on company level (see Schröder/ Struck 2005). Extensive multivariate analyses demonstrate that the distribution and development of these employment patterns are not sufficiently explained by human capital, segmentation and transaction cost theories. As a heuristic approach, the project experiments with more open and complex models including problems of availability of manpower, performance and control, and discontinuity in the volume of labour.
6. Outlook

Looking at 80 case studies in six of the ten industries helps to interpret the findings of our telephone survey and to develop hypotheses on the trends. Our findings for West Germany do not support the erosion thesis, they do, however, show a moderate decrease of long-term employment for the 90s. This was the case in medium- and large-sized companies that were subject to downsizing and flexibilisation strategies, while most of the small firms did not change their mix of Internal and External FES.

For East Germany we can observe a trend of convergence to the West German “co-existence”-structure, while at the same time new differences emerged. After the transformation shock, large-scale redundancies, plant shutdowns and high unemployment in the early 90s, East Germany experienced a “renaissance” of long-term employment in a capitalist environment. Management and workforce - as a reaction to uncertainties and risks - closed ports of entry and exit in many companies and branches. Over time, economic constraints forced companies to reduce their levels of stable employment, thus getting closer to the West German structure. At the same time, a strong insider/outsider difference emerged with high turnover rates at periphery positions. This was reinforced by public employment...
policies, which created incentives for subsidised employment with fixed-term contracts and to “recycle” the unemployed.

With respect to FES we can observe two trends: firstly, there seems to be an ongoing process of the transformation of Internal FES from seniority-based to more performance-based and individualised structures. Internal FES with few entry positions and vertical job ladders are evolving into more open and horizontal systems with an increasing number of entry and exit positions and less employment protection. Secondly, External FES gain in importance as a supplement to Internal FES within companies, as well as stand-alone systems in employers’ core functions.

These selected findings and hypotheses represent only a small part of the ongoing research and data analyses. Firstly, we are going to continue our company panel survey in 800 organisations of ten branches in 2006. Secondly, these findings are contrasted and confronted with analyses of representative employer-employee data (process produced by the German social security system). Thirdly, to specify and further develop our concept of firm employment systems (FES), we continue to conduct case studies and interview personnel managers and selected groups of employees. In the years to come, we would like to initiate an international discussion network, interchange of researchers and comparative projects around the question of External Labour Markets and firm employment systems (see chapter XII).

References


Chapter IV
Generalised precariousness or persistent segmentation?
by Héloïse Petit

1. Introduction

During the 1980s, France was looking, as many other western countries, at the Japanese economy as the way out of the crisis. Mostly, the focus was on its particular, Toyotist, form of work organisation grounded on internal flexibility. This model was seen as the solution to the fading benefits of the Fordist model. At the same time, large restructurations were taking place in the labour market with the closing of several industrial plants. This introduced the question of external flexibility. Moreover, all throughout the 1980s, external flexibility was largely reinforced and perpetuated by the development of non-standard forms of employment (mainly short-term contracts). By the end of the 1980s, increased flexibility appeared as a general need to which firms were responding either internally or externally.

Directly linked to these debates on firms’ needs for flexibility, a more recent strain of work expanded on the topic of labour mobility. Relating this debate, we will show how the focus on individual trajectories induced the rejection of a segmentationistic approach (part 1). Secondly, we will turn to different developments that emphasised the divergence in mobility patterns (part 2) and others that have integrated the flexibility debate into a dynamic segmentationistic scheme (part 3).

2. Recent controversies on the dynamic of labour market segmentation: the end of history hypothesis

Before looking at the hypothesis and the debates it induced, we will summarise the French labour market development path over the past two decades.

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1 I would like to thank Damien Sauze for his help in supplying statistical information. However, I remain responsible for any potential mistake in the text.

2 Source: “Enquête Emploi”.

3
1990s: the growing fear of general instability

Major tendencies in the labour market are increased unemployment and growing non-standard employment. Since the mid-1980s, the French unemployment rate is constantly in the region of 10% and limited-term contracts (fixed-term contracts and agency work) today concern around 10% of the workforce (see table 1).

Table 1: Structure of French active population

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<tbody>
<tr>
<td>Unemployment rate</td>
<td>7.9</td>
<td>10.2</td>
<td>8.9</td>
<td>11.6</td>
<td>9.8</td>
<td>8.9</td>
</tr>
<tr>
<td>Share of temporary</td>
<td>0.93</td>
<td>0.8</td>
<td>1.68</td>
<td>2.2</td>
<td>3.49</td>
<td>3.15</td>
</tr>
<tr>
<td>work agency employment among workers</td>
<td></td>
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<tr>
<td>Share of fixed-term</td>
<td>2.24</td>
<td>2.45</td>
<td>4.3</td>
<td>5.3</td>
<td>6.18</td>
<td>5.5</td>
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<tr>
<td>contracts among</td>
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<td></td>
<td></td>
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<tr>
<td>workers</td>
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Source: “Enquête Emploi”, the reference population is private sector only, statistics by D. Sauze.

The report is even worse if you look at labour turnover: in 2003, nearly \( \frac{3}{4} \) of entries in employment are made on a fixed-term basis (more than \( \frac{1}{2} \) for outflows). Such changes led to a recurring diagnosis of growing instability. Typically, E. Maurin (2002) focuses on the growing risk of losing your job (and being unemployed) and diagnoses a generalised instability. He underlines that the probability of losing your job (and being unemployed) from one year to another increased from 3.2% in 1983 to 4.8% in 2000. In the same way, Germe, Monchatre and Pottier (2003) highlight the growing number of transitions in the labour market between 1974 and 2001 (either between jobs or between job and unemployment). The same kind of conclusion can be derived from the turnover rate in employment between the 1980s and 2000 (see table 2).

Table 2: French labour turnover rate

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<tr>
<td></td>
<td>20.6%</td>
<td>28.7%</td>
<td>25%</td>
<td>31.3%</td>
</tr>
</tbody>
</table>

Source: “Enquête Emploi”, reference population consists of private sector salaried workers, statistics by D. Sauze. Labour turnover rate = (hiring rate + separation rate)/2
These facts led to the common hypothesis of a generalised precariousness in the French labour market. In a more sociological perspective, Castel (1995) adopts the conclusion of a generalised precarisation of workers.

*Is the concept of labour market segmentation still useful?*

The focus on growing instability relegated the question of labour market structure as a secondary one. Why distinguish between primary and secondary labour markets when every worker is considered as being in danger of losing his job? Growing instability leading to the “destabilisation of those who are stable” (Castel 1995), precariousness could no longer be confined to only one segment. Increased insecurity would have brought down the frontiers of Internal Labour Markets (Gautié 2002), putting all workers at the “same” level. As a consequence, Maurin, with the supporters of this thesis could conclude: “dual representations of society […] are no longer valid. They tend to reify into class distance differences which are often transitory and weaken with time” (1995: 10, our translation). Somehow, these analyses announced the *end of history* regarding labour market segmentation.

The focus on labour instability induced the idea that a dual structure or even a segmented scheme was not accurate enough anymore to understand labour markets’ functioning. The idea of a small number of segments structuring labour mobility in the labour market was obsolete. The focus on generalised instability diverted researchers from the idea of a segmented structure underlying labour mobility. With the fall of the “Fordist firm” as a central organisational mode, the whole segmentationistic scheme fell down. Paradoxically, the focus on labour mobility contributed to blurring the frontiers, which was previously looked upon as structuring mobility patterns.

Interestingly, such an interpretation led to a new form of representation of labour market structure, considered by its author as part of the “heritage” of segmentationistic theories: The Transitional Labour Market (TLM). Here, the notion of «heritage» is understood in a broad sense. What is kept from Doeringer and Piore’s seminal work (1971) is more a way to interpret economic facts, than particular concepts. Initiated in Germany, by G. Schmid (1995), the concept of TLM has been introduced to France and largely developed by researchers from the MATISSE, particularly B. Gazier (Schmid/ Gazier 2003; Gautié/ Gazier 2003).
Whereas segmentationistic theories were grounded on the discontinuity of labour market structure, the TLM approach focuses on the discontinuity of individual trajectories. It proposes a positive analysis of transitions among (and inside) different statuses: employment, disability retirement, private household, education and unemployment. On a normative ground, the TLM theory proposes to construct “bridges” rendering these changes legitimised and socially protected. A new institutional scheme would then be needed to regulate discontinuous trajectories. Here, studies on the TLM connect with others also emphasizing the need to rethink labour contract law.

*New political recommendations*

Actually, two different strains of political recommendations can be distinguished. On the one hand, labour is considered as an obsolete value to ground social links\(^4\) (Rifkin 1995; Méda 1995). Industrial societies, placing labour at the core of social organisation, would have been put into question by the growing instability of employment. Accordingly, it would be the time to replace labour as a central value, and turn to a wider notion as activity. This would notably enable to recognise housework or voluntary work as socially beneficial\(^5\). On the other hand, in a more judicial law perspective several authors directly proposed to reform labour law (Boissonnat 1995; Supiot 1999). Mainly, these propositions aim at defining an institutional scheme that would enable social recognition of the different possible positions in the labour market (studying, voluntary work, housework…). Such a scheme would render workers independent of their employer by obtaining a social status. Such propositions are in accordance with economic research on Transitional Labour Markets (Schmid/ Gazier 2003).

Finally, the fear of a generalised instability in the labour market, and the corresponding focus on individual trajectories, often induced a loss of interest in segmentation matters. From my point of view, there are two weaknesses in this thesis. First, the empirical evidence is far from being clear and it appears quite useful to distinguish between different categories of workers to understand the changing stability patterns in the best way possible. Second, increased precariousness does not inevitably induce the obsolescence of a segmentationistic approach. We will deal with these questions in the two following sections.

\(^4\) As the references make obvious, these debates are not only French, but take place in an international perspective.

\(^5\) This thesis therefore introduced a risk of a dual society where those excluded from the labour market (women and older workers for example) would be constrained to “other” forms of activity.
3. Towards differentiated empirical evidence

If there is evidence of increased labour turnover, it is also possible to show that, at the same time, job tenure did not lower in France (Auer/ Cazes 2003; Ramaux 2005). In fact, according to Auer and Cazes (2003), average job tenure even increased from 9.5 years in 1982 to 11.1 years in 2000. Increasing labour turnover and lowering average job duration has been accompanied by a rising average tenure⁶ (see figure 1). Hence a complete picture of the development path of job mobility over the past decades encompasses two coexisting trends: one showing increasing instability – with increasing labour turnover and lowering average job duration; the other showing increasing stability – with rising average tenure.

Figure 1: Different indicators of job stability

Source: data from Enquête Emploi (for job tenure statistics) and DMMO (for duration and labour turnover rate statistics), statistics by D. Sauze (definition see in the footnote).

Sauze (2003) proposes an interpretation of this empirical puzzle by increasing inequalities: Whereas the more stable were getting even more stable, it has been the opposite for the less stable of employees. Unemployment and the spreading of fixed-term contracts and agency work did increase instability, but this tendency focused on the less stable workers. Increased instability concerned those who were already the more instable. Such divergence can well be

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⁶ It may be useful here to recall the definition of these terms: average job duration is the average length of the employment relation in a given year. Average tenure is the current seniority of an employed worker at the time of the survey.
illustrated by the distribution of job tenure: on the whole, job tenure increased, but the share of those with less than one year tenure also increased (see table 3).

Table 3: Proportion of job tenure of less than one year and average tenure in France

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<tbody>
<tr>
<td>Less than 1 year tenure</td>
<td>13.8%</td>
<td>12.2%</td>
<td>16.7%</td>
<td>14.4%</td>
<td>15.8%</td>
</tr>
<tr>
<td>Average tenure</td>
<td>9.5</td>
<td>10.1</td>
<td>9.7</td>
<td>10.4</td>
<td>11.1</td>
</tr>
</tbody>
</table>


High unemployment and the development of non-standard contracts did increase job instability but this was concentrated only on one particular share of the population: the less stable. There has been a rise in inequalities regarding job stability. Finally, we could say that it is mainly the form of mobility that has changed rather than its level (Sauze 2003). Forced transitions (due to contract type or unemployment spells) replaced voluntary ones. Hence, if mobility patterns did change, it is exaggerated to diagnose a generalised destabilisation of workers. We will now turn to the theoretical, segmentationistic, interpretation of these recent trends in labour instability.

4. Towards a renewed history of labour market segmentation

In this section, we will argue that the end of history thesis, regarding labour market segmentation, is mainly due to a particular concept of the segmentation scheme (Petit 2004). The diagnosis of an obsolescence of the segmentationistic approach seems to be directly linked to the way in which Internal Labour Markets (ILM) are defined. Indeed, as soon as their definition focuses on a single empirical criterion, any change in employment practices will lead to the obsolescence of the concept. The notion of labour market segmentation then becomes particularly fragile. For instance, if ILMs are strictly defined by fixed, guaranteed, career paths, the spreading of new, flexible management practices is interpreted as a decline of the ILM. This is what seems to have happened with the change in employment practices in the 1980s.

Piore’s move away from the segmentationistic approach can be interpreted in the same way. When he, with Sabel (Piore/ Sabel 1984), introduced the concept of “flexible specialisation”, the notion of a primary sector has lost its “raison d’être”. Here we shall remember how Piore (1980) grounded the duality in labour markets in the duality in product demand. The primary
sector faced a stable demand and therefore was able to put ILM policies in place. At the same time, the secondary labour market responded to the instable part of demand. Consequently, when new forms of flexible organisation were introduced, enabling primary sector firms to respond to either a flexible or a stable demand, the reason for Labour Market Segmentation (LMS) was abandoned. De facto, Piore’s more recent work moved away from segmentation topics.

However, not every labour economist rejected the segmentation approach in the 1990s. In France, among the researchers still using the terms of LMS, there have been two different non-exclusive responses to this theoretical dead end: either they consider that segments have changed in shape\(^7\) or, they consider that a new segment has emerged through the development of Occupational Labour Markets (OLM)\(^8\).

*The hypothesis of persistent segmentation*

Petit (2002) proposes a two stage redefinition of LMS. First, human resources management policies are defined as giving the opportunity for a career (ascending mobility) or not. Obviously, firms giving such an opportunity, whatever their form is, are considered as being part of the primary segment (and *vice versa* for the secondary segment). Second, the employer’s choice of a particular management policy is linked to the firm’s relation to the labour market, the product market and the financial market. Such a theoretical scheme enables a dynamic interpretation of labour market segmentation.

An empirical study of the diversity of labour management policies enables us to specify the dynamic path of labour market segmentation in France (Petit 2003). First, the statistical analysis device renders evident that a dual structure persists in the labour market. We could clearly oppose firms spending money on training, using pay raise and promotion as management devices. Furthermore, we could oppose firms doing the strict minimum by frequent negotiations in these matters. Such duality can directly be interpreted as a duality in career opportunity. Besides, primary sector firms are not seen as identical to those described in the 1970s, mostly because of the spread of individualisation. Each individual has the opportunity to have a career but there is no general guarantee that it will happen.

\(^7\) Such an approach has been elaborated in the MATISSE.

\(^8\) Such an approach is typical of the IRES or LEST research institutes.
Finally, ILMs have not “disappeared”, but changed. A dualistic labour market structure still seems appropriate even if the forms taken by primary segment or secondary segment management policies have changed. This approach relies on the hypothesis of a structuring power of the diversity of management policies (Michon 1992; Petit 2002). It can be called “demand-sided” in studying segmentation, whereas other approaches studying labour market structure focus on the “supply-side”, i.e. on mobility patterns in the labour market.

The hypothesis of a new segment

Another strain of work has focused on an interpretation in terms of Occupational Labour Markets (OLM). Up to the 1980s, there was a typical contrast of the French and English labour markets: the former being the place of ILM, the latter being the place of OLM (Eyraud/Marsden/Silvestre 1990). Yet, some argue that increasing mobility in the French labour market (at least for some parts of the population) led to the emergence of OLM or at least to the weakening of the differences between the French and English cases (Germe/Monchatre/Pottier 2003; Lefresne 2002).

Mostly, these studies put forward the expansion of the external mobility-career path in the French labour market by the end of the 1990s. Such a result is not contradictory to the first hypothesis on the persistence of segmentation. On the contrary, they seem rather complementary as shown in Petit (2003). Empirical evidence confirms both the persistence of the ILM thesis and the development of the OLM thesis. Occupational Labour Market is then interpreted as an upper-level primary segment (Piore 1975) where career paths go through external mobility.

Finally, speaking in terms of segmentation appears to be still quite useful to understand the functioning of the labour market. These analyses do not deny the fundamental changes that took place in the 1980s but rather integrate them in a global interpretation scheme. They should not be opposed to the studies focusing on transitions. They rather constitute a context in which these theses could be reinterpreted. Not every worker is in the same position regarding new risks in the labour market. Instability and precariousness do not have the same shape and consequences whether primary or secondary sector workers are concerned.
5. Summary and conclusions

Since the 1980s, the development path of the French labour market is marked by high unemployment and the multiplication of non-standard employment. These changes induced an increase in job turnover rates and a decrease in average job duration. Consequently, the national debate focused on the supposedly induced “generalised instability”. External mobility, transitions, are at the heart of a new labour market concept. It then seemed to be the time for the end of history regarding labour market segmentation theories. In this vein, work on “Transitional Labour Markets” was developed and new political concepts were put forward. The former stable employment contract scheme was considered as obsolete.

In this paper, we questioned this thesis in two ways: on an empirical and on a theoretical ground. On one hand, we underlined that increased instability mainly concerned one particular group of workers: the less stable. At the same time, the average tenure for those already in work for more than a year did increase. Apparently, there has been a rise in inequality regarding job instability rather than a generalised wave of growing instability. This underlines the necessity of still considering workers as different groups and not as facing the same global instability problem. Accordingly, this leads us back to a segmentationistic approach.

On the other hand, we emphasised that dismissing the segmentationistic approach was partly due to a restrictive concept of ILM. Introducing a wider definition enables us to have a dynamic interpretation of labour market structures. We can then say that Internal Labour Markets have not vanished but changed in form.

In the end, two streams of research have been defined: the first focuses on transitions and job instability, the second, centres on the dynamics of LMS. There are bridges linking the two but they are still weak and not emphasised. Strengthening these bridges may constitute an adequate research agenda.
Data sources:

Enquête Emploi is the French version of the labour force survey. It gives annual information on the total population. Surveys are sent to the households. Information is collected on a monthly basis for 2 years.

DMMO (Déclaration mensuelle des mouvements de main-d’œuvre). Enterprise level administrative declaration of any entry or departure of workers (except agency work). It is done on a monthly basis and concerns any firm of more than 50 workers.

References


Institutional background

Research laboratory attached to the University of Paris 1, “Panthéon – Sorbonne” and the CNRS (“Centre National de Recherche Scientifique”). The laboratory contains nearly 180 researchers (including more than one third of PhD students). Research topics vary and cover labour economics, industrial economics, cultural economics and statistics. Labour economics is one of the main areas of research. It encompasses a wide range of topics from the analysis of institutional contexts (welfare state, social policies, employment policy…) to the study of employment practices (diversification of employment contracts, new forms of labour subordination, workers qualification…).

Main Publications

Some Notes on Occupational Labour Markets - A comment to Heloïse Petit

by Holle Grünert*

Against the background of dramatically risen unemployment and a growing importance of instable and precarious employment (the share of fixed-term contracts and the share of agency work among workers are quoted to support the statement) Heloïse Petit asks whether the theoretical labour market concepts which possessed highly explanatory value in the past, are still able to explain the present situation adequately. This holds especially for concepts or theories about labour market segmentation.

Petit argues both ways, empirically and theoretically. With regard to the empirical side she points out: The risks of unemployment and of precariousness are not evenly distributed across the work force. On the contrary, the employment situation of groups with stable employment became rather more stable while instability among the groups with instable employment increased even more in France during the last two decades. This development would prove the indispensability of segmentationalist theories for explaining the current situation. So far, Petit can doubtlessly be agreed with. Statistical data and the public discussion in Germany point in the same direction.

Furthermore, Petit explains that segmentationalist approaches in their traditional, dualistic form do not longer suffice to realistically explain changed employment structures and to give explanations for the new direction of labour market policy. This view must also be agreed with. This is the easier when considering that the model of a three-segment labour market, consisting of the Secondary External Labour Market, the Internal Labour Market (ILM) and a certain kind of Occupational Labour Market (OLM), has become predominant in Germany for a long time (see amongst others Lutz/ Weltz 1966; Lutz/ Sengenberger 1974; Sengenberger 1975, 1987, 1992; Lutz 1987).1 Also current debates (see amongst others Köhler’s contribution in this volume) are based on this model, partly in agreement, partly critical of it or further differentiating.

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1 The restriction to „a certain kind of occupational labour market“ refers to discussions about entry criteria and entry barriers of labour markets. In the older literature on labour market structures in Germany, the peculiarities of the German system of vocational training and vocational certificates played an important role especially when comparing it to the educational system in France (for the German-French comparison see for example Lutz 1976, 1981, 1989; Boyer/ Lutz 1992). But it seems to me that the German concept of inter-firm labour markets in Germany is perfectly compatible with an understanding of OLMs as Marsden (1986, 1999) promotes it.
Petit then suggests – following Piore (1975) – an own model of a tripartite labour market. Her attempt to develop the concept of the ILM further and to combine it with the OLM in a new way is promising. At the same time it provokes, especially against the background of the different national experiences, a series of questions and remarks. Here, I would like to focus on three sets of those remarks and questions. They refer to:

1) the concept of an (exclusively) vertical segmentation of the labour market in Petit’s model
2) the employers’ interests in Occupational Labour Markets
3) the process character of labour market segmentation and thus the dimension of time in the examination of different segments

Firstly: Petit’s starting point are the ILMs. She argues for a more extended use of the term ILM than is still the case in many textbooks. Instead of going through a “list” of features of ILMs (and asking oneself every time whether there is an ILM at all when a feature is missing or modified) she encourages using only one main criterion, namely the contribution of the employment strategies of firms to the career opportunities of their employees.

This criterion is then generalised to all primary labour market segments, i.e. not only to ILMs but also to OLMs. But exactly at this point, the critic has her doubts. The criterion could be too restrictive for OLM. The existence and functioning of OLM depends to a large extent on an ensemble of institutional pre-requisits which allow the employers to find qualified labour on the market relatively precisely to their demand and which allow if not even guarantee the employees the transferability of acquired rights and claims from one employer to the next. Career opportunity may be contained in that but does not have to. In many cases Occupational Labour Markets only safeguard (or intend to safeguard) inter-firm employment security against unemployment or downward mobility. This applies more than ever under the current conditions of high unemployment.

There are, of course, differences between OLMs for different occupations and on different skill levels. As for the use of terms there is no clarity in this field yet. The distinction between Vocational Labour Markets on the level of skilled workers, on the one hand, and Professional Labour Markets on the level of academics, on the other hand, is by far not precise enough
though it may offer a first approximation to what is meant. In other words and more explicit for our purposes: If Petit adopts upward mobility as criterion of definition for the Occupational Labour Market, too, if she distinguishes between advancement by staying with the employer (ILM) and advancement by changing the employer (OLM), she can only have in mind particular OLMs, for groups of artists, scientists and higher managers with rather frequent job changes as the usual way of successful careers. For many others – skilled workers as well as bigger groups of academics – participation in OLMs is not primarily about advancement but about inter-firm employment security against unemployment and downward mobility.

The limitation of the OLM concept to the outstanding part of highly qualified employees seems to be intended by Petit. With reference to the earlier mentioned work by Piore (1975) she calls the OLM “upper-level primary segment” of the labour market. Thus she presumes, by the criterion of career mobility, a vertical layering with the secondary sector being at the very bottom, the ILM quasi in the middle (as a “lower-level primary segment”) and the OLM at the top. This may be done for certain purposes. But one should be aware that large parts and important functions of the OLM remain excluded.

Secondly: If OLMs, as Petit presumes, embody the upper-level primary segment (but also, if they constitute relatively restricted part of the primary sector in another way), the question on ways and criteria of access arises. This is not only a question on the individual level but also one on the firm and inter-firm level. The determining factor seems to be that employees who succeeded in entering OLMs possess competences which
- are essential for all or many or certain companies
- cannot be obtained in the usual way by learning by doing or career paths in ILMs
- provide and secure the employees who possess these competences with a relative advantage (be it in the form of additional income, be it in form of a better protection against loss of status when changing companies)

Who is willing and able to develop such competencies and to bear the connected costs? Why do companies accept the risk of supply shortage and other vulnerability for external

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2 Possibly, the search for such distinctions in terms is specific to the German discussion (see Schmid 2002a – in particular 2002a: 87 – for a German and 2002b for a foreign readership).
3 Labour markets for artists bear, not without reason, great scientific attraction also for Schmid (2002c). He investigates them as example of a new (or of growing importance) type of “network-labour markets”, which – as he believes – are to be placed between the traditional internal and external markets.
disturbances which are inseparable from taking part in OLMs? Who controls in which way the access to education which provides the essential competencies for OLMs? And finally: Can the structures of the ILM be combined with those of the OLM? Are there not firm-intern segments which are only accessible via OLMs? Can companies – for correspondingly different groups of employees – not at the same time be active in the primary sector and in the secondary sector of the labour market? In that regard, the strict assignment of certain companies to certain segments of the labour market (primary sector firms, secondary sector firms, etc.) and the thus indirect equation of employment strategies or employment policies of firms and labour market systems seems rather simplified.

Thirdly: Finally, the process character of labour market segmentation and the dimension of time in the development, consolidation and erosion of labour market segments should be considered as well. Viewed from above, very different criteria can be applied and – according to the criterion applied – very different labour market segments can be “cut out”: ILMs, OLMs, mixtures of both or possibly totally different forms. Only a longitudinal observation over time will show (more or less clearly) which of them will remain in the long run and which were of rather accidental or transitional nature.

Let us take the example of the access to OLMs: In the labour market discussion, especially in Germany, the importance of certified qualifications has been stressed again and again. At the same time, however, the validity of that criterion – and in extreme cases the validity of the OLM concept itself – has been questioned by referring to tendencies of flexibilisation of production and job structures which might lead to the breaking up of occupations and an obsolescence of former vocational qualifications.

A twofold longitudinal observation would be helpful in this case: along the individual career paths and along the creation of new fields of occupation. Both involve empirical difficulty, of course. From the perspective of career paths, the observation should show whether and in which way there is a shift in the importance of formal qualifications (in particular basic training and university degrees) vis a vis skills which were acquired in other ways, possibly in an informal way. However, it could also show how and to which extent interruptions in occupational career path – be it by unemployment, be it by inferior or other inadequate employment – result in a loss of access to particular OLMs or lead to a deterioration of the position in the labour market.
From the perspective of structural change and the creation of new fields of occupation it might be interesting to ask: Where do persons with the skills required come from when a new field of occupation is emerging? Will there develop more formalised ways of access to the market (and, on the contrary, of exclusion from that market) over time? As for example, is software engineering in this regard a pioneer for a new type of External Labour Market in which the access is no longer dependent on certified qualifications or does it rather represent a temporal opening up in the formation phase of a developing partial labour market?

It is the merit of Heloïse Petit’s contribution to bring back segmentation concepts into the ongoing debates on structural change in labour markets and in this way to stimulate questions and discussion on the topic of OLM.

References:


Concepts and Empirical Findings

Eastern Europe
Chapter V
The case of Poland - Recent changes of non-standard employment and labour market flexibility
by Gabriela Grotkowska

1. Introduction – The Polish labour market

The purpose of this paper is to shed light on some aspects of actual flexibility of the Polish labour market, namely the incidence of non-standard forms of employment (giving particular attention to two forms of this kind of employment: part-time employment and employment on fixed-term contracts) during the transition period in Poland. The other objective is to present changes in job stability, measured as an average job tenure with given employer. Particular attention is given to the role of the socio-demographic characteristics of the labour supply and gender profiles since it seems that the incidence of non-standard forms of employment differs significantly between different groups of employees. The analysis focuses on the results of the legal changes introduced in recent years (for more detailed presentation of institutional changes in recent years, Grotkowska et al. 2004). Most analyses base on the raw data of the Polish Labour Force Surveys.

In this section we are going to present a first overview of the situation at the present Polish labour market. Among all 25 members of the enlarged European Union, Poland is a country with particularly poor labour market performance and low use of labour resources. In the second quarter of the year 2004, the number of the unemployed reached 3.23 million (unemployment rate accounted for 19.1%) and 56.0% of the population aged 15 or more remained unemployed or out of the labour market (GUS 2004b). Both indicators, unemployment and non-employment rates, belong to the highest among OECD countries. Only since 1998, the Polish economy has net losses of at least 1 678 thousand jobs, and the unemployment rate has almost doubled (see figure 1), although the economy recorded a positive real GDP growth rate each year.

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4 All data referring to labour market performance, if not stated otherwise, comes from the Polish Labour Force Survey.
5 Different structural unemployment rates estimates vary between 12% and 15% (Kwiatkowski et al. 2003; IMF 2003; Socha/Sztanderska 2003).
6 According to the PLFS data. According to the firms’ data, the decline in employment is even higher, because of the correction of the number of employees in agriculture based on the National Census 2002 data. The economy's employment was, at the end of year 2002, by 3 538 thousand lower than employment at the end of the year 1998.
Figure 1: **Employment, Unemployment and Not-in-the-Labour-force (thousands)**


Figure 2 suggests that the period of slowdown of the GDP growth rate at the turn of the centuries has been paralleled by the fall in employment, the rise of the labour productivity and the unemployment rate. During the period of 1999 – 2003, real GDP rose by 15%, but the number of employees dropped by 10% (PLFS data).

**Figure 2: Unemployment rate and the annual rate of growth of GDP, employment and labour productivity (%)**


The process of employment restructuring in Poland consisted mainly in the reduction of employment: a growing average job tenure is its indirect proof, as well as a growing average
time, spent in unemployment or inactivity. Dismissals – in almost insignificant degree – were compensated with hiring of young, better educated workers. This process has been reflected in the employment structure by education level, where we have observed a falling share of low educated and a growing share of high-educated persons, particularly among women (see figure 3).

