

Reform of the Working Hour Scheme: Recommendations for Korea from experiences in Europe¹

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“Work smart, not hard”, *Lee Myung-bak*
(President of the Republic of Korea, quoted in: *The Jakarta Post*, 21 August 2012)

1. Setting the scene

Koreans work hard! Yet they are moving fast towards the OECD ‘standard’: Whereas Koreans worked 668 hours more per year than the average worker in the OECD countries (2,512 versus 1,844) in year 2000, they reduced this difference by more than a half to 312 hours (2,090 versus 1,778) in year 2011. Related to the living standard of South Korea (hereafter Korea) compared with its main competitors, however, the *working time difference* is still remarkable and seems to reflect a (may be overly) strong work ethic, a gap in the work-life balance and untapped labour resources.

Koreans work smart, too! The Korea economy has doubled in size since 1997. It exports more to China than the United States.³ Yet Koreans could do smarter compared to their main competitors in OECD countries. In year 2011, the Korean GDP per head was with 30,254 US Dollars (current prices) only 14 percent less than the OECD average. But labour productivity in terms of GDP per hour worked was only 28.3 US Dollars compared to 44.1 US Dollars of the total OECD community, which means 36 percent less than the OECD average. Compared to Germany (55.3 US Dollars per hour worked), the *labour productivity gap* is almost 50 percent.⁴

These stylized facts remind of President *Lee Myung-bak*’s statement quoted above and raise the following question and challenges: How can the Korean working hour scheme be reformed to shorten further the average yearly working time per worker by improving at the same time labour productivity (and, by this way,

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³ Roger Cohen, “Made in South Korea”, in: *New York Times*, 22 October 2012. According to the most recent OECD Economic Survey on Korea, the devaluation of the Won against the Yen seems to have played a strong role (OECD 2012, 12).

⁴ All figures from OECD Statistics and own calculations.

international competitiveness), the living standard including a good work-life balance, and labour force participation, in particular of women?

In the following, this question shall be answered by exploiting European experiences related to working time reforms in the last decades. I shall start by raising theoretical and conceptual issues related to the working hour scheme (2); and proceed by sketching the European scene of working time regimes in terms of empirical divergences and labour market regulation, including also European wide regulation of working time (3); and then deepen the analysis by special issues, in particular flexibilisation of working time in firms (4), issues of the relationship between working time and wages (5); and the flexibilisation of working time over the life-course, especially part-time work (6). The last section is devoted to drawing conclusions and some tentative recommendations for the Korean economy and society (7).

I will argue that the aspired combination of working time reduction, improved labour productivity and work-life balance is best reached by flexible forms of working time reduction and by providing active securities to people making risky transitions between various weekly or yearly working times during their life-course, in other words: by flexibilisation of working hour schemes and enhancing security through making working time transitions pay ('flexicurity').

2. Theoretical and conceptual issues of working time

There is no uniform working time theory. This probably will not change; on the contrary: Measuring "working time" becomes elusive since work, learning and leisure get more and more mixed up. In particular, the information and communication technology allows people to "work" from home, during travels, and even during holidays or vacations.⁵ Nevertheless, it seems worthwhile to briefly remind some concepts which still are useful as they guide labour market behaviour of workers and employers at least to some extent.

Neoclassical labour economics models working time as a rational choice between work and leisure: People work as long as the marginal utility from an additional working hour is higher than the loss of marginal utility from leisure. In the more modern version, this modelling takes into account the household as a decision unit (theory of home production). If wages increase, there might, therefore, be an *income effect* and a *substitution effect*: In the first case, the worker increases his or her working time; in the second case, workers reduce their working time since they value the possible increase in leisure or home production higher than the possible increase of market income. Which effect dominates is a matter of preference which has to be tested empirically. Preferences in this model are given but might depend on cultural attitudes, which again might be influenced (or

⁵ The (employer oriented) Institute of German Economy (Cologne) forecasts that by 2030 German workers may spend half of their working time at home.

‘distorted’) by regulations (e.g. public holidays, statutory leaves, hourly or daily minimum wages) or taxation (size and form [individual or joint] of income taxes).

Influential studies of American economists, for instance, explain the remarkable difference of working times between the US (high working times) and EU (low working times) by referring to different preferences, regulations and taxes. In particular, they mention the fact that income differentials widened much faster and stronger in the US than in the EU, thereby strengthening the incentive of high wage earners to increase their working time (income effect), leading to a widening gap of working times between the upper tenth and the lower tenth of workers. At least 50 percent of the difference between Europe and the US is explained by higher legally endorsed vacations and the rest in particular to lower income taxes compared to Europe.⁶

Institutional theories emphasise, first, the fact that individual preferences are not given but shaped by the household context (which changes over the life course!) or gender relations as well as by industrial relations, in particular by the power of trade unions. For example, if the household’s costs for educating children are high, the incentive will be high (in particular for men) to work as many hours as possible.⁷ In bargaining working time and wages with employers, a single individual might have to follow every demand from his or her employer to work overtime or even to work only just on call. The situation is quite different when trade unions enhance the individual bargaining power through collective agreements, and when – in addition – political parties have the power to influence government regulation in terms of (maximum) weekly working time, restrictions of night work, vacations or paid leaves related to education and training, to illness, parenthood, or other care obligations. Institutional theories also emphasise the structure of wage formation, in particular the rules applied to regular working hours and non-regular working hours like overtime, shift-work, and work during the weekend (Saturday, Sunday). It is evident, from this point of view, that effective or real working time will increase when non-regular work is paid much higher than regular work; the opposite case will hold true if wages are uniform, which means independent from the working hour scheme, and when overtime or non-regular work is compensated not in cash but in time accounts.

Institutional theory also stresses the point that institutions are not only restrictions (negative freedom) but also opportunities (positive freedom) because they provide material (e.g., energy or transport networks) as well as legal infrastructures (e.g., labour law or social insurance). So, institutions do not necessarily distort ‘rational individual choices’ but might help to extend the expectation horizon (i.e., taking

⁶ See in particular Alesina et al. (2005), Burda et al. (2006), Freeman (2007), Prescott (2004); Prescott explains most of the US-EU difference by taxes, Alesina et al. and Freeman mainly by unionization and labour market regulations enhanced by the “social multiplier”: My utility of leisure increases with the utility of leisure of my friends, relatives or neighbours.

⁷ This was an important factor for American male workers to increase their work hours (Owen 1986, 3) and may also be relevant for Korea.

long-term consequences into account) and to overcome for instance rational decision traps. A case in point is the *prisoners' dilemma*: Everybody likes shorter working time, but the individual worker or the individual employer draws advantages if he or she works longer. If there is no coordination preventing opportunistic behaviour, everybody is worse off at the end. Another case in point is myopic or asymmetric risk behaviour: Workers and employers underestimate systematically high risks with low probability and overestimate low risk with high probability (Kahneman 2011). A case in point is the underestimation of work accidents or chronic health risks related to long or unusual working hours. Individual agents tend to prefer short-term advantages and to externalize the costs of long-term risks to the society, for instance to disability insurance.⁸

3. European working time regimes: A rough sketch of the scene

The European working time regimes are very complex. The best way to get an impression of this complexity is to look at the most recent report of the European Foundation for the Improvement of Living and Working Conditions on the development of working time (Eurofound 2012): The average collectively agreed normal *annual working time* differs between Poland (with one of the highest working times) and France (with the lowest working time) by 267 hours (1,848 vs. 1,581). In other words: Following collective agreements, Poles (as well as the Koreans) work about 33 days more than the French, and about 24 days more than the Germans. About one third of this difference is related to longer leaves or vacations (from 20 to 30 days), whereas the number of public holidays (about nine) is almost uniform in Europe (and Korea). The other two thirds can be explained by differences in weekly hours, which vary between 35.6 in France and 40 in Poland (and Korea) (Annex II, Table 1).

A more accurate picture is given by statistics on actual weekly or annual hours worked, typically measured in labour force surveys (Annex II, Table 2). Including factors such as overtime and absence, the differences become much smaller. Gross annual actual weekly working time varies only marginally between European member states; the main gaps are dominated by annual leaves. From this perspective, the Poles work actually only about 21 days more than the French, and only 6 days more than the Germans; but if the Germans work, they work longer than the Poles and are only (over)compensated by more (paid) vacations and one day more (paid) holidays.⁹

⁸ For a conceptual framework of comparative labour market research, in particular from the institutional theory point of view, see Annex I, sketch 1; applied to working-time transitions see O'Reilly (2003).

⁹ The respective Korean figures are not comparable because part-time (albeit of small weight) is included; the figures for Europe refer to full-time workers. Yet, table 2 makes clear that Korea deviates from Europe especially by higher average weekly working time and less statutory annual leave (vacations). Overall, the *validity* of all figures is restricted because most official statistics do not include unpaid overtime which is hard to measure.

From European experience, therefore, *two common trends* have to be emphasised: First, in Europe (as elsewhere) there is still an overall trend of reducing working time,¹⁰ albeit slowing down;¹¹ second, there is a trend towards convergence, in particular in terms of actual weekly working time, but also (albeit more slowly) in terms of annual leaves or vacations. Whereas from 2006 to 2011 (actually) weekly working hours went down from 41 to 40.3 in European's 12 new member states, they only slightly biased down in the 15 'old' European member states from 39.6 to 39.5.

Why is this so? Mainly collective agreements (that eventually, at least to some extent, became law) were driving weekly working time convergence, whereas statutory requirements extended (paid or unpaid) annual leaves and holidays as the economies became richer. During the 1980s and 1990s, trade unions in many European countries campaigned for an *overall reduction of weekly working time*, e.g., the *German IG-Metall* for the 35 hours week. To some extent left-wing or social-democratic parties supported this movement. Most prominent and unique was the French government, introducing an overall 35 hours week by the Laws Robien (1996) and Aubry (2000, 2002) in the *spirit of work-sharing*¹² by reducing the social contributions of employers who reduced average working time of their workers by at least 10 percent (Erhel et al. 2003). Studies about the impact of this kind of work sharing on employment reported mixed results.

