6. Germany: What role for minimum wages on low-wage work?

Gerhard Bosch and Thorsten Kalina

6.1 INTRODUCTION

In comparison with other countries, Germany has long had comparatively little wage dispersion and only a few low-paid workers. Since the mid-1990s, the low-wage sector has grown considerably, although at first this trend went almost unnoticed. A number of studies have since examined this development. It is now clear that the share of low-wage workers in Germany has increased markedly, contrary to the trend in most other EU countries, and that it has almost reached the level seen in the United States (Solow, 2007).

In the past minimum standards could be enforced at the industry level due to the high level of coverage by collective bargaining in Germany. State “interference” in the form of statutory wages was rejected by both unions and employers as an encroachment on their right to engage in free collective bargaining. In some industries with low union and employer density, collective agreements were declared to be generally binding but only if unions and employers asked the state to declare them so. The 1952 law on minimum working conditions (Mindestarbeitsbedingungengesetz or MiA), which gave the state the right to set minimum wages, was never invoked.

The introduction of statutory wages was debated the first time in the mid-1990s, but only for the construction industry, which was the main destination industry for posted workers from other EU Member States employed on the basis of the employment conditions prevailing in their home country (the “country of origin” principle). Since this policy has the effect of undermining the territorial principle of industry-wide collective agreements employers’ associations and unions in the construction industry agreed on minimum wages which also covered the posted workers (based on the new law on the posting of workers, the Arbeitnehmerentsendegesetz or AEntG). The debate on minimum wages applying to the whole economy started at the beginning of the twenty-first century. Unions, especially in the service sector, found it increasingly difficult to agree on acceptable minimum standards in collective
bargaining. In addition, employers’ associations refused to ask the state for an extension of collective agreements. Finally, since the EU’s eastward expansion, other industries, such as meat processing, have increasingly become destination industries for posted workers. The service and the food and restaurant unions were the first to start campaigning for a statutory minimum wage.

The question of whether the expansion of low-wage work in Germany should be regarded as a problem or a welcome development is hotly debated in both political and academic circles. The advocates of further expansion of low-wage work are calling for a significant reduction of transfer payments in order to increase incentives for accepting low-paid work (Sachverständigenrat, 2004). However, political attitudes towards a minimum wage are shifting. According to recent polls, a large majority of Germans are in favour of a minimum wage. These polls persuaded the Social Democratic party (SPD), which promoted the growth of low-wage work through the Hartz laws in 2004, to come out in support of a minimum wage. Minimum wages became a contentious issue in the coalition negotiations between the SPD and the Christian Democratic parties (CDU/CSU). Due to pressure from the SPD, the resulting “grand coalition” agreed to reform the MiA and to include more industries in the law on the posting of workers (AEntG).

This chapter begins with data analysis investigating the evolution of low-paid employment, employment structure, income mobility and poverty. To enable us to draw up a detailed picture of those affected and of the dynamic and knock-on effects of the low-wage sector, we have evaluated data from the socio-economic panel (SOEP) and employee panel of the Federal Employment Service (Bundesagentur für Arbeit – BA). The SOEP offers the option of also including part-time workers and mini-jobs (currently available data up to 2006).1 Owing to a lack of data on working hours, the BA employee panel allows only the wages of full-time employees to be evaluated. However, given its considerably larger number of cases, it makes it possible to analyse the trend in individual industries in a more differentiated fashion. Section 6.2 considers the change in income distribution overall. In Section 6.3, we draw up a differentiated picture of the low-wage sector: how it has evolved and who is particularly affected. In Section 6.4, we focus on the way in which low and average wages have evolved in accordance with enterprise characteristics. In Section 6.5, the income mobility of low-paid workers is analysed, while the link between poverty and low pay is the subject of Section 6.6. In

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1. Employees in mini-jobs fall below the earnings limit at which social insurance contributions come into play (less than €400 per month since 2003). They are not covered by the general obligation to pay social insurance contributions. Employers pay a flat-rate contribution of 30 per cent (13 per cent for health insurance, 15 per cent for old-age pension and a 2 per cent flat-rate tax).
Section 6.7 we summarize the current German debate on minimum wages and the introduction of some minimum wages. The case studies in Section 6.8 detail the recent introduction of minimum wages in postal services and the controversial debate on minimum wages in temporary agencies.

6.2 REDISTRIBUTION OF INCOMES SINCE 1995

Since 1995, the gulf between high and low incomes in Germany has grown ever wider. A simple comparison of the distribution of incomes, adjusted for inflation in 1995, 2000 and 2006, shows a marked flattening-out of the income distribution curve, with substantial share losses in the middle and increases at the lower and upper ends (Figure 6.1). A notable feature is the marked increase in employment in the lowest wage sector (gross hourly wages below €6 in 1995 prices and below approximately €7 in 2006 prices).2

![Distribution of hourly wages in Germany (all dependent employees including part-time and marginal part-time); inflation adjusted (basis = 1995)](image)

Source: SOEP 2006, authors’ calculations.

2. All employees (full-time, part-time and mini-jobs) have been included in the calculation. Information on earnings from the main job in particular was the main subject of evaluation. Casual work was included only when no information was available for the main job. Certain categories of employee were excluded, that is, those for whom no meaningful hourly wages could be calculated, or to whom special pay rules apply – the self-employed and freelance
This shift in income distribution has led to a marked increase in inequality of incomes. A particular result of the substantial increase in low-paid work on the one hand and the (more moderate) increase in well-paid work on the other hand has been a substantial widening of the gap between the bottom and middle deciles of income distribution, from 1.79 to 2.18 between 1995 and 2006, while the gap between the middle and top deciles has remained largely unchanged (Table 6.1).

**Table 6.1** Trend in income inequality, Germany, 1995–2006 (hourly wages in €, all employees)

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>2000</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>D9/D5</td>
<td>1.75</td>
<td>1.74</td>
<td>1.77</td>
</tr>
<tr>
<td>D9/D1</td>
<td>3.13</td>
<td>3.23</td>
<td>3.86</td>
</tr>
<tr>
<td>D5/D1</td>
<td>1.79</td>
<td>1.85</td>
<td>2.18</td>
</tr>
</tbody>
</table>

Source: SOEP 2006, authors' calculations.

This shift in income groups to the top and bottom means that the middle income groups have been thinned out. In 1995, they still accounted for at least 63 per cent of all employees, but by 2006 they had lost more than 11 percentage points, as reflected in equivalent increases at the top end and, even more markedly, at the bottom end of the income distribution (Table 6.2).