Figure 3: Changes in education structure of employment by gender

![Figure 3: Changes in education structure of employment by gender](image)


Persons who lost their employment usually became permanently unemployed or inactive. The registered unemployment rate rose from 10.4% in 1998 to 18% in 2003 (GUS 2004a). In spite of the recovery observed in the year 2003, the employment is still falling, although at slower pace. In the same time, we observed a dramatic growth of the average time spent in unemployment (the share of the unemployed searching a job for more than a year grew from 35% in 1998 to 48.7% in 2003, and the average duration of unemployment reached 16.3 months in 2004). Another alarming process is the growth of the population which is economically inactive. In the later case, it seems that in spite different changes in social policy, the main reason of falling economic activity is relative attractiveness of different social benefits. It concerns mainly badly educated persons, whose real wages are still relatively low.

Such a dramatic aggravation of the labour market situation raises very important questions to be answered by the observers of the Polish labour market. To what degree is the decline in
employment and the rise in unemployment related to an unfavourable business cycle phase and to what degree should it be linked with restructuring processes and adjustments to EU-standards? Do institutional barriers (and in what markets) exist in the Polish economy (with a higher degree than in other countries) that hinder the creation of new jobs and reallocation of workers? All these questions still wait to be answered. Hence, a glimpse on the development of non-standard forms of employment and job tenure may be useful for searching for an explanation of labour market developments in Poland.

While analysing the changes in the incidence of non-standard forms of employment and job tenure, we should bear in mind that there have been significant changes in the institutional set up of the Polish labour market that occurred in the 1990s, particularly in the recent years. Poland generally has rather chosen the neo-liberal path of transition, compared to other countries of Eastern and Central Europe (the so-called “shock therapy”). However, there were some periods of strong social protection as well, particularly at the beginning of the 1990s, where the generous system of social welfare was supposed to secure social support for reforms versus the market economy. But in the last 5 years, Poland has liberalised its labour market to the highest degree among all OECD countries. If you measure changes in employment protection legislation in the period between 1998 and 2003, with methodology used by the OECD (OECD 1999), Poland has de-regulated its labour market by 35%\(^7\), which is the highest score among all OECD countries.

This significant change in the institutional set-up of the Polish labour market poses new challenges for empirical research on labour market performance and non-standard forms of employment in particular. Generally, there is no controversy on the fact that labour market flows significantly fell during the recent 5 to 7 years and that the stability of the labour market grew. The problem, why we have observed such a phenomenon, in spite of serious reforms aimed at improving labour market flexibility, is still an open question.

2. Job tenure profiles

Job tenure is defined as the duration of employment (in months) with the last employer (based on the answer to the question from the PLFS questionnaire on month and year of getting employed with the current employer). This analysis refers therefore to the whole population

\(^7\) Own accounts based on the methodology from OECD 1999 and on data from OECD 2004.
of the employed included in PLFS, however, it does not take into account the unemployed persons’ experience\(^8\).

Among OECD countries, Poland belongs to a group of countries with relatively long job tenure (11.7 years in 2003\(^9\)). The analysis of data concerning changes in job tenure and its distribution by gender, age, education and sectors of economy, gives surprising results. Average job tenure fell from 153.4 months in 1994 (the first year when the question on job tenure appeared in the PLFS questionnaire) to 138.6 months in 1998 to increase again to 140.0 months in 2003. Therefore it seems that we have observed a falling job security during the initial part of transformation but also during the recovery observed in the mid-1990s and then growing job tenure in the late 90s with deterioration of the business cycle. We could have thought that the reason for this recent change is the outflow from employment of persons loosely linked with the labour market: young people, women and low-skilled workers. However, the average job tenure of young people and of people with lowest qualifications grew (the growth was significant in the case of workers with basic vocational education). Only female job tenure insignificantly decreased (see figure 4).

\(^8\) However, we should notice that the other method of measuring job stability is the average job duration calculated on the basis of labour market flows (see: Grotkowska et al. 2004). Using average duration of employment as a measure of job stability lets us estimate the length of time needed for a complete exchange of the whole population of employees. Therefore, with this tool we may assess the chances for restructuring employment. While analysing employment duration, we may answer the question, what the rotation of the employees is, whereas in the case of job tenure, the data based on stock analysis (average actual job tenure of people being employed) rather give us information on their professional past. Growing length of job tenure may be related to the growing scale of redundancies, if employers first dismiss employees with short job tenure. However, in a such case, employment duration will fall. Therefore, both measures cannot be fully substituted. Taken together they can give better insight into the turnover of the labour market. However, in this paper we focus on stock analysis: only job tenure with the last employer is analysed in this paper.

\(^9\) All statistical data in this chapter comes from the author’s own accounts based on the raw data from LFS from the period 1998-2003.
Average job tenure increases with the age of the employees. It is typical for all countries, that young people are the most mobile ones. However, young women have shorter job tenure than men (although the differences are not very significant), and elder women (45 years and elder) have a considerably longer tenure. We may suspect that young women, because of periodical breaks in employment, related to maternity and traditional family functions, are forced to more frequent interruptions or changes of work, while elder women change their employer relatively rarely. Probably they are not interested in changes of their job: they rather search for employment stability. At the same time, the employers do not put pressure on them by threatening to replace them by other employees.

For the whole transition period, men’s job tenure has been shorter than women’s. The change was not similar for any of the genders. It was clearly related to the business cycle phase: it fell until 1998, then grew and fell again in recent years (2002 – 2003). Longer job tenure of women, is first of all the result of their more frequent (than on average) employment in the public sector. The average job tenure in the public sector is about twice as long as in the private sector, both for men and women. Since almost 40% of women are employed in the public sector (the same share for men accounts for 27%), they have therefore more stable employment guaranteed. However, inside both sectors, women have a little shorter job tenure than men.
In the same time, job tenure fell for the group of workers with high qualifications (i.e. with tertiary education), among professionals. It is quite surprising that we can find an inverse relation between the length of job tenure and education level, both for men and women. Workers without education have a four times longer average job tenure than workers with tertiary education (this relation is slightly higher in the women’s case). It could be interpreted as a reflection of uneven benefits from a labour market under transition circumstances. People with higher education levels are more prone to benefit from new opportunities in transition labour markets.

Another surprise is the significant growth of job tenure in the private sector: between 1994 and 2001\(^{10}\) for men it increased by 41%, for women: by 38%. In the same time the stability of the employment in the public sector grew for both genders as well (by 12-13%).

Job tenure varies significantly in the different sections of the economy. It is particularly short in household-related services, in hotels and restaurants, trade and repair, and construction. Women are over-represented in those sections of employment (except for construction), and this affects the permanence of their employment. A part of the employment in those sections is of seasonal or temporary character. However, relatively high employment of women in health care and education, where employment conditions - particularly in the public sector - are very stable, influences the average job tenure of women in the opposite way. The number of hours of work is often lower in those sections than the average in the economy, which seems to be favourable for combining the professional and family role of women. It may be an explanation of women’s high interest for undertaking employment in those sections.

Changes of average job tenure by NACE sections are generally similar for both genders (clear growth of tenure for health care, education, public administration and all industrial sections and a clear decline of job tenure for fishery, construction and real estate and business services). However, there are sections where differences are revealed: average job tenure in the section hotels and restaurants grew by 17% for women and dropped by 13.8% for men, and in financial services it similarly grew by 21.6% for women and dropped by 9.8% for men.

Finally, as for the firm size, the job tenure for employees working for small firms (up to 5

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\(^{10}\) 2001 was the last year when the GUS used the methodology of four classes of ownership sector in the PLFS: state, communal, private and collective. Since 2002, a new methodology only with public and private ownership has been used. It does not allow for coherent comparison through the whole period.
persons) generally fell (by 5.4% for men and by 17.0% for women). As for women, their average job tenure grew for all other types of firms, with the exception of the biggest enterprises employing more than 100 persons, where average job tenure for women dropped by 2.5%. As for men, job tenure grew only in the case of medium-sized firms (51 – 100 persons) – by 4.6%. In other cases, employment stability declined – but less than 5%.

Figure 5: **Structure of the employment by job tenure, in month**

![Bar chart showing changes in job tenure](chart.png)

Source: author’s calculations based on LFS raw data.

Figure 5 shows changes of the structure of the employment by job tenure that occurred in the last 5 years. A clear pattern is easily visible: the share of persons with short tenure (up to 2 years) is falling, while the share of persons with tenure longer that 24 months is growing. Generally, the domination of the employees with longer tenures prevails.

### 3. Non-standard forms of employment

Part-time employment and fixed-term contracts are two main forms of non-standard employment in Poland. Agency employment is still at the initial stage of its development, although the legislation concerning this kind of employment has been highly liberalised in the recent period. Another form of non-standard employment, although often not legal, is to conclude a freelance contract instead of an employment contract. Although there is no statistical evidence, it is well known that it rather has been a mass phenomenon in recent years. Workers are encouraged to set up a firm (self-employment) that accepts orders from former employers, and in fact performs the paid employees’ tasks. This procedure is
prohibited by law, but – with co-operation of worker and actual employer – it is almost impossible to be proven. The incidence of the replacement of employment contracts with freelance contracts is a result mainly of its advantages in avoiding fiscal burden – mainly by tax deductions related to so-called costs of getting income and by the possibility of paying lower social security contributions (they are related to the average wage in the economy, but not to the actual income).

Unfortunately there is a lack of data concerning the scale of the informal employment in Poland\textsuperscript{11}. In 1998, the CSO estimated that 7\% of men and 2.7\% of women aged 15 or more, were informally employed (Gus 1998). Therefore, women were less numerous in the population of informal employees – they accounted for 30\% of this population. However, it has been observed that their employment had rather permanent character, while in the case of men it was more often temporary work. Informal employment was more frequently observed in the rural, not in the urban areas – for both genders. Main occupations were: employment in agriculture and gardening (mainly among men), child care and elder care, tailoring services, trade, so-called neighbourhood services (mainly men). As for the following period, all the information which has been mentioned above, lets us draw the conclusion that informal employment has rather expanded after 1998. It may be explained by the growth of employment in the shadow economy by approx. 10\% and by growth of the number of unpaid family workers. On the other hand, a six-time lower social security contribution paid by farmers, encourages many persons to register for economic activity in agriculture or other industries. An indirect indicator of such a situation may be the phenomenon of multiple job holding, which, to a large extent, regards agriculture. We can expect that high indirect employment costs\textsuperscript{12} could have a similar impact on the growth of informal employment. Unfortunately, due to the lack of more detailed information, we are not able to analyse more thoroughly the growth of informal employment. The data presented below, on part-time employment and fixed-term contracts does not include the informal sector.

\textsuperscript{11} The terms employment in the shadow economy and informal employment are used as synonyms in our report. In Poland there is an obligation for legalization of hired employment through written contracts. Self-employed and family members working without labour contracts should be however registered in the system of social security (health care, work accidents and pension systems).

\textsuperscript{12} Indirect labour cost means all costs that account for the difference between gross and net wage (social contributions together with income tax advance).
The incidence of part-time employment

In the year 2003, there were about 586,000 men working on part-time basis (versus 6,833,000 working on full-time basis). Similar numbers for women were: 820,000 on part-time basis and 5,418,000 on full-time basis (GUS 2003). It means that the share of part-time employment in total employment in 2003, accounted for 7.9% in the case of men and for 13.2% in the case of women. Since the Central Statistical Office changed the way of identification of full-time/ part-time employment in 2001, it is not easy to compare data from the period before 2001 with the following years. The data for the years 1992 – 2000 indicates the drop of the employment on part-time basis among men (by 5%) and the growth of such type of employment among women (by 4.7%, GUS 2002). This difference in employment changes by gender, prevailed in the years 2001 – 2003, when the employment of women on full-time and part-time basis declined by 2%, whereas the employment of men decreased by 3.1% on full-time basis and – by 13.7% on part-time basis. The share of part-time employment is relatively stable, although it is almost twice as higher in the case of women (13 – 15%) than in the case of men (8 – 9%). Bigger popularity of part-time employment among women is reflected in the structure of this population. Although women constitute 45.9% of total employment, they form 57.33% of part-time employment (GUS 2003).

Due to the recently introduced changes in the PLFS-questionnaire regarding the reasons of part – time employment, it is difficult to univocally state to what degree this form of employment reflects the workers’ decisions and to what degree it is a result of no better alternatives.

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13 Further data on part-time employment comes from the author’s calculations based on the raw data from LFS 1998-2003.
However, we may try to draw some conclusions. First, the share of people indicating a lack of possibility finding work on full-time basis grew: among women from 8.8% in 1992 to 30.4% in 2002, among men from 10.3% to 28.7%. Without doubts, it may indicate a growing scale of involuntary part-time employment. Second, the importance of education and trainings as a reason to except part-time employment is growing, particularly among men. Third, the share of women declaring that part-time employment suits their preferences has grown to about 1/3. Therefore, we may expect that the growth of supply of jobs on part-time basis would be met with the demand among women searching for a job. Fourth, factors related to family are more important in the case of women than for men. In turn, men more often state diseases and disability as a reason for part-time employment.

Both the relatively small share of part-time employment and its stability during the period of restructuring of the economy may indicate that Polish employers do not use this form of employment to increase the supply of jobs to such a degree as employers in other European countries do.

Part-time employment has been most popular both for men and women with low education (primary and less or basic vocational). Changes of incidence of part-time employment considerably differed according to the education level of the labour force. As far as the male population is concerned, the percentage of population employed on part-time basis grew in the case of men with vocational secondary education and primary education, while for women it grew for all education levels, with the exception of tertiary and general education.

- Looking at the age profile, part-time employment is mainly popular among elder
workers (aged 55 years or more) and among the youngest cohorts. In the first case, more than ¼ of male employees work (2003) on part-time basis (in 1992 the respective share was 37.5%). The similar share for women is 37.9% (versus 37.3% in 1992). In the population of employees aged 15 – 24 years: 18.4% of men and 22.5% of women work on part-time basis (similar shares for 1992 were: 23.7% and 28.2%). A decline of the fraction of part-time employment in the group of young people may be probably attributed to the more popular continuation of education.

The domination of women in the population of the part-time workers has prevailed for all transition periods and has even strengthened (in 2003, the share of women reached 57.4%). When speaking of age structure, it has to be noticed that, despite the relative popularity of this form of employment among elder and the youngest workers, the age group dominating the population of part-time female workers is the prime-age labour force (25 – 44 years old). In the same time the share of the persons aged 15 – 24 years in this population has considerably declined: from 22.0% in 1992 to 13.1% in 2003. In the case of population of male workers employed on part-time basis, changes were far less dramatic.

As for the education profile of the part-time workers, we have observed a clear increase of share of tertiary, general secondary and lower secondary education. It concerned both genders, although in the case of women, the average education level is higher and changes are stronger. In the same time, particularly the share of persons with nothing but primary education seriously declined: from 45.1% in 1992 to 36.2% in 2003 in the case the men and from 43.0% in 1992 to 28.7% in 2003 for women.

The incidence of fixed-term contracts

Changes in the classification of standard and non-standard work which were introduced in 2001, make it impossible for us to estimate the scale of employment for these types of work (fixed-term work) in the whole transition period\(^4\).

However, during the period 1992 – 2000 and later, fixed-term employments have been

\(^4\) Until the 4th quarter of 2000, standard workers were defined as persons who had contracts with unlimited duration (of work), or who worked for at least one year. Fixed-term workers were persons who had a job for no longer than 12 months. Since 2001, standard workers work with unlimited contracts, while fixed-term workers were given limited jobs.
considerably growing. In the first of the mentioned periods, the number of workers employed on a temporary basis grew among women by 134.3%, and among men by 91.4%. In the second period it increased by 53.1% and 42.4%, respectively (GUS 2002). These dynamics resulted in the growth of the share of this form of employment for women from 2.2% in 1992 to 5.3% in 2000, and from 13% in 2001 to 21% in 2002 (GUS 2003). Similar changes can be observed in the male population. One of the reasons of the fast development of temporary employment is probably the employers’ interest for the reduction of labour costs, which are lower for fixed-term workers than for standard ones. The reasons for such an abrupt increase in the fixed-term employment after 2000 are not clear. It is not easy to decide, whether economic recession or legislative changes were more important. However, the unfavourable business cycle phase seems to have been crucial. Changes in legislation were almost insignificant (actually employers were only for one year allowed to conclude three consecutive temporary contracts with a worker, not two, as it was earlier and as it is now, after 1st May 2004). Concerning the age profile, the popularity of temporary contracts among young people is particularly significant15. While in 2003, in general 19.5% of the working population was employed on the basis of fixed-term contracts, the share among persons aged 24 or less attained 57%. It may indicate that the majority of persons entering the labour market for the first time are offered a temporary contract. At the same time, the share of persons who declare a lack of possibility of finding a job with unlimited contract as the reason for fixed-term employment is lower among young people than in other age groups (about 46% versus about 50% in prime age categories) (see figure 7 and 8).

15 Further data on fixed-term contracts comes from the author’s calculations based on the raw data from LFS 1998-2003.
Figure 7: Employment on the basis of fixed-term and not fixed-term contracts, by gender

Figure 8: Employment structure by age and type of the labour contract

Source: author’s calculations based on LFS raw data.

Regarding the education profile of fixed-term employment, both men and women employed on these contracts, are generally lower educated than the population working on the basis of the contracts for unlimited time. Here, the shares of tertiary education are lower than the shares of vocational and primary education, particularly among men (see figure 9).
Figure 9: **Education structure of employment by gender and type of labour contract**

![Bar chart showing education structure of employment by gender and type of labour contract]

Source: author’s calculations based on LFS raw data.

Fixed-term contracts were particularly popular in branches like household-related services (here, fixed-term contracts are more than three times more frequent than average), agriculture (34% versus 19.5% on average), construction (33.6%), hotels and restaurants (31.5%), fishing (26.7%), wholesale and retail trade and repairs (26.7%), manufacturing (22.9%), and, real estate and business services (23.1%). These are branches which require lower skills. This analysis of the occupation profile incidence of fixed-term contracts, confirms the observation that they are more frequent among low-skilled workers (see figure 10).
4. Assessment of changes in non-standard forms of employment

According to the present legislation, labour contracts may be concluded not only for an unlimited time, but also temporarily. In 1996, the Labour Code introduced a prohibition of concluding more than two consecutive fixed-term labour contracts with the same person, then for one year – 2003/2004 – the law allowed for concluding three contracts. This relates to executing given tasks as well as to the substitution of an absent employee (since 2002). Also the work on part-time basis has been allowed by legislation for the whole transformation period. However, while we observe a clear growth of dynamics of temporary contracts, there is no clear growth of employment on part-time basis.

We may suspect that weak dynamics of the employment on part-time basis is mainly a result – at least for the supply-side - of low real wages in Poland. This problem particularly concerns people with a low level of education and professional qualifications (which unfortunately constitutes the vast majority of the unemployed). Their incentives for searching employment, at least on part-time basis, have been weakened by a relatively generous social welfare system offering different forms of non-employment income. Therefore, part-time employment has not become an attractive economic activity for persons wanting to combine their professional career with other activities (for example family life). On the other hand,
there are barriers on the labour demand part as well, as part-time employment is a rather expensive form of employment from the employers’ point of view.

As for fixed-term contracts, they first of all offer an attractive form of considerable reduction of dismissal costs and labour costs in general to the employers. The legislative changes in the recent period resulted in some reduction of labour costs and bigger freedom in dismissals (particularly as for group dismissals), but implemented changes have not always been consistent and permanent. Still, relatively high indirect labour costs encourage employers to search for other ways of reduction of employment costs\textsuperscript{16}.

5. Summary and conclusions

A simple analysis of the job tenure changes and of the incidence of non-standard forms of employment shows, that in spite of legal changes introduced in Poland in recent years which aimed at an increase of labour market flexibility, actual flexibility is still quite low. In fact, longer job tenures in recent years may indicate a decline of labour market turnover and a decline of mobility. As for non-standard forms of employment, only fixed-term contracts became clearly more popular. Employment on part-time basis remains a marginal form of economic activity. It seems that relative low real wages, particularly for low-skilled persons, will hamper the development of this kind of employment.

Potential reasons for a poor labour market performance in Poland are still being discussed. One of the crucial questions in the debate is whether these poor results have mainly macroeconomic sources (low aggregate demand, technological progress) or some other sources. Among other reasons, relatively high social benefits and high minimum wages are usually indicated as being most important. This perspective has been reflected in recent changes in government policy, which has been restricted regarding access to different non-employment forms of income, particularly for the inactive population. A third stream of

\textsuperscript{16} Some regulations have been introduced that give employers more freedom, as far as worker’s duties are concerned. Therefore, it may favour more stable employment. First, a more liberal way of setting the work timetable has been introduced. The time of work was shortened: weekly working time decreased from 42 to 40 hours. Second, employers of small firms, employing 5 – 20 persons, have been dispensed from an obligation to set formalised regulations concerning remuneration. Third, employment contracts were formalised, since employers have been obliged to enclose written information on labour characteristics, worker’s duties, and her/his remuneration to the labour contract within 7 days from the undertaking of the job by the worker. This “rigidity” gives as well the possibility of resigning from work by employees who will not accept the employers’ propositions in case of change of employment conditions. This regulation facilitates changes in work organisation in enterprises. Furthermore, it facilitates dismissals of persons who do not want to adjust to these changes.
arguments refers to the problem of high labour costs and a high tax wedge reducing chances for employment particularly of low-skilled persons. These arguments are traditionally pronounced mainly by employers.

While changes in the External Labour Market are well documented and give a clear picture of labour market developments, we miss information and research on the Internal Labour Market in Poland. Scarce information available from firms in their regular reports to the Central Statistical Office (including, for instance, the organisation of working time) is not enough for regular research on the employers’ adjustment to changing economic conditions. Actually it seems that the only reliable source of data is the PLFS. The survey has been regularly carried out 4 times a year from 1992 onwards (with the exception for 1999 when only two surveys took place). It is a very comprehensive survey on the different aspects of economic activity, including non-standard forms of employment and reasons for choosing such forms of employment, etc. Nevertheless it does not include data on changes occurring inside firms.

**Data sources**

All data comes from Polish Labour Force Survey. This is carried out 4 times a year from May 1992. Therefore we have a time series of 14 years. The sample accounts for circa 20000 households and 50000 persons and is representative at the country level. Questions concerns economic activity and its different kinds (employment, unemployment or inactivity).

**References**


**Institutional Background**

Gabriela Grotkowska holds the chair of Macroeconomics and International Trade Theory in the Department of Economics at Warsaw University, focusing on labour markets.

**Main publications**


Marginalisation and exclusion – A comment on Gabriela Grotkowska

by Beata Blaszczyk

The changes in the Polish labour market show that unemployment became the permanent structural element in contemporary Poland. It is also a very severe social problem, which is, because of its scale, a threat to the normal functioning of society. Unemployment is also the main generator of the subsequent important social problem - poverty. In Poland, poverty is no longer a marginal phenomenon but it became the most serious social issue.

The main features of unemployment in Poland are:

− Rapid appearance and specific sense of novelty in the Polish society
− Dynamic rise of unemployment
− Relatively high speed of falling into poverty in comparison with Western societies.
− High geographic diversification of unemployment and poverty
− High diversification of its occupational and demographic structure (unemployment effects mainly adolescents, women and the poorly educated)
− Increase of the long-term unemployment rate
− Low spatial and occupational mobility
− Appearance of the phenomenon of inheriting the unemployment status

Long-term unemployment is a considerably dangerous problem because it affects not only the unemployed, but also their families and the entire society. A large group of people emerges in Poland who are permanently marginalised and deprived, and who are more and more excluded from the main stream of social life. This especially, is clearly visible in the areas where negative phenomena, which enhance unemployment and poverty, are very intensive: areas which were dominated by state-owned farms, factory-owned housing estates and towns dominated by an industrial monoculture.

Social consequences of unemployment and poverty

Long form unemployment locates the unemployed outside the existing social-professional structure, and causes a loss of participation in all, or at least in some, important layers of social life, which leads to social isolation and exclusion. A prolonged lack of work causes a decrease of income and an identity crisis of the unemployed, which leads to automatic isolation on the one hand, and labelling of the unemployed as unwilling and unfit to work on the other hand. Such labelling is especially visible among private employers, workers of
labour offices and welfare services. All these factors contribute to the social isolation of the unemployed and their state of exclusion in the unemployment circle.

The threat of labelling can trigger psychological mechanisms that push the unemployed into permanent marginalisation. Therefore, the issue of the social perception of the unemployed is an extremely important matter. In Poland we are beginning to deal with the phenomenon of labelling the unemployed as people who live at the expense of others (i.e. at the expense of the family, the welfare) and – to the some extent - as people who are beginning to get involved in criminal activities (dishonest way of earning money).

Interestingly, the rejection of the unemployed by society is the factor, which forces unemployed persons to infringe social norms which they had not intended to break at all. Unemployed persons, who can not find any new work in a lawful way and who cannot earn their living, sometimes take up “grey” jobs. Sometimes they are forced by employers, sometimes it is their own choice. Moreover, some of the unemployed are confining themselves to this kind of infringement of social norms, as others experience the descent into robbery, alcoholism, and drug addiction. And so, the mechanism of a self-fulfilling prophecy appears, pushing unemployed persons to the margin of social life.

Situations are very concerning, in which, in the view of many people, the unemployed are “people, who feel useless and unwanted” or as “scroungers”. In an unemployed person’s consciousness this leads to the appearance of the ideology of “being rejected by society”. The loss of a job implies the loss of contacts with colleagues and other persons in the work environment. Due to a reduced income, many of the unemployed can no longer afford to participate in money-requiring social activities and entertainment. Of course, unemployed persons usually meet a lot of new people and develop new contacts, but those contacts are usually contacts with other unemployed persons and clerks from social institutions. These new contacts are regarded as less worthy than the broken relationships with still working friends. New social contacts give no hope to escape from unemployment, because new, unemployed friends cannot offer any substantial help in finding a job.

All this leads to the change in the social position of an unemployed person. Through unemployment the persons loses a socially accepted position and role. The new position is generally felt to be inferior and of lower prestige.
As a result, a new subculture is beginning to emerge – the subculture of unemployment. The deprivation mechanism plays a special role in forming this new subculture, and here it can be especially applied to the deprivation of work. Empirical research shows that work is the value which is desired particularly by the unemployed both as an instrumental and intrinsic value. Deprivation of work in the situation of an extended period of unemployment can cause social discouragement and demoralisation. Furthermore it can lead, for example, in a considerable degree to the distortion of the value of work. If work is unattainable, people can develop some substitutions, which help to fill the gap of a lack of work. Welfare casual and “grey” work can function as such substitutes; informal groups can satisfy the need of affiliation.

Non-standard employment and segmentation

Tendencies to make the employment forms more flexible and more diversified are increasingly occurring on the job market. Standard forms of employment are more and more replaced by fixed-term contracts. In these new, flexible forms of employment, work is provided for a fixed-term, in limited working time, at night, during weekends, in overtime, at home, from the distance, on call, on request, temporarily, etc.

New forms of employment that lead to major changes in the organisation of work time undoubtedly have a lot of advantages, one of which is the decreasing cost of work. It is important to indicate that new forms of employment are causing an increase of mobility of labour. For many women, part-time jobs give the opportunity to reconcile job and family life. Non-standard jobs have two main features: on the one hand, they allow people who cannot work full-time to have a job, but on the other hand, it is more and more frequently the only kind of work available. With time, non-standard jobs will be more and more accepted, because of a decreasing employment and the ageing of society.

Utilisation of flexible forms of labour organisation can lead to the segmentation of the job market, and to the division of good and stable positions, which formerly allowed identification with the company. Today however, one aspect of segmentation is that it can create insecure positions with limited access to company training systems and promotion. These positions are often associated with lower payment and the income is often highly dependent on profitability. Areas of “good” and “bad” work positions are emerging and can easily be identified. Of course, it is natural that such positions exist in every economy. The
problems is, that segmentation occurs, when selective (discriminatory) practices of employers are leading to the restriction of access to "good" positions for certain groups of employees, because of their unchangeable features, like sex, age, social origin and the like\textsuperscript{17}.

At the end of the last century, R. Dahrendorf\textsuperscript{18} wrote that in modern societies a job is the "entrance ticket for [a] world of resources", thus it is a ticket to full rights for citizens. Work and more precisely permanent jobs in industrial societies are the institutions that do not only shape an individual's notion of identity, but also determine the range of participation of individuals in collective life. Therefore, a lack of permanent jobs, or its limited availability, leads to social marginalisation.

Promoting higher employability by means of changing the forms of employment can, on the one hand, lead to the decrease of the unemployment rate, but on the other hand, it can cause rise in the threat of job-loss and the uncertainty of finding a job at all. Effectively, the process of "work sharing" can to some degree become a factor of social exclusion, i.e. it can increase the group of the persons susceptible to unfavourable processes, causing them to drift slowly towards marginalisation and social exclusion.

Institutional Background

Institute of Social Economy is a subsidiary of Warsaw School of Economics in Poland. The Warsaw School of Economics is established in 1906, and one of the most prominent schools of business and economics in Europe. It is the oldest and largest economics university in Poland. The student population is approximately 13,000, which includes part-time, full-time undergraduates, graduates and PhD students. The institute is involved in many projects: Young workers and their employers in Eastern and Western European Countries; Unemployment and poverty issues in a light of surveys in selected local communities; Long-term care and welfare services for old people in Poland.

Main publications


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Chapter VI

The case of Russia - The Russian miracle: deep crises and high employment levels

by Tatiana Karabchuk

1. Introduction

The modern history of the Russian labour market dates back to 1992, when the period of system reforms began. The economic recession led at that time to a considerable decline of labour demand in the industries and, at the same time, the withdrawal of rigid state regulations of employment and payment allowed labour market actors to look for the most convenient forms of adaptation by themselves. In such a situation, economic theory forecasts a sharp increase of unemployment and the collapse of employment. Nevertheless, in the market economy the adaptation process is never accompanied by the fall of real wages, as the number of employed is sensitive enough to react to economic growth or decline.

