

Discussion Paper

Precarious employment in Germany

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This Discussion paper is based on the **ESOPE Project, financed by the European Commission, DG Research, Framework V Programme, Key Action: *Improving the Socio economic Knowledge Base***. The paper was submitted to the European Commission in **March 2002**.

Outline of the research project ESOPE (*Precarious Employment in Europe: A Comparative Study of Labour Market related Risks in Flexible Economies*):

The **aim** of the ESOPE project is *to contribute to an improved comparative understanding and evaluation of «precarious employment» as one of the main facets of social and socio-economic insecurity and risks in contemporary European societies*. By thus doing the project expects both to increase knowledge and to inform current policy debates on the interrelations between the modernisation of systems of social protection, the activation of employment policies, and the «quality of employment» in Europe. The **research questions** include:

- How is «precarious employment» understood and appraised in both scientific and policy terms in the five countries of our study (France, Germany, Italy, Spain and the United Kingdom) and also at the European and wider international levels?
- What are the main factors accounting for the actual incidence and forms of «precarious employment» and what is the relative importance of sectoral factors and State-based regulatory frameworks?
- What notion of «precarious employment» could be more appropriate in scientific as well as operational terms for understanding, measurement and policy making?

In order to achieve these purposes, the project is divided into three major **phases**: [1] literature review and comparative policy analysis; [2] two strands of empirical research through case studies of selected services sectors and of local innovative initiatives; and [3] drawing of policy implications and dissemination activities, including an important scientific seminar.

Members of the consortium:

- Departamento de Trabajo Social, Universidad Pública de Navarra (Pamplona, ES)
- ICAS Institute (Barcelona, ES)
- Economix Research and Consulting (Munich, D)
- Centre d'Etude de l'Emploi (Paris, FR)
- Centro di Ricerche Economiche e Sociali (Roma, IT)
- Warwick Institute for Employment Research, University of Warwick (Coventry, UK)

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1. Scientific debate

1.1. Social and historical background

The discussion on precarious employment within the Federal Republic of Germany dates back to the 1980s, but first became a pressing topic of debate during the 1993–1995 recession. As early as the beginning of the 1980s, robust and continuously growing non-cyclical unemployment marked the end of the full employment era. In the wake of the recession, the numbers of unemployed – particularly in the newly formed German states – increased sharply, reaching a temporary maximum in 1997 with 4.3 million for Germany as a whole (here, of course, we must take into account an increase in the economically active population through the reunification of Germany). The discussion on precarious employment has been triggered in particular by the sharp increase in marginal employment (*geringfügige Beschäftigung*) following the enactment of the 630-DM law (no provision of compulsory social insurance) and, particularly in the newly formed German states, subsidised temporary employment (*Arbeitsbeschaffungsmaßnahmen - ABM*) in accordance with the Employment Promotion Act (*Arbeitsförderungsgesetz*). Indeed, some observers have spoken of the emergence of a *zweiter Arbeitsmarkt* (“second labour market” characterised by wage subsidies) (Kühl 1993, Schmid 1996).

In Germany, the discussion on precarious employment was preceded by a number of important debates with very different, sometimes opposing, political aims:

- The oldest of these debates began already in the 1970s. Its point of departure is risks of the work process which can – at least indirectly – have negative effects on job security. To make “working life more human”, demands were made to reduce such risks through more industrial safety and health protection, new methods of organising the work process, and measures for (re-)qualifying workers, particularly the unskilled and semi-skilled. Substantial support for this debate came through the government programmes *Humanisierung des Arbeitslebens* (Improving Working Life), 1974–1989, and *Arbeit und Technik* (Work and Technology), 1989–1996. Within the framework of these programmes firms were offered substantial government funds for pilot projects and research work.¹
- The debate on “new poverty” (*neue Armut*) in western Germany dates back to the 1970s and is closely related to the discussion on the crisis of the welfare state. Until then public opinion was dominated by the idea – developed in times of economic growth and (quasi) full employment – that

¹ The programme *Humanisierung des Arbeitslebens* began in 1974 with a total budget of 16 million DM per year. In the period 1980–1988 it reached a budget of 100 million DM per year. The programme *Arbeit und Technik* had a smaller budget (60 million DM in 1996). Bundesministerium für Forschung und Technologie, Bundesministerium für Arbeit und Sozialordnung 1987, Bundesministerium für Forschung und Technologie, Bundesministerium für Arbeit und Sozialordnung, Bundesministerium für Bildung und Wissenschaft 1989.

poverty in Germany had been overcome by the tight social security network and was limited to isolated cases in which the concerned either caused the problem themselves or were the victims of tragic circumstances. By the end of the 1970s, however, the classical instruments of social policy began to show signs of strain, and transfer payments within the social security system were increasingly restricted. This development clearly showed that poverty is not limited to a few individual cases but is a structural problem of social policy. This insight led to the development of continuous social monitoring programmes both by the authorities and by social research institutes (among others, the report on poverty by the federal government, the Labour Force Survey (*Mikrozensus*), the German Socio-Economic Panel and IAB's firm panel interviews: see section 3.1).

- The deregulation debate began in the 1980s and is closely connected with the growth of unemployment. Essentially, this debate is based on the notion that Germany's "overregulated" labour market is to a large extent responsible for its high structural unemployment. From this point of view the tight network of regulations established through laws and collective agreements leads to misallocations that impede employment adjustments and prevent wage adjustments. The demand for deregulation and more flexibility on the labour market was supported by important figures in the conservative camp of the then federal government (CDU/CSU, FDP), in the employers' associations and the Chambers of Industry and Commerce, and among neo-classical economists. The deregulation debate manifested itself in a number of new laws and amendments which, for example, reduced the restrictions on temporary employment and the hiring-out of labour and limited dismissal protection in small firms (the Employment Promotion Act [*Beschäftigungsförderungsgesetz*] of 1985). It also manifested itself in the establishment of the Deregulation Commission (1991) and in the abolishment of the placement monopoly of the Federal Employment Service (1995). For their part, the unions doubt that these deregulation measures have positive effects on employment and tend to view the sell-out of protection regulations on the labour market as an aggravation of the unemployment crisis.

- The debate on the reduction of working hours and new forms of organising working time originates in the unemployment crisis of the 1980s. From the unions' point of view, cutting back on overtime and a general reduction of weekly working hours without pay cuts are the most important instruments for the creation of new jobs. The employers' associations and their member firms deny positive employment effects from reduced regular working hours (increased labour costs) and reduced overtime (loss of flexibility), and reject these union demands. Nevertheless, when the unions threatened to strike, they got their way. The 35-hour workweek without pay cuts was laid down in the collective agreements of some important industrial branches (metal industry, printing), and at least partially (with moderate pay cuts) in others, such as the chemical industry. As a kind of compensation, the employers' associations and some large firms

demanded a relaxation of the rigid working time regulations embodied in the collective agreements and more flexibility with respect to the volume of working hours (introduction of working time accounts, support for part-time jobs and job-sharing, etc.) and their scheduling (e.g. Sunday work). The employers' declared aim is to break open the straitjacket of normal working hours and to arrive at capacity-oriented, variable working hours.

1.2. The academic debate

The academic debate on precarious employment is in many respects linked to the social debate outlined above. It anticipates real developments, offers explanatory approaches and ex-post analyses, and provides arguments for the conflicting positions of the social actors. In the following we confine ourselves to approaches and hypotheses from labour market research, sociology, the sociology of work, sociological and psychological research, and research-based social monitoring.

1.2.1. Theoretical approaches in labour market research

Labour market researchers with a neo-classical orientation interpret the increase in precarious employment as a necessary consequence of an "overregulated" labour market that impedes or even eliminates the laws of the market and thus seriously interferes with employment adjustments to changed macroeconomic conditions. These researchers basically agree with the demand for deregulation as a labour market policy. From this point of view globalisation tendencies in the world economy reinforce the problem because international competition exerts more and more pressure on the high unit labour costs of German industrial products and the high cost of services, with negative effects on employment. The relocation of production facilities to low-wage countries generates a growing need for deregulation on the German labour market, for many view its high regulation density as a pure "luxury" that no longer can be maintained.

Furthermore, high wage costs are being made responsible for high unemployment figures, as they represent a threat to global competitiveness. The role of high wage costs in the German economy is assessed in different ways. On the one hand, it is traditionally argued in Germany that high wage costs boost productivity. On the other hand, a number of labour economists have stressed the negative impact of the high-wage-high-productivity strategy on the labour market situation for those with lower skill levels. Therefore, human capital formation is at the centre of academic and political interest. Nevertheless, wage rigidities at the bottom of the wage scale are perceived by some labour economists as the root of the unemployment problem. At present, the debate is focusing on a combination of social policy reforms and wage-cost subsidies in order to permit the development of a low-wage sector (Bender et al. 1999, Buslei et al. 1999, Karr 1999). The debate on "marginal" employment is also strongly linked to the reforms of the social security system (see section 6.3).

Contrary to neo-classical theoretical approaches, the theory of labour market segmentation insists on the institutional character of the labour market, leaving only limited scope for applying the laws of the commodity markets. In segmented labour markets opportunities for entry are unevenly distributed. Unlike the dual labour market of the United States (as studied by authors like Piore, Doeringer, Gordon and Sabel), the segmentation between internal labour markets in firms and the general labour market especially characterises the situation in Germany (Lutz 1987, Sengenberger 1978, 1987). Interfirm segmentation, on the other hand, is less pronounced in Germany than in other countries (e.g. Japan, the United States) because the German occupational training system and the scope of collective agreements have an equalising effect on labour market conditions. In German firms this segmentation pattern leads to a split between a stable group of core workers who come primarily from occupational submarkets and a group of peripheral workers with very general qualifications (*Jedermannsqualifikationen*) who are recruited from the general labour market. Wage differences are particularly pronounced between core workers and peripheral workers, less so between the occupational submarkets. Especially in periods of recession, peripheral workers are subject to a higher risk of losing their jobs, and it is primarily in this segment that atypical forms of employment are created. Thus, in the German labour market there are tendencies towards a vertical segmentation, which aggravate the unequal distribution of entry opportunities. The theory of labour market segmentation has been taken up in particular by union-friendly economists and social scientists because it provides arguments against a further deregulation of the labour market and for a more active labour market policy (e.g. further training for unskilled and semi-skilled workers) aimed at making the existing lines of segmentation more pervious (Bosch 1986, Keller and Seiffert 1998, Kress 1998, Semlinger 1991).

Departing from contract theory and efficiency wage theory, labour market regulation is still regarded by many labour market researchers as fostering the stability of employment relationships and, in this context, enhancing the productivity of the economy. Labour law and collective agreements are perceived by proponents of this approach as an instrument for correcting market failures caused by negative allocation effects. They argue that the standardisation of employment contracts by means of law and collective agreements saves on diverse negotiation costs. Moreover, the standardisation of the relationships induces contract-related investments which in turn create an interest in long-term relationships. One main cause of market failure is asymmetric information, which can prevail on both sides of the labour market, for example with regard to employers' implicit "career promises" and employees' performance promises. Standardised and transparent employment relationships can have a positive effect on the willingness to perform as well as on the employers' investment in human capital. It is also argued that job security in the sense of lower risks of dismissal may have a positive effect on the willingness to perform (Buttler and Walwei 1994, Hoffmann and Walwei 1999).

To conclude, an important part of the scientific debate among economists is directed towards the questions of how much regulation is needed in order to set

a stable framework for the production of high-value-added goods and services and, from another perspective, to what extent are the present employment regulations impeding flexibility and productivity. Furthermore, the academic debate links labour market deregulation and social policy reforms. Finally, the link between investments in human capital and labour market risks is debated.

1.2.2. Sociological approaches

Already at the beginning of the 1980s, German sociologists put forward the hypothesis of the “crisis of the work society” (*Krise der Arbeitsgesellschaft*, Twenty-first Conference of German Sociologists in Bamberg, 1982; see Matthes 1983). According to this hypothesis, the employment relationship as the classic model of a remunerative occupation is becoming increasingly diversified: wage labour loses its dominant role as a basic value of the traditional working society. New orientations emerge which manifest themselves in manifold discontinuous work biographies (Offe 1993). These hypotheses are developed further in the theory of the risk society (Beck 1986) and the theory of “reflexive modernisation” (Beck et al. 1996): On the one hand there is an increasing employment risk through discontinuous work biographies or patchwork biographies (*Patchworkbiographien*, *Bastelbiographien*), but on the other hand new possibilities for individual lifestyles are opened up (Beck 1994).

In German sociology the hypothesis that the work society faces a crisis or has even come to an end has been a contentious issue. Researchers in the sociology of work, in particular, deny that employment as a basic category of the work society generally loses its meaning. According to them, even in high-tech production systems human labour is a decisive factor of production – the focus of new strategies of organisational development and human resource management. At the same time such strategies support a particular form of precarious employment.

The most pointed antithesis to the crisis of the work society has been developed in the research work of the Sociological Research Institute of Göttingen (SOFI). According to this work, in the core sectors of German industry new production concepts gain acceptance which aim at reducing the division of labour, deliberately using existing qualifications (especially occupational ones) and developing new ones. This development is associated with a tendency to re-professionalize industrial work. There is, however, a disadvantage to this tendency: there are not only “winners from rationalisation” but also a growing number of “losers from rationalisation” who are affected by the tendencies towards segmentation in the labour market and are increasingly marginalised (Kern and Schumann 1984; to a lesser extent, Schumann et al. 1994, Schumann and Gerst 1997; for a similar approach to the service sector, see Baethge and Oberbeck 1986). Hence, proponents of the “new production concepts” at the same time warn about the development of a “two-thirds society” (*Zweidrittelgesellschaft*, see Kern and Schumann 1985).