**Table 6.2** Shares of low, mean and high hourly wages, Germany, 1995–2006 (all employees, calculation of median wage broken down into eastern and western Germany, in %)

<table>
<thead>
<tr>
<th>Hourly wage</th>
<th>1995</th>
<th>2000</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low (less than 2/3 of median)</td>
<td>15.0</td>
<td>17.5</td>
<td>22.2</td>
</tr>
<tr>
<td>Mean (2/3 to 4/3 of median)</td>
<td>63.2</td>
<td>59.0</td>
<td>51.6</td>
</tr>
<tr>
<td>High (more than 4/3 of median)</td>
<td>21.8</td>
<td>23.5</td>
<td>26.3</td>
</tr>
</tbody>
</table>

Source: SOEP 2006, authors' calculations.

workers, trainees, people on work experience, those in retraining/rehabilitation or job creation schemes, employees in workshops for the disabled, helping family members, people working part-time in the run-up to retirement, the economically non-active population, the unemployed and those doing military or community service. Students, schoolchildren and pensioners were excluded, since, as a rule, they do only casual work.
Between 1995 and 2006, there was virtually no increase in average real incomes in Germany, owing to the very small increases in wages in general. When the cake to be shared out is barely bigger than it was before and, at the same time, is being shared out ever more unequally, it is probable that some employees will receive a smaller slice of income in real terms and perhaps even in nominal terms. This is precisely what we have seen since 1995. In the bottom quartile, real wages have fallen by almost 14 per cent since 1995. They have even fallen in the second lowest quartile, although less markedly, while in the top two quartiles they have risen (Table 6.3). Between 2000 and 2006, there was actually a fall in nominal wages in the bottom quartile – in other words, wages fell below the 2000 level in absolute terms. Redistribution of incomes has therefore affected the lowest wage groups most severely, but losses in real wages also extend to the middle income groups.

Table 6.3 Trend in nominal and real hourly wages, Germany, 1995–2006 (by quartiles)

<table>
<thead>
<tr>
<th>Quartile</th>
<th>Average hourly wage (€, nominal)</th>
<th>Change in hourly wages (% nominal)</th>
<th>Real wages, Change in real wage (€, in 1995 prices)</th>
<th>Change in 2006 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st</td>
<td>6.84 7.23 6.88</td>
<td>5.8 -4.8</td>
<td>5.90 -13.7</td>
<td></td>
</tr>
<tr>
<td>2nd</td>
<td>10.39 11.15 11.73</td>
<td>7.3 5.2</td>
<td>10.06 -3.2</td>
<td></td>
</tr>
<tr>
<td>3rd</td>
<td>13.11 14.49 16.02</td>
<td>10.5 10.6</td>
<td>13.74 4.8</td>
<td></td>
</tr>
<tr>
<td>4th</td>
<td>21.20 22.79 25.58</td>
<td>7.5 12.3</td>
<td>21.94 3.5</td>
<td></td>
</tr>
<tr>
<td>Overall</td>
<td>12.88 13.91 15.05</td>
<td>8.0 8.2</td>
<td>12.90 0.2</td>
<td></td>
</tr>
</tbody>
</table>

Source: SOEP 2006, authors’ calculations.

6.3 LOW-WAGE EMPLOYMENT TRENDS

In this section, we shall discuss in more detail the way in which low-wage employment – the growth of which plays a fundamental part in the redistribution of incomes – has evolved; we shall also look at the forms of employment

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3. A similar trend has developed in the earnings of full-time employees, although it is less marked. According to our calculations, based on the BA employee panel, the bottom quartile has experienced a 2.1 per cent drop in real wages, and the second quartile from the bottom has seen only a very small increase in real wages (of 2.9 per cent, which is well below the 8.7 per cent average).
The minimum wage revisited in the enlarged EU

and groups of workers that are particularly affected by this. We have taken the OECD standard of two-thirds of the median wage as the low-wage threshold (OECD 1996: 69). The evaluations that follow are based on the use of separate low-wage thresholds for eastern and western Germany, so that the structural analyses are not distorted by the inclusion of the eastern German labour market. The use of a uniform threshold would not affect the overall share of low-paid, but would double the share of low pay in eastern Germany (Kalina and Weinkopf, 2008).

Figure 6.2 gives a more detailed overview, also divided into eastern and western Germany, of the trend in the proportion of low-paid employees in all employees since 1995. The increase in the percentage of low-paid workers in Germany as a whole, from 15 per cent to 22.2 per cent, represents an increase of almost 48 per cent in only 11 years. In western Germany, the proportion of low-paid workers has actually risen by some 54 per cent (compared with 26 per cent in eastern Germany). The number of low-paid employees in Germany rose by 2 million from approximately 4.5 million in 1995 to about 6.5 million in 2006 (a rise of 43 per cent). It is noteworthy that, even in the economic

![Figure 6.2 Share of low-wage employees in total dependent employment – differentiated low-wage thresholds for eastern and western Germany, 1995–2006 (including part-time and marginal part-time, in %)](image)

Source: SOEP 2006, authors' calculations.

4. For the way in which the basic entity of employees as a whole has been delimited, see footnote 2. If schoolchildren, students and pensioners are included, the share of low wages was 23.5 per cent in 2006, and the overall number of low-paid employees was 7.3 million.
upswing between 2004 and 2006, the number of low-paid employees increased by around 700,000. It can be assumed that the 2003 Hartz reforms accelerated the growth in low wages.

Furthermore, since Germany has no generally binding minimum wage, the downward spread of wages is particularly marked. In 2006, some 1.9 million employees in Germany were working for hourly wages below €5, and 5.5 million for less than €7.50, and thus for much less (both in absolute terms and in relation to the relevant median) than workers in France or the United Kingdom, which have statutory minimum wages of around €8 (Caroli and Gautié, 2008; Lloyd et al., 2008).

One striking feature is that, owing to nominal wage losses in the bottom income quartile between 2004 and 2006, the low-wage thresholds fell for the first time – from €9.71 to €9.61 in western Germany and from €7.14 to €6.81 in eastern Germany. At the same time, average hourly wages in the low-wage sector actually fell in nominal terms – by €0.36 in western Germany and by €0.62 in eastern Germany (Table 6.4). Moreover, observation of the trend over the entire period shows that, when adjusted for inflation, average wages in the low-wage sector were lower in 2006 than in 1995 – particularly in eastern Germany, where a fall of 10 per cent can be seen. Our figures show that a minimum wage of €7.50 which is demanded by the unions would affect about 17.3 per cent of workers (5.5 million workers) (Figure 6.1). It would also reduce the share of low-wage workers in eastern Germany since the low-wage threshold there is below €7.50. In western Germany, the share of low-wage workers would not be reduced, but a minimum wage would compress the income distribution at the lower end.