In the late 1990s and since the beginning of 2000, the movement for a general reduction of weekly working time dried out and was replaced by the movement of *flexible working time reduction* over the life-course. The most important reason for this development was (on the supply side) the increase of women's labour force participation and (on the demand side) the change to a knowledge intensive economy becoming more and more dominated by services that require flexible working hours. In addition, European integration required some kind of harmonization of working time, not least for reasons of equal opportunities and avoiding cut-throat competition of member states through increased working time without respective pay compensation. So, the *European Union's (EU) Working Time Directive* (2003) sets a limit to weekly working time which must not exceed 48 hours on average, including overtime (!), and a mandatory paid leave floor for all EU member countries of four weeks or 20 days per year (see for more details Annex III, Sketch 1).

Paid annual leaves (especially vacations) also increased during the last three or four decades, thereby contributing to the reduction of annual working time

¹⁰ At OECD level from 1,884 (2000) to 1,776 (2011) hours actually worked per year. In Europe, Sweden is a remarkable exception with a small increase, albeit from a low level: 1,546 (year 1990); 1,642 (2000); 1,644 (2011).

¹¹ Overall average working time even reversed, at least for full-time workers, like in Germany, leading to a polarisation of working hours schemes within the workforce (Seifert 2010, 44).

¹² I.e., the idea of increasing employment or reducing unemployment by reducing working time for the already employed or by creating new jobs at reduced working time.

(Annex II, Table 3): Germany, for instance, provides for 20 statutory paid annual vacations and for 10 statutory paid holidays, altogether 30 days. However, as in many countries, German workers enjoy more paid leaves taking into account collective agreements which usually are more generous than statutory rules. In addition to the 10 paid holidays, the average German worker can rely not only on the legally entitled 20 days but altogether on 29 paid annual vacations (six weeks). Furthermore, most workers get a bonus payment related to vacations (*Urlaubsgeld*), which is most generous in Austria (one month additional salary!). Some countries, e.g. Sweden and Germany, provide special paid leaves for workers representing unions' interest in the firm.

In transatlantic comparison, the most remarkable exception is the United States which is the only country in the OECD that does not require employers to provide paid leave; almost every rich country has also established legal rights to paid public holidays over and above paid leave (Ray/ Schmitt 2007). Japan and Canada provide only 10 days paid annual vacations, and Japan affords no paid public holidays. Korea, noticeable, has almost the same level of statutory paid annual leaves as an average European country, e.g. Germany. Yet a substantial gap remains if taking into account the additional paid leaves provided by collective agreements: 29 days on average in Germany compared to 17 days in Korea. Related to public holidays in Europe, remarkable exceptions are Sweden, the Netherlands, Switzerland and UK which do not provide for statutory paid holidays; France¹³ provides only one paid holiday compared to 12 or 13 days in countries like Austria, Italy, Portugal and Spain, which is partly compensated by the highest statutory annual paid vacations of 30 days in OECD countries.

This picture, however, is not yet complete. Further aspects of working time have to be taken into account, in particular related to the flexibility of working hour schemes, to wages or other bonuses, and finally to work-sharing especially in form of part-time or life-course oriented time accounts. The next sections will take up these issues separately.

4. Working time flexibility as adjustment mechanisms to demand shocks and individual working time preferences

A further common trend in Europe is the flexible use of working time in four different forms: (1) variation of the begin of daily working time ('Flexitime' ['Gleitzeit']); (2) variation of daily working time without daily leave, i.e., working one day more, the other day less (short time accounts); (3) variation of daily working time with daily leave options, i.e., working several days more, taking leave on other days (medium time accounts); (4) variation of working time with

¹³ This exception is probably related to the republican tradition going back to the French Revolution (1789 -1799) which established (despite the catholic tradition) a clear dividing line between State and Church. The exceptional high figures of paid annual holidays in Austria, Italy, Portugal and Spain (13 days) are related to the catholic background of these countries.

weekly or monthly leave options (long-term accounts; work-life balance accounts).

The Establishment Survey on Working Time 2004/05 of the European Foundation for the Improvement of Living and Working Conditions (Riedmann et al. 2006) found that 48 percent of European establishments introduced at least one of these forms. Yet the variations within European member states are great: In Sweden, 65 percent of companies use flexible working hours, in Germany 51 percent, and Portugal only 23 percent. This variation correlates slightly (but not perfectly) with the take-up of flexible work schedules: In Sweden, over 80 percent of employees use this flexibility, in Germany over 70 percent, and in Portugal over 50 percent. One reason for the difference in company's and worker's take up is that the use of working time flexibility increases with the size of the firm. Furthermore, flexible working schedules are common especially in services.

Interesting to note are the effects that personnel managers of firms attribute to these flexible working schemes: Job satisfaction ranks first (61%), second only comes matching effective working time with companies' demands or tasks (54%), other effects are reduced absenteeism (27%), reduced overtime (22%), coordination and communication problems (10%); rising costs make up only five percent! The positive results related to workers, however, have to be qualified taking into account surveys asking the workers themselves. Albeit generally positive, too, the majority of workers in Germany (e.g.) associate with flexible working schemes more requirements of their job or profession and less individual time sovereignty gained in favour of work-life balance. By objective measures, there seems to be no significant difference between companies using and not using flexible working schemes in terms of work-related illness or absenteeism (Kümmerling 2010, 226). Unfortunately, robust empirical studies on these issues, in particular on the relationship between productivity and flexible work schemes are missing (or, for the time being, not known by me).

The European Establishment Survey also delivers interesting insights into other work-life balance issues. For instance, whether

- it is possible for workers to change (make the transition) from full-time to part-time (yes says 50% of companies at EU21 average, 75% in Sweden, 66% in UK, 48% in Germany)
- it is possible to switch from part-time to full-time (yes says 59% of companies at EU21 average, 70% in Sweden, 69% in UK, only 45% in Germany)
- it is possible to transit from shift work to regular work (yes says 29% at EU21 average, 49% in UK, 31% in Sweden, only 17% in Germany)
- gradual (part-time) retirement is possible (yes says 41% at EU21 average, 61% in UK, 52% in Germany, 50% in Sweden), and finally

- long-term leaves (sabbaticals) are possible (yes says 59% at EU21 average, 78% in Sweden, 60% in UK, and only 51% in Germany)

Taken all these transition-possibilities together, UK (surprisingly) ranks first in front of the (not surprisingly) Scandinavian countries, the Netherlands, Belgium and Ireland, whereas Germany ranks only 18 in front of Hungary, Greece and Slovenia (Kümmerling 2010, 234). Experts explain the UK surprise by the introduction of the labour law on flexibility in 2003 which, despite its ‘soft’ character (not enforceable), seems to have had great impact;¹⁴ all other countries in top ranking enacted comparable laws.

Germany, however, does much better with respect to flexible working time schemes directed towards adjustments to demand shocks or supporting firms’ restructuring, in particular by *short-time work*, but also by an increasing number of *collective agreements on flexible working time* allowing firms to change working time and related nominal wages in order to maintain employment, in particular their skilled workers. These capacities of *internal flexibility* are one of the main reasons why the German economy survived the last economic crisis without any dramatic increase of unemployment in contrast to some of its neighbour countries, including ‘flexicurity model’ Denmark (Annex II, Figure 1).

The ‘backbone’ of this kind of internal flexibility is a de facto *wage insurance*¹⁵ that allows employers to cut nominal wages whereas workers’ income loss is compensated in Germany by statutory unemployment insurance and top-ups by collective agreements. The ‘flesh’ of insured working hour plus wage flexibility consists of *working time accounts* that serve as a buffer¹⁶ to allow firms to ‘breath’ at steady income streams for the workers. And the ‘muscles’ are provided, first, by social partnership which adjusts the system to the specific needs of sectors or firms by collective agreements and, second, by effective public employment services for monitoring, control and support. Weaknesses are still gaps in combining numerical internal flexibility with functional internal flexibility, e.g. by training and work reorganisation; in addition, the security element between core and peripheral workers is not yet balanced (see Annex I, Sketch 2: “Sharing risks for working time transitions”).

5. Working-time schemes and wage formation

¹⁴ Right to Request Flexible Working and Duty to Consider, Employment Act 2002, Part 4, Section 47, enacted in April 2003. For a good overview and assessment see Hegewisch (2008) who reports that time accounts are less well known in UK than in Scandinavian countries; the UK long-hours culture, in particular for men, is still lively.

¹⁵ Which is, according to TLM theory, a central element for extended unemployment insurance, i.e., in fact employment insurance.

¹⁶ Accumulating/ pumping up in good times, melting down in bad times.

“Time is money!” This common-sense slogan reflects the importance of wage settings and taxes on wages for working-time schemes. The following propositions can be stated:

- If wages increase proportionally with working time (hours worked) and productivity, the economic incentive to work long hours is high, in particular for high educated people.¹⁷ This leads, left unregulated, automatically to increasing income differentials.
- If wage income is progressively taxed, the economic incentive to work long hours declines.
- If social security entitlements are directly linked to wages, the incentive to work more hours is high (income effect); decoupling (for instance by citizenship pensions) creates individual incentives to reduce working time (substitution effect).
- If wages differ much in relation to the time schedule (overtime, shift-work, night-work, extra-work on weekends or holidays) or to the status of employment relation (formal or informal, temporary or open-ended contracts), there might be incentives the work more or less hours depending on the schedules or the status.¹⁸
- If care leaves or education and training leaves are unpaid, the incentive for reducing working time by this way will be low; the incentive will be higher if such leaves are paid or at least partly and proportionally compensated.

With one exception, European – and in particular German – labour market and employment policy reforms have changed economic incentives (both for employers and employees) in favour of lower average annual working hours, at least until the end of the last century. Only most recently, some reversals can be observed.

(1) The exception related to incentives for lower working hours is the compensation of work in terms of hours and productivity as the US-Europe difference reveals: In the 1950s, Americans worked less than Europeans. Since the 1970s, this difference reversed. Now (as already mentioned), Americans work (partly much) more than Europeans. Richard Freeman (2007) explains this

¹⁷ Apart from the lower risk of physically wearing out of high educated people that allows higher work hours (on desk work, communication etc.) compared to low educated people (physical craft work under often bad working conditions).

