

Working paper – Document de travail

Collective Bargaining and Internal Flexibility: A Franco-German Comparison

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Summary

Due to its economic and employment performance over the last 10 years, and particularly during the crisis, Germany is frequently presented as a model for France. It is by now well acknowledged that labour market performance has been extraordinarily good in Germany since the mid-2000s. Unemployment has steadily declined since then, reaching 4.7% in July 2015. In terms of labour force participation, Germany has outperformed comparable industrialized countries since 2005. In the meantime, unemployment has never been lower than 7% in France in the past 30 years and reached 10.4% in July 2015. The gap in unemployment between France and Germany has widened since the financial crisis. These divergent patterns of labour market outlooks have called significant attention to the underlying causes of the so-called German miracle.

The German model is the result of a continuous and consistent process, combining labour market reforms, economic specialization, a collective skills training system, international openness and corporate organization and governance. Numerous research studies have pointed out the multifactorial causes of Germany's labour market performance. These are both endogenous and exogenous. The former include the efficiency of its skills training system, the strength of its small and midsize companies (*mittelstand*) and the peculiarity of its collective bargaining system. The latter include the structural labour market reforms of the 2000s, the loosening of labour law, with the widespread development of atypical forms of employment through the so-called mini-jobs, and the processes of restructuring and outsourcing the German industrial model through the expansion of the service sector.

Our working paper focuses on the contribution of collective bargaining to internal flexibility and hence the German job miracle. Internal flexibility refers to three levers that firms can use to adjust their workforce without having to lay off or hire employees: internal numerical flexibility (working time), functional flexibility (organization and adaptability) and financial or wage flexibility (variable pay, for example). This kind of flexibility has indeed proven to be an effective means of reacting to changing economic circumstances and the increased competition resulting from globalization. Internal flexibility contributes to job retention and to the conservation and accumulation of skills, which play a central role in firms' competitiveness and employment dynamics.

In Germany and France, firms' capability to use instruments of internal flexibility is strongly dependant of the existing processes of collective bargaining.

The point is that, according to some research studies, the decentralization of the collective bargaining system that has been gradually taking place since the 1990's in Germany, from the national and industry level to the firm level, is a major factor that may explain both the resilience of the German labour market during the 2008 global crisis and, more broadly, its competitiveness. It is then of interest to understand how precisely internal flexibility practices and collective bargaining trends interact in Germany and, comparatively, to analyse the French situation.

This working paper then provides comparative insights into the internal flexibility provisions between France and Germany before and during the crisis. Whereas Germany is perceived as a successful model of internal flexibility arrangements based on collective bargaining, France is regularly presented as having rigid employment rules favouring some kinds of external flexibility (short term contracts, temporary jobs, collective lay off...). Beyond this somewhat partial vision, this paper aims to place the impact of collective bargaining in the broader context of the labour market's operation and the overall economic structure of both countries. It suggests that limiting the Franco-German comparison to the idea of a German preference for internal flexibility as opposed to a French preference for external flexibility does not account for the complex links between internal and external flexibility tools in each country.

The first part of this paper draws the current panorama of internal flexibility provisions in both countries, particularly in terms of working time. The extent to which they have been used and combined with external flexibility, atypical jobs development and wage moderation, in particular during the crisis, partly explain national employment performances. It shows that even if Germany made a wider use of existing internal tools based on working-time adjustments, the capacity of adaptation of German firms during the crisis also lies on changes that occurred before the crisis, in particular labour market reforms that enhanced labour market flexibility. Compared with Germany, the use of internal flexibility was limited in France, in particular during the crisis. Nevertheless, recent developments in France (under the terms of the job security act of 2013) suggest a clear trend toward an increase of internal flexibility through a streamlined recourse to existing instruments, notably short-time working schemes. Moreover, there is a current debate in France over the opportunity to give more room to social partners on working hours and wage adjustment provisions at the company level.

The second part provides a review of the recent transformation of the German and the French collective bargaining systems to better understand the causes and consequences of internal flexibility. The paper highlights common trends toward a decentralization of collective bargaining and profound changes in labour-conflict regulations.



Industry level collective bargaining and the specific system of co-determination at the firm level – where works councils exist – are structural determinants of German firms’ internal flexibility, particularly in the export sectors. But Germany has experienced an upheaval of its industrial relations system since reunification. Social partners, and notably unions, have had to accept unprecedented concessions, notably at the industry level. German employment performance in the last decade seems to be associated not only with the decentralization of collective bargaining but also with its decline. This is particularly the case at the industry level. In many sectors, a dramatic increase in the flexibility of the economy does not seem to rely on a strong collective bargaining process but, on the contrary, is due to employers’ withdrawal from collective agreements.

France, for its part, has also experienced its own decentralization process, notably since 1982. Legal opportunities to develop internal flexibility with collective bargaining agreements have existed for a long time and have been expanding since 2000. But in practice, because of the complexity of these legal opportunities and the poor quality of French industrial relations, collective bargaining to increase internal flexibility still seems to be less developed than in Germany.

The paper concludes that even if many good German practices may be an example for France in terms of collective bargaining, we cannot ignore that they are embedded in the broader context of German industrial relations, which cannot be replicated. Furthermore, recent changes in Germany have involved a growing dualization of the economy in terms of employment regulation and collective bargaining. These trends are probably not sustainable: in response, the German government recently decided to set a legal minimum wage in Germany for workers who have limited protection from collective agreements.

