World Economic Crisis – Globalization – Global Employment Crisis – Challenges for the Reform of Labour and Employment Policies in Japan and in Germany

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Abstract

In order to understand the roots of the current world economic crisis it is necessary to study carefully the most recent phase of globalization (1980-2005). It is obvious that not only unregulated global financial markets have caused the crisis, but that global imbalances, global inequalities and global shifts have worked through the system. The most severe lack of global governance, despite of ever stronger globalization forces, is responsible for the negative outcome. Japan and Germany are advised in their own interest as export-oriented nations to push for a new global governance structure.

The world economic crisis has rapidly become also a global employment crisis which is eroding social safety nets, poverty alleviation strategies and labour market institutions. This is endangering the development efforts of decades as the number of the working poor and of those in vulnerable employment is sharply on the increase. Japan and Germany are also affected severely by the global employment crisis, directly and indirectly. Increasing inequalities and poverty rates are accentuated. The two countries have to pursue new pro-active labour and employment strategies, but also have to push for a new global governance system in labour, employment and social security issues.

The analysis also shows that there are challenges for Japan and Germany in their labour, employment and social security policies in times of crisis but the more so because of the new drivers of globalization. The structure of labour markets, the labour market institutions, the prevailing concepts of labour market flexibility, the labour market reforms, and the structural reforms related to labour markets in these countries have evolved over decades, even dating back to the industrialization period, and cannot be changed in an ad hoc and hastily manner. All the reforms pursued must be in conformity with the development path of labour market institutions. However, Germany’s path of reforming the labour market institutions shows that incremental reforms can achieve a lasting impact. For both countries we see a tremendous need of adapting the labour, employment and social security policies in such a way that it will become possible to counter the new globalization forces. More individualistic (homo oeconomicus-based) and more solidarity-based approaches are discussed.

Keywords: Globalization; World Economic Crisis; World Employment Crisis; Comparing Labour Market Institutions and Policies in Japan and Germany

1. Introduction

In this paper **three interrelated issues** are dealt with.

The **first issue** concerns the relationships between globalization and the world economic crisis. It is now more and more acknowledged that the world financial crisis has its roots in the functioning of the global economy over the last twenty five years. It is not simply a crisis of confidence, of lack of transparency, and of a lack of regulation. A particular turning point of globalization has now been reached, and global shifts, global increases of inequality, patterns of unequal growth, and global imbalances play a role. Also unbalanced reforms and the unequal dynamics of the various dimensions of globalization play a role. The current world economic crisis will therefore also give momentum to new forces and directions of globalization. Japan and Germany will be affected largely because of the role of exports for their economies.

The **second issue** refers to the forms, the rapidity, the transmission mechanisms and the geographical spread of the global employment crisis. Very rapidly the global financial and world economic crisis has turned into a crisis of global employment, leading not only to losses of wage employment, but also to dramatic increases of the number of the working poor and of the number of the people employed in vulnerable positions all over the world. Japan and Germany are already affected tremendously and will be more so especially when looking at the projections that their GDP for 2009 will fall by around 6 per cent or more.

The global employment crisis itself is accelerating the world economic crisis, and the global social consequences are becoming severe (as only some countries of the developed world have strong automatic economic stabilizers at work). Also in the Southern Engines of World Economic Growth (like China, India, Brazil, and South Africa) drastic increases of employment losses are occurring. And labour market institutions, social safety nets and social security systems are threatened or even eroded globally.

The **third issue** relates to the consequences of all that for Japan and for Germany as labour market institutions and labour market reforms are discussed and policy implications are highlighted. A simple-minded look at more flexible labour markets and respective reforms is no longer appropriate (although there was never a clear definition of what more flexibility of labour markets really means in the context of historically evolving labour market institutions). Moreover, it has to be asked how a policy response to the global crises and to further globalization can be reconciled with path-dependent labour and employment policies for these two countries. Much more is needed now, because of the global dimension of the employment crisis and its very causes. An integrated labour and employment framework is relevant for both economies, an approach that involves not only structural reforms but also quicker and better planned reactions to the causes and the international repercussions of the crises. As there are quite different structural factors working in the two economies, as well in the domestic and in the international market segments, the structure-institutions-policy context has to be assessed.

2. Globalization and the Current World Economic Crisis

There are limits to the current discussion on the world economic crisis. Two aspects of the discussion are important. The current crisis is considered largely as a global financial crisis, especially so by IMF and OECD sources (see IMF 2009; OECD 2009b), and second as a crisis basically made by the US. There is no reference to other causes and to the current wave or phase of globalization. The crisis is mainly considered as a crisis of confidence, as a crisis because of the lack of a new international financial architecture. The USA are held responsible for the crisis because of the mortgage and real estate bubble, the ease of monetary policy, and because of the lack of regulation of the financial system (see Dodd 2007; De Michaelis 2009). However, there are so many indications that the current crisis is much deeper routed and that it has much more severe consequences than anticipated so far. By the way, after the Asian Crisis of 1997 much the same recipes were propagated to come out of the crisis and to prevent further crises – by designing and implementing a new international financial architecture (see Eichengreen 1999; Finance & Development December 2002). It is even interesting to see that many proposals to create a global financial system with more transparency, more regulation, a more global focus on actors, and a stronger role of the IMF were even discussed sharper than now in the years after the Asian Crisis (Wohlmuth 2003). So far, no new ideas on reforming the IMF had been coming forth, only new funding proposals. The idea of a World Financial Authority (WFA) to coordinate globally macroeconomic policies, supervision institutions and regulation standards was discussed intensively after the Asian Crisis. However, the most serious weakness of the current debate is the belief that the system-wide global crisis can be overcome by a new financial architecture. The scope of the world economic crisis and the type of much needed reform packages are ignored.

2.1 Globalization: A New Phase or a Retreat?

When we look at the most important analyses concerning the phases (or waves) of globalization, we can see that all historical phases of globalization are different in determinants and consequences, and that there is always the danger of a retreat, a backlash, the danger of a break in the globalization trend with severe consequences (Williamson 2005, 1998; The World Bank 2002; Lindert/Williamson 2003). We also see from the literature that the retreat of globalization starts quite early in the preceding phase of globalization as globalization forces are gradually weakened by protectionist measures, by constraining migration and capital flows, by rising nationalist and populist sentiments, etc. A look at the phases of globalization since 1820 shows that quite different globalization dimensions, interactions and constellations were prevalent. However, the main impact was always on convergence of productivity and structures, convergence of prices, real wages, per capita incomes, factor prices and factor price ratios. All the phases of globalization have contributed to some form of convergence of the involved economies, and have led to the inclusion or exclusion of countries from the prevailing convergence clubs (see Dowrick/DeLong 2003).

In order to understand the current world economic crisis it is therefore necessary to analyze the retreats from globalization in history and the working of the globalization forces in the most recent phase/wave of globalization. Williamson (2005) comes out with three periods of globalization: the “first global century” in the period 1820 -1913, then the period of retreat or globalization implosion in the period 1913-1950 called “beating an anti-global retreat”, and then followed by the “second global century” in the period 1950-2002. New policy barriers in the period of retreat (on migration flows, on tariffs, and by creating new non-tariff barriers) led to new price gaps between countries, thereby reducing the convergence level to the level already achieved by 1870. Also, these new policy barriers led to reduced investment and technology flows (Williamson 2005, pp. 141-142). Most important, the negative effects started early, already in the “first global century”. Two major types of globalization barriers contributed to the “backlash” (see Williamson 1998): immigration restrictions in the US and new tariffs in Europe, especially in France and Germany. Immigration restrictions in the US started long before the retreat (already in 1897)! Also the European tariff increases started early, decades before the world economic crisis of 1929. Agricultural interest groups were strong enough in France and in Germany to push for higher tariffs and import restrictions; this took place already at the end of the 19th century, long before the world economic crisis has occurred, in fact becoming a precursor of the EC-CAP (Williamson 1998, p. 66). Political interests and producer interests determined the evolution of backlash effects over a long period before crisis. Policies became more restrictive and protective long before the retreat of 1913, and these restrictive policies even started at the 1880s (Williamson 1998, p. 69). The price and factor price convergence came to a halt and even was reversed. The backlash built up for decades. After decades of strong globalization forces at work lobbying activities of the landed rich in Europe and of the landless poor in the US led to new restrictions and to new protectionism. The danger is there that such a backlash may also occur in future. We will see that this analysis has implications for the situation now.

Very important are the analyses on the "globalization waves" by the World Bank (World Bank 2002, 2007) as they give some thoughts and hints for understanding the current world economic crisis. Both waves considered by these analyses, the third wave (starting 1980 and ending around 2005) and the fourth wave (starting 2006 and anticipated to end by 2030), have to be seen as interconnected. The world crisis of 2008/2009 (with some signs already in 2007) occurred at the beginning of the new wave, at a time somewhat between the two waves. So we can even argue that the fourth wave (according to World Bank 2007) is rather starting with a retreat, with a backlash (see Falk 2007a, 2007b). However, the analysis by the World Bank (2007) at the time of publication was quite open to such a situation (in a worst case scenario) by arguing that large and unanticipated shocks could bring a lot of "surprises" because of endogenous stresses in the world economy (labour market pressures, income distribution problems, and environment issues).

World Bank (2002) argues that three waves of globalization are relevant, interrupted by a phase of retreat. The first wave of globalization in the period 1870 – 1914, the "retreat to nationalism" in the period of 1914 – 1945, and the second wave in the period of 1945 – 1980 are distinguished. Then the most important new wave – the third wave – comes in and changes fundamentally the picture and the working of the globalization forces. New globalizing economies like China and India emerge and add to the global pool of labour, thereby quickly changing the global division of labour. International migration and capital movements began to accelerate again after a somewhat limited role of these drivers in the second wave. Weak globalizing economies in Africa, South East Asia and Central Asia were falling back in this third wave. A new world economy has emerged after 1980. In the World Bank 2007 report a fourth wave of globalization is presented, starting in 2006. Scenarios are discussed for the 25 years up to 2030. Anticipated is – beside of demographic shifts and a new interaction of all important globalization dimensions – a huge increase of the global labour force. Growth may be powered by developing countries, so by Southern Engines of world economic growth (see also Desai 2008). A further convergence of incomes may occur between developed and developing countries. If such income increases occur, poverty rates will globally decline. Developing countries are seen as drivers, as engines of global growth, covering by 2030 one third of the global output, and their share of the global purchasing power even exceeding one half (World Bank 2007, p. xii-xv).

It is also argued that these results are robust considering all the shocks and crises that we have seen in the period of the third wave 1980-2005. The report foresees even better results in terms of growth and poverty reduction if technical advances are more intensively used and if good policies are widely pursued. The upside scenario that is presented would even mean reducing the poverty rate to 4 per cent of the world population. What can then explain the emergence of the crisis of today? Policies matter in the fourth wave, but also the dynamics of the process is important as the three main "stresses" in the world economy of today have to be taken up seriously by global governance. In fact, the three stresses (income distribution problems, labour market pressures, and environmental crises) mentioned in the World Bank 2007 report have already emerged as serious problems in the third wave of the period 1980-2005, but without any determined attempt to govern globally these problems, and they may become particular stresses in the fourth wave up to 2030. If not properly managed, these stresses may produce backlash effects that are similar to the situation that led to the retreat of

1913. All the three stresses have built up in the world economic system since 1980, and the situation can become explosive indeed.

The "global middle class" as the winners of globalization – anticipated to grow quickly in the fourth wave – may demand more rights and better access to resources, but the losers of globalization may become strong enough to lobby for more protectionism, for more restrictions and control, etc. (World Bank 2007, pp. 67 – 99 and pp. 101 – 140). The combined effects of technology, globalization, demography, and the increasing demand for skilled labour may further widen income inequality within countries (beyond the unacceptable levels prevailing now; see OECD 2008; ILO 2008a; Atkinson 2008/2009). Corrective policies are considered as possible (World Bank 2007, pp. 29 – 65), but have to be accepted by the growing global middle class in the form of a broader tax base to finance pro-poor investments. Access to markets for pro-poor producers is also important to overcome the increasing problems for the losers of globalization. Managing the growing labour market pressures will become more and more an issue and is also dating back as a problem to the third wave of globalization.