¹⁸ In former (East European) socialist countries there was a common joke referring to the fact that many workers had a least two jobs: one (low paid) formal job on which people were lazy or even sleeping, and another (high paid) informal job on which people were hard working to earn much or at least a decent income. It is evident, that reported working hours were long, and productivity per (counted) hour worked was low.

reversal, apart from the European wide extension of statutory paid leaves (vacations, holidays), by (self-feeding) increasing income inequality: The top income decile works more hours than the bottom income decile. This observation is corroborated by the most recent OECD report on inequality which also explains the slowing down (and partly reversal) of shortening working hours in Europe: “More working hours were lost among low-wage than among high-wage earners, again contributing to increasing earnings inequality. In many countries, there was a trend towards an increasing divide in hours worked between higher- and lower-wage earners” (OECD 2011, 32-33). The overall conclusion is clear: high and increasing wage dispersion feeds long average annual working hours, which seems to be confirmed by the strong correlation between the two variables in international comparison (Annex II, Figures 3a and 3b).

(2) *Taxing wage-income* (for whatever reason) is the first candidate to mitigate the income incentive to work long hours. Prescott (2004), for example, explains most of the US-Europe difference by higher marginal tax rates (including social security contributions). The downside of this observation is the fact that weakening power of progressive taxation (in particular in Germany) explains to some extent increasing wage-differential and therefore the weakening or even reversal of incentives to work long hours. *Collective bargaining* is the second important institutional factor correcting pure market incentives in favour of shorter worker time. Collective agreements not only strengthen the link between wages and productivity by moderating the possible bargaining advantage of skilled workers with market power (which low or generally skilled workers have not) but also help to reduce inequality. The Global Wage Report (ILO 2010, 57) showed that high coverage countries have significantly less wage inequality than low-coverage countries, both overall and in the lower half of the wage distribution.¹⁹ The down-side of this fact is that the weakening power of (in particular industrial) trade unions in many European countries (including Germany) explains to some extent the increase in wage-differentials with the already mentioned impact on economic incentives to work longer hours.

(3) In many EU member states, some decoupling of wage-income and social security entitlements has contributed to the overall decline of annual working time. The most prominent case is the “*part-time economy*” in the Netherlands

¹⁹ Currently, Korea has the highest share of low-wage workers in the OECD: 25.6% (see Annex II, Table 5). The following stylised facts might therefore be reflected: By reducing the dispersion of wages and by raising wage floors, collective bargaining can contribute to reducing the risk of low pay (i.e. through wage compression). A review of evidence for 20 OECD countries shows, for example, that there is a strong negative correlation between the incidence of low-wage employment and several variables that measure the regulatory strength of wage-setting institutions. For the countries covered, the simple one-variable regressions show that an increase of 1 per cent in union density (the share of union members as a proportion of employees) is associated with a 1.5 per cent reduction in the incidence of low-wage employment (ILO 2010: 57). There seems to be some trend towards industrial unionism in Korea, for example the Korea Health and Medical Workers Union (Lee and Yi 2012) which might be reflected in the development of wage-differentials and working time differentials.

(Visser 2012) which was, among others, driven by the introduction of a universal pension system based solely on citizenship (and not on the last or accumulated wage-income) as well as by collective bargaining taking care to abolish wage-discrimination between part-time and full-time work.²⁰ Seniority is another point in case: If wages increase with seniority and if pensions are related to the last wages in working-life, the incentive to work as long as possible at long-working hours is high, and gradual retirement and job transitions (to lower paid jobs or to part-time jobs) are punished. In many countries the importance of seniority wages declined and gradual retirement was encouraged by decoupling pension entitlements from the last (and often highest) wages and making pensions depending on average work-life income (and respective contributions). In addition, Germany might be considered as a model for publicly or collectively subsidizing working-time flexibility, for example by compensating the reduction of social insurance contributions in case of short-time work to ensure full pension entitlements.²¹

(4) A central problem of the high average working-time scheme in Korea seems to be related to economic incentives of pay for overtime or extra time on weekends and holidays. Although law mandates a 40-hour work week (with overtime capped at 12 hours a week) at workplaces hiring five or more people, this rule does not apply to weekends or holidays according to an administrative directive by the ministry of labour. So, in Korea, it seems not to be illegal for an employer to have his employees work 52 hours during the five working days and several more hours on weekends or official holidays. The exemption of small firms with less than five employees means in practice that slightly over 50 percent of workers are excluded. The Working Time Directive of the EU (see Annex III, Sketch 1) does not allow this. Also in 26 branches, company-agreements can deviate from the regulations (in favour of more hours). Furthermore, while base salaries are low in Korea, workers seem to be paid as much as 350 percent of their regular pay for work on weekends and holidays. Overall, it is reported, allowances for extra work make up as much as 40 percent of a regular blue-collar worker's monthly income.²² Such high overtime or extra time payment schemes are not known in Europe; the trend of pay differentials between regular pay and overtime or extra time was for a long time declining, especially in countries with high coverage of collective agreements.²³ In addition, through deregulation of temp-agency work and fixed-term contracts, in many EU member states, in particular in Germany, companies got more and more room of manoeuvre to solve demand peaks through hiring temporary workers or to utilise fixed-term contracts to a higher extend.

²⁰ See also next section.

²¹ Employers' share of social insurance contributions were reimbursed by the government from the seventh month onwards or from the first month if companies provided training (see also Annex I, Sketch 2).

²² The Jakarta Post, 21 August 2012.

²³ Robust evidence still needs to be confirmed.

Yet there is more: In many countries²⁴ (especially in Germany), *transitory overtime* increased and substituted to some extent paid *final overtime* contributing thereby to a further decrease in average annual working time.²⁵ Transitory overtime started to flourish in the 1990s and consists in accumulating unpaid overtime in good business times into *time accounts* and melting down these accounts in bad business times. In as far as transitory overtime substitutes paid overtime there is an immediate positive employment effect. Pioneer companies reported also important side effects: increase in productivity, satisfaction of workers and improved work-life balance.²⁶ Many (in particular medium sized and large) companies followed suit but the distribution (dissemination) of long-term working time accounts is still limited because significant barriers to and difficulties with the implementation have to be overcome. The interests in utilising working time accounts between employers and workers might coincide (flexibility in utilizing the workforce on the one hand, and job security for workers on the other hand); but they might also collide (business needs versus individual needs like utilising individual accounts for education beyond the firm's interest, care at home, or just leisure). Furthermore, there is a substantial risk of employees losing their time credits as a result of company bankruptcy. Although, in the meantime, insolvency protection is prescribed by law, in actual practice less than every third enterprise with work-life time accounts is insured against bankruptcy (Bosch et al. 2005; Wotschack 2012).

A final point should be mentioned related to this important aspect of working hour scheme: As empirical research shows, overtime or work beyond regular working time is often connected with the difficulty of employers to recruit skilled workers. As far as *effective (public or private) employment services* improve the matching function of labour markets (may be also by supporting regional or occupational mobility), the need of long-working time regimes will be mitigated.

(5) In Europe, there is a trend to paid leaves beyond employment contributing to lower annual working hours, in particular related to parental or care and educational leave. *Parental leave*, first, was directed towards women but included more and more incentives also for men to opt for at least some weeks of parental leave. In Germany, the most important reform in 2007 introduced a wage related parental benefit up to 14 months of which two months have to be taken up by men: Reduced wages are compensated (like unemployment insurance) by 67

²⁴ And in line with the concept of transitional labour markets (TLM) (Schmid 2002, 2008, 2011).

²⁵ Note that the (comparative) statistics on annual working time might be affected to what extend paid or unpaid (including transitory) overtime is counted. In Germany, unpaid overtime is not counted (because hardly to estimate), but paid overtime is counted. As far as unpaid overtime substitutes paid overtime, the reduction in average annual working-time is a statistical artefact! Recently, however, panel data allow assessing unpaid overtime. Brautzsch et al. (2012) estimate the size of unpaid overtime in Germany at 2.9% of the total volume of work, exceeding in the meantime the share of paid overtime (see Annex II, Table 6 and Figure 4).

²⁶ One of these pioneers was Industrial Manufacturer Didymus Hasenkopf in Bavaria, <http://www.hasenkopf.de/en/home/>. Beyond the anecdotic evidence just mentioned, there is also robust statistical evidence for this kind of effects, see, e.g. for Germany, Gerner (2010).

percent of net wage; the law also allows part-time work up to 30 hours a week.²⁷ In the meantime, 25 percent of men take at least two months leave when the first child is born. The other side of the coin, and positively assessed in terms of work-life balance, is the increase of labour force participation among women: More women with little children get earlier back to work than before the introduction of these shorter but more generous parental benefits (Wrohlich et al. 2012).

Regarding (paid or partly compensated) *educational or training leaves*, there is no doubt that the extension of such leaves contributed to the reduction of average annual working time. Yet I am not aware of any empirical study that provides robust econometric evidence of the exact quantitative importance of this relationship. In Germany, however, this extension took mainly place in the 1980s and 1990s, whereas the level seems to stagnate since about 2000 with pro-cyclical variations (up in economic boom time, down in recessions). The stagnation is to a large extent explained by reduced financial capacities both of private companies and the state or collective labour market funds. However, educational or training leaves, especially for senior workers, will become more important as social policy provisions for early retirement have been abolished and the society is ageing further. This point seems to be particularly relevant for Korea facing the fastest population ageing in the OECD²⁸. German labour market policy has already reacted, in particular by supporting companies (with less than 250 employees) who train low skilled or senior workers (over 45) off the job by taking over part of the training and wage costs, but financial capacities and take up of firms are still modest.²⁹

6. Part-time Work: The Silent Revolution of Working-time Schemes

In remarkable distinction to the United States, Europe experienced a great change in the employment structure towards part-time work. Over 20 years ago, only 13 of 100 employees worked part-time (30 hours or less per week); in 2011 already 20 of 100 worked part-time; Korea was a late-comer in this respect, but now it has already surpassed the US but is still considerably below the European ‘standard’ (Annex II, Table 4).

The phenomenon is closely linked to (increasing) labour force participation of women. Yet the correlation is not perfect (see Annex II, Figure 2). Some

²⁷ The minimum is 300 Euro/month, the maximum 1,800 Euro per month; since 2011 only 65% for parents earning more than 1,240 €. People earning less than 1,000 € benefit from a low wage bonus which can raise the net replacement rate up to 100%! Furthermore, there is a bonus for siblings. Before this law, parental leave was supported by a less generous but longer lump-sum allowance (up to three years), which provided an incentive for young mothers to interrupt their work-life career for a long time and facing great difficulties to come back.

²⁸ The share of people over 65 related to aged people 20 to 64 is expected to increase from 17% to 78% in year 2050, in Germany from 35% to 60% (OECD 2012, Figure 6, 17).