Table 6.4 Trend in average hourly wages of those on low wages, Germany, 1995–2006 (all employees including part-time workers and workers with mini-jobs, in €)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Average low wage,</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>West (nominal)</td>
<td>5.93</td>
<td>6.75</td>
<td>7.25</td>
<td>6.89</td>
<td>+16.2</td>
</tr>
<tr>
<td>Average low wage,</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>West (real, basis = 1995)</td>
<td>5.93</td>
<td>6.34</td>
<td>6.41</td>
<td>5.91</td>
<td>0.0</td>
</tr>
<tr>
<td>Average low wage,</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>East (nominal)</td>
<td>4.63</td>
<td>4.95</td>
<td>5.48</td>
<td>4.86</td>
<td>+5.0</td>
</tr>
<tr>
<td>Average low wage,</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>East (real, basis = 1995)</td>
<td>4.63</td>
<td>4.65</td>
<td>4.85</td>
<td>4.19</td>
<td>−10.0</td>
</tr>
</tbody>
</table>

Source: SOEP 2006, authors’ calculations.
The question arises whether it is predominantly part-time workers and workers with mini-jobs who are affected by low hourly wages. The shares of these groups in all low-paid employees have increased in the past few years: while, in 1995, full-time employees constituted the clear majority of low-paid employees, with a share of almost 58 per cent, by 2006 their share had fallen to around 46 per cent. There was a corresponding increase in the share of part-time workers and workers with mini-jobs to almost 54 per cent of low-paid employees (Table 6.5), although in the socio-economic panel they constitute only 29.5 per cent of all employees. The increase in the share of workers with mini-jobs in the low-wage sector was particularly marked. It almost doubled between 1995 and 2006, in particular owing to the increasing emphasis placed by employment policy on mini-jobs – in fact, the share of mini-jobs in employment overall almost tripled, from 2.6 per cent in 1995 to 7.1 per cent in 2006.\(^5\)

**Table 6.5 Share of individual forms of employment in the low-wage sector as a whole and in employment as a whole, Germany, 1995–2006 (%)**

<table>
<thead>
<tr>
<th></th>
<th>Share in the low-wage sector</th>
<th>Share in employment as a whole</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full-time</td>
<td>57.9</td>
<td>46.2</td>
</tr>
<tr>
<td>Part-time</td>
<td>27.2</td>
<td>24.0</td>
</tr>
<tr>
<td>&quot;Marginal&quot; part-time</td>
<td></td>
<td></td>
</tr>
<tr>
<td>work (mini-jobs)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source:* SOEP 2006, authors’ calculations.

The decline in the share of full-time employees in the low-wage sector does not, however, mean that they were less affected by low wages in 2006 than in 1995. On the contrary, in 1995, one in nine full-time employees was working for a low wage, while by 2006 the figure had risen to one in seven (Table 6.6).

Views differ on whether the growing inequality in income distribution is merely a peripheral phenomenon that can be ignored, or whether it is also increasingly affecting the heart of the employment system. One theory recently put forward by the DIW (Deutsches Institut für Wirtschaftsforschung) states that low-paid employment primarily affects part-time workers, who only aim to

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5. These statistics are based on our basic entity of employees as a whole, which does not include schoolchildren, students or pensioners, or those with casual jobs. The share in the economy as a whole is much larger.
bring in casual earnings (Brenke and Ziemendorff, 2008; DIW, 2008). Since many households are, in fact, dependent on income from part-time work (Statistisches Bundesamt, 2004), there are good grounds for questioning this view. Moreover, the large number of full-time employees with low wages also gives grounds for not accepting the theory that low-wage employment is confined to a clearly delimited labour-market segment.

Table 6.6 Low-wage employment by forms of employment, Germany, 1995 and 2006 (% of the relevant group)

<table>
<thead>
<tr>
<th>Low-wage share in category</th>
<th>Change in absolute employment 1995–2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1995</td>
</tr>
<tr>
<td>Full-time</td>
<td>11.0</td>
</tr>
<tr>
<td>Part-time</td>
<td>22.2</td>
</tr>
<tr>
<td>Mini-jobs</td>
<td>86.0</td>
</tr>
<tr>
<td>Overall</td>
<td>15.0</td>
</tr>
</tbody>
</table>

Source: SOEP 2006, authors' calculations.

It has been argued that it is necessary to expand the low-wage sector in order to offer any employment prospects at all to the low-skilled, who would otherwise be excluded from the labour market. In fact, our evaluations show that the low-skilled are both disproportionately and increasingly affected by low wages – between 1995 and 2006, the share of employees in this category on low wages increased by around 49 per cent. At the same time, the rate of increase was actually much higher, with almost 70 per cent falling within the much larger category of employees with vocational training qualifications (Table 6.7).

Furthermore, an examination of the structure of low-paid employees by employee characteristics makes it clear that, in 2006, more than two-thirds of the low-paid were women and just under one-quarter of all low-paid employees still originated from the category of the formally low-skilled. In contrast, the share of employees with vocational training qualifications or an academic qualification in the overall figure for low-paid employees increased substantially, from 66.5 per cent in 1995 to 73.6 per cent in 2006. This means that almost three in four low-paid employees in Germany are now employees with formal qualifications, which is also an extremely high figure when compared to other countries. In the United States, for example, some 70 per cent of low-paid employees have no qualifications or only a high-school level qualification – that is, an educational level lower than a vocational training
Table 6.7 Share of low-paid employees by employee categories, Germany, 1995, 2000 and 2006 (all employees, separate low-wage thresholds for eastern and western Germany, %)

<table>
<thead>
<tr>
<th>Category</th>
<th>1995</th>
<th>2000</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qualification&lt;sup&gt;a&lt;/sup&gt;</td>
<td>No vocational training</td>
<td>31.0</td>
<td>35.2</td>
</tr>
<tr>
<td></td>
<td>Vocational training qualification</td>
<td>13.6</td>
<td>17.8</td>
</tr>
<tr>
<td></td>
<td>University/specialized institution of higher education</td>
<td>6.3</td>
<td>6.1</td>
</tr>
<tr>
<td>Sex</td>
<td>Male</td>
<td>7.4</td>
<td>9.9</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>25.0</td>
<td>26.6</td>
</tr>
<tr>
<td>Age</td>
<td>under 25</td>
<td>28.8</td>
<td>42.3</td>
</tr>
<tr>
<td></td>
<td>25-34</td>
<td>13.9</td>
<td>17.8</td>
</tr>
<tr>
<td></td>
<td>35-44</td>
<td>12.3</td>
<td>14.7</td>
</tr>
<tr>
<td></td>
<td>45-54</td>
<td>13.5</td>
<td>14.9</td>
</tr>
<tr>
<td></td>
<td>55+</td>
<td>17.7</td>
<td>16.5</td>
</tr>
<tr>
<td>Nationality</td>
<td>German</td>
<td>14.5</td>
<td>16.6</td>
</tr>
<tr>
<td></td>
<td>Non-German</td>
<td>20.1</td>
<td>27.4</td>
</tr>
<tr>
<td>Overall (Germany)</td>
<td></td>
<td>15.0</td>
<td>17.5</td>
</tr>
</tbody>
</table>

<sup>a</sup>In 11.6 per cent of cases, no information was available on the training level. In this table and in Table 6.8, it was assumed that these cases were distributed across all training levels in proportion to their share.