The trend of a globalization of labour is becoming more and more an issue, because the integration towards a global market for labour has led to increasing adjustment costs for labour, to downward pressure on wages, to decreasing job security, to increasing demands for retraining and relocation of labour, and so to demands for much more active employment strategies and policies (World Bank 2007, p. xviii-xxi). Moderation of wage increases for the unskilled workers and reduced employment security have already had impacts in the context of the current crisis (see the subsection 2. 2). The share of high income countries' imports of manufactured goods originating from all developing countries may even reach 65 per cent by 2030, what is up from 15 per cent in the 1970s and the 40 per cent of today (World Bank 2007, p. xix). Developed and developing countries are therefore under increasing pressure from the new globalizing economies, and the increasing trade in services may also affect more and more the employment in non-traded sector white-collar jobs. Beside of displacing jobs in low-skilled manufacturing, the trade in services – along increasing tradability of goods and services in global value chains – may displace and/or affect more and more white-collar jobs (see Andersen 2006; Snower/Brown/Merkl 2009; Wohlmuth 2004; Coe 2007, 2008). This may affect investments in the skills of white-collar workers and their firm–specific knowledge. Protecting the income and the rights of workers rather than protecting the specific jobs is the kind of policy advice given to respond to this new trend, not only by the World Bank but also by the ILO. Adapting to the processes of globalization by changing the labour markets (and the degree of labour market flexibility) is however a highly contested area because of simplifications and misunderstandings how labour market institutions evolve (see section 3). Adaptability and flexibility of labour markets can be interpreted in a rather narrow way – by including employment protection, wage adjustments and wage flexibility, flexible working arrangements, and labour mobility (see Klau/Mittelstadt 1986; Rodgers 2007), but also in a much broader framework (see Whyman/Baimbridge 2006) by including also aggregate demand policy, trade union policy, human capital development, and social policy. In a much broader framework the concept means also attaching appropriate aggregate demand policies, active labour market policies, education and training policies, migration policies, supporting social policies, labour taxation policies, product markets deregulation polices, structural adjustment policies, and protecting the social status of workers during adjustments (see section 4).

Environmental factors and resource depletion can also reduce the gains from globalization, and can even cause and aggravate world recessions (see the dangers inherent of the recent commodity boom; F&D, March 2008). Mitigating climate change, containing infectious diseases, and preserving marine fisheries are important public goods (World Bank, 2007, pp. xxi-xxiv). However, the global commodity demand/price boom and the resources depletion/scarcity problems because of slow supply adjustments to global demand increases are more directly linked to the current world economic recession (see Gokay 2009, and more details in subsection 2. 2).

Altogether, the danger is great that non-adequate policies at global and national governance levels will lead to de-globalization pressures and new crises. The lack of appropriate global governance institutions comes out as a major problem when we review the policy responses in different phases of globalization. In the third and in the fourth phase of globalization the lack of such institutions is however disastrous. This is the current crisis situation. The "central scenario" in the World Bank 2007 study shows the huge opportunities that exist in the world economy if the globalization forces unfold in the fourth wave, despite of the underlying stress factors. The "downside scenario" with slow growth implies great risks, but the report is still optimistic that a "cataclysmic event that affects the entire globe for an extended period has a low probability…" so that we can go ahead as usual (see World Bank 2007, p. 56). One year after the report has appeared it became however clear that we have now just such an event, and not only "deviations" from the central scenario (with growth in some regions and with stagnation in others). The entire globe is affected now by what is called a "global financial crisis" (leading to an intensive search for lessons from prior financial crises; see Furceri/Mourougane 2009). We have an unpredictable situation with a wide range of unexpected consequences. Major factors have played a role in the third wave since 1980 that have led to this situation. Backlash tendencies did arise, unfold and cumulate because of the severe gap in global governance and because of persistent structural factors – non-adjustment to global imbalances, biased global flows, dramatic global shifts, inequitable global growth, and an unequal pace of policy reforms in the global economy. So it is an open question what we will have in the years to come: a retreat from globalization because of failures in managing the global economic crisis properly or an unfolding of the new phase of globalization (see Falk 2007b). The World Bank Report even looks at the upside potential for the new wave ("upside scenario" with high growth) by arguing that technological changes, structural and policy changes, and transitions may occur more quickly than anticipated in the baseline central scenario (World Bank 2007, pp. 56 – 58). This may lead to new boom years in the world economy and to inherent risks.

2.2 World Economic Crisis: Why did it come about, and what happened in the most recent phase of globalization?

Five arguments are of relevance**.** These arguments relate more directly to the origins and the outbreak of the current global financial crisis/economic crisis/employment crisis. Global imbalances, biased global flows, unanticipated global shifts, global inequalities, and global differences in the pace of reform efforts may be mentioned as the policy problems that emerged in the third wave of globalization. These five policy failure arguments relate to what we have observed as the debt crisis of the American private households, as the subprime and mortgage crisis, as the crisis of the global banking system, as the collapse of the inter-bank payments systems, and finally as the global credit crunch.

Over many years international reports from the International Monetary Fund (IMF) and from the Bank for International Settlements (BIS) have warned the global economic community that the **global imbalances**, especially the US current account deficits, will increase volatility and risks, and will create severe problems for the world economy. Erratic exchange rate changes, risks of a sudden US$ devaluation, increasing gaps between absorption and production, low US saving rates, even negative saving rates for households, and increasing household consumption, mortgage and indebtedness levels, are on the long list of warnings. Allocation losses because of impacts of unsustainable imbalances on business plans; stability problems for the finance system and for the macro-economy; and trade problems were also mentioned (as such global imbalances may raise protectionist tendencies). The international economics textbooks (see Wagner 2003, pp. 45-47) and the most important analytical/historical studies on global imbalances (see Eichengreen 2006/2007) give evidence of all these warnings. Most important in the context of the financial crisis are unplanned investment portfolio changes following from these imbalances. The textbooks tell us how vulnerable such countries are becoming in terms of financial market changes, and how important it is to avoid the high costs of an abrupt reduction of such imbalances for the world economy. In the context of the high US government deficits, the real overvaluation of the dollar, and the low savings rates this has been known for long. All attempts to change something in the US and bilaterally with China, on advice of the IMF and the BIS, have failed. Interest and exchange rate crises of other countries that follow from this situation will increase the risk of misallocations (Wagner 2003, p. 47).

Global imbalances have always been considered as a major source of world economic risk, but the global governance mechanism did not work in a way to allow for a smooth adjustment process (see the concrete proposals to cope with the US Current Account in: Jarrett 2005). The partial reduction of the US current account deficit in 2007 compared to 2006 from 6.2 per cent to 4.9 per cent of the US GDP brought forth severe readjustments in the world economy, especially in Australia and in Europe, however not affecting the still sharply increasing current account surplus of China of 372 billion US$ in 2007. The US-China current account imbalances even worsened (BIS 2008, p. 13); the relevant adjustment mechanisms did not work properly to affect the global imbalances. Neither the exchange rate was adjusted, nor the investment-saving imbalances (BIS 2007, pp.18-19; BIS 2006, pp. 31-33). More than this, the build-up of huge foreign exchange reserves in Asia (for China, Japan and others) of more than 2 trillion dollars means that managing these reserves – with the portfolios containing more and more risks – implies additional destabilizing effects for the financial markets, and aggravates the crises phenomena in the world economy (BIS 2007, p. 10). Other global imbalances between oil-exporting and oil-importing countries and between the developing countries and the developed and emerging economies also show more persistence and resilience.

The combination of low policy interest rates in developed countries and the easing of policy rates also in emerging economies plus actions of massive foreign exchange intervention in China and other Asian countries made the monetary stimulus to credit growth increasingly a global phenomenon (BIS 2008, p. 8). All types of financial innovations led in this situation to a process of weakening credit standards and assessments (relying on the expectation that a spread of the risks will come into effect). Spending behavior of households has also changed considerably, the prices of all financial assets have increased, while the prices of the insurances against market price developments remained low (BIS 2008, pp. 8-9). While the IMF saw a trend towards more stability/towards a moderation in the global business cycle (IMF 2007 b) they also warned that the stability of expansion and the reduced volatility of output have to be seen in the context of risks, such as the global current account imbalances, the volatile capital flows and the risks for investors in overseas financial markets. However, despite their warnings, the IMF and the World Bank did not anticipate the coming world economic crisis. However, some warnings were there and became louder (see especially

United Nations 2007, 2008, 2009). Beside of oil price and housing price developments the risk of a disorderly adjustment of the global imbalances was emphasized (United Nations 2007, pp. 16-23). The risks of lower US import demand and of a hard landing of the dollar were mentioned, but there was no functioning global governance mechanism in force to change the direction of policies in a gradual way.

Especially the US-China imbalances need attention. The **global flows model/the three flows model** highlights the issue and raises doubts about the alleged crisis of confidence coming basically from the financial markets (Mandel 2008). The Bernanke-Paulsen proposal in the US of infusing money by recapitalizing banks so as to replace the money lost in mortgages and to restore confidence in the system is considered widely as too simple and too superficial. Focus is in the three flows model on the fact of largely unsustainable patterns of cross-border flows. In the world economy we have a crisis of global real readjustments rather than a crisis of confidence. Three types of flows from the USA and other developed countries characterize the world economy for more than a decade (Mandel 2008), and so for many years of the third globalization wave: First, there are technology and knowledge flows to emerging economies that are associated with increasing productivity and living standards in countries like China. The second type of flows is in goods and services under the assumption that the US will always function like a consumer of last resort, resulting not only in rising living standards in the US, but also in rising employment and production globally. The third type of flows is then financial. The rest of the world (and mainly emerging Asia, Japan and the oil exporters) lent to the US consumers trillions of dollars to finance the trade deficit. The consumers benefitted by cheap mortgages and by cheap credit for consumer durables. Enterprises in emerging economies have borrowed heavily to build up production capacity. However, the three flows model worked as long as it was believed that the American consumer can finance the debt. However, real wages, also for more educated workers, fell in the US (and elsewhere), thereby eroding the debt repayment capacity of the households. Mandel (2008) asks: How to pay back rising debt with falling wages? Subprime mortgages for less creditworthy borrowers were marking the start of the crisis, but the impossibility of the whole system of global flows was discovered and destroyed the financial system. The structure of the global economy comes in as a source of the global financial crisis, and doubts increased mainly on the ability of American consumers to go on as in the past. Beside of financial architecture reforms and financial adjustment measures a real world economy readjustment process is needed. The three global flows have to be rebalanced towards more sustainable flows. Therefore, the fiscal stimulus programmes of the OECD countries, to compensate for the private sector credit weakness, and the real productivity gains of the emerging economies give hope that the readjustment period can be shortened. Again, nothing occurred unexpectedly. All was clear, but the global governance mechanisms did not work.

Most important however, the three flows model implies also that for a rebalancing of flows the technology side has a key role to play. Technology production and technology transfer are key elements of globalization, and the role of multinationals is strong in exploiting commercial technology. The implication of the three flows model is that more is needed in terms of techno-globalization than exporting technology by various forms of technology transfers and supply chain management in the North-South context. The multinationals, especially from the US, but also from Japan and Europe, have exported the commercial technologies in the form of production and consumer technology, but now they have to start again with technology-based competition in the North-North context of the OECD world, by a new round of innovation-based competition for new products and services. Rearranging the innovative capacity of the US, but also of Japan and of Europe, will relieve the world economy of big problems – growth, structural change and productivity problems on the one side, and debt, stabilization and instability problems associated with the global imbalances on the other side. Reorientation and reconstruction of the US innovation system are needed to balance again knowledge production and knowledge diffusion in the leading economy, but also in Japan and in Europe. Technology transfers to Asia and other emerging economies have taken place inside and outside of global production chains which were led by US companies. American companies have also pressured for the restrictive TRIPS agreement in the WTO framework. However, if the "triadic patents", registered in the US, in Europe and in the Japan, or other patents with high potential value are not used for new product development and for new production technology, the potential of them for regaining competitive advantages in OECD countries is lost. Reforming the US innovation system and the TRIPS agreement are therefore other governance issues being of importance to overcome the current world economic crisis and the imbalance with regard of the three flows. Especially for employment creation reasons this turnaround is required for developed OECD countries. Already in the 78th BIS Annual Report (for 1 April 2007 – 31 March 2008) it is argued that the "difficulties in the subprime market were a trigger for, rather than a cause of, all the disruptive events that have followed" (BIS 2008, p. 9). More than this, ".., these facts also suggest that the magnitude of the problems yet to be faced could be much greater than many now perceive" (BIS 2008, p. 9).

The story does not end here. The **global shift model** is also relevant (see Gokay 2009). Economic power has changed drastically in the world economy. Emerging economies have increased their share in the world output considerably, but without reaching similar changes in the collective decision-making machinery. The G20 meetings since the outbreak of the world economic crisis are the beginning (as the former G20 meetings were less relevant for changing overall global economic policies). Most important, the new economic weight of the emerging economies has brought with it a new global dilemma situation (see Gokay 2009). A global governance dilemma occurs, as the changing world economy has strong impacts on resource price cycles and on resource costs. The recent commodity boom signals the change (F&D March 2008). The increasing demand of the emerging economies for oil, gas, and for minerals – in a situation of slow supply responses and commodities being considered as alternative financial assets – increases the cyclical changes and the speculative expectations in the respective markets (see in this context Helbling/Mercer-Blackman/Cheng March 2008). The expansion of world output increases the prices because of scarcity and finance factors and the global slowdown is associated with large and severe declines of the prices. Therefore, global governance with respect of energy policy, climate change and sustainable resource use is part of a sustainable global economic policy, and not a luxury. It is part of a new international economic order to cope with these macroeconomic dilemmas. Increasing volatility of markets and vulnerability of countries due to the increasing resource scarcity is associated with explosive financial markets as financial speculation comes in. Explosive financial growth, global shifts and resource cycles interact in a negative way for the world economy. The initial epicenter of the crisis was the US, but it is from the outset a global systemic crisis of the world capitalist system (Gokay 2009, p. 8). Global economic governance therefore also means controlling the new oligopolies and monopolies that may emerge during the crisis – new energy, raw materials, banking and finance industry giants. New waves of cross-border takeovers may also come. Most important may be the fact that small and medium enterprises could further loose in importance, leading to a more severe employment crisis. Chances to escape the global economic crisis are there if global action reacts to the energy and fuels crisis, and if the BRIICS countries (Brazil, Russia, India, Indonesia, China, and South Africa) are becoming "Southern Engines of Growth" by developing their domestic markets and their energy and resource sectors. Additionally, OECD countries will have to react much more quickly than so far in their macroeconomic policy to the shocks emanating from the rapidly globalizing “Southern Engines of Growth” (see Herve/Koske/Pain/Sedillot 2007). Crucial for global governance in the current crisis will be the years up to 2014 (the period of the severe crisis 2009-2010 and the period of restructuring the world economy up to 2013/2014). The “window of opportunity” (according to Gokay 2009) for reconstructing global governance is also seen by many other writers (Boughton/Bradford, Jr. 2007; F&D December 2007; IWD April 2009). Global shifts, global imbalances, and global dilemmas have to be absorbed by creating the new global governance architecture within a period of around 4 years (see Gokay 2009). This is now the window of opportunity for required changes in the world economic order.

