

# EC project – Minimum Wage Systems and Changing Industrial Relations in Europe

## National Report Germany

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### 1. Introduction

In international comparisons Germany has long been seen as a country with comparatively narrow wage dispersion and only a limited proportion of low-paid workers. Since the mid-1990s, the low-wage sector has grown considerably and has now almost reached the share seen in the USA (Solow 2007).

The main reason is the vulnerability of the German system of collective agreements to outside competition. Since there are no binding minimum wage thresholds (as a result of a statutory minimum wage or generally binding collective agreements), it is possible to pay wages below the industry rates. Prior to the reunification of Germany, this played only a secondary role. But since the mid-1990s starting in eastern Germany, and subsequently in western Germany also, many companies left employers' associations or did not join them, in order to be able to pay lower wages. Growth in the low-wage sector since the mid-1990s gave rise to knock-on effects even for highly unionised companies. Coverage by collective agreements declined especially in eastern Germany. A widening of wage differentials in the economy increasingly offers an incentive to outsource previously well-paid jobs to industries and enterprises with lower wages. This trend has been strongly supported by political interventions. Competition from firms outside Germany obtained a significant boost from changes in European competition rules. Freedom to provide services means that workers can be posted to Germany under the terms and conditions, including wages, specified in their country of origin. Only in the construction industry were collectively agreed minimum wages declared to be generally binding under the Law on the posting of workers. The EC directives opening up the product markets of former public services (e.g. postal services, telecommunications or local transport) have had even more far-reaching effects. While in most other European countries new suppliers of such services have to adhere to generally binding collective agreements, in Germany they are free to set wages to suit business and market conditions.

A further political impetus was given by the Hartz reforms, implemented by the red-green government in 2003. In particular three changes made to laws increased the downward pressure on wages. First, since 2004 long-term unemployed persons receive only a standard

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minimum payment (€359 per month in 2010 for a single person<sup>3</sup>) plus an additional rent subsidy, replacing the former entitlement to income-related unemployment assistance. The change has increased the financial pressures, even on skilled long-term unemployed persons, to take on low-wage jobs. Second, the removal of time limits for assignments of temporary agency workers has provided companies the possibility to replace long-standing staff with lower paid temporary agency workers on a permanent basis. The legal obligation to provide temporary agency workers with equal pay, intended to compensate the substantial relaxation of other regulatory conditions, has proven ineffective in Germany (unlike in France) because a loophole in the law allows employers to avoid an equal pay comparison by negotiating a distinctive collective wage agreement under the framework of the temporary work agency industry agreement. In reality, this clause has deprived the equal pay principle of any effect. Numerous collective wage agreements for temporary agency work are now in effect with hourly wages significantly below the low wage threshold as well as significantly lower than standard negotiated wages in typical industries (Weinkopf 2006). Third, we must mention the significant raise since 2003 in the upper earning limit for mini-jobs from €325 to €400 per month and the elimination of the former maximum of 15 hours per week. The number of these jobs with frequently very low hourly pay has increased substantially in recent years.

It is only since the number of people claiming top-up benefits (means-tested in-work benefits for low wage earners) started to rise and some recent studies (Bosch and Kalina 2008; Kalina and Weinkopf 2009) showed that the extent of low-wage work in Germany is already quite 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 to prevent poverty even among those in full-time employment and to eliminate wage dumping. Without a binding lower limit on wages, employers can rely on the state, with its in-work-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, they were very reluctant to abandon their opposition to statutory minimum wages. The relatively powerful trade unions in the manufacturing sector, in particular, feared that their frequently above-average wage levels would come under pressure if a lower minimum wage was introduced. On the other hand, the trade unions in the service sector, in which wage levels have traditionally in some cases been considerably lower, were finding it increasingly difficult to reach acceptable minimum standards in collective bargaining. Against this background, they were the first to start campaigning for a statutory minimum wage. For some years, this lack of consensus within the trade union movement provided successive governments with a ready-made excuse to kick the issue into the long grass, 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) mobilised themselves to make a joint demand for a statutory minimum wage. Since May 2010, the recommended level stands at €8.50 per hour.

The SPD and the Greens have made a political U-turn. Still promoting the expansion of the low-wage sector by means of the Hartz reforms in 2003, they began, in 2005, at the end of their shared term and prior to the Bundestag elections, to demand minimum wages (differentiated by sector or as a uniform statutory MW). The employers and conservative

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<sup>3</sup> For a second adult in a household the monthly rate is €23 and for a child of up to 25 it is between €15 and €27 (2010 data).

parties (CDU/CSU and FDP), for their part, oppose minimum wages to this day with the argument that this drives out jobs.

Although polls have shown that a large majority of Germans are in favour of a minimum wage, the former great coalition (2005 – 2009) failed to, due to different positions of the two ruling parties, agree on a general minimum wage for the whole economy. Instead, minimum wages were to be determined for separate industries. To achieve this, in 2007 they agreed upon a choice of two mechanisms which, as we detail in this report, provides numerous possibilities for politics, employers, and competing unions to block its practical application. Minimum wages are thus very slow to come to fruition and we anticipate, instead, the emergence of a patchwork of different minimum wages and large unregulated work zones without a binding minimum wage. In the current climate, it is rather unlikely that the new government elected in September 2009 will follow the path of the former great coalition, particularly given the FDP's strong opposition to any form of minimum labour standards.

The report is organised as follows. Section 2 assesses the political context to the continuing absence of a statutory minimum wage in Germany and shows that the compromise arrangement involving two routes for setting industry-specific minimum wages is rather complicated. Section 3 provides information on the interaction of pay trends and the industrial relation system. Section 4 reviews pay trends in eight low paying sectors and provides summary portraits of key issues in each. Section 5 reports the findings from the case studies in the three selected industries: construction, cleaning, and temporary work agencies. Finally, section 6 provides a summary and reflection on the key findings. We argue that the institutional mechanisms devised for the implementation of industry-specific minimum wages provide numerous intended and unintended possibilities for politics, employers, and competing unions to block their practical application. Minimum wages in Germany are thus very slow in their realisation and a patchwork of different minimum wages together with large unregulated zones of wage-setting without binding minimum standards will be the result in the short to medium-term. Enforcement of a simple and well-known national statutory standard would be undoubtedly more straightforward.

## **2. Minimum wage policy and pay trends**

### **2.1. Minimum wage policy**

In the 1990s, minimum wage policy was a topic of discussion only in the German construction industry. In this industry many companies sourced jobs out to companies from southern, central, and eastern Europe who posted their workforce in Germany at the lower wages of their home countries. The low wages not only undercut the collective wage agreements but also distorted competition between companies. Unions and employers in construction then agreed on industry-wide minimum wages and, in 1996, pushed these through against harsh resistance from the umbrella employers' associations. According to the Law on the Posting of Workers (*Arbeitnehmer-Entsendegesetz*), which is based on the EU Posted Workers Directive, these minimum wages then also apply to posted workers from other EU countries working on construction sites in Germany.

Up until recently, the construction industry was considered an exception to the rule. Unions, employers' associations, and political parties agreed that wages for other industries should be negotiated exclusively by the respective partners and that the state should not intervene. This consensus fell apart when it became clear that the collective wage system was no longer in a position to set effective minimum standards for the various industries (see section 1).

The former great coalition (2005 – 2009) failed, due to different positions of the two ruling parties, to agree on a general statutory minimum wage on the basis of the British or French model. Instead, minimum wages were to be determined for separate industries. To achieve this, the big coalition agreed upon a choice of two mechanisms:

- i) Industry-specific minimum wages based on collective agreements: Employers and unions can conclude collective wage agreements for their respective minimum wages. If these agreements cover 50% of employees and are concluded at the national level, the government can declare them as generally applicable and binding on the basis of the Law on the Posting of Workers. However, these conditions were met only by some industries (e.g., construction industry and cleaning industry). At the same time, other industries with a high proportion of low wages, such as the meat industry, have no German-wide collective wage negotiation mechanism in place, with the result that such agreements cannot be concluded. Moreover, further industries such as temporary work are characterized by competing collective wage agreements with different minimum wage levels. Moreover, the Christian unions, i.e., employer-friendly “yellow unions” with few members, are ready to undercut collective agreements of the other unions belonging to the German confederation of trade unions (DGB). Through such actions by organisations that should not qualify as true unions (they violate conflict-of-interest laws, because they are supported by the employers’ associations, and have no negotiating power) collective wage autonomy is being hollowed out in the lower wage sector.
- ii) Industry Minimum Wages in industries with no or weak collective bargaining: The second mechanism was intended to build upon a reform of the 1952 Minimum Working Conditions Act (*Mindestarbeitsbedingengesetz*). Accordingly, minimum standards can be determined, on demand from employer associations, unions or the governments of the federal states, for industries that do not fulfil the above-mentioned conditions. The procedure foresees that a steering committee (*Hauptausschuss*), composed of two representatives each from unions, employers’ associations, and science as well as one independent chairperson, investigates whether an industry is characterised by social rifts to the extent that minimum wages seem necessary. If the steering committee determines such a need, then an expert committee of representatives of the employers and unions of the respective industry will be created that can agree on a minimum wage that can then be declared generally applicable. In both committees, an independent chairperson would have the authority to break stalemates and tie votes. At the time of producing this report (summer 2010), the steering committee has met only once, in September 2009, and has not made a decision on a new minimum wage.

In 2008, eight industries submitted applications for the implementation of industry-specific minimum wages based on the Law on the Posting of Workers:

- temporary work agencies;
- care services;
- security services;
- waste management;
- continuing education;
- forestry services;
- industrial laundries;

- mining specialists.

Although six of these applications (except temporary work agencies and forestry services) were principally accepted by the government in January 2009, minimum wages were implemented only for two industries by the end of 2009: industrial laundries and mining specialists. The minimum wage for waste management that was agreed upon at the same time (August 2009) was not implemented until January 2010. This was mainly due to some controversial debates across the new government elected in September 2009.

For continuing education and security services, collective agreements on a minimum wage have been concluded but in both cases one side of the social partners voted against their implementation in the meeting of the national Collective Bargaining Committee in August 2009. The union representatives did not support the implementation in security services because the collective agreements had been negotiated by a Christian union. And employer representatives voted against an agreement for continuing education because they did not consider the need in that industry. In the care services sector, due to the heterogeneous structure of providers (public, private, non-profit, churches) a uniform collective agreement has still not been established. Against this background, the reformed Law on the Posting of Workers contains a clause for the establishment of a commission to agree upon minimum rates in industries where negotiations have been delayed. The first meeting of this commission took place in September 2009. In May 2010, an agreement on minimum wage rates was reached and was implemented in August 2010. However, the level of the finally agreed minimum can be assumed to be rather low – at the lower end of the possible range discussed before.

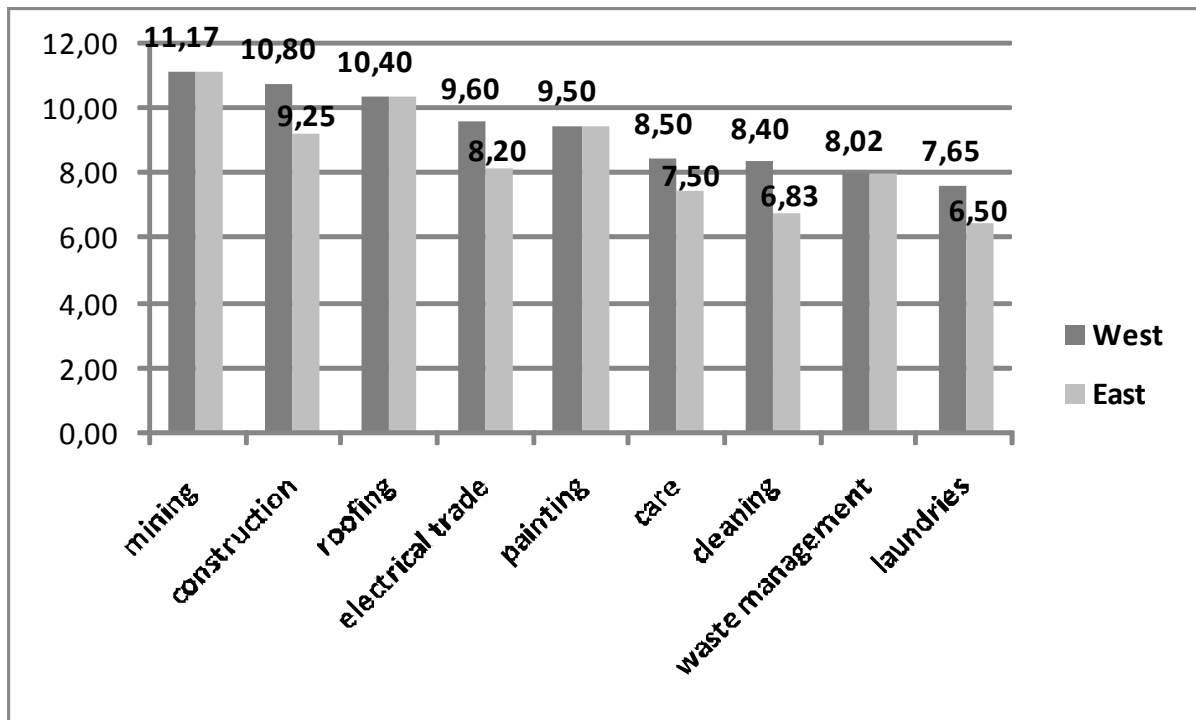
Table 1 shows the industries in which minimum wages prevail, as of May 2010. Notably, the minimum wage for the cleaning industry introduced in mid 2007, was postponed after a bargaining conflict in summer 2009 (Dribbusch 2009). Although the social partners finally agreed upon new wage levels in October 2009, the administrative extension process lasted several months (until 10 March 2010).