The hypotheses about a re-professionalization of industrial work have also been challenged in German sociology of work (Düll K.1985, Schmidt 1985; for more contributions, see Malsch and Seltz 1988). In particular, the research publications of the Institute for Social Research (ISF) in Munich have established a counterposition: the essence of new innovation and reorganisation strategies is the optimisation of the value chain as a whole. A “new type of rationalisation” emerges which transcends the boundaries of the firm (outsourcing, reforming the chains of suppliers, developing firm networks, etc.). This “systemic” type of rationalisation leads to substantial employment effects, which are distributed unevenly across the value chain. Whereas in the dominant firms core workers can hold their positions (for a while), in the dominated firms (e.g. suppliers) increasing job risks and a growing number of atypical and precarious employment relationships are to be found (Sauer 1992, Sauer and Döhl 1997). In addition to the disintegration of the firms' external boundaries there are tendencies towards a disintegration of its internal structures (traditional hierarchies are undermined, market mechanisms are introduced into the organisation) and towards a dismantling of the classic wage relationship (atypical employment relationships, “dependent self-employment”) in the sense of a “disenclosure” of work (*Entgrenzung der Arbeit*; Kratzer et al. 1998, Voß 1998).

1.2.3. New approaches in biographical research – discontinuous work biographies

In the 1990s, sociological and psychological biographical research was dominated by the discussion on precarious employment relationships. Inspired by theories of the “end of the work society” and the “risk society”, researchers developed the hypothesis that discontinuous work biographies usually are not the result of free choice but are prompted from “outside”, that is, through the precarious labour market situation (exceptions: freelancers, artists, etc.). In the process, however, individual lifestyles and work arrangements emerge (Brose 1990, Mutz 1997, Mutz et al. 1995). They lead to an individualisation of social relations, but at the same time entail increased risks for the private lives of the people affected (e.g. frictions in families and partnerships, loss of income).

1.2.4. Social monitoring and poverty research – cumulative risks

Since the beginning of the 1980s there have been increased efforts to combine mass data from social monitoring with labour market statistics: economists and social scientists advocate the hypothesis that socially disadvantaged groups of the working population which are below the poverty line as defined by traditional criteria of welfare measurement (low income, low level of education, poor housing, heavy debts, lack of provision for old age) at the same time carry a higher job risk. Such groups (e.g. the unskilled, long-term unemployed, the chronically ill, and older workers) have very limited access to the regular labour market and depend on precarious employment. There are feedback effects between social disadvantages and discontinuous work biographies which can culminate in social

exclusion (Bartelheimer 1998 and Kratzer et al. 1998, Brose et al. 1987, Kistler and Sing 1998, Noll 1998).

2. Defining precarious employment

The German debate among labour market researchers currently is focused on the phenomenon of “atypical employment”. In this context, “precarious employment” is regarded as a form of “atypical employment”. The notion of “precarious employment” was introduced to the German debate in the 1980s and at that time mainly referred to employment forms on the so-called *zweiter Arbeitsmarkt* (second labour market), which is characterised by wage-cost subsidies. In particular, much attention was devoted to the so-called 630-DM jobs (or “marginal” employment: *geringfügige Beschäftigung*) and subsidised fixed-term labour contracts aimed at integrating unemployed persons into the labour market (Holst and Maier 1998).

For decades the starting point for German labour market research was the fiction of the “regular employment relationship” (*Normalarbeitsverhältnis*), with atypical employment defined as a deviation from the criteria of this concept. Despite the lack of a clear and binding definition of the “regular employment relationship”, labour market researchers often regard the following characteristics as constituting this type of relationship: the notion applies to a gainfully employed person who works full-time for only one employer on the basis of a permanent work contract, and who contributes to the social security system and works outside the home (as defined by researchers of the Institute for Employment Research [IAB] of the Federal Employment Service: Dostal et al. 1998, Hoffmann and Walwei 1998). Moreover, regular employment contracts are not subsidised by the state. Further characteristics of a “regular employment relationship”, such as a continuous work history, the type of professional activities and the length of stay with a particular employer, might have a high empirical relevance, but are not conditional.

Table 1
Regular employment and atypical employment

	<i>Regular employment</i>	<i>Atypical employment</i>
Employment status	Gainfully employed, working for one employer	“dependent self-employment”, temporary agency work
Duration	permanent work contracts	Fixed-term contracts
Working time	Full time (35 to 40 hours a week according to collective agreement)	Part-time
Workplace	At the establishment, outside home	Home-based work, telework
Compulsory contribution to the social security scheme	Yes	No compulsory contributions for some of the employees on 630-DM jobs (i.e. mainly before the amendment of the law in 1999), “dependent self-employment”, freelance
Subsidies	No	Subsidised fixed-term work contracts for unemployed (<i>ABM</i>), agencies acting on the so-called <i>zweiter Arbeitsmarkt</i> or subsidised labour market (<i>Beschäftigungsgesellschaften</i>)

Thus, in Germany the notion of “atypical employment” refers to those employment relationships in which at least one of the above-mentioned basic characteristics of a “regular employment relationship” is missing (Table 1). However, as previously mentioned, “atypical employment” is not necessarily “precarious”. Thus, part-time work can reflect the choice of the individual, even among highly qualified workers. The same can be said for telework. Fixed-term contracts might be a sensible way for young people to enter the labour market. To give another example, “dependent self-employment” (*Scheinselbständigkeit*) cannot be regarded as “precarious employment” as long as high income compensates for social and labour market risks. Even temporary agency workers cannot be said to be working under precarious conditions, as long as they belong to the core workers of the agency and are sent as specialists to the client in question. In general, “precarious employment” is characterised by a cumulation of atypical forms of employment or by combining elements of atypical employment with other indicators measuring labour market risks and social exclusion, such as low income, low skills level, discontinuous work biographies and previous unemployment. Examples of precarious employment are part-time work on fixed-term contract and temporary agency work in the low-wage sector, at-home employment combined with “dependent self-employment”, “marginal” employment as the only labour income source, and subsidised work contracts (*Arbeitsbeschaffungsmaßnahmen – ABM, Beschäftigungsgesellschaften*) that fail to integrate unemployed persons into the regular labour market.

To summarise, the term “precarious employment” (*prekäre Beschäftigungsverhältnisse*) is used in the German debate in a restrictive way and refers to “marginalised” employment relationships (*marginalisierte Beschäftigungsverhältnisse*) on the *erster Arbeitsmarkt*, or regular labour market, and the *zweiter Arbeitsmarkt*, or subsidised labour market. The notion of “insecure” employment (*unsichere Beschäftigung*) is also in use, highlighting the aspect of risk and uncertainty. However, the point of reference remains the “regular employment relationship”, with part-time employment not included (Schreyer 2000). The fact that the German debate is focusing on the “regular employment relationship” rather than on precarious employment is linked to the high degree of labour market regulation in Germany and therefore to a strong concern about observing and evaluating changes in the regulatory framework and the effectiveness of regulation. The second facet of the discussion on atypical employment is linked to the debate on reforming the social security schemes in the light of the present and future financial problems it faces. In this context, the notion of “unprotected” employment relationships (*ungeschützte Beschäftigungsverhältnisse*) has been used, denoting employment relationships lacking (in part) social protection. It must be noted that the wage level does not constitute an important aspect in this debate. Finally, there is a strand of arguments highlighting the positive effects of new employment forms (transitional labour markets) and arguing for employment policies to adapt to the needs for flexibility. The “transitional labour market” approach argues that the model of continuous and dependent full-time employment must be given up. Thus, researchers of the *Wissenschaftszentrum Berlin* have suggested replacing this norm with a regulatory notion of transitional labour markets, in the sense of a complementary element to the innovation and investment strategies required to solve the employment crisis. Transitional labour markets are defined as institutionalised arrangements which allow or support changes in employment status or the combination of labour market work with other socially useful activities. The use of wage subsidies for lower income groups or hard-to-place people is one element of this strategy; legally or contractually bargained entitlements to transitional employment constitutes a further element (Schmid 1998).

3. Indicators and characteristics of precarious employment at the national level

3.1. Statistical basis

The statistical basis for the analysis of precarious employment is far from satisfactory. The official labour market statistics refer to employees contributing to the compulsory social security schemes and is built on individual characteristics. Thus, for the analysis of some of the atypical forms of employment other data sources have to be consulted, such as the Labour Force Survey data of the Federal Statistical Office, the IAB establishment panel of the Institute for Employment Research (IAB) of the Federal Employment Service, the survey on labour demand by the IAB and Economix, and the data from social monitoring (*Sozialberichtserstattung*), in particular the German Socio-Economic Panel (GSOEP) data (Kratzer et al. 1998, Schupp et al. 1998, Weißhuhn 1998).

3.2. Duration and working time

3.2.1. Job stability and labour market risks

Stable employment relationships characterise the German labour market. According to an ILO study, around 60% of male wage-earners in Germany can expect to keep their jobs for more than 15 years, as against 45% in Canada and 35% in Australia (Auer and Cazes 2000, p. 394).

At the same time, high unemployment figures and in particular a high share of long-term unemployed shape the labour market in important ways. In 2000 the unemployment rate amounted to 10.7% (Bundesanstalt für Arbeit 2001). Structural unemployment and skills mismatch are generally thought to be the causes of the high long-term unemployment rates. But labour market regulation, in particular the law on protection against dismissals, high levels of collectively agreed wages in some labour market segments, and the “social assistance trap” lowering the incentive to work among the unemployed are also perceived by some neo-classical labour economists as being at the root of the persistently high unemployment rates in Germany.

Unemployment risks are a mirror of the duration of precarious employment. The switch between employment and unemployment can be used as a measure of insecurity.

An analysis of the unemployment data between 1988 and 1997 reveals that long-term unemployment became increasingly severe. In 1996, half of the unemployed found a new job within a rather short period. They constituted only 10%

of the unemployment stock. In contrast, the long-term unemployed constituted the bulk of the unemployment stock (Karr 1999). In 1997, most of the long-term unemployed were older workers (see Table 8, section 4).

Under certain circumstances atypical employment can serve as a bridge between unemployment and employment. Thus, it is the expressed aim of labour market policy to ease this transition, even though the labour market policy measures do not necessarily succeed in bringing people into permanent employment once the period of subsidised wages ends. Fixed-term contracts also may represent a bridge between education and training and permanent employment. This holds particularly true for young, highly qualified workers, in particular for university-leavers. (These findings were confirmed by the European Commission, 2001, p. 79). According to a sample of persons exiting unemployment, carried out by the institute "infas" (Institut für angewandte Sozialwissenschaft)¹ in 2000, in western Germany 41% of the unemployed were placed in permanent jobs and 25% in temporary non-subsidised employment. In eastern Germany only a third of the unemployed entered permanent employment and a fifth could be placed in temporary employment. There is also a major difference between eastern and western Germany as regards the importance of wage subsidies: in eastern Germany, 15% of the unemployed moved into state-funded employment, whereas only 3% of the unemployed in western Germany did (Brixy et al. 2002). Another 19% of the unemployed in eastern Germany and 16% of the unemployed in western Germany moved into training. Finally, according to this sample, 13% of the unemployed in eastern Germany and 16% in western Germany exited the labour market.

However, atypical forms of employment relationships do not necessarily represent a bridge between unemployment and employment. It can be assumed that the general labour market risk of specific groups of unemployed is also reflected in a more difficult transition from atypical employment to permanent employment. In general terms, the placement risk of an unemployed person increases with the duration of unemployment, his or her age and health problems. Furthermore, unskilled unemployed persons bear a higher risk. Certain groups of unemployed with cumulated risks have only a very low probability of being placed in employment: thus, the unemployed aged 55 years and more who are unskilled and have health problems have only an 8% chance of finding employment, against a 60% chance for those younger than 55 who do not have health problems and are not unskilled (Karr 1999). For this group of hard-to-place unemployed, atypical employment, including state-funded employment, may represent a transition to exiting the labour market, for example through early retirement. According to the above-mentioned sample, over 37% of the persons who were unemployed for a period of more than 25 months were exiting the labour market independent of their age (Brixy et al. 2002; see also section 4.4, Tables 8 and 9).

¹ Institut für Angewandte Sozialwissenschaft

Job stability is also threatened in the context of short-time work (*Kurzarbeit*). If a company has to reduce the volume of labour because of cyclical or structural problems, workers may obtain benefits from the Federal Employment Service but remain employees of the company. Between 1998 and 2000, on average 100,000 persons were working short-time (Bundesanstalt für Arbeit 2001). Structural short-time work (*strukturelle Kurzarbeit*), in particular, represents a precarious situation for the worker concerned, as it often marks the period between employment and unemployment.

The duration of precariousness varies depending on the different groups of persons working under precarious conditions, as will be shown in the following sections.

3.2.2. Atypical forms of employment relationships

Between 1990 and 1995, the share of “regular employment” in total employment decreased from 59% to 56.2%, and atypical forms of employment were on the increase (Kress 1998). In particular, part-time employment and self-employment as well as “marginal employment” gained in importance, whereas the shift towards temporary employment and temporary agency work played only a minor role.

Part-time and involuntary part-time employment

During the last decade, part-time employment increased considerably in Germany. In western Germany this is linked to the increasing participation rate of women, whereas in eastern Germany the labour market participation rate of women had been higher before reunification. Furthermore, women generally were working full-time at that time.

According to data of the IAB establishment panel, the share of women in western Germany working part-time increased from 32.4% in 1993 to 42.3% in 1998. Despite a considerable increase of part-time work in eastern Germany (starting off from a low level), only 29% of women were working part-time in 1998 (Table 2).