However, the story to explain the character of the current world economic crisis does not end here. The issues of **global income and wage inequality** and of **unequal global growth** come in. This brings in the dimension of increases in inequality and poverty, the dimension of insufficient employment creation and increasingly informal employment growth, and the dimension of wage moderation (being of particular relevance for those earners who have to repay mortgages and credits). Reports by ILO (2008a, b, c) and by OECD (OECD 2008, and from the OECD Development Centre: Jütting/De Laiglesia 2009) highlight the issues. Some results appear as a further and important cause of the current world economic crisis. The reports (ILO 2008a and OECD 2008) refer to the widening income inequalities and the poverty increases as a structural dimension of the current crisis. Both reports share the view that the benefits of the earlier expansionary period were unevenly shared. From the early 1990s to the mid-2000s, in about two thirds of the countries with data coverage the total income of high-income households has expanded faster than this was the case for the income of the low-income households (ILO 2008a, p. 1). The share of wages in total income has declined over the past decades in most of the countries, and the income gap between the top and the bottom 10 per cent of the wage earners has increased in most of the countries with data coverage (ILO 2008a, p. 1).

The economic growth period brought some employment gains, but also – when considered globally – a “weakening of the nexus between GDP growth and employment generation” (UN 2007, p. 14). Informal employment has grown worldwide, but in different forms and with different consequences (Jütting/De Laiglesia 2009). It would be far too simple to argue that this trend is caused by labour market rigidities; the evidence of wage moderation and of the growth of atypical employment in the OECD countries shows the opposite.

The two major reports by ILO and OECD show that the increase in inequality and the wage moderation have impacted on the crisis situation. Because of wage moderation, the households (not only in the US, but also in Japan and in Europe) became increasingly indebted and pressured by debt service to fund their housing investments and also consumption (ILO 2008a, p. 2). Financial innovations made this possible, and financial globalization has also been a major driver of inequality, although financial globalization did not deliver to the promises for enhanced growth and employment (ILO 2008a, p. 2; see also F&D March 2007; and Stiglitz 2000). Financial globalization has not delivered as expected as many assumptions on growth, allocation and stability effects are wrong (see Stiglitz 2000).

Avoiding excessive inequality increases and stabilizing employment are now the twin objectives articulated to avoid such crises in the future and to counter the current crisis. The management of the current crisis may have – if not reversed and readjusted – further serious repercussions on inequality, employment and poverty (see also Atkinson 2008/2009).

A look at executive pay increases in the US shows that between 2003 and 2007 the average executive had real pay increases of 15 per cent compared with less than 3 per cent for the average American worker (ILO 2008a, p. 3). Other indicators show a similar picture. The labour institutions have been widely successful in preventing even further inequality rises. However, labour, social and tax policies contributed to the negative trend. Increases of non-standard forms of employment have not only weakened the bargaining power of labour but have also increased inequality and poverty. Declining tax progressivity was not offset by social policy actions (ILO 2008a, p. 3). According to ILO, in this context a "crisis behind the crisis" had developed, a major socio-economic crisis with increasing inequality, unemployment and underemployment, rising informality, a rise of precarious working conditions, massive poverty increases, and highly unequal benefits from the growth that took place in the past (ILO 2008b). It is the particular combination of income inequalities, wage moderation and the global current account imbalances that fuelled the bubbles and resulted in the following crises (see ILO 2008c). Wage moderation in the US and elsewhere, with annual median real wage increases in the US by a mere 0.3 per cent during 2000 to 2006 (ILO 2008c, p. 4) and a weakened capacity to redistribute incomes by taxes and social spending, coincided with (and even fuelled) increasing global saving-investment imbalances and respective capital flows (ILO 2008c, pp. 3-4). This meant that households of low and middle income earners, especially but not only in the US, were financed indirectly by the households in emerging economies (ILO 2008c, p. 6). Any policy action, like the tightening of the monetary policy in 2006 in the US, led then to the burst of the bubble. The energy and commodity market price shocks also affected the crisis scenario because of putting an end to the easy money policy (ILO 2008c, p. 6). Unregulated financial markets, growing global imbalances, stagnant wages, and the high indebtedness of the non-rich households are at the roots of the crisis.

The OECD 2008 report (and an earlier study by Cornia 2004) gives a similar analysis with similar results, but for the period from the mid-1980s to the mid-2000s (and so covering the whole period of the third wave of globalization). The danger is great that not only growth was unequal in the past but that now the recession and the political reactions to the crisis may even lead to much more unequal results (see the warnings by Atkinson 2008/2009). A strong role of the state in redistribution and poverty alleviation, in the pensions and social security policy, in education policy and in family policy, especially with regard of child poverty alleviation, will now be needed to avoid inappropriate responses to the crises and future crises (Atkinson 2008/2009; but see also Stiglitz 2003).

Another and a final story is related to the **globally uneven and unbalanced economic reforms**. Whereas the US are blamed as having caused the financial crisis and now the world economic crisis, the particular role of Japan and of the European Union are often not emphasized. Japan's deflationary cycle and its structural crisis are not at all overcome yet. The situation of Japan is quite difficult, as the deflationary cycle ended after a long period just when the world economic crisis set in (UN 2007, pp. 87-89). Japan's "carry trade" (borrowing in Yen because of low interest rates, investing globally and then repatriating the money to Japan) is interconnected in various ways with the global financial crisis and with the appreciation of the Yen in times of an escalating economic crisis (Kirai 2009). New deflationary dangers are setting in and affect the revitalization of Japan. More important, a lot of structural reform policies are overdue (see OECD 2009a). The banking reform was not brought to an end so that the potential growth rate deteriorated (see Haugh/Ollivaud/Turner 2009). The crisis was far too long considered as a finance technical issue (Uematsu 1999), ignoring the primary role of the banks as selecting innovative entrepreneurs and projects (see Wohlmuth 2003).

The crisis of the EU structural reform policies was hidden behind a wall of declarations and the initial success of the Euro (see the very critical evaluation by Laurent 2009). However, much more was expected; the Euro should have become an alternative to the dollar in all important functions that international money plays. In reality, the current crisis shows the particular weakness of the EU and the Euro currency zone – slow and uncoordinated structural changes, lack of coordinated fiscal policies, lack in responses to the demands of globalization, lack of convergence and synchronization of national innovation and financial systems (although our studies have shown that national financial and national innovation systems must correspond to each other; see Wohlmuth 2000, 2003). Most important, there is no coordinated supervision of financial markets in Europe and only a slow progress of integration of these markets (Lawson/Barnes/Sollie 2009).

The complacency in the Euro Zone is now seen as a great problem in times of crisis. The years of favourable development were not used for more integration, coordination and structural change so that even the danger of a collapse of the Euro Zone is in the debate (see IWD March 2009, pp. 4-5). Vigorous EU reforms in fiscal policy, in structural policy, in regional development policies, in social and poverty alleviation policies, in education and training policies, and in research and innovation policies are overdue (see also OECD 2009a). Reforming policy coordination and decision-making procedures along the lines of the European Constitution are important tasks. The highly uneven development within the EU is exposing the whole Union in times of crisis and even endangers the Eurocurrency system. The failure in the EU of developing, integrating and supervising financial markets can definitely be seen as a cause of the current crisis as much needed changes in the world finance and monetary system were delayed (see the evaluations by OECD 2009a). A strong Euro based on an integrated development of financial markets in Europe would help to stabilize the investment portfolios and the investment strategies of private and public holders of foreign exchange.

In this context of overdependence on the US dollar and on US import demands, it is difficult to imagine how the South can act as an engine of global growth (see Desai 2008), despite of courageous reforms that have been undertaken in the South. The BRIICS countries (Brazil, Russia, India, Indonesia, China, and South Africa) and even the SANE countries in Africa (South Africa, Algeria, Nigeria, and Egypt) have achieved a lot of structural change. However, China could have done more in three decades of reform with regard of social and labour market policies (see Bass 2007). Regrettably the emerging economies and many more developing countries were left out of the world economic order negotiations for too long. The new G20 is a start, although many developing countries are excluded.

The uneven and unbalanced pace of reforms in the world economy affects the benefits from globalization to be reaped and the efficacy of the escape strategies from the world economic crisis. Japan in the context of Asia’s regional integration and Germany in the context of EU’s integration have to consider all these issues in their efforts to reconstruct their reform policies. They are advised to push for more reforms at national and global level.

2.3 Unbalanced Progress of the Globalization Dimensions and the Missing International Economic Order

The five dimensions of globalization (trade globalization, finance globalization, techno-globalization, globalization of labour, and globalization of value chains) advance from different levels and at different speed (see Wohlmuth 2004, 2007). This causes problems for world economic policy as these five dimensions interact in effects and in cumulative outcomes. Techno-globalization affects trade globalization in various ways, especially by keeping trade structures and trade logistics dynamic and by advancing economic structures. Trade globalization however advances techno-globalization by exchanges of goods and services that are diffusing knowledge. Techno-globalization advances globalization of labour, especially by new communication and information technologies. Globalization of labour, trade globalization and techno-globalization are impacting on the genesis and on the workings of the global value chains.

Even at the level of a dimension's sub-groupings (like trade globalization for goods and for services) differences in level and in speed are there and have to be considered. Trade globalization in goods has progressed much more than in services. What does this mean for policies to respond to globalization, to the world financial crisis, to the world economic crisis, and to the world employment crisis? All these differences in level and speed lead to tensions – trade conflicts, conflicts about immigration and the use of labour services in services trade, tensions over production relocation (outsourcing and offshoring), tensions about technological protection and diffusion, etc. These tensions have to be managed. If the international economic order is not adaptive, we will see that these tensions are cumulating. Many international economic problems are caused by uneven advances of techno-globalization, financial globalization, trade globalization, globalization of labour, and the globalization of value chains, but the international economic order did not work so as to mediate these conflicts. The world economic crisis is also the result of this gap. WTO reform is blocked; discussions about a reform of TRIPS are stalled; for the globalization of labour to work properly much more international and regional agreements on labour movements are needed; so far we have only some bilateral agreements on migration; there is no global supervision of financial markets; there is no global framework on direct investments (MAI), and no global completion policy. Many other examples can be given.

There is a huge gap in the UN system with regard of global macroeconomic policy coordination as the ECOSOC is not equipped to deal with global business cycles, global macroeconomic policies, and global employment policies. Neither is the ECOSOC equipped to deal with long-term aspects of globalization. A close look at the five dimensions of globalization shows that it is necessary to build a new international economic order by incorporating representative global institutions for these five dimensions in an integrated way. First of all it is necessary to assess the limited scope and the character of international economic policymaking as it exists today (see Nayyar 2002; and Birdsall 2002). Just now is the time to make such reforms (see IWD April 2009). The production of international public goods, such as financial safety and economic stability, is therefore quite limited; also other public goods are in scarce supply, such as transparency with regard to technological protection and diffusion, transparency with regard to trading rules, transparency with regard to labour movements, and transparency with regard to the workings of global value chains. Developing countries are – in contrast to developed and emerging countries – left out of the G20 negotiations, and are not part of any discussion about the reform of the UN system. Their voice has to be heard and their proposals have to be taken seriously. Globalization is otherwise limited and unbeneficial for them – because of the digital and technological divide, because of the insufficient trading capacity, because of the vulnerability in all finance matters, and because of the gap in regulations on labour movements affecting the poorest countries.

A World Financial Authority was demanded again and again since the Asian crisis (or even earlier) to coordinate macroeconomic policies, to supervise global banks and finance institutions, and to regulate global financial markets; it is demanded now again (IWD April 2009). However, it is still not clear if and how and when it will emerge. The world financial crisis is an example of how the uneven progress with regard of globalization dimensions works through the global system. Unregulated and explosively growing financial markets have allowed it to finance households' consumption and housing investments in times of wage moderation, although the debt repayment capacity of more and more borrowers was reduced.