**Table 1. Industry minimum wages (according to the Law on the Posting of Workers), gross hourly rates (May 2010)**

Industry	Occupation	MW
<b>Main construction (388,900 employees)</b>		
Western Germany and Berlin	Low-skilled	10.80 €
	Semi-skilled	12.90 €(12.75 €in Berlin)
Eastern Germany		9.25 €
<b>Mining specialists (2,500 employees)</b>		
Germany	Wage scale I	11.17 €
	Wage scale II	12.41 €
<b>Roofing trade (59,000 employees)</b>		
Germany		10.40 €
<b>Electric trade (282,600 employees)</b>		
Western Germany		9.60 €
Eastern Germany and Berlin		8.20 €
<b>Commercial cleaning (860,000 employees)</b>		
Western Germany and Berlin	basic cleaning	8.40 €
	Outside cleaning	11.13 €
Eastern Germany	Basic cleaning	6.83 €
	Outside cleaning	8.66 €
<b>Industrial laundries (35,000 employees)</b>		
Western Germany		7.65 €
Eastern Germany		6.50 €
<b>Painting and varnishing trade (111,400 employees)</b>		
Germany	Unskilled	9.50 €
Western Germany	Journeymen	11.25 €
<b>Waste management (130,000 employees)</b>		
Germany		8.02 €
<b>Care services (800,000 employees) – to be implemented in August 2010</b>		
Western Germany		8.50 €
Eastern Germany		7.50 €

Source: Own compilation based on [www.mindestlohn.de](http://www.mindestlohn.de) and Bundesministerium für Arbeit und Soziales 2010

Figure 1 illustrates the large variation of minimum pay rates with the highest level for mining specialists and the lowest level in industrial laundries. While four sectors have uniform minimum wages for eastern and western Germany, the other sectors still differentiate between East and West.

**Figure 1. Sector-specific minimum wage rates, 2010\***

\* The figure focuses solely on the lower MW-rates. As shown in table 1, in the western German construction industry and in cleaning, there are additional minimum wage rates for skilled occupations.

Source: Own compilation

No minimum wages have yet been set via the second mechanism, as the reform of the Minimum Working Conditions Act was delayed by the CDU/CSU, with the effect that the steering committee met for the first time in September 2009, shortly before the federal elections. The prospects for further progress with minimum wage policy have worsened substantially as the new German government does not wish to embark on this path. The coalition agreement of the new government states the following with regard to the keywords ‘wage autonomy / statutory minimum wage’:

“The CDU, CSU, and FDP are committed to autonomy in wage bargaining. It holds great value, is an indispensable part of the social market economy, and is to have precedence over any state-regulated wage fixing. We oppose a standard statutory minimum wage. For this reason, we wish to strengthen the collective bargaining committee so that employers and employees may work together in their obligation to determine wages. Declarations of duly negotiated generally binding collective wage agreements are amicably concluded in the cabinet. A condition for this is essentially a majority in the collective bargaining committee. An evaluation of the existing legal regulations concerning minimum wages will be completed by October 2011. In this task, we aim to verify whether these regulations threaten jobs or otherwise hinder new modes of employment. We also aim to verify whether they ensure both the required protection of employees and the competitiveness of the different industries. The results of this evaluation will serve as a basis for the decision on whether the minimum wage laws in effect are valid or should be abolished. In the meantime, the pending proceedings of the German federal court concerning the minimum wage for postal workers are awaited.” (Translation of the Coalition Agreement 2009: 21)

In the policy debate about the minimum wage, it is important to consider the interactions with other areas of labour market policy, especially with in-work-benefits and between mini-jobs and welfare payments and taxes:

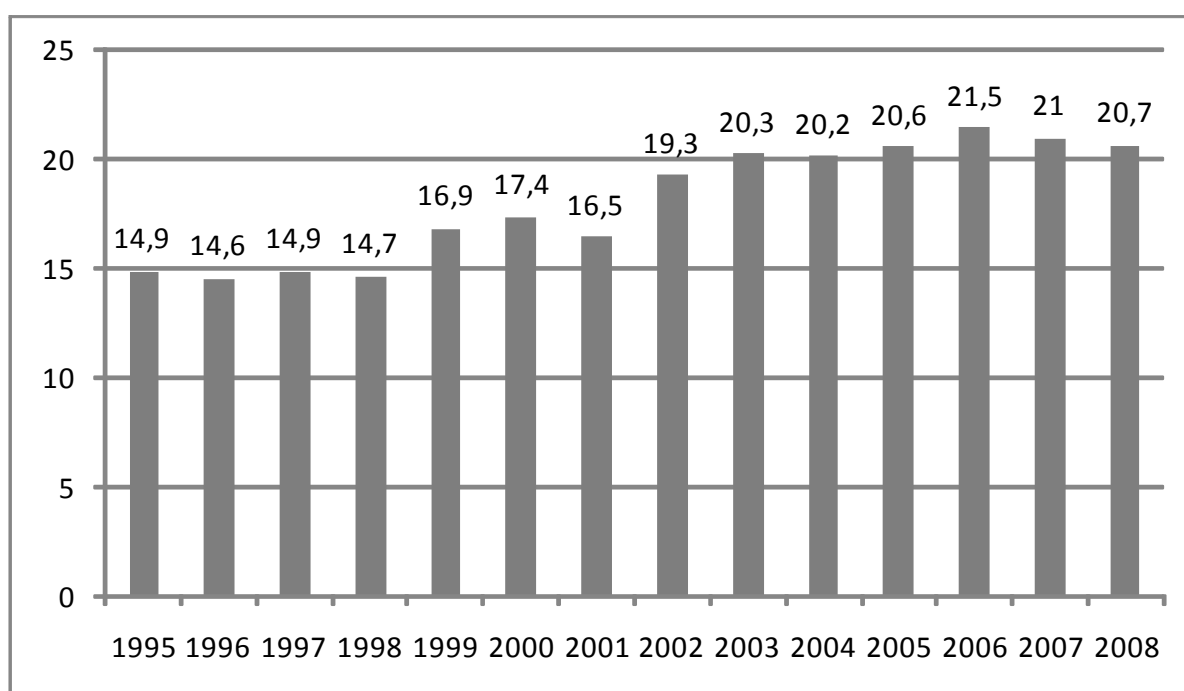
- Interaction with in-work-benefits: Around one of four recipients of unemployment benefit II (*Arbeitslosengeld II*) (around 1.3 million people) are employees who do not earn enough to cover their household-related minimum need. Among them are many part-timers (and mini-jobbers) but very low hourly wages also play an important role in that regard: Almost 30% in western and even almost 40% of them in eastern Germany earn less than € gross per hour. Wages below €7.50 affect around 58% of the employed recipients in western and more than three quarters in eastern Germany (Dietz et al. 2009: 3). Accordingly, it can be argued that low wages in Germany are frequently subsidized by social benefits and that there is no effective mechanism against an abuse by employers who run a low cost strategy.
- Interaction of mini-jobs with welfare payments and taxes: Employees earning less than €400 per month (€325 before 2003) are not covered by the general obligation to pay social insurance contributions. Employers, on the other hand, pay a flat-rate contribution of 30% (13% for health insurance, 15% for old-age pension and a 2% flat-rate tax). However, this flat-rate employers' contribution does not give marginal part-time employees any entitlement to social insurance benefits. Workers may also hold mini-jobs in addition to their main employment, whether they are employees or self-employed. Mini-jobbers' exemption from tax and social security contributions is a considerable subsidy for the low-wage sector, i.e. for jobs that are either low paid or involve a small number of hours, that is paid completely regardless of other earnings, assets or household income. Although mini-jobbers, like all other employees, are legally entitled to holiday and sick pay and other employment rights, in many cases they are paid only for the hours they work. The surpluses in the equalization fund from which sickness benefits are paid are another indication of illegal practices on the part of employees. Few of the firms that employ marginal part-time workers apply for compensation for the wages they continue to pay to employees who fall sick (Bäcker 2006: 258). The extremely high shares of low pay among mini-jobbers suggest that in many cases it is in fact employers rather than employees who benefit from the subsidy. They pay mini-jobbers lower rates, often in contravention of the relevant collective agreement (Weinkopf 2009). Nevertheless, mini-jobs are often also attractive to employees because they derive social security entitlements from their spouses or because a second job exempt from income tax means they can avoid paying a higher rate of tax, which would not be the case if they worked overtime in their main jobs. Against this background, the number of mini-jobbers has risen considerably, from 5.53 million in June 2003 to approximately 7.3 million in 2009. Research suggests that this increase does not represent significant positive employment effects but rather a substitution of standard employment relationships with the aim of reducing labour costs (Bäcker 2006).

## 2.2. Pay trends

Our data analysis in this section concentrates on the development of low wages in Germany, defined as gross hourly earnings less than two thirds of the median for all employees.

- The share of low wage workers increased from 14.9% in 1995 to 20.7% in 2008 (Figure 2 and Table 2).



**Figure 2. Low pay incidence in Germany, 1995-2008 (in % of total employment)**

Source: IAQ-calculations with GSOEP 2008.

**Table 2. Wage trends in Germany (mean and median wages, low pay incidence), 1995-2008**

Year	Mean wage (€per hour)	Median wage (€per hour)	Low pay incidence (in % of total employment)
1995	13.14	11.74	14.9
1996	13.41	12.06	14.6
1997	13.43	12.29	14.9
1998	13.93	12.37	14.7
1999	13.93	12.58	16.9
2000	13.81	12.64	17.4
2001	13.46	12.39	16.5
2002	14.41	13.11	19.3
2003	14.85	13.74	20.3
2004	14.94	13.80	20.2
2005	14.91	13.75	20.6
2006	14.77	13.53	21.5
2007	14.85	13.55	21.0
2008	14.93	13.59	20.7

Source: IAQ-calculations with GSOEP 2008.

- 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 has been a substantial worsening of the gap between the bottom decile of income distribution and the middle decile, from 1.79 to 2.18 between 1995 and 2006, while the gap between the middle and top deciles has remained largely unchanged (Table 3). Absolute amounts of mean and

median wages have been stagnating in recent years and have lost substantially in real terms. Average low wages recently even declined in nominal terms.

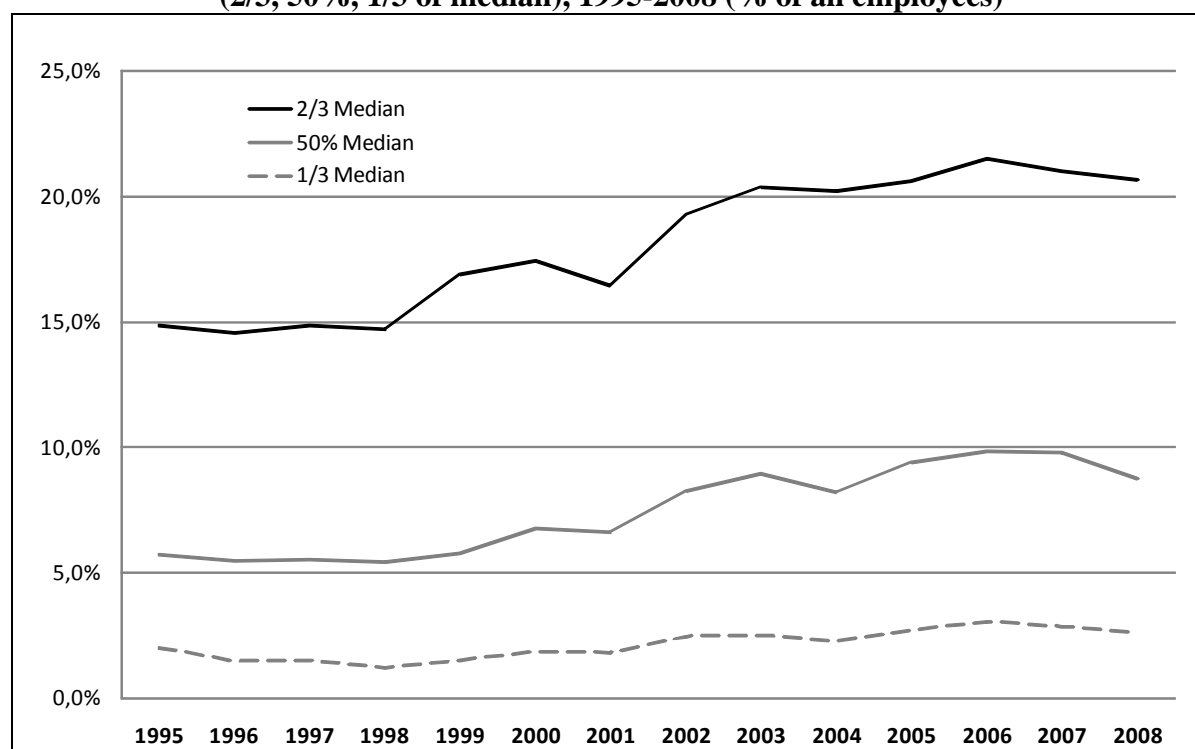
**Table 3. Trends in income inequality, Germany (hourly wages, all employees)**

	1995	2000	2006
D9/D5	1.75	1.74	1.77
D9/D1	3.13	3.23	3.86
D5/D1	1.79	1.85	2.18

Source: IAQ-calculations with GSOEP 2006 (taken from Bosch/Kalina/Weinkopf 2008).