Table 2

Part-time employment by gender in western and eastern Germany

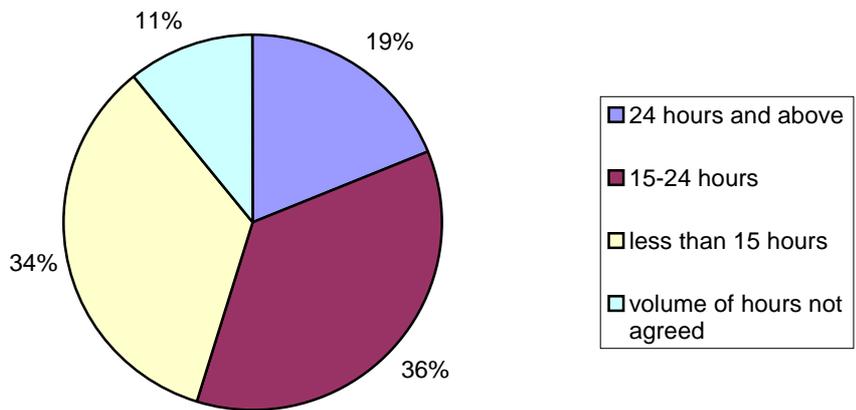
	<i>Western Germany</i>		<i>Eastern Germany</i>
	1993	1998	1998
All employees	16.3	22.8	16.2
Women	32.4	42.3	29.0
Men	5.2	8.1	5.4

Source: Düll H. and Ellguth 1999a, p. 270

Most important, major differences can be observed between eastern and western Germany with regard to the number of hours worked. In eastern Germany 62% of part-timers were working more than 24 hours per week, but only 19% of part-timers in western Germany did (Figures 1 and 2). On the other hand, part-time employees in western Germany more often worked between 15 and 24 hours. Furthermore, a third of part-timers in western Germany were working less than 15 hours a week, and 10% had no fixed volume of working time. These part-timers are for the most part “marginally” employed. “Marginal” employment is examined separately in the next section.

Figure 1

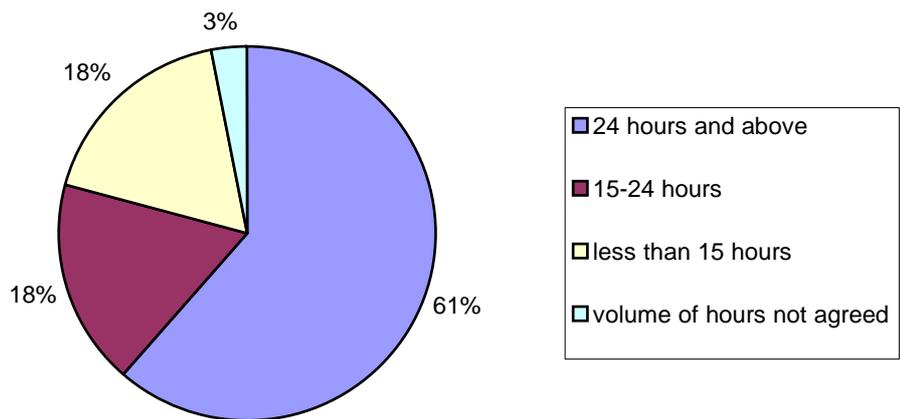
Part-time work: agreed number of hours, western Germany



Düll H. and Ellguth 1999a, p. 275

Figure 2

Part-time work: agreed number of hours, eastern Germany



Düll H. and Ellguth 1999a, p. 275

With regard to involuntary part-time employment, the data also reveal major differences between eastern and western Germany. Whereas in western Germany involuntary part-time work plays only a minor role, it is quite important in eastern Germany. Thus, according to Labour Force Survey data, nearly half of part-time workers in eastern Germany reported working part-time involuntarily, compared to only 8% of the respondents in western Germany (Hoffmann and Walwei 1998, p. 418).

“Marginal” employment

In recent years, “marginal” employment (*geringfügige Beschäftigung*), better known as 630-DM jobs (corresponding to 322 euro), has been at the centre of interest. “Marginal employment”, which has been regulated by law since the 1960s, was conceived as a form of employment for married women who were insured in the social security system through their husbands. It was designed to increase labour supply. Thus, in order to enhance the incentive to take up employment, the “marginally” employed person was exempted from making contributions to the social security system as long as his or her weekly working hours did not exceed 15 hours and the income did not exceed a fixed ceiling (at present 322 euro, summing up all the wages received from “marginal” employment relationships), or as long as the yearly working time did not exceed 50 days. According to a study by the Institute for Social Research and Societal Policy (*Institut für Sozialforschung und Gesellschaftspolitik – ISG*), workers with “marginal” employment relationships representing their main job worked approximately 12 hours a week on average in 1997 (Wöhler and Heyer 1998). Since the amendment of the law in 1999, “marginal” employment is only exempt from social insurance obligations under more restrictive conditions (see section 3.5).

The estimation of marginally employed varies between 1.8 million and 5.6 million persons for 1996/97, depending on the data source used (Table 3). The lowest figure is given with an analysis using Labour Force Survey data, which is widely recognised as underestimating marginal employment. The ISG reports every five years on the development of marginal employment on behalf of the Federal Ministry for Labour and Social Affairs. According to their last survey, in 1997 the number of marginally employed amounted to 5.6 million, of which 4.2 million were working exclusively under this type of contract and 1.4 million were taking up marginal employment in addition to their main job. An evaluation of the data from the GSOEP led to a comparable number of marginally employed. Finally, the number of marginally employed derived from the IAB establishment panel of 1996 (4 million) as well as from the 1997 labour demand survey by the IAB and the ifo Institut (3.4 million) is below the estimated number given by the GSOEP and ISG studies, but markedly above the figure given using the Labour Force Survey data (Bittner et al. 1998).

Table 3

Number of “marginally employed”, by data source, in 1,000s

	Marginally employed, main job			Marginally employed, second job		Marginally employed		
	Labour Force Survey, 1% sample	ISG (*), representative sample	German Socio-Economic Panel (GSOEP)	ISG	GSOEP	IAB (**) survey on labour demand	IAB establishment panel	estab-
Germany 1996/97	1,873	4,211	4,054	1,423	1,330	3,431		3,950
Germany 2000						3,700		

(*) ISG: Institute for Social Research and Societal Policy

(**) IAB: Institute for Employment Research of the Federal Employment Service; survey carried out by the ifo Institut in 1997 and by Economix in 2000

Source: Bittner et al. 1998, Magvas 2001

According to the ISG survey, between 1987 and 1997 the number of marginally employed increased by two million. German unification only partly explained this increase (1997: 724,000 marginally employed). According to the IAB survey on labour demand, between 1987 and 1997 the number of marginally employed in Germany increased by 1 million, with German unification accounting for an increase of 200,000 persons (Buch 1999).

With the amendment of the law on marginal employment, which restricts the possibilities for exemption from social security contributions, most of the marginally employed are registered by the social security institutions and are being taken into account in the labour market statistics. In 2000 about 3.6 million marginally employed were registered in western Germany and about 400,000 were registered in eastern Germany. In 2000 they represented 13% of all employees. A comparison with the 1999 data shows that the number of marginally employed was still on the increase. This figure for marginal employment corresponds quite well with a recent estimation by the Institute for Employment Research (IAB) of the Federal Employment Service, which was based on the labour demand survey of the IAB and Economix (Magvas 2001). With the amendment of the law a shift from marginal employment as a second job to exclusively “marginal” employment could be observed.

According to the ISG study, the majority of the marginally employed are not working permanently on this type of contract. An analysis of the duration of marginal employment for groups of individuals on the basis of the GSOEP between 1985 and 1995 shows the following distribution of periods of marginal employment (Jungbauer-Gans and Hönisch 1998):

- Women are more often repeatedly marginally employed than men. In particular, more periods of marginal employment could be observed for married women than for unmarried women.

- Moreover, German nationals were more likely to be repeatedly marginally employed than non-nationals,
- and persons with a higher education level (13 years of school) more often than persons with a lower education level.
- One third of the marginal employment relationships lasted no longer than three months; half of them still existed after six months, a third after one year, a sixth after two years and 6% after five years.
- On average the duration of marginal employment relationships is markedly longer for women than for men, with women with children ranked highest.
- The duration of marginal employment was observed to be highest for the heads of households and lowest for pupils and students.
- For the unemployed marginal employment mostly constituted a short transitional period.
- Moreover, the duration was found to be negatively correlated with the number of years of school attendance, with persons with a university entrance qualification having shorter marginal employment periods than persons with a low level of general education.

Marginal employment is more likely to match with “precarious” employment for those groups of persons with longer periods of marginal employment, in particular married women and women with children as well as the low-skilled.

With regard to identifying “precarious” forms of employment, it is important to note that marginal employment can be regarded in part as voluntary part-time work. Particularly in the case of young persons in education or training, marginal employment does not represent precarious employment. The same is true for a number of the women and retired persons in marginal employment. Nevertheless, according to the ISG study, a quarter of the respondents stated that they could not find another job (Bittner 1998, p. 22). Furthermore, some authors have pointed out that marginal employment often fails to serve as a transitional period between unemployment or some status outside the labour force and integration into the labour market (Holst and Maier 1998, p. 512). This finding applies in particular to marginal employment among women in low-skill sectors, such as work in private households, trade, catering and cleaning.

Temporary employment

Temporary employment does not represent a homogenous form of employment. Thus, there are various reasons for employing workers on fixed-term contracts: training; subsidised temporary work contracts (*Arbeitsbeschaffungsmaßnahmen – ABM*); replacement of persons on maternity leave, holiday, sickness leave, and so on; seasonal work; projects with a set timeframe; and ad hoc response to fluctuation in production and training. Therefore, estimations of the extent of temporary employment vary significantly, ranging between 5% and 31% in 1992 or 1993 (Bielenski 1998, p. 171). For an analysis of data on temporary employment, it must be taken into account that a large share of fixed-term contracts are apprenticeship contracts. Thus, apprenticeships need to be explicitly excluded

from the analysis. According to Labour Force Survey data, which excludes trainees and soldiers, the temporary work rate in western Germany amounted to 5% in 1991 and to 7% in 1999 (Table 4).

Table 4

Temporary employment (excluding trainees) in western and eastern Germany by status, nationality, gender, hours worked and age, April 1991 and 1999, rates in %

	<i>Western Germany</i>		<i>Eastern Germany</i>	
	<i>1991</i>	<i>1999</i>	<i>1991</i>	<i>1999</i>
Total	5.1	7.1	10.3	13.1
Blue-collar workers	4.8	7.1	9.7	15.5
White-collar workers	5.4	7.2	10.9	11.1
German	5.0	6.6	10.2	13.0
Non-national	6.6	11.6	21.2	24.5
Men (total)	4.3	6.8	9.8	12.2
Working less than 20 hours	36.6	21.4	.	31.9
Working 20 hours	25.2	26.0	.	29.9
Working 21–35 hours	11.9	6.1	.	29.3
Working 36 hours and more	3.6	6.0	9.7	11.0
Women (total)	6.2	7.6	10.9	14.1
Working less than 20 hours	11.7	7.8	.	19.2
Working 20 hours	6.1	7.1	12.7	13.5
Working 21–35 hours	4.9	6.5	10.7	11.6
Working 36 hours and more	5.3	8.0	10.9	14.4
Aged 25 and below	9.7	20.2	13.0	27.1
Aged 25–44	5.3	7.5	10.1	11.7
Aged 45–59	2.9	3.3	9.6	12.4
Aged 60 and above	4.6	3.6	12.2	8.4

Source: Rudolph 2000, Labour Force Survey data

During the 1990s temporary employment rates rose slightly, with a substantial increase among foreign workers. The share of temporary workers is higher in eastern Germany than in western Germany, because subsidised temporary contracts (*Arbeitsbeschaffungsmaßnahmen*) play a more important role there. One striking finding is that temporary employment among men is mostly linked to part-time work.

Temporary agency work

In Germany, temporary agency work (*Leiharbeit*) has been regulated by law since 1972.¹ Since then, the Temporary Agency Work Act has been amended several times, primarily to prolong the duration that the contractor company can send workers to the contracting company. Temporary agency work was further liberalised when the job placement monopoly of the Federal Employment Service was

¹ Arbeitsüberlassungsgesetz of 1972

brought to an end in 1994. The government viewed temporary agency work as a way to integrate the unemployed into the labour market (Schröder 1997).

The temporary work agencies (*Leiharbeitsfirmen* or *Zeitarbeitsfirmen*) need to be recognised by the Employment Offices of the *Länder* (federal states). The statistics of the Federal Employment Service contain data on the legally employed temporary agency workers. In 1996 about 160,000 temporary agency workers were recorded. This figure grew over the 1980s and the first half of the 1990s, but remained at a low level. However, the number of illegally employed temporary agency workers is estimated to be more significant (Schröder 1997, p. 29).

Male temporary agency workers commonly work in the manufacturing sector. In 1995 about 45% of them were craftsmen, with typical occupations being mechanics, electricians, metal-processing workers and assemblers. About 19% of the temporary agency workers were employed as auxiliary workers. In 1985 the share of unskilled workers was only about 8%, whereas the share of craftsmen amounted to 59% (Schröder 1997). However, a shift towards unskilled workers can be observed.

In 1995, more than half of the women working for a temporary work agency were clerks carrying out secretarial and administrative tasks. One in ten worked in occupations related to transportation (Schröder 1997).

According to an evaluation of the IAB employees sample (*IAB Beschäftigtenstichprobe*), the likelihood that individuals working for a temporary employment agency will move into employment stands at 18%, while the risk that they will become unemployed or move out of the workforce is at 9% and 11%, respectively (Schröder 1997, p. 287). It is important to note that previously employed persons have far better chances of moving into “regular” employment than previously unemployed persons do. Those who moved into “regular” employment stayed on average for a longer period with the temporary employment agency (on average 10 months) than those who became unemployed or exited the labour market.