The five major globalization dimensions must be represented by international organizations with a strong mandate, and structure and functions have to evolve in a dynamic fashion. An empowered WTO (with a fundamental reform of TRIPS, but covering also marine transport and safety issues from IMO) needs some extensions to cover all issues of trade globalization, especially also trade capacity building for poorer countries; but it also needs new competencies in raw materials and energy trade, in competition policy and in direct investment policy. A new World Financial Authority (WFA) is needed for the supervision of global financial markets and for macroeconomic policy coordination to follow the trends in financial globalization (incorporating IMF, BIS and FSF mandates). A new organization is needed to cover all the issues of techno-globalization (covering WIPO, UNU, UNESCO, UNITAR mandates, and the information and telecommunication issues as well as the digital divide issue by ITU and others). A new type of Global Labour and Employment Organization is requested (to cover ILO for labour and employment issues, UNFPA for population issues, UNHCR for issues of refugees, and IOM for migration issues). A new Development, Humanitarian Affairs and Environment Organization is urgently needed to cover the issues from so many development organizations (World Bank, UNDP, UNCTAD, UNIDO, FAO, UNEP, WFP, UNICEF, WHO, etc.). Thereby structural convergence can be achieved. A new type of OECD/G20 grouping can handle all types of corporate issues and corporate standards with regard to the role of the multinational corporations and the global value chains. A new type of ECOSOC with a strong mandate can integrate these six organizations.

Globalization therefore also means that rapid spillovers of positive and negative economic impulses take place and that a fast transmission of crises and tensions occurs so that there is no alternative to rapid institutional change in global governance mechanisms. Global governance institutions have to be adapted to the globalization trends. A new ILO may be necessary to cover not only labour, employment and social standards, and the trends of informal and precarious employment, but also to cover all types of employment issues in times of globalization (with outsourcing, offshoring, relocation in goods and services and along the global value chains), social welfare strategies, and migration, population and labour market policies and reforms. Global governance has to be adapted continuously to the dynamics of globalization – to all the dimensions, and has to be adapted to the respective speed and to the respective level of globalization. A global labour market is emerging (see IMF 2007a) and this trend requires a global organization to deal with labour, welfare, employment and migration issues in a more comprehensive and prognostic way. The current system of global governance is obsolete (see Boughton/Bradford Jr. 2007; IWD April 2009). The highly fragmented and specialized system of today, the lack of interaction and integration, and the unresponsiveness to new task and functions give evidence that the system is no longer appropriate. The speed of transmission of the current world economic and financial crisis to employment and labour markets makes it clear that new action is required. The globalization of labour – by trade in goods and services, by new forms of offshoring and outsourcing, by new waves of immigration, and by new types of global value chains – is an issue of greatest importance for global governance. Techno-globalization, globalization of labour, trade globalization, finance globalization, and globalization of value chains interact dynamically and cumulatively and require a new global governance mechanism. All the dimensions of globalization affect today income and wage inequality, wage and poverty structures, and wage and poverty levels (see IMF 2007b). Techno-globalization may have the strongest impact in the years to come, increasingly also affecting the labour markets for the skilled workers.

Japan is a good case to study the link between globalization and the labour market. There is a strong link between the share of wages, import penetration, and the relocation of economic activities to other countries. The wage-setting behavior in the country is very much influenced by globalization. The structure of the Japanese labour market is impacted strongly by the relocating industries (see BIS 2006, pp. 18-21). Globalization has also a strong impact on the forms of employment growth in Japan, in terms of core and periphery labour markets. For Germany, we also see a strong link between globalization and labour markets (see BIS 2006, pp. 18-21). The new wave/or phase of globalization may intensify these effects and may extend it to all types of skilled labour (see Snower/Brown/Merkl 2009). The employment effects of these new forms of globalization may however be quite different for OECD countries and may be quickly changing so that a unified reaction to these trends is not possible (see Molnar/Pain/Taglioni 2007). Obviously the US has more positive employment effects than Japan and Germany when we look at these new forms of globalization.

The projected decrease of the GDP and the projected increase of unemployment rates in Germany and in Japan up to 2010 (see IMF 2009, p. 65) highlight the rapid transmission from the world economic crisis to growth and employment. Japan and Germany are well advised to push for new global governance structures. This is in their interest as export-oriented nations and as winners from globalization. Both nations can benefit from a globalization process that is governed by new global mechanisms, coordination mechanisms that are adapted just now to the new (fourth) phase of globalization.

3. The World Economic Crisis and the Global Employment Crisis: Implications for Japan and Germany

3.1 The Speed of Transmission to Employment and Incomes

The transmission channels, the speed and the width of the transmission of the world economic crisis to the global employment crisis are astonishing and give rise to pessimism. One economic sector after the other is affected. The high-wage sector of the financial industry was affected first, mainly in the US and in the UK, with losses of 300,000 jobs so far or even more. Then the transport sectors, the automobile industry with all the suppliers and the services around the sector were affected; all sectors related to leasing financing, tourism and consumer- and producer-related services followed. One country after the other reports huge employment losses. China is among the countries which have lost millions of jobs within months while other millions were pushed into even more precarious working conditions (why this is so after three decades of reforms can be read in the analysis by Bass 2007). Countries with high export-orientation, like Germany and Japan, but also the US and the UK report increasing losses of jobs. China and India as well as other emerging countries recorded tremendous losses of jobs, and the shutdown of numerous companies has occurred. Developing countries followed in terms of employment losses because of the decline of demand for raw materials and declines of services exports. By the way of “salvation plans” it was tried in industrial and emerging economies to counter these effects on employment, as the employment losses have further negative impulses on incomes, on trade and on employment (see OECD 2009b; Coats/Hutton/Razzanelli 2009; and IMF 2009). The whole machinery of globalization is affected, and the globalization itself determines the speed of transmission. ILO (2009) has already given some details and has presented some projections. There is an obvious contrast to the Asian Crisis of 1997 when negative employment effects were more localized. More and more sectors and countries are affected now; concern is also about future employability of workers, as an extended period of unemployment will make it more difficult to get them re-employed into productive jobs. A life between "low paid insecure work and outright unemployment" (ILO 2009, p. 7) might follow, especially for the youth. According to the ILO estimates, already between the years 2007 and 2008 there was an increase of the estimated number of workers in the world not being employed – up from 5.7 % to 6.0 % per cent (ILO 2009, p. 7), and for 2009 and 2010 further sharp increases are expected (see the projections in IMF 2009).

Global employment losses not only affect the number of the unemployed, but also – and this may be an even greater problem – the number of the working poor (those earning less than 1.25 $ a day are considered as extremely poor, and those with less than 2 $ a day are considered as poor) and those in vulnerable employment positions (unpaid contributing family workers and own-account workers) are increasing fast. Especially in developing countries (but increasingly so in emerging and developed countries) we observe an increase in the number of such workers with low and insecure employment, with low earnings and low productivity (ILO 2009, p. 7). This means that the Millennium Declaration targets cannot be met. Already at the end of the year 2008 (in the US already at the end of 2007) the negative labour market and employment effects of the global crisis were accelerating sharply. Now we see the world economic crisis deepening and widening, and therefore the global jobs crisis will worsen rapidly (ILO 2009, pp. 9 – 10). It has become a global employment crisis as the world financial and economic crisis has affected directly the industrial and the emerging economies, but indirectly also the developing countries (by the way of declining demand and prices for raw materials, declining credit supply and direct investments, and shrinking aid commitments). The global jobs crisis also means that the conditions for earning wages and the overall working conditions may worsen. According to the ILO (2009) the global decline of the probability for decent and productive work will increase poverty and social instability. It is therefore necessary to fight the "slowdown spiral" in terms of employment by an internationally coordinated effort just now. It is not possible to wait for more accurate labour market data so as to assess the pace, the forms and the scale of the problem more precisely. Global action is needed despite of the limited information (there is a data gap even for some developed and emerging economies). It is not possible to anticipate fully the impacts of the many "crisis salvation programmes" on employment and labour, but a collective decision-making process is requested. However, there are doubts that the programmes meet the criterion of collective action (Coats/Hutton/Razzanelli 2009). The economic salvation programmes show different approaches and have different impacts on employment – by helping banks and companies, by investing into infrastructure, by spending for strategic sectors such as education and research, by supporting consumption and investment via tax cuts, expenditure increases, and guarantees. It is not clear how quickly these measures will pass through, and how monetary and fiscal policy will work in such a crisis. Governments and central banks are experimenting with new instruments for economic impulses to reach quick reactions by lenders, investors, traders, and consumers. However, the criterion of collective action is missing, and in times of globalization this is bad news.

The world has seen the largest year-on-year increase of the number of the unemployed from 2007 to 2008 since 1989, an increase by 10.7 million people (ILO 2009, p. 11). From a global figure of 190 million people being unemployed in 2008, the global number of unemployed youth is 76 million, and it is on the increase. The global employment-to-population rate has decreased what means that the employed people have to shoulder the survival of many more dependent people. The boom years were not used to address vigorously the severe global youth unemployment problem by labour market action and by structural reforms (ILO 2009, p. 12). Only in some regions some progress was recorded on this issue. Global employment creation fell to only 1.3 % in 2008, with Asia gaining in employment creation, but with the "Developed Economies and European Union" region showing already a trend of negative employment creation (ILO 2009, p. 12). It can be expected that net employment creation may be negative globally in 2009. Sector-wise the increase of the services sector as an employment sector (with a share of 43.3 % of all employment in the world by 2008; ILO 2009, p. 12) means that this sector, which was growing fast as a result of globalization, may be hit severely by the world economic crisis if it cannot be brought quickly to a halt.

Worrisome is also the fact that until the year 2007 a downward trend in "working poverty" and in "vulnerable employment" was witnessed, but now there is a major break with this highly positive development (ILO 2009, p. 13). During the years 1997 and 2007 there was a remarkable decrease of the share of the "working poor" in extreme poverty in global total employment (measured as earnings of workers of less than US$ 1.25 a day, defining the extreme poverty measure, and compared to US$ 2 for the working poor) by 12.1 % since 1997 to the figure of 20.6 % in 2007 (ILO 2009, p. 13). Sub-Saharan Africa and South Asia are the regions with the highest rates of extreme working poverty, and according to the US$ 2 working poverty level four fifths of the employed in these two regions are to be classified as working poor (ILO 2009, p. 14). The world economic crisis impacts now on these regions severely.

Considering "vulnerable employment", we observe that more than half (in 2007 50.6%; ILO 2009, p. 14) of the total global employment of around 3 billion people (in the year 2008) was in such employment forms. The small decline of the high share in 2007 since 2006 may now be reversed soon because of the dimensions of the crisis. Vulnerable employment means that these people do not enjoy the ILO conditions of decent work (with adequate pay, fundamental rights, and some security in case of job loss, illness, etc.; ILO 2009, p.14).

The "Developed Economies and European Union" region has seen the largest increase in unemployment by 0.7 % to 6.4 % in 2008 what marks a sharp divergence from the trend since 2002 (when the rate had with 7.4 % the highest value in the decade; ILO 2009, p.14). Women are mostly affected by the worsening unemployment and the negative employment creation situation, as job creation in the services sector has slowed dramatically in 2008 due to the crisis (ILO 2009, p. 14). The global employment crisis affects the developed regions so much because of their degree of openness and integration; as ageing societies they need employment creation to secure living standards and welfare systems. Declining employment to population ratios will increase the burden for the welfare systems. Labour market stresses come from globalization and from technological progress, and now from the global crisis. Labour market pressures are on the increase, especially if the global employment crisis cannot be overcome quickly. There is a demand for more adaptability of labour markets and for a particular combination of flexibility and security. Demographic concerns, human capital concerns, growth and stability concerns, and social security concerns interact in a dramatic way.

The three scenarios presented in the ILO's Global Employment Trends 2009 (optimistic, less optimistic, and pessimistic ones) show an increase of unemployment from 2007 to 2009 between 18 million to 51 million people, depending on the scenario. Such an increase will impact on aggregate demand and will result in further employment losses. The trend for the "working poor" could see an increase of the share of poor workers in total employment, an increase of 1.5 % to an increase of 4.8 %, (depending on the scenario). This may mean that again more than half of the global labour force is unemployed or counted as "working poor"

(ILO 2009, p. 24). Also for the share of “vulnerable employment” the pessimistic scenario assumes that 52. 9 % of all global workers (up 2.3 % over 2007) will be in such a precarious situation of employment. According to the scenario, the improvements in decent work conditions since 1999 would be wiped out completely. The whole picture of unemployment, working poverty and vulnerable employment shows that we are reaching unprecedented levels.

For the US, the steep increase of employment losses is recorded monthly by regions and states and by types of employment (see USDoL, Bureau of Labor Statistics since December 2007). US lost since December 2007 around 4.5 million jobs (OECD 2009b, p. 70). The flexibility of politics towards markets (of product and labour markets) in the US can probably speed up adjustment to shocks although the extent of the shocks may be higher with such a degree of flexibility (see OECD 2009b, p. 49). This shock has now come in terms of the economic crisis and the huge employment losses. However, because of the inefficacy of monetary policy in the current crisis speedy adjustment to the huge shock is blocked so that the huge fiscal stimulus package is the last option which had to be enacted quickly in the US. On the basis of the statistical instruments for assessing quickly regional and state employment trends, the US government can timely react to new developments (what it has done with the huge Salvation programme with a fiscal stimulus of 5.5% of the 2008 GDP).