²⁹ The programme is called “WeGebAU” (Weiterbildung Geringqualifizierter und beschäftigter älterer Arbeitnehmer im Unternehmen”) and exists since 2006.

countries, like Finland, display high female labour force participation but relatively low shares of female part-time work, whereas the Netherlands is exceptional in very high shares of part-time (over 60 percent) at modest female employment rates compared to Scandinavian countries like Sweden and Denmark. Germany quickly moved forward, too, in this respect but German part-time women have the lowest average working time in Europe (in 2008 18.6 vs. 20.5 hours in EU). Furthermore, in the Scandinavian countries Denmark, Finland and Sweden, many more women work in the 'grey zone' between part-time and full-time, i.e. 31 to 39 hours per week (Lehndorf 2010: 93). So, although it is true that part-time contributed to higher labour force participation of women and higher employment rates³⁰, the increasing employment rate does not necessarily reflect an increase in the utilisation of the potential workforce and a respective increase in the total number of hours worked in the economy. If institutional incentives to work part-time become overwhelming, the economic impact might be counter-productive.

A considerable number of German women, 21.6 percent in 2008 (Eichhorst/Thode 2010: 23), are involuntary part-timers, i.e., they would like to work more hours. 50 percent of these women are skilled or even high skilled; so providing incentives and possibilities to move to longer working-time schedules would also contribute to solve labour market mismatch, in particular skill mismatch, thereby setting in motion a win-win-game: meeting individual preferences, contributing to work-life balance and higher productivity (Wanger 2011). In the Netherlands, however, involuntary part-time is low (2008: 4.4%), which is also reflected in the low transition rate of Dutch part-time women to full-time (OECD 2010a). Yet, one has to be careful to draw conclusions since the institutional context might shape preferences. A preference for part-time, for instance, might develop if moving from short part-time to long part-time or from part-time to full-time is punished through relatively high taxes or social contributions.

The conclusion (and recommendation) can only be: Spread of part-time will not necessarily be enough to bring underrepresented groups (in particular high educated women) into employment and tap more labour supply. Meeting this goal also requires that taking up or returning to full-time employment is both attractive and possible for part-timers (OECD 2010b). Experience from Europe in general and Germany in particular suggests the following policy package:

1. Remove *discrimination* against part-timers through equal treatment, and where adequate on a *pro rata temporis* basis (e.g. related to statutory paid leaves or social security entitlements). In practice this means setting compulsory minimum standards for which part-timers have the same rights as '*comparable full-timers*'. Such standards have been set in Europe

³⁰ The employment rate is more than 10 percentage points lower in the 10 OECD countries with the lowest part-time shares (around 60 percent on average) than in other OECD countries (OECD 2010b:4).

through the *Part-time Work Directive* in 1997 rendering the respective social partner agreement ('Social Dialogue') generally binding for all European member states (see for details Annex III, Sketch 3). Apart from such statutory minimum standards, this regulation contains no fewer than *11 soft law provisions*, which, however, were very differently rendered into binding law by EU member states, with Germany going furthest.³¹

2. Remove *regulatory barriers* to part-time for individuals who value lower work hours for reasons of work life balance; and remove as well regulatory barriers to part-timers to increase their working time. Germany introduced by law in December 2000³² the right to workers to reduce their working hours, which the employer can only deny by objective reasons, e.g. serious and costly disruption of the work-organisation. Part-timers, on the other hand, can require from their employer to increase their working time if respective vacancies open up, e.g. being preferred to outsiders in case of same qualification.
3. Remove *financial disincentives* for workers wishing to make the transition a) from low part-time (mini-jobs) to substantive part-time or b) from substantive part-time to full-time and c) from full-time to part-time. The first case is in particular relevant in the German context where moving from short to long part-time or to full-time is punished through high marginal tax rates (OECD 2010a; Eichhorst/Thode 2010).³³ The disincentive might even be higher by moving from part-time to full-time: The OECD (2010b) reports that for every additional dollar earned, 60 percent is lost in net social transfers on average across OECD countries for a lone parent with two children moving from half-time to full-time in a low-wage job. On other hand, German unemployment insurance provides (in the spirit of TLM) *transitory status protection*, which means, it guarantees full unemployment benefit entitlements when a worker reduces working-time for at least five hours but worked at least six months full-time during the last 42 months (SGB III, §130,2), thereby not punishing a transitory period of part-time work (that might end in unemployment), i.e. by making transitions pay. In case, somebody has two part-time jobs and

³¹ For an excellent review of the history, implementation, and impact of this Directive see Falkner et al. (2005), Chapter 9, 155-177; related to Germany see next footnote.

³² „Gesetz über Teilzeitarbeit und befristete Arbeitsverträge (Teilzeit- und Befristungsgesetz - TzBfG):“ § 8 regulating the right to reduce working time; § 9 regulating the right to increase working time (directed, in particular, to part-timers). This law made several of the 'soft law' suggestions of the EU Part-time Work Directives legally binding, in political exchange (for the employers) for some deregulation of temporary work.

³³ For example: A woman who moves from a Mini-job (400 Euro per month at €5.50 and 18 hours/week) to a substantive part-time job (€6.00 and 30 hours/week) would earn a gross income of €720, but would actually only get €580 net due tax and benefit regulation, i.e., she would be faced with a 44% marginal tax rate. It would, therefore, make sense to change the tax-benefit system from a free of tax-zone (above which each earned Euro is taxed) to a tax-free amount (above which only each additional Euro [above €400] is taxed) (Eichhorst/Thode 2010: 5).

loses one of them, she or he is entitled to part-time unemployment benefits (*Teilarbeitslosengeld*) for six months (SGB III, § 162).

4. *Support the choice* of (variable) working-time schedules over the life course with a well established *care infrastructure* for young children. In Germany, for instance, public care infrastructure for children below 3 is not well developed, making the choice for women with young children difficult to remain in full-time or at least in long-hour part-time work and to change from part-time to full-time afterwards. Family friendly and work-life balance friendly systems like in most Scandinavian countries invest more in such publicly financed infrastructures (in-kind transfers) than in compensating loss of wage income through money, e.g. child allowances (in-cash transfers).
5. *Ensure support* to the most disadvantaged part-time workers through adequate employment services to find full-time jobs. In particular low educated part-timers are disadvantaged since they often are excluded from upgrading courses which are costly and might require full-time training and education. The city/Land Berlin started a programme for women in Minijobs to overcome these various restrictions and to persuade employers to support such upgrading in terms of skills and higher working-time.
6. Finally, still little is known about the real impact of regulations and incentives on the transition dynamics between part-time and full-time and vice versa. So, setting up a corresponding *monitoring systems* and *rigorous evaluation studies* would help to improve policy decisions related to reforming working hour schemes.

7. **Conclusions and tentative policy recommendations**³⁴

It seems that Korea's long working hours are mainly driven by incentives to work overtime and at times beyond regular working hours like weekends or holidays. Furthermore, statutory and collectively agreed paid vacations are modest compared to the European average and to Germany. High wage differentials (inequality) among regular workers and in particular between regular and non-regular workers also enhance a culture of high work hours. The use of flexible working hours, in particular working time accounts and short-time work covered by employment insurance, seems underdeveloped. Finally, a culture of part-time work, albeit in bud, has not yet unfolded.

- (1) Related to incentives to work overtime or at unusual hours, the main recommendation is to *carefully assess wage formation and the wage structure*: How far do they contain implicit or explicit incentives to work

³⁴ With an emphasis on "tentative"!

long hours, and how can these incentives be abolished or at least mitigated?

- (2) *Explicit incentives* to work long hours are clearly provided by large gaps between regular and non-regular wages, e.g. excessive premiums for overtime or for working during weekends and holidays. European as well as U.S. experiences warn of excessive wage differentials and wage or income inequality providing further incentives for the high-wage earners to work more hours and disincentives for the low-wage earners to work long hours, thereby contributing to a vicious circle.³⁵
- (3) In this respect, the *system of taxes and social contributions* needs scrutiny as well in order to detect unreasonable incentives to work long hours. Effective progressive income taxes and social contributions, for instance, could mitigate or counteract large primary (market) wage differentials.
- (4) Unpaid *transitional overtime* compensated by time accounts and not by cash might also be part of the solution.
- (5) *Implicit incentives* to work long hours or at unusual times mainly result from an overall lack of labour market flexibility. Employer's need for overtime, for instance, could be reduced through (negotiated) flexible working time schemes as well as through effective labour market policy, i.e. through placement and training services that are directed towards skill deficits or lack of mobility.
- (6) To unfold a *part-time culture*, it has been shown that a whole package of measures (instead of single or fragmented interventions) would be needed to fostering part-time and ensuring high quality of part-time at the same time (for details see Section 6, above). A first step could be (in analogy to the European Part-time Work Directive) to mandate non-discrimination between part-timers and comparable full-timers.
- (7) A second step could be to *support part-time indirectly* by ensuring the option of returning to full-time and making transitions pay between various working hour schemes over the life course, e.g., by clearing away tax hurdles for moving from minor part-time to long-hour part-time; by covering the loss of income or social insurance entitlement for intermediate part-time related, e.g., to parental or elderly care through employment insurance; by combining intermediate part-time work with education or training (*investive working time reduction*); and finally through intensive placement and training services for part-timers who wish to return to full-time.

³⁵ See also the remarks in footnote 17 related to wage inequality in Korea.

As regards the financing implications of all these measures, reassurance might be provided by the fact that a reasonable shortening of working hours not only improves the work-life balance but also increases productivity and probably also labour force participation, especially among (often highly qualified) women (see Annex II, Figures 2 and 3). So, 'work smart, not hard' is not only a sensible but also realistic perspective. With increased free time, the value of leisure might further increase due to the "social multiplier" effect, which eventually might endorse further political demands for increased statutory vacations.