- Within the low-wage sector, the incidence of very low wages has been increasing. As shown in Figure 3, the proportion of employees with wages below 50% of the median wage has almost doubled in recent years. And even the share of those with wages below one third of the median wage has been slightly rising in recent years.

**Figure 3. Proportion of employees with hourly wages below various low pay thresholds (2/3, 50%, 1/3 of median), 1995-2008 (% of all employees)**



Source: IAQ-calculations with GSOEP 2008.

Statistics on the number and the composition of minimum wage workers in the industries with a minimum wage are not available. The characteristics of the low paid are shown in Table 4. Although the risk of low pay is largely above-average for low-skilled, young and non-nationals, it is notable that the large majority of the low-paid in Germany are skilled employees from the mid-age groups and with a German nationality. In 2008, only one fifth

of all low wage workers in Germany were low-skilled. The percentage of employees with a vocational or academic degree among low-wage workers rose significantly from 1995 to 2008, namely from 67.1% to 79.2%. Thus, more than three out of four low-wage workers in Germany qualify as skilled workers - a value considered extremely high even in international comparison. By contrast, in the United States some 70% of the low-wage workforce has no degree or only a high school degree, i.e., an educational level below that of a completed apprenticeship in Germany (CBO 2006: 18; Appelbaum et al. 2003). This marked difference in the qualification profile of the low-wage workers can be attributed, in part, to the prolonged period of high unemployment in Germany, under which even highly qualified workers are pressured to take on low-paid jobs. On the other hand, the low-skilled workforce in Germany is relatively small in international comparison due to the country's well-developed vocational education and training system.

As regards gender, the risk of low pay is still much higher for women than for men although the risk of low pay for men has been increasing substantially in recent years. Nevertheless, in 2008, more than two thirds of the low-paid were female employees.

The differentiation by contract and employment form indicates that an increasing number of low-wage employees are also affected by temporary contracts and reduced working hours. The share of full-time employees among the low paid has decreased in recent years. However, this does not mean that full-time employees in 2008 bear a lower risk to be low paid compared to 1995. Instead, the incidence of low pay in full-time employment has been increasing (from 10.8 up to 12.3%).

**Table 4. Share of low-paid employees by employee categories and composition of the low-paid (Germany, all employees; separate low-wage thresholds for eastern and western Germany, in %)**

Category		Share of low paid in category		Composition of the low paid	
		1995	2008	1995	2008
Qualification <sup>4</sup>	No vocational training	29.2	37.9	29.1	20.4
	Vocational training qualification	14.0	21.8	63.4	71.9
	Graduates	6.0	7.6	7.6	7.7
Sex	Male	8.0	12.2	31.6	30.8
	Female	24.9	29.9	68.4	69.2
Age	under 25	34.3	54.4	15.3	13.2
	25 – 34	14.0	21.6	26.8	21.6
	35 – 44	12.3	17.7	22.7	25.4
	45 – 54	12.0	15.6	19.2	22.2
	55+	17.5	23.8	16.0	17.5
Nationality	German	14.3	19.5	87.3	86.2
	Non-German	20.6	33.7	12.7	13.8
Contract	Permanent	28.3	38.9	11.5	21.8
	Temporary	13.8	16.1	88.5	78.2
Employment form	Full-time	11.3	12.7	61.1	44.7
	Insurable part-time	21.5	24.9	24.3	23.5
	Mini-job	85.1	86.2	14.6	31.8
<b>Overall (Germany)</b>		14.7	21.5	100	100

Source: IAQ-calculations with GSOEP 2008.

As the few industries with industry-specific minimum wages are predominantly located in the construction sector or related crafts, it can be assumed that minimum wage employees in Germany are more likely to be male workers than among the low-paid in general with a large majority of women.

Recently, several industries have applied for binding minimum pay standards (among them further training/education, care and industrial laundries with a higher proportion of female workers), the gender relation may be shifting somewhat. However, by now, only industrial laundries have a minimum wage of 7.65 € in western and 6.50 € in eastern Germany – i.e. at very low levels. Moreover, the industry is rather small with around 35,000 employees across Germany. In quantitative terms, the care services sector for which minimum wages were implemented in August 2010 is much more important. However, the minimum wages were agreed at the lowest end of the range discussed before (with hourly rates of €8.50 for western and €7.50 for eastern Germany).

<sup>4</sup> In several cases, no information was available on the training level. In this table, it was assumed that these cases were distributed across all training levels in proportion to their share (for this approach, see also Reinberg/Hummel 2002 and Reinberg/Schreyer 2003).

### 3. Interaction with the industrial relations system

In Germany, the coverage through collective wage agreements dropped to 63% of all employees in western Germany and even to 52% in eastern Germany in 2008. This is especially due to companies resigning from employers' associations or to newly founded companies not joining the associations in the first place. This has led to the formation of a considerably large and unregulated labour market with low wages alongside the classic German collective wage model. To save expenses, many companies bound to collective wage agreements began to outsource activities to smaller and medium-size companies that are not bound to those agreements. Most of these smaller and medium-sized companies have no Works Councils, which, given their co-determination rights, generally function as watchdogs for wage dumping. In specific service industries with a lower rate of organisation on the employer side as well as the union side, such as retail, coverage through collective wage standards had been ensured in many small and medium-sized companies primarily through a declaration of general applicability in the past. For many years now, however, employers' associations are refusing to give their consent to the general applicability and binding nature of collective wage agreements in the national Collective Bargaining Committee (*Tarifausschuss*). To avoid the veto of the employers' association in the Collective Bargaining Committee the red-green government introduced new mechanisms to extend collective agreements on minimum wages in 2000 based on the Law on the Posting of Workers. If the social partners agree on a minimum wage then the state can declare it as binding without the agreement of the Collective Bargaining Committee (see section 2.1.).

However, the complex system of regulations provides numerous possibilities for politics, employers, and competing unions to block its practical application. Minimum wages are thus very slow to come around and we anticipate, instead, a patchwork of different minimum wages and large unregulated work zones without a binding minimum wage. Unlike in other countries such as the United Kingdom or France, there is no self-enforcing effect by means of a simple structure. For this reason, many employees in Germany do not even know the respective minimum wage they are entitled to or how to ensure a minimum wage is enforced. The inspection authorities will become increasingly over-stretched as poorly paid jobs are shifted to non-regulated areas. A social project to stop sweatshop wages ("*Vermeidung von Ausbeuterlöhnen*"), which is enjoying great popularity, may ultimately lose credibility in a context where employer compliance to minimum wages cannot be ensured.

### 4. Selected sectors

Table 5 provides an overview on key issues for the nine selected sectors to be studied in more detail. Data on trade union membership rates differentiated by sector are only partially available. The overall trade union membership rate in Germany is estimated at around 20% of all employees (2007). Data on collective bargaining coverage is sometimes only available for groups of sectors and not for single industries.

**Table 5. Selected issues by sectors**

Sector	Trade union membership	Collective bargaining coverage of employees <sup>5</sup>	Predominant workforce group
Construction		Over average (72% in 2007) Sectoral agreements: 69% (75% in western and 48% in eastern Germany) Firm-level agreements: 3% (2% in western and 8% in eastern Germany )	male, full-time
Retail		Below average: 50% in 2007 (commerce and reparation) sectoral agreements: 48% in western and 24% in eastern Germany Firm-level agreements: 5% in western and 6% in eastern Germany	Female, part-time and mini-jobs
Cleaning	7%	Data is only available for company related services: 45% sectoral agreements: 37% in western and 45% in eastern Germany Firm-level agreements: 6% in western and 7% in eastern Germany Coverage in cleaning might be higher due to the extension of collectively agreed minimum wages	Female, part-time and mini-jobs
Care		Data on coverage is not available Public providers are typically covered by the agreements for the public sector; churches have their own rates; no sectoral agreement for private providers	Female, part-time
Security		Data on coverage is not available Application for extension of collectively agreed minimum wages	Male, full-time
Hospitality	Low	Low	Female, part-time and mini-jobs
Clothing			
Food processing		Data on coverage is not available, but coverage tends to be very low and fragmented	Depends on sub-sector (meat: male, full-time; confectionary: much more women and part-time)
Agency work	Very low – estimated at 4-5%	Very high (> 95%) in order to circumvent the equal pay principle, coverage by different agreements (three competing national and firm specific) Application for extension of collectively agreed minimum wages	Male, full-time

Source: Own compilation; coverage data is taken from Ellguth/Kohaut 2009.

<sup>5</sup> The overall coverage of employees was 63% in western and 53% in eastern Germany (total: 61%). The coverage of companies by collective agreements was at 36% in western and 20% in eastern Germany (2007).

#### 4.1. Wage data

The following wage calculations in this section are based on the German Socio-Economic Panel (GSOEP) for 2008. Compared to other data sources, the main advantage of the GSOEP is that it includes precise data on working hours and consequently allows a differentiation between full time and part time employees (which is not possible with other datasets such as provided by the Federal Employment Service (*Bundesagentur für Arbeit*)). The disadvantage of the GSOEP, however, is that the number of cases is relatively small which restricts the scope of differentiation by sector or occupation. Thus, we could not carry out any pay calculations for clothing because the number of cases in 2008 was too small.

It is also worth mentioning that we had to use the NACE 2003 codes in order to identify the selected sectors because the 2008-wave of GSOEP still does not follow the new NACE 2008 differentiation. Moreover, for three sectors (cleaning, care and security), it was necessary to use ISCO-codes because the GSOEP only contains NACE-codes at a two-digit level. For agency work, we have used a special question in the GSOEP to identify the respective workers.

According to our calculations, the mean gross hourly wage for all employees<sup>6</sup> in Germany in 2008 was €14.93 and the median hourly wage was €13.59 (Table 6). Accordingly, the hourly low pay threshold, defined as two thirds of the median, was €9.06. Table 6 provides an overview of the mean and median hourly wages and the incidence of hourly low pay in the selected sectors (for more details broken down by sex and working time see the appendix).

**Table 6. Wage levels and low pay incidence in the selected sectors, 2008**

Sector	mean	median	Low-Pay incidence
Construction	13.33 €	12.86 €	10.5%
Care	12.16 €	11.98 €	26.7%
Food processing	11.87 €	11.50 €	33.3%
Retail	11.53 €	10.43 €	34.0%
Agency work	9.50 €	8.52 €	51.9%
Security	8.91 €	7.73 €	54.0%
Hospitality	8.76 €	8.28 €	60.5%
Cleaning	8.41 €	7.67 €	78.4%
All sectors	14.93 €	13.69 €	20.7%

*Note: pay data refer to gross hourly earnings for all employees*

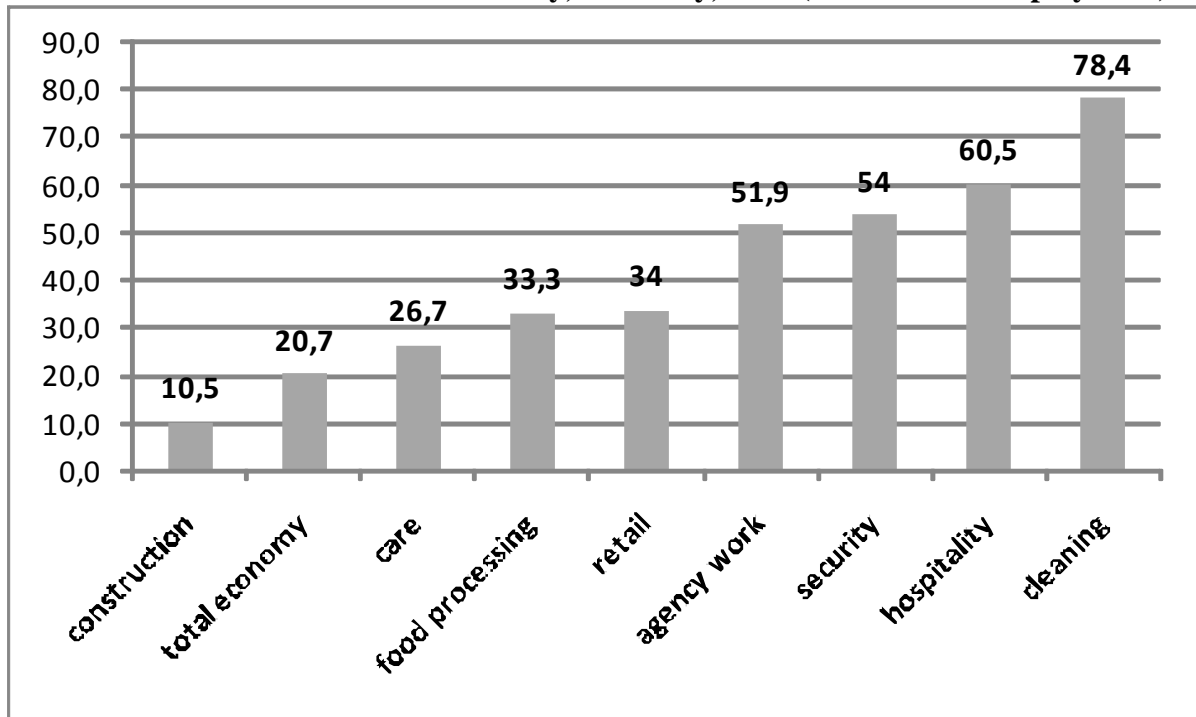
*Source: Own calculations based on GSOEP 2008.*

Figure 4 provides an overview of the low pay incidence in the selected sectors relative to the level found in the total economy. With the exception of the construction sector, all selected

<sup>6</sup> Categories of workers for whom no meaningful hourly rates could be calculated or to whom special pay rules apply were excluded (self-employed and freelancers, family workers, trainees, interns, people on retraining programs, those undergoing rehabilitation, people on job creation and structural adjustment schemes, employees in workshops for the disabled, conscripts and individuals doing alternative community service and older workers on partial retirement schemes). Also excluded were high-school and university students and pensioners, because these groups are typically doing spare-time jobs only.

sectors are above average in this regard.