Source: SOEP, authors' calculations.

qualification in Germany (CBO, 2006: 18). This striking difference in the profile of low-paid employees is likely to be due, on the one hand, to continuing high unemployment in Germany, which has increased the pressure on even the well qualified to accept low-paid work. On the other hand, as a result of Germany’s well-developed system of vocational education and training, the group of low-skilled workers there is relatively small by international comparison (Bosch and Charest, 2008). Case studies have shown that in some industries, such as the retail trade, the broad vocational skills of the low-paid, including mini-jobbers, are used simultaneously to increase the numerical and functional flexibility within the firm (Voss-Dahm, 2008), while in other industries, such as hotels or meat processing, the low-wage workers were mainly employed in simple jobs with a high work load and high numerical flexibility (Czommer, 2008; Vanselow, 2008). It seems that the impact of low-wage work on job quality varies according to industry and skill level.
6.4 ANALYSIS BROKEN DOWN BY ENTERPRISE CHARACTERISTICS

Previously, the wage trend in smaller enterprises and less unionized industries usually followed that seen in larger enterprises and highly unionized industries. Our contention is that this consistent wage evolution, which ensured that increased prosperity was evenly distributed across the entire German economy, has now disintegrated. Wage increases equivalent to those in the manufacturing industry are no longer being pushed through in less unionized industries. This is affecting a growing number of employees, since employment is increasing above all in poorly unionized service industries and, within these industries, particularly in small and medium-sized enterprises with no works councils. In addition, activities in highly unionized fields are being outsourced to labour-market areas free of collective agreements, something that is becoming increasingly attractive to companies, owing to the growing wage differential.

Our analysis of the BA employee panel (only including full-timers) shows that the wage differences between large and small enterprises increased considerably between 1998 and 2005. While, in 1998, full-time employees in small enterprises were still achieving, on average, around 59 per cent of the wage level in large enterprises, in 2005 this proportion had dropped to around 51 per cent. When increases in incomes are adjusted for inflation, this shows very clearly how far apart the enterprise size classes have moved in terms of wage evolution. While there was virtually no increase in average monthly wages in small enterprises between 1998 and 2005, with a rise of just 0.2 per cent, wage growth became ever higher with increasing enterprise size and, in large enterprises, it was almost 15 per cent (Table 6.8).

Table 6.8 also shows that the share of low wages decreases with increasing enterprise size: in the smallest enterprises (with between one and four employees), in 2005, more than half of the full-time employees were working for low wages, while in large enterprises (with 500 or more employees), only some 3 per cent of employees, a figure which has remained virtually unchanged throughout the period, were working for such wages. The gap between large and small enterprises had increased still further in the interim.

In order to investigate whether the wage trend varies with the sector of the economy, we divided these sectors into three groups according to their share of low wages in 1998: (i) sectors with a low share of low wages (less than 50 per cent of the level for the economy as a whole); (ii) sectors with a moderate share of low wages (between 50 per cent and 150 per cent of the level for the economy as a whole); and (iii) sectors with a high share of low wages (over 150 per cent of the level for the economy as a whole) (Table 6.9).
Table 6.8 Change in the share of low wages and average earnings by enterprise size, Germany (full-time employees subject to compulsory social contributions)

<table>
<thead>
<tr>
<th>Enterprise size (number of employees)</th>
<th>Share of low wages (%)</th>
<th>Average gross monthly earnings, adjusted for inflation (€)</th>
<th>Change 1998/2005 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1–4</td>
<td>47.1</td>
<td>51.8</td>
<td>10.1</td>
</tr>
<tr>
<td>5–9</td>
<td>29.6</td>
<td>36.3</td>
<td>22.4</td>
</tr>
<tr>
<td>10–19</td>
<td>20.7</td>
<td>26.4</td>
<td>27.6</td>
</tr>
<tr>
<td>20–49</td>
<td>15.9</td>
<td>21.2</td>
<td>33.4</td>
</tr>
<tr>
<td>50–99</td>
<td>13.2</td>
<td>18.1</td>
<td>36.9</td>
</tr>
<tr>
<td>100–199</td>
<td>10.9</td>
<td>14.7</td>
<td>34.7</td>
</tr>
<tr>
<td>200–499</td>
<td>7.5</td>
<td>9.3</td>
<td>23.3</td>
</tr>
<tr>
<td>500 or more</td>
<td>3.1</td>
<td>3.3</td>
<td>7.0</td>
</tr>
<tr>
<td>Economy as a whole</td>
<td>15.5</td>
<td>18.7</td>
<td>20.5</td>
</tr>
</tbody>
</table>

Source: BA employee panel, authors' calculations.

In the group of sectors with a low share of low wages, the share of low wages increased from 4.4 per cent to some 5.3 per cent (2005), which was far below the overall growth rate. In this group, the average gross monthly wage was well above the level for the economy as a whole and, moreover, it increased much more strongly between 1998 and 2005 than it did in the economy as a whole. The second group, with a moderate share of low wages, experienced an average increase in the share of low wages, by 3.2 percentage points. Real gross monthly earnings increased by only 6.3 per cent, which was below average. In the group with high shares of low wages, the share of low-wage workers increased by 5.1 percentage points, which is above average. The evolution of wages in this category was below average.