The Russian labour market yet followed another scenario. The actors of the labour market solved these problems in a different way, as we will see later on. This caused considerable decline in real wages, and furthermore other consequences were administrative leaves19, widespread delayed wage payments and a reduction in working hours. In one of his articles the British economist Richard Layard (Layard/ Richter 1995) called this specific model “The Russian way of labour market adaptation”. The main idea of the model is that the quantity index of employment is hardly affected by the dynamics of production, coinciding with completely flexible wages. Non-standard employment partly provides this flexibility, allowing employers to manipulate the wages of their workers. If we look at figure 1 we will see that the employment level is characterised by a smooth line while the line of real wages fluctuates steadily.

Real wages shrank three times during 1992-1999, as the official data indicate. Besides the rapid development of non-standard employment, several factors provided flexibility of wages. Firstly, the lack of indexation during the periods of high inflation caused a great cut in real wages. Secondly, benefits and premiums formed the crucial part of wages. As employers had

19 Administrative leaves mean forced leaves which were very frequent among employers when their enterprises faced a difficult situation.
total control of these bonuses they took individualised decisions to whom they would give the prize. Thirdly, widespread delayed wage payments were means to decrease real wages.

Figure 1: The correspondence between employment, GDP, labour productivity and real wages in Russia between 1990-2000

As a result, the employment level remained high, compared to other transition countries, however hiding the high loss of wages for employees and the significant heterogeneity of jobs.

Above all, the development of the Russian labour market in the transition period can be divided into two stages: the first one (1992-1998) reflected the economic recession with a shrinking share of the employed, an increase of unemployment, shortages of working hours and a reduction of real wages. The second stage (1999-2003) was a period of post-transitional economic growth, as all indicators of the labour market began to improve.

According to official data at the beginning of the reforms, economic activity in Russia shrank by 9%: from 70% in 1992 to 61% in 1998. But in the following years the economy began to grow and, therefore, it increased to 66% in 2002. We should notice that all the indicators of the labour market in Russia are assessed for the population at the age of 15-72.
Another key indicator - the employment level - had a different dynamics. Firstly, it dropped from 97% to 83% and than it grew up to 90% again. Employment in the Russian economy appeared to be constant enough and did not react to the shocks of transition. Thus, the fall of employment did not correspond to the decline in GDP (see the figure 1). As a consequence, the deep gap between employment and GDP caused a great collapse in Russian labour productivity. In most Central European countries the case was different however: the level of employment decreased in the same proportions as the GDP.

Figure 2: **Total and registered unemployment in Russia 1992-2003**

As the economic growth led at this stage to the recovery of employment, around 5 million new jobs were created. The rise of GDP was insignificantly faster than the increase of employment; that is why labour productivity grew at high speed. So it can be assumed that one peculiarity of the Russian labour market is the stability fall of employment compared with a downright collapse in GDP.

This corresponds to a non-typical development of the Russian unemployment rate in comparison with other transition countries. Its trajectory was smooth and without any sudden changes. Being not higher than in any other transition country at first, the decrease of unemployment after 1998 developed even faster than in any of those (see figure 2).
Thus, regardless of whether actual unemployment is high or not, the fear of it can affect individual behaviour in the labour market. The logic here is simple: the more people are afraid of losing their jobs, the more they value their current jobs and the stronger is their propensity to pay for job stability. This, in its turn, means greater “wage flexibility” and a higher probability of relative (and sometimes even absolute) losses in remuneration. Wage flexibility here can show up in various forms, including partial or delayed wage payments. As we have speculated earlier, “the extremely strong fear of mass dislocation and soaring unemployment in Russia penetrated into public opinion and workers’ behaviour. This became an additional factor pushing people to accept a low-wage model, of which wage arrears were a hidden part” (Gimpelson 2001).

Structural changes in the Russian economy after 1992 caused a decrease in the share of traditional industries, where standard employment was specifically common. The fast growing service sector (today involving about 60% of all employed) needed a more flexible and mobile work force and, accordingly, the same demand for workers was provided by small industries that also played a substantial role in the economy. This need for flexibility of labour relations is caused by global competition and by the uncertainty and necessity of cost cuts.

At the stage of recession (1992-1998), non-standard forms, including also informal work, were some kind of airbag or substitute for a social security system, restraining the flow of workers into unemployment and non-activity. Additionally, it became the main source for the increasing number of the work force at the stage of economic growth (after 1998). Nowadays, tens of millions of people are engaged in non-standard employment in the Russian economy, with such forms of employment becoming the social norm. Nevertheless, this was not intended by legislation.

The growth of the variety of forms and conditions of employment is one of the core features of the Russian labour market. Though Russian labour legislation prescribes standard employment, which means full-time employment on the basis of permanent contracts, market reforms substantially diversified the forms of work. Formally, only some cases listed in the Labour Code allow deviations from the standard, but in a short period of time these deviations spread widely on the Russian labour market. Hence, the boundaries between legal and illegal forms of employment often became blurred.
The aim of this article is to highlight the growth of non-standard forms of employment in the special case of the Russian labour market. We will try to analyze the structure and dynamics of non-standard employment in Russia.

In the following discussion, all empirical findings are based on two data sources: 1) the Labour Force Survey (LFS) – a regular household survey that is conducted by the State Statistical Centre. It was held annually from 1992 and was carried out on a quarterly basis since 1997. The sample is representative for Russia and involves 300 - 500 thousands of interviewed individuals a year. 2) the National Household Survey of Welfare (NHSW) was conducted by the State Statistical Centre in 2003; with a number of 110 thousand individuals interviewed. It is also representative for the country.

2. Job tenure profiles

During the transition period, the Russian economy faced a constant intensive labour turnover. The coefficient of turnover (hirings plus separations) amounted to 43-55% (see table 1).

Table 1: Labour turnover in Russia, % of average annual employment (1992-2002)

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<td>Hirings</td>
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<td>Turnover (H+S)</td>
<td>51.4</td>
<td>46.2</td>
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The rates of labour turnover in Russia were much higher in comparison with any other Central European country (see table 2). Furthermore, the rate of hirings was similar to the rate of separations and the former were more frequent even in the period of crisis of 1996 to 1998.

Table 2: Labour turnover in Russia and some Central European countries, % of average annual employment

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<td>Hirings</td>
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<td>Turnover (H+S)</td>
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Therefore, it is interesting that there were much more quits than layoffs in the structure of separations. Employers rarely dismissed employees, consequently not more than 4-10% of all separations fell in this category. However, it is reasonable to suppose that most of the quits were forced by the management or by economic conditions in the enterprises.

In addition, the mobility of workers was rather high as employees changed their jobs frequently. However, high mobility could only be realised at local labour markets and, speaking of mobility, it is very difficult for employees to move from one region to another. Thus, inter-regional mobility is very low as the costs of changing the place of living are very high.

The results presented above underline the aspect of a growing flexibility of the Russian labour market. Another aspect in this discussion about labour market flexibility is employment stability. Here, job tenure is an important indicator. We define job tenure as the duration of employment with the current employer (the assessment is based on the question from the LFS questionnaire: “How many years have you been working for your current employer?”). Figure 3 shows the distribution of job tenure in Russia for the year 2003.

Figure 3: Job tenure in Russia, 2003 (% of all employed)

![Pie chart showing job tenure distribution in Russia, 2003]

Source: assessments on the National Household Survey of Welfare.

It can be stated that average job tenure was lower in Russia than in many other transition countries, for instance, even in 2003 it was around 7.8 years. For approximately 46% of all employed, work with the current employer amounted to less than 5 years and only 37% of employees stay at the same job for more than 10 years (see figure 3).
One of the peculiarities of the Russian Transitional Labour Market is the segmentation inside firms. During the period of reforms, the most qualified employees left their job due to low wages, delayed wage payments, etc., and firms, as a rule, did not pursue any policy for having highly skilled and productive workers stay. However, employers did not dismiss workers: the latter quit themselves to look for better opportunities. All this led to the destruction of the pre-transitional Internal Markets.

Those who stayed with the companies gained firm-specific skills which made them more powerful compared to those who had low-skilled jobs. So these specific skills were the source of a differentiation of wages. Besides, more powerful and skilled employees did not want to pass their knowledge on to newcomers, thus making them more vulnerable for dismissals.

There were a number of surveys of enterprises in the 1990s on the topic of Internal Labour Markets (ILM) and internal mobility. Unfortunately we do not have any research on Russia after the crisis of 1998. We know that the situation changed tremendously, but we know little about the present situation of the enterprises.

3. Non-standard forms of employment

Most of the people in Russia worked on the basis of standard contracts until the reforms of the 1990s, as other forms of employment had been forbidden. Although the deviation from standard employment was strictly limited, there had been those informally employed, self-employed, casually employed workers and so on. But the number of such workers was extremely small. During the transition period, non-standard forms of employment, as means of adjusting to changing labour market conditions, spread very fast. These mechanisms of adaptation were worked out by the market actors themselves and non-standard forms of employment increasingly became the norm in labour relations. In different years, about 10-15% of workers had second jobs, every seventh employee was engaged in the informal sector, delayed wage payments were common and around 40% of adults were substance farmers in summer seasons.

Here, we should stress that the transition of the market itself does not ruin standard employment. The majority of Russians still work 40 hours a week on the basis of permanent contracts. However, as the reforms caused structural changes in employment and firms pursue a policy of saving money, workers search for additional sources of income.
We define standard employment as full-time employment on the basis of a permanent contract in a firm. Additionally, in most developed countries this standard is regulated and strengthened by law. All other forms of employment that differ from standard are considered as non-standard.

The set of non-standard forms of employment includes:
- Part-time employment,
- Fixed-term employment,
- Casual employment,
- Freelance contracts,
- Employment with temporary work agencies,
- Secondary employment,
- Informal employment, which contains:
  - informal self-employment,
  - hirings by private persons,
  - subsistence farming,
  - family helpers,
  - unregistered employment in the institutional sector (‘formal’ sector).

It is obvious that some people are employed in more than one of these forms, as for instance, a considerable part of persons employed in the informal sector work part-time on a temporary basis. So these forms can be combined with each other which makes it extremely difficult to estimate them statistically.

How did non-standard work become so common? In Russia we can speak of a strongly rigid labour legislation but a lack of enforcement of existing rules for the development of non-standard employment. On the one hand, the Russian labour market is strictly regulated by laws which do not allow employers a free utilisation of non-standard forms of employment. On the other hand, the enforcement of formal rules is very weak which led to the existence of manifold informal practices through which employers can evade the law. These more flexible rules and forms are ways to adapt to external economic changes, smoothing out the fluctuation of employment.

At the same time such institutional structures caused many serious problems:
- the respect for the institution of the contract was undermined. Systematically breaking commitments became common;
- labour contracts became time-limited the more workers were engaged in fixed-term employment. This discouraged investments in specific human capital;
the problems of dismissing non-efficient and unqualified employees led under the conditions of low payment to a high turnover among the most qualified workers. When such workers resigned, taking specific knowledge and skills with them, it became difficult for firms to reproduce those skills.

- information transparency grew significantly on the labour market. While taking a job, a worker did not know beforehand whether he would get his wage and additional informal payment in time or not. This intensified the total level of uncertainty and raised costs of search;

- instability and a low level of payment made employees diversify their activity by taking second jobs. This damaged the workers’ specific skills, which are very important for economic growth;

- the creation of new jobs was increasingly slow as informal practices made employers break the law and keep old ineffective jobs.

To sum up, we can detect a slow creation of new jobs, a lack of investment in specific human capital and low labour productivity, when analysing informal flexibility of the Russian labour market.

What was the proportion of standard and non-standard employment in Russia? The dynamics of standard and non-standard employment is shown in figure 4. We can state that most of the workers (65-80%) in Russia were working in standard employment with formal full-time contracts on a long-term basis. As we can see, common forms of non-standard employment in Russia did not develop as far as in many other countries. However, employment in subsistence agriculture and farming became really widespread: 28% of adults were engaged in these activities annually.
If we consider standard employment on a formal contract basis, we will find out that standard employment strongly dominates in Russia. All sorts of registered non-standard employment will not exceed 25% of all employed at present. If we consider standard employment on the basis of actual conditions of employment, we will see that much more people work on non-standard basis. Accordingly, the actual situation deviates from terms of contracts: a reduction in working hours, involuntary part-time work and the practice of administrative leaves were very common.

Figure 5 reflects the dynamics of three forms of non-standard employment in Russia from 1992 to 2003. Fixed-term employment has a constant up-ward trend: it increased from 2.5% in the beginning of the period to 6.7% at the end of the period. Part-time employment had its peak in 1999, when it amounted to 6.4%. It began to decrease after 1999, but it started to recover in the last year. The biggest proportion of those workers is engaged in the informal sector. It rose in the course of the covered period, and in 1999 it was about 12% of all employed. But after that the share of informal employment experienced a slight decline.
There are several viewpoints that should be discussed for the evaluation of the development of non-standard work forms in Russia. In general all its advantages refer, on the one hand, to the fact that it provides flexibility on the labour market, whereas on the other hand, all its disadvantages refer to the fact that it makes workers more vulnerable. This duality was reflected in the literature where one part of the researchers focus on social costs that come from non-standard employment, and other scholars put emphasis on its importance as a factor of the employees' and employers' adaptation to persistent changes in social and economic life.

Flexibility means new opportunities for employers to curtail labour costs and to raise competitive power in short and medium-terms. Keeping current jobs and creating new ones was the result. Simultaneously, excessive flexibility of labour relations leads to a growing share of workers with short tenure. This, in its turn undermines the investment in specific human capital and frustrates the motivation to work, which can lead to a drop in production and a loss of competitiveness in the long run.

For an employee, labour market flexibility is not related to social security and promotion prospects or higher pay. However, at the same time it maintains the employment level by reducing the risk of unemployment and improving the chances for being hired. Such non-
standard employment is often one of the most effective ways to re-enter into employment from formerly being out of work.

It is reasonable to distinguish between core and periphery of employment as the development of these two segments was rather different. The core of employment includes those workers of large and medium-sized enterprises where most of the formal employment is situated. The workers of small enterprises and the self-employed, refer to the periphery of employment. Here the use of non-standard contracts and informal employment is extremely popular.

The core of employment shrank dramatically during the whole period while the periphery of employment has been increasing from 1992 onwards. It is interesting that the employment growth after the economic recovery was completely due to the increase of the periphery. We can conclude that non-standard employment not only restrained the unemployment and non-activity in the first stage, but it also was the main force for new job creation in the second stage of economic reforms in Russia.

4. Summary and conclusions

To sum up, we can characterise the Russian labour market as a unique phenomenon of adaptation to the post-socialist reforms. The reduction of employment was small and the growth of unemployment was not as enormous as in many other transition countries. The wages were very flexible and sensitive to any economic changes, leading to a sharp decline of real wages. Therefore, labour force turnover was considerably high during the covered period and job tenure was low. Finally the share of non-standard labour activities increased to high levels.

In the 1990s, non-standard employment was a way to adapt to new economic conditions: for employers it was a way to decrease labour costs it was a way out of possible unemployment for employees. The most widespread forms of non-standard employment in Russia were subsistence farming (up to 28% of all adults) and informal employment (around 12% of all employed).
Data sources

1) The Labour Force Survey (LFS) – a regular household survey that is conducted by the State Statistical Centre. It was held annually from 1992 and was carried out on a quarterly basis since 1997. The sample is representative for Russia and involves 300 - 500 thousands of interrogated individuals a year. The questionnaire includes such issues as employment, second employment, informal employment and unemployment.

2) The National Household Survey of Welfare (NHSW) was conducted once by the State Statistical Centre in 2003; with a number of 110 thousand individuals interrogated. It is also representative for the country. The respondents are asked questions concerning their employment, health, social security and some others.

References

Institutional Background

The CLMS is a research centre at the Higher School of Economics. It was founded in 2001 as a joint initiative of a team of Russian researchers and John Earle (Upjohn Institute and CEU) and Hartmut Lehmann (IZA and University of Bologna). The CLMS focuses on labour market developments in transition economies. Issues of particular interest are: employment and unemployment; labour mobility; political economy of labour market reforms; non-standard employment (part-time, fixed-term, informal, casual, self-employment)

Main Publications:

Concepts and Empirical Findings

Northern and Southern Europe
Chapter VII

The case of UK - Emulating the US model?
by Leo McCann

1. Introduction

The UK is probably the closest European economy to the low regulation, US-style or ‘Anglo-Saxon’ model. Labour markets are flexible and lightly regulated. Employment protection is weak. The UK scores just 0.9 in Rubery and Grimshaw’s index of overall strictness, compared with 0.7 in the US and 3.4 in Italy (Rubery/ Grimshaw 2003: 166). Protection for part-time and non-standard workers in particular is extremely weak. However much of the media and lobby groups such as the Confederation of British Industry (CBI) continue to demand a ‘reduction of red tape’ despite the UK’s low regulation climate, and push for further ‘flexibility’ in order to supposedly ‘compete in the global marketplace for high skills’.

2. Controversies

The British economy has fared well in relation to its major European competitors. GDP for 2003 was 1.8 trillion US dollars, and growth has remained fairly stable at around 2.2 per cent annually. Official unemployment (measured as those actively seeking work) stands at around 1.3 million people, about 4.2 per cent of the labour force. However, there is some strong evidence that this success has been won at the expense of long working hours and poor labour protection for all staff, workers and managers.

The long-term shift of the industrial profile from manufacturing to services has continued apace. Approximately 110,000 jobs disappear from the manufacturing sector annually. Downward trends on labour union membership and collective bargaining coverage are also showing no signs of changing. However, despite the increasing flexibilisation of UK employment, quantitative measures, such as average job tenure, remain fairly stable (Doogan 2001). On the other hand, there is some very strong qualitative evidence of changed working practices within jobs (see below).
3. Working hours, labour protection, stability and security

Working hours in the UK show some (limited) macro evidence of increase (Green 2001), and UK labour productivity remains fairly poor in relation to Japan, USA and most of the Eurozone. Many of Britain’s firms voted to opt out of the EU Working Time Directive, and its employees work on average 1720 annual hours - the longest in Western Europe, and just 60 hours less than Japan. Trade union responses to work intensification have been rather muted. Firms have introduced their own (voluntary) ‘work-life balance’ policies, but they tend to avoid establishing real ‘family friendly’ policies that allow workers to work flexibly and better balance their work and family responsibilities.

UK firms increasingly acquire their staff and skill capacity through External Labour Markets (ELM). In the more recent past large firms (particularly public sector organisations or nationalised heavy industries such as coal and steel) relied heavily on Internal Labour Markets (ILM). Over time, these firms have been privatised and subjected to increasing international competitive pressures, involving numerous changes of ownership, (usually via mergers and acquisitions). Corporate governance in the UK mirrors the United States’ strong ‘market for corporate control’ (O’Sullivan 2000), and therefore the focus of top management on maintaining and growing the share price is fundamentally important. This has meant sacrificing many of the traditions of Internal Labour Markets and long-term employment security (Marchington et al 2004). It has also led to the introduction of more individualised bonus systems and more extensive performance-related pay (Beynon et al 2002).

However, as there is little macro-level evidence of major transformations that one might expect to see, average employment tenure rates have remained extremely stable over the last fifteen years, contradicting the popular view of continual change and radically reduced employment security (Doogan 2001). On the contrary, if research is carried out at the level of individual firms, then it is very common to find that staff believe that they are becoming increasingly mobile, and feel that the employer's loyalty to staff has declined sharply (Worrall/ Cooper 2001). The phrase ‘there are no more jobs for life anymore’ is extremely widespread.
4. Low pay and falling trade union influence

Blair’s New Labour government, elected in May 1997 introduced a number of labour market reforms, including the National Minimum Wage, which became law in 1998. This offers some limited improvements in income for the UK’s lowest paid workers. The current rates are as follows:

- £4.85 per hour adult (over 22) rate
- £4.10 per hour ‘development’ rate (age 18-21)
- £3.00 per hour school leavers rate (age 16-17)

UK trade union figures show a fairly pessimistic picture. Union density is now just 32.1 per cent of the workforce, 39 per cent of staff are covered by collective bargaining agreements. Both percentages are declining historically (Rubery/ Grimshaw 2003: 161). Labour unions are increasingly turning to ‘partnership agreements’ with managements, and to mergers into so-called ‘super-unions’, the largest of which, the financial services union Amicus and the public sector union Unison, have over 1 million members. Partnership agreements generally mean that unions lose their traditional weapons of strikes and walkouts. In return they gain the ability to consult and debate with management in a much more communicative and prolonged manner. It remains to be seen after all whether this amounts to a renewal of the UK labour movement.

However, such broad, macro figures tell us little about the nature of workplace change and the impact of labour market restructuring on work tasks, productivity, careers, and other qualitative issues such as increased stress and working hours. My research interests currently focus on a project entitled ‘Middle Management and New Organisation Forms’. This is a 3-year qualitative investigation of middle managers in the UK, USA, and Japan, examining hours of work, range of tasks, employment security, career paths, and promotion prospects of middle managers in 10 case study organisation employing over 3000 staff. I have linked some of these findings to the ‘varieties of capitalism’ debate; are companies’ employment policies converging around an Anglo-Saxon model? What of the Japanese business system? Does it have a future?

Quantitative surveys were also sent to the 1,000 largest firms by employee size in the UK, US and Japan. These surveys, which are currently in progress, focus on middle management and
restructuring employment. The eventual output of this research will be a book to be published in 2006 with Cambridge University Press, written with colleagues John Hassard (Manchester) and Jonathan Morris (Cardiff).

5. International ‘convergence’ or ‘divergence’?

So far the research results on middle management have generally confirmed the ‘pessimistic’ view on Japanese, US and UK middle managers. They show:
- Increased working hours for mid-level managers (60 per week common)
- Widened span of control
- Increased responsibility
- A much more competitive environment for promotion
- More individualised pay systems
- Widespread use of early retirement to reduce headcount
- Major reductions of managerial layers and corporate divisions (further reducing the number of managerial positions to be promoted into, fundamentally challenging the traditional ILM system)

On the other hand, many managers also spoke of greater empowerment, less authoritarianism, and more interesting job roles. This is, also in keeping with the concept of the ‘blurring of organisational boundaries’ (Marchington et al. 2004), an issue very common in UK public sector in particular. It can be very difficult for workers and managers to understand their own position in relation to management in a situation where there are multiple owners and multiple stakeholders in organisations.

6. Summary and Conclusions

The cross-national findings of this study amount to a degree of ‘convergence’ in everyday life effects for managerial workers, but these do not amount to much change in terms of the underlying business systems, which retain numerous national institutional features.

In terms of future research I am particularly interested in linking the qualitative experiences with broader political-economic features of UK (and other) economies, and labour market statistics. This may allow a deeper empirical discussion of the ‘varieties of capitalism’ (e.g.
Hall/ Soskice 2001; Whitley 1999) debates. At present this very theoretical literature tends to be overly descriptive as opposed to explanatory. We do not know, for example, whether a country can move out of these ‘varieties’ categorisations? For example, when (if ever) does Poland cease to be a ‘post-socialist society’? Furthermore, deeper research into the nature of work under flexible labour market arrangements is needed if we are to fully understand what such an era means for employees and managers. An international comparative element is particularly essential. We urgently need to investigate what the move towards more flexible labour markets means for debates about convergent or divergent versions of national capitalism.

Data Sources:
- Workplace Employee Relations Survey 1998. (In progress again since 2004)
- Partners: Department of Trade and Industry (DTI), Economic and Social Research Council (ESRC), Advisory, Conciliation and Arbitration Service (Acas), Policy Studies Institute
- Labour Force Survey (Office of National Statistics)
- Numerous other smaller surveys:
  - e.g. 2002 Workplace Practices survey. (2,000 telephone interviews across UK workplaces)
  - ‘Quality of Working Life’ Survey (Worrall/ Cooper 2001)

References


For previous publications based on WERS data, see National Institute of Economic and Social Research webpages: www.niesr.ac.uk/niesr/wers98/
Institutional Background

The Manchester Business School has an international reputation for top-rated teaching and research. The Human Resource Management, Employment Relations and Law group provides memberships of editorial boards and international advisory boards of several refereed journals, and will take over editorship of the HRMJ next year. Members of the group are variously Chief Moderator, Standards for the CIPD; ACAS arbitrator; advisor to largest German trade union; Chair of Employment Tribunals; Coordinator of the gender and equality expert group for DG Employment in the European Commission; and Co-ordinator of the HRM study group of the International Industrial Relations Association. The group also operates a British Council Higher education link with Fudan University, China. The group brings together scholars with strong international reputations for research in the areas of inter-organisational relations and employment; comparative employment systems; comparative industrial relations.

Main publications


For details on areas of research see these webpages below:
http://www.mbs.ac.uk/research/subject-areas/human-resource.htm
http://www.mbs.ac.uk/research/subject-areas/organisational-studies.htm
1. Introduction

This paper focuses on the theoretical debates and empirical trends of the dynamics of Internal and External Labour Markets (ILM/ELM) in Spain. According to the objectives of the international workshop “The transformation of Internal and External Labour Markets in Eastern and Western Europe (Jena, 4th and 5th December, 2004 - The Jena-Halle Research Centre SFB 580), its aim is to facilitate an international comparison of labour markets on the basis of the authors’ interpretation of the Spanish state of the arts. We therefore revert to official statistics as well as research conducted by the Sociological Research Group of Everyday Life and Work (QUIT) at the Autonomous University of Barcelona.

2. Theoretical controversies on Internal and External Labour Markets in Spain

The Spanish academic reality concerning the analysis of the ILM/ELM dynamics reflects the world-wide controversy between both orthodox-neoclassical and heterodox-economical and sociological-theoretical approaches. The neoclassical approach mainly defends models of perfect competition in markets as well as human capital and insider/outside models. From this point of view, the Spanish labour market is considered as a clear exponent of “eurosclerosis”, characterised by wage-related institutional rigidities and supply-related problems in information, mobility, training and skills (see, for instance, Dolado/ García-Serrano y Jimeno 2002). The heterodox opponents, on the other side, focus particularly on institutionalistic and materialistic theories of labour market segmentation. Here, the basic role of labour market demand and political regulation processes is emphasised. In this framework the employment relationship itself is being assigned a structurally and increasingly subordinate and precarious position in the international division of work (see, i.e., Álvarez Aledo 1997 and Recio 1999).

This strong and ongoing controversy can partially explain why, in Spain, there have been relatively few new theoretical contributions and explanations which combine the most recent neo-classical and heterodox approaches. This relates especially to the transaction cost
approach and to the linking of institutionalistic and materialistic theories in labour segmentation analysis\textsuperscript{20}.

However, since the mid-1990s there has been a growing interest and research on Internal and External Labour Markets (ILM/ELM) within the framework of these new approaches. The background for this new wave of research has been an increasing social and political interest in labour market issues related to employer strategies, new models of production, new forms of industrial relations and political regulation as well as labour precariousness. Nevertheless, the academic and social debates on middle-range approaches and normative references, imported from other countries (e.g. the flexibility debate), have been more important than those both on general labour market theories and on the interpretation of the singular Spanish case. Therefore, the focus was on externalisation and flexibility at firm level, discussing Atkinson’s flexible enterprise, flexible specialisation or lean production models (Lope/ Gibert and Ortiz de Villacian 2002; Martín Artiles 1999).

From our point of view, it is necessary to underline the relevance of critical approaches to the theories of a dualistic labour market segmentation created from neo-institutionalist and neo-materialist theses. Particularly, middle-range theories are needed, which include the following features:

- Focus on micro/social action rather than on macro/structural variables and mechanisms.
- Mix of company internal and external axes to understand ILMs/ELMs.
- Approaches less delimited and strict than the classical institutionalist and materialist theories.
- Analytics of labour market segments in terms of fragmentation, including intra- and inter-firm as well as sectorial mobility.
- Key role of flexibility strategies at firm-level within different production models that entail specific labour cost strategies

\textsuperscript{20} For instance, books like Marsden (1999) and Rubery and Wilkinson (1995) are scarcely quoted in Spanish literature, albeit the first one rather by neo-classical economists. On the other hand, the debate on transitional labour markets and especially the analysis of ILM/ELM dynamics are also scarcely developed in Spain.
3. General empirical trends in the Spanish labour market

In recent years, the Spanish labour market has been affected by strong changes in a short period of time. A general trend towards increased employment precariousness can be observed. This is indicated by the following developments: a) the existence of widely expansive and recessive processes of creation and destruction of employment; b) a very high rate of unemployment, the highest of the EU-15-countries, with strong cyclical labour turnover (see table 1); c) a higher than EU-15 polarisation of employment conditions and re-employment opportunities.; d) a relatively new and higher than EU-15 level of occupational segregation by gender, age and ethnical affiliation; e) a remarkable duality between standard and non-standard employment (table 1), with a high weight of short-term contracts with an extremely short tenure (under 6 months) (table 3), relatively low but notably involuntary part-time work (table 1), remarkable high proportion of quasi self-employment and freelance employment (over 17% of self-employment in employment population); high informal employment (over 20% of the employment population), bad working conditions (for instance, the high number of accidents at work) and a high weight of the working poor in contrast to EU-15-countries.

Table 1: Actives, employees and rates of activity, unemployment, temporariness and part-time work. Spain 1978-2003\(^{21}\)

<table>
<thead>
<tr>
<th>Year</th>
<th>Actives*</th>
<th>Employees*</th>
<th>Activity</th>
<th>Unemployment</th>
<th>Temporariness</th>
<th>Part-time work</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978</td>
<td>12922.20</td>
<td>11180.20</td>
<td>51.01</td>
<td>7.8</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1986</td>
<td>13781.20</td>
<td>10820.40</td>
<td>49.27</td>
<td>21.5</td>
<td>17.0</td>
<td>-</td>
</tr>
<tr>
<td>1990</td>
<td>15019.90</td>
<td>12587.80</td>
<td>50.96</td>
<td>12.7</td>
<td>30.3</td>
<td>4.2</td>
</tr>
<tr>
<td>1994</td>
<td>15468.30</td>
<td>11730.10</td>
<td>50.95</td>
<td>21.2</td>
<td>33.8</td>
<td>6.4</td>
</tr>
<tr>
<td>1998</td>
<td>16360.60</td>
<td>13325.10</td>
<td>52.22</td>
<td>14.1</td>
<td>33.4</td>
<td>7.6</td>
</tr>
<tr>
<td>2000</td>
<td>18071.10</td>
<td>15642.70</td>
<td>53.97</td>
<td>13.4</td>
<td>32.3</td>
<td>7.8</td>
</tr>
<tr>
<td>2003</td>
<td>18898.10</td>
<td>16862.00</td>
<td>55.39</td>
<td>11.2</td>
<td>31.2</td>
<td>8.1</td>
</tr>
</tbody>
</table>

* Thousands


\(^{21}\) The category *temporariness* refers in this table to employers with fixed-term employment and employers with temporary work agency employment.
The most important indicator to understand the Spanish ILM/ELM dynamics is the historically remarkable weight of short job tenures, compared to EU-15 countries, which are realised through fixed-term contracts and temporary work agency employment (see tables 2 and 3).