**Figure 4. Low pay incidence (hourly wage below two thirds of median) in the selected sectors and total economy, Germany, 2008 (in % of total employment)**

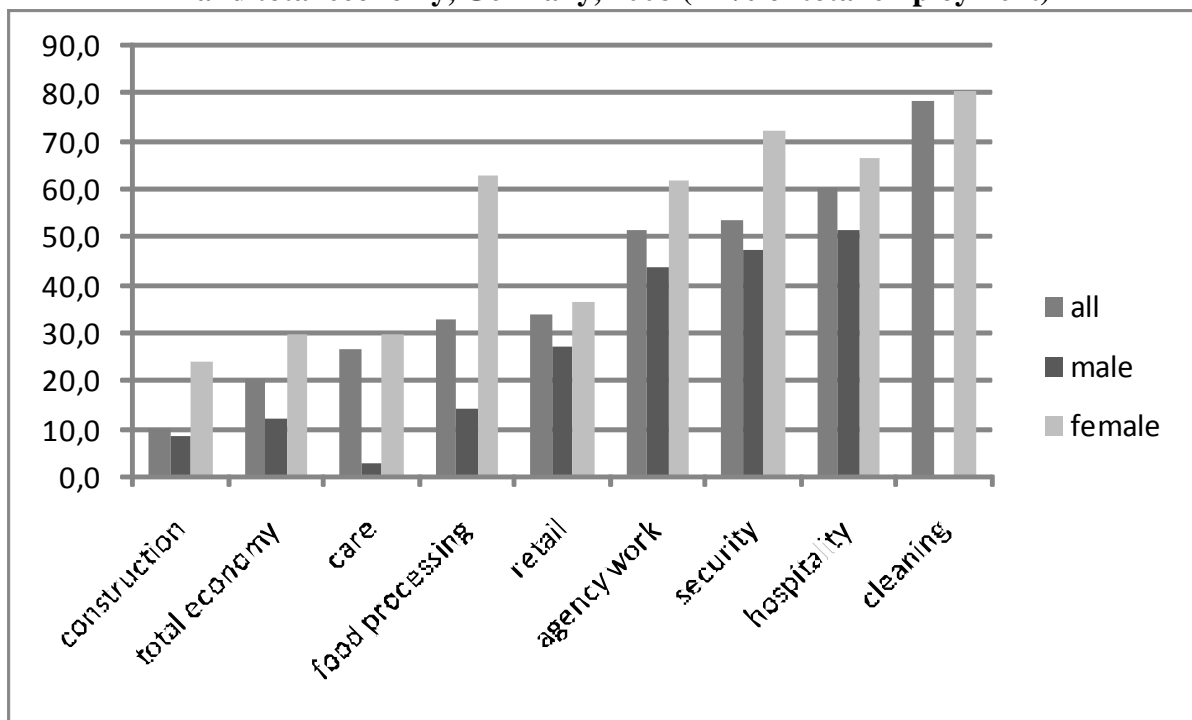


Source: IAQ-calculations with GSOEP 2008.

Figures 5 and 6 show further differentiations of the low pay incidence by sex and working time. The overall picture is that women and part-time employees are more frequently affected by low pay than men and full-time employees. However, it is notable that there is a large variation of patterns across the sectors.



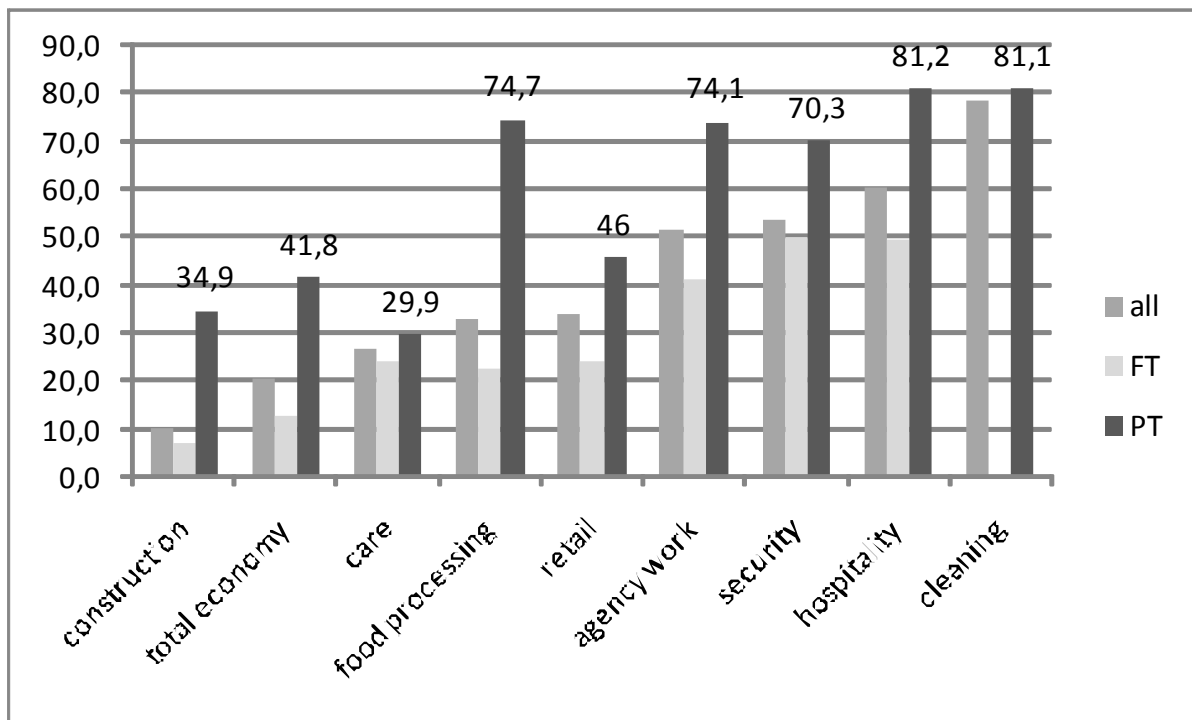
**Figure 5. Low pay incidence – overall and differentiated by sex – in the selected sectors and total economy, Germany, 2008 (in % of total employment)**



*Note: Due to a small number of cases, female low-pay incidence in transport and male low-pay incidence in cleaning is not available.*

*Source: IAQ-calculations with GSOEP 2008.*

**Figure 6. Low pay incidence – overall and differentiated by full-time versus part-time employment – in the selected sectors and total economy, Germany, 2008 (in % of total employment)**



Note: Due to low number of cases, full-time low pay incidence in cleaning has been excluded  
Source: IAQ-calculations with GSOEP2008.

#### 4.2. Comparative issues on wages across the sectors

- The lowest incidence of low wages can be found in the construction sector with 10.5% whereas the highest incidence affects cleaning (78.4%), hospitality (60.5%) and security services (54.0%). The industry-specific minimum wages are in construction above and in the cleaning sector below the low-pay threshold.
- The mean wages per hour are highest in construction (€13.33) and lowest in cleaning (€8.41), hospitality (€8.76) and security (€8.91). These sectors only reach between 56.3 and 59.7% of the overall mean wage.
- Median wages are highest in construction (€12.86) and care (€11.98) and lowest in cleaning (€7.67) and security (€7.73).
- In all sectors, the low pay incidence of women is higher than among men. The lowest rates for women can be found in construction (24.2%) whereas for men the lowest rates are in care (3.2%) and in construction (9%). The incidence of low pay among women is extremely high in cleaning (80.2%), security (72.2%) and hospitality (66.7%); for men – however at a lower level – in hospitality (51.7%) and security (47.5%).
- Median wages of men and women are closest together in hospitality and retail (female median wages reach 96.1% and 88.6%, respectively, of male median wages). The highest differentials by gender are in food processing and care (female median wages reach only 65% and 72.2%, respectively, of male median wages).

- Mean and median wages for part-time workers (men and women) are typically lower than for full-time workers. As regards mean wages, the “part-time wage gap” is highest in food processing (70.1% of full-time wage) and lowest in care (92.8%) (total economy: 74.1%). The range of the part-time gap among median wages is even higher – ranging from 58.3% of FT-wages in food processing to almost same levels (98.8%) in cleaning (total economy: 69.9%).
- Differentiated by gender, the part-time wage gap of men is much higher than for women (total economy: 59.6%). Due to the low numbers of male part-time workers in most of the selected sectors, a sector-specific comparison is only possible for security: The median wage for male part-time workers reaches only 53.7% of male full-time workers. Among women, the median wage of part-time employees in the total economy is 79.7% of full-time employees. Across the selected sectors, the median wage of female part-time employees is even slightly above the full-time wage in food processing (100.9%). The largest gap affects part-time working women in temp agencies and security where they earn only 71.7% and 73%, respectively, of full-time employees.
- The median wages of female full-time employees are typically lower compared to men with the exception of temporary work agencies (€10.35 for women and €9.13 for men). As regards part-time employees, a comparison is only possible in security where the female median wage is slightly higher (€5.29 compared to €4.98).

### 4.3. Sector summaries

In the following, a brief summary for each sector on the roles and responses of social actors and processes of social dialogue, collective bargaining and MW issues that might be of interest is provided.

#### *Construction*

Industry-specific minimum wages for the main construction industry have been declared generally binding since 1996 (according to the Law on the Posting of Workers). In eastern Germany, the minimum wage or wages slightly above are the going-rate, whereas in western Germany the collectively agreed wage scale (above the two minimum wages) plays a more important role. Both, union and employer associations are in favour of sectoral minimum wages (however, the support by some eastern German employers is weaker). In 2003 a second minimum wage for skilled workers was agreed for western and eastern Germany and Berlin respectively.. In the collective bargaining round of 2009, it has been agreed to equalise the different MW-levels in western and eastern Germany in the next few years and to abolish the second minimum wage in eastern Germany.

The minimum wage rates are above the low wage threshold (€10.80 and €12.90 (for skilled workers) in western and €9.25 in eastern Germany). Union representatives in the construction sector tend to be critical about the unions’ demand for a statutory national minimum wage of €8.50 (since May 2010) because they fear that this might exert a downward pressure on the higher sectoral pay levels and particularly the minimum wage rates agreed in the construction industry

Recent results from a survey of employees in the main construction industry reveal that the compliance of minimum wage rates tends to be quite high (Bosch et al. 2010). As we describe in more detail below, there are nevertheless many deviations from collectively agreed standards concerning other wage components such as travel and accommodation

supplements and yearly bonuses (for Christmas or vacations). Skilled workers were also often on a lower pay grade than the one to which their job and qualifications actually entitle them.

### ***Retail***

Until about 2000, the collective agreements in retail had been declared generally binding. Since then, more fragmentation has come into place. Coverage has fallen to 50% (30% in eastern Germany). Particularly in the sub-sector of discounters (such as the company KIK), hourly wages of €5 or even below seem to be widespread. Another strategy practiced by the company Schlecker in recent months has been to shift staff to a Schlecker-related temp agency that sets very low wage rates. After a broad public and political debate about that, the company announced in January 2010 that it will not continue with that approach of cutting wages.