These figures indicate that the low-wage sectors are increasingly separating out from the wage trend in the economy as a whole. The share of low-wage workers is growing faster in industries which already have high shares and wages are growing much faster in industries with low shares of low-wage workers. Obviously the wage agreements of the strong unions in the manufacturing sector are no longer serving as pattern agreements for the whole economy, as they have in the past.
### Table 6.9 Change in the share of low wages and average earnings by grouped economic sectors, Germany, 1998 and 2005 (full-time employees subject to compulsory social security contributions)

<table>
<thead>
<tr>
<th>Economic sectors by share of low wages</th>
<th>Share of low wages (%)</th>
<th>Average gross monthly earnings, adjusted for inflation (€)</th>
<th>Change 1998/2005 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sectors with a low share of low wages (≤50% of the overall level)</td>
<td>4.4</td>
<td>5.3</td>
<td>0.9</td>
</tr>
<tr>
<td>Sectors with a moderate share of low wages (50–150% of the overall level)</td>
<td>13.4</td>
<td>16.9</td>
<td>3.5</td>
</tr>
<tr>
<td>Sectors with a high share of low wages (&gt;150% of the overall level)</td>
<td>36.5</td>
<td>41.6</td>
<td>5.1</td>
</tr>
<tr>
<td>Economy as a whole</td>
<td>15.5</td>
<td>18.7</td>
<td>3.2</td>
</tr>
</tbody>
</table>

Source: BA employee panel, authors’ calculations.

### 6.5 INCOME MOBILITY OF THE LOW-PAID

From the perspective of social policy, short periods spent in low-wage employment are less problematic than if low-wage jobs are concentrated among certain groups who have no prospect of moving into more highly paid employment. One of the arguments frequently adduced in favour of encouraging low-wage jobs is that they offer a low-threshold entry point into better paid jobs.

Previous studies revealed that income mobility – that is, movement upwards to a better paid occupation – was greater in Germany at the beginning of the 1990s than in the United States or the United Kingdom (OECD, 1997: 31). We attempted to establish how the increase of the share of low-wage work affects upward mobility. Between 1975–76 and 2004–05, the trend in upward
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Figure 6.3. Trend in annual upward mobility rate, West Germany, 1975–2005 (all transitions)

Source: Authors’ calculations with the IAB (Institut für Berufsforschung) regional sample (until 2000/2001) and the BA employee panel (from 2001/02).

Mobility in western Germany was downward, even though there were temporary fluctuations caused by the economic situation (Figure 6.3).6

For the period between 2000 and 2005, the structural analysis shows that, in total, 15.4 per cent of low-wage earners managed to hurdle the low-wage threshold. The probability of upward mobility was considerably higher for men (21.7 per cent), university graduates (27.7 per cent) and younger people (26.0 per cent in the under-25 age group and 17.9 per cent in the 25–34 age group). The overall figure for workers with vocational qualifications was slightly above average, at 16.7 per cent. The chances of being upwardly mobile were greater in western Germany (15.7 per cent) than in eastern Germany (14.1 per cent). Women (12.1 per cent), low-skilled workers (13.3 per cent) and older workers were the groups with the lowest probability of upward mobility. As far as older workers are concerned, even those in the relatively young 35–44 age group, with an upward mobility rate of just 13.3 per cent, had a significantly below-average likelihood of moving up out of the low-wage sector, while the older age groups, with an upward mobility rate of 9 and 2.2 per cent, had very little chance of improving their income situation (Figure 6.4).

6. For methodological issues see Bosch and Kalina (2008).
6.6 LOW-WAGE WORK AND POVERTY

An individual on a low wage may be living above the poverty threshold if other family members are well-paid or if the household income is topped up by social security benefits. Conversely, in a large household with just one wage earner, it may be the case that even an income significantly above the low-wage threshold is not sufficient to avoid poverty.

Marlier and Ponthieux (2000) define low wages as wages of less than 60 per cent of the national monthly median wage and poverty as a household income below the threshold of 60 per cent of the national median income, adjusted using the modified OECD equivalence scale. According to their study, 24 per cent of low-wage earners in Germany should be classified as poor in the context of their household income and expenditure (EU-13: 20 per cent). Low-wage workers have a considerably greater risk of poverty than the employed population as a whole (10 per cent) and the total population (16 per cent). In Germany, 41 per cent of all poor employees work in the low-wage sector, which is above the EU-13 average of 37 per cent.

Since 1991, the share of poor households in Germany has increased. In that year, 9.3 per cent of all households had to get by on an equivalence income of

7. These monthly wages do not include social insurance contributions and taxes. Only employees working at least 15 hours per week are included in the analysis.
less than 50 per cent of the median income; by 2005, that figure had risen to 10.6 per cent. This rise is explained by the Federal Statistical Office as follows: "The increase in inequality that has been observed over many years is attributable primarily to the increasing spread of market incomes" (Statistisches Bundesamt, 2006).

Just as the income mobility of low-wage workers has declined, so has that of poor households. The German Council of Economic Experts (Sachverständigenrat, 2004) has found that upward mobility among poor households has decreased. While about 55 per cent of poor households in western Germany (1990) improved their income position up to 1993, from 1999 to 2002 only 39 per cent moved upward.

6.7 THE DEBATE ON MINIMUM WAGES

How could such a rapid increase in low wages, and even very low wages, occur in a social market economy like Germany? We believe the main reason to be the vulnerability of the German system of collective agreements to outsider competition, since there are, with a few exceptions, no binding minimum wage thresholds either at industry or national level. It can be assumed that the Hartz reforms are the main reason for the acceleration in low wages since 2004.

Growing from the mid-1990s onwards, the low-wage sector gave rise to knock-on effects even for highly unionized companies. Coverage by collective agreements declined, especially in eastern Germany (Figure 6.5). The wage differentials in the economy increasingly offer an incentive to outsource previously well-paid jobs to enterprises and industries with lower wages. Collective agreements are, with a few exceptions, not generally binding, as in France or the Netherlands, so that outsourcing to low-wage jobs takes place even in industries with high trade union density and coverage by collective agreements. This trend has been strongly supported by political intervention. Outside competition gained a great boost from changes in European competition rules. Freedom to provide services means that workers can be posted to Germany under the wage terms and conditions of their country of origin in all industries without statutory minimum wages. Only in the construction industry were collectively agreed minimum wages declared to be generally binding under the Law on posted workers. In contrast, in other industries, such as the meat industry, German workers, who were in any case already poorly paid, have been replaced by even more poorly paid contract workers (Czommer, 2007). The EC directives opening up the product markets of former public services (for example, postal services, telecommunications or local transport) have had even more far-reaching effects. The lack of a minimum threshold in
Germany, either through generally binding collective agreements or a national minimum wage, encourages companies to adopt business models that are no longer based on innovation, but instead on pushing down wages, as has been seen, for example, in postal services.

Agenda 2010 and the Hartz reforms of 2003 provided further political impetus for this trend. A particular result of the abolition of earnings-based unemployment benefit was increased pressure on skilled workers experiencing long-term unemployment, who had previously earned good wages, to accept a poorly paid job. Removal of the time restrictions on the hiring out of workers made it possible for companies to replace permanent employees with less well-paid temporary agency workers. The rules on equal pay for temporary agency workers, which were intended to restrict such practices, have had practically no effect, since temporary agency work companies can depart from this principle by applying a collective agreement. Many collective agreements with minority unions have now been concluded for temporary agency work, providing for hourly wages well below the low-wage threshold for those starting out in particular, and also well below the collectively agreed wages in general in industries where temporary agency work is typically used (Weinkopf, 2006).