For Japan and Germany, the employment outlook is now very unfavourable (see IMF 2009, p. 65), because of the export-orientation of the two countries, because of the expected declines of the GDP for 2009 by around or more than 6 %, and because of the internal and/or the external difficulties to decide quickly on adequate salvation programmes. The virtual “collapse of the world trade” (a term used by OECD 2009b, pp. 20-23) is a major cause of the employment losses, and it cannot be explained alone with trade credit problems; new globalization trends based on trade within global value chains may be another factor. Japan projects an increase of unemployment by around 2 million people or more, and Germany foresees the unemployment figure reaching 4 million people or even surpassing the number of 5 million people.

Japan’s exports fell by 46 % in January 2009, and in the fourth quarter of 2008 Japan’s economy contracted by 12.7 % from the year-earlier period. The employment prospects of trade-dependent Japan so became worrying (see Global Crisis News, Monday, April 13, 2009). The Lehman Shock of Autumn 2008 brought first job cuts for the non-regular employment in manufacturing industries. Employment adjustment is however spreading to regular employment in many more sectors of the economy because generating sufficient domestic demand to compensate for the decline of exports is difficult in this situation. It may be that 2 million jobs (or even more) will be lost over the next few years (JRI 2009, p. 1). Downside risks are however great. The employment crisis leads also to ideas in Japan such as banning agencies that are supplying temporary workers or workers paid on a daily basis. It is however considered quite possible that any isolated tightening of the non-regular jobs sector – if not included into a structural labour market reform programme – will just lead to a new overseas relocation activity by industry. Social safety nets are weak for such non-regular workers, and the social situation will aggravate severely when more dismissed regular workers are re-employed as non-regular workers. This was not the case for a long time in Japan (see Yatsubayashi 2002), but the employment crisis may change now the picture. The number of non-regular workers heading a household is increasing, so that the social consequences of the employment crisis may become severe. Structural reforms are recommended for decades now to make the economy less dependent on external demand and on some few high productivity sectors (see Heizo/Ryokichi 1998). A deep and integrated reform of the tax system, of the social security system and of the minimum wage system are proposed to reestablish social safety nets under the new conditions, thereby resolving also the problem of the segmented (dual) labour market. A complete re-adjustment of the labour market is considered necessary, and changes are proposed since a decade so as to respond to the demands of globalization (see Miura 2001). However, in times of the employment crisis and a worsening budget situation such a reform process will not be easy. Already on January 7, 2009 the Ministry of Health, Labour and Welfare (MHLW) has announced a "new comprehensive employment strategy" (MHLW 2009), and on Monday, April 13, 2009 it was announced by the Japanese government to spend US$ 15.6 billion on jobs (see Global.nytimes.com, 2009). This programme intends to protect jobs and to support the unemployed, and it is part of a series of fiscal stimulus packages (see OECD 2009b on the fiscal packages for Japan and other OECD countries in comparison). However, it may be seen if these programmes really go into the direction of a fundamental labour market reform.

The worst problem is now that full-time regular employment (core employment) is also declining. Japan's unemployment rate in January 2009 of 4.1% could surpass quite soon the so far highest rate of 5.55% of the year 2002 (see the projections to the year 2010 in IMF 2009, p. 65). The New Employment Strategy by MHLW focuses on the policy issue of the decline of the labour force (by compensating measures for the old, the youth, and the women to increase their labour force participation) and on the policy issue of the declining employment to population ratio (occurring during the crisis). Both trends could make a new growth phase in Japan more difficult. Policy packages to enhance social security systems and functions are therefore proposed – five plans are mentioned (MHLW 2009). The plan components are strongly focused on issues like non-regular employment; severe unemployment; women and youth; supporting small enterprises and regions; actions for job leavers; vocational training measures; employment adjustment subsidy programmes; re-employment support programmes; and legal measures to regulate the sector of the dispatched agency workers. Reversing the obvious erosion of social and employment security is part of the programmes, although it is not yet clear how structural policies and long-term strategies are the base for these programmes and interact with them.

The situation in Germany is somewhat different. Based on a rather comprehensive system of social security, a more diversified economy, and some labour market reforms which have taken place in recent years the employment crisis became visible some months later. Unemployment increased however in January 2009 more than in the two years before. All the three key indicators are deteriorating (unemployment is rising; social security employment is declining; and labour demand is reduced). Affected by the employment crisis are especially but not exclusively construction, manufacturing industries, machinery production, finance and banks. It was argued by the German Labour Minister that at least 250,000 new unemployed will be there and that the figure of 4 million unemployed could be surpassed (N24, 2009). Now estimates of more than 5 million unemployed workers circulate. Downside risks are mentioned again and again by OECD (see OECD 2009b) and by IMF (2009). Reactions to the employment crisis are related to sectors (especially the car industry), by introducing various demand-stimulating measures; to an intensive use of instruments like short working arrangements (Kurzarbeit), by extending the payments for workers during the working break; and to vocational training and counseling measures during the crisis period. Also additional social security payments and tax wedge issues play a role in the discussion. In 2006 net wages fell to a 20-year low reaching the 1986 level (DW-World, 2007). The difference between cost of labour for the firms and net wages paid to the workers is considered as too high. However, these issues are part of a longer-run strategic discussion about the future of the financing of the welfare state in Germany. The world economic crisis and the global employment crisis give rise to new social and economic questions (tax wedge, tax reforms, minimum wages, etc.). Employment programmes are covered by the fiscal stimulus packages I and II that emphasize public investment, assistance to the unemployed and to economically weak households, tax cuts and subsidies (see OECD 2009b for a comparison of such packages in OECD countries). Because of the “collapse of the world trade” there will even be need for more support from the side of the German government (see also the recommendations by OECD 2009b) to avoid a further worsening of the employment situation and to sustain the European and the global recovery.

However, as it is a global employment crisis, the national and the G20 programmes have to be implemented collectively. So far, the criteria proposed by the IMF – to launch coordinated fiscal stimulus programmes – were not met. A G20 collective action could produce a greater impact in terms of recovery and employment protection, would mean assistance from stronger to weaker OECD countries and Emerging economies, and would generate more positive expectations (see Coats/Hutton/Razzanelli 2009). The G20 meeting early April 2009 in London called “The London Summit 2009 on Stability/Growth/Jobs” brought some results, but not a collectively agreed upon plan. The recommendations and results remained far below the requirements for collective action. Ongoing globalization forces and the current world economic crisis would have demanded more – not national plans that were coordinated rather superficially, but a global plan emphasizing the responsibility of all nations for a quick global recovery. Countries with more room for fiscal action such as Germany could have done more (because of the still relatively favourable fiscal situation and because of the economic interest to overcome quickly the “collapse of the world trade”). The argument is that all countries could benefit if Germany would do more in terms of collective action rather than emphasizing again and again the strong impact of its automatic stabilizers to bring back the German economy on track (this is a rather nationalist argument in times of globalization).

It is not enough to have timely, targeted and temporary fiscal stimulation programmes. Much more is needed – they have to be timely, large, lasting, diversified, contingent, collective, and sustainable (Coats/Hutton/Razzanelli 2009, pp. 39-53). There are doutbs how far the principle of collective action was met. There are also doubts about volume and sustainability (see OECD 2009b). The fiscal volumes are too small, and only the US had a more ambitious programme that also may prove to be too small. Unforeseen events (contingencies) have to be considered (so that further actions may have to be planned and announced). Not all governments have developed debt reduction plans and fiscal correction commitments for the future so as to ensure sustainability. An increase of the scope of automatic stabilizers should be agreed upon by the G20 (changes in the systems of unemployment benefits, of short-time working arrangements, and of higher payments to the poorest families, etc.) in order to prevent future crises. More active labour market measures are also proposed (see OECD 2009b) to harmonize short-term and medium-term crisis action with a long-term growth strategy. Credibility of the G20 action will follow only if collective, contingent and sustainable actions are proposed and implemented.

Japan is in a somewhat difficult situation, with general government gross financial liabilities being far higher than the OECD and Euro Zone average levels (for Japan at 170 per cent of the GDP; see Coats/Hutton/Razzanelli 2009, figure 7, p. 51). However, also Japan can meet the criteria of credibility and sustainability by arranging the current crisis action along the long-term needs for structural reform. It is therefore highly questionable whether the G20 London meeting has met the test of finding global solutions to global problems in times of globalization.

3.2 Erosion of Social Safety Nets and of the Global Poverty Alleviation Strategies

Programmes are sustainable if the repercussions of the crisis for developing countries are considered. In developing and emerging countries, in times of crisis the poor have to work longer and harder and under further worsening conditions of work (ILO 2009, p. 20). Many people, also in China and in India, lose their wage and salary jobs associated with a minimum of social security. There is no fallback position with any form of social security. New entrants to the labour market have a longer time to wait for a position with a minimum level of social security; they have to join the ranks of the "working poor" and of "vulnerable employment". Many people living still above the poverty line will fall to a living standard below the poverty line. People with an income being just 5-10 % or 10 to 20 % above the poverty line will fall back. South Asia is the region where the largest increase in "extreme working poverty" will be reached (in a region lacking minimum social security provisions). The increases of the numbers being in vulnerable employment in the worst case scenario of ILO would mean that the favourable developments of the recent years are reversed, and that a huge rise in the number of vulnerable employment would materialize. A level of 52.9 % of all the globally employed people being in vulnerable employment would be reached by 2009 (ILO 2009, p. 23). The consequence is that the same unsatisfactory level as in the year 1999 would be reached again, so that 10 years of progress are eliminated by the crisis. The increase of the numbers of the unemployed and of the working poor means that more than half of the global labour force are unemployed or counted as working poor (ILO 2009, p. 24). The trend towards informal working arrangements is increasing worldwide, and informal employment is becoming normal (Jütting/De Laiglesia, 2009).

The erosion of social welfare nets and provisions and poverty alleviation arrangements and institutions goes further as income and public revenue losses will make it more difficult to sustain existing social welfare and poverty alleviation institutions in developing countries, especially in the LLDCs. Also ODA may decrease so that support for such systems will additionally be reduced. In order to compensate for these developments, more direct budget support will be necessary to sustain such programmes and institutions. However, there is also concern about developed countries in this regard. Atypical employment and precarious work contracts are spreading. Informal working arrangements are expanding so as to pass by normal working contracts. An example is the phenomenon of "false self-employment" (Jütting/De Laiglesia, 2009, p. 12).

What about Japan and Germany? Also in these two countries the world economic crisis and the global employment crisis will impact more on the poor. For Japan, the situation seems to become particularly serious – if not pro-poor policy changes follow soon. The level of social spending is low, social spending is concentrated on the elderly, and social benefits are less concentrated on low-income households than in other OECD countries (see Jones 2007). Gross social spending (in per cent of the GDP) is in 2001 at 16.9 % compared to 27.4 % for Germany and 20.6 % for the OECD average (Jones 2007, p. 17). Around 70 % of the social insurance programmes are going for elderly persons. Livelihood protection and family benefits for the children, the young, the women, and the families reach only 5.5% of the total public spending. These are the groups affected mostly by the world economic crisis in Japan. The lower the income, the less social transfers are given in Japan, so that we see a weak distributional impact of the social transfers on the households. Expenditures for the unemployed and for active labour market policies are traditionally low (a low proportion of the unemployed receives benefits). The rise of income inequality was accompanied by a rise of the relative poverty rate (an income less than 50 % of the median income) for the total population from 12.0 % in the mid-80s to 15.3% in the 2000s (all data from Jones 2007). This is a much higher increase than for the other OECD countries. For the total working population we have relative poverty rates for Japan rising from 11.9 % in mid-1990s to 13.5 % in 2000s (compared to 7.2 % and 8.0 % for Germany). For Japan this means that the social safety nets and the poverty alleviation programmes may turn out to be highly inadequate to cover the basic income level of the poorest people during the crisis. The need for much deeper social welfare, taxation and labour market reforms is becoming increasingly pressing. The sharp rise in wage dispersion has to do with the dual labour market which is responsible for the vast increase (see Jones 2007 for all these data). Social transfers are less targeted on the poor than on the average in OECD countries (although also in Germany there is such a gap emerging).

For Germany, we see also an increase of the poverty rate of the working population, but more so an increase of the income inequality and of the overall poverty rate since 1985 (from 6 % to 11%, and for children from 7 % to 16 %). Since the year 2000 income inequality and poverty have increased more than in any other OECD country, with an increase surpassing the increase of the 15 prior years of 1985-2000 (see OECD 2008 on Germany Country Data). Germany is allocating 5.4 % of total household disposable income (HDI) in social transfers to the lowest quintile of the population, while Japan is allocating with only 2.7% much less than the OECD average of 4.6 %. However, also Germany is not performing well with regard of the quintile ratio (share of transfers to the lowest income quintile versus to the top quintile; Jones 2007, p. 22). The share of the working-age population receiving income-replacing government benefits in Japan is with 11.4 % lower than the relative poverty rate, compared to Germany with a rate of 22.0 % (Jones 2007, pp. 23 – 24). Most serious, 58 per cent of the working single parents are living in Japan in relative poverty (in the year 2000). The situation of working single parents in Germany is however still more favourable. The child poverty rate in Japan is with 14.3 % above the OECD average (Jones 2007, p. 25), but is now surpassed by the figure of 16 % for Germany (taking the OECD figures from OECD 2008; see above). Child poverty in Japan is however to a rate of 98 % concentrated in working families (with at least one earner). Support granted for working parents in their employment and a reduction of the social consequences of the employment and labour market dualism are therefore key policy issues for Japan. Overcoming the labour market dualism and increasing spending for the vulnerable groups are key imperatives for Japan’s social and economic policy changes. The tax system is also deteriorating the situation of the poor in Japan. Targeting social spending and reforming the tax system would help in the current situation more than discussing for years a general overhaul and strengthening of the Japanese welfare state, as such a fundamental reform cannot be financed in the near future (on all these data see Jones 2007, p. 26). We therefore observe a further erosion of the social safety nets and of the poverty alleviation programmes, resulting from the global employment crisis; it may affect the poor especially in Japan, but also some vulnerable groups in Germany.