There is a large variation of collectively agreed entry levels across eastern and western Germany and across the federal states. The lowest hourly collectively agreed rate in 2009 was €7.02 for clerks in Lower Saxony; the highest hourly entry-level wage was €10.49 for blue-collar workers in Hamburg. Our calculations indicate that median hourly rates are €1.48 for full-time employees and €9.52 for part-timers. Mini-jobbers are typically paid less – even in companies bound to collective agreements and despite the fact that non-discrimination is required by law.

### ***Cleaning***

The cleaning industry was included in the Law on the Posting of Workers in 2008. Thus, collectively agreed entry wages have been declared generally binding. However, between September 2009 and March 2010, the extension of minimum wages in the cleaning sector was postponed. The background were conflicts in the recent collective bargaining round. Finally, after some strikes, a new collective agreement was successfully negotiated in late October 2009. The collectively agreed new minimum wage rates since January 2010 are €8.40 in western Germany and €6.83 in eastern Germany. A second minimum wage rate has also been agreed for skilled window cleaners (€1.13 in western and €8.66 in eastern Germany). Although the extension of these minimum wages was demanded by employers and union for the beginning of 2010, the administrative procedure was not completed until March 2010.

It can be assumed that the large majority of employees in the cleaning sector are paid at the lower minimum wage level (the employers' association estimates two thirds). This has also been confirmed by our own wage calculations that indicate the median wage, at just €7.67, is the lowest of all sectors – even lower than in hospitality – and that the low pay incidence in cleaning is by far the highest. However, it has to be taken into account that our calculations may include cleaners who are not covered by the sectoral MW because they work in private households or other sectors.

The employers' association in the cleaning sector claims to be in favour of the implementation of a uniform statutory minimum wage for all sectors (BIV 2008). However, at the company level, the strategies and positions of employers are more diverse. For instance, several employers reduced wage levels for new entrants immediately after the obligation to comply with minimum standards had been postponed during late 2009 and wages were reduced by up to 30%.

### **Care**

The care sector applied for industry-specific minimum wage rates in 2009 and they were implemented in August 2010. Collective agreements differ by region and by affiliation of the providers – e.g. churches, public vs. private etc. There is no national collective agreement for private providers.

The Commission to agree upon a sectoral minimum wage was established in September 2009. It has eight members - two from the union ver.di and two employee representatives from church charity associations (*Caritas* and *Diakonie*) and four from the employer side (including public, private and two church charity associations) - under the lead of a representative of the ministry for labour and social affairs.

In May 2010, the commission agreed upon minimum rates of €8.50 in western and €7.50 in eastern Germany. This is exactly the level demanded by the private employers' association (*Arbeitgeberverband Pflege*) established in June 2009 and the lowest rate under debate before. As many care providers set entry wages at a higher level, it remains to be seen whether there will be a downward pressure in the future.

### **Security**

The security sector applied for industry-specific minimum wages which are differentiated by regions (federal states) with a range of €6.00 - €8.32 in western Germany and €6.00 - €6.50 in eastern Germany. However, the minimum wages have not yet been implemented because union representatives from the DGB voted against them in the meeting of the national Collective Bargaining Committee (*Tarifausschuss*) in August 2009 on the basis that the collective agreement had been negotiated by a small Christian union (*Gewerkschaft Öffentlicher Dienst und Dienstleistungen – GÖD*). The DGB sector union, ver.di, was also involved in the bargaining process but refused to agree upon hourly wages below €7.50, which was their recommended statutory minimum wage level at that time.

This position has been criticized because the recent ver.di collective agreements contained wages below this threshold. The GÖD claims that the new collective agreements would improve wages by around 35% compared to the former collectively agreed wages.

In spring 2010, another collective agreement was concluded between ver.di and the employers' association. It contains staged increases in the minimum wage rates up to €7.50 for eastern Germany from the beginning of 2013. However, by now, no information is available about further steps or considerations that these standards will be implemented in the nearer future.

### **Hospitality**

According to our wage calculations, more than 60% of all employees in this sector are paid below the low wage threshold, and among part-timers the low pay incidence is even higher with more than 81%.

The main employer association DEHOGA strictly opposes minimum wages and is continuously demanding a further relaxation of the mini-job regulation, namely to increase the monthly pay threshold of €400 for non-insurable mini-jobs. The DGB member union, the NGG, is campaigning for a statutory minimum wage because they assume that adequate wage levels cannot be negotiated at the sectoral level anymore. The NGG claims that even employers bound to collective agreements frequently undercut these standards. In a former

hotel study undertaken by our institute, several union representatives claimed that being paid in time is not always self-evident for the employees.

### ***Clothing***

Employment has sharply decreased in this sector, from 216,000 employees in 1991 to 49,300 employees in 2003. Most jobs have been relocated to other countries such as in East Asia.

The lowest collectively agreed wages vary by region and status of the employee: According to data from the *WSI-Tarifarchiv*, the lowest hourly wage rate for clerks in 2008 was €6.54 (*Niedersachsen*) and €8.23 for blue-collar workers (*Saarland*).

### ***Food processing***

In food processing, there are only a few sectoral collective agreements such as those for confectionary and breweries. In most other sectors, like the meat industry, there are only firm agreements in the larger companies. This is mainly due to the lack of employer associations willing to negotiate collective agreements with the union NGG. In certain sub-sectors such as slaughter houses and meat processing, wages have been under severe pressure in recent years due to extremely low-paid posted workers from Eastern Europe.

Our wage calculations have indicated that one in three employees in the food processing sector is low-paid. Thus, the low-pay incidence is very high compared to other manufacturing sectors.

### ***Agency work***

The temporary agency sector is somewhat exceptional compared to other sectors. While there had been almost no collectively agreed pay standards until 2002, the situation has changed completely since 2003. Coverage is now almost at 100% and thereby the highest across all sectors. The background is the deregulation of the sector agreed in December 2002 and the exception from the principles of “equal treatment” and “equal pay” if pay is related to a TAW collective wage agreement (see 6.2 for more details).

## **6. Empirical evidence from three sectors**

In Germany, the fieldwork research focused on three sectors: construction, because this sector has the longest tradition of sectoral minimum wages in Germany; cleaning as another large sector with industry-specific minimum wages since 2008 (and a long tradition of extended collective agreements before); and temp agencies because employers and unions in the sector have been demanding for minimum wages since 2006/2007. Interviews were carried out mainly at the sectoral level (with employer associations and unions) – eight in construction, two in cleaning, and six in the temp agency sector.

### **6.1. Construction industry**

Long before minimum wage policy was discussed at national level in Germany, trade unions and employers’ organisations in the construction industry had reached agreement on the introduction of minimum wages for manual workers in their industry. It was due not least to their discreet joint lobbying that, when the Posted Workers Act was passed in 1996, the legal

preconditions for minimum wages were put in place at the same time. There are two reasons for the particular path taken by the social partners in the construction industry:

- The industry was the first to be seriously exposed to unregulated wage competition from posted workers from other EU member states. The freedom to provide services within the EU enabled seconding companies for the most part to undercut the statutory and collectively agreed regulations at the place of deployment and to operate in Germany on the basis of the employment and working conditions prevailing in the home country. This development led to ruinous price competition and also called into question the territorial principle governing key employment and social provisions, according to which all individuals employed within a state's territory are subject to the standards prevailing in that state. Because of the post-unification construction boom and Germany's relatively high wages, the construction industry was the principal target industry for seconded workers (Bosch/Zühlke-Robinet 2000). This regulatory deficit was deplored by the social partners in the construction industry and by politicians and demands were made for changes to the regulations on seconded workers.
- The two major employers' associations in the construction industry (one for the artisanal and one for the industrial sector) and the construction trade union IG BAU could both look back on a long tradition of close partnership that had seen the negotiation of many generally binding regulations governing the construction labour market and their incorporation into collective agreements. Around 20% of the wages bill must be paid into a jointly administered social security fund (SOKA Bau), which pays wages during annual holidays, tops up the statutory pension, pays part of the cost of apprentice training and also provides allowances for work in bad weather. The operation of these social security funds depends on generally binding collective agreements that oblige outsiders to contribute to these costs. Wage cost competition had been restricted in the German construction labour market by the social partners' joint activities. Thus the social partners put in place regulations ensuring that temporary agency work was possible only within the industry and that temporary agency workers from sectors with lower wages were excluded from construction work. The centralisation of wages policy on both sides and the close links to the two major political parties, the CDU/CSU and the SPD, meant the social partners wielded considerable power and influence in the political sphere, regardless of the specific coalition that happened to be in power.

Agreement on minimum wages in the construction industry was reached in 1996; the agreed rates were also to apply to seconded workers from other countries. However, the first collective agreement on minimum wages was not declared generally binding until 1 January 1997, because the representatives of the National Federation of German Employers' Associations (the BDA) on the national negotiating committee initially refused to agree to the declaration of general applicability; only after pressure was exerted by the Federal Ministry of Labour and the construction employers' associations threatened to pull out of the Federation did they give way. This dispute in the employers' camp influenced the negotiations on the minimum wage in the industry. As a consequence of the BDA's interventions, no further increases in the minimum wage could be pushed through during the first two years, 1997 and 1998 (see Figure 7). The Green-SPD coalition put an end to this dispute in the employers' camp by making it possible for the minimum wage agreements to be declared generally binding by a statutory order issued by the Ministry of Labour, that is, without the agreement of the negotiating committee.

Initially, just one minimum wage was introduced, with separate rates for eastern and western Germany/Berlin. In 2003, a second minimum wage for skilled workers was agreed for

eastern and western Germany/Berlin respectively. Within Germany, the place of work principle applies to the minimum wages because of regional differences in wage rates, i.e. the minimum rate of pay must be the minimum wage prevailing at the building site in question. However, workers from western Germany and Berlin are paid the western German rate when they are working on eastern German sites.

Many of the seconded workers were employed in skilled jobs and, on the minimum wages, were able to undercut German skilled workers, paid on the collectively agreed rates, by a considerable margin. Figure 1 shows that in 1997 the lower minimum wages for western and eastern Germany were still close to each other. In the years that followed, the continued weakness of the eastern German economy meant that the trade unions had to give up any hope of seeing a rapid convergence of wages rates in the two parts of Germany. Instead, they agreed to a widening of the wage gap between eastern and western Germany. In recent years, the priorities have changed again. It has become clear that it is difficult to monitor compliance with the minimum wage rates because of the very complicated differences in rates. Consequently, the social partners agreed at the last wage round to bring the lower minimum wages in eastern and western Germany into line with each other in stages over the next few years. In 2009, the second minimum wage in eastern Germany (for the skilled manual worker) was abolished, since minimum wage 1 had become the going rate and minimum wage 2, as we discuss below, could not be enforced in practice.

The minimum wages are closely linked to the full wage ‘grid’, which has 6 pay scales in all. The collective agreement on minimum wages in the construction industry sets the bottom two pay scales of the wage classification system. Different minimum wages have been agreed for West and East Germany as well as for Berlin which covers eastern and western construction labour markets (Table 7).

**Table 7. Minimum wage rates in the construction industry by pay scale, April 2010**

Pay scale	Designation	West	Berlin	East
Minimum wage 1	Workman Machine operator	10.80 €	10.80 €	9.25 €
Minimum wage 2	Skilled worker Specialist machine operator Driver	12.90 €	12.75 €	*

Note: the collectively agreed hourly rates include the construction supplement;

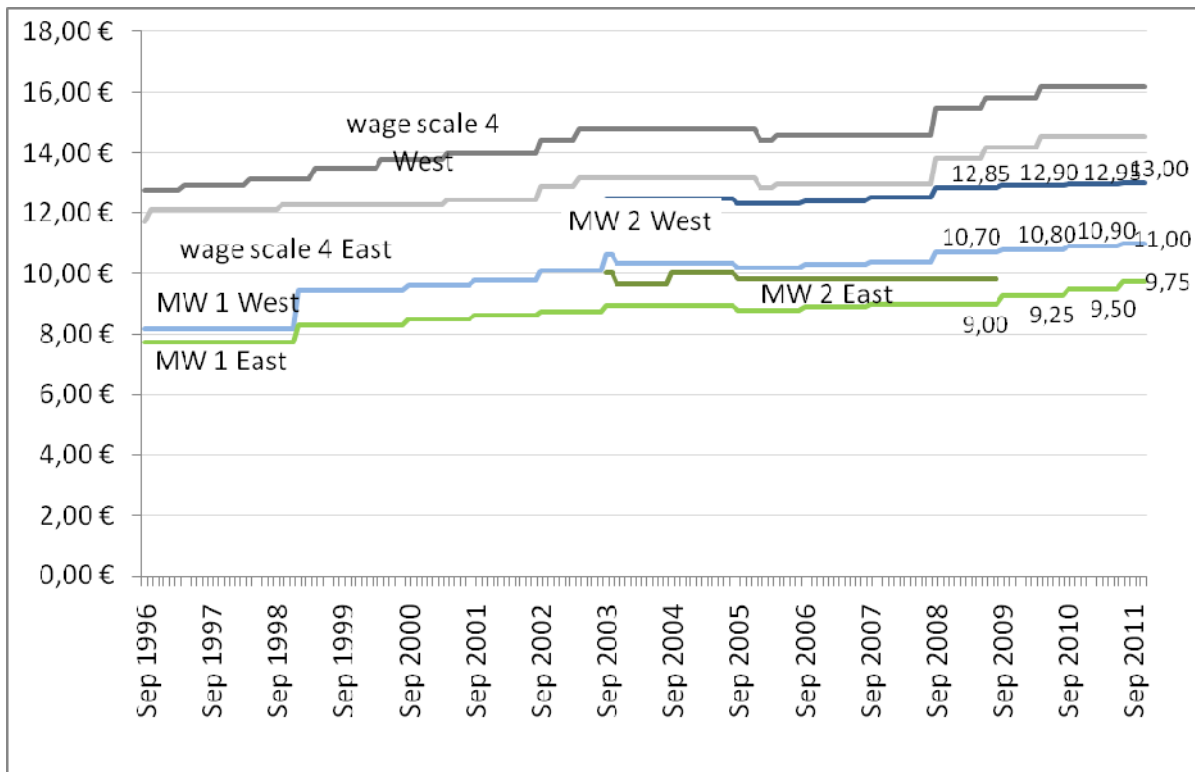
\* abolished in September 2009.