Finally, a substantial increase in the earnings limit for mini-jobs in 2003 (from €325 to €400) must also be mentioned. It is true that in principle all the

**Figure 6.5 Coverage of employees by collective agreements in western and eastern Germany, 1998–2007 (%)**

protective regulations under labour law apply to employees in mini-jobs, and
that they are entitled to the same hourly wage as comparable employees sub-
ject to compulsory social security contributions. In practice, however, a
particular class of employee has been created from whom these rights are
often withheld. There are, for example, clear indications that such employees
frequently receive no wages for periods of sick-leave (Winkel, 2005).

One element of the political spectrum (in particular the CDU/CSU and
FDP) regards wage differentiation as the real reason for the strong increase in
employment. These politicians see general minimum wages as toxic to
employment. Instead, they propose needs-based topping-up of wages to
counter poverty. Such a nationwide, means-tested combi-wage, which is used
to top up low market incomes, had already been introduced with the Hartz
laws in 2004, in the form of unemployment benefit II. A rapidly rising num-
ber of employees (in 2007 more than 1 million employees and more than
400,000 full-time earners) are receiving unemployment benefit II to supple-
ment their earned income.

It is only since the number of people claiming top-up benefits started to rise
and some recent studies (see Kalina and Weinkopf, 2008) showed that the
extent of low-wage work in Germany is already considerable by international
standards that the need for a minimum wage has been increasingly debated.
The arguments advanced in favour of a minimum wage include the need, first,
to reduce poverty, second, to eliminate wage dumping and, third, to avoid incen-
tives for employers to pay low wages. Without a binding lower limit on wages,
employers can rely on the state, with its basic security benefits, to underwrite
the deficit if they continue to pay low wages or even cut wages further.

One major factor in changing attitudes towards the idea of a minimum
wage has been a shift of opinion in the German trade union movement. In the
past, trade unions were very reluctant to abandon their opposition to legal
minimum wages because to do so would have represented a break with the tra-
dition of negotiating wages themselves. The relatively powerful trade unions
in the manufacturing sector, in particular, also feared that their frequently
above-average wage levels would come under pressure if a lower legal mini-
mum wage was introduced. For this reason, they argued instead for the gener-
alization of industry-level minimum standards. However, the trade unions in
the service sector, in which wage levels have traditionally been considerably
lower in certain cases, were finding it increasingly difficult to negotiate
acceptable minimum standards in collective bargaining. Against this back-
ground, they were the first to start campaigning for a statutory minimum wage.
For some years, this lack of consensus within the trade union movement pro-
vided successive governments with a ready-made excuse to defer the matter,
particularly since the expansion of low-wage work was widely regarded as
necessary in order to reduce unemployment. It was not until 2006 that the
unions affiliated to the German Trade Union Confederation (DGB) combined
to make a joint demand for a statutory minimum wage. They are now demand­
ing a national minimum wage of €7.50 gross per hour (about 50 per cent of the
German full-time median wage).

The Social Democratic Party (SDP), which in 2004 was still aiming to pro­
mote wage differentiation with the Hartz laws, was already making the intro­
duction of a minimum wage one of its campaigning themes in the most recent
election campaign. In the employers’ camp, where, with the exception of the
construction industry, opinion has traditionally been against a minimum wage,
attitudes have also changed, at least in the employers’ associations in some of
the industries most affected by low wage levels (for example, contract clean­
ing and temporary agency work). Employers in these industries are increas­
ingly discovering the advantages of minimum wages as a means of eliminat­
ing wage dumping and are now calling for generally binding minimum wages
at industry level.

In addition to the shift in political attitudes towards a minimum wage on the
part of trade unions and employers’ associations, recent polls have shown that
a large majority of Germans are in favour of a minimum wage. Despite a
change of mood in the population generally, the unions and, to a limited
extent, some employers as well, there was strong opposition from the ma­
jority of employers and the Christian Democrats to minimum wages, which
led to the rejection of the simple solution of a national minimum wage for the
whole economy and to increased possibilities for declaring collective agree­
ments in industries as generally binding (as in France or the Netherlands). In
2005, the “grand coalition” formulated a rather complicated compromise on
minimum wages with two main proposals: (i) that collectively agreed mini­
mum wages at industry level can be declared generally binding in response to
an application by the two sides of industry; and (ii) for industries without col­
lective bargaining, to create the possibility of introducing minimum wages by
reforming the 1952 law on minimum working conditions (MiA).

6.7.1 Minimum wages in industries based on the revised law on posted
workers (AEntG)

In the past, collective agreements could be declared generally binding only via
the law on collective agreements. For this to be effective, the collective agree­
ment must already apply to 50 per cent of employees in the industry and, in
the central collective bargaining committee, representatives of the umbrella
organizations of employers and unions must be in agreement. In the past few
years, employer representatives of the umbrella organization (BDA
Bundesvereinigung Deutscher Arbeitgeberverbände) have, with a few excep­
tions, refused to agree to collective wage agreements being generally binding.
Minimum wages have been introduced via this route at national level only in the construction industry and in a few industries at regional level, such as hairdressing and security. During the late 1990s, the BDA indicated that it would no longer agree to minimum wages in the construction industry anymore since the agreed minimum wage in this industry was above the level in many service industries.

That is why, at the beginning of 2001, the Red/Green coalition government created the possibility of declaring minimum wage rates in the construction industry generally binding in a procedure in which employers and unions in only one industry are involved. This was done by using the law on posted workers, based on the European Union’s Posted Workers Directive. Under this law, the Federal Minister of Labour can declare a collective agreement on a minimum wage to be generally binding in response to an application by an industry, without a majority decision by the collective bargaining committee. The generally binding nature applies equally to German and non-German companies. It is a precondition, however, that collective agreements are in place which cover the whole of Germany. If individual companies or regions were to be excluded, the generally binding nature would not be admissible under European legislation, owing to discrimination against non-national companies.

The law has been applied to other industries. To date, minimum wages have been introduced in the construction industry, painting and varnishing trade, roofing trade, demolition industry, electrical trade, postal services and specialist cleaning trade (buildings) via the law on posted workers for about 1.9 million employees. By February 2009, a further six industries (with some 1.2 million employees) had been included in the law on posted workers:

- nursing services;
- security industry;
- waste management;
- continuing education;
- industrial laundries;
- mining specialists.