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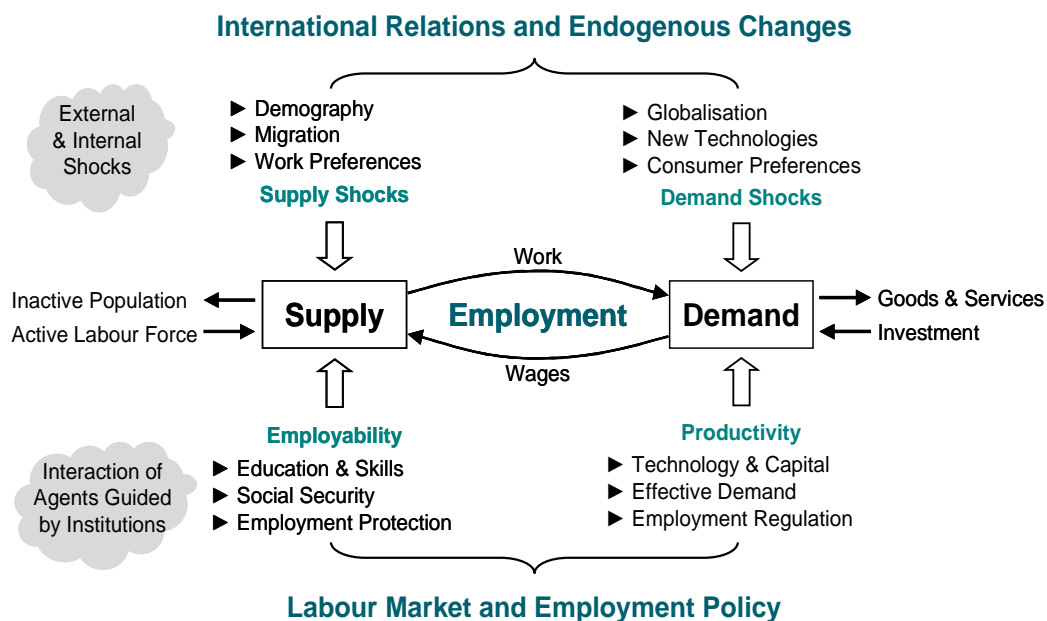
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Annex I: Theoretical and conceptual sketches

1. An analytical framework for comparative labour market research

Drawing lessons from the experience of one country requires some kind of theoretical model, especially if countries with very different cultures and levels of economic development are compared. This is, however, not the place to outline such a model at length.³⁶ The following commented figure is only a brief and superficial sketch of a possible analytical framework and its main propositions.³⁷

Figure: An analytical framework of employment dynamics



As the analytical framework points out, employment dynamics is the result of a complex set of labour market and product market institutions responding to external as well as internal shocks. Whether their responses are successful or not in terms of sustainable employment growth and corresponding prosperity eventually depends on their fit to the external environment. The debate on optimal institutions is dominated by two particular schools of thought: On the one hand, there is the regulation school, arguing that the market has to be domesticated by law and state intervention, and on the other hand, there is the deregulation school arguing for free markets and refusing any interventions with the exception of minimum standards and measures of mitigating poverty. We introduce this framework with the proposition that both schools are one-sided and that

³⁶ For more details see Chapter 3 in Schmid (2008).

³⁷ Source: G. Schmid and S. Modrack (2008), *Employment Dynamics in Germany: Lessons to be Learned from the Hartz Reforms*, Discussion Paper SP I 2008-102, Wissenschaftszentrum Berlin für Sozialforschung (WZB), pp. 6-9; <http://bibliothek.wzb.eu/pdf/2008/i08-102.pdf>

‘flexicurity systems’ based on complementary institutions are a more appropriate framework. This proposition is based on four central assumptions.

First, institutions – considered, very generally, as commonly acknowledged rules of behaviour – not only *restrict* individual or collective agents in their activities (*negative freedom*), but also *enable* individual and collective agents to interact or to cooperate successfully (*positive freedom*), especially through providing material and legal infrastructure. Institutions thereby extend the expectation horizon of agents by mutual trust, collectively usable resources and the guarantee of a safety net. For instance, employment regulation – through health and safety standards, restriction of child labour, minimum wage settings, and employment protection through prohibition of unfair dismissals or discrimination, mandatory contributions to unemployment, health or pension insurance – can alter the incentives of employers in a favourable way. Under a carefully regulated system, the very interest of employers lies in improving workforce productivity, for instance, by adopting safety and health standards and by training their workers. And because the rules hold for all employers and are enforced by the state, there is no way of cut-throat-competition by dumping quality standards. On the other hand, the existence of a universal safety net also relieves employers from a type of quasi-feudal responsibilities for their employees and enables them to adjust the size of their workforce according to economic need.

On the supply side, labour law recognises the bargaining power disadvantage of most workers compared to employers by ensuring individual rights like maximum hours, entitlements to vacations, training, or collective rights like freedom of association and collective bargaining. Under such carefully regulated systems, it is the employees’ very interest to cooperate with fellow workers, to be loyal to the employer and to reveal their preferences by voice and not by exit. Moreover, social security regulations, as well as universal vocational and educational standards, enhance the capabilities of employees to contribute to functional flexibility and, if necessary, to regional mobility.

Second, permanent economic and social change (the external and internal ‘shocks’ in our framework) requires institutions that are able to quickly adjust to new situations and uncertainties. State regulation is too inflexible to do this job. ‘Flexicurity systems’, therefore, are characterised by *negotiated flexibility* and *negotiated security* which leaves social partners, non-governmental organisations and other civil agencies or decentralised governmental agencies much room for self-regulation in setting wages, employment and environmental standards on both labour and product market. If there is one common element in the European Social Model in general, and among the successful European employment systems in particular, the most prominent feature is the ‘social dialogue’ in industrial relations. Apart from the Scandinavian countries and the Netherlands as obvious strong cases in participatory economic democracy, Germany’s recovery in employment dynamics goes to a large extent back to the basically still intact strengths of social partnership. Even the UK can be quoted as a good practice for

social partnership related to the successful implementation of a National Minimum Wage.

Germany provides an important lesson for negotiated security especially with respect to vocational qualification standards that enhance –after successful bargaining eventually legalised by the state – labour market transparency and occupational mobility. As far as negotiated flexibility is concerned, the high involvement of German employers and trade unions in the apprenticeship system is still an asset in ensuring that skills are flexibly adapted to market needs. Even if one has to acknowledge increasing skill deficits in Germany (especially at the level of engineering and other high-tech skills), it is important to note the high presence and visibility of social partners at the local and regional level in Germany. This feature – and this is of particular interest for developing countries – not only ensures that small and medium sized enterprises (SME) in rural areas are endowed with marketable skills, it also prevents young people from migrating (too early) into the large cities where the wages, but also the risk of unemployment, might be higher. It is also important to note that social partnership is playing an important role in harmonising (or at least in the mutual acceptance of) vocational or professional standards between EU-member states. This does not only foster international labour mobility but also the international competitiveness of SME.

Third, there is *not one* optimal ‘*flexicurity system*’ but there are several possible combinations depending on the state of economic and technological development, on culture and on other historical predispositions. ‘Flexicurity Legoland’ Denmark for instance, so much praised these days as a best practice model, represents just one possibility among others. Based on the so-called “golden triangle”, the Danish labour market is characterised by, first, high job turnover made possible through low job security; second, by a generous welfare system, especially in form of high unemployment benefits; third, by an active labour market policy aimed at enhancing employability and thereby employment security, especially through education and training measures. However, the Danish flexicurity system can certainly not serve as a blueprint for all European countries. Three aspects that might prevent other countries from imitating this model have to be emphasised: first, high budgetary costs based on excessive high taxes, second, historically long established trust relationships between the social partners, and third, a high average skill level of workers combined with a production system dominated by SME.

Nevertheless, even if the Danish flexicurity system seems to be an outstanding model, and for the developing countries maybe even a kind of utopia, it contains messages that can be generalised and adapted to other countries. One of these messages is that high external flexibility can be traded in for high income security in case of intermittent unemployment, as well as for high public investments in the employability of workers through vocational education and training measures. The lesson from the German counterpart is that low external flexibility can be

traded in for high internal numerical and functional flexibility. An essential element for the German success is the fact that the German trade unions as well as the German works councils have negotiated many collective agreements at sectoral or firm level, in which employees can trade in working time flexibility (for instance through long-term time saving accounts) and even wage flexibility for employment security.

Fourth, a sustainable employment dynamics depends on a combination of demand *and* supply side policies. Without effective demand, supply side strategies will dry out or lead to high unemployment or underemployment, and without employable supply, demand side strategies will fall short or lead to wage inflation. The new growth theory provides persuasive arguments and empirical evidence that education & skills combined with high technology & capital is the most important driver for sustainable employment dynamics. In addition, spatial economics draws the attention to the fact that in the long-run, equal distribution of investment among regions and social groups is more effective than aiming these investments at few localities or specific social classes only. One reason for which Germany is lacking behind the US rates in productivity growth is the low diffusion of new information and communication technology, which, in turn, is the consequence of unequal distribution of investment in education and technology.

In a nutshell, we argue that employment is the outcome of interactions between labour supply and labour demand. Supply and demand are constantly exposed to external and internal shocks, and these shocks are absorbed by the interactions of thousands of agents guided by institutions.

2. Sharing risks of working time transitions through short-time work allowance³⁸

In Germany, short-time work (or '*Kurzarbeit*') has a long tradition. It goes back to more than 100 years. Today, there are three different types of short-time work allowance: the major role plays *cyclical short-time work* to maintain employment in cyclical troughs; *seasonal short-time work* helps especially construction workers to overcome income risks during bad weather and cold winters; *structural short-time work* helps companies in restructuring to prepare redundant workers finding a new job.

It is important to note that workers have a right to short-time work. Even works councils are entitled to apply for short-time work at the public employment service. The cut of income due to the reduced working time is compensated like unemployment benefits ('short-time work allowance') often topped up by collective agreements.