Source: *Hauptverband der Deutschen Bauindustrie 2009, own depiction.*

In 1996, the minimum wages in eastern and western Germany had been about at the same level and then differentiated afterwards (Figure 7). Until 2011, the intention is to reduce the East-West-differentiation. The second MW in eastern Germany for semi-skilled workers was abolished in 2009 due to pressures from the employers. In western Germany, the minimum wage 2 for semi-skilled workers has been less increased than the collectively agreed wages for skilled workers.

**Figure 7. Pay trends in the German construction industry, 1996 – 2011**



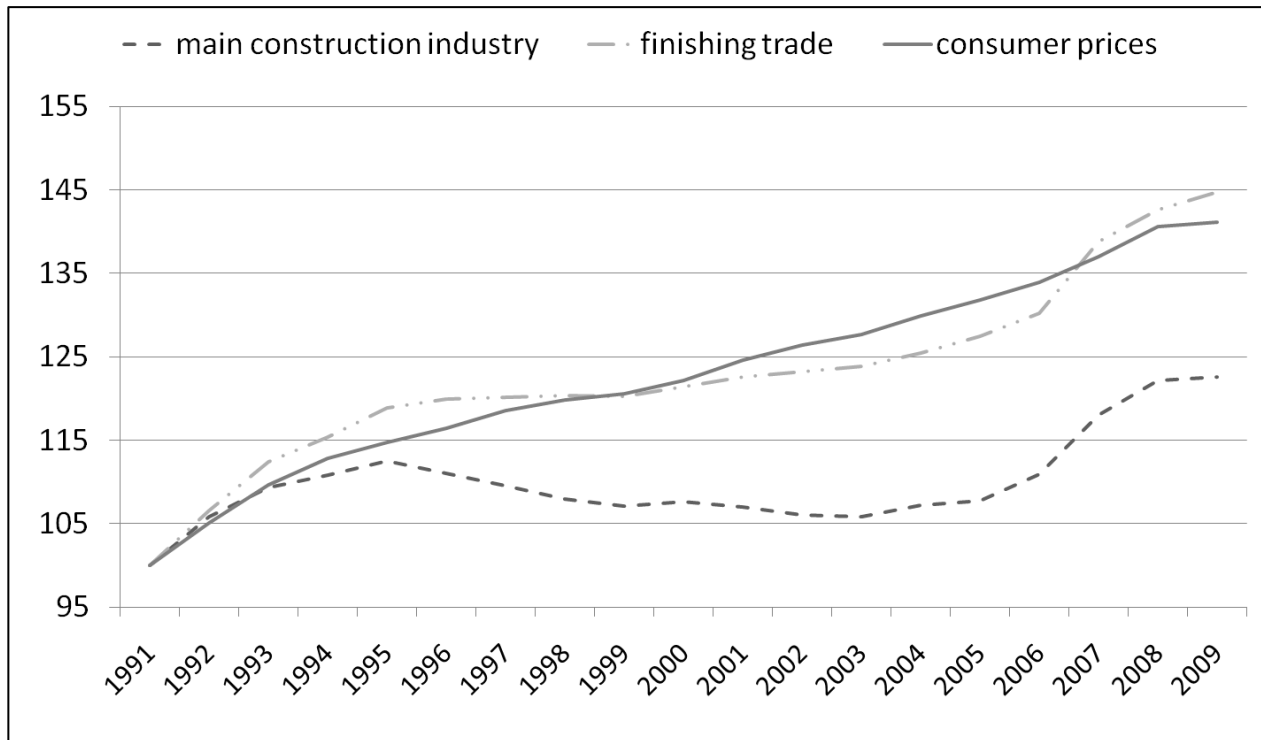


Note: MW1 is the lower minimum wage, MW2 is the minimum wage for skilled workers, wage scale 4 is a higher collectively agreed pay grade.

Source: Own compilation

Some case studies have indicated considerable shortcomings in the implementation of minimum wages and collective agreements, particularly in eastern Germany and in small firms (Artus et al. 2000). The abolition of minimum wage 2 in eastern Germany points in the same direction. There are a number of structural reasons for these shortcomings in implementation. Firstly, the industry lost approximately half of its workforce after the reunification boom. This decline reduced the bargaining power of the workers substantially. Secondly, there has been a sharp decline in prices relative to the economy as a whole, since many firms have tried (often in vain) to survive by offering low prices (Figure 8). Thirdly, there is a representation deficit in the construction industry. Because it is dominated by small firms, only around 20% of the construction workforce were employed in a firm with a works council in 2009, compared with 69% in the manufacturing sector in western Germany (and 49% in eastern Germany) (Ellguth/Kohaut 2010: 208). Works councils are the most important actors in Germany in the implementation of wage standards in firms.

**Figure 8. Evolution of prices 1991-2009 (main construction industry and finishing trade, 1991 = 100)**

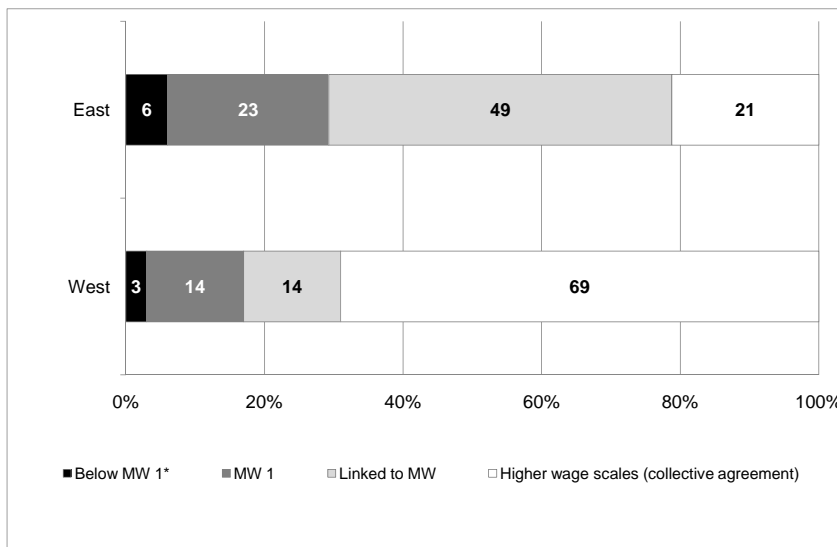


Source: Statistisches Bundesamt.

In a separate study, we have investigated compliance with collectively agreed norms and minimum wage regulations by means of an employee survey of 1019 manual workers. This provides direct evidence of the ‘bite’ of the minimum wage. A sample was drawn from the membership file of the construction trade union (*IG Bau*). Since trade union members tend to be employed in medium and large firms and in firms with works councils, the extent of the deviations from the statutory and collectively agreed standards is likely to have been underestimated (Bosch et al. 2010).

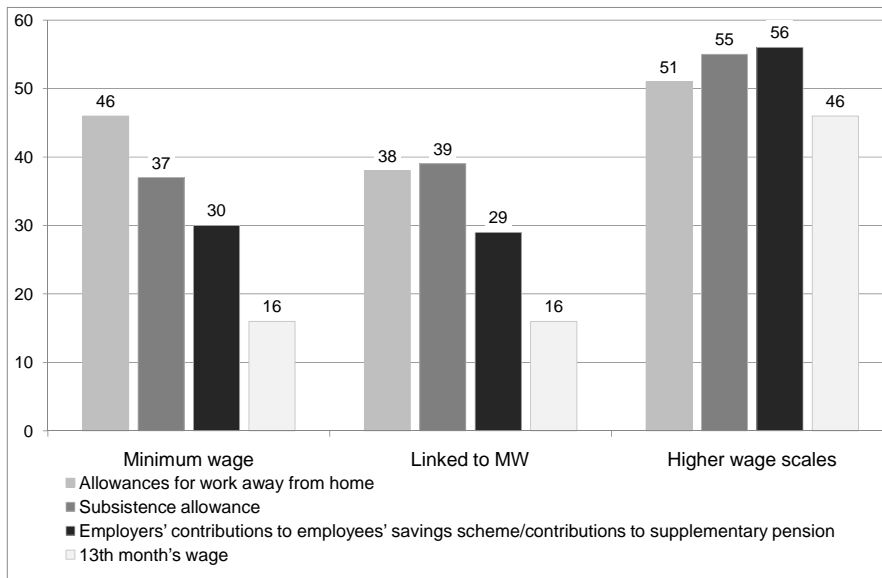
The survey shows, firstly, that compliance with the industry minimum wage is relatively strong; 6% of eastern German and 3% of western German respondents stated they were paid below the minimum wage (Figure 8). The survey also reveals a massive difference between eastern and western Germany in the payment of the basic minimum wage, suggesting the minimum wage has a substantial ‘bite’ in eastern Germany. In eastern Germany, figure 8 shows that close to three quarters of employees were paid in accordance with minimum wage 1, while only a fifth were paid the higher rates laid down in the industry wage agreement. Around one quarter (23%) were paid the minimum wage 1 and a further half (49%) were paid a wage linked to the minimum wage, which in practice means a wage above the minimum wage but below the next collectively agreed pay grade – i.e. between €0.01 and €2.10. It seems clear therefore that minimum wage 1 is the going rate of pay in eastern Germany. In western Germany, on the other hand, more than two thirds of those surveyed were paid in accordance with the higher pay grades in the industry wage agreement (pay grade 2a and above – i.e. they earn at least €13.58 per hour). Thus in most cases skilled workers in eastern Germany are not paid at the rate to which they are entitled according to the collective agreement. Even in western Germany, it turns out that many skilled workers are on a lower pay grade than the one to which their job and qualifications actually entitle them.

**Figure 8. Gross hourly pay received by minimum wage 1 and industry wage agreement**



Note: \* Small number of cases, can only be interpreted as trend.  
 Source: IAQ employee survey in construction industry (Bosch et al. 2010).

The collective agreements make provision for additional wage components, some of which are also generally binding. They include an allowance for working on non-local building sites (more than 50 km away from the place of residence), a subsistence payment for non-local work (more than 10 km away from the place of residence), employers’ contributions to an employees’ savings scheme, contributions to a supplementary pension and a 13th month’s wage. Here there were considerable divergences from the collective agreements. Even among those firms that paid the hourly rates laid down in the industry wage agreement, only around half paid these additional allowances and benefits; among those that paid only minimum wage 1, the share was considerably lower (Figure 9). Many of these divergences from the collective agreements occur in West Germany, since it is only here that there is an entitlement to a 13 month’s wage and employers’ contributions to the savings scheme.

**Figure 9. Collectively agreed payments (% of workers entitled to receive them)**

Source: IAQ employee survey in construction industry (Bosch et al. 2010).

It is true that the large numbers of jobs lost, the fragility of the collective agreements in eastern Germany, the fall in prices and the halving of the average firm size all indicate that compliance with collectively agreed and statutory standards has weakened over the past 15 years. It is likely, however, that there were already considerable divergences from these standards in small and medium-sized firms well before then.

In eastern Germany, the minimum wage has now become the 'going rate', whereas in western Germany it is paid to only a relatively small share of the workforce. To that extent, the frequently expressed fears of a downward wage spiral and erosion of collective agreements have not so far been realised. In eastern Germany, this question is more difficult to answer. Even here, however, the fact that the lower minimum wage rate is seldom undercut tends to suggest that the minimum wage acts as an effective lower limit that is only rarely breached by employers. Whether such breaches have increased in recent years or were already widespread in earlier times is difficult to say. What is indisputable, on the other hand, is that low-wage construction workers are multiply disadvantaged, since they are not only paid relatively low hourly rates but are also more likely to have the other allowances and benefits withheld altogether or to receive only a limited number of them.

Employees can expect to receive little support from the official monitoring and enforcement bodies – the Department for Financial Control of Undeclared Work (*Finanzkontrolle Schwarzarbeit/FKS*), which is a section of the German Customs Administration, and SOKA-Bau. Our interviews with representatives of these bodies made it clear that their monitoring and control activities are confined very largely to enforcing the (lower) minimum wage and that even this is difficult. Since the FKS carries out spot checks only on a random sample of building sites and documents can be easily falsified, the probability of discovering a

deliberate infringement of the minimum wage regulations is fairly low. SOKA-Bau can take action only if the reporting data point to breaches of the minimum wage regulations.