With regard to temporary agency work, discussions are still ongoing about how a minimum wage should be set (see case study 2).

If an industry has two competing applications for generally binding status, the decision should be taken based on the number of employees/union members covered by the collective agreement, and also on the criterion that full-time employees must be able to earn their living by means of the pay determined in the collective agreement, without being dependent on basic social protection. Due to pressure from the CDU/CSU, existing collective agreements have priority over a minimum wage until they expire, which will
be in 18–24 months. In addition, it has added that a “healthy balance” (“scho­
nender Ausgleich”) should be found between different agreements. This
unclear formulation gives the CDU/CSU the opportunity to block decisions on
minimum wage applications if they regard the balance as “unhealthy”.

In other low-wage industries on the 25-strong list of the Ministry of Labour,
the basic conditions for an application for a minimum wage to be introduced
are not fulfilled: that is, the employers refuse to conclude a collective agree­
ment of this kind (for example, hotels and restaurants, retail); or collective agree­
ments have been concluded only in some regions; or employers have no spokes­
men capable of acting at national level; or under 50 per cent of employers are
bound by collective agreements (for example, the meat processing industry).

6.7.2 Minimum wages based on the revised 1952 law on minimum
working conditions (MiA)

The bill for the revision of the 1952 law on minimum working conditions
(MiA) provides for the establishment of a central committee composed of six
experts. The experts will be proposed by the trade unions and the employers’
organizations but they cannot be employed by these organizations or represent
them. An impartial chairman with the right to vote will be chosen by the cen­
tral committee members. The central committee will investigate whether a
minimum wage should be introduced in industries where under 50 per cent of
employers are bound by collective agreements. The amount of the minimum
wage will then be determined by industry-based committees. Every industry
committee will be established on the basis of equal representation, with three
representatives each from the two sides of industry. There will also be an
impartial chairperson with the right to vote, who will be appointed by the two
sides.

The minimum wage proposed by the committee of experts will be laid
down by Federal Cabinet regulation, on a proposal by the Federal Ministry of
Labour and Social Affairs, and shall be applicable to both nationals and non­
nationals. In the event of competition with existing collective agreements, the
objectives of the MiA will be the deciding factor; for example, the obtaining
of employment subject to compulsory social security contributions and the
possibility of achieving an income sufficient to live on without state subsidies.
The government also decided to give collective agreements priority. In this
respect also follow-up agreements on existing agreements would have priority,
which could prevent the introduction of a national minimum wage for years in
some industries, such as security. This law was passed by the German
Parliament in February 2009.

The compromise of the “grand coalition” on minimum wages, the two bills
and their impact on wages are hard to understand, even for insiders. In short,
it can be said that Germany will have different minimum wages for different industries. Some of these minimum wages will be very low since employer-friendly unions may sign a collective agreement with low rates. In some low-wage industries there will be no minimum rates since the social partners, the politicians or the experts in the Central Committee do not agree. Because of the different rates and the lack of transparency substantial problems with compliance and control may arise.

6.8 CASE STUDIES

Minimum wages for postal services have now been introduced in accordance with the law on posted workers. For temporary agencies there is still a discussion about how to set up a minimum wage. There follows a more detailed description of the negotiation of the minimum wage in postal services and temporary agency work.

Case study 1: Battles over minimum wages in competitive postal services

When the official monopoly for postal services was abolished, new companies with substantial financial backing began to compete with the German post office (Deutsche Post). One was established by the Dutch post office (TNT) and another by the PIN group, involving several German newspaper publishers, with Axel Springer AG a major player. Deutsche Post was bound by its old collective agreements and paid hourly wages of over €10. The new companies were not bound by collective agreements, and their business model was largely based on undercutting wages. In some cases, hourly wages well below €7 were paid. With deregulation of the postal services market, the regulatory authority had been mandated to couple licences for new suppliers with compliance with minimum conditions, but made no use of this possibility.

In September 2007, “Postdienst”, the new postal services employers’ association, which was dominated by Deutsche Post and the ver.di trade union, agreed a minimum wage of €9.00 for postal workers in eastern Germany and €9.80 in western Germany. Since Deutsche Post employed well over 50 per cent of workers in the industry, the precondition for a declaration of generally binding status was fulfilled, and this duly ensued, despite strong opposition from parts of the CDU/CSU. In January 2008, the minimum wage was also extended to include postal services for letters weighing under 50 grams, since at that point Deutsche Post’s monopoly expired.

To avoid compliance with this minimum wage, on 12 December 2007 Deutsche Post’s competitors negotiated their own minimum wage through the
Federal Association of Courier/Express/Postal Services (Kurier-Express-Post­Dienste) and their own union, newly founded in Berlin on 8 October 2007, "Neue Brief- und Zustelldienste" (new letter and delivery services, GNBZ). This was set at €7.50 in western Germany and €6.50 in eastern Germany. On 14 December 2007, an application was submitted to the relevant Ministry for a declaration of generally binding status for this collective agreement.

For the business model of Deutsche Post’s competitors, in particular the PIN Group and TNT, the new legal minimum wage was too high. This led to the withdrawal of the PIN Group’s main backer from the company, as a result of which several companies in the group were forced to file petitions for bankruptcy. Owing to the competing collective agreement on a minimum wage, the Administrative Court in Berlin pronounced the declaration of generally binding status for the collective agreement on a minimum wage concluded by Deutsche Post and ver.di to be unlawful. The fundamental argument underpinning the verdict was that the Federal Ministry of Labour and Social Affairs had exceeded its powers in decreeing a minimum wage for a sector in which collective agreements on a minimum wage already existed. The court stated that this infringed the fundamental right to freedom of association pursuant to Article 9(3) of the Constitution. The Ministry has appealed against the verdict and has kept all existing minimum wage provisions in force for the present. The Federal Administrative Court is expected to issue a final verdict at the end of 2008. The Dutch TNT Group submitted a complaint to the European Commission on the grounds that the setting of excessively high minimum wages contravened freedom of establishment within the EU.

It has been revealed in the interim that the “Neue Brief- und Zustelldienste” union received financial subsidies from the PIN Group. This means that it was not independent of the opposing party, a precondition for recognition as a union which has the right to conclude collective agreements. The ver.di union filed an action against the rival GNBZ union, on the grounds that the latter was primarily financed by contributions from the employers.

The employers’ associations and influential elements of the Christian Democrats see the minimum wage in postal services as a misuse of the monopolistic power of the German Post to limit free competition, while the unions and the Social Democratic Party argue that wages should be taken out of competition.

Case study 2: Minimum wage to counter deregulation in temporary agencies?