Dependent self-employment and freelance work

The number of those in “dependent self-employment” (or “false self-employment”: *Scheinselbständigkeit*) is particularly difficult to assess because the borderline between self-employment and “dependent” or “salaried” employment is not clear-cut. According to the Federal Labour Court model (*Bundesarbeitsgerichtsmodell – BAG-Modell*), which was developed on the basis of cases at the Labour Court and the Social Security Court, “dependent” self-employment is defined by the degree to which the contractor is dependent on the contracting company with regard to the relevance of instructions (*Weisungsgebundenheit*) and organisational integration. The “alternative model” (*Alternativmodell*) focuses on the notion of entrepreneurial risks and voluntariness (*Freiwilligkeit*). Thus, the dependent self-employed do not have their own company organisation, are not acting on the market, bear no entrepreneurial risks and do not profit from entrepreneurial opportunities. A third model was developed by the institu-

tions of the social security system (*Verbandsmodell*). This model takes contributions to the social security system as its starting point: the dependent self-employed are not employing workers on a work contract implying contributions to the social security scheme; instead, they are working for only one employer and carrying out tasks typical of salaried employees.¹

In 1997 the estimations of the volume of “dependent self-employment” varied between 1% and 4% of total employment, depending on the statistics used and on the definition of “dependent self-employment”, whereas self-employment amounted to 10% of total employment (Düll N. and Vogler-Ludwig 1998). Typical occupations among the so-called dependent self-employed are artists and journalists, but commercial occupations and occupations linked to the construction industries and related services, including architects, are also common.

The status of freelancers (*freie Mitarbeiter*) is partly regulated by law (section 3.6). Freelancers are primarily found in the media sector and in the software industry.

Finally, the case of home workers (*Heimarbeiter*) must be mentioned. Traditionally, home-based workers carry out simple tasks for the manufacturing industries. At present, this type of work plays only a minor role. The recent debate has focused on home-based telework, even though the actual number of teleworkers is presumably rather low (Vogler-Ludwig and Düll N. et al. 2000).

3.3. Organisational dimension

Precarious elements of employment linked to specific forms of production strategies and in particular to work organisation cannot be assessed adequately on the basis of employment status. Working conditions and work content determine “precarious work” in the first place. However, a combination of “precarious” work and atypical or “precarious” forms of employment relationships can often be observed.

German sociology of work uses the notion of “restrictive work” (*restriktive Arbeit*) in the context of precarious work (Kern and Schumann 1970). “Restrictive work” is mainly characterised by activities with a low job content, low skill needs and a high degree of physical and neurological strain. This type of precarious work can be demonstrated clearly in the case of assembly-line work.

In general, workers in the manufacturing sector who carry out restrictive work hold a regular labour contract and thus figure among the “regular employment

¹ The Labour Court model (*BAG-Modell*) is the most restrictive of the three models and thus leads to a smaller volume of estimated “dependent self-employment”. According to estimations worked out in the mid-1990s by the Institute for Employment Research (IAB) of the Federal Employment Service, there were 179,000 “dependent self-employed” according to the Labour Court model, but 410,000 according to the alternative model and slightly more (431,000) using the model from the social security institutions (Buch 1999, p. 43f.)

relationships". Nevertheless, the situation of these workers shows elements of precariousness, as they have to face high labour market risks and are at the bottom of the wage structure. They only are viewed as core workers if they fulfil special tasks within the work process, such as quality control. In general, their work is characterised by a poor job content, their tasks do not allow for improving skills on the job and they have little opportunity for upgrading their situation. Furthermore, they work under huge physical and neurological strains and under a high degree of performance control (Düll K. and Bechtle 1991). In general, their productivity declines from the age of 45, resulting in further marginalisation within their company or in eventual unemployment and very few prospects of finding new employment. Thus, they are made to bear high labour market risks, in particular if they work part-time. A basic strategy for companies is to ensure numerical flexibility with respect to this labour market segment. Consequently, this labour market segment is particularly affected by personnel cuts when an economic crisis occurs. Furthermore, the interests of workers carrying out restrictive tasks are poorly represented in the collective bargaining process, because works councils traditionally defend the interests of skilled, male core workers. In many branches of the economy, a high share of female employment characterises this labour market segment (Moldaschl 1991).

It is important to stress that in the German debate restrictive work was at the centre of public interest many years before the discussions on atypical and precarious forms of employment relationships emerged. As early as the mid-1970s the debate on the improvement of working life (*Humanisierung des Arbeitslebens*) aimed at overcoming or at least achieving sustainable improvement of "restrictive work" situations. The discussion on restrictive work was launched in the context of the nascent crises of the welfare state, as health problems, pre-retirement and retirement on the grounds of disability (*Berufsunfähigkeit*) were on the increase. The sociological research financed through the state-funded programme *Humanisierung des Arbeitslebens* focused on new forms of organisation, in particular on job enlargement, job enrichment and the introduction of semi-autonomous work groups (Döhl et al. 1982). However, labour sociologists state that these organisational measures proved to have only a limited effect (Altmann et al. 1982, Düll K. 1980). In the 1990s this debate was replaced by the programme *Arbeit und Technik* (labour and technology), which focused on new, "innovative" organisational forms making use of new technologies.

Precarious elements of employment linked to job content and work organisation can also be observed in the context of new forms of work organisation. In particular, self-organisation within the work environment leads to time pressure, stress and increasing neurological and mental strains. Thus, bad working conditions increasingly affect craftsmen and highly skilled workers (Moldaschl 1998).

3.4. Economic dimension

Earnings

If wages are too low to ensure an income level above the poverty line, that employment might be regarded as precarious. According to the report of the federal government on poverty and wealth in Germany, the “working poor” do not represent an important group among the poor in Germany. In 1998 their share amounted to 3.4% of the working population; the share of the poor¹ in the whole population was about 5.8% (Bundesministerium für Arbeit und Sozialforschung 2001). Interestingly, the rate of working poor was found to be lower in Germany’s eastern federal states than in its western states. In western Germany, the rate of working poor and the poverty rate have been decreasing since the mid-1980s.

Even though Germany’s rate of working poor is comparatively low (in particular when compared to the United States; Hanesch 2000), it is worthwhile analysing its distribution by sector. Low wages can be found in particular in retail trade, restaurants and private services. According to a study carried out by the Zentrum für Europäische Wirtschaftsforschung on the basis of the GSOEP and the employee census, in 1995 about 865,000 employees earned an hourly wage of less than 10 DM (about 5 euro).² Half of them were working in these three sectors (Buslei and Steiner 1999). These findings are confirmed by other studies. According to an evaluation of the GSOEP data, in 1995 women made up a sizeable majority of employees with low hourly wages. In particular, women working part-time had the lowest wages (Table 5). This is linked to wage discrimination as well as to the specific employment structure of female employees by occupation and sector. Thus, nearly half of low-wage-earners worked in the wholesale and retail trade sectors.

Table 5

Composition of low-wage employment: employees with hourly earnings below two-thirds of the median and in the bottom decile; by gender and full-time or part-time employment, Germany, 1995

	<i>Male, full-time</i>	<i>Male, part-time</i>	<i>Female, full-time</i>	<i>Female, part-time</i>	<i>Total</i>
Bottom decile	24.1	1.6	34.4	39.9	100
Below 2/3 of the median	30.7	1.2	38.1	29.9	100

Source: Salverda et al. (LOWER Network) 2001, on the basis of the GSOEP

Low wages are partly fixed in collective agreements. In 1998 the lowest collectively agreed monthly wages lay between 1,788 DM and 2,172 DM in western Germany and at 1,950 DM in eastern Germany in retail trade, while average

¹ Defined as below the 50%-threshold of the median and the new scales of the OECD.

² According to this analysis, low wages were defined as a wage up to 17 DM (in 1995), and covered 3.5 million employees in total.

monthly wages in Germany amounted to 4,431 DM. According to Pohl and Wiedemuth (2000), such low collectively agreed wages may lead to poverty.

Low incomes are linked by definition to marginal employment. The ceiling on earnings from marginal employment is regulated by law and amounted to 322 euro in 2001 and to 311 euro in 1997 in western Germany. However, according to the above-mentioned study by the Institut für Sozialforschung und Gesellschaftspolitik (ISG), in 1997 the average earnings from marginal employment for those workers for whom this type of employment constitutes the main employment form amounted to 365 euro in western Germany (note that individuals may hold several marginal employment contracts with different employers; Wöhler and Heyer 1998). According to findings of the Deutsches Institut für Wirtschaftsforschung (DIW), the average gross wage of the marginally employed was about 14% below the average wage of part-timers (Meinhardt, Schupp, Schwarze and Wagner 1997). Furthermore, empirical evidence shows that families with one member in marginal employment have a twice as high incidence of poverty than the average for all households (according to a study by Kolb and Trabert 1996, cited in Holst and Maier 1998).

In low-wage sectors in particular, a number of labour market policy measures are implemented that aim at integrating the hard-to-place unemployed into the labour market by paying direct wage-cost subsidies to the employer for a limited period of time. However, the number of subsidised workers that can be regarded as working poor is quite small. It should be noted that the different labour market policy measures subsidising labour often do not lead to permanent employment and thus can be regarded as precarious employment.

Though “insecure” forms of employment are concentrated among the types of activities and branches in sectors with lower wages, “insecure” employment is also found in the higher wage sector, as the analysis of the distribution of “insecure” employment by skills and type of occupation demonstrates.

As noted earlier, wages at the bottom end of the wage scale are perceived by a number of German labour economists as being too high. Despite an important shift within the skills structure, wage relations have shown a great degree of stability over the decades. It is argued that the labour surplus for less qualified occupations did not bring about a change of wage relations. Wage rigidity is perceived by some authors as responsible not only for unemployment at the macro level but also for the structural shift of unemployment risks to the less qualified workers (Blau et al. 1997). Drawing from efficiency wage theory, some labour economists have argued that human capital, not wages, is the crucial factor of competition among workers. This situation further deteriorated the competitive position of less qualified workers. Because the group of better qualified workers made increasing human capital investments, they were able to reduce their efficiency wage compared with that of groups with low qualification levels. Consequently, labour demand was even more strongly oriented towards qualified workers (Vogler-Ludwig 1994). At present, the academic and political debate is directed toward developing models aimed at lowering labour costs,

setting incentives to take a job in the low-wage sector and at the same time avoiding the emergence of the “working poor” phenomenon (section 6.3).

Training

Following the rationale of the high-wage–high-productivity strategy for the German economy, a high level of investments in human capital and lifelong learning is crucial for individual competitiveness on the labour market. Labour market risks are particularly high for persons without any formal qualification. Furthermore, persons without a formal qualification must face a higher risk of repeatedly becoming unemployed (Bundesministerium für Arbeit und Sozialordnung 2001, p. 145).

There is the danger that precarious workers are not investing enough in human capital. Companies often do not include non-permanent workers in their continuous training programmes because the period of return on investment is too short. Furthermore, human capital is at risk of being devaluated during those periods in which the individual stops working (unemployment, but also parental leave and the like).

3.5. Social protection and social rights

Not all forms of atypical employment are treated the same way by social security law and labour law. Thus, the labour law has created the notion of a status “similar to a dependent employee” (*arbeitnehmerähnliche Personen*), which applies to home-based work (*Heimarbeit*, covering only blue-collar workers) and to freelancers (*freie Mitarbeiter*, e.g. journalists). In contrast to the “dependent self-employed”, they are covered by collective agreements between the trade unions and the employer, but only home-based workers are covered by the Works Council Act. Moreover, the act on home-based work (*Heimarbeitsgesetz*) regulates some aspects of individual labour law, whereas freelancers are not covered by general labour law regulations. Furthermore, in contrast to freelancers, home-based workers are covered by the compulsory social security schemes (Vogler-Ludwig and Düll N. et al. 2000). In the second half of the 1990s a debate was launched on whether the working conditions of teleworkers needed to be regulated by law, similar to the situation for blue-collar, home-based workers, but the government decided not to pass an act on this form of work.

In the case of “dependent self-employment”, contributions to the social security scheme are the responsibility of the worker. Recently, stricter controls have been in place to identify “dependent self-employed” persons and to include them in the compulsory social security system.

Prior to 1999, marginal employment (*geringfügige Beschäftigung*) was exempted from social security contributions as long as the worker’s cumulated income from labour did not exceed a fixed income (at present 322 euro). The law was intended to render marginal employment attractive to married women, pupils

and students who were already covered by the social security system. With the spread of marginal employment and because of the financial problems of the social security schemes, the possibilities of obtaining an exemption from compulsory contributions have been limited.

With the amendment of the law on marginal employment in 1999, an employer employing a worker on the 630-DM scheme must contribute at a rate of 12% of the wage to the pension scheme and at a rate of 10% of the wage to the health-care scheme. This rule applies if the worker has no other income from labour (Heineck and Schwarz 2001). However, the employee is only eligible for pensions if he or she voluntarily contributes to the pension scheme. Employers and employees must contribute fully to the social security scheme if the worker already has another job with compulsory social insurance contributions. Only temporary marginally employed, working no more than two months or 50 days a year, are still exempt from contributions to the social security scheme. According to an estimation by the Institute for Employment Research (IAB) of the Federal Employment Service, only 22% of companies reacted to the reform by making less or no use of marginal employment (Magvas 2001). However, the same study shows that the structure of marginal employment has changed significantly, as a shift from marginal additional employment towards exclusively marginal employment (*ausschließliche geringfügige Beschäftigung*) has occurred.

As Bittner et al. (1998) pointed out, marginal employment is often preferred by employers in order to save further labour costs attached to a “regular” employment relationship, such as paid holidays and sick pay.

In the case of hidden employment, no contributions are paid to the social security scheme. However, depending on the status of the worker, he or she is covered at least by the health-care insurance of his or her family or has an additional, “official” job. Estimations of the size of the undeclared labour force vary significantly. Using the currency demand approach, Schneider and Enste estimated that undeclared labour constituted 16% of the German gross domestic product in 2000. This share is only 1% according to an estimation carried out on the basis of the GSOEP (Mateman and Renooy 2001, referring to work carried out by Schneider and Enste in 2000 and by Schwarze). However, the latter study might underestimate the extent of the hidden economy, for undeclared work is concentrated among immigrants working illegally and other groups that might be underrepresented in the Panel data. The sectors with the highest shares of undeclared workers are the agricultural sector; community, social and personal services (e.g. cleaning, care work); crafts; and construction. Hidden employment is receiving much attention with regard to the issue of loss of taxes and social security contributions.