Table 2: Distribution rates of employment by class of job tenure. The most-populated EU (15) countries 1991, 1995, 1998 and 2003

<table>
<thead>
<tr>
<th></th>
<th>Under 1 year</th>
<th></th>
<th></th>
<th></th>
<th>10 years and more</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>15.7</td>
<td>15.0</td>
<td>14.3</td>
<td>16.4</td>
<td>41.4</td>
<td>42.2</td>
<td>45.0</td>
<td>44.0</td>
</tr>
<tr>
<td>Germany</td>
<td>12.8</td>
<td>16.1</td>
<td>14.3</td>
<td>15.2</td>
<td>41.2</td>
<td>35.4</td>
<td>38.3</td>
<td>40.8</td>
</tr>
<tr>
<td>Italy</td>
<td>-</td>
<td>8.5</td>
<td>9.9</td>
<td>11.1</td>
<td>-</td>
<td>45.6</td>
<td>49.2</td>
<td>49.9</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>18.6</td>
<td>19.6</td>
<td>19.9</td>
<td>19.9</td>
<td>28.9</td>
<td>26.7</td>
<td>32.3</td>
<td>32.7</td>
</tr>
<tr>
<td>Spain</td>
<td>23.9</td>
<td>35.5</td>
<td>28.4</td>
<td>20.5</td>
<td>39.7</td>
<td>34.2</td>
<td>39.8</td>
<td>38.5</td>
</tr>
</tbody>
</table>


Table 3: Distribution rates of employment by tenure. The most-populated EU (15) countries 1995

<table>
<thead>
<tr>
<th></th>
<th>Under 6 months</th>
<th>6 months and under 1 year</th>
<th>1 and under 2 years</th>
<th>2 and under 5 years</th>
<th>Under 5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>10.1</td>
<td>4.9</td>
<td>8.0</td>
<td>17.7</td>
<td>40.6</td>
</tr>
<tr>
<td>Germany</td>
<td>7.9</td>
<td>8.2</td>
<td>9.4</td>
<td>22.0</td>
<td>47.5</td>
</tr>
<tr>
<td>Italy</td>
<td>4.5</td>
<td>4.0</td>
<td>7.0</td>
<td>18.1</td>
<td>33.6</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>10.5</td>
<td>9.1</td>
<td>10.7</td>
<td>19.5</td>
<td>49.8</td>
</tr>
<tr>
<td>Spain</td>
<td>27.3</td>
<td>8.2</td>
<td>4.9</td>
<td>11.1</td>
<td>51.4</td>
</tr>
</tbody>
</table>


In the following three sections, in order to come towards a causal analysis of the Spanish labour market dynamics, we will split up the analysis of the general trends into developments on the demand side and the supply side. Furthermore, we will take political regulation into consideration.
4. Demand profile

The Spanish labour demand is characterised by the following features:

- The prevalence of production models with a high weight of numerical flexibility and low labour cost strategies. Temporary contracts have been a key mechanism to face critical ups and downs in economic activity (see table 4, 5 and 6). In accordance with classical segmentation theory, there has been positive feedback between these production models and human resource strategies. Likewise, these flexibility strategies entail in many times costs and perverse effects from an employer’s point of view, but it does not seem to be critical, especially with subcontracting (see table 7 and 8).

- A high presence of small and middle-sized employers (SMEs), intensive in manpower, secondary in the international division of production; a strong service sector in an economic framework strongly based on tourism, construction and oligopolistic public services, and a predominance of multinational companies with products of low technological content (see table 5 and 6).

- The centrality of human resource policies with polarising effects in labour and employment conditions, based on both rationalised and opportunistic human resource management models and on individualisation of industrial relations (see table 5).

In addition, the Spanish labour market is strongly differentiated in territorial terms due to the concentration of the more dynamic and unionised firms, sectors and inhabitants in the metropolitan areas of Barcelona, Bilbao, Madrid and Valencia.
Table 4: Employees according to sector and permanent or temporary type of contract rates. Spain 1998 (3rd semester)\textsuperscript{22}

<table>
<thead>
<tr>
<th>Sector</th>
<th>Permanent</th>
<th>Temporary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extractive industries</td>
<td>73.1</td>
<td>26.9</td>
</tr>
<tr>
<td>Manufacturing industries</td>
<td>70.7</td>
<td>29.3</td>
</tr>
<tr>
<td>Energy</td>
<td>87.6</td>
<td>12.4</td>
</tr>
<tr>
<td>Construction</td>
<td>29.8</td>
<td>60.2</td>
</tr>
<tr>
<td>Trade and repairs</td>
<td>67.7</td>
<td>32.3</td>
</tr>
<tr>
<td>Hotel</td>
<td>50.0</td>
<td>50.0</td>
</tr>
<tr>
<td>Transport, store and communication</td>
<td>72.2</td>
<td>27.8</td>
</tr>
<tr>
<td>Finance</td>
<td>92.1</td>
<td>7.9</td>
</tr>
<tr>
<td>Real estate agencies and consulting</td>
<td>51.7</td>
<td>48.3</td>
</tr>
<tr>
<td>Education</td>
<td>64.9</td>
<td>35.1</td>
</tr>
<tr>
<td>Health and social services</td>
<td>70.6</td>
<td>29.4</td>
</tr>
<tr>
<td>Personal services</td>
<td>63.8</td>
<td>36.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>62.4</strong></td>
<td><strong>37.6</strong></td>
</tr>
</tbody>
</table>


Table 5: Employees according to staff size and permanent and temporary type of contracts rates. Spain 1998 (3rd semester)\textsuperscript{23}

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1-10</td>
<td>58.8</td>
<td>41.2</td>
<td>56.9</td>
<td>43.1</td>
<td>60.7</td>
<td>39.3</td>
<td>72.2</td>
<td>27.8</td>
<td>61.8</td>
<td>38.2</td>
<td></td>
</tr>
<tr>
<td>11-50</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>51-250</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>251 and more</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: MTAS: Labour Current Survey (ECL). Spanish Labour and Social Affairs Ministry

\textsuperscript{22} Permanent type of contract refers to the employees with open-ended contract; temporary type of contract: the sum of employees with fixed-term and employees with temporary agency contract.

\textsuperscript{23} Permanent type of contract: employees with open-ended contract; temporary type of contract: the sum of employees with fixed-term and employees with temporary agency contract.
Table 6: Ratio of incidence of average job tenure for each sector to average tenure for all sectors. The most populated EU-15-countries 1999

<table>
<thead>
<tr>
<th>Sector</th>
<th>Manufacturing</th>
<th>Electricity, gas and water supply</th>
<th>Construction</th>
<th>Producer services</th>
<th>Distribution Services</th>
<th>Personal Services</th>
<th>Social Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>1.09</td>
<td>1.44</td>
<td>0.90</td>
<td>0.87</td>
<td>0.92</td>
<td>0.63</td>
<td>1.12</td>
</tr>
<tr>
<td>Germany</td>
<td>1.11</td>
<td>1.38</td>
<td>0.83</td>
<td>0.88</td>
<td>0.94</td>
<td>0.69</td>
<td>1.08</td>
</tr>
<tr>
<td>Italy</td>
<td>0.93</td>
<td>1.28</td>
<td>0.85</td>
<td>0.93</td>
<td>1.01</td>
<td>0.76</td>
<td>1.16</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1.11</td>
<td>1.46</td>
<td>1.15</td>
<td>0.85</td>
<td>0.87</td>
<td>0.68</td>
<td>1.12</td>
</tr>
<tr>
<td>Spain</td>
<td>1.08</td>
<td>1.48</td>
<td>0.62</td>
<td>0.91</td>
<td>0.97</td>
<td>0.70</td>
<td>1.23</td>
</tr>
</tbody>
</table>


Table 7: Distribution and trends of non-standard employment in medium- and big-sized companies. Catalonia 1999

<table>
<thead>
<tr>
<th>Category</th>
<th>Distribution</th>
<th>Trends</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Increases</td>
<td>Decreases</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>-----------</td>
<td>-----------</td>
</tr>
<tr>
<td>Temporary fixed-term employment</td>
<td>47.0</td>
<td>31.0</td>
</tr>
<tr>
<td>Other temporary employees</td>
<td>38.0</td>
<td>24.0</td>
</tr>
<tr>
<td>Agency employees</td>
<td>54.0</td>
<td></td>
</tr>
<tr>
<td>Part-time employees</td>
<td>41.0</td>
<td>26.0</td>
</tr>
<tr>
<td>Self-employment</td>
<td>17.0</td>
<td>26.0</td>
</tr>
<tr>
<td>Subcontracting</td>
<td>73.5</td>
<td>47.0</td>
</tr>
</tbody>
</table>

Source: Loclevconc Project Survey (2000)

24 Due to the terminology of Loclevconc survey (see footnote 6), it is necessary to indicate: a) the category Temporary fixed-term employees refers to workers who hold the Spanish contract “Contrato por obra y servicios”, the most usual contract form of fixed-term employees from an international perspective: temporary contract exclusively linked to the peculiarities of an activity and/or with different temporal specification; b) Other Temporary contract refers to the other kinds of temporary labour contracts (for instance, to foster young labour insertion, training, etc.), which have been historically notably present in Spain, and c) Agency employees refers to people who work in a temporary work agency. Percentages of tendencies have been calculated from the total of workplaces using each of the different new forms of employment.

25 These data have been collected from the survey of European Comission TSER Project Local Level Concertation. The possible role of social partners and local-level institutions in regulating the new forms of employment and work (Loclevconc), co-ordinated by the professor Ida Regalia (University of Milan – IRES Lombardia). It was a survey of exploratory kind, addressed to 1,600 workplaces of a sample universe of companies with more than 20 workers within the province of Barcelona during the period from June to October 1999, stratified according to the true percentage of workplaces in accordance to staff size and activity sector and conducted via the post (Lope, Gibert and Ortiz de Villacian, 1999).
Table 8: Economic effects of non-standard employment in medium- and big-sized companies. Catalonia 1999

<table>
<thead>
<tr>
<th></th>
<th>Subcontracting</th>
<th>Part-time work</th>
<th>Temporary work</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Costs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decreased</td>
<td>50.7</td>
<td>55.6</td>
<td>23.6</td>
</tr>
<tr>
<td>Stayed the same</td>
<td>34.3</td>
<td>28.6</td>
<td>39.2</td>
</tr>
<tr>
<td>Increased</td>
<td>14.9</td>
<td>14.3</td>
<td>37.3</td>
</tr>
<tr>
<td><strong>Co-ordination</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improved</td>
<td>45.7</td>
<td>45.8</td>
<td>20.8</td>
</tr>
<tr>
<td>Stayed the same</td>
<td>37.1</td>
<td>37.5</td>
<td>54.2</td>
</tr>
<tr>
<td>More difficult</td>
<td>17.1</td>
<td>16.7</td>
<td>25.0</td>
</tr>
<tr>
<td><strong>Quality</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>More reliable</td>
<td>22.4</td>
<td>19.3</td>
<td>8.5</td>
</tr>
<tr>
<td>Stayed the same</td>
<td>58.7</td>
<td>66.7</td>
<td>83.0</td>
</tr>
<tr>
<td>Less reliable</td>
<td>17.9</td>
<td>14.0</td>
<td>8.5</td>
</tr>
</tbody>
</table>


5. Supply profile

The developments on the supply side can be summarised as follows:

- Markedly growing, but lower historically than EU-15, qualitative (training and motivation) and quantitative supply of labour.
- Growing, yet especially lower than EU-15, supply of female labour force, with very high rates of unemployment and precarious labour, subject to a strong occupational segregation and marked predominance of the male breadwinner model.
- High supply of young labour force cohorts with high rate of unemployment, precarious work and under-employment, growing during the last years and affecting also the elderly.
- Lower than EU-15, but more growing, supply of non-EU immigrants in a context of the lowest birth rates in the world, strongly exposed to occupational segregation with complementarity as well as competition with the workers of Spanish nationality.

Temporary work: the sum of temporary fixed-term employees, other temporary employees and agency employees of the Table 7. Percentages of tendencies have been calculated from the total of workplaces using each of the different new forms of employment.
These trends have been developing faster and in a particular context from an EU-15 comparison. Spain, in this last sense, shows: a) the importance of the traditional family, extensive and with prevalence of the male breadwinner model: much more than public administrations, political parties, unions and civil society associations, the family is especially important to understand economic and labour individual values and resources in Spain; b) a smaller weight and labour market incidence of vocational training, c) an attractive geographical and political position to migration fluxes from Maghreb, Sub-Saharan Africa and South America, and d) a notably division between social classes and age groups in terms of income and consumption preferences: Spain is one of the most polarised EU-15 societies in social classes terms and there are very different socio-economic biographies between elderly, many of them grown up in traditional rural societies, and young people, most of them born in a modern urban social environment.

6. Institutional regulation

The following developments in collective bargaining and political regulation are especially significant to the dynamics of Internal and External Labour Markets:

- In the 1980s and early 1990s, we could observe a political process of deregulation to develop more flexibility in employment. This affected particularly the liberalisation of temporary contracts. On the other hand, there has been less coverage of unemployment benefits (furthermore, these are low). This caused an intensified pressure for accepting precarious and temporary employment, particularly for women and young people. Since the early 90s, social policy has followed workfare philosophy as well as active employment policies with a decentralisation and regionalisation approach.

- Since the mid-90s, and breaking with the trends of the 80s, there have been attempts to promote sectorial and functional micro- and meso-concertation processes to improve employment and a flexibilisation of collective bargaining. The result has been a certain, but not very strong, softening of the trend towards growing temporariness. This change is also explained partially by the presence of new open-ended and part-time contracts, which are more flexible from an employer’s point of view and also due to the growing law restrictions in hiring agency employees. In fact, it seems that these normative changes are more important than the hypothetical new orientations of collective bargaining in dealing with temporariness. On the other hand, active labour market policies still remain to be inefficient in terms of employability and especially
with regard to the impact of vocational training reforms for employees and unemployed persons.

Collective bargaining shows a heterogenous reality. There is a strong weight of sectorial and local collective agreements on traditional issues (wage and working time) with wide coverage and low efficiency, protagonised by the stronger Spanish employers’ association and unions. There are also clear trends concerning the atomisation of collective bargaining, fostering individual actors and areas of micro regulation dealing with both traditional issues and introducing some new ones (flexitime, work organisation, skills, training, etc.). In general terms, strong and innovative industrial relations negotiations are developed almost exclusively in large companies towards collective agreements at this level with an important role of human resource departments and enterprise councils with shop stewards of the stronger Spanish unions. In general terms, Spain shows traits of the Latin pluralist industrial relations model. Relatively similar to France and Italy, there is a mix structure between liberal pluralist and neocorporatist models, with a key role of the state and a markedly weakness of few centralised and politicised employer organisations and unions. The strong political influence of social actors contrasts with a relatively low presence and influence at firm and workplace level, especially in SMEs, and with low rates of membership. It has been argued, because of this background, that the lack of union power in Spain largely explains the spread of precarious employment.

Finally, it is important to mention the flexicurity regulation criterion. Despite its growing political and academic popularity as a new paradigm in industrial relations, it is scarcely followed in Spanish collective bargaining: this results in a predominance of collective agreements with external numerical and wage flexibility provisions at company level by employer initiative, there is little support for qualitative flexibility strategies and public policies. The exceptions to this general picture are confined to some large companies and territories.

7. Summary and conclusions

Summarising the above stated empirical data from a structural segmentationistic approach, the following general processes during the last 30 years can be pointed out. First of all, it is markedly decreasing the historically strong “dependent primary labour market segment” with Internal Labour Markets for unskilled and semi-skilled workers, with strong union
representation, in medium and big companies, organised in search of labour cooperation and control rather than for investment in specific skills. This decline is, firstly, due to both the restructuring and rationalisation of the classical industrial sector since the economical crises of the 1970s and 1980s and the integration into the EU. The second reason is the notably growing strategy from several multinational and national companies of delocalisation to less industrialised countries in recent years, in a national context in which markedly outsourcing and subcontracting strategies reducing the core staff of medium and big companies have been developed. According to one of the most interesting studies on labour market segmentation, based on principal components factor analysis of statistically representative employee data from Barcelona Metropolitan Survey (López Roldán and others 1998), in the mid-1990s in the Metropolitan Area of Barcelona, which is one of the most industrial and economically dynamic zones in Spain, over 31% of the employee population show these characteristics and they can be defined as the “Dependent Primary Segment”-employees of this labour market. 27

Secondly and complementary to the decline of Spanish classical primary labour market positions and trajectories, the weight of secondary segments is increasing. This affects in a large scale occupationally growing activity sectors and segregated groups by gender, ethnicity and age. This segment is in general scarcely regulated by union action, vocational training mechanisms and professional associations. An important number of these jobs are located in the informal economy and affect people who are regularly exposed to unemployment and poverty situations. Social exclusion is observed especially with people without strong family networks. According to López Roldán and others (1998), it represents, in the mid-1990s in the Metropolitan Area of Barcelona, over 31% of the working population.

Thirdly, the dependent primary segment, according to classical segmentationistic conceptualisation, has been increasing during these last 30 years in the public sector and in large enterprises of more advanced sectors in added value terms. They are regulated especially by Internal Labour Markets for skilled jobs with occupational careers strongly conditioned by university and continuous training and professional associations. This sector still displays a wide presence of unions and collective bargaining. Due to the historical Spanish production-, service- and finance-structure and the relatively contemporary development of welfare state services, the profile of employment conditions and social

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27 The terms dependent/independent/intermediate refer to the hierarchy of skills and status; the term primary and secondary to the stability of employment in line with the classical dual approach.
perception of these jobs is quite similar: they are understood as representative of the new middle class and they have been relevant to insert women with university and intermediate studies, especially thanks to the public sector jobs.

Fourthly, a growth of independent primary profile labour segments with skilled and semi-skilled jobs of more advanced industrial sectors in added value terms and enterprise-related services can be observed. Occupational careers are strongly conditioned by university, professional and continuous training as well as professional associations. This sector is regulated by commodified and individualised employment and industrial relations with low union presence. Despite its growth, in quantitative terms, it is a labour segment much less important than the other primary ones. Likewise, professional markets are less developed in Spain, compared to the situation of the other most industrialised countries. Besides, a lot of these jobs are more similar to quasi self-employment than to freelance employment.

In general terms, López Roldán and others (1998) define these last two big groups of employees (from both dependent and independent primary segments quoted in the last two paragraphs) as the members of the “independent primary segment”. That is why they tend to show similar employment and social conditions and biographies. They represented 15% of the working population of the Metropolitan Area of Barcelona in the mid-1990s.

Fifthly and finally, Spain shows, from an international comparison, the relevance of primary segments in SMEs in industry and in the service sector. These are structured by Internal Labour Markets created especially to search cooperation and skills of workers with organisation abilities or/and specific knowledge in a paternalistic and scarcely rationalised industrial relations framework. Formally similar to Italian industrial districts, in some territories and sectors, these labour segments are also structured by specific social networks set up by public authorities, employers’ organisations and unions to create public goods for the labour market. However, according to many researches, none of these Spanish networks is similarly structured as those analyzed in the Third Italy by defenders of the flexible specialisation theory. In fact, these jobs and careers in Spain seem to be much less conditioned by vocational training and collective bargaining systems but much more for traditional company procedures and norms, being unilaterally fostered by employers managing semi-skilled or unskilled jobs. López Roldán and others (1998) consider them as
the representatives of the “intermediate primary segment” and estimate this weight in the Metropolitan Area of Barcelona of over 23% of the working population.

If we change the perspective from labour market segments to employment systems and policies at firm level, the state of the art can be summarised by the hypothesis of a strong polarisation between jobs (Prieto 1989; Martín Artiles/ Lope 1993; Martín Artiles 1999; QUIT, 1993, 1997 and 2000; Recio 1999). That is why the jobs associated to internal promotion or External Markets tend to a certain duality on the workplace terrain. There is a notable opposition between a minority of skilled collectives subject to a reskilling process and regulated by training, direct participation, corporative integration and individual incentives, and a majority of skilled, semi-skilled or un-skilled ones who are inserted in an deskilling process in a labour framework conditioned by classical labour force employer policies.

The first ones, tending to internal promotion, scarce turnover and high stability, are especially occupied by managers, technical, administrative and middle managers who carry out post-taylorist and ICT-related tasks. Despite their presence in all of the firms, they are concentrated in big, finance, public administration (health and education), high added-value industrial multinationals (e.g. in chemical and engineering industries) and core companies in commodity value chains. In terms of immediate rewards, their wages are high and tend to grow, but they experience long working hours and a strong work intensity. According to the terminology of López and others (1998), these jobs and labour areas tend to be occupied by groups of the “Independent Primary Segment”, some of the “Intermediate Primary Segment” and few of the “Dependent Primary Segment”.

The second ones, the “losers”, according to several authors, with jobs and labour areas open to external hiring, turnover and high mobility, are normally women, ethnic minorities and young production workers. These are especially from strong Spanish industrial sectors, personal services, hotel and construction, low added-value production processes of multinational companies, being inserted in peripheral commodity value chains. These jobs and employees are normally subject to automatisation, staff reduction and neo-taylorist employer strategies. Their wages are low, combined with long and flexible working hours and significant intensification of work. Following the definitions of López, Roldán and others (1998), these employment patterns at firm level are part of the “Secondary Segment”,

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“Dependent Primary Segment”, as well as some job areas as being part of the “Intermediate Primary Segment”.

In an intermediate level of job hierarchies, we find middle managers and semi-skilled production workers with specific skills (especially ICT-related machine maintaining/repairing and crafty knowledge) who are subject to both external and internal employers’ strategies. In Spain, there are essentially male intermediate age and young workers for SMEs jobs and areas, most of them part of middle or/and low added-value production processes, as well as from the construction sector and real estate agencies and consulting. Middle managers in production and commercial departments as well as semi-skilled craft workers with intermediate/medium wage level and “long hours culture” tend to be employed in Internal Markets in big companies. These structures explain markedly the work situations and trajectories of some “Intermediate Primary Segment” groups and some “Independent Primary Segment” ones, according to the terminology from the study quoted above (López Roldán and others, 1998).

The arguments about the relation between job structures at firm level and labour market segments can be seen as a series of hypotheses connecting the micro and macro level of labour market analysis. However, at this point we do not have detailed analyses of employment patterns at firm level and related typologies that could explain the general labour market dynamics on the macro level. There is a growing importance of the new international ILM/ELM segmentationistic approaches in Spanish labour market analysis. However, our summary of the state of the art shows that there is much structuralistic and quantitative research on the macro level and quite focused on classical segmentationistic questions and concepts, but too little case studies at firm level (especially in public and personal as well as in ICT- and company-related service sectors), on qualitative aspects of labour supply and on new collective action, industrial relations and regulation mechanisms. This is indicated by the fact that, for example, the book of Rubery and Wilkinson (1995) is relatively widely referenced in analytical terms, but its highlighted kind of research methods and subjects have not been carried out extensively in Spain. Research on Internal and External Labour Markets is progressively important in Spain, but there are deficits in the treatment of some basic aspects. In fact, the theoretical and methodological questions and answers of The Jena-Halle Centre project on ILM/ELM dynamics in Germany (see chapter III, X) are very useful to
understand the Spanish ILM/ ELM and, in general terms, the labour market’s general
dynamics, but they are still scarcely developed in Spain.

Data sources

- Labour statistics and detailed information:
- “Active population survey” from “Statistics National Institute”. In Spanish, “Encuesta de Población Activa (EPA) – Instituto Nacional de Estadística”. Web page: www.ine.es
- European Industrial Relations Observatory from European Foundation of Improvement of Living and Working Conditions. Web page: www.eiro.eurofound.eu.it (Our research group co-ordinates the Spanish contributions)

References

Grup d’Estudis Sociològics sobre la Vida Cuotidiana i el Treball (1993): El impacto económico, social y laboral de los Juegos Olímpicos de 1992 en Barcelona ciudad y su entorno, Barcelona, UAB.
Institutional background

The Research Group of Everyday Life and Work (QUIT) was founded during the academic year of 1988-89, QUIT was formally established on 22nd March 1991, within the Sociology
Department of the Autonomous University of Barcelona. The group arose from the initiative of professors, teachers, fellowship holders and doctoral candidates from this department.

The fundamental objective of the group focuses on the development and the consolidation of a line of research that relates the fields of work to everyday life. Thus, the group favours those types of studies that tend to interrelate fields and areas rather than segmenting them. Three axes of interest stand out:

- Research demands a more precise theoretical debate as a fundamental objective. In this sense, the group enforces seminars and meetings with other researchers and scholars.
- There is a extensive agreement on methodology and research techniques which the group wishes to maintain as one of their essential features. This agreement gives importance to make hypotheses that interrelate labour market, domestic work and everyday life; it highlights the importance of the context in which these phenomena are inscribed, and it focuses on strategies of the social protagonists in order to understand the phenomena we study. In terms of data analysis, without underrating the quantitative, they insist on a more qualitative approach: observation, participation, interviews and biographical, social network and content analysis, etc….

Main Publications

Grup d'Estudis Sociològics sobre la Vida Cuotidiana i el Treball (1993): El impacto económico, social y laboral de los Juegos Olímpicos de 1992 en Barcelona ciudad y su entorno, Barcelona, UAB.
Grup d'Estudis Sociològics sobre la Vida Quotidiana i el Treball (1997): Economía, trabajo y empresa, Madrid, Consejo Económico y Social
Martín Artiles, A./ Miguélez, F./ Pastor, I. (1997): “Katalonien: die soziale regulierung der humanressourcen auf einem dualistischen markt”. In Regini, M./ Reinhard, B. (Hg.): Best practice oder funktionale äquivalenz?, München und Mering, Rainer Hampp Verlag. (Subject: Labour market in Catalonia)
Collective Agreements on Employment and Competitiveness, European Foundation: Luxemburg, Office for Official Publications of European Communities.
Concepts and Empirical Findings

East and West Germany
Chapter IX
The Case of West Germany – Flexibility and continuity in the German labour market
by Marcel Erlinghagen

1. Introduction

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

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

28 It is a well-known empirical fact that the number of people “producing” services rather than goods have strongly increased during the last decades. But even if goods are still produced, the share of service activities within the related production processes has increased, too (“tertiarisation”) (Freeman/Schettkat 2000; Anxo/Storrie 2001). Therefore, the period between the 1970s and the 1990s could be characterised as the period of transition from ‘old’ industrial to ‘new’ service economy/society.
least because of the path dependencies of institutions, the German labour market is still highly regulated, compared to liberal market economies (Fuchs/Schettkat 2000). Thus, it is an important question, how employers and employees in Germany have adapted to fundamental changes that have occurred since the 1970s.

2. Controversies

If we take a closer look at the German debate on labour market flexibility, we can discover two different main streams of argumentation. On the one hand there is a stream I would like to call the “Sociological Stream”. Within this Sociological Stream some authors especially emphasise that the old division between ‘core’ and ‘peripheral’ workforces (Doeringer/Piore 1971; Sengenberger 1987) seems to dissolve into general employment instability (increasing “external flexibility”). These commentators start from the assumption of a long-established but now strengthening general trend towards a ‘high-velocity labour market’ that is increasingly shaping the ‘future of work’. In such a turbulent labour market, individual employment histories will, over time, become increasingly unpredictable and chaotic compared with those of the past. The consequence of this process is said to level out employment opportunities and risks. Uncertainties that in industrial societies were unevenly distributed along clearly defined socio-economic demarcation lines are expected to become increasingly generalised. Today this ‘de-structuring process’ is hypothesised to be at a very advanced stage (see for example Beck 1986, 1997; Mutz et al. 1995; Bonß 1999).29

On the other hand there is a stream I would like to call the “Economic Stream”. In total opposition to the Sociological Stream the supporters of the Economic Stream claim that during the last decades, labour market flexibility in Germany has sharply decreased rather than increased. Those commentators characterise the German labour market as extensively sclerotic and inflexible. This inflexibility is mainly due to the traditional institutional framework of the German labour market with its strong regulations (for example dismissal protection or collective bargaining arrangements). The main argument brought forward in support of this hypothesised sclerosis is that since the 1970s the unemployment rate in Germany has steadily increased and has not been reduced remarkably by economic upturns (“hysteresis”) (see for example Berthold 2001).

29 For the UK or the USA similar arguments can be found in Rifkin (1995), Castells (1996), Sennett (1998) or Bauman (1998).
3. The baneful alliance of the Sociological and the Economic Stream

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

(1) External flexibility of firms plays a prominent role in both streams. The Sociological Stream argues that, regardless of still existing labour market regulations, most labour market participants are already facing higher employment risks, for example through the decrease of job security and job stability. Among other things the Economic Stream demands for a far-reaching reduction of dismissal protections to increase external flexibility of firms as a very important step to re-vitalise the German labour market.

(2) Both streams are ignoring any theoretical trade off between firms’ internal and external solutions to the allocation of labour. While the Sociological Stream takes the ultra-flexible employee already for real, the Economic Stream adopts the ultra-flexible employee as an ideal still to be achieved.