The social partners also clearly restrict themselves essentially to informing firms and employee about the provisions of the collective agreements. Works councils, which in other industries are important bodies for enforcing compliance with the terms of the collective agreements, are few in number because of the dominance of small firms, as already noted. Only a very small share of firms have a works council and only one in five construction workers can hope for support from a plant-level representative body. This is just about half the average for the German economy as a whole. In the manufacturing sector in West Germany, in contrast, 69% of all employees have a works council at their sides and in the energy/waste/water/mining sector the share, at 81%, is almost four times higher than in the construction industry (Ellguth and Kohaut 2010: 208).

## 6.2. Cleaning

The number of employees in the German cleaning sector has grown by 500% since 1975. On the one hand, this is due to the ongoing outsourcing of cleaning services from other sectors and a broader variety of services provided by former cleaning companies (facility management). On the other hand, another important driver has been the increase of part-time work. 80% of the almost 874,000 employees are now working part-time and 53% are mini-jobbers with monthly earnings below €400 (Grömling 2010: 16). The annual turnover in the sector was €1.4 billion in 2007 – and thus ten times higher than in the mid-1970s. The turnover per employee, by contrast, has only doubled in the same period (from €6,180 in 1975 up to €12,654) (Grömling 2010: 6), which is probably also related to the increase of part-time jobs and mini-jobs in particular.

The sector is dominated by small firms with an annual turnover of up to €500,000. These companies make up 81% of all cleaning firms but stand for only 15% of the total sector's turnover (Grömling 2010: 6f). Following the removal of the Masters requirement for the cleaning industry in 2003<sup>7</sup>, the number of companies increased from 6,874 to 32,299 in mid-2009 while the number of employees remained more or less at the same level (Table 8). The average size of cleaning companies has decreased from 122 employees in 2003 to 27.5 employees in 2008.

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<sup>7</sup> So called “full crafts” can only be pursued by someone with a master craftperson's certificate. Until 2003 “Annex A” of the Handicrafts Code (Handwerksordnung) lists a total of 94 trades as “full crafts”, for which specific training is required. In 2003 the number of “full crafts” were reduced to 41.

**Table 8. Trends in the cleaning sector, 1995 and 2003-2009**

	1995	2003	2004	2005	2006	2007	2008	2009
Number of companies	5,494	6,874	13,143	19,304	23,692	28,024	31,262	32,299
Number of employees	704,600	840,867	850,602	808,751	792,474	819,740	860,527	873,723
turnover (in million €)	6,678.5	10,692.6	10,569.8	10,936.4	11,122	11,402.8	11,758.7	*

\* no data available.

Source: Own compilation according to BIV 2010.

The proportion of labour costs in cleaning is estimated at about 65-80% of all costs (compared to 36% in all company-related services – Grömling 2010: 5). Recent studies indicate a substantial deterioration of working conditions in recent years – particularly by an increasing work pressure and a decrease of pay levels mainly due to the outsourcing of cleaning services from higher paying public and private sectors. Moreover, the prices for cleaning services have come under high pressure because clients increasingly seek the cheapest provider in order to cut costs.

The social partners in the sector are the construction union (IG BAU) and the sectoral employer association (*Bundesinnungsverband des Gebäudereiniger-Handwerks* - BIV). BIV is also a member of the Federal Employer Association (*Bundesvereinigung Deutscher Arbeitgeberverbände*). However, opinions on minimum standards are completely different to those in the construction sector. BIV not only supports industry-specific minimum wages but also demands the introduction of a statutory minimum wage in Germany (BIV 2008). One of the employer representatives in our interviews argued this is also a matter of equality and fairness:

*“While employers in the cleaning sector are obliged to pay minimum wages that are above usual pay rates in several other industries, other companies ‘around the corner’ in sectors without minimum standards can pay much lower wages. This is not fair and even endangers the acceptance of and compliance with the minimum wages in the cleaning sector. Particularly small providers which compete primarily by prices and not by quality find it hard to understand.”*

The extension of collectively agreed wages for manual workers in the cleaning sector has a long tradition (approximately 30 years according to one employer representative), although until 2003 this tended to be applied at the level of the federal states (*Bundesländer*) leading to a rather high regional variation in pay levels. The lowest hourly wage rates in western Germany varied from €6.60 in Bavaria to €7.62 in Saarland. In eastern Germany the variation was less pronounced (€5.79-6.21) (Gather et al. 2005: 26ff). Since April 2004, uniform wage scales for eastern and western Germany have been implemented – albeit accompanied by rather large nominal wage cuts particularly for employees in the better-paid western states. Entry wages were at a level of €7.68 in western and €6.18 in eastern Germany. Employers were able to push through these cuts by threatening that otherwise they would establish internal temp agencies with even lower pay levels.

Besides the reduction of hourly wages, annual payments were abolished and the entitlement for paid holidays for new entrants was cut down from 30 to 28 days in the first and 29 days in the second year of employment. The collective agreement in the cleaning sector contains

nine wage rates: In 2010, the hourly wage for skilled workers in western Germany is €12.33 while the lowest pay rate is €8.40 (68% of the skilled rate, which serves as a reference group, *Ecklohn*) and the highest is €14.20 (115% of the skilled rate) (Table 9).

**Table 9. Collectively agreed wages for manual workers in the cleaning sector, 2010**

Wage scale	West	East
1: Indoor cleaning	8.40 €	6.83 €
2: advanced indoor cleaning (e.g. surgery rooms)	8.94 €	7.16 €
3: indoor cleaning with formal vocational training certificate (e.g. disinfection)	9.50 €	7.49 €
4: supervisor indoor cleaning and final cleaning of construction sites ( <i>Bauschlussreinigung</i> )	10.04 €	7.72 €
5: Auxiliary outdoor cleaning	10.56 €	8.20 €
6: outdoor cleaning (windows and storefronts)	11.13 €	8.66 €
7: skilled outdoor cleaning	12.33 €	9.60 €
8: journeyman with training tasks	13.38 €	10.36 €
9: foreman outdoor cleaning	14.20 €	11.03 €

Particularly remarkable is the pronounced differential between indoor cleaning with a large majority of female workers and outdoor cleaning (windows and storefronts) where men are more frequently employed. The supervisors in indoor cleaning are paid according to wage scale 4 while supervisors in outdoor cleaning are entitled to be paid according to the highest wage scale 9. The pay rates for indoor supervising are even lower than for auxiliary outdoor occupations. Another particularity that has a distinct impact by gender is that no collective agreements for white-collar workers (e.g. in administrative positions) have been concluded since 2004.

In July 2007, the cleaning sector was included in the Law on the Posting of Workers in order to ensure providers from abroad can no longer undermine the minimum standards. Unlike most other sectors with sector-specific minimum wages in Germany, the cleaning sector has two minimum wages – related to pay scale 1 and 6 of the collective agreement. However, the lower minimum wage is much more relevant in practice and has a very strong ‘bite’: It is estimated that around two thirds of all employees in the sector are paid at this level.

**Table 10. Minimum wages in cleaning, 2010 and 2011**

	Wage scale 1	Wage scale 6
<b>since January 2010 (extended on 10 March 2010)</b>		
West and Berlin	8,40 €	11,13 €
East	6,83 €	8,66 €
<b>January 2011</b>		
West and Berlin	8,55 €	11,33 €
East	7,00 €	8,88 €

Compared to other sectors with minimum wages, the level of minimum wages (at least the lower scales) in the cleaning sectors is low (Table 10). However, expressed as a percentage of the median, the level is not so unfavourable: €8.40 is approximately 59% of the western German median, and compared to the eastern German median 6.83 € stands at 66.6%, precisely the low wage threshold in eastern Germany.

The current minimum wage rates have been agreed upon following a rather controversial bargaining round in summer 2009. The union assessed the wage increase that had been offered by employers as too low and the introduction of company-related pensions was also controversial. Against this background the union initiated strike actions that union representatives claim were very successful. The strikes not only finally lead to higher wage rates but also won a very broad and positive feedback in the media (e.g. Gartzla 2009). The union calls the strikes a “rebellion of the invisibles” (Knoche-Gattringer 2009) and assumes that the media reports have helped to turn a weakness (only 7% of the cleaners are union members) into a strength. The strikes have also contributed to a mobilization of cleaners who are traditionally poorly unionized.

A new collective agreement was successfully negotiated in October 2009. However, despite both employers and unions pressing for extension of the minimum wages by early 2010 it was only in March 2010 – a delay of some six months - when the administrative procedure was completed. This six-month period during which companies operated without any binding wage standards has powerfully illustrated the importance of the minimum wage for the cleaning sector. According to newspaper articles, several employers exploited the opportunity to reduce wage levels for new entrants immediately after the obligation to comply with minimum standards was postponed in autumn 2009. Contractual obligations prevented firms changing wages for incumbent employees. In some cases, wages were reduced by up to 30% (the legal threshold for “immoral” wages<sup>8</sup>).

The interviewed representative of the employer association assessed the union actions not as strikes but as a surprisingly “effective public demonstration“. In spite of the industrial conflict in 2009, the general need for minimum standards is not called into question by the employers. Critical assessments are mainly related to the lack of minimum wages in other sectors as already mentioned above. One representative emphasized that even employers in parts of the public sector have been able to return to an internal organisation of cleaning

<sup>8</sup> This threshold is not legally defined but is a common measure stated and confirmed by several decisions of labour courts.



services in recent years. Sometimes this is even cheaper – primarily because VAT can be saved but also due to rather low rates of pay in their own collective agreements.

Both employers and unions emphasized the importance of mechanisms for compliance. However, controls of small firms in particular are time-consuming and, because of changing workplaces, very difficult. According to a representative from the employer association, matters of non-compliance are detected in about 15-20% of the spot controls. He regards this as an “acceptable rate of non-compliance”. If the proportion were substantially higher (40% or above), it would, however, de-legitimize the maintenance of sector-specific minimum standards. He assumed that there will be two completely different options to cope with such a high rate of non-compliance: to allow free play to the market or to implement a statutory minimum wage that covers all sectors (and he is much in favour of the latter option).

At a regional level, the social partners in the cleaning sector developed a rather innovative approach to compliance with wage standards and to supporting workers in enforcing their rights. In 2000 the social partners negotiated a collective agreement that established a jointly-owned control and consulting agency (*Prüf- und Beratungsstelle*) in Berlin (Gebäudereiniger-Innung Berlin/IG BAU 2000). The agency is financed by employers (0.15% of their labour costs) and employees (by a reduction of holiday entitlements for two years) and aims to enforce the compliance of collectively agreed norms related to pay and working conditions and thereby improve the protection of employees. The agency has the power to fine non-compliant companies. Between mid-2001 and mid-2004, 939 employees contacted the agency to check their entitlements and in about one half of the cases deviations were detected. Incorrect payments were related to conditions such as annual payments, hourly wages, number of paid hours and insufficient holidays (Gather et al. 2005: 198). However, several bodies were critical of the agency’s role and its performance and lobbied successfully for the closure of the agency in 2004. In particular, some employers regarded the agency’s role as a hidden financial support of the union’s legal protection (Schramm and Seidel 2003: 88). And even among unions, some people argued that the agency competed with legal protection services. Other critical voices questioned the cost-benefit ratio: non-compliant firms were not controlled while the administrative burden of regulating compliant firms was high. Moreover, works councils argued that a more effective enforcement of compliance with agreed standards would require more competencies for the agency and higher penalties in case of non-compliance. Although the approach was given up, it remains a possible example of good practice deserving of further development and application in this and other low wage sectors.

### **6.3. Temporary work agencies**

In the past, the German regulation of temporary work agencies (TWA) was assessed as rather strict compared to other countries. However, in December 2002 regulations were relaxed substantially. Between 2004 and 2008 the number of temps has more than doubled. Besides the economic upturn, it can be assumed that the deregulation in 2003 had a large impact on that development. While several restrictions on the duration (now unlimited leasing by one company is possible) had been relaxed, the principles of “equal treatment” and “equal pay” had been embodied in law as a kind of compensation in order to make sure that temp workers will be “suitably protected”. However, the law does admit a way of avoiding equal pay by using a collective wage agreement for the temp agency sector. This clause has in reality deprived the equal pay principle of any effect. Estimations provided by employer associations suggest that more than 98% of all temps are now paid according to one of the various sectoral collective agreements concluded since 2003. However, in contrast

to the usual assumptions in industrial relations research, the high collective bargaining coverage has not improved the pay and working conditions of the temp agency workers.