3.3 Erosion of Labour Market Institutions

Because of the severity of the world employment crisis the danger is great that an erosion of labour market institutions takes place, so that structural change and adjustment in the economies could be impeded in the future. Labour market institutions are a complex set of interrelated and interdependent rules, ordinances and regulations on employment protection, industrial relations, social security, active labour market policy, and taxation of labour income. Also other rules and regulations play a role, such as regulations of product markets as they are affecting labour demand, regulations and barriers to labour mobility, those regulations affecting private households in their labour supply and in responding to labour demand, regulations on vocational and further training, regulations and barriers to international migration and integration, and regulations on the labour force participation of the young, the women, the older persons and the disabled. Labour market institutions are therefore a set of rules and rulings that give structure to the interactions and transactions on the labour market (Ochel 2005). Labour market institutions evolve in a longer term context and should not be changed, adapted, and made more flexible (less rigid) by ad hoc action and by hasty reforms (as this could harm the economy and the workers). The reactions to the world economic crisis and to the world employment crisis may affect this complex system if ad hoc measures and abrupt changes are introduced – such as unpredictable changes of short work arrangements, sector-wise employment and trade protection, abrupt changes with regard of immigration policies and international migration regulations, abrupt changes of the social security system and of employment laws, abrupt changes of active labour market instruments, etc. It is necessary to keep the systems intact during the crises and to refrain from hectic salvation and reform activity.

In both countries, in Japan and in Germany, we see that the complex system of labour market institutions is not always understood in public discourses, and that sudden changes are proposed without looking at the whole system and how it has evolved over decades. While the system of labour market institutions in Japan based on its "lifelong employment system" (see Yatsubayashi 2002; Bosse 1995; Weber 1988) is related to postwar reconstruction and export industrialization, the system in Germany with its emphasis on the "normal employment contract" has evolved in the context of the Soziale Marktwirtschaft and the demands by European integration and globalization (see Eichhorst/Marx 2009). While the Japanese system had some role as a model in Asia (see Kong 2006 for Northeast Asia), the German system had a role as a model in some parts of Continental Europe. Despite of these differences in evolution, Japan and Germany can learn from each other in their reform policies if the respective system evolution is known and understood (see Ono 2002 on mutual understanding and learning from each other). In the context of the current crises all the proposed and introduced measures should meet the test if they are conducive in the longer-run to take advantage from the ongoing globalization processes. It has to be seen that labour market institutions differ globally, that national systems of labour market institutions exist, and that it is not easy to compare and to measure the effectiveness of such institutions. Therefore, simple statements and assessments are misplaced; it is not helpful to characterize a system as overregulated or as too flexible (see Miura 2001 on the types and regimes of labour market institutions, and on the difficulties to fit in Japan and Germany). Assessments are too often biased and are often not based on comparable indicators and on adequate measurement (see Ochel 2005).

Therefore, it is useful to stick to the longer time path of reforms of labour market institutions even in times of the serious world crises, but to be open to short-term changes if they are guided by a long-term view on the labour market developments. An extension of short work arrangements may be good if it is not narrowly confined to certain sectors, if not open ended, if not administered in an ad hoc process, etc. Employment protection for sectors, such as the car industry, may be useful if some criteria are fulfilled (short-term measures, incentives for structural changes for the whole industry sector, measures that do not impede competition, trade and innovation, and measures that involve adequate forms of active labour market policies). Experiences with the consequences and repercussions of the employment crisis in US, Japan and Germany show that functioning labour market institutions such as in Germany can have a positive impact on the speed of employment losses, on the way the vulnerable groups are protected, and on the long-term competitiveness of producers by keeping labour near the labour market. Functioning labour market institutions can also help to overcome crises more quickly – systems with sufficient automatic stabilizers and systems that are promoting social consensus in collective bargaining are helpful. Such systems are supportive also at the global scale as they give more room for collective action in negotiations with other countries – about ways and means to attack the crises. Germany could have done more at the level of the G20 because of this strength.

Actions and reforms must always consider the system-wide effects – on employment protection, wage bargaining, training, taxation of labour incomes, and on active labour market policies, and so more "flexible" and more "rigid" provisions and rules may play a role and may interact (see Eichhorst/Feil/Braun 2008, p. 26). As single labour market variables should not be emphasized too much and as simple recommendations can be harmful, it is important that reforms and actions during the crisis period have always and from the outset the post-crisis period in mind. It is not so clear that all the programmes undertaken now in Japan and in Germany meet this test. The world economic crisis and the global employment crisis can change the structure, the pattern, the balance and the components of the labour markets and its institutions, especially if some globalization forces are strengthened, if structural changes are speeded up, and if new policy factors become important. In a positive way the term "erosion" means that the crises will not lead to completely new labour market institutions but to new forms of labour market adaptability and to a re-balancing of the various components of the labour market institutions, but by considering the path of development of these systems. Labour market adaptability to crises and to globalization forces can be realized with different degrees and forms of labour market flexibility in the context of the established labour market institutions (see on this open approach: Eichhorst/Feil/Braun 2008, p. 29). For Japan and Germany the overall adaptability of labour markets is important, not just the flexibility of a specific component within the established labour market institutions.

4. Challenges for the Reform of Labour and Employment Policies in Japan and in Germany

4.1 Assessing the Adaptability of Labour Markets

Labour markets are to be considered as a complex set of institutions. These labour market institutions determine the adaptability of the labour market and provide for different forms and patterns of labour market flexibility (Eichhorst/Feil/Braun 2008, pp. 26ff). There is not one form and one pattern of labour market flexibility that can be associated with successful outcomes in terms of growth, efficiency and employment. Labour market reforms relate to the need to adapt labour markets for structural change and for business cycle variations, and for responding to globalization. Adaptability of labour markets is determined by the complex set of labour market institutions but also by the prevailing views on labour market flexibility and the way how labour market and structural reforms reforms come along in a particular country. Different models of flexibility of labour markets are possible, and they all can lead to efficient employment outcomes and successful reform paths if they are in line with the labour market institutions. The system comprising all components of labour market institutions matters. Some more flexible and some more security-oriented provisions, some more flexible and some more rigid rules and regulations can be combined to an effective labour market model.

In order to assess the adaptability of labour markets, five steps are needed. First, the structure of the labour market has to be analysed. Second, the labour institutions have to be assessed in all their complexity and integration. Third, the prevailing models of labour market flexibility have to be made clear. Fourth, the design of labour market reforms in all their interest group complexities has to be made clear. Fifth, the structural and social reforms to complement the labour market reforms have to be assessed. We see that these five steps would require a huge effort in data gathering, in defining, classifying and analysing, in making concepts relevant for policies, in identifying value concepts for labour policies and the role of interest groups in propagating such concepts. With regard to these five areas we have huge gaps of knowledge, particularly if we try to compare labour market policies of countries such as Germany and Japan. However, such assessments are necessary in order to be able to design and to implement appropriate strategies to cope with the world economic crisis and to respond to the globalization forces. Some few remarks will follow on these five steps.

First of all, the **structure of the labour markets** has to be analysed to understand the adaptability of labour markets. We see that Japan is widely presented as a country with a highly dual, even a segmented, labour market, as a country with characteristics of an increasing dualism, derived from its dual production structure with highly productive sectors on the one side and low productivity sectors on the other side (see Heizo/Ryokichi 1998; Jones 2008). Japan is presented as a country with a rising proportion of low-paid non-regular workers, pushing down labour’s income share, limiting private consumption, despite record high overall profits in the (large, export-oriented) corporate sector (see Jones 2008, p. 5). Such a system raises efficiency concerns and doubts about growth and the future of the industrial structure, doubts about education, training and human capital formation, doubts about social security provisions and poverty alleviation strategies. The rising share of non-regular workers also leads to the question if intended cost savings and expected employment and labour market flexibility are really coming forth from this system. According to survey evidence, the problem may be that a growing share of the labour force is trapped into low-paying jobs with little employment security, limited coverage by social security, and also limited access to training (Jones 2007, 2008). The life employment system seems to be in erosion, also because of the lack of labour market reforms. The evolution of the system itself can only be understood in the context of Japanese industrial growth; however in times of globalization a re-adjustment is considered necessary. The Japanese programme on jobs (Global.nytimes.com, 2009) launched recently may be an indication of the serious situation of the system, aggravated by the current crisis.

In Germany, the labour market is considered, even praised, as a “dual flexibility” system, with a core labour market and a labour market “at the margin”. The core is represented by a normal employment contract (“Normalarbeitsverhältnis”), with a permanent full-time job, with strong dismissal protection, with integration into status-protecting social insurance, and with collectively set wages above the subsistence level (Eichhorst/Marx 2009, p. 3). However, the reality has changed in recent years. The new forms of employment (part-time work, fixed term contracts, dispatched agency work, and mini-jobbing) have increased in importance and now cover around a quarter of the labour force in Germany (Lang 2009). A dual labour market has developed, but it may be argued that it is not segmented to the same degree as in Japan. The type of labour market reforms in Germany, to avoid outright market segmentation, may explain the difference. The evolution of this German model of a “normal employment contract” is an outcome of economic history, reflecting the industrial growth of Germany. The pursued labour market reform path was gradual, but not fundamental. The strategy was threefold: keeping the core labour market stable and productive; strengthening the role and improving the conditions of work “at the margin”, even by re-regulation; and increasing gradually the flexibility in the core, but within the context of the “normal employment contract”. Reforms at the margin with the liberalization of temporary work agencies in 1972, and the permission of fixed-term contracts without giving valid reasons in case of hiring new workers in 1985 laid the foundations. At the core, some forms of flexibility were introduced – in collective bargaining provisions for increasing internal flexibility in firms, and in concession bargaining provisions for action in bad times. Changes at the core and at the margin have interacted and have provided a dual flexibility structure – preserving the "Normalarbeitsverhältnis" along with more or less socially protected new forms of labour contracts. With increased flexibility in the core and at the margin, the employment performance of the labour market has obviously improved in Germany (Eichhorst/Marx 2009, p. 13).

The relative stability of the share of standard jobs in the recent years shows that in contrast to Japan the dual structure does not show signs of segmentation and deterioration. Even a revival of the standard employment relationship can be ascertained; more standard jobs with more flexible working time and remuneration arrangements have emerged (Eichhorst/Marx 2009). Employment stability has even increased between 1992 and 2007 (as measured in terms of average job duration; Eichhorst/Marx 2009, p. 15) what is also due to a strategy of internal flexibilization of work. The flexibility at the margin has also increased and was facilitated by intra-household support and by public income support. In Germany, to be employed at the margin does not mean to be in a trap in all cases. Such contracts can provide and often do provide opportunities for entry to core job sector contracts (Eichhorst/Marx 2009, pp. 18-19). However, since the year 2000 we see also sharp increases of income inequality and of poverty in Germany, developments that show the limits of working at the margin (OECD 2008, German country data). New reforms "at the margin" of the labour market are needed and will have to correct these serious developments. By the way of incremental reforms, a "major transformation" took place in the German labour market (Eichhorst/Marx 2009): a dualized pattern of flexibility has emerged, with flexibility in the core and at the margin, but under conditions of minimum security and systemic stability. However, the increases of inequality and poverty in Germany show that the system has to be stabilized continuously. This system obviously has led to contradictory effects – generating and destroying standard jobs in a complex competitive process, thereby enhancing the competitiveness for the core jobs. Flexibility in the core sector was created by employers and by unions in a process of "coordinated decentralization" to benefit from both sides, from coordination and from decentralization of industrial relations. "Opening clauses" etc. have then worked in this direction. Entrepreneurial risks are spread by such measures to workers/workers councils in terms of wage cuts, intensified labour processes, reduced leisure time, etc.; a tradeoff between income security and job security is negotiated. The system of dual flexibility may also help to preserve the stock of firm-specific knowledge inside companies in periods of cyclical slumps (Eichhorst/Marx, 2009, p. 24), so that a long-term perspective is given for many small, medium and large firms. The government adds to this now by short work arrangements. All this may be helpful during the current crisis and also in order to respond to the globalization forces.