(3) The Sociological as well as the Economic Stream support a far-reaching de-regulation of labour market institutions. On the one hand, the Sociological Stream at least implicitly supports de-regulation, because the traditional institutional framework is suggested to be totally inappropriate to come up to the needs of post-modern labour market participants. On the other hand, the Economic Stream supports de-regulation because the traditional institutional framework is said to be the principal cause of unsatisfactory labour market performance. Hence, from both streams a very similar political rhetoric is derived. This is an important reason why there is such a politically heterogeneous but practically powerful alliance between conservative and left-wing parties, employer associations and some trade unions, religious organisations, the media and the ‘public opinion’ in Germany with regard to the “future of work”: Despite certain conflicts about social policy details, there seems to be some kind of public agreement that it is inevitable to reform the old-fashioned labour market and employment institutions in Germany fundamentally by de-regulation.

4. The West German Labour Market: Neither sclerotic nor de-structured

Standard and Non-Standard Employment

There is no doubt that, similar to other industrialised countries, the share of so called “non-standard employment” has grown in Germany during the last decades. Figure 1 shows the distribution of different labour contract types for Germany in 2003. We can see that although
non-standard employment has prospered, two third of employees have still permanent ("standard") labour contracts (including civil servants). At the same time marginal part-time employment (monthly earnings up to 400 €) and fixed-term contracts have reached a share of 12, respectively 11 per cent.

**Figure 1: Distribution of employment contracts by type, Germany 2003**

![Pie chart showing distribution of employment contracts]

Source: Statistisches Bundesamt (own calculations).

In addition, we have to keep in mind that the German labour market is still strongly influenced by German unification. As a result, the West German labour market is still functioning in a totally different way than the East German labour market. For example, fixed-term contracts play a much more important role in the East than in the West (c.f. Grotheer/ Struck 2004; Brussig/ Erlinghagen 2004). Therefore, we will now concentrate on the West German development only (see section 5 below and the paper of Ketzmerick in this booklet).

**Job stability in West Germany**

There are different methods to measure job stability. The most common measure is to calculate Average Actual Tenure (AAT). For Germany the AAT can be calculated by using data from the German Socio-Economic Panel (GSOEP; see SOEP Group 2001).\(^{30}\) Figure 2 shows the evolution of Average Actual Tenure for standard employed West-German men and

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\(^{30}\) The German Socio-Economic Panel (GSOEP) is funded by the Federal Government and run by the German Institute for Economic Research (DIW) Panel Group in Berlin. The GSOEP began in 1984 in West Germany with a sample of 13,919 respondents in 5,921 households. The panel was extended to East Germany in 1990 just before reunification. Respondents have been recontacted every year since 1984 with everyone in the household aged 16 and over interviewed separately. The main topics covered by the GSOEP are individual and household income, employment and unemployment, education and job training, housing and health. The GSOEP information about individual tenure used in this paper is provided as generated values, originally referring to the initial interview when the panel member is asked once to report the duration of his or her current job retrospectively. During the following panel waves, the tenure information is updated yearly by combining the initial retrospective data with new information on employment in the preceding year.
women from 1984 up to 2000 (civil servants excluded). It is shown that during the whole investigation period, men had higher average tenure than women. While in 2000 male average tenure was approximately 11 years, female average tenure reached only 8.5 years.

Figure 2: Gender-specific Average Actual Tenure in years (standard employed, West Germany 1984-2000)

Between 1984 and 1993 average male tenure increased from 10.8 to 11.6 years and then dropped, in the following period up to 1996, down to 10.3 years. Until 1999, the AAT remained relatively stagnant before it clearly increased in the end of the investigation period to approximately 11 years again. Female AAT showed a very similar pattern, but on a considerably lower level: Until 1993, average female tenure clearly increased from 8 to 8.7 years. Although female AAT shrinks in 1997 to 7.8 years, it should be noted that this decrease was stronger for men during this period. After 1997 the average female tenure was growing again and at the end of the investigation period it reached a new peak at 8.5 years.

The result shows that contrary to the perception within the Sociological Stream, job stability in West Germany has not generally decreased in the course of time. This finding is confirmed by other analyses that have used different methods to measure job stability, for example by comparing the number of employers of different historical periods (Winkelmann/Zimmermann 1999) or by calculating survivor functions for different cohorts of newly started jobs (Erlinghagen/Knuth 2004).
However, even if there has been no decrease in job stability, external flexibility is not as low as the Economic Stream would like to make us believe. Thus, approximately 50 percent of newly started jobs are terminated within one year or less and a Labour-Turnover-Rate of about 25 to 30 percent means that, on average, each job in Germany is filled with a new employee every third year (Erlinghagen/ Knuth 2004). Additionally, even in international comparison the inflow into employment is relatively high (Holst/ Spieß 2004). Hence, it is totally misleading to describe Germany, either as a de-structured high-velocity labour market, or as a sclerotic labour market.

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

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

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

(1) The theory of labour market segmentation points out that firms can use several strategies to improve the flexibility of different segments of their staff (c. f. Doeringer/ Piore 1971; Sengenberger 1987). In areas where first of all unskilled employees are needed, it is likely that employers prefer a “hire and fire strategy” to adapt the allocation of labour to their
demands of production. In contrast to this kind of “external numerical flexibility”, employers should prefer an internal solution in areas where skilled employees with sector- or firm-specific qualifications are needed. But obviously there is a trade off between external and internal flexibility of labour allocation by firms. In firms’ perspective, an absolute flexible staff would be extensively inefficient. Why should a firm, for example, introduce long-term working time accounts if it is intended to dismiss the employees anyway. At least within certain staff segments, firms have to make a choice whether to improve flexibility primarily through external or through internal labour allocation strategies (Mayrhofer 1997). Especially in the German coordinated market economy, we can find that employers have strengthened their internal labour allocation strategies for example through flexible working time schemes or by increasing the functional flexibility of staff members (Schulze Buschhoff 2000; Bosch 2001). As a result, job stability has not decreased, although the flexibility of firms has increased.

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

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

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

(5) Although sociologists as well as economists talk about “labour market flexibility”, their theoretical concepts are largely underdeveloped. An institution like a market cannot be flexible as such. Only market actors can behave flexibly, and this depends on institutional options and constraints as well as on individual preferences. Therefore, labour market flexibility depends not only on the intentions of employers, but also on the simultaneously existing intentions of employees (and vice versa). Thus, job stability as an important indicator of labour market dynamics can only be understood as an outcome of an interactive market process (Erlinghagen 2004).
6. Final remarks: Labour Market Research in Germany almost 15 years after unification

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

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

Data Sources

The German Socio-Economic Panel (GSOEP) is funded by the Federal Government and run by the German Institute for Economic Research (DIW) Panel Group in Berlin. The GSOEP began in 1984 in West Germany with a sample of 13,919 respondents in 5,921 households. The panel was extended to East Germany in 1990 just before reunification. Respondents have been recontacted every year since 1984 with everyone in the household aged 16 and over interviewed separately. The main topics covered by the GSOEP are individual and household income, employment and unemployment, education and job training, housing and health.
References


Institutional Background

The Institute for Work and Technology (Institut Arbeit und Technik / IAT) as one part of the Science Centre NRW is an application focused R&D institute of the Federal State of North Rhine-Westphalia. It's task is to find and evaluate innovative solutions for the current structural changes. The main outcome of successful research should be new employment perspectives and a sustainable added value.

Main Publications

**Flexibility and discontinuities? – A comment on Marcel Erlinghagen**

by Michael Grotheer and Olaf Struck*

In his contribution Marcel Erlinghagen describes the German debate on labour market flexibility. Erlinghagen and Knuth made a contribution to job stability and its development in Western Germany in 2004. They stated that approximately 50% newly started jobs in 1991 and 1992 were terminated within one year. So they gave us a concrete indicator for an enormous extent of external flexibility in Germany. Methodically this also shows us what an average job tenure of about 10 years in Germany signifies if we are subsequently analysing longitudinal data. Moreover, they found out that based on episode data job stability has increased rather than decreased in time. As a result, they state that a neither sclerotic nor de-structured, but restructured German labour market exists. In the last section of his paper Erlinghagen discusses possible explanations for an increased job stability and reasons for the dominance of internal strategies of flexibility. He emphasises the importance of Internal Labour Markets as by the growing importance of soft or social skills in formally unskilled labour, the asymmetry of information between employee and employer and the arrangements of private household production. He concludes that labour market dynamics and flexibility can only be understood as an interactive market process between employers and employees within the background of an institutional framework.

Marcel Erlinghagen’s major message is twofold: we have to get away from cross sectional and use longitudinal data on employment spells. Secondly, if we do so, change over time is very small if not insignificant. In Germany he has been one of the few researchers in using new methodology in labour market analysis and he is also the first and best representative of the continuity theses with respect to employment stability and security.

Our findings support his thesis that German labour markets in the last 30 years had a large share of external mobility and that there was no structural change. We do, however, see quantitative change in the last 10 to 15 years:

- Average actual tenure has decreased slightly in West Germany, but to a higher degree in East Germany (see also chapter X in this booklet), especially since 1993.

*Michael Grotheer and Olaf Struck are members of the Interdisciplinary Research Group SFB 580. See appendix I, B2.
- Our findings support the proposition that survivor rates of newly begun employment relationships didn’t change until the beginning of the nineties. However, we have discovered a decrease of survivor rates in 1993 upwards in West and East Germany. This is a new result that has not been presented in this booklet or previous publications.

- We also see changes for specific employee groups since 1993. The stability of unskilled employees has decreased to a definite lower degree than the stability of high-skilled employees. At the same time there are better transition opportunities for high skilled employees.

- Also career entries of younger employees became more difficult in the nineties. Opportunities for a continuous participation at the labor market are decreasing. Along with that goes a higher risk of multiple unemployment episodes and less opportunities of secure transition in further life course.

The last point refers to a general problem of the average actual tenure method as well as survivor functions. Only changes will be observed, that refer to actually existing employment relationships at a certain point in time. But there are other changes taking place as the increasing disproportion of supply and demand that is expressed in increasing unemployment rates. Even if there were no changes in job stability, job security could and is decreasing in West and East Germany. As mentioned above our findings also support a thesis of growing job instability in 1993 upwards. This tendency is associated with an increasing proportion of non-standard contract forms. However besides descriptions, explanations have to be found for these trends.

- In which sectors do we have an increase of internal flexibility and does the decrease of job stability only refer to a higher proportion of non-standard contract forms?

- Is there only a higher turnover of labour at the periphery of firms while the core will be hold steady?

- Do options on inter-firm mobility which are necessarily generated on operational level change?

- Finally ecological effects have to be taken into account: e.g. the high degree of separations which can be explained by the birth and death of employers (establishments and shutdowns).
To localise areas of stability and of change, we need theories of Internal and External Labour Markets. Explanations can only be found by using complex models combining employers and employees data such as the LIAB of the „Institute for Employment Research at the Federal Employment Services“ in which employees data as well as enterprises data is merged. There are signs of change and discontinuities and many open questions. So we are looking forward to future findings and debates.
Even 15 years after German Unification, the East German labour market, in comparison with West Germany, is characterised by several particularities which suggest to further comment on Marcel Erlinghagen’s paper in this publication.

In his contribution, Erlinghagen distinguishes between two streams concerning the flexibility-debate on labour market policy in Germany. The Sociological Stream assumes an increasing flexibility in the External Labour Market and a generalisation of the formerly unevenly distributed employment risks, whereas the supporters of an Economic Stream argue against it: Flexibility did not increase but in fact decrease; the constantly growing unemployment rate since the 1970s was due to the German labour market’s extreme inflexibility. Both lines of argumentation share the fact that they are in favour of, even if stating different points of view, a reform of the “old-fashioned” German labour market and its institutions via deregulation. Before rejecting theoretical objections which concern conclusions that are too simple in his view, he empirically shows that neither job stability has decreased, nor that the German labour market has become inflexible. However, he refers to the fact that he only considers the situation in West Germany.

In addition to Marcel Erlinghagen’s contribution, this paper therefore deals with some fundamental empirical characteristics of the East German labour market. How does a comparison of the operating modes of the labour markets in East and West Germany account for the answer to the question, whether current problems of the labour market like mass unemployment can be solved by deregulation?

The most striking difference between the two German labour markets is the unemployment rate, which is in East Germany more than twice as high as in West Germany. In the wake of German Unification in 1990, during the restructuring of the former state-owned firms of the GDR, an enormous cut-back of jobs took place. This was accompanied by the emergence of mass unemployment and the expansion of public employment and training schemes (active labour market policy) to a so far not known degree. While the problems were at first

* Thomas Ketzmerick is member of the Interdisciplinary Research Group SFB 580. See appendix I, B1.
interpreted as adaptation problems which could be solved hopefully fast by the reorganisation of the GDR economy into a free-market economy, now, fifteen years after reunification, the differences between East and West Germany turn out not to have diminished but continuously increased instead. Thus it is argued that the East German development has taken a separate and independent path. In various areas there is no adjustment to West Germany as it was initially assumed, but a consolidation and persistence of differences can be found, which becomes particularly visible in terms of unemployment and labour turnover rates.

The average rate of registered unemployment amounted to 8.5% in West Germany and 18.4% in East Germany according to the Federal Employment Agency (BA) in the year 2004. Within the current German labour market policy debate, management and economists often claim a reduction of this problem number by higher flexibility of the labour market and its participants. Therefore they argue in favour of a facilitation of hirings and dismissals. By paying lower wages and reducing dismissal protection it would be easier for employers to fill job vacancies. Additionally, in their opinion, this would improve job opportunities for unemployed persons, contribute to job gains and help to reduce the high East German unemployment rate. Not only unionists are against these plans as it would weaken the rights of the employees. They argue it would predominantly be about cost minimisation and higher profits at the expense of job holders. Which evidence for or against these claims can be derived from the analysis of the mobility indices for East and West Germany? The comparison of the aggregated labour turnover (percentage of job changes of the overall labour force) in East and West Germany shows that overall mobility (hirings and separations) is much higher in East Germany. Here, the share of employed persons changing to another job or becoming unemployed amounts to 22.7%, compared to 17.8% in West Germany. Can we therefore conclude that the East German labour market participants have a higher “mobility” and that this results in a generally better functioning of the East German labour market? To answer this question, it is necessary to make a more differentiated observation.
Figure 1: **Labour Turnover Rate 2002 in West and East Germany (%) of stocks**

Source: BA-Beschäftigtenpanel 2004; hirings and separations as percentage of average employment.

Figure 1 shows a specific Labour Turnover Rate (LTR) in East and West Germany in the year 2002. This LTR measures the flow of workers between unemployment and employment and from one job to another without moves into and out of the labour market.

As mentioned before, the total labour turnover in East Germany is higher than in West Germany, but the composition is different. There are slightly more flows between regular jobs in the West, whereas in the East there is both more mobility between unemployment and regular jobs, and there are much more moves into and out of publicly subsidised jobs. The latter are nearly non-existent in West Germany. They offer fixed-term contracts for jobless persons which are terminated after a couple of months or years. So finally, most of these employees go back into unemployment afterwards.

More than half (61.2%) of the total labour turnover in West Germany consists of direct mobility between regular jobs, whereas in East Germany the highest share of mobility takes place between unemployment, publicly sponsored jobs and other status forms, while the share of direct moves only amounts to 39.6%. This makes a great difference, because only direct
moves between jobs can be seen as voluntary. Moves into unemployment and out of publicly sponsored jobs are without a doubt mostly involuntary.

Moreover, previous research (Ketzmerick 2002) has shown that there is not only a smaller amount of direct moves in the East, but also that a smaller number of workers experiences income gains compared to those in the West. The share of direct moves with losses or no change of income is higher. This is an important finding, as the mobility which leads to advancement of income gains can rather be seen as a voluntary one and likely caused by wage signals from other employers. On the other hand, moves that are accompanied by a loss of income are more frequently involuntary, if the workers for instance try to avoid unemployment. Accordingly, the following differences between East and West have to be noted down:

- **Fewer direct, voluntary job changes in East Germany**

  The highest share of the mobility in West Germany leads from one employment directly to the next one and is likely to happen voluntary. Whereas most of the changes in East Germany are associated with an interruption, they lead either into or out of unemployment or to job creation schemes. Here, most of the time it might be the case that we can talk of a forced or involuntary mobility.

- **Fewer direct changes with gains in income in East Germany**

  Direct changes are to a smaller degree more scarcely accompanied by income gains; thus, they serve to achieve other advantages, e.g. to avoid unemployment. Therefore, involuntary mobility is more frequent as in West Germany.

Hence, when speaking of non-forced “positive” mobility, the East-West-difference is even bigger than the percentage of direct changes (in figure 1) makes us think. This is also supported by the fact that the rate of quits in East Germany is below the level of West Germany since the mid-90s (Brussig/ Erlinghagen 2005: 5). Not only unemployed persons in East Germany have worse opportunities of re-employment, but also employees have fewer possibilities for job changes at their own request. Besides this low degree of voluntariness of mobility in the labour market in East Germany, there is another substantial difference to the West: The high share of publicly subsidised employment as a part of overall mobility. Most of all this concerns the high percentage of long-term unemployed persons. For them, mobility is
only associated with changes into job creation schemes. These fixed-term jobs normally do not lead to regular employment, but back into unemployment. Without doubt, voluntary changes are not predominant here.

The mechanisms of exclusion in the labour market in East Germany we have been describing do not apply to all of the employed persons to the same degree; they rather coincide with the emergence of the consolidation of disadvantaged groups. Here, we have a self-logic at the level of individual job careers. The type of mobility, which is more common in West than in East Germany, dealing with voluntary changes from job to job and more frequent income increases, has a positive effect on job careers and on the build-up and maintenance of human capital. Voluntary upward mobility with gains in income, increase of knowledge and prestige in West Germany is paralleled by precarious and often discontinuous job histories in East Germany with unemployment spells as negative signals for potential future employers. These histories are dominated by forced mobility and impend to lead to a downward-spiral of deskilling. They do not contribute to a build-up of a potential skilled workforce in East Germany, but instead they rather divide the labour market. A distinctive division is established that is marked on the one hand by a large part of the population, being excluded from employment or precariously employed, and on the other hand by a very stable employment segment. Job histories of the affected persons lead way back and often have their origin in the first years after reunification (see Lutz/ Grünert 1995: 20ff.; Ketzmerick 2005: 263).

A specifically problematic and disadvantaged group are adolescents. A not insignificant part of them faces problems of exclusion when entering the labour market. Accordingly, junior employees, after having finished their vocational training, either find no job at all or only fixed-term ones, or begin with interruptions. The experience of unemployment at the beginning of professional life considerably affects their future job biographies (Blossfeld 1989: 149) as the early-experienced disadvantages are hard to overcome. The problems of entering into the labour force in East Germany lead to a high migration of adolescents to the West, because of better opportunities of employment (Steiner 2004: 51).

It has been shown that more flexibility and mobility simply do not create a “better” labour market with fewer problems. At first sight, the East German labour market seems to be more flexible than the West German one, as there is higher mobility. However, it functions
differently altogether, as mobility has totally distinct characteristics and this has far-reaching consequences both for individuals and firms:

- When regarding the labour market as a mechanism to eliminate unemployment, it has to be noted that this does not function better in East Germany: Here employees are more willing to change into badly paid jobs within the region to escape unemployment. However, this did not decrease the high East German unemployment rates. A reduction of dismissal protection, to facilitate hiring decisions for firms, will not decrease the unemployment rate, as the problems are due to the low demand for labour and to mis-matching and devalued human capital respectively. The high proportion of the excluded persons, who experienced unemployment and job creation schemes, cannot be included in the regular labour market by a decrease in job security.

- When looking at the labour market as a mechanism to supply firms with skilled workers, it does not function very well likewise, as another future problem appears: In East Germany a high proportion of workers is for many years either excluded or situated in precarious job careers with many interruptions and affected by deskillling and negative experiences of mobility. A great number of adolescents, who never have been employed after vocational training, move away, as the demand for young skilled workers is too low. The demographic exchange in East German branches and qualification groups will increase in subsequent years. Replacement demand will grow because of increasing retirement. Then, firms have to rely more on external supply of labour. In this situation, an increasing shortage of skilled personnel could develop. Skilled workers will not be at hand sufficiently, as they have moved away or did not even start their careers; they are deskillled and not employable. Another reason might be that they are not willing to voluntarily change the employer as they do not want to lose a stable job.\(^{31}\)

In this way, and due to their consequences on individual careers, structural problems of today's labour market will be transformed into future problems not only for the firms but also for the employees. They develop their own dynamic and become self-perpetuating. This mortgage for the future can only be avoided, if a mobile and skilled potential of workers is

\(^{31}\) In the current situation of wide-spread job insecurity and low opportunities of re-employment, a strong fixation on stable employment (Behr 2000: 106) can be seen regarding East German employees, whereas income plays a marginal role in this respect. In a future situation of increasing shortage of skilled workers, it can be the fact that common negative experiences with mobility are an obstacle for triggering direct changes via wage signals for the allocation of vacant jobs. This might require new strategies of headhunting.
being established. It can be seen that the differences of East and West are not simply differences of the level of employment, unemployment and job creation schemes. In fact, also different operation modes are associated with these differences. Political claims for a deregulation of the labour market are partially realised in East Germany: the wage level is lower than in the West; mobility rates are higher. This goes along with a higher unemployment rate, however. Thus, it is doubtful that the problem of unemployment can be reduced by further flexibilisation measures.

The results of the empirical analysis of the comparison of East and West Germany at hand therefore support Marcel Erlinghagen's theoretical objections against undifferentiated claims for a deregulation of the labour market. In comparison, the East German labour market, which is said to be more flexible, does not function better at all. It even shows negative consequences on employment and the development of human capital and will create shortages of skilled workers in the future.

**Data Source**

The BA Employee Panel (BA-Beschäftigtenpanel) is a 2% sample from process produced quarterly data of the Labour Force statistics organised by the German Federal Labour Office (Bundesagentur für Arbeit). This data is based on the obligatory reports by German employers to the social insurance agencies. The employee panel is updated annually and in 2004 comprises 20 waves for the period from 1998 to 2002 each with more than 600,000 people all over Germany. Beside individual characteristics of the employees who were subject to social insurance contributions, there is information on the industry and the size of the company as well as on its personnel structure. Furthermore, unemployment and participation in public employment schemes are included.

**References**


Chapter X

The case of Eastern and Western Germany - Employment stability in Germany
by Michael Grotheer and Olaf Struck

1. Introduction: Re-unification as an exceptional historical event

In international comparison the German labour market has often been characterised by long-term employment relationships. The share of inter-firm mobility was below average and concentrated on a relatively short vocational initial phase/stage, according to DiPrete/McManus (1995) and Büchtemann/Schupp/Soloff (1993). Since the 80s an erosion of these standard patterns of dependent work is stated in Germany as well as an increasing heterogeneity of employment forms, which coincide with increasing unemployment. However, up to the present there are contrary opinions on the direction and range of employment development (chapter I, IX). The different basic opinions on the situation of the German labour market are based on a high number of individual findings on both socio- and economic-structural development and development on political and legal situation of the recent years. Most of the times, statements about developments only relate - also because of a lack of comparable data – to the West German labour market, however.

At the beginning of the 90s, German labour market policy is confronted with new challenges due to the “peaceful revolution” in the GDR. With the collapse of the GDR and the re-unification, a transformation from a socialistic planned economy to a social market economy was initiated with the economic and monetary union in July 1990. The deficits of the socialistic planned economy of the GDR became apparent during the transformation. The East German capital stock was antiquated; the overall economic productivity was correspondingly low also because of the overstaffing of firms. Now, the principle of profitability became the criteria of survival for East German firms. As a consequence, a wave of dismissals and shutdowns of firms occurred. Between 1990 and 1993, especially in the manufacturing industry dismissals and early retiring of 80% of the staff were not uncommon. Overall more than four million people, which is more than a third of the employed persons of East Germany, were made redundant during the process of change. Only relatively few persons were able to make the transfer to the expanding but weak service sector.

* Michael Grotheer and Olaf Struck are members of the Interdisciplinary Research Group SFB 580. See appendix I, B2.

32 See Grotheer/Struck 2003 for a summary of the different points of view as well as for further reading.
During the building up of a competitive social market economy, labour market policy became of essential importance, due to the rapid alteration of supply and demand, the increasing unemployment figures and the arrear of tertiarisation. After unification the West German instruments of labour market policy were transferred to East Germany. Primary concerns in the early situation of change were relieving the labour market by the instruments of labour market policy for example by early retirement bridging pensions or respectively via granting short-time working benefits. This early labour market policy, directed towards passive compensation, was followed after 1992 by a more active strategy aimed at future-oriented schemes like further education and reskilling, job-creating measures or wage subsidies. The transfer of the instruments of labour market policy to East Germany finally led to new positions on the periphery of the labour market. Thus, a further pluralisation of employment forms towards subsidised employment came about, while the employment system of the GDR was highly related to Internal Labour Markets and firm-bound employment relations. To what extent this pluralisation promotes insider-outsider tendencies in the East German labour market will be the topic of the next sections. The following empirical results will clarify that even after a decade of political unification there are still differences existing between the labour markets of Eastern and Western Germany.

2. Empirical findings on standard and non-standard employment

The results which are explained in the following sections were generated in context of an ongoing research project that deals with the development of employment stability and security. The emphasis will be placed on the still existing differences between East and West Germany regarding contract forms and duration of employment relationships.

33 Receivers of these bridging pensions relief the labour market because of the reduction of labour force potential. Bridging pensions will then cease to be paid when the beneficiary reaches the age at which he is entitled to full retirement.

34 Short-time working benefits were paid to compensate employees for the loss of earnings resulting from an unavoidable temporary reduction in working hours and to avoid dismissals during an economic gloom.

35 Further education and reskilling aimed at an increasing flexibility of the labour market force. By the reconstruction of the economic sectors towards the service sector there was a mismatch between acquired and required qualifications. Job creating measures aim at reducing the stock of unemployment by providing jobs in the public sector or via subsidies given to private sector employers. Also wage subsidies aim at reimbursing employers for all or a portion of the wages. Wage subsidies may be given to firms recruiting unemployed persons and usually take the form of direct contributions to salary costs or a reduction of employers’ social security contributions.

36 Project B2 of the SFB 580 at the University of Jena.
At first we will have a look at the development of contract forms (figure 1 and 2). It can be shown that the level of so-called “standard employment” of workers and salaried employees shrank by 8.7% in West Germany between 1991 and 2004 and still covered just under 50% of the employees in the year 2000. In East Germany occurs, concerning this matter, a development that is somewhat different. The higher shares of the so-called “standard employment”, which relate to GDR-times, were clearly reduced within this time span by 18%. However, they still amount to about 53% in 2004. This is caused especially by the smaller proportion of women in part-time work. Due to lower income and more difficult structural labour market conditions in comparison to West Germany employment preferences of women in East Germany aim more for standard employment instead of part-time work. Above all, these developments in East and West Germany can be interpreted as a trend of a convergence.

Beyond the so-called “standard employment relationships”, specifically the shares of fixed-term contracts (from 5.1% to 5.6%), temporary work agency employment (from 0.3% to 1%), part-time work (from 10.1% to 12.3%) and especially marginal part-time work (from 3.6% to 8.8%) increased between 1991 and 2004 in West Germany. Only the share of self-employed persons remained comparatively stable and amounted to approximately 12.2% in 2004.

Figure 1: Standard and non-standard employment in West Germany between 1991 and 2004 (in percent)
Differing structures can be recognised with respect to the so-called “non-standard” contract forms in East Germany. Here, we also have increasing shares of non-standard employment, however, they clearly behind the shares of West Germany remain concerning part-time work. Definite East-West differences exist between the shares of fixed-term employment, which are about as twice as high in East Germany. This difference is in two thirds the result of comparatively higher shares in fixed-term job creation schemes in East Germany. Moreover, these figures refer, in comparison to the West, to a differing employment practice. Against the background of the economical insecure situation disproportional many employees are recruited for a limited time, apart from fixed term job creation measures. Hereby the share of fixed-term employment relationships decreased comparatively moderate, from about 11% in 1991 to approx. 9%, whereas the share of employment in job creation schemes already decreased by approx. one third until the year 2000, compared to the boom in 1998, and decreased even more in the following years.

Figure 2: **Standard and non-standard employment in East Germany between 1991 and 2004 (in percent)**

Besides the moderate increase of forms of non-standard employment in both parts of the country, at first there remains a higher share of so-called standard employment relationships in the year 2004, but at the same time also a higher share of fixed-term employment can be recognised, with a convergence especially of the shares of standard work in East and West.
Lower shares of part-time employment are the result of a higher full-time employment participation of women which, apart from socio-economic reasons, is due to a historical formed work orientation of women in the GDR. Furthermore, it becomes obvious that 14 years after unification, apart from standard employment in the regular labour market, fixed-term subsidised employment of the so-called second labour market plays a bigger role in the East than in the West. If there are no possibilities of transition into/towards regular work for publicly sponsored employment groups after the termination of subsidised employment, we can speak of a hysteresis of the second labour market.

The specific opportunities of transition into secure employment will be the topic in the next but one section. At first we will talk about how to draw a more accurate picture of the duration of the employment relationships in East and West Germany as the so-called “non-standard” employment is not compellingly instable. The duration of part-time employment, for example, does not differ from the duration of so-called “standard” employment (Erlinghagen/ Knuth 2002: 37) and fixed-term employment in the form of an extended probationary period of job beginners can lead to unlimited contracts. At the same time, the high shares of standard employment relationships do not have to be compellingly permanent (Cramer 1986). Therefore, further perspectives need to be added to the analysis of employment stability and instability.

3. Empirical findings on job tenure

Viewing the job tenure in firms in East and West Germany with the help of the BiBB/IAB-survey of 1998/99 and 1991/92 against the background of the above mentioned issues, the following results can be shown (following statements relate firsthand to the description without tenured civil servants in table 1): The Average Actual Tenure in 1998/99 (measured in years) is definitely smaller in East Germany than in West Germany, in spite of higher shares of the so-called standard work. Here it can already be seen that the distribution of contractual relationships (higher shares of standard work in the East) cannot easily be translated into job tenure.

