

Low Wage Work in Germany

Overview Paper

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Introduction

For many years Germany was regarded as a country which, in comparison with other European countries and, particularly, the USA, had a low level of wage dispersal and, moreover, still offered relatively good working and employment conditions even at the lower end of the corporate hierarchy, partly as a result of its highly developed

industrial relations system and a high level of regulation. OECD studies confirmed this viewpoint (OECD 1996, 1997). Not only did these studies show that within the OECD, only the Scandinavian countries had lower levels of income inequality than Germany, they also showed that up to the mid-1990s, in contrast to the international tendency for income inequality to increase, in Germany it had actually declined slightly.

The low level of income inequality in Germany was seen as being due to Germany's particular product portfolio and the institutional financial, product and labour-market structures in Germany on which this was based. Thanks to good quality and a highly innovative content, despite high prices German companies, with their diversified quality production, were exporting successfully on the world market. The supporting structures were all geared to long-term relationships. In the financial market, not only many production companies but also many financial companies were interlinked as a result of reciprocal share ownership, which thus promoted joint strategies. There was a high proportion of public ownership in important parts of the infrastructure, such as power, water, transport and telecommunications, and this too encouraged long-term strategies. Sophisticated systems of technical and quality standards, binding on all companies, meant that companies in many sectors were geared to quality competition. The dual system of vocational training, which supported the emphasis on quality, industry-wide collective agreements, co-determination in companies' supervisory boards and via works councils within companies, and employment legislation that made it difficult for employees to be dismissed also provided a lasting basis for labour relations and employment contracts, and wages were taken out of competition. Mandatory social insurances for health, age, accidents and unemployment created a comprehensive net of social safety.

The German production and welfare model was supported by consensus among important social players. This is why the German model is often described in the literature as "corporatist" (e.g. Esping-Andersen 1990), although in contrast to other countries, this does not mean only agreements between the state and the social partners, but also the autonomous regulation and administration of important societal subsystems. For example, in conjunction with representatives of the state the social partners are responsible for managing social security (retirement, health, accident prevention and industrial safety and, until recently,

unemployment insurance and labour market policy). The social partners have autonomous responsibility for wage structures and also for vocational training. The major church welfare associations and independent associations (for example, the Arbeiterwohlfahrt) are responsible for running substantial proportions of public budgets in social services like Kindergartens, hospitals or elderly care.

Unlike the Scandinavian countries, described by Esping-Andersen (1990) as a social democratic welfare model, the German model only partially pursues the aims of equality and hence a reduction in income inequalities. Today the German employment model is still geared to the male sole earner. Admittedly the trade unions have had some success in narrowing the wage differential within a sector by abolishing or not filling jobs in the lowest wage groups. However, the wage differences between typical male and female industries and occupations are still very marked, and have not been reduced by means of a solidary wage policy, as has been the case in Sweden or Denmark. Welfare systems are geared not to promoting employment for women, but to providing financial support for housewives, from which the state continues to expect important services that have long been part of a reformed welfare state in the social democratic model. Badly paid second jobs for women have long been part of the German model, and have become increasingly important with the growing numbers of women in employment.

In the past the German employment model was admired specifically for its stability. It was capable of weathering new challenges by means of gradual reforms. The export business is still competitive, thanks to its great capacity for innovation. In the course of the 1970s and 1980s, the not inconsiderable number of immigrants on the labour market, competing with male sole earners in particular for jobs, were largely integrated into the German wage and social security systems, and were treated in the same way as German nationals in comparable jobs.

In the past few years, however, the cracks in the German employment model have become obvious. Since the end of the 1990s, wage inequalities and the proportion of low-wage jobs have been increasing (European Commission 2004: 168). Within the EU, at the start of the new millennium the United Kingdom was the only country where the prospect of escaping from a low-wage job to a better-paid job was as poor as it was in Germany (European Commission 2004: 172). Like our own calculations (see section 3), these figures indicate a changing trend, for which there are many reasons. The increasing number of active women in an employment model that was not prepared for this has already been mentioned. In the past few years, however, the most important factor has been the reunification of Germany, the high consequential costs of which were a burden on the welfare system and which, as a result of the high unemployment initially in East Germany and subsequently in Germany as a whole, intensified wage competition. Owing to Germany's central location, the opening up of borders to Eastern Europe increased wage competition on the labour market in Germany and also caused East Germany to become a highwage country in an international comparison. Then there are also the consequences of the Maastricht criteria pushed through by Germany itself, and the privatisation of important sectors in accordance with EU criteria. These various external shocks for the German model have weakened Germany's capacity for growth and broken up the internal consensus among the players, which was really the cement holding things together for the gradual reforms of previous decades. Many employers and their associations are calling for a change in the system, and are being supported in this not only by the Christian Democrat and Liberal parties, but also by a large part of

the Social Democratic camp. The demand for greater wage differentiation is a key element in the programme for change in the system. The red/green coalition German government, which was still backing further development of the German welfare model in its first term in office, decided to undertake radical tax reforms which dries out the welfare state and reforms of the labour market at the beginning of its second term (as from 2002) which will probably lead to greater wage dispersal in the medium term.