Secondly, the adaptability of labour markets depends on a clear understanding of the **evolution and change of labour institutions**. Labour market institutions in all their complexity have a quite different functioning in Japan and in Germany. The system and the elements are working differently. The high degree of employment protection in Japan in core sectors and the fact that other elements were not developed (broad unemployment benefits coverage, active labour market instruments) or remained underdeveloped (such as adapted immigration laws, modernized vocational training standards, broad social security provisions, and reforms in the taxation of labour for increasing labour utilization) have its roots in the industrialization and trade opening strategy. Adaptability of labour markets requires that these labour market institutions are developed in a coherent frame. The evolution of the labour market institutions has to be assessed in a historical context so as to understand the reform potentials (see Eichhorst/Marx 2009 on the reform of the Continental European and the Bismarck social policy and labour market models; see Miura 2001 on the reform blockade of the Japanese labour market institutions). Path-dependent approaches in reforming labour market institutions are important anyway to become successful and effective. However, so many informal labour market institutions and new areas of concern for labour have emerged and need to be considered. Internal working arrangements in firms, activities of works councils, regulatory activities of insider groups, and new forms of employment (legal or illegal) are becoming more and more relevant – developing as informal institutions of the labour market, but with impact on the formal labour market institutions as formal rules and regulations are changed. Sectoral and regional gaps in information are becoming a severe problem to understand labour market institutions (see Ochel 2005, pp. 53-54). Information on the implementation of formal provisions and on new institutional arrangements is often scarce, as we can see with regard of new forms of employment in both countries, with regard of part-time work laws in Japan and with regard of false self-employment in Germany. Relevance of provisions, rules, regulations and institutions also matters, but we do not know much about the relevance of labour market institutions for workers and firms in Japan and Germany (in terms of numbers affected). Adaptability of labour market institutions will however remain an important issue because of anticipated future trends of globalization.

Thirdly, the adaptability of labour markets has also to do with the **choice of the labour market flexibility concept** in an economy. The concept of labour market flexibility (LMF) can be interpreted in a rather narrow way and also in a much broader way. This can create a lot of confusion in discussions between interest groups, even within interest groups, and also among experts. Between countries there may be huge discrepancies in understanding LMF. Such discrepancies also exist between Japan and Germany. Narrow concepts do emphasize aggregate real labour cost flexibility (in terms of inflation and productivity changes), adaptability of relative labour costs (across enterprises and occupations), labour mobility (in terms of regional, occupational and inter-firm mobility), and flexibility of working arrangements (see Klau/Mittelstadt 1986). More extended concepts relate to employment protection, wage flexibility, internal or functional flexibility, and to supply-side flexibility (see Rodgers 2007). Many arguments from the first source are self-evident as these key forms of wage flexibility are not doubted. The second source however comes to the conclusion that it is not “flexibility” as such that results in higher employment but that a wider framework of policies and institutions matters for employment promotion, efficiency and providing social minima. Much broader concepts of labour market flexibility (see Whyman/Baimbridge 2006, pp. 9-12) add such elements as social policy, aggregate demand and macroeconomic policies, attitudinal or behavioural flexibility of the labour force, and trade union flexibility. Because of the great number of elements in such a LMF model, there can be combinations of flexible and rigid elements. The balance can change over time as interest groups pursue the case, such as domestic or foreign investors, export-oriented interests, small and medium or large enterprises, and also specific union interests or government policy interests. The current crisis shows that LMF is to a large extent determined now by macro demand management, active labour market policies, education and training policies, and the perceived comprehensiveness of social policy, as all these factors impact on most other elements of the LMF model. In times of strong globalization forces being at work other elements may become important (such as technology, innovation, and human capital formation; cross-border labour mobility; the level of unemployment benefits; active employment policies in terms of labour force participation; specific forms of micro-flexibility, and a social policy that is targeting also skilled workers).

Aggregate demand policies are therefore providing the base for more flexibility and adaptability (see Whyman/Baimbridge 2006, p. 12). When we look at some studies on the relevance of the LMF model for location decisions, we see that we have always to address the particular interest group that is propagating the LMF concept in this way or another. Foreign direct investors may look at the human capital, and at both functional and numerical flexibility rather than on other elements (see Whyman/Baimbridge 2006 on the case of direct investors in the UK). Rankings of LMF are therefore different when done by the World Economic Forum, by the OECD, by Business Consulting Firms, or by Lobbying Groups. Even within OECD there may be different views. A new OECD (2009a) report identifies LMF with progress on changes in removing employment protection for regular workers in order to overcome the labour market dualism. Other reports (OECD 2008; OECD 2009b) are much more open in the LMF concept by emphasizing social policy reforms, pro-active aggregate demand policies, and reforms of the taxation on labour. The LMF concept has therefore to be related to the particular phase and to the dynamics of globalization and crisis. LMF as a concept makes more sense if the driving forces and the actors of the current globalization are known – this refers to the global value chains and to the global competition for tasks (see below). We see substantial differences also by country. For Japan, LMF means providing more flexibility by removing employment protection for regular workers (to address the issue of the segmented labour markets), and means increasing numerical flexibility (to adapt the quantity and quality of labour supply to the changing demand). For Germany, LMF means a balanced reform of labour and working conditions (in the core labour market and at the margin) and attaching strong components of aggregate demand policy and of a comprehensive social policy (in order to widen the scope for flexibility from this side). In both countries, attitudinal and behavioural flexibility plays a role so as to balance flexibility and security.

Fourthly, the adaptability of labour markets has also a lot to do with the process how **labour market reforms** go ahead over time in a specific country. The cases of Japan and Germany show that different approaches and attitudes are at work. Germany is known for incremental, for gradual reforms; never were fundamental reforms given priority (see Eichhorst 2007; Eichhorst/Marx 2009). Also a highly ideological discussion about labour market reforms takes place (see Berthold 2005; Sinn 2007a on the one side; and Hengsbach 2005; Ganßmann 2003 on the other side). There are huge differences in assessments, proposals and beliefs (see Trampusch 2003 on reform blockades; APuZ 2003 on the role of unions; APuZ 2005 on the new paradigm after the Schröder reforms). The reforms of the Schröder government have changed the picture and even have produced something like a minimum consensus – the "dual path to flexibility concept" is widely acknowledged (Eichhorst/Marx 2009; Spiegel Online 2008). There are great differences when compared with Japan. The available information on the case of Japan shows that it is not yet clear how the reforms for the core sector of the regular workers and for the peripheral sector of the non-regular workers should interact, and what the role of different labour market institutions should be (see Rieti 2009 on this deadlock in reforms and its consequences). The concept that is obviously propagated until today is called "asymmetrical deregulation" (see Miura 2001; Jones 2008). Obviously a broad coalition of government, unions and employers favours the status quo (by doing something for the evolution of the sector of non-regular workers only). There is no direction taken towards symmetrical deregulation or towards a dual flexibility path. For Japan, an integral concept for labour market reforms is still awaited. Japan (as can be seen in Jones 2008 and OECD 2009a) is considered widely as a case with very severe reform blockades. But also for Germany the OECD experts see further need for reforms (see Wurzel 2006 and OECD 2009a), especially in areas such as labour taxes, social security, and numerical flexibility.

In both countries, labour market reforms are pushed by the real social and economic situation, by actual conditions (growth and unemployment figures), but not by the demands of globalization (see below). The pressures on the politicians in the Schröder government era have produced something that is praised now by international and national observers, although further needs for the reform are seen. It is therefore increasingly important to learn from each in other in such important areas as labour market reforms (see Ono 2002; Lemper 1996; and OECD 2009 a).

Fifthly, the adaptability of labour markets also refers to **structural and societal policies in a more general sense**. As labour demand is a derived demand, macroeconomic and structural policies play a role. Product market reforms are therefore an issue (see Nicoletti/Scarpetta 2005). Also societal policies and politics (such as education and training at all stages, policies for the aging society, the new forms of labour and the new attitudes in work) play an increasing role. Especially now, coordinated action is needed: the world economic crisis with all the downside risks and management problems on the one side and the expectation that the globalization process will go ahead after the crisis with new force on the other side leads to the demand for reforms that affect the economy and the society in the short-term, in the medium-term and also in the long-term. OECD’s Going for Growth Project (see OECD 2009a) reminds us that adaptability of labour markets can be enhanced just now amidst the crisis – by preparing structural reform policies and also by using the structural effects of demand policies, like in education and public investment. We are also reminded that a political economy of structural reform is needed (see Hoj/Galasso/Nicoletti 2006) to overcome reform deadlocks and to benefit from interactions between labour market reforms and broader structural reforms, such as product market reforms, budget reforms, social security reforms, education sector reforms, and financial sector reforms.

We see that the discussion in Japan on the issues is now intensified by the severity of the world economic crisis – especially by designing and implementing new programmes to attack the employment crisis and the social crisis, but also by presenting some long-term visions. Japan has a severe gap in its growth process vis a vis US growth in the area of labour productivity, while Germany has more problems with regard to labour utilization, such as labour market participation (OECD 2009a, pp. 29-32). For Japan, policies to improve its labour productivity performance (by innovation, vocational training, education, and product market deregulation) matter most, although also labour utilization policies are recommended so as to overcome the labour dualism. The OECD Report (OECD 2009a) seems to favour determined action on removing employment protection for the regular workers in Japan, but astonishingly gives the impression that the new labour policies in Germany – the dual flexibility model – have not yet been discovered by the OECD experts. For Germany, labour utilization policies matter most according to the OECD experts (in areas such as taxation of labour income, character and forms of social benefits, labour market regulations, and wage policies). The new flexibility of the German labour market since the Schröder government reforms is not considered at all as a genuine and remarkable reform achievement.

However, as a policy area being most important and neglected in both countries, integration and migration policies have not been seriously considered so far in Germany and in Japan – with regard of labour market institutions, labour market flexibility, and labour market policy, although the empirical research results show that the dualism of labour markets can only be overcome by urgent and drastic measures in this regard (see Jean/Causa/Jimenez/Wanner 2007; Causa/Jean 2007).

However, so many other OECD recommendations (OECD 2009a) have also relevance for Japan and for Germany (and even for the EU), such as agriculture market liberalization; further product market deregulation; financial, fiscal and institutional reforms at EU level; and human capital development (see Rae/Sollie 2007 and Lawson/Barnes/Sollie 2009 on the importance of EU reforms). Other structural areas, such as taxation reforms, are also considered as highly relevant for both countries. It is a question what chances the current crisis will give for such far-reaching reforms in the two countries. Adaptability of labour markets is highly dependent on these reforms because of labour demand being a derived demand and as being dependent on quality, speed and direction of these reforms.

There is no short-cut to reforms as all the five areas matter for the adaptability of labour markets.

4.2 Reacting to the Current World Economic Crisis

The adaptability of the labour markets and of the labour market policies is important in times of business cycles and especially now in the world economic crisis. Most relevant is it to maintain the system and the functioning of the labour market institutions, and to avoid ad hoc changes or abrupt breaks with the reform paths. Appropriate policy action is requested primarily at the level of aggregate demand, because aggregate demand impacts on many labour market variables, actors and processes. As Japan and Germany are now affected severely in terms of growth declines and also by steep unemployment increases, responses to the crisis require timely, large, comprehensive and innovative measures and actions. The world economic recession leads in Japan and in Germany to hardships for both groups of workers – for non-regular/atypical/marginal workers in various economic sectors but also for regular/typical/core workers in manufacturing and traditional services sectors.

The approach to overcome the crisis for employment and labour markets is already visible and is not so different in the two countries. The governments use demand-side policies, more than before active labour market policies, especially education and training measures, and instruments such as short work arrangements to keep the workers near the labour market; also measures for minimum income protection and the protection of minimum labour standards in the more flexible segments of the labour market will be pursued (all this is in line with OECD research on the type of more successful labour market interventions independent of the business cycle; see Bassanini/Duval 2006). All these measures are as well in line with the long-term interest to keep workers near the labour market and at acceptable minimum social protection. From the employers and the unions we can expect more interest in internal flexibility within firms (functional flexibility), more firm-specific solutions to labour adjustments (numerical flexibility), but also measures for preserving the core labour sector. The protection of the “standard employment contract” in Germany along with the use of flexibility and opening clauses will have priority, and the new labour market and employment programmes in Germany are to be read in this way. The protection of as many jobs as possible in the “lifelong employment system” in Japan will have some priority, and the new programme by the Japanese Ministry of Health, Labour and Welfare (see MHLW 2009) may be read in this way. The world economic crisis and the employment crisis can however bring about an acceleration of the longer-run observable trend towards “some erosion of the duality between status-oriented social insurance and minimum standards (Eichhorst/Marx, 2009, p. 26). This may not only occur in Germany, but also in Japan.

The ILO argues that a global approach is needed to stabilize the labour and employment situation (ILO 2008c). According to this approach three components matter (stabilizing the financial system; providing employment; and enhancing social protection). The solution according to ILO is not deregulation, liberalization, eliminating employment protection and other “rigidities”, but stimulating directly job creation by globally coordinated action and by extending the coverage of benefits, especially to the vulnerable groups (women, children, youth, elderly, and migrants). These and other affected groups have to be protected by employment creation policies, even by employment guarantees, and by restoring the wealth of private and public funded pension systems (ILO 2008c, pp.14ff). Solidarity-based social security systems should be enhanced (this contrasts however with new academic approaches of individualizing labour market, employment and social security policies by individual accounts and transferable vouchers; see Snower/Brown/Merkl 2009). A global coordination of all such policies is needed. This will be in the long-run interest of all countries.