37 In 1989 the activity rate of women in the GDR amounted to 90.9%, in West Germany it only amounted to 58.6% (statistical yearbook of the FRG 1990 and 1991; Wiener 1997)

38 For description of the BiBB/IAB survey see appendix. Distortions concerning tenure caused by different age structures have been ruled out by controlling the age structure of both surveys. Moreover, we regard moderate periods of growth of the FRG’s economy at both points in time, so that a separate influence of a specific period of economic trend can be ruled out as well. See Grotheer/ Struck 2003 for the question of comparability regarding tenure in the surveys of 1991/92 and 1998/99.
In 1998/99 all shares of persons with a job tenure of more than 10 years are much lower in the East, whereas all shares of persons with a job tenure under 10 years are much higher. This still has been different in 1991/92: It is true that at this time the Average Actual Tenure in the East was still level with the West, but this has been caused by a strong polarisation of employees with short (up to 2 years: 28.8%) and very long tenure (more than 20 years: 20.6%), which result in a high average of approx. 11.41%. These high shares of persons who have been employed for more than 10 years (approx. 50%) show that in the first wave rather employees with shorter tenures (under 10 years) had been dismissed. So persons with long tenure who had not been excluded from firms via early retirement schemes profited from the high staff cutbacks in this period.

In 1998/99 there are on the one hand very high shares of persons employed less than two years in East Germany (30.4%). About a third of all persons employed in East Germany have thus just entered an employment relationship. However, on the other hand the groups with job tenure of 3-10 years which had been poorly occupied in 1991/92 have extremely increased. There definitely have been transitions into longer-term employment. Therefore we can assume that the average job tenure in East Germany will at first increase again in the years following after 1998/99. However, parallel to the growing groups of 3-10 years tenure, the group of long-term employed persons will be reduced by retirements. Here it can be shown again that the analysis of the Average Actual Tenure, on the one hand, gives insights into employment stability, but on the other hand, the average term hides a high heterogeneity of employment tenure and dynamic structures. Similar average terms can therefore, for example in international comparison or in an East-West comparison, not necessarily be traced back to similar tenure structures.

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39 Due to a high fluctuation in East Germany in 1991 and 1992 a clearly smaller average could have been assumed. Thus, this high fluctuation can be found in the high shares of persons who are employed up to 2 years. However, this survey only includes a sample of persons who are in fact gainfully employed at this reference day. Hereby a certain share of persons is excluded who were either unemployed for several times or had to find a new orientation via further education and reskilling programmes and therefore were not included into the sample.
Table 1: categorised (in percent), average (in years) job tenure

<table>
<thead>
<tr>
<th></th>
<th>Average job tenure (tenured civil servants included)</th>
<th>Average job tenure (without tenured civil servants)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 2 years</td>
<td>20.0%</td>
<td>28.5%</td>
</tr>
<tr>
<td>3 to 5 years</td>
<td>16.9%</td>
<td>11.5%</td>
</tr>
<tr>
<td>6 to 9 years</td>
<td>14.1%</td>
<td>11.0%</td>
</tr>
<tr>
<td>10 to 15 years</td>
<td>18.8%</td>
<td>17.9%</td>
</tr>
<tr>
<td>16 to 20 years</td>
<td>11.2%</td>
<td>10.3%</td>
</tr>
<tr>
<td>More than 20 years</td>
<td>18.7%</td>
<td>20.7%</td>
</tr>
<tr>
<td>Total: Number of persons in percent</td>
<td>21772</td>
<td>9540</td>
</tr>
<tr>
<td>Average in years</td>
<td>11.58</td>
<td>11.46</td>
</tr>
</tbody>
</table>

| Up to 2 years    | 21.6%   | 28.8%   | 23.9%   | 23.2%   | 30.4%   | 24.7%   | 23.2%   | 28.8%   | 23.9%   | 23.2%   | 30.4%   | 24.7%   | 23.2%   | 28.8%   | 23.9%   | 23.2%   |
| 3 to 5 years     | 18.1%   | 11.4%   | 15.9%   | 17.1%   | 19.5%   | 17.5%   | 17.1%   | 11.4%   | 15.9%   | 17.1%   | 19.5%   | 17.5%   | 17.1%   | 11.4%   | 15.9%   | 17.1%   |
| 6 to 9 years     | 14.8%   | 11.0%   | 13.5%   | 19.4%   | 25.0%   | 20.7%   | 19.4%   | 25.0%   | 20.7%   | 19.4%   | 25.0%   | 20.7%   | 19.4%   | 25.0%   | 20.7%   | 19.4%   |
| 10 to 15 years   | 18.7%   | 17.9%   | 18.4%   | 16.3%   | 7.5%    | 14.6%   | 16.3%   | 7.5%    | 14.6%   | 16.3%   | 7.5%    | 14.6%   | 16.3%   | 7.5%    | 14.6%   | 16.3%   |
| 16 to 20 years   | 10.4%   | 10.3%   | 10.4%   | 9.1%    | 5.1%    | 8.4%    | 9.1%    | 5.1%    | 8.4%    | 9.1%    | 5.1%    | 8.4%    | 9.1%    | 5.1%    | 8.4%    | 9.1%    |
| More than 20 years| 16.5%   | 20.6%   | 17.8%   | 14.9%   | 12.5%   | 14.1%   | 14.9%   | 12.5%   | 14.1%   | 14.9%   | 12.5%   | 14.1%   | 14.9%   | 12.5%   | 14.1%   | 14.9%   |
| Total: Numbers of persons in percent | 19583 | 9362 | 28945 | 21775 | 5599 | 27374 | 100% | 100% | 100% | 100% | 100% | 100% |
| Average in years | 10.83 | 11.41 | 11.02 | 10.63 | 8.82 | 10.26 |


The categorised data on the Average Actual Tenure already shows that in spite of a high average of employment tenure, both in West and in East Germany, short-term employment relationships are highly rated. Obviously, firms frequently and in an increasingly higher degree fall back on the External Labour Market as it can be shown in West Germany as well. However, this survey only collected data for the actual job tenure (right-censored). Thus, we do not know for how long these persons will employees to stay in the firm. Therefore, we need to extend our view with a perspective on longitudinal data in the following section.
4. Empirical findings on the stability of newly started employment relationships and on job opportunities after separation

In this section we will describe to what extent especially short-term employment relationships determine the mobility in the labour markets of East and West Germany and which risks different age groups take. Firstly we will evaluate the survivor functions of employment relationships. Secondly we will present the specific opportunities of transition of persons who were excluded again\textsuperscript{40}.

Survivor functions of newly started employment relationships

The survivor functions of employment relationships which began between 1996 and 2000 are presented in figures 3 and 4. In both figures it can be seen that especially during the first half of a year many employment relationships are cancelled again: either they were planned for a short-term or a “mis-match” between employees and firms occured. In West Germany, 40% of all employment relationships are already cancelled within a year. A further 12% are terminated after 2 years. After 5 years there only remains a share of 29% of employment episodes in firms in terms of this product limit estimation\textsuperscript{41}.

\textsuperscript{40} The used subsample is part of a linked employer-employee dataset that includes social security data of all employees who had been employed at least for one day in one of approx. 3000 selected firms in the period from 1996 to 2000. As only firms which had made reports for the whole period of time had been selected for the sample, the degree of the actual fluctuation of workers (therefore including the mortality of firms) will be underestimated. As the data before 1996 is left-censored, only employment relationships were evaluated, which newly started from 1996 onwards. For further description of the database see appendix. These survivor functions were generated by a product-limit estimation (Blossfeld/ Rohwer 1995).

\textsuperscript{41} An increasing number of persons can be observed that leave employment after exactly one, two and three years both in East and West. We suppose this deals with persons in fixed-term employment contracts. People who are younger than 35 years leave in a higher number after 3 and 3.5 years, which might be due to the fact that they were not enabled to continue working after having finished vocational training.
An examination of the development of the age groups shows that the share of ongoing employment relationships of younger employees under 35 is smaller than in other age groups. However, they enter firms definitely more frequently (62%) than the 35- to 50- year-olds (28.5%) and the over 50-year-olds (9.5%). This causes high mobility rates in West Germany especially with younger employees (DiPrete/ McManus 1995; Büchtemann/ Schupp/ Soloff 1993). Definitely higher entry numbers of the younger ones and comparably non age-specific durations lead to a continuous rejuvenation of the workforce in the West, as persons of the proportionately large groups of the younger ones gradually enter into more stable employment relationships. A considerable numerical flexibility of firms is indicated hereby: Many jobs are filled with employees who do not stay in the firm for too long.

An even higher dynamic in the labour market can be spotted in East Germany. 60% of the newly entered persons leave the firm within the first year. The drop in the graph, exactly one year after the entry date is striking. 17.9% of the still consisting employment relationships (with more than 30% of persons older than 50) are terminated exactly after a year’s time.
Especially higher age groups are affected, which is also different to the West\textsuperscript{42}. After 5 years, only just under 15\% of the newly entries are still continuously employed in the firm. Moreover, the share of the younger employed persons who remain for a longer-term in the firm is definitely smaller than in West Germany.

Figure 4: Survivor rates of newly started employment relationships – East

One reason for the big drop after one year’s time is the higher number of fixed-term employment contracts in the East with 12 months duration. This can be explained by a higher number of public creation schemes of (normally) one year, leading to separations after the measure has been finished\textsuperscript{43}. Furthermore, windfall gain effects, concerning wage subsidies, appeal in the high shares of one-year-employment in East German firms\textsuperscript{44}.

\textsuperscript{42} Nearly one third of employment relationships of persons older than 50 years are terminated at this point of time. When looking at the 35- to 50-year-olds, it is approx. one fourth and with the under 35-year-olds still about 10\% of the consisting employment relationships which are terminated at this point of time.

\textsuperscript{43} This assumption is encouraged when we look at the shares of the employment relationships which are terminated after one year for different entry cohorts with regard to consisting job-creation measures of the specific year. Here, the development proceeds parallel but slightly delayed (see Grotheer/ Struck/ Gewiese/ Bellmann 2004).

\textsuperscript{44} As we have mentioned in paragraph 2, job-creation measures and wage subsidies are measures for the reintegration of formerly unemployed persons. After normally one year of state assistance of these often low-skilled groups of employees, it is not favourable for firms to keep these groups and to be the sole provider of the wage costs.
An evaluation of this subsidy policy is difficult, as it deals with a mobilisation of capital of more than thousands of millions per year. On the one hand, the possibilities of entry for younger employees in present years with a high birth rate are decreasing, if potential jobs are filled with subsidised employees. On the other, there is the possibility for older employees to re-enter the workforce and therefore to preserve and build up skills. The respectively high exit figures leave the question open, whether the financial means, according to their original labour market policy function, really actively contribute to the improvement of the economic supply structure. Additionally, we have to ask ourselves how effective the input of means in fact is, as it predominantly provides a short-term and compensatory relief.

In this description it becomes obvious that a high degree of numerical flexibility exists in West and to an even higher degree in East Germany. In the West mainly younger age groups are subject to exchange processes. A relatively small share of younger employees (about one fourth) remains for a period of five years and longer in the firm. Older groups of employees, over 35 years of age again have to search for new employment relationships less frequently. Moreover, newly started employment relationships of these age groups have higher survivor rates. On the contrary, in the East there are exchanges across all age groups and employment is subsidised by state to a high degree. Consequently, a stronger competition between younger and older employees is created. The share of the episodes which lead to a longer-term employment relationship is much smaller with all age groups in the East than in the West. At the same time there are, which is different to the West, particularly older employees over 50 years old who have, in the East, the smallest probability of long-term employment and of a placement in Internal Labour Markets.
Job opportunities after separation

The German welfare state is still oriented towards a standard employment relationship. The individual social security benefits are derived from the duration of employment, the income and therefore from the contributions to the unemployment and pension insurance, so that only continuous employment careers allow for an adequate protection. In this respect, a termination of a job would only then be risky, if there were no direct possibilities for a change of firm.

Table 2 shows the transition prospects and risks after the end of employment episodes which have been started between 1996 and 2000. When looking at the share of newly started episodes, compared to all existing employment relationships, it is shown that this share with 51.7% is higher in the East than in the West with 41% 45. At the same time, there are many more persons in the East (61.7%) than in the West (44.9%) who are concerned with having to start a new employment relationship. The difference of higher episode numbers and a smaller number of persons emphasises the fact that many persons have entered new employment in this period for several times.

Table 2: Survey group and transitions

<table>
<thead>
<tr>
<th>Survey group</th>
<th>West Germany</th>
<th>East Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Employment relationships</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(\uparrow\downarrow) share of newly started employment episodes (EE) of all consisting EE in % (absolute)</td>
<td>41.0% (438,964)</td>
<td>51.7% (238,935)</td>
</tr>
<tr>
<td><strong>Transitions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(\uparrow\downarrow) share of episodes with direct transition to another firm</td>
<td>34.3%</td>
<td>31.5%</td>
</tr>
<tr>
<td>(\uparrow\downarrow) share of episodes with transitions into episodes without duty of social security (i.e. maternity, self-employed, marginal part-time)</td>
<td>10.3%</td>
<td>5.8%</td>
</tr>
<tr>
<td>(\uparrow\downarrow) share of episodes with transition into unemployment</td>
<td>7.6%</td>
<td>29.3%</td>
</tr>
<tr>
<td>(\uparrow\downarrow) share of other transitions (i.e. type of benefits not known)</td>
<td>0.4%</td>
<td>0.7%</td>
</tr>
<tr>
<td>(\uparrow\downarrow) share of right-censored episodes</td>
<td>47.3%</td>
<td>32.8%</td>
</tr>
<tr>
<td><strong>Persons</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share of persons with newly started employment episodes of all persons in % (absolute)</td>
<td>44.9% (258,649)</td>
<td>61.7% (152,601)</td>
</tr>
</tbody>
</table>

Source: Linked-employer-employee dataset; own calculations.

45 Besides, this is not a result of the higher number of new entrants in East Germany.
Finally, the transition risks are also distributed differently in East and West Germany. Even if the possibilities of transition in terms of gap-less transitions to other firms happen comparably more often in East Germany than in West Germany, particularly the transitions into unemployment (East: 29.3% and West: 7.6%) show a much higher transition risk of East German employees. The share of persons with entries and exits is significantly higher in East Germany; possibilities of direct transitions are not provided for many workers. Here, specific problems of functioning can be recognised on East German External Labour Markets. Groups of persons which are not situated in Internal Labour Markets hardly have a chance of finding a long-term and stable job and they are always faced with the risk of unemployment. The consequences are insecure, discontinuous job histories with the danger of losing human capital and thus (coinciding with) negative signals for potentially new employers and making the outsider-position for this group of employees more serious. Besides the regular Labour Market, there is a second subsidised labour market in the East. As the data emphasises, there are hardly any possibilities of transition from this second labour market into the regular labour market. Many, particularly older, employees supposedly face a definite exclusion not only from the Internal Labour Markets, but also from the regular labour market.

5. Summary and Conclusions

To sum up, we have to stress that at the end of the 90s there are still significant differences in West and East German labour markets. Besides a moderate increase of non-standard forms of employment in both parts of the country until the year 2000, we can, most of all, see a higher share of so-called standard employment relationships in East, however at the same time also a higher share of fixed-term employment. There is a convergence of the share of standard employment in East and West particularly. Above all, it is shown that a considerable numerical flexibility of firms exists in East and West, as many jobs are filled with employees who do not remain in the firm for too long. Shortly after unification a parallel process took place in East Germany. On the one hand the process of staff cutbacks led to a strengthening of the position of insiders and subsequently to higher employment stability for this group of persons. On the other hand high employment exchanges took place at the periphery of firms. Because of high unemployment rates in the East, public employment and training schemes had been implemented which resulted in a pluralisation of employment forms, especially regarding subsidised employment. In the wake of tertiарisation and extreme staff cutbacks.
tendencies of closing led both to a strengthening of the power of insiders and to a polarisation of persons integrated in and excluded from the employment system.

Even at the end of the 90s, we can observe differing employment practices in the East and West German labour markets. The chances of entering a long-term employment relationship are much smaller in the East than in the West. At the same time, there is a higher pressure of competition between age groups in the East, as older persons have to look for new job opportunities in a higher proportion as in the West. This pressure of competition is not restricted to the regular labour market. Regardless of the socio-psychological effects of public creation schemes, the small takeover rates of fixed-term subsidised employees harden the “second” Labour Market, in which further competition between younger and older employees is created. Therefore, specific problems of functioning of External Labour Markets exist in the East, as direct opportunities of transition are not being provided for many employees. The results are discontinuities of job histories which can coincide with losses in human capital, stigmatisation and marginalisation.

**Data Source**

Data for non-standard employment in paragraph 2 are based on publications of the Federal Statistical Office and the Federal Employment Agency and own calculations.

The BiBB/IAB-surveys of 1998/99 and 1991/92 (quoted in paragraph 3) have been generated by the Federal Institute for Vocational Training Affairs (BiBB) and the Institute for Employment Research (IAB). In both waves about 34,000 employees both covered and employees not covered by social security had been interviewed on their job tenure up to this point in time. This survey is conducted in relatively regular intervals, but with different samples and different thematic focuses.

The database of the calculation in paragraph 4 is a subsample of the IAB Employment Sample (Beschäftigten- und Leistungsempfängerhistorik: BLH) of the Federal Employment Agency (Bundesanstalt für Arbeit). The BLH contains process generated individual data which is based on administrative social security records (Bender et al. 1996). The sample consists of employees who are registered by the social insurance system. “This data has been stored into a file by the Federal Employment Service to provide an insurance account for each employee.
recorded by the German social insurance system. (…) Supplementary information on establishment and on unemployment periods in which a claimant received benefits was added to the sample” (Bender et al 2000). It contains exact daily flow information on the employment history. The used subsample is part of a linked employer-employee dataset that includes the social security data of all employees who had been employed at least for one day in one of approx. 3000 selected firms in the period from 1996 to 2000.

References


Methodology, findings, open questions
Chapter XI

How to measure job stability - A comparison of two measurement concepts
by Marcel Erlinghagen and Gernot Mühge

1. Introduction

Since the 1970s a number of various similar and far reaching social and economic changes have occurred in almost all industrialised countries. Among other things, especially all embracing trends like ‘globalisation’, ‘individualisation’ or ‘tertiarisation’ were identified as the main causes of these changes. Today it seems as if this development has had a clear impact on labour markets in general and particularly on employment histories. Therefore, a number of authors assume an increasing labour market mobility and a decreasing job stability. As a result of an increasing number of hires and especially dismissals, a general speeding up of the labour market dynamic is suggested. In such a ‘high-velocity-labour-market’ the individual employment histories should over time show a growing instability and discontinuity (c.f. Beck 1992; Rifkin 1995; Castells 1996; Sennett 1998; Bauman 1998). But job stability is not only of academic interest. It has also an impact on social and economic policies. According to whether job stability exceeds or remains under or above a socially defined norm, specific political concepts have to be improved that could help to stimulate, either an increase, or a decrease of job stability. In addition, the duration of employment spells is of decisive importance with regard to firms’ work organisation as well. There are no incentives, neither for the employees to invest in their human capital, nor for the employer to invest in in-company training if the employment relationship between a firm and its employees lasts not long enough. Furthermore, firms’ internal flexibility is badly affected. For example, it is not likely that flexible working hour schemes can be introduced if job tenure is too short. But, on the other hand, if the relationship between employer and employees lasts too long, the staff turnover would be too low and therefore a bad influence on necessary innovations could be expected for the firm (Knuth et al. 2002).

For all these reasons job stability is a main issue of empirical labour market research. But if we compare the international research literature on job stability, it becomes obvious that there are some inconsistent findings. These problems do not only result from the use of different

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46 Some authors claim to have observed increased labour market mobility and job stability in Great Britain (Gregg/ Wadsworth 1995; Booth et al 1999), Germany (Mertens 1999) or the USA (Swinerton/ Wial 1995; Valetta 1999), while others refute these findings and suggest that, despite the alleged (and ongoing) increase in
data sources, but also from the application of varying statistical methods. Empirical socio-economic research can use a number of different methods to measure the duration of episodes by using individual data. The deployment of a certain measuring instrument depends on both the particular research interest and the availability of practicable data. The following paper is designed to make a general methodological differentiation between two popular descriptive methods to measure job stability.

But why do we concentrate on these two ‘simple’ descriptive methods? If we take a look on the international research literature on job stability, the main methodical focus lies on the discussion about the most suitable multivariate transition rate model that should be estimated with regard to the current research question. And surely the estimation of such multivariate models can provide us with a deep insight in human behaviour. But it is also true that „[g]enerally, descriptive studies are [...] much more relevant for sociology as an explanatory enterprise than current journals and university curricula would have us believe“ (Wippler/Lindenberg 1987: 159). As, for example, the paper of Bernardi (2001) shows, that it often depends on a useful combination of descriptive and analytical methods to improve our understanding of the functioning of social processes.

Section 1 introduces (a) Average Actual Tenure and (b) Survivor Rates as the two methods in question. Further on, both methods are used to analyse gender-specific job stability in Germany. However, if we compare these analyses, it seems as if they lead to inconsistent results. Therefore, it becomes necessary to work on the methodological differences of Actual Average Tenure and Survivor Rates in detail. In this context section 2 firstly explains different possibilities to aggregate individual tenure information for a descriptive statistical purpose in general. Hence, it becomes clear that the seeming differences of the exemplary gender-specific analyses are caused mainly by totally different measurement concepts. What follows is a discussion of the strength and weakness of the two described methods in section 3. Section 4 eventually gives a final summary.

flexibility and deregulation, there is little evidence of any (unambiguous) effects on mobility and duration of employment relationships (cf., for example, on an international perspective OECD 1997; Auer/Cazes 2000; on Great Britain/ Burgess/ Hedley 1998; Doogan 2001; on the USA, Diebold et al 1996; Neumark et al 1999; Gottschalk/Moffitt 1999; on Japan Chuma 1998; on Germany Winkelmann/Zimmermann 1998; Erlinghagen/Knuth 2002).

47 For example, Blossfeld/Rohwer (2002) give an overview of the methodical and practical differences of such transition rate models and the related theoretical and empirical literature.
2. Introducing the two methods in question

The following paper refers basically on the vocabulary of event history analyses. Event history analyses are investigating the ‘event history’ of certain ‘elements’ (e.g. individuals). Its focus lies on the duration of episodes, whereas the beginning and the end of these episodes are defined by ‘events’. Through an appearing event a preceding episode is finished and a subsequent episode is started, whereas the specific kind of event could also deliver additional information about the direction of change. For example, a preceding job spell ends and immediately a subsequent unemployment spell begins, both because of the event ‘dismissal’. During the period between two ‘events’ (for example hiring and firing) the ‘element of analysis’ (for example an employee) remains in a certain ‘state’ (for example gainful employment) (Blossfeld/Rohwer 2002).

**Average Actual Tenure (AAT)**

The Average Actual Tenure (AAT) indicates how long a certain group of jobs have, on average, lasted until a specific cut-off date. Hence, the AAT provides information about job stability that has been cumulated in the past. Mostly retrospective survey data is used to calculate the AAT. In such surveys, employees are asked how long they have been employed by their current employer. This retrospective data can principally provide information about any point in time in the past employment history of the respondents, limited only by their memory. Therefore, there are no left-censoring problems. Right-censoring problems are avoided by definition because the AAT method refers only on past and present, whereas ‘future’ developments cannot be recorded *with regard to the survey date* (see also section 2 on this topic). In order to calculate the Average Actual Tenure of the interviewed employees, the reported duration of all employment spells have to be summed up and divided by the total number of respondents in the survey (Hall 1982; see also Ureta 1992). The Average Actual Tenure $T$ at time $t$ thus can be calculated as follows:

$$[1] \quad T_t = \frac{\sum_{i=1}^{n} t - t_s}{n}$$

where $n$ is the number of respondents and $t_s$ describes the point in time when a individual $i$ has started to work for his or her employer.
For Germany the Average Actual Tenure can be calculated by using data from the German Socio-Economic Panel (GSOEP; see Wagner et al. 1993 and SOEP Group 2001). In order to ensure comparability with another data set which will be used later on in section 1.2, the following analysis of the GSOEP has been restricted only to West-German employees liable to pay social security contributions. Consequently, the self-employed, civil servants and those in marginal part-time employment\textsuperscript{48} are not included in the analysis. However, since about 75 per cent of the economically active population is still in insurable employment, this employment form represents the main core of the German labour market (Hoffmann/Walwei 1998).\textsuperscript{49}

The GSOEP information about individual tenure is provided as generated values, originally referring to the initial interview when the panel member is asked once to report the duration of his or her current job retrospectively. During the following panel waves, the tenure information is updated yearly by combining the initial retrospective data with new information on employment in the preceding year. Figure 1 shows the evolution of Average Actual Tenure for gainfully employed West-German men and women from 1984 up to 2000. It is shown that during the whole investigation period men had higher Average Tenure than women. While in 2000, male average tenure was approximately 11 years female average tenure reached only 8.5 years.

\textsuperscript{48} Less than 15 hours per week or less than a monthly earnings threshold. This used to be dynamic, but was fixed at 630 DM in 1999 and, starting from 2002, rounded up to 325 Euros.

\textsuperscript{49} In addition, the respondents were excluded who reported that they had been regularly employed by their current employer before they had reached a spell of 12 years. Further on, only those respondents remained in the analysis sample who were not older than 67 years in the year in question.
Between 1984 and 1993, average male tenure increased from 10.8 to 11.6 years and then dropped in the following period up to 1996 down to 10.3 years. Until 1999, the AAT remained relatively stagnant before it clearly increased in the end of the investigation period to approximately 11 years again. Female AAT showed a very similar pattern but on a considerably lower level: Until 1993 average female tenure clearly increased from 8 to 8.7 years. Although female AAT shrinks up to 1997 to 7.8 years, it should be noted that this decrease was stronger for men during this period. After 1997 the average female tenure was growing again and at the end of the investigation period it reached a new peak at 8.5 years.

**Survivor-Rates**

Apart from Average Actual Tenure, so-called ‘Survivor Rates’ (SR) can also be used to analyse job stability. With the aid of such Survivor Rates, time-dependent survival probabilities can be calculated. From a starting point up and for every point in time within a pre-defined investigation period the Survivor Rate reports the share of an initial population that remains within a ‘risk pool’. If you think of employment spells, one could ask how many of 100 jobs that started at time $t$ have survived up to time $t+1$, $t+2$, ..., $t+n$. In addition, we

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A special variation of the Survivor Rate method is the calculation of so called ‘product limit estimations’ (‘Kaplan-Meyer-Method’). In social sciences the product limit estimation is very popular because of his appropriate dealing with right censored information (c.f. Blossfeld/ Rohwer 2002).
can ask how much time elapsed until a specific share of jobs has ‘died’, or respectively ‘survived’ (for example 80% have survived up to \( t+1 \), 65% up to \( t+2 \), etc.).

If we want to estimate Survivor Rates for new beginning jobs, the starting points of all employment spells under observation have to be synchronised, so that every spell that begins within a certain defined period starts at analysis time \( t = 0 \). Hence, with regard to the starting point, it is obvious that the probability for a job to continue, shrinks with increasing tenure, since day by day people leave their jobs whether because of unemployment, retirement, death, etc.. Therefore, the Survivor Rate can be interpreted as employees’ time-dependant probability to stay with a single employer.

The Survivor Rate \( S \) at analysis time \( t \) is calculated as follows:

\[
S_{t_j} = \frac{n_{t_j}}{n_0}
\]

where at time \( t \), still existing employment spells \( n_{t} \) are divided by the origin number of jobs \( n_0 \) that have been under observation at time \( t_0 \).

For Germany the so-called IAB employment subsample (IABES) is particularly well-suited for use as a data set for the analysis of job stability. The IABES contains exact daily data on the employment careers of some 560,000 individuals over the period between 1975 and 1995. The data set is based on a 1% sample of the insurance accounts which the Federal Labour Office (Bundesanstalt für Arbeit) maintained in respect of employees liable to pay social security contributions between 1975 and 1995.\(^{51}\) These ‘process-produced data’\(^{52}\) are supplemented by data on periods of unemployment during which a claimant received benefits and on certain characteristics of the establishments which employed individuals in the subsample during the period of observation. This corresponds to about 7.8 million employment or benefit payment notifications, with each individual record containing 35 variables (cf. Bender et al. 2000).

Figure 2 shows the Survivor Rates of newly started jobs for men and women. It should be noted that the single Survivor Rates are presented all together by drawing a survivor function. The survivor function consists of all single Survivor Rates that are calculated for every single

\(^{51}\) Hence, like the calculation of the Average Actual Tenure in section 1.1, the analysis is restricted to West-German employees, whereas self-employed, civil servants and those in marginal part-time employment are not included in the following Survivor Rate estimation.

\(^{52}\) Process-produced data are data that are required and gathered for administrative purposes or to assist public institutions (particularly social security agencies) to discharge their duties (Schmähl 1985: 277).
analysis time unit (here: for every single day). Further on, we distinguish two different periods in which job spells have started. If the job spell began between 1976 and 1980 it belongs to the 1976-1980 entry cohort; if the job spell began at any time between 1986 and 1990 it belongs to the 1986-1990 entry cohort. All job spells of each entry cohort start at analysis time $t = 0$ and are followed up over a period of maximum five years ($t = 1825$ days). Thus, the Survivor Rate calculated at $t = 1825$ days reports the share of jobs that have begun in the particular entry cohort and that still exist five years later.

Figure 2: **Gender-specific survivor functions of newly started jobs (West Germany), entry cohorts (ec) 1976-1980 and 1986-1990**

Comparing the survivor functions in figure 2, we can see that women’s job stability is almost identically in both entry cohorts. For men, however, the jobs of the entry cohort 1986-1990 increased for about one month and a survivor probability of 25 percent is reached about six months later, than it did ten years before. But beside these results it becomes obvious that women’s jobs are more stable than men’s, even at the end of our investigation period: If we compare the survivor functions of men and women, for the entry cohort 1986-1990 the median spell duration for men is about 345 days but for women it is 365 days. This becomes more obvious if we take a look at the 25 percent survival threshold: Three quarters of jobs that had been started by men, were finished after approximately 40 months. Compared with this result, jobs that had been started by women reached this point about six months later. This result is confirmed by estimations for every single entry year (see table 1).