Collective agreements between trade unions and employers play a major role in the regulation of the labour market in Germany. In 1995, about 16.6 million employees in western Germany were covered by collective agreements (Blau et al. 1997). Furthermore, working conditions are widely regulated through agreements between the works councils and the company. In general, atypical forms of employment are widespread in micro-enterprises and in small businesses (see

chap. 5), and are therefore less often covered by collective agreements than workers with “regular employment relationships”. Moreover, small enterprises have in general no works council. But in medium-sized and large companies as well, workers in precarious employment are generally worse off than core workers, because works councils and trade unions traditionally defend the interests of core workers first. Furthermore, precarious workers are rarely unionised.

4. The supply side of the labour market: specific groups of workers affected by precarious employment

4.1. Precarious employment by gender

The overall labour market situation with regard to female employment has changed dramatically over the last decades. In western Germany, the labour market participation rates of women have risen, whereas in eastern Germany women were particularly affected by unemployment. In contrast to women in western Germany, their employment rate had been significantly higher before reunification.

The expansion of female employment is reflected in their lower unemployment figures as compared to those for men. In western Germany the female jobless rate increased by about 50% between 1991 and 1997 (from 6.3% to 9.8%), whereas the male jobless rate virtually doubled in the same period (from 4.8% to 9.3%) (Rauch and Reinberg 2000). However, it might be misleading to compare unemployment figures by gender, as women are more likely to switch to the status of “discouraged workers” outside the labour force rather than that of unemployed. This can be observed in particular for unskilled women. The situation is clearly different for women with an intermediate qualification level and for female university graduates. It is striking that women in western Germany with an apprenticeship or vocational school qualification were able to find employment, whereas men had to accept considerable job losses. One reason for women doing comparatively well lies in the structural shift from the manufacturing sector to the service sector.

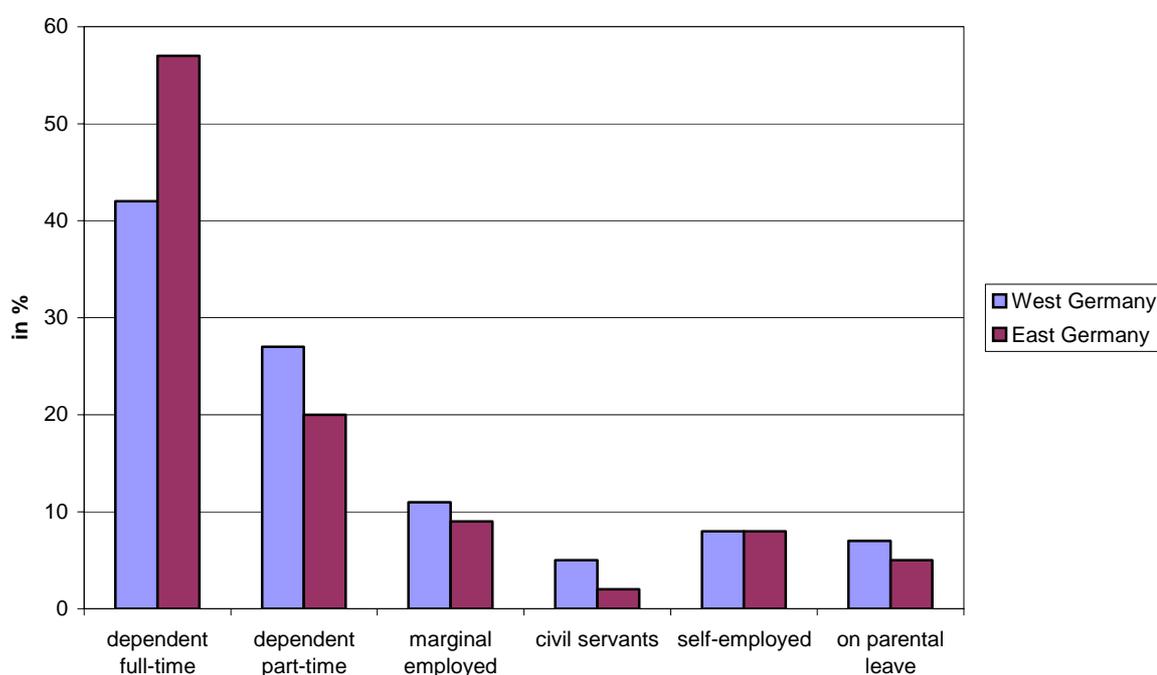
In contrast to men, the transition from being outside the labour force to atypical and, in particular, to precarious forms of employment is quite important (*stille Reserve*). The same is true the other way round; thus, unemployment data do not entirely reflect the extent of underemployment by gender.

In particular, female employment increased in the atypical employment segment. As previously mentioned, part-time work is traditionally a domain of women. During the 1990s the share of women working part-time increased by about 7%. In 2000, an analysis of the data from the GSOEPs revealed that of the female gainfully employed (*Erwerbstätige*) in western Germany, only 42% held a “regular” full-time employment contract, as compared to 57% in eastern Ger-

many. Approximately one in four women in western Germany works part-time, and another one in ten is marginally employed (Figure 3). Some authors therefore take a critical view of the concept of the “regular employment relationship”, which is designed to set a norm for male employment (Holst and Maier 1998). As long as part-time work is carried out on a voluntary basis there is no incidence of precariousness. However, as noted already, in contrast to women in western Germany, women in eastern Germany often work part-time involuntarily.

Figure 3

Female employment in western and eastern Germany by employment status, in 2000



Source: Holst and Schupp 2001, on the basis of the GSOEP

In 2000, about 70% of the marginally employed in western Germany were women; in eastern Germany the corresponding figure was 60% (Magvas 2001; for similar findings, also see Kress 1998). Some authors have pointed out that marginal employment does represent a precarious labour market situation for a number of women because their social protection coverage and social rights as well as their average wages are far below average (Holst and Maier 1998). Moreover, a large number of women are trapped in marginal employment or other forms of insecure employment relationships because on average their skills level is markedly lower than the average skills level (Holst and Maier 1998; see also section 3.2.2).

It has been argued that “dependent self-employment” also tends to constitute a long-lasting situation for women. Thus, according to case studies, “dependent self-employment” more often constitutes only a transitional phase between dependent employment and self-employment for men, not women (Goldmann and Richter 1991).

In contrast to other “atypical” forms of employment, in which female employment is predominant, temporary agency work is more typical for men than women. The share of men is estimated to be 80% (Schröder 1997, p. 12).

4.2. Precarious employment by skills level

There is a clear correlation between a low skills level and labour market risks. Thus, persons with a low skills level are particularly affected by unemployment. According to an analysis carried out by the IAB on the basis of the unemployment statistics and the Labour Force Survey, the unemployment rate in western Germany for people without vocational training has more than tripled between 1980 and 1995 (from 9.5% to 20%), and there was a further increase up to 1997. In 1997 almost one in four “unskilled” workers was jobless (Rauch and Reinberg 2000). However, intermediate qualification levels were also increasingly affected by unemployment, as the labour market positions of the groups from “apprenticeship” and “technical college” deteriorated. In 1997 the unemployment rate of this group (7.4%) reached its highest level since 1975. The two groups with higher education qualifications did most favourably, with unemployment rates ranging between 2.8% and 4.1%. In eastern Germany the labour market dichotomy between the unskilled and graduates was even more accentuated: in 1997 the unemployment rate among those with no qualification amounted to 55%, as against an average level of 18.4% and a rate of 4% and 6% for graduates from universities and polytechnics, respectively.

According to a survey carried out by the IAB and the Federal Institute for Vocational Training Affairs (*Bundesinstitut für Berufsbildung – BiBB*) in 1998/99, the correlation between the formal qualification level of a person and “insecure” employment (*unsichere Beschäftigung*), which is defined as temporary employment including subsidised employment contracts, temporary agency work, marginal employment and freelance work, is less evident than it is for unemployment (Schreyer 2000). Particularly in western Germany a polarisation of workers with “insecure” employment relationships can be observed with regard to skills level. Though “insecure” employment is particularly widespread among workers with no qualifications, the share of university graduates working under an “insecure” employment contract is also above average (Tables 6 and 7).

Table 6

Forms of “insecure” employment by skills level in western Germany, 1998/99 (shares of persons with an “insecure” status in total employment, according to skills group), in %

	<i>Temporary employment</i>	<i>Temporary agency work</i>	<i>Marginal employment</i>	<i>Freelance</i>	<i>Total “insecure” employment</i>
No formal qualification	9.7	1.3	7.8	1.9	20.6
Apprenticeship/vocational school	5.2	0.4	3	0.6	9.3
Technical college(*)	3.0	(0.3)	(1.1)	(0.6)	5.0
Polytechnics (**)	4.2	(0.4)	(1.2)	(0.8)	6.5
University	7.5	(0.1)	(1.0)	1.5	10.2
Total	5.7	0.5	3.1	0.9	10.2

(*) Fachschule

(**) Fachhochschule

Source: Schreyer 2000, based on the IAB and BiBB’s survey on the formal qualification structure.

Table 7

Forms of “insecure” employment by skills level in eastern Germany, 1998/99 (shares of persons with an “insecure” status in total employment, according to skills group), in %

	<i>Temporary employment</i>	<i>Temporary agency work</i>	<i>Marginal employment</i>	<i>Freelance</i>	<i>Total “insecure” employment</i>
No formal qualification	24.3	(1.1)	(4.2)	(2.6)	32.3
Apprenticeship/vocational school	13.5	1.5	1	(0.3)	16.2
Technical college(*)	11.4	(0.2)	(0.9)	(0.6)	13.1
Polytechnics (**)	11.9	(0.9)	(0.7)	(0.5)	14
University	11.3	(0.3)	(1.4)	(1.2)	14.2
Total	13.2	1.1	1.1	0.5	15.9

(*) Fachschule

(**) Fachhochschule

Source: Schreyer 2000, based on the IAB and BiBB’s survey on the formal qualification structure; apprenticeship contracts are excluded.

Studies on the structure of “dependent self-employment” confirm the findings that not only unskilled workers work under “insecure” conditions. The majority of the “dependent self-employed” carry out white-collar jobs. Most important for our analysis, graduates from a (polytechnic) university are overrepresented among the “dependent self-employed” (Dietrich 1998, p. 172). According to empirical studies, among blue-collar workers the “dependent self-employed” are often employed in occupations in the construction and related industries and are skilled workers. But electricians and architects are represented among the “dependent self-employed” as well (Buch 1999). Interestingly, according to a survey carried out by the IAB, a third of the “dependent self-employed”, primarily university graduates and persons who have completed an apprenticeship or vocational schooling, feel themselves overqualified for the job they do (Dietrich 1998). This finding could be regarded as an indicator for a comparatively low quality of work.

4.3. Immigrants

Over the last decades the labour market situation for immigrants has changed dramatically. Thus, non-nationals were particularly affected by the structural shifts from the manufacturing sector towards the service sector, because the demand for unskilled or semi-skilled blue-collar workers decreased (Sinn et al. 2001). In 2000, the unemployment rate of non-nationals amounted to 17.3%, in contrast to a total unemployment rate of 10.7%. As the educational and skill levels of second- and third-generation immigrants is still far below the average for German nationals, their labour market risks are still above average. Nonetheless, new employment opportunities for non-nationals and in particular for new immigration groups have risen in the low-skilled service sector segment. Temporary migrants, in particular, often work in the low-wage sector. Precarious employment among (new) immigrants is reported to be on the increase (Schulz 1999).

According to the above-mentioned survey carried out by the IAB and the Federal Institute for Vocational Training Affairs (BiBB) in 1998/99, non-nationals were particularly affected by precarious forms of employment (Schreyer 2000). The share of non-nationals working under an “insecure” employment contract (temporary employment, temporary agency work, marginal employment and freelance work) amounted to at least 18%, as against 11% among German nationals. Because the survey was carried out in German only, the difference may be even more significant, for the immigrants who were less well integrated and had a bad command of the German language were excluded from the survey. These immigrants are more likely to work under precarious conditions than other groups of foreigners.

Moreover, it can be assumed that non-nationals coming from outside the European Union, in particular from the Central and Eastern European countries, are working within the hidden economy, for they often work without obtaining a work permit.

4.4. Age groups

Labour market risks, measured by unemployment and by the prospects of unemployed finding a new job, are markedly higher for older workers than for younger workers. In 2000, the unemployment rate for persons aged between 55 and 59 was 21%, and for persons aged 60 and above it came to 23%.¹ In contrast, the youth unemployment rate amounted to 11%.

In particular, long-term unemployment represents a major risk for older persons. In 2000, half of the long-term unemployed were aged 50 and above. An analysis of the average unemployment stay and of exit from unemployment, carried out in 1997, clearly shows the low probability of reintegration of older persons into the labour market (Table 8). Furthermore, persons with no formal qualifications were particularly prone to becoming long-term unemployed.

Table 8

Duration of unemployment by age and qualification level, 1997

	<i>With formal qualification</i>	<i>No formal qualification</i>
<i>Average stay in unemployment before taking up a new job (months)</i>		
Age below 55 years	5.1	6.0
Age 55 years and above	8.1	8.4
<i>Exit from unemployment by taking up a new job (shares in the cohort)</i>		
Age below 55 years	60.4%	40.5%
Age 55 years and above	28.6%	19.8%
<i>Expected exit from unemployment into employment</i>		
Age below 55 years	50.1%	36.3%
Age 55 years and above	15.6%	9.1%

Source: Karr 1999

According to the above-mentioned survey by the IAB and the Federal Institute for Vocational Training Affairs (BiBB), younger workers in western Germany (below the age of 35) were found to work under “insecure” conditions twice as much as workers over the age of 50. In eastern Germany the differences between the age groups were not significant (Table 9).

¹ The corresponding figures in 1997 were 26% and 19% (Bundesanstalt für Arbeit 2000, p. 194).