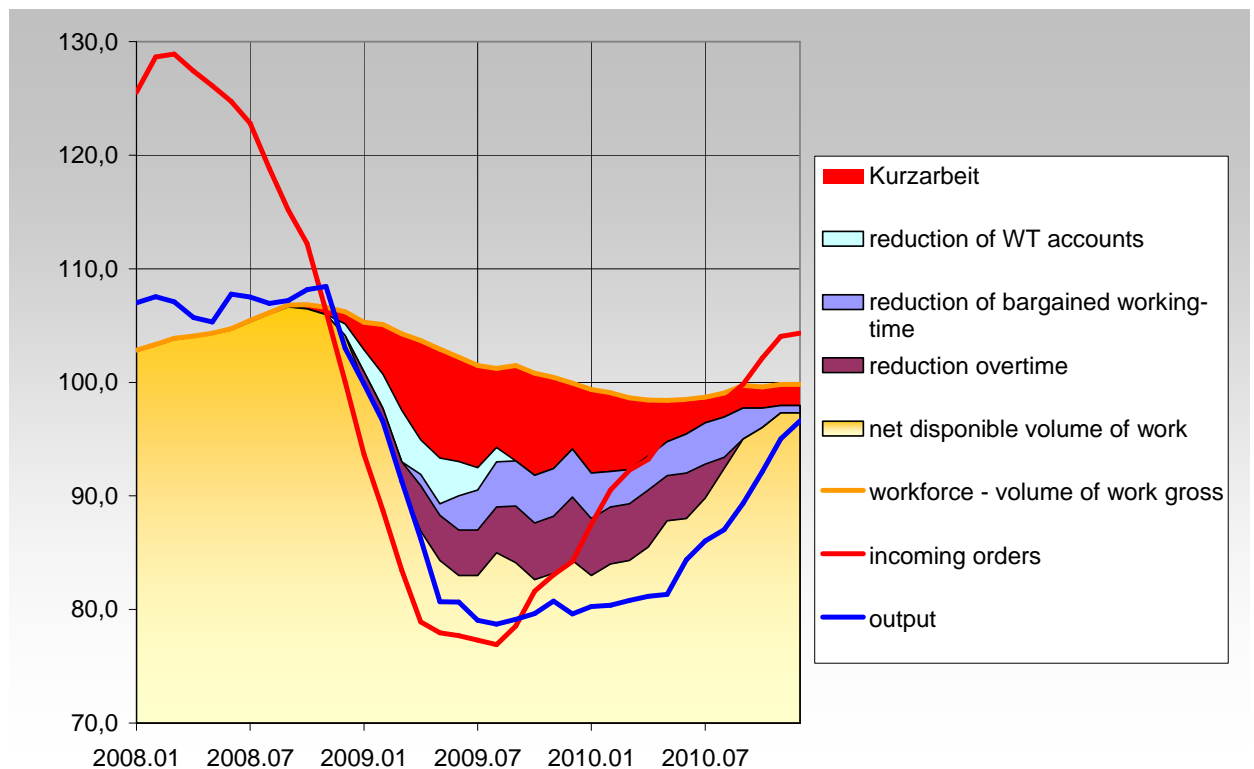
On average, 1.2 million workers went on short-time work in 2009 and reduced their working time by about one third, preventing thereby a drastic jump in unemployment. Yet other instruments of internal flexibility were also used as the following figure related to the German mechanical engineering industry demonstrates (see following Figure).³⁹

Incoming orders in this sector (the red line starting left at the top) fell by almost 50 percent and output (the blue line) by about 30 percent within less than one year. Both recovered within one year but remained at a slightly lower level. The workforce however, the dark and almost horizontal yellow line, dropped only by about 3 percent. The bulk of adjustment was managed by working time flexibility. However, short-time was only one element; it reduced the overall working time volume by 8%. Other elements were the return to the regular 35 hours week (-1.4%), the reduction of overtime (-5.6%), the melting down of working time accounts (-5%), and the reduction of working time by utilising collectively bargained working-time corridors (-2.8%). Altogether, the volume of working time fell by 20.8 percent, and rose again to almost the pre-crisis level at the end of 2010 when only a few short-time workers were left.

³⁸ Source: Günther Schmid (2012), Sharing Transition Risks: Towards a System of Employment Insurance, Aalborg 2012, CARMA Research paper 2012:1
http://www.epa.aau.dk/fileadmin/user_upload/mb/CARMA/CARMA_2012-1_Guenther_Schmid.pdf

³⁹ For a detailed analysis of the German response to the last fiscal and economic crisis see Möller (2010); for the application of short-time work in a European comparative perspective see Eurofound (2010).

Figure: *Internal Flexibility in the German Mechanical Engineering*



Source: Jörg Hofmann, IG-Metall Baden-Württemberg

Yet, before we praise this as a ‘German job miracle’, we have to be careful in assessing the balance of this kind of risk sharing. For the workers the advantages are quite clear: Their wages are insured by 80 to 90 percent, since collective agreements top up the regular wage replacement of 60 or 67 percent. In addition, of course, short-time workers maintain their jobs, their qualifications and their social networks. Problematic are the low incentives for activation and mobility, and current regulations do not entitle short-time workers to qualification. For employers the most immediate advantage is the maintenance not only of skilled workers, but also of workers who are loyal and cooperative; the opportunity costs of recruiting for instance high skilled craft workers or engineers are estimated up to Euro 32,000.

Short-time work allows a much quicker reaction to demand fluctuations than dismissals because dissolving employment contracts needs more time and implies higher transaction costs than just reducing working time by maintaining the employment contract. Short-time work offers employers also the opportunity of strategic waiting in face of uncertainty, which means ‘workforce liquidity’: Nobody knows at the beginning how big the drop in demand will be and how long this will take. Short-time work is a reversible instrument, dismissals are not.

Short-time work also provides for employers the opportunity to adjust work organisation precisely according to the specific tasks to be reduced or expanded. The government increased this flexibility by relaxing conditions which allowed especially small firms (for instance logistic enterprises and suppliers of large firms) to use the scheme to a larger extent than in former times.

Problematic for employers are the remaining fix-costs per short-time worker between 24 and 46 percent depending on the size of government subsidies; for the society, however, these remaining fixed-costs are an effective incentive not to misuse the system. Problematic are also the low incentives for employers to activation, which means to improve the long-term employability of their workers; they even do not have the right to instructions of workers in the phase of short-time work.

For the society or the state, the first evident advantage is avoidance of open unemployment. The German short-time working scheme together with other working time adjustments prevented open unemployment by about 1.4 million workers. This is not just manipulating statistics. This form of job security, first, maintains high purchasing power in times of otherwise falling demand, and second avoids 'Angst', which means panic reactions of workers, for example unreasonable saving that might reduce effective demand leading to a vicious circle.

For the government and the public employment service as insurance principals, short-time work offers a lot of discretion to fine tune the scheme as the situation develops. The government used this discretion by extending short-time work up to two years, giving the employers a comfortable planning horizon; and the public employment services gave employers much freedom in implementing the scheme. It could do so because both, the managers of private companies and public employment agencies, had developed not only experiences with this instrument over a long time but also mutual trust relationships.

The problematic features, however, are not just minor. Each scheme of job protection, of course, weakens the situation of 'outsiders' and may slow down structural change that might be necessary in the long-term. Also the costs of such schemes are not minor. The risk sharing community of all workers, for example, spent about five billion Euros for the minority of short-time workers, and high social contributions are always hidden costs of production. Finally, the government complemented this risk sharing community by subsidising social security contributions and a by large stimulus package through a so-called wreck-bonus. If you had a nine year old car, you could deposit your car in a wrecker's-yard and take home a new car subsidised by 2,500 Euro. This cost the society another five billion Euros and contributed, of course, to high public debts.

So, short-time work as an instrument of employment insurance has clear disadvantages compared to external flexibility covered by unemployment insurance. State subsidies may shift the costs to tax payers or to marginal workers; job security may maintain non-competitive industrial structures and lead to jobless growth or new job creation only in non-standard form, especially temp-agency work. Finally, it has to be mentioned that by implementing short-time work, Germany failed in at least two respects from a TLM point of view: the incentives for training during short-time work were too low; and a corresponding flexible training infrastructure is still missing.

All in all, however, the balance is positive. Yet there is a clear need of complementing this important element of employment insurance by a kind of life-long-learning insurance. Explaining the main reasons and the main features of such insurance will be the final task of this essay.

Annex II: Tables and Figures

Table 1: Average collectively agreed normal annual working time for full-time workers, 2011(Selected EU Member states and Korea)

Country	A Weekly hours	B Gross annual hours $A \times 52$	C Annual leave	D Public holidays	E All leave in hours $C+D$	F Net annual hours $B-E$
Poland	40	2,080	20	9	232	1,848
Netherlands	37.1	1,929	25	6	230	1,699
UK	37.5	1,950	25	9	253	1,697
Sweden	37.2	1,934	25	9	253	1,681
Germany	37.7	1,960	30	10	302	1,659
Denmark	37	1,924	30	9	289	1,635
France	35.6	1,851	30	8	271	1,581
EU27	38.1	1,981.2	25.3	8.9	260.9	1,720.3
EU15	37.6	1,955.2	26.7	9.2	269.6	1,685.6
NMS12	39.7	2,064.4	20.8	8.6	233.6	1,830.8
Korea	40	2,080	15	14	232	1,848

Source: Eurofound 2012, p. 22/3; NMS12 = 12 New Member States since 2004, in particular Eastern European countries (for instance Poland); Korea: Youngsup Choi (KRIVET).

Table 2: Average actual normal annual working time for full-time workers, 2011(Selected EU Member states and Korea)

Country	A Weekly hours	B Gross annual hours Ax52	C Annual leave	D Public holidays	E All leave in hours C+D	F Net annual hours B-E
Poland	40.2	2,090	20	9	232	1,858
Netherlands	39.8	2,070	25	6	230	1,840
UK	40.5	2,106	25	9	253	1,853
Sweden	38.9	2,023	25	9	253	1,770
Germany	40.6	2,111	30	10	302	1,809
Denmark	38.8	2,018	30	9	289	1,729
France	38.1	1,981	30	8	271	1,710
EU27	39.7	2,064.4	25.3	8.9	260.9	1,803.5
EU15	39.5	2,054	26.7	9.2	269.6	1,784.4
NMS12	40.3	2,095.6	20.8	8.6	233.6	1,862
Korea*	40.6	2,116	17**	11**	227	1,889

Source: Eurofound 2012, Figure 7, p. 15 (for Column A), and own calculations; Data for Korea were provided by Youngsup Choi (KRIVET):

*) Figures are for all paid workers (part-time and full-time) because official statistics of working hours for full-time workers only are not available; the proportion of part-timers is 10.3%;

***) 15 days for the first year; one day is added for every two years continuous service with a maximum of 25 days; the figure refers to those who worked for six years which is the average number of years worked continuously.

****) There are 14 days of public holidays annually, which overlap with Saturday or Sunday three to four times, thus workers have de facto only 10 to 11 days of holidays.