Some lessons can be learned from the Asian Crisis. The social consequences of the Asian Crisis led to new forms, regulations and institutions for social safety nets in some countries, and to social policy innovations in others. Thailand and Korea have taken the most offensive approaches to labour, employment and social protection after the Asian crisis, although not all the positive changes were maintained. Countries like Indonesia and the Philippines obviously have relied more on traditional and family networks for social protection, and on the economic growth process to trickle down to the poor and the vulnerable (ILO 2008c, p. 15).

Social dialogue and consensus, and respecting labour rights and rules should be observed as principles for all strategies pursued during the current crisis. Even more outdated labour market instruments are rediscovered now. Public works programmes are emphasized strongly as they may be an instrument to combine employment creation with the coverage of benefits and social protection. Social and employment protection systems have to be focused in times of crisis. Active labour market policies (ALMP) are redefined as an important instrument for industrial, emerging and developing countries to react pro-actively to the crisis. Some countries like Japan have – contrary to Germany – no tradition in working with such programmes, and so have to develop them now during the crisis (see MHLW 2009 on such steps). Activation policies and institutions such as employment services, counseling, vocational training, public works programmes, wage and hiring subsidies, and the promotion of self-employment are such avenues (ILO 2008c, pp. 17-18). In the case of Japan, the relevance of all this is obvious for non-regular workers, but there is an increasing importance of all such programmes now also for regular workers (losing their jobs or being threatened to lose their jobs). Japan's reaction to its long crisis, lasting for 14 years in a series of bubble, banking, budget, economic, social, and debt crises, shows that a too early reversal of stimulating policies is highly problematic, that ending structural policies in the finance sector short of fundamental change may have been an error, that pro-active policies have to be maintained for longer periods, and that economic and social policies are needed beyond what automatic stabilizers can achieve (see ILO 2008c, p. 18; and OECD 2009b, pp. 53 – 56 and pp. 73-75).

Avoiding a debt-deflation-stagnation downward spiral like in Japan requires a globally concerted effort – by correcting global imbalances, closing the global shortfall in aggregate demand, attacking income disparities, and stimulating pro-poor policies. Temporary measures (tax rebates to stimulate consumption and public investment and public works programmes) can be a starting point for genuine reforms and policy reversals. Social protection in current account surplus countries, like in China, can be extended. Such countries are just now beginning to solve some of the major social problems and economic imbalances, and a change in China can have a significant effect globally. A global pro-poor growth agenda is therefore needed – not only for developing countries but also for emerging economies and even for developed countries (as countries like USA, Japan, and Germany have to care for marginal segments of the labour market and for vulnerable population groups). An extension of innovative systems such as Conditional Cash Transfers (CCTs) is an interesting option for many more countries to combine social protection and labour market attachment measures in times of crisis but also for a long-term strategy as the basis of a new social safety net (ILO 2008c, p. 20).

Rising income, wage and employment disparities have to be seen as sources of so many current problems as they even fuel global imbalances at all levels. The ILO's Decent Work Agenda is presented as an answer (ILO 2008b, 2008c). The OECD Going For Growth Strategy and the Restated OECD Jobs Strategy (see OECD 2009a) are presented as an alternative. However, there are some similarities as both strategies favour a global approach and a concerted jobs strategy by eliminating all the imbalances and bottlenecks that prevent countries, firms and workers from realizing the benefits of globalization. Proponents of both strategies see some chances in the current crisis to start just now with more fundamental reforms with regard to the global structural problems. Actions in the short-term and the medium-term must not conflict with actions for the long-term. While OECD is addressing issues such as labour productivity gaps and labour utilization gaps of countries, ILO is addressing issues of decent work. It is possible to bridge between the two approaches, especially when connecting the two strategies with the new insights on causes and consequences of escalating global inequality and unequal global growth (OECD 2008 and ILO 2008a).

4.3 Responding to the Dynamics of Globalization Forces

Adaptability of labour markets is related to concepts of LMF, and these concepts are related to current and prospective globalization. It is often argued that LMF is demanded by globalization. But what is the link? Globalization demands adaptable labour market institutions and labour market policies, but not just the realization of a specific concept of LMF.

In a long-term perspective new drivers and actors in the globalization process have to be considered, and then conclusions for new labour and employment policies can be drawn. How does globalization change and impact on future welfare states, on future labour, employment and social security policies? In an important paper (Snower/Brown/Merkl 2009) it was shown that the new globalization processes and drivers have to be understood first so as to be able to design new welfare state and labour market institutions. The authors start by arguing that the old globalization

approach focusing primarily on trade specialization (and the classical Heckscher-Ohlin model as the theoretical base) is no longer adequate (as found in Sinn 2007a, 2007b), but that a Great Reorganization View is needed, focusing on global value chains, and on a global competition that is based on tasks rather than on products and services. This leads to a new divide between the non-routine tasks that can be kept in the country and the routine tasks that will be ultimately transferred to other regions. Contrary to the global specialization view the Global Reorganization View does not take for granted that jobs for skilled workers can be kept in the country (as new electronic and logistical devices allow speedy transfers also of skilled products, components and services). The new approach is cutting across familiar skilled and unskilled labour categories. I have referred to this new view as globalization type II versus globalization as type I (see Wohlmuth 2004) to address the fundamentally different implications. Labour market and welfare state institutions can be reformed only if the new drivers and the new actors of the ongoing globalization are understood.

If tradability extends along the progress of electronic transmittals and along the advances of global logistics, and if the content of trade is directed towards tasks and teams performing work along the global value chains, then social policy and labour policy will have to react.

Skilled as well as unskilled people will be affected by globalization in all countries, also in Germany and in Japan. In this context, the employment structure in Germany will further change by job profile, with the categories highly skilled occupations, managerial positions, and qualified jobs showing an increase with a share of 70.6% for the year 2010, while the categories skilled jobs and auxiliary activities will show a decline with 29.3% for the year 2010 (see Allmendinger 2008, p. 9). All these groups will be affected by the coming globalization, but differently. There may be similar trends in Japan. The answer to this new heterogeneity of labour markets and the new perspectives for labor utilization is not seen in a "revolution" of the classical welfare state and of the established trade union system (as proposed by Sinn 2007a for Germany to "save" the country), but in a completely different welfare system (Snower/Brown/Merkl 2009). A combination of welfare accounts (unemployment accounts, training and skills accounts, and retirement accounts) and transferable vouchers (unemployment, training and skills, retirement vouchers) is proposed. Workers in the labour market and also the unemployed can use their accounts and vouchers to optimize rationally their welfare position, as well in their active years and for the retirement years. They can even "create" their jobs by funding employers with vouchers so that they hire them. Welfare accounts can be used to purchase vouchers and to supplement public wage subsidies for the employment creation of the long-term unemployed. Although this individualized approach looks quite utopian and fantastic, it is an interesting attempt to relate new globalization drivers and actors to the future social security, labour and welfare states agenda. This is also a fundamental critic of the "global neoclassical revolution" as proposed by Sinn (Sinn 2007a, 2007b) and others.

In the longer run, Germany and Japan not only have to study carefully the implication of the new globalization drivers for their welfare states; they have to adapt the systems so that they fit. As globalization is not very advanced yet (see the global tradeoffs causing this in Rodrik 2000), much more reform activity will be needed and in new directions if globalization accelerates. If globalization produces an increasing heterogeneity of work by skills and tasks and of workers by economic opportunities and risks, and if it changes continuously the balance between winners and losers from globalization, new welfare systems are requested because of the increasing unpredictability affecting global labour markets. However, also more solidarity-based approaches are feasible to organize such an adjustment .The Conditional Cash Transfers (CCTs) may be such an instrument for developing countries. For emerging economies and for developed countries other instruments are needed to adapt labour markets to globalization. A gradual development of labour market institutions and of social safety nets is expected in emerging economies, but progress was uneven after the Asian Crisis. It may be that the dual flexibility path to labour market reforms as followed by Germany is of interest even for Japan. The approach of "coordinated decentralization" in collective bargaining, the stabilization of the "normal employment contract" by opening and flexibility clauses, the use of "welfare accounts" a la Riester, and the gradual re-regulation of atypical and precarious jobs with guaranteed minimum social standards can be seen as steps in this direction. Solidarity-based concepts can be combined with activation incentives – to work, to train, to become employed, to stay in employment, to care for retirement and health, and to adapt continuously to changing labour markets.

The adaptability of labour markets and of welfare states can be achieved by path-dependent incremental changes in a compatible way with the core system of labour institutions as the German reform process shows. It may be that globalization requests even some more of incremental changes in some areas to get to the required large transformation of the system (see Eichhorst/Marx, 2009 for the term and for the concept). Problems remain: How to finance education and training in a globalized world with unpredictability of labour demands by location and tasks? How to compensate the losers of globalization by taxing the winners in a globalized world? A new system is needed to ensure that all those who can afford assume the responsibility for development and maintenance of human capital (Andersen 2006, p. 13). There must however be public intervention for those groups at risk to be marginalized, for example when human capital suddenly becomes obsolete (Andersen 2006, p. 13). A system change is however needed to avoid overinvestment in education. It will also remain difficult to compensate the losers of globalization in the coming globalization process. Attractive medium term exchanges between the state and individuals/firms may be a possibility – by financing potential winners of globalization (through infrastructure, research funding, and subsidies for qualification and training) in return for a share of the future gains (see Ganßmann 2003, p. 13). The losers of globalization can on this basis be paid, but their number should decrease by pro-active state measures and individual action. The state is assuming more and more the dual role as an organizer of the innovative and transformative capacity and as an organizer of the new welfare state by insuring the people against the risks of income loss (Ganßmann 2003, p. 13). It is important to assess for Germany how such reforms can be promoted in the years to come, and how necessary further reforms of the standard employment contract can be associated with additional reforms of temporary, fixed-term and agency work arrangements so as to make regular and non-regular work contracts compatible with the requirements of the global value chains and a global competition for tasks in the new phase of globalization.

An ILO approach (see Rodgers 2007) is interesting in this context; proposed is a "protected mobility" of workers by increasing the "portability of rights" between jobs. Social security, pension and labour rights are part of this approach. This approach may be a more solidarity-based approach to respond to globalization forces. Such an approach may also be in conformity with the decent work agenda of ILO (access to productive employment for all; security of work and income, and at the workplace; respect for core rights at work; and a democratic process of negotiating a social dialogue on these goals). This approach based on the decent work agenda (see Rodgers 2007, pp. 7-8) may also be largely compatible with the OECD's Going For Growth Initiative and the Restated OECD Jobs Strategy as they favour quite strongly the mobility of workers and the adjustment of labour markets. For Germany and also for Japan, a combination of the dual path to labour market flexibility and a new welfare state system of labour, pension and social security rights based on individually portable rights may work. It is obvious that a more intensive interaction of the five dimensions of globalization in the new phase of globalization will request further reforms of labour market institutions, but preferably done on the basis of path-dependent system change.

5. Conclusions and Policy Implications

Some conclusions can be drawn for new labour, employment and social security policies for Japan and Germany. In section 2 of the paper we have discussed the roots of the world economic crisis in the context of globalization. In order to understand the roots of the current world economic crisis it is necessary to study carefully the most recent phase of globalization (1980-2005), but also the periods when a retreat from globalization has occurred in history. It is obvious that not only unregulated global financial markets have caused the current crisis, but that global imbalances, global inequalities and global shifts have worked through the system. The lack of global governance, the lack of a UN world economic policy system, despite of ever stronger globalization forces, is responsible for the negative outcome. The world economic crisis may even lead to a retreat from globalization. Japan and Germany are advised in their own interest as export-oriented nations to push for a new global economic governance structure.

In section 3 we discuss the transmission effects of the world economic crisis to employment and labour markets. The world economic crisis has rapidly become also a global employment crisis which is eroding social safety nets, poverty alleviation strategies, and labour market institutions. This is endangering the development efforts of decades as the number of the working poor and of those being in vulnerable employment is sharply on the increase. Japan and Germany are also affected severely by the global employment crisis, directly at the national level and indirectly also by repercussions from the global level. The two countries have to pursue new pro-active labour and employment strategies, but also have to push for a new global governance system in labour, employment and social security issues.

In section 4 we discuss the adaptability of the national labour, employment and social security systems in Japan and Germany. The analysis shows that there are important challenges for Japan and Germany in their labour, employment and social security policies in times of crisis, but the more so because of the working of the new drivers of globalization. The structure of labour markets, the labour market institutions, the prevailing concepts of labour market flexibility, the ongoing labour market reforms, and the structural reforms related to labour markets in these two countries have evolved over decades, even dating back to the industrialization period, and cannot be reformed in an ad hoc, partial, fragmented and hastily manner. All the reforms pursued must be in conformity with the national development path of labour market institutions. However, Germany's path of reforming the labour market institutions shows that incremental and continuous reforms can achieve a lasting impact. For both countries we see a tremendous need of adapting the labour, employment and social security policies in such a way that it will become possible to counter the newly emerging globalization forces. More individualistic (homo oeconomicus-based) and more collectivist (solidarity-based) approaches are discussed.

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