Source: IAB Employment Subsample (own calculations).

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These two entry cohorts were selected because both periods were periods of employment growth.
Table 1: Gender-specific duration to reach a 75/50 percent survival probability (West Germany), new started jobs of the entry years 1976 to 1993

<table>
<thead>
<tr>
<th>entry year</th>
<th>men</th>
<th>women</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>75 % (1. quartile) reached after ... days</td>
<td>50 % (2. quartile) reached after ... days</td>
</tr>
<tr>
<td>1976</td>
<td>90</td>
<td>293</td>
</tr>
<tr>
<td>1977</td>
<td>90</td>
<td>302</td>
</tr>
<tr>
<td>1978</td>
<td>92</td>
<td>302</td>
</tr>
<tr>
<td>1979</td>
<td>90</td>
<td>297</td>
</tr>
<tr>
<td>1980</td>
<td>90</td>
<td>297</td>
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<tr>
<td>1981</td>
<td>93</td>
<td>299</td>
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<tr>
<td>1982</td>
<td>106</td>
<td>305</td>
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<tr>
<td>1983</td>
<td>109</td>
<td>304</td>
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<tr>
<td>1984</td>
<td>107</td>
<td>302</td>
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<tr>
<td>1985</td>
<td>106</td>
<td>307</td>
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<tr>
<td>1986</td>
<td>110</td>
<td>307</td>
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<tr>
<td>1987</td>
<td>108</td>
<td>314</td>
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<tr>
<td>1988</td>
<td>110</td>
<td>337</td>
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<tr>
<td>1989</td>
<td>105</td>
<td>352</td>
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<tr>
<td>1990</td>
<td>99</td>
<td>356</td>
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<td>1991</td>
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<td>351</td>
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<tr>
<td>1992</td>
<td>93</td>
<td>331</td>
</tr>
<tr>
<td>1993</td>
<td>95</td>
<td>324</td>
</tr>
</tbody>
</table>

Source: IAB Employment Subsample (own calculations)

3. Methodical comparison between Average Actual Tenure and Survivor Rate

It seems that the exemplary findings derived from an analysis of the GSOEP and the IABES data are leading to inconsistent conclusions: Based upon a calculation of the Average Actual Tenure, job stability for women seems to be lower than for men. But the estimation of Survivor Rates leads to an opposite result. Thus, job stability is higher for women than for men. How can these differences be explained?

The first and most obvious difference between the two measurement concepts is that the AAT reports job stability as an average value whereas the survivor function (derived from every single Survivor Rate) does not result in one single figure but shows the time depending survival probability. But the characteristics of the results – figure or function – is only one aspect to differentiate the two methods. To go further on, it is necessary to answer the following questions and for this reason we have to visualise the meaning of the terms ‘elements’, ‘event’ and ‘state’ again:
Which reference time is chosen? Should the elements of analysis be selected by a ‘state’ or by a state-restricting ‘event’?

Which measurement direction is chosen? With regard to the reference time of analysis: Should the state duration be calculated for the ‘past’ or for the ‘future’?

Should completed or uncompleted spells be analysed?

Reference time

In a methodical perspective, the measurement of the duration of a single episode is basically simple. Thus, duration describes the time between two event dates and is, therefore, calculated as the difference between end and starting time. However, the aim of any empirical sociological analysis is to aggregate a lot of individual durations to reach some general conclusions. Such an aggregation is quite complicated because ‘social reality’ episodes (for example job spells) do not begin and end synchronously but asynchronously. Though, every general statement about an episode duration requires its tight localisation within time. Therefore, an important methodical distinction criteria is the chosen selection category: Is the selection of the ‘elements’ under investigation (for example employees or jobs) founded on a specific state or on a specific event? Or with other words: Is it an important criteria that an individual is in a specific state or that an individual faces a specific event? Going back to our example of job spell duration, this means that we have to ask whether we want to calculate the duration for individuals within a certain employment state (for example all individuals employed December 31) or for individuals that face a specific labour market event (for example all employees who have started a new job within one specific year).

The consequences that can be derived from such state- or event-related decisions are presented in figure 3 and 4. In both figures the exemplary employment spells of eight fictitious individuals are shown during an analysis time of 48 months. The horizontal lines are symbolising the duration of an employment spell whereas the beginning and the end of those lines mark the entry and exit events of the employment spell.

Please note that we first want to select employees by state, that is, for example, to be employed at the beginning of the 13th month. Therefore, in figure 3 we set off all those horizontal lines that symbolise job spells of individuals who were employed at the beginning of the 13th month (stressed vertical line).
Principally, figure 4 describes the same set of employment spells: Length and position of the employment spells as well as the time-axis have remained unchanged. Although figure 4 covers the same employment spells, we now select employees by event, that is, for example, to start an employment spell between the 13th and 24th month. Therefore, in figure 4 we set off all those horizontal lines that symbolise the job spells of individuals who enter a (new) employment spell between the 13th and 24th month (grey rectangle). If we now compare figure 3 with figure 4, we can see that the set of employment spells that are included into analysis changed fundamentally if the criteria of sample definition is changed. Which employment spells will be chosen depends on whether the sample is defined by a certain state reached at a certain point in time (figure 3), or whether the sample is defined by a certain event that occurs within a certain time period (figure 4). It becomes obvious that there is no intersection between the employment spells that would be included in one of the two examples in figure 3 and 4.

Figure 4: **Sampling of individuals by events**

![Diagram](image_url)

*Source: own presentation.*
The second difference between the two methods is the measurement direction. With regard to a certain reference time the duration of spells can be measured either in a ‘future’, or in a ‘past’ direction. The AAT concept refers to employment periods lying left of (or: ‘before’) the chosen reference time. Thus, the AAT is interested in periods that have gone by up to the reference time. In contrast, the Survivor Rate measures the ‘whereabouts’ of event cohorts in the ‘future’ (with regard to the chosen reference time). The Survivor Rate concept refers to employment periods lying right of (or: ‘after’) the chosen reference time. So it should be quite clear that the measurement direction is of decisive importance when interpreting the analysis results. The findings must be handled in different ways, depending on if they refer to periods ‘before’ or ‘after’ the reference time.

Completed vs. uncompleted spells

Only if the starting and ending time is known, spells can be calculated completely. But if we analyse employment spells, the used data sets commonly do not contain such complete information. There are spells that have already begun when a data set starts (‘left-censored’ spells) and/or there are spells that have not already been finished when a data set ends (‘right-censored’ spells). Especially if individuals are asked about their current job, a problem comes up because certainly they can remember (more or less exactly) the job entry date, but the exit date is understandably not known at the survey date. These kind of information is provided, for example, by single cross-sectional survey data. Such data is generally right-censored and, therefore, only uncompleted employment spells can be calculated. Therefore, to calculate completed spells requires longitudinal panel or event history data that covers both the starting and ending times of a sufficient number of analysed spells.

Schematic classification of Average Actual Tenure (AAT) and Survivor Rate (SR) concepts

Now we can try to classify the two measurement concepts by using the features that have been developed up to now:

The exemplary calculation of the Survivor Rates of new started jobs in section 1.2
- defines the reference time by a period in which a certain event happens. In our example the Survivor Rates are estimated for event cohorts (here: entry cohorts 1976-1980 and 1986-1990).
- reports ‘future’ job stability (with regard to the reference time!). Although the event history data of the IABES is right censored it is nevertheless possible to calculate
Survivor Rates by defining a maximum analysis time (here: five years). The Survivor Rate at the end of our analysis period reports the fraction of new started jobs that have survived five years minimum.

- is based on the calculation of completed job spells.

The exemplary calculation of the Average Actual Tenure in section 1.1 proceeds diametrically opposed to the Survivor Rate because

- a single date is chosen as the reference time (here: survey date in the GSOEP)
- the findings are related to past periods (with regard to the reference time!)
- at the survey date, all sample members are employed and therefore, the AAT concept deals with uncompleted spells.

The AAT method is related to the past because its calculation is based upon uncompleted spells. In contrast the calculation of Survivor Rates contains information about the starting and ending time of the employment spells within a defined period (in our example within five years after the starting date of a new job spell). Now it becomes clear that both methods are providing fundamentally different indications although their findings have seemed to be very similar at first sight (see also Lancaster 1990: section 5).

### 4. A comparison between Average Actual Tenure and Survivor Rates

The gender-specific analysis of job stability in Germany has shown that the two presented empirical methods seem to lead to inconsistent results. On the one hand, the Average Actual Tenure refers to a generally higher job stability for men. On the other hand, the Survivor Rates report higher job stability for women. And so the question arises: which method gives us the “true” information? However, it is not possible to answer this question because both methods are aimed at different targets and we should take them as complementary research instruments that both can mutually improve our understanding of complex social processes. But, therefore, it is necessary to say something about the advantages and weaknesses of both

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It has to be said that at least two other methods to measure job stability can be found in the relevant literature. For example the ILO (1996: 46) calculates “separation rates” for single years as “the ratio of the total number of workers having left or lost their job during a given period [...] to the total number of workers at the beginning of the period”. It seems that the separation rate is a ‘future’ related method to calculate completed spells referring to a single point in time. In contrast, the OECD (1997: 140) calculates so called “retention rates” as “the percentage of employees in a certain year who still be with their current employer five years later”. As for the separation rates, some methodical questions remain open, too. However, it seems that the retention rate is a method to calculate uncompleted spells within a ‘future’ period. A description and assessment of both methods must belong to a future paper, because of space reasons.
methods so that we can choose the right instrument for certain research questions and furthermore, to strengthen and improve the interpretation of our empirical findings.

Problems of the Average Actual Tenure method

If we want to interpret the average actual tenure, the several problems occur that limit the validity of the results.

(1) Little evidence for interpreting the recent labour market situation

It should be noted that the Average Actual Tenure documents especially a part of the past labour market situation. The older the interviewed employees are and the longer they have stayed already with their current employer, the stronger the measured AAT is influenced by the past labour market performance. If, for example, 60 years old employees were asked in 2000 how long they have already stayed with their current employer, it is possible that as a maximum, the labour market situation of the year 1955 is influencing the results. It becomes obvious that, with regard to the current labour market situation, the validity of the Average Actual Tenure is strongly limited because of this historical component. At least, any interpretation has to take this strong historical bias into account.

(2) Interpretative difficulties because of social and demographic changes

If the age distribution of a certain population is changing, the proportion between ‘young’ and ‘old’ is changing. If we imagine a period of increasing labour market participation of younger cohorts, the Average Actual Tenure shows no adequate picture of the current labour market situation, because, for example, 20 year old employees cannot report tenure of 40 years by definition. Another example is the labour participation of women: If the labour market participation of women increases, then, a lot of female employees are newcomers on the labour market and, therefore, have not had the chance to reach a similar high tenure as men. Hence, shrinking Average Actual Tenure could be caused not only by general decreasing job stability, but also especially by social and demographic changes like social ageing or growing female labour market participation.

(3) Seasonal fluctuations were not considered

When we calculated the Average Actual Tenure, it should have become quite clear that unemployed individuals were not taken into account because they had no current employer at the time of the interview. As long as it would be plausible that the unemployment hazard is time-independent and equally distributed during the whole year, no problems would occur.

55 If we assume that a teenager joins the labour market not before the age of 15, then, the year 1955 is the earliest year of labour market entry for employees who were 60 years old in 2000.
even if there would be different unemployment hazards for some groups of employees. In a statistical view a cross-sectional survey with only a single interview date should show an exact picture of the ratio of employed and unemployed that could be expected if we would calculate an Annual Average Ratio. But this is only true if the unemployment hazard does not vary over the year. However, on the real labour market we can find a strong seasonal variation of the unemployment risk, especially in such branches as construction or the tourist industry. Depending on the timing of the interview, shorter employment spells were more or less covered by the Average Actual Tenure. If we consider that in the seasonally influenced branches, employment chances are better in the summer and worse in the winter, we should expect a lower AAR if all (or most) interviews were held during the summertime because a relevant number of, let us say, construction workers or waitresses were only relatively short in employment at a summery interview date. During the winter, the AAR should be generally expected to increase – not because of a generally increasing job stability but because the seasonal jobs do not exist anymore.

Problems of the Survivor Rate method: In fact only relatively short time-intervals can be presented

With regard to people who show a particular event during a defined reference time, the Survivor Rates provide information about job duration in the ‘future’ (‘future’ means the periods ‘right’ from the reference time as shown in detail in section 2). In our example Survivor Rates are calculated for certain entry cohorts. To calculate Survivor Rates, event history data are necessary that provides information about the end of employment spells. However, with regard to the need for analyses of the present labour market, a right-censoring problem occurs when using such event history data.

It should be clear that no sample really can depict the future. At least on the day on which the analysis should be done, employment spells, that have not been ended up to this sample day, must be cut off. The data set we use in our example (IAB Employment Subsample) principally covers the end of employment spells, but only up to December 31 in 1995. Therefore, all employment spells that exist beyond this date were right-censored. Hence, the completed duration can only be ascertained for a specific part of job spells. For this reason, it is essential to define a maximum analysis time to reach comparable results. In our example, this maximum analysis time is set to five years and so the jobs belonging to the chosen entry
cohort can be followed up for five years starting from their particularly unique starting date. Therefore, the calculated Survivor Rates say something about the stability of jobs only for a relatively short period. If we are interested in gender-specific differences of job stability, the results of our example can only be interpreted with regard to the maximum analysis time of five years. As shown by Knuth et al (2001: 15) or Mertens (1999), at a maximum analysis time of 10 years the Survivor Rate for women lies under the Survivor Rate for men. A statement like “job stability is higher for women” holds only true for a time span of five years after starting a new job, but it must not be interpreted as a general rule (c.f. Erlinghagen 2003). However, despite these right-censoring restrictions, the Survivor Rate is unequivocally superior to the Average Actual Tenure in providing information about the current labour market performance because the analysis is not influenced by any “historical ballast”. Social or demographic changes also cause no interpretative problems when working with Survivor Rates.

In addition it is necessary to refute a possible objection that could be raised to the Survivor Rate method. One could think that the Survivor Rate could underestimate especially long lasting job spells. If we think about the definition of the two entry cohorts in our example, only those job spells are included in the analysis that have started during a five year entry period (or better to say that have started at any time between the years 1976 up to 1980, or 1986 up to 1990 respectively). Individuals who are not able to start a new job, let us say between 1976 and 1980, because they have started their job before 1976 and are still with their employer after 1980, are not included into the 1976-1980 entry cohort by definition. There is no doubt about that. However, this is no real problem because it is a fact that even very stable jobs must have a starting date. Therefore, it is clear that a certain number of very stable jobs begin during the chosen entry period by chance and so they surely will be covered by the Survivor Rate estimation. The stability of those jobs is expressed by the Survivor Rate at the end of the maximum analysis time. For example, if 20 percent of all jobs that have been started at any time during the years 1976 to 1980 survive during the whole investigation period of five years, then this fraction contains the very stable jobs. Therefore, long-lasting jobs will influence the estimated Survivor Rates even if there is just a maximum analysis time of five years.
5. Conclusion

Measuring job stability is of certain interest for current labour market debates as well as for answering questions about work organisation and the innovative capabilities of firms. With the Average Actual Tenure and Survivor Rate, two methods are available that give us some information about the duration of employment spells. However, if we take a closer look, we can recognise that both methods are fundamentally different. Therefore, the results caused by both methods cannot be compared and require their own interpretation.

First of all, it depends on the research interest which method should be used. The application of the Average Actual Tenure method is rather useful for answering industrial sociological questions, for example, of how the tenure structure in a certain branch has developed during the last decade. Such an analysis requires only cross-sectional data with retrospective employment information. However, if we interpret the findings, we have to be aware about the strong historical bias as well as about the seasonal fluctuations of hiring and firing and that both strongly influence the outcomes. In addition, the analysis of tenure time series should be done with caution because of the strong influence of social and demographic changes on the results.

The calculation of Survivor Rates is more appropriate for answering questions about current labour market problems, for example, whether job stability is decreasing. Such analyses require event history data that makes it possible to measure completed job spells. Comparing with the AAT method, there is neither any kind of “historical ballast” that could distort the results, nor have social and demographic changes any influence when comparing estimations for different points in time. However, the main disadvantage of the Survivor Rate method is that in fact only relatively short time-intervals can be presented to ensure the topicality of the results.

Coming back to the main topic of our paper, we can say that the Average Actual Tenure method is not very well suited to say something about job stability. The AAT is more useful to provide information about the employment structure of firms. To make any statement about job stability, the analysis of completed job spells is indispensable and, therefore, the Survivor Rate method should be preferred in this case.
References


Institutional Background

The Institute for Work and Technology (Institut Arbeit und Technik / IAT) as one part of the Science Centre NRW is an application focused R&D institute of the Federal State of North Rhine-Westphalia. It's task is to find and evaluate innovative solutions for the current structural changes. The main outcome of successful research should be new employment perspectives and a sustainable added value.

Main Publications


Average tenure, survivor rates and employment trajectories – A comment on Marcel Erlinghagen and Gernot Mühge
by Michael Grotheer and Olaf Struck∗

In their contribution “How to measure job stability” Marcel Erlinghagen and Gernot Mühge gave us a comparison of two of the most common measurement concepts that are used for the description of employment stability in Germany: the average actual tenure method and the survivor rate method. Because we also used these two methods some of the previously demonstrated measuring problems (reference time, measurement direction, completed or uncompleted spells) have already been addressed in the concrete framework of our empirical study (see chapter X). Within this frame we will refer to and indicate further problems within the interpretation of the results.

1. With regard to the measuring of average actual tenure the authors address three problems (cf. Erlinghagen/ Mühge chapter IX: 4.1) which have to be taken into account while interpreting the results: a) the past labour market situation, b) social and demographic changes, c) seasonal fluctuations. These three points refer to a bias on realised results caused by time dependent processes. Labour market research particularly in the context of lifecourse research drew attention to the fact that career paths are dynamic processes which develop against the background of dynamic structures. So the time related problems addressed by Erlinghagen/ Mühge can also be recovered in a terminology of lifecourse research which treats time related effects as cohort-, age-, and period effects.

As we have seen by a closer inspection of average actual tenure in our contribution (Grotheer/ Struck chapter X: 2.2), high standard errors and thus a high heterogeneity of individual actual tenure became apparent beyond an average value of about 10 years. Considering the proportions of our categorised tenure groups first indices of time related effects on average actual tenure arise. In this paragraph possible time related effects on our relatively high average values will be discussed in a lifecourse research terminology.

a) Effects of the past labour market situation can often be denoted as cohort effects (not exclusively). It could be possible that specific entry cohorts - for example older cohorts - generally display more stable employment paths than younger cohorts. A part of these older

∗ Michael Grotheer and Olaf Struck are members of the Interdisciplinary Research Group SFB 580. See appendix I, B2.
and more stable cohorts will not longer be available at a later point of observation because of retirement. On the other hand younger entry cohorts which possibly offer less stable employment paths because of specific historical conditions do not stand by at an earlier point of observation. Such cohort effects have to be kept in mind when finding explanations for the on or other direction of development but have not been explicitly examined in our contribution to this volume.

b) In addition to effects of the past labour market situation, social and demographic changes can affect the results. Part of these changes is the development of age structure. Age effects in the most basic sense do exist if there is a systematic distortion as to age structure of both samples. Younger employees who have not been located on the labour market for a longer time cannot have established long job tenures. Age effects in the sense of lifecourse research though describe general differences, in this case with regard to job tenure, which are caused by age (e.g. by seniority regulations, norms). Distortions which are merely caused by the different age structures of the samples were excluded in our study by controlling these age structures.

c) Finally, effects of seasonal fluctuations were brought up. However comparing tenure at different points of observation the seasonal effects addressed by Erlinghagen/Mühge only effect the results if different reference days for the interviews were chosen. Seasonal and cyclical differences do not play any role in both waves of the BIBB/IAB-Surveys (similar period of interviewing, similar business cycle). Besides these fluctuations particularly irregular or cyclical variation should influence the results. A general influence of certain historical events, here on career paths, in life course terminology is labeled as a period effect. As shown in our contribution, the historical event of the German reunification had an important impact on the results for the observation in 1991/92 for East Germany. As mentioned, due to high turnover a higher proportion of short-term employees could have been expected in this period. But for this period a big proportion of people with shorter tenure who had to leave their jobs were subsequently unemployed or in retraining schemes and therefore excluded from the analysis. The remaining insiders produce a high average value. So the results are strongly influenced by the event of reunification which on the one hand for some persons led to stabilisation by closure and on the other hand to exclusion of shorter termed employees.

2. The analysis of such dynamic effects only becomes possible by using dynamic data structures in the form of longitudinal data (e.g. opportunities of occupation entry cohorts, age
groups, options and restrictions against the background of certain historical events). A general advantage of using longitudinal data is the analysis of actually completed spells of employment. Also right censored spells are included in survivor analysis in that sense that at least up to the point of right censoring no event (dismissal) has occurred. Erlinghagen/ Mühge address three issues which distinguish this method fundamentally from the calculation of average permanent values: reference time, measurement direction and use of completed spells. Problems as to the right censoring and a limited period of observation had also been discussed in our contribution.

This method, however, holds further problems in particular in comparisons over time as the interpretation of the results can be made from many perspectives. These problems have not been addressed yet. Generally it is allowed that one person can count several spells of employment over the investigated period. So the survivor analysis explicitly examines spells of employment that are not usually associated with people. Assuming we compare a sample of newly begun employment relationships between 1976 and 1980 with a sample of newly begun employment relationships between 1986 and 1990: it would be possible that these two samples contain an identical number of spells with identical length of spells each but with a different number of persons. The fictitious sequences in illustration 1 & 2 would result in identical survivor rates which are constituted by totally different individual employment paths.

Figure 1: Sample of employment relationships which were newly begun between 1976 and 1980 (12 employment spells of 7 people)

<table>
<thead>
<tr>
<th>Person 1</th>
<th>Person 2</th>
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= starting month of a new employment relationship
E = employed
_ = unemployed
Figure 2: Sample of employment relationships which were newly begun between 1986 and 1990 (12 employment spells of 4 people)


E = starting month of a new employment relationship
E = employed
_ = unemployed

a) From operating perspective it could be argued that the stability of newly begun employment relationships did not change. The argument would be that, regarded over time, the same amount of employment relationships were taken up as were terminated within the same time interval and with an identical probability of survival. That does not mean though, that there were no strategic changes from the company, for example. Also, if there were no changes in the operating strategy in terms of duration, the number of laid off employees in the respective period of investigation can consist of different age groups, skill and wage levels. Therefore, further disaggregating and more detailed examination is absolutely necessary as is the association with concrete numbers of persons.

b) From the perspective of the employees, substantial changes took place in this fictitious example. These changes do not concern single job tenures but their individual chances of transition to new and continuously employment (job security). As illustration 2 points up the chances of re-employment after the termination of one employment relationship are significantly higher. To provide a more exact picture of the labour market, also options for transitions have to be considered. As both illustrations of the example result in identical survivor rates it becomes obvious that the research of job stability by employment spells without associating concrete numbers of persons, which are concealed behind these employment spells, excludes issues of individual employment careers and inter-company related job security. For analysing more or less secure passages in life course, the practice of transition rate models is an appropriate method. For describing whole employment trajectories Optimal-Matching methods enable an explorative approach to the topic of job security.
Chapter XII

Good and bad External Labour Markets in Eastern and Western Europe – Concepts and comparative hypotheses

by Christoph Köhler, Ina Goetzelt, Tim Schröder*

1. Introduction

The main objective of our workshop was to get an overview on the state of the art in selected Western and Eastern European countries concerning findings and concepts on labour market structures. This collection of papers documents the full complexity of the international debate with regard to data, findings, concepts and controversies, which is impossible to summarise in a few pages. We are therefore going to focus on two common questions that have been addressed by the contributions to this workshop. We will firstly summarise and comment the statements on labour market segmentation, and secondly try to develop a number of comparative hypotheses on the extension and quality of External Labour Markets.

As Burkart Lutz has shown (chapter II) the issue of External Labour Markets is of major importance for research and policy development. Looking at the evidence from Western and Eastern European countries there seems to be a strong economic and political pressure on Internal Markets with different outcomes in different countries. In many cases the composition and quality of Internal and External Markets are changing. The low road of externalisation means growing secondary markets with low skill levels and wages and high employment risks. The high road is defined by Occupational Labour Markets where skills and jobs are standardised across firms and security is derived from jobs in one occupation but in many firms.

We do believe that concepts and comparative findings on External Labour Markets are of high importance for the understanding of trends in employment and labour markets flexibility. They can also be helpful for the ongoing debates on Transitional Labour Markets, Flexicurity and Employability. The Flexicurity debate is focused on the relevance of public employment security provisions for labour market flexibility and external mobility. The Employability debate focuses on the question of the generation of transferable skills and competencies to

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support re-employment from unemployment. The concept of External Labour Markets looks at the economic and institutional basis for inter-firm mobility and there seem to be many overlapping and complementary themes to Flexicurity and Employability concepts.

2. Concepts of labour market structures

All contributions to this booklet use some terminology on persistent labour market patterns. Some refer primarily to the distinction between standard and non-standard employment and to gender segregation. Others focus on the distribution of tenure or the duration of employment spells and distinguish between long-term versus short and medium-term employment relationships. There seems to be a consensus against hypotheses of the generalisation of employment risks (see Petit in chapter IV). Several authors discuss and reframe these findings in terms of segmentation theory which assumes relative stable and distinct patterns with regard to the control of allocation processes (Internal or External Markets) and to income and employment risks (primary and secondary markets).

Grünert and Lutz from Germany (see chapter II; Grünert in chapter IV) follow the tradition of the “Munich segmentation approach” with its three-field matrix (Internal, Occupational, Secondary Labour Markets). In a strong historical thesis, Lutz diagnoses an erosion of the economic context of Internal Labour Markets but severe problems for a corresponding rise of Occupational Markets because they require complex and fragile institutional arrangements to facilitate inter-firm mobility on high skill levels. Grünert argues in favour of a broad concept of Occupational Labour Markets that includes lateral as well as upward mobility.

According to Heloïse Petit from France (see chapter IV) primary markets should be distinguished against secondary markets by career opportunities, which in Internal Labour Markets are constituted by intra-firm and in Occupational Labour Markets by inter-firm upward mobility. For France, she diagnoses an expansion of the external mobility career path by the end of the nineties, i.e. an expansion of Occupational Markets. In addition, she states rather a change than a decline of Internal Labour Markets.

Gibert and Martin from Spain (see chapter VIII) distinguish two types of Internal and External Labour Markets. According to them, Spain has a shrinking segment of classical Internal Markets for un- and semi-skilled labour in industry, but a strong segment of Internal
Markets for skilled jobs with occupational careers in the public and private sector. With respect to External Markets, they diagnose a growing secondary external sector segregated by gender, ethnicity and age in supplier industries, tourism and construction. They also find an expanding Occupational Market in high tech industry and services for skilled and highly skilled workers. This segment encompasses strongly commodified and individualised labour relations with low union presence.

Our analytical framework (see chapter III) opts for a two-dimensional matrix with a horizontal distinction between Internal and External Markets and a vertical distinction between primary and secondary or “good” and “bad” markets. We suggest a four-field matrix with primary, as well as secondary internal and external segments. Primary Internal Markets can then be defined by intra-firm employment security indicated by long-term employment and by relatively high wages. Secondary Internal Markets also generate employment security, but pay only poor wages. Primary External (i.e. Occupational) Markets contain firm employment systems with short- and medium-term employment, inter-firm employment security, and good wages. Secondary External Markets also comprehend short- and medium-term employment, however, coupled with poor wages and a high employment risk.

To fully exploit the analytical, theoretical and empirical potential of the segmentation approach we suggest a desaggregation of the four segments. Following Osterman and others we use the concept of firm employment (sub-) systems (FES), defined as areas of jobs within the organisation with distinct rules of allocation, training and gratification; with one company normally applying several different systems. With these FES, employers are connected to and are located in different segments of the labour market (see chapter III).

The relationship of segmentation typologies to concepts of the “Informal Economy” and “Transitional Labour Markets” still has to be defined. There seem to be overlaps and complementarities. With respect to the Informal Economy we assume that wage employment can be sorted into the four field segmentation matrix, while informal self employment is located in a different field. The same is true for the concept of “Transitional Labour Markets”. With respect to wage employment the approach looks at jobs within the segments of the matrix, where people are moving in and out of employment from and to the educational system, household-related services, unemployment and retirement. While segmentation
analysis describes labour markets, where people move between jobs, the Transitional Labour Market approach focuses on the mobility in and out of employment.

Another challenge to segmentation concepts is the sociological life course research, which we see as complimentary rather than as opposed to labour market analysis. Segmentation concepts describe a field of socio-economic positions and transitions (career paths) that allow firms to produce goods and services and individuals and households to generate income and employment security. The life course concept describes mobility of social groups into, out of, and within this field of positions; in other words, within and between labour market segments as well as between employment and unemployment and between the boundaries of the labour market itself. Furthermore the life course analysis emphasises the dimension of time in labour market research.

3. External Labour Markets - comparative hypotheses for Germany

The question of an erosion of Internal and expansion of External Labour Markets is at the centre of the economic debates on labour market flexibility as well as the social policy debate on Employability and Flexicurity. Our comparison will therefore focus on the size and quality of External Labour Markets in the six plus one (East Germany) countries represented in our workshop.

The comparison is based on three sources: 1. the contributions to this workshop, which focus on trends since the 90s until now; 2. established knowledge from the international research on production and employment regimes which goes back into the 70s and 80s; 3. selected statistics on tenure, labour turnover, temporary employment and other indicators drawn from our contributions and other sources (ILO, OECD, see appendix II).

In spite of reunification, East and West Germany can be considered today as two societies and our comparisons reveal that the lessons learned here are helpful for a broader East-West perspective. West Germany is a country with stagnating employment and high unemployment (about 15% total unemployment), however with high GDP and income levels (see appendix II). In national as well as in international debates it is considered to be an overregulated problem case. Classical comparisons of production and employment regimes (Sengenberger 1987, 1992; Marsden 1999; Rubery/ Grimshaw 2003; Blossfeld 2005) have characterised the
German labour market by strong Internal Markets with a relatively small share of External Markets. External Markets were seen as having a relatively small low wage sector. As there is a strong tradition of vocational training, good External Markets along occupational lines for skilled vocations and academic professions were assumed to form a large part of the external segment.