Table 3: Statutory paid annual vacations, paid public holidays, and total paid annual leaves in OECD countries (working days)

Country	Paid annual vacations	Paid annual holidays	Total of paid annual leaves
France	30	1	31
Finland	25	9	34
Norway	25	2	27
Sweden	25		25
Austria	22	13	35
Portugal	22	13	35
Spain	22	13	34
Italy	20	13	33
Belgium	20	10	30
Germany*****	20 (+9 by CA)	10	30 (39)
Denmark	20	9	29
Ireland	20	9	29
Australia	20	7	27
New Zealand	20	7	27
Greece	20	6	26
Netherlands	20		20
Switzerland	20		20
UK	20		20
Canada	10	8	18
Japan*****	10 (up to 20 days)		10 (20)
USA*****	(9)	(6)	0 (15)
Korea*****	15 (minimum)	14 (officially given)	29 (more or less)

Source: Ray and Schmitt (2007), Figure 1, p. 3; Table 1, p. 4 (assuming a 5 day working week) plus comments by the author.

*******Attention:** Variations by region [e.g. catholic or protestant in Germany re public holidays], by sectors or by seniority – mostly due to collective agreements – are not taken into account! In *Germany*, for example, most workers have 29 paid annual vacations due to collective agreements that are more generous than statutory paid vacations. According to U.S. government survey data, the average worker in the *U.S. private sector* receives about nine days of paid leave and about six paid public holidays per year, still less than most statutory regulations in other rich countries. *Japan* gives seniority the most weight: after 18 months, an employee’s annual leave begins rising by one workday per year of service until reaching 20 days. For *Korea* see explanation in Table 2.

Table 4: Part-time Employment in Percent of Total Employment: Korea compared to EU, USA and Germany

	1990	1995	2000	2005	2011
European Union*	13.3	14.9	15.2	17.8	19.5
Germany	13.4	14.2	17.6	21.5	22.1
Korea	4.5	4.4	7.0	9.0	13.5
USA	13.8	14.1	12.6	12.8	12.6

*) various sizes; since 2005: EU-27; source: OECD-Statistics; Eurostat; cut-off point: 30 hours per week

Table 5: Indicators of Wage Inequality: Korea compared to USA, Denmark and Germany

Country	Low Pay Rate	Low Pay Rate	Decile D9/D1	Decile D9/D1	Decile D5/D1	Decile D5/D1
	1995-2000	2007-2009	1995-2000	2007-2009	1995-2000	2007-2009
Denmark	8.5	12.0	2.5	2.7	1.5	1.6
Germany	16.6	21.2	3.1	3.3	1.7	1.9
Korea	23.2	25.6	3.8	4.7	1.9	2.1
USA	24.8	24.5	4.6	4.9	2.1	2.1

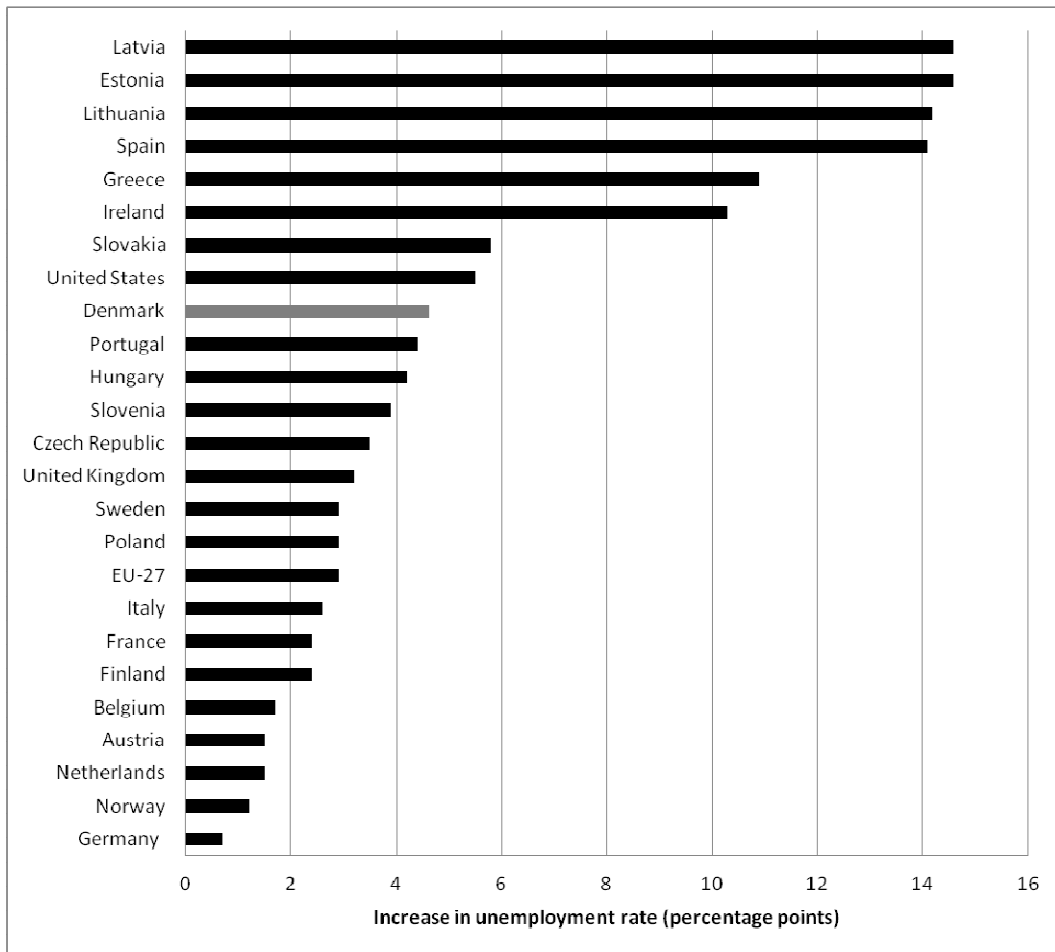
Source: ILO (2010) Global Wage Report 2010/11, Table SA3, pp 1220/1.

Table 6: Paid and unpaid overtime as percent of total volume of work in Germany

	Paid overtime	Unpaid overtime
1991	3.7	2.6
1995	4.0	2.7
2000	3.4	2.7
2005	3.0	2.5
2010	2.7	2.9

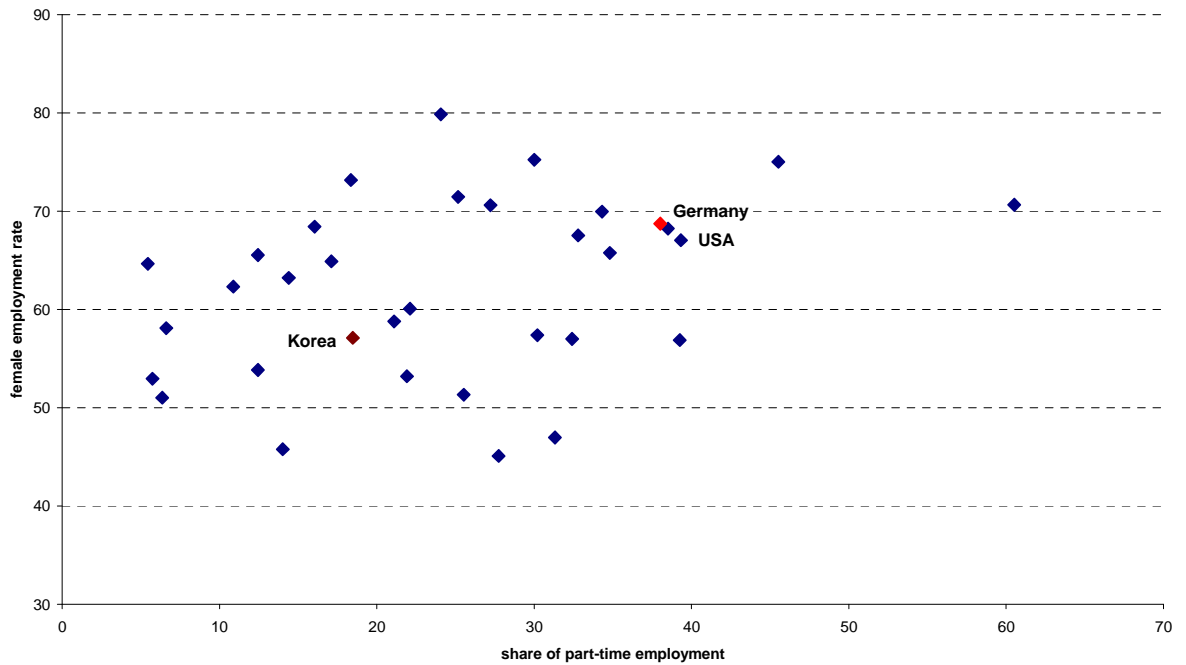
Source: Brautzsch et al (2012), Table 1.

Figure 1: Growth of unemployment in percentage-points 2007 (min) – 2011 (max) in Europe and USA



Source: P. K. Madsen (2011), Still the Poster Boy? Danish Flexicurity and the Crisis, CARMA-Aalborg, mimeo

Figure 2: Female employment rates and share of part-time employment at total female employment (age: total), 2011



Source: OECD stats, download 30 10 2012.

Note: Part-time employment is based on a common 30-usual-hour cut-off in the main job; age is 15+.