Table 9

“Insecure” employment by age group

	<i>Temporary employment</i>	<i>Temporary agency work</i>	<i>Marginal employment</i>	<i>Freelance</i>	<i>Total “insecure” employment</i>
<i>Western Germany</i>					
Below 35	9.7	0.7	3.1	0.8	14.2
35–49	4.6	0.4	3.2	1.0	9.1
50 and above	2.3	(0.2)	2.9	0.9	6.4
<i>Eastern Germany</i>					
Below 35	14.9	(1.7)	(0.9)	(0.5)	17.9
35–49	11.8	1.0	(1.0)	(0.5)	14.4
50 and above	13.8	(0.6)	(1.6)	(0.5)	16.5

(*) Fachschule

(**) Fachhochschule

Source: Schreyer 2000, based on the IAB and BiBB’s survey on the formal qualification structure; apprenticeship contracts are excluded.

For western and eastern Germany the analysis of the data from the above-mentioned survey shows that in particular young persons with no formal qualification and, to a lesser extent but still above the average, university graduates work under “insecure” employment contracts. Compared to all other qualification groups and age groups, the share of young persons with no qualification who were marginally employed was extremely high (10% of them in western Germany and 5% in eastern Germany). These high percentages can be explained in part through other findings showing that marginal employment is widespread among pupils and students. In 2000, about 28% of the marginally employed were completing their education or vocational training (according to data from the GSOEP; Heineck and Schwarze 2001). However, there is also a severe problem with integrating young persons with no formal qualifications into the labour market. In eastern Germany nearly 30% of these young people held fixed-term contracts. In western Germany large shares of younger workers with fixed-term contracts could be found among both extremes: workers with no formal qualification (15%) and university graduates (19%) (Schreyer 2000). For university graduates it has become quite common to enter the labour market on a fixed-term contract.

According to an evaluation of the IAB employees sample (*IAB Beschäftigtenstichprobe*), younger persons are more likely to work for a temporary employment agency than older workers. However, older workers stay for a longer period with the agency because they have few labour market opportunities (Schröder 1997, p. 289). In contrast, the data reveal that the probability of getting a “regular” job is quite high for workers who have just finished their training. Thus, for

young workers temporary agency work mostly functions as a transition between training and employment.

During the 1990s, unemployment among young persons seeking their first job rose (Bundesministerium für Arbeit und Sozialforschung 2001, p. 143). Furthermore, the transition between education and training and entrance into the labour market are increasingly characterised by “insecure” employment relationships.

To conclude, older persons are less likely to enter into an “insecure” work contract, but they are worse off if they do. Most important, older workers aged 55 and above bear a very high risk of becoming long-term unemployed and of not re-entering the labour market. In contrast, “insecure” employment among young people increasingly characterises the entrance into the labour market, but mostly constitutes a transitional phase.

5. The demand side of the labour market: sectors and types of companies

5.1. Sectors

Preliminary remarks

The methodological problems for a sectoral analysis are particularly pronounced. In addition to the problem of defining the sectors, the data have the disadvantage of being much too aggregated to allow for the identification of the heterogeneous developments within the different sectors and branches (Kratzer et al. 1998, Schupp et al. 1998, Weißhuhn 1998). Nevertheless, the evaluation of the data carried out up to now as well as a set of case studies permit the identification of some major trends and the focus of different forms of precarious employment by sector.

In general terms, precarious employment is more widespread in the low value-added service sector activities related to personal services, such as catering, than in the classical service sector industries such as financial services or in the traditional manufacturing industries such as the automotive industry, the machine tools industry and the chemical industry. However, the different forms of precarious employment are distributed quite unevenly among and within the different sectors. Whereas marginal employment (the 630-DM jobs, or *geringfügige Beschäftigung*) is widespread in the above-mentioned service industries, temporary agency work, “dependent self-employment” and fixed-term employment are also important in the production sector as well as in the “classical” service sector.

Peripheral workers, marginal employment, part-time work and fixed-term contracts

According to estimations based on the IAB establishment panel carried out in 1995, peripheral employment, defined as fixed-term employment, casual work, freelance work and temporary agency work,¹ accounted for 25% of total employment in parts of the cultural industries (education and publishing), and for around 15% in non-profit organisations and the agricultural sector. Peripheral employment was slightly above the average for the total economy (8%) in the following service industries: transport and trade (9%), catering and legal advisory services (Bellmann et al. 1996).

According to Labour Force Survey data from the Federal Statistical Office, in 1997 the absolute number of marginally employed was at a considerably high level in the following sectors: retail trade, catering, cleaning, public and private personal services, the health sector and private households (Buch 1999, Federal Statistical Office 1997). The above-mentioned study carried out in 1997 by the

¹ Befristete Beschäftigte, Aushilfen, Freie Mitarbeiter, Überlassene Arbeitnehmer

Institut für Sozialforschung und Gesellschaftspolitik (ISG) presents a similar picture, with private households and catering making extensive use of marginal employment, followed by the press and the media (in particular for newspaper delivery), public employers, non-profit organisations, the care sector, handicrafts, cleaning and transport (Britner et al. 1998, Buch 1999, p. 157). In 2000 the IAB and Economix carried out a more recent evaluation of the data from the survey on labour demand; their analysis confirms the high percentages of service sector companies making use of marginal employment, particularly in the social services, for example education, health care and the media, as well as in the consumption-oriented services such as catering and private households (Magvas 2001).

According to data from the IAB establishment panel, in western Germany the share of part-time work in total employment is particularly high in the services, trade, regional and local authorities, social security organisations and non-profit organisations (Düll H. and Ellguth 1999a). However, it must be taken into account that the data do not differentiate between voluntarily and involuntarily part-time work or between marginal employment and “regular” part-time work. Note that, statistically, part-time work is defined as working less than 36 hours a week, which causes a problem because some branches have already agreed the 35-hour week. Therefore, conclusions on the distribution of atypical employment can only be drawn in connection with the above-mentioned data (Glott 1998).

Empirical sector studies confirm these findings. Thus, between 1995 and 1997 the share of part-time work and of marginal employment increased, whereas full-time employment decreased in retail trade (Deiß 1999). An international study on retail trade, which compared Germany, France, the United Kingdom and the Netherlands, reveals a high level of marginal employment for the German case, whereas, in contrast with the other countries, fixed-term work plays only a minor role in Germany (Kirsch et al. 1999).

A study on the German health-care and long-term care sector demonstrates that marginal employment and part-time employment are particularly widespread in the ambulatory care services, with the share of marginal employment in total employment ranging between 17% and 26% and the share of part-time work ranging between 20% and 41%, depending on the institution (Jaufmann 1998).

According to another empirical study, atypical forms of employment are particularly widespread in call centres. Thus, the employment structure of call centres that work for other companies reveals a high share of part-time work and fixed-term employment contracts, as well as a high share of female employment. Furthermore, all call centres (organised internally or outsourced) record poor working conditions with a high degree of control and stress (D’Alessio and Oberbeck 1999).

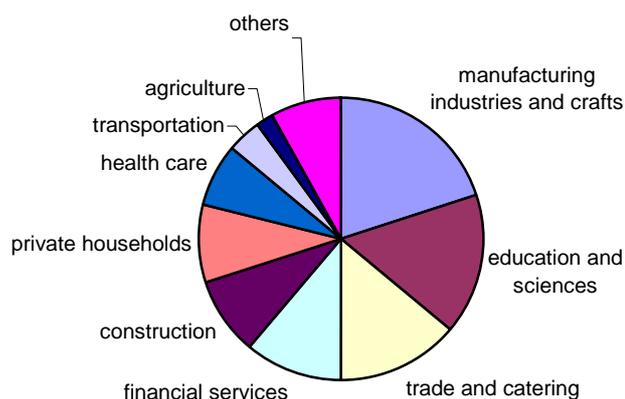
Dependent self-employment

According to a study of the Institute for Employment Research (IAB) of the Federal Employment Service, “dependent self-employment” among sectors is con-

centrated in the manufacturing industries and crafts (20%), followed by education and sciences (16%) and trade and catering (14%) (Figure 4). The data refer to “dependent self-employment” as the individual’s main source of employment.

Figure 4

Distribution of dependent self-employment among sectors



Source: Dietrich 1998, p. 175f.

Note, however, that these data must be interpreted with caution. The difficulties involved in assessing the size and distribution of “dependent self-employment” can be demonstrated by comparing the estimations based on the so-called Labour Court model and the so-called alternative model (see section 3.2). The number of “dependent self-employed” differs quite significantly between these two models in the manufacturing and crafts sector, in private households, in the health-care sector and in financial services (Dietrich 1998, p. 176).

Empirical sector studies on “dependent self-employment” have also been carried out in the construction industry, where self-employment generally plays an important role. Furthermore, those working in slaughterhouses or as truck drivers typically count among the “dependent self-employed”. In the service sector, “dependent self-employed” persons are often working as insurance or commercial agents, or are carrying out simple tasks such as filling up the shelves in shops. The wait staff in restaurants represents a further example. The information technology sector is another typical sector, with the “dependent self-employed” carry out a wide range of tasks, from telephone marketing to software development (Buch 1999, pp. 51–59).

Temporary agency work

According to estimations based on the IAB¹ survey, the contracting companies making use of temporary agency workers were found to be concentrated in the following industries: energy and water supply, mining, the steel and light metal industry, the chemical industry, mechanical engineering and the electronics industry. Moreover, a number of companies could be identified in retail trade, social services and business services (Schröder 1997).

The construction industry represents a special case. Up to the early 1980s the construction industry made wide use of temporary agency work. In 1982, under the pressure of the trade unions and the employer organisation, temporary agency work was forbidden in many parts of the construction industry, because it had led to social dumping (Bosch and Zühlke-Robinet 1999). However, illegal temporary agency workers are quite numerous in the construction industry: their share in total sectoral employment is estimated to be 10% (Nienhüser 1999, p. 304). In addition, a significant number of “dependent self-employed” work in the construction industry.

Europe-wide subcontracting has become common in this sector as well. In reaction to this development, a law was passed in 1996 (*Arbeitnehmerentsendegesetz*) restricting international subcontracting. Firstly, collective sector agreements within this sector can be extended to foreign subcontractors. Secondly, non-EU subcontracting companies need to obtain official permission, and the number of workers is fixed by contingents. However, subcontracting companies from EU countries can employ non-EU nationals to avoid these restrictions. Because the social security contributions are paid in the country of origin, foreign subcontractors can compete with labour costs that are lower than those for German companies. According to trade union estimations, 14% of the workers in the construction industry were employed by foreign subcontracting companies (Nienhüser 1999, p. 304). Finally, it must be noted that in the services related to the construction industry, temporary agency work is not forbidden and thus widespread (Schröder 1997, p. 20).

To summarise, Table 10 shows the demand structure of the different forms of atypical employment with regard to sectors and lists the main database used as well as case studies.

¹ Institut für Arbeitsmarkt- und Berufsforschung (Institute for Employment Research of the Federal Employment Service)

Table 10

Atypical forms of employment by principal sectors and the data source used

	Sectors	Database
Peripheral employment (temporary employment, casual work, freelance work, temporary agency work)	(1) Cultural industries, non-profit organisations, agriculture (2) Call centres (temporary employment, part-time work)	(1) IAB establishment panel (1995) (2) Sector study (D'Alessio and Oberbeck)
Marginal employment	(1) Retail trade, catering, cleaning, public services, personal services, health care, private households (2) Private households, catering, press and media, public employers, non-profit organisations, care sector, handicrafts, cleaning, catering (3) Social services such as education, health care and media, and consumption-oriented services such as catering and work in private households	(1) Labour Force Survey (1997) (2) ISG survey (1997) (3) IAB panel on labour demand (2000)
Part-time work	(1) Services, trade, regional and local authorities, social security organisations, non-profit organisations (2) Part-time work and marginal employment in retail trade (3) Part-time work and marginal employment in the care sector, particularly ambulatory care	(1) IAB establishment panel (Düll H., Ellguth 1999a) (1) Sector studies (Deiß 1999, Kirsch 1999) (3) Sector study (Jaufmann 1998)
Dependent self-employment	Manufacturing industries and crafts, education and sci-	IAB study (1997) and literature survey (Buch 1999)

	ences, trade, catering, financial services, construction industry, information technology sector	
Temporary agency work	Energy and water supply, mining, steel and light metal industry, chemical industry, mechanical engineering, electronics industry, retail trade, social services, business services Special case: services related to the construction industry, construction (illegal)	IAB panel on labour demand (Schröder 1997)

5.2. Enterprise size

For the analysis of atypical employment by enterprise size it must be noted that the methodological problems linked to the statistical database which applied for the sector analysis prevail here as well.

According to the establishment panel of the Institute for Employment Research (*IAB Betriebspanel*) of the Federal Employment Service, between 1993 and 1995 high percentages of “peripheral” workers, defined as temporary workers (*befristete Beschäftigung*), occasional workers (*Aushilfen*), freelancers and temporary agency workers, could be identified in micro-firms and small enterprises employing up to 50 persons (with shares in total employment ranging between 8% and 16%). Over the analysed period this share varied to a significantly higher degree in small enterprises, with the highest rates being in micro-firms employing up to nine employees, rather than in medium-sized and large companies, but it remained above average at all times. Interestingly, the most stable type of enterprises in this respect were medium-sized companies employing between 100 and 999 employees (with shares of “peripheral workers” amounting to about 6%), whereas in large companies employing more than one thousand workers slightly higher shares of “peripheral workers” were recorded and higher variations could be observed (shares ranging between 5% and 8%) (Bellmann et al. 1996, p. 15).

With regard to temporary agency work, the predominance of micro-firms and small businesses is even more clear-cut. According to an evaluation of the survey on labour demand and vacancies by the IAB and the ifo Institut,¹ in 1994 two thirds of the contracting companies were very small enterprises (1–19 employees), 20% were SMEs employing between 20 and 99 persons and 11% were

¹ Institute for Employment Research of the Federal Employment Service and the ifo Institut (for economic research)

medium-sized enterprises employing between 100 and 499 workers, while the share of big companies could be neglected (Schröder 1997).