The aim of this paper is to analyse the impact of the German economic development in the last 15 years and of the institutional context and its recent changes on the size and the composition of low-wage employment to describe the incidence of low-paid jobs in the economy. We shall begin by describing the trend in the economy and on the labour market in the past few years (section 1). We shall go on to describe the most important institutional elements of the German model, including the changes in them (section 2). There then follows an analysis of the extent and composition of lowpaid jobs in Germany (section 3).

Conclusion

The traditional institutions of the German diversified quality production model are still strong. This model has been further developed via modernisation of vocational training or strengthening of co-determination in the works councils of small and medium-sized enterprises. At the same time, however, the model is no longer characteristic of all industries and activities, as it was in the past. Improvements in wages and working conditions in Germany's leading industry, the metal industry, no longer automatically lead to corresponding improvements in other industries. The German model is divided into continuing high numbers of employees in modernised occupational and internal labour markets and growing numbers of employees in peripheral labour markets with worse pay and less favourable working conditions.

The institutions that have hitherto limited the development of low-wage jobs have become fragile. In Germany, wages are negotiated by industry-based trade unions. Hitherto the coverage of collective agreements was so high that the unions could organise appropriate pay for most employees via an autonomous collective bargaining policy. In contrast to many neighbouring countries, the state, the unions and employers unanimously rejected the introduction of a statutory minimum wage, because legislative intervention could endanger the pre-eminent position of collective bargaining policy.

In the past few years, however, income inequality in Germany has increased. The actual extent of the inequality is likely to be greater than the statistically measured figure, since many low-wage jobs paid in Germany are held by legally or even illegally posted or employed non-nationals, who are not included in the statistics, or at least not in German statistics. The collective bargaining system no longer fulfils its former comprehensive protective function for employees on the fringes of the labour market. There are growing numbers of people working in peripheral employment and for a low wage. There are a number of reasons for this:

- Owing to the fragile financial situation of many East German companies, the transfer of institutions from West to East Germany was ineffective. Many companies escaped from the collective bargaining system in order to survive, and this then became a model for West Germany.

- High unemployment following reunification intensified competition on the labour market, since there was an increase in the number of workers who were willing to work even for a wage below the collectively agreed level.
- Companies in the high-wage industries bound by collective agreements outsourced many labour-intensive activities to zones not bound by such agreements or to areas with lower collectively agreed wages.
- The privatisation of public services led to competition between good public wages and lower private wages, with the result that the unions had to accept concession bargaining.
- Owing to the traditional policy on families, many of the sharply increasing numbers of women seeking work are being forced into badly paid mini-jobs, which are, however, subsidised by the social security system.
- Since 2002 in particular, the Federal Government has implemented a change in policy. As a result of the labour-market reforms in 2003/4, the unemployed are to be compelled to accept worse-paid jobs, even if the wage is below the collectively agreed level. Various tax reforms hollowed out public budgets and the federal, regional and local government tried to cut down costs also by encouraging companies in bidding for public projects to undercut collectively agreed labour standards.
- Some employers have withdrawn from the German social security model and are threatening to withdraw from industry-wide collective agreements. At the same time, the employers' associations are blocking the order imposing extension of collective agreements in the Collective Bargaining Committee, as a result of which de facto minimum wages could be introduced in individual industries, as happened in the past with the retail trade.

In contrast to almost all its western neighbours in Europe, Germany has no lower “cushion” when it comes to wages. SPD leader Franz Müntefering invited the unions to participate in discussions on the introduction of a minimum wage, but the unions were unable to agree a common position. The unions in the construction, metal and chemicals industries want only a industry-based minimum wage, since they fear that a general minimum wage would drag their wages down. The unions in the food industry and the service sector support a graduated system as is typical in France, with a general minimum wage and generally binding minimum wages in individual industries. Chancellor Schröder and Wolfgang Clement, Federal Minister of Economic Affairs, have spoken out strongly against a minimum wage, and employers' associations and the conservative and liberal parties are, in any case, opposed to the idea.