The contributions on Germany (see chapters II, III, IX, X) implicitly or explicitly discuss these typologies that were first developed in the 80s and more or less confirm the picture. The German labour market has more low wage jobs, external mobility and flexibility than some of the critics assume. However, in international comparisons this sector is smaller than in countries with “flexible labour markets” like the UK and the US.

The papers on West Germany reflect the worldwide controversy on trends in employment stability. Erlinghagen (see chapter IX) argues that there is little change with respect to the duration of employment spells and tenure particularly for skilled work, while Lutz emphasises forces of change and Grotheer and Struck (see chapter X) identify a “moderate” destabilisation. There is, however, a consensus on the resilience of long term employment, Internal Labour Markets and the basic characteristics of the German “model”.

On the basis of the classical comparative work and the contributions in this book, we assign West Germany a medium level with regard to the share of External Markets (see figure 12-2). International comparisons of tenure and turnover data support our hypothesis (see table 12-1). Germany has a medium level of average tenure and also of the share of personnel with over ten years of tenure (ten-plus tenure). Both sets of data indicate the level of long-term employment in Internal Markets. As the national differences for Western Europe have been relatively stable over time, we assume that age and job turnover effects do not damage the overall picture (see Auer/ Cazes 2002).

With respect to the share of Occupational Markets as part of the external segment, our analyses of firm employment systems confirm the classical picture for West Germany. Analyses of selected industry and service branches and occupations demonstrate (see chapter III, IX, X) that External Markets in West Germany comprehend a high share of vocational and professional skills, and that direct moves from employer to employer without unemployment spells play an important role.
If West Germany is considered as a problem case then this is undoubtedly true for East Germany with stagnating employment and total unemployment in the range of 20 to 30%. Compared to other socialist societies, the former German Democratic Republic (GDR) was during transition exposed to the strongest economic shock therapy coupled with a likewise exceptional social compensation program. Within months after the silent revolution, customs barriers were removed and the monetary union with West Germany was introduced. This integrated a completely unprepared economy into the world market. East German industry lost more than 70% of its employment volume within two years after reunification. Only the historically unique transfer of money and knowledge from West to East, the early retirement of a quarter of the work force and high as well as extensive and lasting public employment services and subsidies helped to avoid large scale protest and social movements.

The consequences of the radical systems change led to a surprising “renaissance” of Internal Labour Markets in the new capitalist economic environment and to a strong polarisation of the labour market structure. High unemployment and uncertainty together with socialist security orientations led employees and employers to close firm employment systems. These granted employment security at the price of low wages – in many cases coupled with payment delays and administrative leaves if orders or cash-flow were low. This mechanism of “social closure” was reinforced by specific organisational demographics: In surviving organisations only middle-aged personnel survived staff reductions in the early 90s and together grew older over time in the Internal FES. The losers of this system were confined to instable jobs in External Markets with relatively small chances of transition into good jobs or were condemned to long-term unemployment (see Ketzmerick in chapter IX; Chapter X).

In a comparative perspective the share of External Markets is similar to the West German level (see chapter III). This is however coupled with a stronger polarisation between Internal and External Markets. East German External Markets have higher turnover levels, lower transitions rates into stable employment and a higher risk of unemployment. Consequently we find a higher share of short-tenured personnel by the turn of the century. Average tenure and ten-plus tenure are lower than in West Germany: East Germans did not have the chance to reach comparable tenure levels, because of the high job and labour turnover during the restructuring process in the 90s.
With respect to Occupational Markets, we expect a lower share than in West Germany. The former GDR had continued long-standing pre-war traditions and build up a strong system of vocational training with similarities to the West German model (in contrast and opposition to the USSR). This was one reason for the economic success in the Comecon-block and also helpful during transition: After reunification, about two thirds of the remaining employees stayed within their vocational or professional field, including those who changed employers. However, this rich supply of vocationally skilled personnel did not fuel External Occupational Markets after the systems change. High levels of unemployment and security orientations have pushed many skilled and highly skilled workers into secure employment in Internal Labour Markets. At the same time the reformed system of vocational training did not function on the West German level. Furthermore, many graduates left their region in search for better job opportunities in West Germany. Taken together, these mechanisms have seriously weakened and reduced the size and quality of Primary External, i.e. Occupational Markets in East Germany.
Figure 12-1: **Wage Employment development for selected West European Countries since 1991**

*The Spanish employment growth is exaggerated because of changes in data collection methods.*

Figure 12-2: **Size and quality of External Markets in Western and Eastern European countries**

<table>
<thead>
<tr>
<th>Share of Occup. markets</th>
<th>Low</th>
<th>Medium</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of External Markets</td>
<td>Poland</td>
<td>Russia</td>
<td>France</td>
</tr>
<tr>
<td>Low</td>
<td>Spain</td>
<td>East Germany</td>
<td></td>
</tr>
<tr>
<td>Medium</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High</td>
<td>United Kingdom</td>
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<td></td>
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</tbody>
</table>

Share of External Markets as part of Total Labour Market
Share of Occupational Markets as part of total External Markets
Table 12-2: Tenure and turnover in Western and Eastern European countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Average Tenure (years)</th>
<th>Tenure under 1 year</th>
<th>Tenure 10 years and longer</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>accurate years</td>
<td>early 90's</td>
<td>late 90's</td>
</tr>
<tr>
<td>Poland</td>
<td>1994/1999</td>
<td>11.4</td>
<td>11.9</td>
</tr>
</tbody>
</table>
3. Comparative hypotheses for France, Spain, and the UK

In international comparisons, France has been characterised by a predominance of Internal Markets coupled with Secondary External Markets and strong wage differentiation (see chapter IV). Petit shows that during the 90s a modestly increasing average tenure is paralleled by a growing labour turnover. She interprets this phenomenon as a reinforcement of inequalities: stable positions become more stable, instable more instable. She also diagnoses a growth of External Labour Markets based on an expansion of the “external mobility-career path”, which is then interpreted as an upper-level primary segment (see chapter IV).

Changes, as indicated by turnover rates and tenure distribution, are moderate and do not question the basic structure of the French segmentation model. Our hypothesis is that France has a slightly smaller external segment with a smaller share of Occupational Markets than West Germany (see figure 12-1).

Spain was a latecomer in industrialisation and modernisation of its economy. During the post-war growth period it developed a dual structure with a small share of Internal Labour Markets in large industrial companies, financial services and public administration and a large share of Secondary External Markets in agriculture, construction, tourism and secondary industry, many times part of the informal sector. Vocational training and Occupational Labour Markets never reached the level of other Western European countries (see Miguélez/ Prieto 1991, 1999; Köhler/ Woodard 1997).

For the late 90s Artiles and Gibert (see chapter VIII) report a success story in terms of employment growth, but severe problems with respect to the quality of the new jobs. There is a re-composition of the Internal Labour Market segment with losses in the traditional supplier and clothing industries that are relocated into low wage countries. This is accompanied by an increasing secondary external sector with a strong basis in agriculture, construction and tourism. This sector is characterised by a high level of poor wages, temporariness, precariousness and segregation by gender, age, and ethnicity. The authors also report a small but growing share of Primary External Markets in high-tech sectors and services where employment is commodified and individualised and occupational careers are conditioned by universities, continuous training and professional associations. This is fuelled by the high and
growing output of the system of higher education. Spain here seems to follow the French path starting on a lower level.

Average tenure is lower than in France, with a smaller share of the ten-plus group and a larger share of the up-to-one-year group (see table 12-1). We assume that compared to France, Spain has a stronger external segment with a stronger share of secondary employment. With respect to Occupational Markets, Spain seems to follow France at a certain distance, mainly with academic careers (see figure 12-1).

While Germany, France and Spain show strong signs of path dependency, the UK is many times cited as an example for rupture rather than continuity. As many authors have shown (see Marsden 1999; Rubery/ Grimshaw 2003) during the 70s the UK used to have strong and union controlled Internal Markets as well as strong Occupational Markets based on a system of vocational training. McCann argues (see chapter VII) that with de-industrialisation, de-unionisation and de-regulation of employment protection during the 80s Internal Markets changed from closed to more flexible employment systems. These “new” Internal Markets then depend on External Labour Markets, where he identifies a growing share of secondary jobs with low wages and insecure employment.

Looking at qualitative as well as quantitative findings, we assume that compared to France and Germany, the UK developed stronger External Markets. This assumption is supported by the lowest average and ten-plus tenure in Western Europe with strong short-term employment. With respect to the share of Occupational Markets we assume a position in between France and Germany. While Occupational Markets for academic skills grow, the tradition of vocational training has been weakened but not eliminated.

4. Comparative hypotheses for Poland and Russia

The transition path of Poland has in the past been considered as a fast and neoliberal one. This was true for price liberalisation but not for the privatisation of businesses (in particular in agriculture, mining, and steel) and deregulation of labour law. With regard to its employment protection legislation, Poland is closer to the conservative welfare states in Western Europe (Germany, France, Austria) than to the UK and US (see Cazes/Nesporova 2004; appendix II).
Blaszcyk and Grotkowska (see chapter V) give a detailed account of the development of overall employment, tenure and standard employment. In comparison to East Germany, Poland lost a relative small share of its previous employment in the early 90s (see appendix to this chapter). The country then experienced a growth of GDP and employment in the mid-90s (94-97) and job losses and rising unemployment since then. The average tenure and share of employees with over ten years tenure is surprisingly high, higher than in other Eastern European post-socialist countries, but also higher than in Western Europe (see table 12-1). This is a strong hint on stable employment: As a severe restructuring of the economy took place in the last 15 years, we would expect structurally lower tenure levels in post-socialist countries.

Grotkowska concludes that the Polish labour market is characterised by a low degree of external flexibility. Our impression is that Poland experiences an effect of “social closure” similar to the East German post-socialist “renaissance” of Internal Labour Markets coupled with a strong insider/outsider effect. The high average and ten-plus tenure along with a persistently high level of turnover (see table 12-1) and a growing number of temporary contracts speaks in favour of a strong polarisation between Internal and External Markets. Summarising this evidence, we assume a stronger share of Internal and a smaller share of External Markets than in East Germany.

With respect to the share of Occupational Markets as part of the total External Market, we expect a lower level than for East Germany. Poland has a weak tradition of vocational training. However, Occupational Markets for workers with academic education seem to expand. Grotkowska reports an “inverse relation between length of job tenure and education level both for men and women” (see in chapter V) and on this basis she assumes a high mobility of academics taking advantage of the opportunities of the new system. This is confirmed by Cazes and Nesporova (2003: 73) who report that, in Poland, employees with higher education had only half the average tenure of low skilled workers (10.6 years : 19.7 years) in 1999. This finding is unique for Western and Eastern European countries with the exception of Greece and Slovenia (Auer/ Cazes 2002: 6ff.) and it contradicts well-established human capital assumptions. The overall picture, with respect to Occupational Markets, resembles France and Spain with weak vocational training and standardisation but growing academic Occupational Markets.
The *Russian* economy during transition went into a deep and long crisis from 1992 to 1998 with continuous losses in real GDP, and only since 1999 it entered a phase of recovery. Against the expectations of economic theory, this tragedy was not accompanied by a breakdown of labour markets. The Russian Federation experienced only small losses in employment and comparatively low unemployment rates. According to Gimpelson and Karabchuk (see chapter VI) this was only possible with very low and highly flexible wages. Average wage levels sank dramatically and were – during several years - accompanied by the widespread practice of delayed wage payments and administrative leaves, where employees keep their affiliation with the company and some seniority-based rights, but receive no wages at all.

With respect to our question of the share of Internal and External Labour Markets, many authors emphasise the strong path-dependency and rigidities of the Russian labour market. Russia is many times cited as a contrast case to Poland and other post-socialist countries with faster and more radical transition paths. The Russian state continues to rely on enterprise-based employment security: Employment protection legislation remains comparatively strong, whereas public employment services are weak. According to this view, workers stick to their jobs and the management avoids dismissals, which creates a strong sector of Internal Labour Markets (Cazes/ Nesporova 2003: 140).

Karabchuk (see chapter VI) paints a different picture and stresses the wage and employment flexibility indicated by high labour turnover, non-standard contracts and a strong differentiation of employment segments. Our hypothesis with respect to the overall labour market structure is that in Russia – like in other post-socialist countries - a polarisation between stable and unstable jobs emerged. Several indicators speak in favour of a medium level share of External Labour Markets compared to other Eastern European societies: Russia displays a medium-level of average and ten-plus tenure (see chapter VI; table 12-1).

Like in Poland, the persistently high labour turnover and growth of non-standard employment in Russia indicate a strong differentiation between Internal and External Markets. Karabchuk reports two groups of workers that were particularly involved in external mobility: firstly, those in low skilled and low wage jobs, who did “job shopping and hopping” in order to improve their living conditions with little to lose; secondly, those workers whose skills were in high demand in the new post-socialist businesses and who left badly-paid but stable jobs in
Internal Labour Markets. According to Karabchuk, this “brain drain” caused the breakdown of many previously strong Internal Markets.

With respect to the share of occupational as part of the overall External Markets, we expect a low position in international comparison. The USSR at an early stage opted for the Fordist production model, to run large factories with unskilled peasant labour and some highly-skilled engineers and managers. They consequently decided against a strong system of vocational training and in favour of basic and general schooling on the one hand and higher education on the other. This tradition is still in place and leads to our assumption of weak Occupational Markets. However, like in other countries, there seems to be a tendency of growth for External Markets based on academic occupations and professions.

5. Summary and conclusions

It was the intention of this chapter was to give an overview on the contributions to our workshop as well as to develop comparative hypotheses and questions for a research network. In doing so, we focused on the size and quality of External Labour Markets.

The comparison (see figure 12-1) shows that post-socialist countries have a surprisingly high share of Internal and a small share of External Markets coupled with high turnover rates. Background is a “renaissance” of Internal Labour Markets due to mechanisms of social closure and a corresponding insider/outsider effect. There seems to be a strong polarisation between the internal and external segment with regard to labour turnover and transitions from external to internal firm employment systems. The Germany-Germany comparison was particularly helpful to identify this pattern, because we could control many institutional variables and had excellent and comparable data for both regions.

The Western European countries show strong differences with regard to the size of External Labour Markets. A look at the UK versus France confirms the “prejudices” about Anglo-Saxon external flexibility versus French-style Internal Labour Markets. Spain takes a middle position and seems to be moving away from the classical southern European pattern with its strong insider/outsider logic (e.g. Italy, Greece), while West-Germany shows a “co-existence” of Internal and External Markets.
With regard to the share of occupational as part of the overall External Markets, we expect a strong path-dependency related to the respective systems of vocational training. In line with classical comparative work (Sengenberger 1981, 1987a, 1987b, 1991; Lutz 1987, 1992, Maurice et al. 1984; Marsden 1999; Rubery/ Grimshaw 2003; Blossfeld 2005), we define the strength of vocational training by its duality (schooling and practical learning), the degree of institutionalisation and recognition, and the effect on the standardisation of jobs.

On the basis of extensive literature and research we assume that countries with a weak tradition in vocational training (like France and Spain; Poland and Russia) have comparatively small Occupational Labour Markets. However, these countries also report a growth of external mobility for high-skilled personnel conditioned by universities, further education, and professional associations. This could be a sign for the growth of a new type of Occupational Market inbetween highly institutionalised classical craft or professional markets (e.g. physicians and lawyers) on the one hand and secondary markets for basic skills on the other. Up to now Occupational Markets have been associated with a strong and indispensable institutional support. This concept has to be questioned, if there is growing evidence for interfirm mobility along occupational lines but without vocational or professional structures.

As Burkart Lutz has shown in his introduction to this workshop (chapter II) the question of the size and quality of External Labour Markets is of high importance for research and policy development. Eastern and Western European countries face strong pressures for change and there are low roads and high roads to External Markets. External Labour Markets are a challenge to empirical and theoretical research. With regard to empirical research we need to develop better instruments to analyse external firm employments systems and inter-firm mobility. With regard to theoretical efforts, we have to go against a mainstream of Internal Labour Market research that has dominated Economics and Sociology for decades; this is a serious challenge, because External Markets include many actors and institutions and thus being extremely complex.

Research and discussion should include analyses of Primary and Secondary External Markets; we could ask for economic and institutional criteria that differentiate “good” and “bad” External Labour Markets. External Markets can grant a high degree of allocative flexibility and at the same time inter-firm job security. However, they can also include the risk of supply
shortages for employers and employment insecurity of employees. What are the preconditions for economically and socially efficient, “functioning” External Markets?

Such a framing allows to focus empirically and theoretically and at the same time connect to several ongoing parallel debates on “Flexicurity”, “Training and Further Education”, and “Employability”. In the years to come we would like to continue our international discussion network and to develop an interchange of researchers and comparative projects. We hope that this initiative meets your interest.

References:
Appendix I: The Jena-Halle Interdisciplinary Research Group SFB 580

1. History and main objectives

The institutional background for our workshop is an interdisciplinary research unit on economic and social change in Eastern and Western Germany at the Friedrich-Schiller-University in Jena and the Martin-Luther University of Halle and Wittenberg, both located in the centre of new reunified Germany. Sociology was not fully accepted in the former GDR and only taught in a few universities. Economics was focused on planned economies. After reunification, in the early 90s, the Friedrich-Schiller-University in Jena and the Martin-Luther University of Halle and Wittenberg founded new sociology and economics departments. The two universities have been very successful both in teaching and research and today, they are able to compete in national and international rankings.

In 2001, an initiative from both universities received long-term funding for an interdisciplinary research centre (Sonderforschungsbereich – SFB 580) on social change in East and West Germany after reunification with a comparative perspective to Western and Eastern European societies. The SFB is a special type of funding by the German Research Council that allows for interdisciplinary and basic research on longitudinal trends in societies with 15 projects and 70 researchers for up to 14 years (with an evaluation every four years).

Since autumn 2002 the SFB 580 publishes a magazine (“SFB-Mitteilungen”) which presents ongoing research results and provides a discussion forum for members of the SFB and external researchers. The SFB-Magazine can be ordered by the SFB-Offices and is also available online www.sfb580.uni-jena.de.

The SFB 580 with its 15 projects has a clearly interdisciplinary approach. It comprehends the disciplines of sociology, economics, labour law, political science and psychology. The research group focuses on three areas of social change:

- Elites in economy and in politics
- Social services and institutions
- Labour market structures and firm employment systems

* See also: http://www.sfb580.uni-jena.de.
2. The labour market group

Common subject of the labour market group is the question of the decline of Internal Labour Markets. We analyse processes of externalisation and internalisation in labour markets:

- Project B1 has a macro perspective and focuses on demographic structures, inter-firm mobility and regulation.
- Project B2 starts from a micro-perspective and researches firm employment systems and employee mobility.
- Project B5 focuses on the externalisation of personnel services – among other questions of temporary work agency employment and interim management.
- Project B7 is interested in strategic decision-making with respect to the employment relationship. It researches the question of economic rationality and fairness with experimental methods.

*Project B1: Inter-company labour markets between instability and difficult restructuring*

Subject of this project are “Inter-company labour markets between instability and difficult restructuring”. The theoretical interest of the project is focused on the question to which extent tendencies towards an erosion of Internal Labour Market structures are taking place and which requirements this poses on the functioning of External, in particular on Inter-company Labour Markets. The empirical focus of the research is on developments on the labour markets in Eastern Germany.

These labour markets display a range of special features: After the collapse or the dramatic shrinking of numerous large companies in the manufacturing industry and in other sectors, an economic structure developed which is much more than in Western Germany characterised by small and medium size enterprises. At the same time, unbalanced and “crippled” age distributions among the work force formed out in many of the companies. In particular the companies in which the young work force quit or was dismissed after 1990 and the older employees were sent into early retirement, the age distribution of the remaining work force centred around relatively few middle age groups. Now, after 10 to 15 years, these companies face the increasingly urgent problem of adequately replacing their retiring employees.

Due to the age structure of their staff, in the years ahead, many East German employers - in particular smaller companies with concepts of production and performance that are based on
skilled labour and a highly qualified workforce – will be forced to abandon their so far prevailing intra-firm oriented personnel policy and to move on to a recruitment strategy which is focused on the external inter-company labour market.

We assume that this development will be accompanied by qualitative and quantitative instabilities (“mismatches”) in the respective sectors of the labour market, by new challenges for individual and for collective actors, as well as dramatic changes in the structure and functioning of inter-company labour markets for executive and qualified personnel.

In our view, these expectations lead to two series of research questions. On the one hand: By which new requirements do individual and collective labour market actors see themselves confronted? Which new structures and ways of functioning of the labour markets will result from the more or less successful measures of coping with these new requirements? And on the other hand: How is the capacity of the institutional preconditions for the functioning of the labour market in Eastern Germany to be estimated? Which deficits become apparent? Which changes in the regulation of the labour market and of employment and additionally of training and further training can be observed or can be expected in the near future?

Due to the complexity of the subject, a two-level approach is applied:

- On the macro level of employment and labour market in East Germany we continue the observation of essential dimensions of the market for skilled labour, such as developments in the institutional-normative regulation, developments in the education and vocational training system, and developments of quantitative labour market trends and inter-company mobility paths. The empirical basis is the analysis of official statistics combined with corresponding studies available and with surveys of our own.

- In addition, in-depth analyses in selected, particularly precarious, sectorally as well as regionally defined spheres (including interviews with experts and documentary research) are carried out. They are to serve primarily to identify structurally novel or rather “stealthy” changes sooner and more easily than it would be possible on the macro level. Another aim is to point out the interdependences between different dimensions of change.

The project forms part of the worldwide debate on the erosion of long-term employment and Internal Labour Markets. It observes and analyses trends in employment stability and security with employer and employee data in West- and East Germany. First findings and hypotheses are:

1) The state of the art on the German “model” proposes a hegemony of stable and secure employment. Contrary to these expectations the project discovered a high level of inter firm mobility and a co-existence of long term against mid- and short term employment. Macro- and micro level data show a modest increase of the latter during the nineties.

2) The duration of jobs depends on company level employment systems, which can be classified according to their degree of openness to the External Labour Market. “Closed Systems” guarantee long-term employment and refer to the concept of Internal Labour Markets. “Open Systems” organise medium-term employment relations, “Market Mediated Systems short-term employment”. Both constitute the basis of External Labour Markets.

3) Extensive multivariate analyses demonstrate that the structure and development of employment duration and company employment systems are not sufficiently explained by human capital, segmentation and transaction cost theories. As a heuristic approach the project experiments with more open and complex models including problems of availability of manpower, performance and control, and discontinuity in the volume of labour.

These findings and hypotheses constitute the starting point for the second phase of our project from 2004 through 2008. Firstly, we continue our own company panel survey in 800 organisations of ten branches in two waves (2004 and 2006). Secondly, these findings will be contrasted and confronted with analyses of representative employer-employee data (process produced by the German social security system). Thirdly: to specify and further develop our concept of company employment systems we will continue to conduct case studies and interview personnel managers and selected groups of employees.

Our goal is to adequately describe and explain trends in employment stability and security in East and West Germany and to develop an empirically and theoretically saturated typology of employment systems. In the years to come we would like to extend our East-West-Comparison to other countries in Eastern and Western Europe and are presently looking for foreign partners and EU-funded post docs and guest researchers.
In this project we focus on the demand side for Personnel Services. We analyse the possible externalisation of personnel functions (outsourcing) and the determining factors of the outsourcing process.

There is an array of different Personnel Services in the market, as for example: temporary agency work, interim management, management-on-site, human resource consultancy compensation consultancy, payroll accounting, outplacement, personnel development and training as well as different combinations of such services including the complete outsourcing of the personnel functions to an external service agency. Beyond all their differences in detail, all these services have something important in common: they represent the market solution for personnel functions and tasks for which an organisation can in principle decide whether to produce them within the organisation or whether to buy them on the market.

For some time many organisations have been discussing outsourcing of functions that do not constitute its core competencies or that can be procured outside the firm at lower cost. Thus, like all other departments in organisations, the personnel function already is - and will be in the near future - the object of make-or-buy-decisions. The demand for Personnel Services can thus be conceptualised as the economic question whether and which parts of the personnel function can and should be "bought" on the market and under what conditions this is efficient, and when and why organisations should better "produce" these services themselves.

In addition, some of the Personnel Services are considered to contribute to a more flexible labour market, for example temporary agency work and job-worker-placement activities of private employment agencies. In Germany, this has led to major changes in the legislation concerning Personnel Services; changes which aim at a wider dissemination of these services and their contribution to lowering the high unemployment.

Thus, legal and economic aspects are both influencing the market of Personnel Services and the demand of these services and constitute interesting aspects of economic analysis. The long term aim of our project is to analyse the development of the German market for Personnel Services with special focus on the differences between East and West Germany in the labour market. However, for the first four years, we will concentrate on the demand-side of the
market and try to reduce the theoretical and empirical deficits in this field. For these reasons, we will try to modify and complement existing economic theories by giving more attention to performance aspects of the outsourcing decision on the one hand, and on the other hand to include important basic conditions and structural elements of the organisations like size, collective bargaining agreements, works councils etc. in the analysis. Empirical work will include qualitative interviews and a large scale enterprise survey (800 organisations).

*Project B7: Strategic Interaction, Reciprocity, and Fairness – Components of a theory of labour relations*

This project analyzes the differences in the design of labour contracts in East and West Germany with regard to type of contract, duration and wages, with the help of game theoretical and experimental methods.

Since the beginning of the 80ies in West German and since the change of the system in East Germany in 1989, a rise of labour relations with temporary perspectives and therefore diminished activities on firm intern labour markets are evident. This is called “externalisation process” (e.g. rising use of temporary labour contracts, rented hand and outsourcing).

In the Eastern and Western federal states a different acceptance of these forms of contracts is observable. This is mainly due to different fairness perceptions of employers and employees, but can also be traced back to different social and macroeconomic conditions in East and West. This connection between social behaviour considerations like fairness and reciprocity and type of labour contract is the main focus of this project. Our goal is to develop components of a theory, which on the one hand contribute to an explanation of the variance of types of contracts in East and West, and on the other hand allow analyzing the effects of these “externalisation processes” on personnel management, business administration, and economic policy.

Two important research questions shall be answered in this project: First, which function do social behaviour considerations in labour relations have? Here we focus especially on the economic relevant aspects like the willingness to perform and invest, and the development of these orientations under different social and macroeconomic conditions. Second, how do dispositions of social morality influence together with institutional-legal, economic and social
factors the design of contracts in a labour relation? To answer these questions, we model labour relations with the help of a principal-agent approach. The hypotheses derived from this will be tested with data from lab and field experiments.

By answering these questions, this project on the one hand contributes to the fundamental research on labour relation theories. On the other hand the project adds to the work of the other projects in the B-part of the SFB in the analysis of reasons, effects, and problems of the ongoing externalisation processes. The new component we add, is especially the analysis of the connection between design of contract and behavioural patterns of social morality as well as the involvement of competition on markets in basic theory. Furthermore, this project contributes to “intercultural experimental” research. As far as we know, the development of social moral behaviour orientations in labour relations is not part of present research. In addition to the historical-empirical oriented projects of the B-part, our project gives the possibility to work off the observed differences formally and analyze them in detail.
Appendix II

Employment and mobility - definitions and comparative data

1. Definitions

When reading the essays of this publication on employment stability and labour market segmentation, it is helpful to have a short overview of the most important and frequently used terminology on this topic. Standard forms include employment relationships of full-time and permanent jobs with unlimited contracts, whereas, non-standard forms cover the following:

- *Part-time employment* = contractual hours of work are shorter than the national full-time standard – different definitions by national and supranational institutions.
- *Marginal part-time employment* = definition of work and income below the German social security threshold (normally ten hours and less).
- *Fixed-term employment* = contract expires on a specified date or at the end of a specified period of time (also labelled by some authors as temporary, as opposed to permanent employment).
- *Temporary work agency employment* = private or public agencies employ and lend workers to other firms for a limited period of time.
- *Casual employment* = employment on an ad hoc basis without regular hours or contract – in many times only for a day.
- *Secondary employment* = form of additional employment to supplement the income from the main employment relationship
- *Self-employment* = this covers the activities both of 'one-person operations' and of self-employed "entrepreneurs" running their own businesses
- *Freelance employment* = independent self-employed individuals who sell their services to different clients.
- *Quasi self-employment* = formally self-employed individuals who in practice depend on one firm – firms avoid employment protection and social security contributions.
- *Informal employment* = self-employment and dependent employment in the “shadow economy”; not registered for avoiding taxes and social security contributions; opposed to the formal economy (also called the institutional or registered sector)
2. Comparative data

Figure 1: **Gross National Product in selected Western and Eastern European countries**

*international $ per capita*


Figure 2: **Income inequality in selected European countries, 1999**

¹ relation of the richest to the poorest quintile

Source: Hradil, S. (2004): 207; see also Eurostat Haushaltspanel
http://europa.eu.int/com/eurostat/Public/datashop
Figure 3: **Fixed-term contracts as a percentage of wage employment*, 2000**


Figure 4: **Fixed-term contracts as a percentage of total employment, 2000**

Figure 5: Employment Protection Legislation Index selected European countries, 1999 (EPL - ILO)

Source: Cazes/Nesporova (2003): 101; see also OECD (1999).
Figure 6: **Average quarterly hiring rates in selected European countries, 2004/2005**

![Chart showing average quarterly hiring rates in selected European countries, 2004/2005.](chart1.png)


Figure 7: **Labour turnover** in selected Eastern European countries and Germany, 1998 (percentages)

![Chart showing labour turnover in selected Eastern European countries and Germany, 1998.](chart2.png)

1 Def.: hirings+separations/ employment * 100. Sources: Poland, Slovenia, Russia: Enterprise Survey, Estonia: LFS, data see Cazes/Nesporova (2003): 56; East Germany IAB Employment Panel Data.
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