5.3. Regional disparities

Regional disparities on the labour market can be observed, with quite diverging unemployment figures both between southern and northern Germany and between eastern and western Germany. For instance, in 2000 the unemployment rate in eastern Germany was 20.2%, as against a rate of 9.6% in western Germany (Bundesanstalt für Arbeit 2001). Interestingly, unemployment in itself is not a strong indicator for the spread of precarious employment. Certainly, unemployment and the individual perception of high labour market risks enhance the acceptance of the individual to work under precarious conditions, but this perception might not match the regional structure of labour demand.

Though atypical forms of employment have gained some importance in eastern Germany since reunification, they are less widespread than in western Germany (Table 11). To give an example, the share of marginally employed (630-DM jobs, or *geringfügig Beschäftigte*) in total employment was four times higher in western Germany than in eastern Germany (12.1% and 3.1%, respectively) (Söstra 1998 cited in Kistler and Sing 1998). In 2000, this disparity in the use of marginal employment can still be observed for the most part, even though the eastern federal states are catching up with the level in western Germany. According to data from the survey on labour demand carried out by the IAB, in 2000 more than half of the companies in western Germany, but less than one third in eastern Germany, employed marginal workers (Magvas 2001).

The following table using Labour Force Survey data clearly reflects both the greater importance of “regular employment relationships” and the growing rate of atypical forms of employment in eastern Germany, at least for the first half of the 1990s.

Table 11

Change in employment forms in eastern Germany, 1991 and 1995, compared with western Germany, 1995; shares in total employment, in %

		<i>Eastern Germany</i>		<i>Western Germany</i>
		<i>1991</i>	<i>1995</i>	<i>1995</i>
“Regular	employment	73	65	56
relationships”				
Temporary	full-time	9	7	3
employees	(fixed-term			
contracts	and agency			
workers)	workers)			
Others in dependent full-		5	8	11
time employment (civil				
servants, soldiers, train-				

ees)			
Employees in dependent part-time employment	8	12	18
Self-employed and family workers, excluding agricultural sector	4	7	9

Source: Hoffmann and Walwei 1999, p. 17, based on the Labour Force Survey and statistics on the hiring out of labour from the Federal Employment Service

In 1997, the share of subsidised temporary work (*Arbeitsbeschaffungsmaßnahmen* and *Beschäftigungsgesellschaften*) in total employment was much higher in eastern Germany (3.9%) than in western Germany (0.2%) (Kistler and Sing 1998). Furthermore, there are regional differences with regard to the sectors and occupations with higher shares of subsidised employment. In 1994, nearly one third of employees in western Germany who were working under subsidised labour contracts carried out administrative and secretarial tasks, and a further 20% were employed in forestry and coastal protection, whereas in eastern Germany the focus was on the construction industry, agriculture and social services. The state-funded employment agencies (*Beschäftigungsgesellschaften*), which only exist as a labour market policy measure in eastern Germany, were mainly created for the clearing and regeneration of former industrial sites, of the environmental sector and, to a lesser degree, of tourism and culture (Knuth 1996, p. 269).

To conclude, the lower shares of atypical employment in eastern Germany (with the exception of labour market policy measures), despite higher unemployment rates, must be understood in the context of the transformation process. A highly regulated labour market, with “regular” employment relationships, was a characteristic feature of the former German Democratic Republic. Thus, for instance, permanent part-time work constituted an exception, and other atypical or even precarious forms of employment stood against the principle of state socialism. With the breakdown of the system and the rapid increase in unemployment, precarious employment in the form of temporarily subsidised labour contracts became increasingly significant in the restructuring of big companies (such as Jenoptik AG; Düll, K. 2000, Schleef 1997). The orientation of the economy and the workforce in eastern Germany towards the “regular employment relationship” is still dominant. This is reflected, for example, in the lower rate of women working part-time in eastern Germany (29% in 1998) as compared to western Germany (42.3%) (Düll H. and Ellguth 1999a).

However, precarious employment in eastern Germany is more important than is reflected by the number of atypical employment relationships, as the higher share of involuntary part-time work indicates (section 4.1).

6. Explaining precarious employment

6.1. Business strategies and human resource management

Preliminary remarks

German labour sociologists and labour economists argue that the basic interest of the firm in atypical employment relationships consists in reducing labour costs and enhancing flexibility (Bellmann et al. 1996, Kratzer and Döhl 2000, Kress 1998, Semlinger 1991). Both aims are interlinked, as the strategy of cost reduction implies tight personnel capacities in production, administration and services. A strategy of tight human resources in a changing economic environment calls for strategies of flexibility in human resource management and work organisation. Basically, increased flexibility can be achieved through internal organisation, such as flexible working-time schemes, or through externalisation. Despite the general interest of firms in a small number of personnel, no common strategies in the use of atypical employment relationships can be observed. Human resource management strategies are embedded in the context of the enterprise size, the specific sector, the regional location, the organisational structure, the technology, the structure of the workforce, the product market, the capital endowment and the position in the value-added chain as well as in the overall business strategy. Nevertheless, the following business and human resource management strategies can be identified.

Traditional strategies of cost reduction and flexibility

The different approaches combining both numerical and functional flexibility in human resource management characterises the traditional strategies of cost reduction and flexibility. Numerical flexibility denotes personnel strategies that realise short-term adjustments of the number of workers as a response to changes on the product market (Flecker 1998). Functional flexibility refers to human resource management strategies that are directed towards skilled workers; in Germany such workers are typically craftsmen (*Facharbeiter*) belonging to the core workers. These skilled core workers represent flexibility potentials with regard to the tasks they carry out and, for the most part, with regard to making working time more flexible (e.g. overtime, time-account schemes) (Kratzer and Döhl 2000). Following traditional strategies, cost reduction is primarily achieved through numerical flexibility.

This strategy is reflected, for instance, in the traditional dichotomy between skilled core workers and unskilled peripheral workers. Basically, atypical employment relationships are found among the peripheral workers (temporary employment, marginal employment, employment agency workers). This type of combination of functional and numerical flexibility is typically applied in small enterprises such as craft companies (*Handwerksbetriebe*) (Mendius et al. 1987), but can also be found in medium-sized manufacturing industries and in service-

sector companies. Peripheral employment is used in case the potentials of functional flexibility are exhausted. Normally, the number of peripheral workers is smaller than that of core workers. However, in some industries the opposite scenario can be observed, such as in small enterprises with low-value-added production (e.g. catering, cleaning). The outsourcing of flexibility plays only a minor role in this type of “traditional” flexibility strategy. The construction industries represent an exception in this respect, as companies make wide use of dependent self-employment and, though illegally, of temporary agency workers in order to save additional wage costs (Nienhüser 1999).

Cost reduction and flexibility strategies in the context of firm reorganisation

During the 1990s, strategies going beyond the organisational structure of the company were developed, in particular by large manufacturers. Cost reduction and flexibility primarily are achieved through externalisation. The “make-or-buy” decisions of management are leading to outsourcing and a reorganisation of the chain of subcontracting, as well as to the creation of new business networks (Deiß and Döhl 1992, Picot et al. 1996, Sydow 1992). The flexibility requirements have been shifted from the main company to the contractor companies at the bottom of the supplier chain. These subcontractors then implement the above-mentioned classic strategy of combining numerical and functional flexibility. Consequently, the share of atypical forms of employment is increasing among the peripheral workers of these companies. Furthermore, the implementation of just-in-time concepts is leading to heavy time pressures on peripheral workers as well as core workers (“precarious work”) (see Lehdorff 1997, in the context of the car industry, and Kratzer 2001, in the context of the electronics industry).

Strategies linked to the reorganisation of the firm are not only confined to the optimisation of the value-added chain. Flexibility strategies aimed at reducing costs also encompass the reorganisation of traditional, hierarchical organisational structures, in particular of large companies. Thus, small business units are emerging that act autonomously on the markets and often are organised as profit centres. Organisational theory is referring to the model of a “fractal factory” (*fraktale Fabrik*) (Reichwald and Koller 1996, Warnecke 1992). In the context of this reorganisation, the personnel management strategies and in particular the recruitment strategies are changing. Thus, the new autonomous business units are pursuing systematically the strategy of a tight volume of human resources. These business units respond to the flexibility requirements through internalisation and externalisation strategies, including numerical flexibility. A new type of peripheral worker can be identified, consisting of the self-employed, such as consultants or information technology specialists (outsourcing), and freelancers (*feste freie Mitarbeiter*), who can also be regarded as “dependent self-employed” (externalisation). Temporary employment is also increasing, in particular in the context of recruiting qualified and highly qualified young people with no work experience. In contrast to the traditional strategy, there are no major differences between the skills level of core and peripheral workers. On the contrary, the peripheral workers are often highly qualified experts and specialists. A further characteristic of this strategy is the enlargement of functional

flexibility through a new dimension: in the context of new forms of work organisation, concepts of self-organisation and self-control are being implemented. Thus, core workers must respond to the flexibility requirements and bear a share of the entrepreneurial risks, which can be linked to enhanced labour market risks (Kratzer 2001, Kratzer and Döhl 2000).

Atypical employment in the context of overcoming a crisis

Since the late 1980s, companies coping with an economic crisis leading to personnel cuts and mass dismissals are increasingly making use of atypical forms of employment. In the past, cuts in personnel and mass dismissals were realised in line with the provisions of the law against dismissals and the social plans. This means that the dismissed worker received severance pay, became unemployed and collected unemployment benefits (Düll K. and Bechtle 1991, in the context of the electronics industry; Schumann et al. 1982, in the context of the ship-building industry). Since the late 1980s, “alternative” social plans have been elaborated, mostly through the instigation of the trade unions, which create qualifications and employment agencies (*Qualifizierungsgesellschaften* and *Beschäftigungsgesellschaften*). The dismissed workers then renounce their severance pay, but instead of becoming unemployed they are temporarily employed with subsidised wages (Bosch 1990). These subsidised temporary employment relationships are precarious in many respects: they are of limited duration, and reintegration into the “regular” labour market or into the former company is rather uncertain. As mentioned earlier, this labour market policy measure played a major role in the transformation process in eastern Germany.

The underlying interests of the company in this form of atypical employment are manifold. Thus, as the company is in general acting under political pressure, this type of measure helps to improve its image. Furthermore, the costs of dismissals can be reduced as compared to the traditional “social plans”. Finally, the employer may have an interest in binding skilled workers to the company, particularly if the crisis is expected to be overcome in the short or medium term and if skilled workers are scarce on that specific labour market segment.

Independent of the incentive to receive wage subsidies, the company may have a general interest in making use of atypical forms of employment during an economic crisis. Though peripheral workers are particularly affected by cuts in the number of personnel, the company may have a special interest in atypical employment because of the crisis it faces. As flexibility requirements increase in such a situation, companies may employ marginal workers, temporary workers, temporary agency workers and “dependent self-employed”. These personnel strategies lead to major conflicts in the industrial relations within the company.

6.2. Interaction between the political system and precarious employment

The social protection system

In the German debate, high contribution rates to the social security schemes are said to be the cause of high unit labour costs and thus of high unemployment rates. In both the academic and the political debate, various models of reforming the social insurance system are being discussed, sometimes fervently. This includes the debate on exempting some forms of employment from contributing fully to the social security system. At the same time, proposals to reform the social security system include the attempt to enhance the number of contributors. In the recent past the debate focused on the reform of social-security-free marginal employment (*geringfügige Beschäftigung*) (see, for example, the study by the Institut Arbeit und Technik; Bittner et al. 1998). Actually, recent reforms make marginal employment and “dependent self-employment” subject to compulsory contributions to the social security schemes.

As mentioned earlier, the promotion of a low-wage sector is being widely discussed in the academic and the political arena (see chap. 1). In the context of this debate, the reform of the social assistance system is being discussed, and questions are surfacing about whether unemployment benefits and the social assistance regime are discouraging people from working (“social assistance trap”). In this debate, a scheme based on the concept of negative income taxes is viewed as potentially bringing people into work. A reform allowing a combination of work and benefit from a lower social assistance rate implies that atypical and precarious forms of employment could become much more widespread. Furthermore, models with (partly) state-funded social insurance contributions up to a set wage are being debated. However, the long-term employment effects of the different reform models are questioned by a number of labour market researchers (see, for instance, with regard to the proposals for the *Kombilohn*, which combines social transfers and low-wage employment, in particular marginal employment, Dreger et al. 1998, and Bender et al. 1999 with regard to state-funded social insurance contributions).

Another aspect of the social protection system lies in the poor daycare situation for children: nurseries for children under three years of age hardly exist. Furthermore, schools finish at noon, and there are very few places in daycare facilities for pupils. This situation makes it difficult for women to work full-time. As mentioned previously, in western Germany female part-time work takes place almost exclusively on a voluntary basis. Moreover, a number of women with children stop working for many years (Beckmann and Kurtz 2001). Women taking advantage of the possibility of a maximum of three years of parental leave can stay in stable employment conditions. Note, however, that the generous regulations for parental leave have also been critically assessed with regard to the employment and career prospects of women (Engelbrecht and Jungkunst 2001). Furthermore, those who stop working for a longer period face problems when they wish to re-enter the labour market. Women returnees more easily accept poor employment conditions because they have few options on the labour

market. Finally, the tax-splitting model for a married couple encourages women not to work or to work only part-time and earn significantly less than their husbands.

Impact of immigrant laws

The temporary employment of non-nationals, particularly of workers from Central and Eastern Europe, partly results from regulations such as contingents and binational agreements on seasonal workers (Sinn et al. 2000). Foreigners who do not hold a work permit are working within the hidden economy. With regard to workers originating from Central and Eastern European countries, a group of “precarious migrants” has been identified. In general, they are staying legally in Germany on a tourist visa, but are working illegally because they do not hold a work permit (Miera 1996, referring to Polish migrants).