Figure 3a: Labour productivity by hour and hours actually worked per worker in OECD countries, 2000

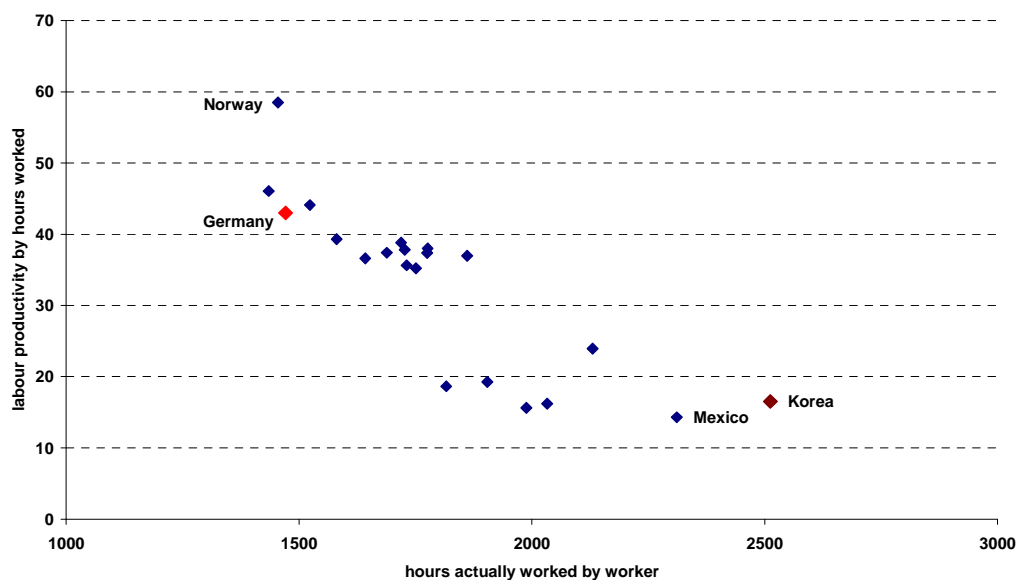
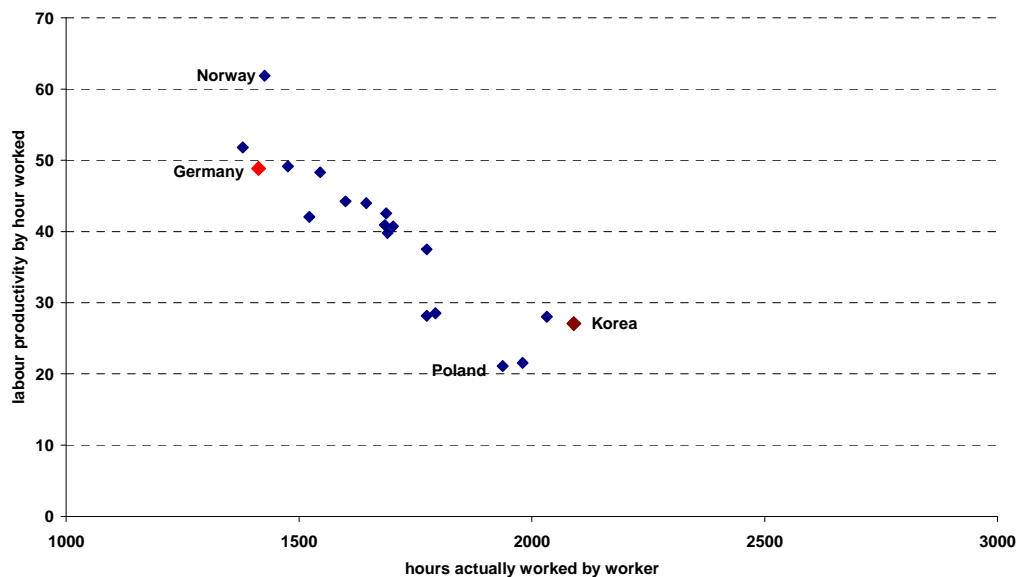
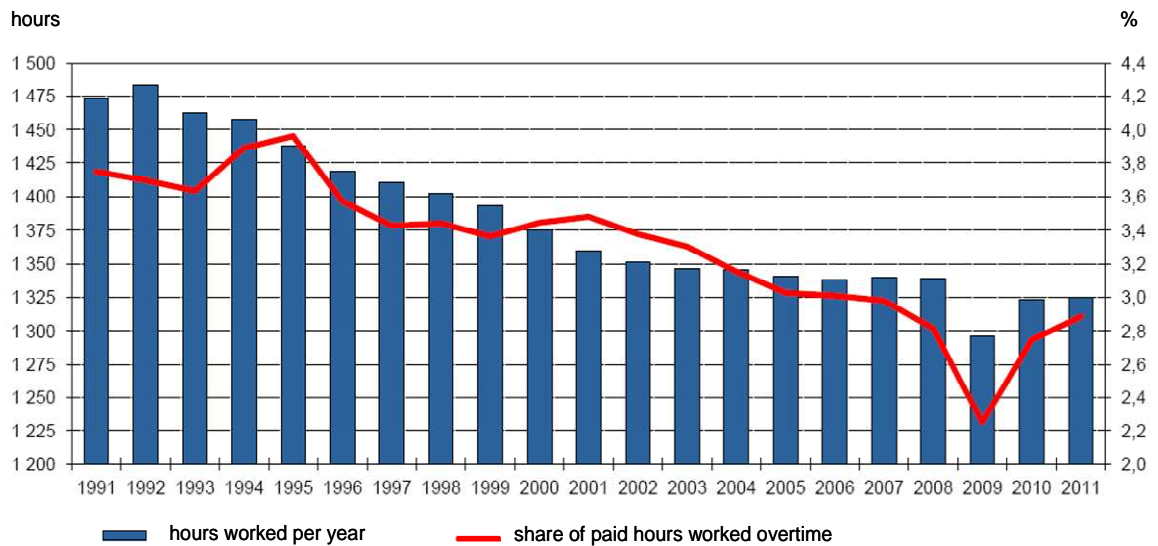


Figure 3b: Labour productivity by hour and hours actually worked per worker in OECD countries, 2011



Source: OECD stats, download 23 10 2012; average annual hours worked by worker and labour productivity by hour worked: calculated as GDP (in US \$, constant prices, constant PPP, output approach) divided by hours worked (employment; data set: unit labour costs, annual indicators); (ad 2011: data for Australia, Canada and Ireland: 2010); USA not included due to incompatibility of data.

Figure 4: Actual yearly working time per worker and share of paid overtime in percent of total work volume in Germany



Source: Hans-Ulrich Brautzsch, Katja Drechsel, Birgit Schultz (2012), Unbezahlte Überstunden in Deutschland, in: IWH, Wirtschaft im Wandel, Jg. 18 (10), 2012, p. 309.

Annex III: Regulatory surveys

1. The European Working Time Directive 2003/88/EC – Main points

Under the EU's Working Time Directive (2003/88/EC), each Member State must ensure that every worker is entitled to:

- * a limit to weekly working time, which must not exceed 48 hours on average, including any overtime
- * a minimum daily rest period of 11 consecutive hours in every 24
- * a rest break during working time, if the worker is on duty for longer than six hours
- * a minimum weekly rest period of 24 uninterrupted hours for each seven-day period, which is added to the 11 hours' daily rest
- * paid annual leave, of at least four weeks per year
- * extra protection in the case of night work (for example, average working hours must not exceed 8 hours per 24-hour period; night workers must not perform heavy or dangerous work for longer than 8 hours in any 24-hour period; there should be a right to free health assessments and in certain situations, to transfer to day work).

The Directive also sets out special rules for working time in a small range of sectors: doctors in training, offshore workers, sea fishing workers, workers in urban passenger transport. The European Commission is currently reviewing Directive 2003/88/EC, by means of a two-stage consultation of the social partners at EU level and a detailed impact assessment. In December 2010, the Commission adopted a second-stage consultation paper asking workers' and employers' representatives for their views on possible changes to the Directive. The Commission also adopted a report on how the current working time rules are being implemented in the Member States and made available an independent study on the social and economic impact of the Directive.

2. Eligibility criteria for short-time working allowance
 ('Kurzarbeitergeld' as wage insurance element) **in Germany:**

Events:	1) Economic reasons (' <i>konjunkturelle Kurzarbeit</i> ', the main form) 2) Seasonal or weather reasons (' <i>saisonale Kurzarbeit</i> ', especially construction) 3) Definitive loss of employment (' <i>strukturelle Kurzarbeit</i> ', recently introduced)
Employers:	All employers of which at least one third of all employees have experienced a wage cut due to reduced working time of more than 10% of their monthly gross wage (during the crisis this criterion was not applied)
Employees:	All workers subject to social security contributions affected by a substantial loss of income (see above)
Working time:	Any reduction up to 100% is possible
Income support:	Up to 67% of the net wage loss (like unemployment benefit) Up to a monthly wage of €5,500 (western Germany), €4,650 (eastern Germany) Up to 12 months (24 months in exceptional cases and during crisis)
Social Security:	Calculation basis for contributions/benefits: 80% of the normal wages; coverage by employer (also employees' contributions); during the crisis, PES reimburses 50% of employers' expenses (100% from the 7 th month onwards if training is provided); contribution to unemployment insurance is fully covered by PES; short-time working period is considered as if the worker had worked the regularly contracted (mostly full) time in case of unemployment
Training:	Full reimbursement of employers' expenses for social security contributions if training that fosters workers' general employability is provided at least 50% of the non-worked hours; coverage of training costs: up to 100% of the training costs can be subsidized
Social Partners:	Agreement of employees or works councils required; the works councils also being involved in the design of short-time working measures. In addition to the legal regulations, there are sectoral collective agreements on working time arrangements, including short-time working; some of them provide for supplements to the public short-time working allowances to be paid by the employer
Source: Eurofound (2010) adapted.	

Source: Schmid (2012, 21-22).

3. EU Part-time Directive: Main Points

The purpose of the agreement on part-time work as negotiated by the social partners in 1997 is to provide for the removal of discrimination against part-time workers and to improve the quality of part-time work. It is also intended to facilitate the development of part-time work on a voluntary basis and to contribute to the flexible organisation of working time in a manner which takes into account the needs of employers and workers. The agreement covers all part-time workers as defined by national law and practice. Exclusion of part-time workers on a casual basis is possible at national level.

A part-time worker is defined as “an employee whose normal hours of work, calculated on a weekly basis or on average over a period of employment of up to one year, are less than the normal hours of work of a comparable full-time worker”. Regarding all working conditions part-time workers shall not be treated in a less favourable manner than comparable full-time workers solely because they work part-time, unless different treatment is justified on objective grounds (principle of equal treatment).

What is a comparable full-time worker? A full-time worker in the same establishment with the same type of contract, engaged in the same or similar work. Seniority or skills might also be taken into consideration. The principle of pro rata temporis applies, meaning that certain working conditions will apply according to the time worked.

Where justified by objective reasons, Member States, after consultation with the social partners, may make access to particular conditions of employment subject to a period of service, time worked or earnings qualification. Member States and social partners must identify, review and eliminate obstacles which limit opportunities for part-time workers.

Employers should take into consideration for example:

- requests by workers to transfer from full-time to part-time work or vice versa, or to increase their working time should the opportunity arise;
- facilitation of access by part-time workers to vocational training to enhance career opportunities and occupational mobility;
- the provision of appropriate information to workers’ representative bodies about part-time work in the enterprise.

A worker’s refusal to transfer from full-time to part-time or vice versa is not a valid reason for termination. Part-time workers have the same active and passive collective rights as full-time workers.

Links: [Text Directive on part-time work \(97/81/EC\)](#)