Until 2003, the maximum duration of temporary agency work assignments with a company was two years. In addition, temporary agency work companies were not permitted to synchronize the duration of an employee’s contract of employment with that of a contract for the supply of a temporary agency
worker to avoid short-term contracts for temporary workers. These regulations on temporary agency work were abolished by the Hartz laws in order to increase the external flexibility of companies. As a countermove, the principle of equal pay/equal treatment was introduced to ensure that temporary agency workers were treated on a par with employees in the companies hiring them (Weinkopf, 2006: 7). However, deviations from equal payment are possible by the use of collective agreements.

Following this deregulation, providing temporary agency workers became less risky for temporary work companies, since they were no longer obliged to continue to employ workers in periods without assignments. Hiring temporary agency workers has become more attractive since now it is a much cheaper option. This is because the principle of equal payment has had almost no effect, since it can be invalidated by diverging collective agreements. In particular, the Federation of Christian Trade Unions, whose sympathies lie with the employers, was prepared to conclude collective agreements with the temporary agency work companies with low minimum pay rates. These collective agreements were concluded shortly after the law was amended, and in some cases provide for very low starting rates – for example, €5.20 in a collective agreement concluded by the Christian Zeitarbeit (temporary agency work) trade union and the association representing the interests of temporary agency work companies in northern Bavaria. Set against the conclusion of collective agreements with such low rates, the unions in the German Trade Union Confederation (DGB) found themselves obliged to enter into collective bargaining and, in May 2003, they concluded collective agreements with the employers’ associations BZA and iGZ, representing the interests of German temporary agency work companies. These agreements established, as from 1 January 2007, minimum pay rates of €7.15 in western Germany and €6.22 in eastern Germany, which were raised, as from 1 January 2008, to €7.31 in western Germany and €6.36 in eastern Germany. According to information from the iGZ, the pay of 95 per cent of temporary agency workers is based on collective agreements, often, however, with very low rates (Weinkopf, 2006: 7). A clear indicator of the low wages is the fact that 12.6 per cent of all temporary agency workers receive unemployment benefit II to top up their income to the poverty level, compared to 2.8 per cent of all employees (Deutscher Bundestag, 2008).

The number of employees engaged in temporary agency work increased from approximately 300,000 in 2004 to approximately 850,000 in June 2008 (Frankfurter Rundschau, 28 July 2008: 3), making the temporary agency work industry one of the fastest-growing in Germany. While, in the mid-1990s, temporary work was still predominantly concentrated in the fields of metalworking and electrical trades, there has been a substantial increase in its use in auxiliary work and service activities, which accounted for the majority of temporary agency work in 2007.
An application has been submitted for temporary work to be included in the law on posted workers but, to date, it has been unsuccessful owing to the fact that there are several competing collective agreements between temporary agency work companies and Christian unions sympathetic to employers, in which the levels of pay are well below the collective agreement negotiated with the DGB unions. Nevertheless, even the DGB pay scale is well below the lowest pay categories for non-temporary workers in many of the companies hiring temporary agency workers. In the metal industry, the wage rates for simple jobs are over €10 per hour. This has led many companies in this industry to replace permanent employees with temporary agency workers. The IG Metall union is now trying to push through equal pay for temporary agency workers in works agreements to avoid the replacement of permanent workers by temporary workers, and has already succeeded in doing so in several companies. In September 2008, Chancellor Merkel said that the Christian Democrats would not agree to a minimum wage for temporary work since, in this industry, most workers are covered by a collective agreement. The current position of the CDU is that there will be no minimum wage in the temporary work sector before the elections in September 2009. Temporary agencies are still not included in the law on posted workers. As things stand (July 2009), the idea is to introduce a minimum wage by means of the law on temporary employment. Whether or not this will be practicable remains unclear. A minimum wage established in this way would not apply to foreign companies, so it can be regarded as a bad compromise.

The two case studies reflect the difficulties of re-introducing minimum standards in industries recently deregulated. In Germany, the lack of generally binding pay conditions gave rise, in some industries, after privatization or deregulation to an underbidding “war” between firms that were bound by collective agreements and those that were not. Such “wars” can be observed not only in postal services and temporary agencies but also in local transportation, railways, telecommunications and public utilities. The business model of many of the new providers is built on low wages. To protect this business model, the new providers formed their own employers’ associations and, in some cases, even their own trade unions. They also managed to obtain political support, so that the views within the “grand coalition” on minimum wages differ substantially. Unless minimum wages are introduced, the former industry-wide collective agreements will be fragmented or will disappear.

6.9 CONCLUSIONS

Since the mid-1990s, wages in Germany have become widely dispersed, and the low-wage sector has grown considerably. This has affected both full-time
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and part-time employees (including workers with mini-jobs). It is not only specific groups of people who are affected by low wages, such as young people or the low-skilled, but, increasingly, also the middle-aged groups and skilled workers. The redistribution of wages has not been restricted to the lowest income group, but also extends into middle income groups. The middle level in terms of income distribution has been greatly thinned out. There have been marked increases in wage differences between large enterprises and smaller enterprises, and between the industries more and less rigidly bound by collective agreements. The reason for this is that the binding effect of the German system of collective agreements, which has always been vulnerable to outsider competition, has been further weakened by political intervention. To prevent further growth in the low-wage sector and fragmentation of the wage spectrum, a change of course is called for – among other things by introducing a binding minimum wage threshold.

In an economy with open labour markets and deregulated product markets, the way back to the “good old days” before 1990 is blocked. New paths have to be found in order to lay down binding minimum wage thresholds, even for areas in which unions and employers’ associations do not have a presence or are too weak. If very low wages and wage dumping are to be effectively prevented, a general statutory minimum wage must be introduced; as the success of the UK model shows, if the level is appropriate it does not harm employment (Bosch and Weinkopf, 2006). It does not appear to be adequate to rely solely on industry-based solutions alone, since, in that event, some of the very industries in which low wages are particularly prevalent will remain excluded. However, a substantial package of reforms also calls for the special status of mini-jobs to be abolished, and for them to be integrated into the system of employment subject to compulsory social security contributions, and for equal payment for temporary agency workers to be implemented. If the special status of mini-jobs is abolished, then enforcement of employment rights and social security entitlements linked with the mini-jobs becomes easier. Finally, it must be made easier for collective agreements to be made generally binding. This seems all the more necessary in that, in accordance with the April 2008 Judgment of the European Court of Justice (Az C-346/06), measures to implement minimum standards are no longer permissible. Such measures include the laws in eight German Länder that require companies awarded public contracts to abide by local collective agreements – these measures do not apply to all companies or all contracts, including private contracts, in an industry.
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