Interrelationship between labour market regulation and precarious employment

Though the German labour market can be still characterised as highly regulated by law and collective agreements, the labour market has been deregulated through labour market reforms that were passed during the 1990s. With regard to atypical and precarious employment, two different types of labour law reforms must be considered. One set of reforms provided for a change in the protective rights of “regular” employment relationships (e.g. new regulation of protection against dismissal), the other extended the possible use of atypical employment forms (e.g. new regulation on fixed-term contracts and on temporary employment agencies). On the one hand, if deregulation is attached to “regular” employment relationships, such as a less restrictive law on protection against dismissals, then evasive reactions such as the increased use of fixed-term labour contracts are less likely (Emmerich, Walwei and Zika 1997, Franz, Steiner, Buscher and Buslei 1997). On the other hand, the liberalisation of the use of atypical forms of employment certainly may raise atypical forms of employment. However, it is not clear to what extent “regular” employment relationships are just being substituted by atypical forms of employment and to what extent new jobs are being created through the expansion of flexibility potentials (Hoffmann and Walwei 1999). Furthermore, an evaluation of efforts to make legal regulations on temporary work more flexible has shown few positive employment effects (Rudolph 2000). Obviously, the advantages of stable employment leading to more investment in human capital still represent an important factor for companies (Hoffmann and Walwei 2000).

Furthermore, collective bargaining on flexibility, such as in the context of annual working-time models, increases the flexibility potential of the employer and thus may reduce the use of some forms of atypical employment. Alternatively, collective agreements may also enhance, for example, part-time work (below 36 hours), as can be demonstrated in the case of the collective agreement of car

manufacturers on the reduction of working time. This may lead to a tentative conclusion that strong labour market regulation may in principle restrict the spread of atypical forms of employment, but at the same time it may offer opportunities to collectively negotiate atypical forms of employment.

6.3. Macroeconomic performance and labour market flexibility

Atypical and precarious employment plays an important role in the business cycle. As noted earlier, enterprises use temporary forms of employment primarily as an addition to their core workforce, in order to save adjustment costs in the event of fluctuations in production or demand (Holst and Maier 1998, Rudolph and Schröder 1997).

In Germany, the labour force potential (*stille Reserve*), which primarily includes discouraged workers and workers in labour market policy measures, is regarded as an important source of flexibility for the economy. This potential is thought to be strongly linked to the business cycle (*konjunkturelles Erwerbersonpotential*) (Fuchs 2001). In 1998 the estimated size of the *stille Reserve* varied between 0.5 million and 2.6 million persons. According to an analysis based on the GSOEP, there are important movements between the labour force potentials reflected by the *stille Reserve* and marginal employment (Holst and Schupp 2000). “Marginal” employment is especially widespread in the branches most affected by cyclical variations, such as catering and work in private households.

The rise of atypical employment can also partly be explained through the structural shift. With the growing importance of the service sector and, linked to it, with new job creation in the smaller and medium-sized enterprises, flexible forms of employment are on the increase. For small businesses in the service sector that must react flexibly to market processes, attractive forms of employment are those which do not designate standardised working hours and which are accompanied by lower employment risks (e.g. by using fixed-term contracts or by contracting out work to self-employed people). However, according to a shift-share analysis for the period from the mid-1980s to the mid-1990s carried out by researchers at the Institute for Employment Research (IAB), the structural effect turns out to be relatively small. This means that even irrespective of the sector-specific and gender-specific changes in the employment structure, regular employment relationships, part-time work and forms of self-employment would have developed in the same direction (Hoffmann and Walwei 1999, p. 19).

7. Implications of precarious employment

7.1. Implications for the individual

In the preceding chapters atypical forms of employment have been discussed in particular. We also tried to give tentative indications on whether these different forms of employment could be regarded as precarious. This section is primarily devoted to this question.

In general, “insecure” forms of employment represent a transitional phase for younger skilled workers. But for persons who are hard to place on the labour market, “insecure” employment is more likely to be a long-term situation.

The implications of marginal employment have been at the centre of interest. Some authors argue that most of the marginally employed are those who already benefit from basic social protection, as in the case of pupils, students and married women. This argument was put forward frequently before the amendment of the law in 1998. However, the marginally employed do not contribute significantly to the public pension scheme and thus are not eligible to pensions derived from their own work. In fact, poverty is especially widespread among retired women.

Not only marginal employment, but also part-time employment and in particular discontinuous working biographies lead to low income from pensions (Munz 1996). The second important group affected by poverty is children (Jenkins, Schluter and Wagner 2000). Unemployment and low earnings are often at the root of poverty among families. According to a report on poverty by the federal government, poverty resulting from low income constitutes a transitional rather than a permanent problem for most families (Bundesministerium für Arbeit 2001). Because women with children mostly either work under “atypical” work contracts or are not in the labour force, poverty and atypical female employment are interlinked.

Furthermore, it is argued that marginal employment brings women into work who otherwise would not be in the labour force (Holst and Meier 1998, Jungbauer-Gans and Hönisch 1998). But some authors are also rather critical about the quality of these jobs and their associated social rights.

7.2. Impact on the competitiveness of the whole economy

The scientific debate on the effects of atypical and precarious employment primarily focuses on the burdens to the social security system arising from these different employment forms, including precarious employment (see chap. 1 and section 6.3). The distributional problems linked to the present and future financial crises of the social security system, resulting in high contribution rates and thus in high labour costs, are being perceived by a number of economists as lowering competitiveness and impeding economic growth (an overview of this debate is given in Düll N. 1998).

Germany's strength is as a high-wage–high-productivity country. A high skills level and stable employment relationships constitute the basis of this strategy. The skills level is predicted to rise over the coming decades. The negative effects of precariousness linked to a lack of investments in human capital are lowered if a more standardised training system is used, rather than a model relying on firm-specific skills. However, employees in precarious jobs might have too few incentives to invest in human capital, for their vocational trajectories seem less clear and the expected return on investment is less sure. Consequently, they can easily be trapped by a vicious circle of low skills and high labour market risks.

8. Conclusions

We have tried to assess “precarious employment” by approaching this phenomenon through four dimensions: the temporal dimension, the organisational dimension, the economic dimension and the social dimension. The bulk of the empirical material refers to specific employment forms, in particular to atypical employment. However, the approach directed at specific employment forms has not proved satisfying, because atypical forms of employment are not necessarily at the disadvantage of the employee, nor can the characteristics of the jobs under atypical employment conditions be classified systematically as “bad”. It should be noted that in particular the link between poor working conditions and atypical employment is not evident. The link between low pay and atypical employment could be found for a particular group of workers and in specific sectors. Bad training opportunities are more likely to be a common feature of atypical employment. A lower level of social protection has been linked to some forms of atypical employment; however, improvements have been realised in the recent past. A lack of collective representation can be regarded as characteristic of atypical employment.

Flexibility strategies can be found on both sides of the labour market; thus, the spread of “atypical” employment is partly supply-side-driven and partly demand-side-driven. Nevertheless, there is a group among those working under “atypical” or “insecure” conditions that experiences “bad” employment conditions in terms

of labour market risks, pay, training, social protection and/or collective rights. However, there is no empirical data to assess the size of this group. In the following, an attempt will be made to give a broad orientation to this question as well as to the question of whether precarious employment is on the increase.

With regard to the forms of employment, the main categories are the following:

- a) Marginal employment (the so-called 325-euro jobs, or *geringfügige Beschäftigung*) increased significantly between 1987 and 1997 and remains at a high level even after the law was amended in order to reduce the incentives for hiring this type of worker. In general, marginal employees carry out easy tasks, receive low pay, have no training and no career perspectives, are not collectively represented and are less well insured (especially with regard to public pensions and unemployment insurance). Despite the “bad” quality of the jobs, only a share of the marginally employed can be considered to be in precarious employment, because the temporal dimension is decisive. Marginal employment is more likely to correlate with “precarious” employment for those groups with longer periods of marginal employment, in particular married women, women with children and persons with low skill levels. They represent an important group among the marginally employed. Persons trapped in marginal employment often work in sectors such as trade, private households, catering and cleaning. But there are other important groups of marginally employed that cannot be considered to be in a precarious situation. Particularly in the case of young persons in education or training, marginal employment does not represent precarious employment. The same is true for a number of the women and retired persons.
- b) Fixed-term employment rose slightly over the 1990s. Non-subsidised temporary employment often represents a transitional phase between training and permanent employment (by the same or another employer), particularly if the duration of the fixed-term contract lasts at least a year. This finding probably applies to the majority of fixed-term contracts. In fact, temporary employment doubled during the 1990s among persons aged 25 years and under. However, temporary employment also rose among foreign workers. This group of workers is more likely to be “trapped” in insecure forms of employment. Finally, a third type of temporary employment is the subsidised fixed-term contract (in particular in eastern Germany). The corresponding labour market programmes have been heavily criticised for not succeeding in bringing a significant share of persons into permanent employment.
- c) Temporary agency work is still at a low level in Germany but has been on the increase.
- d) “Dependent self-employment” (*Scheinselbständigkeit*) has received much attention in Germany in recent years. This form of employment increased over the 1990s but still remains at a low level. The “dependent self-employed” represent an extremely heterogeneous group of workers. There is no data about the transition between this type of self-employment and other employment forms, but this form of employment might have longer spells for a number of persons.

- e) The volume of “hidden employment” is by definition difficult to assess. Undeclared work is concentrated among immigrants, often working illegally. The sectors with the highest shares of undeclared workers are the agricultural sector; community, social and personal services (e.g. cleaning, care work); the crafts sector; and construction. Hidden employment can be regarded as precarious employment.

As pointed out in the section above, the different forms of employment fulfil different functions for different groups of people:

- a) For the vast majority of young persons, atypical employment is more likely to represent a transitional phase between education and training and permanent employment. The share of young workers among the “atypical” employees is not very high. It has been argued that the “dual” vocational training system was successful in reducing labour market risks for young people. In contrast, for older workers temporary employment often might represent a transition from permanent employment to labour market exit.
- b) Women are more likely to be in precarious employment than men because their working biographies are often more discontinuous than men’s. Atypical or “insecure” forms of employment among women who re-enter the labour market often do not represent a transitional phase, but rather a medium- or long-term situation. The most widespread form of atypical employment among women is marginal employment, whereas temporary agency work is typically the domain of men. But as discussed earlier, female marginal employment is only partly perceived as a problem in terms of “bad employment conditions”, because it is argued that this type of employment relationship suits a number of the women.
- c) Atypical forms of employment for the low-skilled are very likely to involve aspects of precarious employment. Low-skilled persons face a higher unemployment risk and have more difficulties in general with integrating into the labour market. Consequently, the transition from atypical to “regular” employment is also more difficult.
- d) Immigrants are more likely to be in precarious employment than Germans, and they are most likely to be trapped in it. This is linked to their skills structure and to the specific workplaces they are assigned to, but also to discrimination on the labour market (in many cases they are over-qualified for the tasks they carry out). Because the educational and skills levels of second- and third-generation immigrants in Germany are still far below the average of German nationals, their labour market risks are still above average, and this is reflected in higher unemployment rates. Nonetheless, new employment opportunities for non-nationals and in particular for new immigration groups have risen in the low-skilled service sector segment. Moreover, it can be assumed that non-nationals coming from outside the European Union, in particular from the Central and Eastern European countries, are often working within the hidden economy, as they are often working without a work permit.
- e) Those who show cumulated labour market risks, for example unskilled, female foreigners, are especially likely to become trapped in precarious employment.

To sum up, there is evidence to indicate that atypical employment represents a transitional period for the majority of the workers. However, for those facing higher labour market risks—for example because of a low skills level, devaluation of human capital due to discontinuous working biographies, previous unemployment, in particular long-term unemployment, or nationality—atypical employment usually does not ease the way to permanent employment. Those persons then become trapped in precarious employment. Thus, for those excluded from the “regular” labour market, precarious employment represents an alternative to underemployment but does not represent a bridge to permanent employment. The German labour market is shaped by its dual structure, with insiders retaining a great deal of power and benefiting from a high degree of employment stability and “outsiders” who must bear the bulk of numerical flexibility and who are not collectively represented. They are unemployed or are working under “insecure” conditions. Labour market regulation fosters this kind of labour market segmentation. However, despite a high degree of labour market regulation in Germany, precarious employment has not reached high levels.

One of the reasons for Germany’s comparatively low incidence of precarious employment lies in the German production model, which relies on a high-wage–high-productivity strategy. This strategy, combined with a high degree of labour market regulation, implies a high degree of employment stability (firm-specific knowledge, search costs, etc.). Thus, the flexibility needs of the firms have been met through a mixture of different flexibility strategies, including efforts to make working time more flexible and functional flexibility. Increasing external and numerical flexibility has become part of the overall flexibility strategy for a number of reasons and has contributed to the spread of atypical employment. Not only the flexibility strategies of the core industries but the growth of the service sector in particular has created precarious employment. The sectors showing higher shares of atypical and (most likely) of precarious employment are the low-value-added service sector industries, in particular the service sector industries related to personal services, the construction industries and, to a lesser extent, the manufacturing industries.

It can be assumed that the growth of precarious employment is linked to employment expansion and that it alleviates the unemployment problem only to a small degree (mostly through subsidised fixed-term contracts). Subsidised fixed-term labour contracts have been widely criticised for substituting permanent employment with precarious employment. However, overall it is not clear to what extent “regular employment” relationships are being substituted by atypical forms of employment and to what extent new jobs are being created through expanding flexibility potentials. The use of atypical employment as a transitional phase has been on the increase.

As shown in the previous chapters, labour market regulation and in particular the increasing flexibility and deregulation of the regulatory framework have been at the centre of the debate on atypical employment. The changes in labour market regulation and their impact on specific employment forms will be analysed in

more detail in the report on the regulatory framework and policies within the ESOPE project (Workpackage 1.2).

Finally, the debate is at present focusing on reforming the social security system, for it is argued that the lack of low-paid jobs and, in analogy, the low level of precarious employment, is at the root of the persistently high unemployment rates in Germany. Reforms are being debated in order to promote a low-wage sector through finding a new “flexicurity” balance (*Niedriglohndebatte*). However, the effectiveness of these measures in reducing unemployment are questioned in the academic and political debate.

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