At first there was a fear within the TAW sector that the trade unions would refuse to enter into collective wage agreements in order to push through equal pay, which was expected to increase market prices by as much as 20%. In fact though, a first collective wage agreement was quickly concluded in early 2003 between a small employers' association and a Christian trade union (CGPZ) providing for very low remuneration with a gross hourly wage of only €5.20 for low-skill occupations in eastern and €6.30 in western Germany, as well as the additional option to reduce these pay rates within the first six months by up to 9%. This meant there was no longer any possibility of enforcing the equal pay principle by refusing collective pay negotiations. Consequently, a preliminary framework (so-called 'cornerstones') that had been agreed between the DGB and the two large employers' associations (Bundesverband Zeitarbeit Personaldienstleistungen (BZA) and Interessenverband Deutscher Zeitarbeitsunternehmen (IGZ)) in February 2003, and which addressed equal treatment issues, was demanded to be renegotiated by the employers – taking into account the lower standards of the CGPZ-agreement. In this context, the member unions of the DGB concluded collective agreements with the BZA and IGZ in May 2003, which at least provided for slightly better conditions and contained entry-wage levels above the CGPZ-wages; in 2003, these were €6.85 for western and €5.93 for eastern Germany. However, several company-levels agreements have been concluded in subsequent years with entry wages even below the CGPZ-level (sometimes €5 or even lower – cf. Stolz 2009: 301).

According to a study provided by the German Federal Statistical Office (Statistisches Bundesamt 2009), the mean wage of temps was €9.73 in 2006 and thus just below the low wage threshold of €9.85 that year.<sup>9</sup> More than two thirds of all temps were low paid, and among women and eastern German temps the incidence of low pay was even higher (at above 80%). Compared to the mean gross hourly wage (€18.04) of employees in a standard employment relationship (permanent full-time), temp agency workers earned only around 54% on average.

This is also the reason why the TAW-sector itself regards the “wage dumping“ as a severe problem. In May 2006, two of the three leading employer associations (IGZ und BZA) and the DGB-unions negotiated a so-called ‘minimum wage collective agreement’ and in 2008 the social partners applied for declaring this agreement as generally binding by the Law on the Posting of Workers. The application also aims to enforce a compliance requirement for agencies from other countries (BZA/iGZ 2008).

However, the former government of SPD and CDU/CSU did not agree upon that application because it would replace the third sectoral collective agreement concluded by a Christian union with the third employer association AMP. This is an issue that generally complicates the implementation of collectively agreed minimum standards. If there are competing collective agreements and it is not evident whether one of the agreements covers a majority of the employees, this can hamper the implementation of minimum standards or even prevent it altogether. For several months, it has been even more unlikely that the new government elected in September 2009 will implement the requested minimum standards for agency work as particularly the FDP opposes minimum standards in general. However, very recently, the situation has changed: The continuing demands for minimum standards by employer associations may have exerted at least some effect. CDU- and FDP-representatives

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<sup>9</sup> The low wage threshold in that analysis is higher than according to our calculations with the GSOEP because it is based on a different data source.

promised after a meeting in January 2010 that the need for minimum wages standards will be examined very carefully.

This may also have been enforced by the fact that the legal status of the CGZP is highly disputed. Two courts (at local and federal state levels – the latter in December 2009) have already questioned whether CGZP is entitled to negotiate collective agreements at all because it has no members in the respective industries and is not autonomous (defined as being independent from the employers). A final decision by the federal court level is expected for the end of 2010. If the collective agreement is considered as illegal, then agency workers who have been paid at this level will be entitled to receive equal pay even for former working periods. The union *ver.di* has already prepared forms for employees in order to call for higher pay for former employment periods.

Another strategy facilitated by the deregulation of the sector in 2003 is the more or less permanent use of temps in order to undercut the collectively agreed pay standards in the client firms. Particularly large firms in the production sector have increased the proportion of temps substantially – sometimes up to a third or more of their total workforce. A second phenomenon already mentioned in the sections on retail and the cleaning industry is to establish internal temp agency units and to shift staff to them with very low wage rates. After a broad public and political debate about that in the case of the retail company *Schlecker* during late 2009, the company announced it will not continue with that approach of cutting wages. However, these practices are not new but well-known since 2004 and widespread even in the care and health sectors. A survey of works councils in 2007 revealed that no less than 7% of all companies using temps had such an internal temp agency unit (Seifert and Brehmer 2008).

In spring 2010, three new collective agreements have been negotiated in the temp agency sector. Compared to the former agreements, the pay levels and other conditions are much closer together and all parties have claimed that they are principally willing to agree upon minimum standards to be implemented before May 2011. Besides the fear of price and wage dumping by providers from Eastern Europe, the change of opinion responds to an ongoing debate on the need for re-regulations of the sector and how the regulation can be adapted to the EU Directive on temp agency work. Moreover, all three agreements contain clauses in order to prevent abuse by internal temp units.

Compared to the hourly median wage in Germany, the level of the entry wages can be considered as still very low: The western German rate of €7.60 stands at just 55.9% of the median wage (and only 53.3% if the western German median is used). The eastern German entry wages equate to a range of only 47.1%-48.9% of the overall German median wage, whereas compared to the eastern German median hourly wage (€10.31) they stand at a much higher range of 62.1%-64.5%.

In the AMP-CGB-agreement, all pay grades for eastern Germany are below the overall German median wage and there are large deviations from the rates in the second collective agreement (particularly in the higher pay grades). The rates for western Germany above the two lowest pay grades are also lower but less pronounced (by around €0.50 in pay grades 4-9).

**Table 11. Collectively agreed wage rates in the temp agency sector (July 2010)**

Wage scale	AMP-CGB		IGZ/BZA-DGB	
	West	East	West	East
1	7.60	6.40	7.60	6.65
2	8.22	7.06	8.22	7.15
3	8.91	7.43	9.60	8.35
4	9.56	8.47	10.16	8.84
5	11.05	9.04	11.48	9.98
6	12.48	9.77	12.90	11.22
7	14.57	10.66	15.07	13.10
8	15.67	11.75	16.20	14.09
9	16.55	12.74	17.11	14.88

Source: Collective agreements; own compilation.

In a hearing of the federal government on TWA on 28 May 2010, the left-wing parties and the union demanded equal pay without any exceptions and a re-establishment of further regulations such as a limitation of the length of the usage of the same temp agency worker in one company. Temp agency employers are obviously hoping that they will be able to circumvent equal pay and further regulations by implementing sectoral minimum standards. As the minimum pay rates will be at a relatively low level, the large pay differentials between the TWA-sector and sectors with much higher collectively agreed pay rates with an above-average use of temps such as the metal or car industry for instance will be reduced only slightly. Thus, the financial incentives to use temps will remain strong and ensure the future market success of the temp agency industry.

## 7. Summary and conclusions

Since the mid-1990s, wages in Germany have become more dispersed, and the low-wage sector has grown considerably. This has affected both full-time and part-time employees, including workers with mini-jobs. It is not only specific groups of persons who are affected by low wages, such as young people or the low-skilled, but increasingly also the middle age groups and skilled workers. There have been marked increases in wage differences between large enterprises and smaller enterprises, and between the industries more and less 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 interventions. To prevent further growth in the low-wage sector and fragmentation of the wage structure, a change of course has been considered in recent years – most notably the introduction of minimum wages.

The introduction of a statutory national minimum wage, as in the other four countries involved in this research project, has been rejected until now. In 2005, the former great coalition formulated a rather complicated compromise on minimum wages with two main routes for industry-specific minimum wages. i) Collectively agreed minimum wages at industry level can be declared generally binding in response to an application by the two sides of industry; and ii) A reform of the 1952 Law on minimum working conditions may be

applied to industries without collective bargaining to enable the possibility of introducing minimum wages.

Only the first route has been used until now in a handful of industries where social partners agreed upon collective agreements with minimum wages. There are pitfalls, however. Some of the newly agreed minimum wages are very low since 'employer friendly unions' have signed a collective agreement with low rates. Also, in some low-wage industries there are no minimum rates due to delays in social partners reaching an agreement. Moreover, even where social partners have successfully negotiated industry minimum wage agreements, the process of implementation is difficult and time-consuming and social partners are confronted with various 'hostile' political interventions from the current government, as well as from the federal employers' association (BDA), to prevent minimum rates being declared as generally binding. Finally, the developing system of multiple minimum wages in different industries, combined with limited knowledge about actual pay rates, may generate problems with compliance and control in the future. Enforcement of a simple and well-known national statutory standard is undoubtedly more straightforward.

Analysis of the obstacles to the implementation of industry-specific minimum wage rates in Germany in recent years demonstrates quite clearly that the path ahead can be assumed to be a rather bumpy road. The institutional mechanisms devised for the implementation of industry-specific minimum wages provide numerous intended and unintended possibilities for politics, employers, and competing unions to block their practical application. Minimum wages in Germany are thus very slow in their realisation and a patchwork of different minimum wages together with large unregulated zones of wage-setting without binding minimum standards will be the result in the short to medium-term.

The detailed study of three sectors focused on the interaction between developments in industry-specific minimum wages, pay structures and social dialogue. In those sectors in which the social partners have agreed to introduce minimum wages collective bargaining has been strengthened. Minimum wages are negotiated as a part of the pay 'grid' in the industries. Any increase in minimum wages automatically pushes up the wages in the higher wage scales, at least in those companies covered by the collective agreements. The nature and extent of this 'ripple effect' of the industry minimum wages depends, however, firstly on the compliance of companies to the collective agreements, secondly on the coverage by collective agreements, and thirdly on the skill structure in the industries. In practice it is difficult to separate out the impact of these three effects since we do not know in all industries whether workers are paid only the minimum wage because of their job content or because the company is not covered by the collective agreement on the wage grid or the workers are not correctly classified in a wage scale according to their job requirements and skills.

The empirical data for the construction industry reveal strong evidence that compliance with the whole wage grid is high in western Germany but very low in eastern Germany where the minimum wage tends to be used as the 'going rate'. Therefore, the ripple effect is high in western Germany mainly because of the high coverage by collective agreements and low in eastern Germany. This explains the different behaviour of the eastern and western German employer representatives in collective bargaining. Our interview partners report that the western German employers were mainly engaged in the negotiations of the pay levels in the wage grid while the eastern German employers were only interested in the levels of the minimum wages.

In the cleaning industry most workers are paid only the minimum wage. This largely reflects the fact that most jobs tend to require a low level of qualifications. A similar situation would apply to the temporary work agency industry if minimum standards were implemented there as well. There is evidence from our empirical research that many skilled workers in the temporary work agency industry are incorrectly classified and paid wages for low skilled jobs.

Overall, we can establish three points of conclusion. First, the size of the ‘ripple effect’ of each industry-specific minimum wage on the wage grid varies between industries. It is strong in industries with a high coverage by collective agreements and a high share of skilled workers. Secondly, our evidence suggests that minimum wages have been introduced until now only in industries in which collective bargaining is already well established or has been developed in recent years. In the industries in which collective bargaining has been only recently developed because of the negotiations on a minimum wage the impact on the whole wage grid and collective bargaining might be expected to increase over time. And thirdly, those industries with weak and fragmented collective bargaining have not yet introduced minimum wages. In such industries, we would expect to find a ‘stand-alone’ minimum wage without other collective agreements which could be linked with the minimum standards.

**APPENDIX**

In the following tables, numbers in parentheses refer to less than 30 cases and should be treated with caution. “\*” indicates that the cell contains less than 10 cases.

**Table A1. Pay levels in construction (NACE 45)**

	All	Male			Female			All	
		Full Time	Part Time	All	Full Time	Part Time	All	FT	PT
<b>Average/mean</b>	13.33 €	13.66 €	(12.07 €)	13.56 €	(12.42 €)	(10.08 €)	11.19 €	13.60 €	11.13 €
<b>Median</b>	12.86 €	12.88 €	(11.50 €)	12.88 €	(10.80 €)	(9.58 €)	10.80 €	12.88 €	10.35 €
<b>Low Pay Incidence (%)</b>	10.5	7.6	(29.8)	9.0	(5.8)	(40.7)	24.2	7.5	34.9

Employment data from the GSOEP data source suggest a female share of 11%, among whom 61% work part-time.

**Table A2. Pay levels in retail (NACE 52)**

	All	Male			Female			All	
		Full Time	Part Time	All	Full Time	Part Time	All	FT	PT
<b>Average/mean</b>	11.53 €	14.88 €	(8.50 €)	13.94 €	11.46 €	9.89 €	10.57 €	12.97 €	9.76 €
<b>Median</b>	10.43 €	12.81 €	(6.16 €)	11.50 €	10.81 €	9.66 €	10.19 €	11.48 €	9.52 €
<b>Low Pay Incidence (%)</b>	34.0	20.9	(64.4)	27.3	26.8	36.6	34.0	24.2	46.0

Employment data from the GSOEP data source suggest a female share of 72%, among whom 65% work part-time.

**Table A3. Pay levels in hospitality (NACE 55)**

	All	Male			Female			All	
		Full Time	Part Time	All	Full Time	Part Time	All	Full Time	Part Time
<b>Average/mean</b>	8.76 €	9.76 €	*	9.30 €	9.51 €	7.10 €	8.39 €	9.64 €	7.11 €
<b>Median</b>	8.28 €	10.22 €	*	8.53 €	8.51 €	6.13 €	8.20 €	8.62 €	6.13 €
<b>Low Pay Incidence (%)</b>	60.5	43.8	*	51.7	55.9	79.1	66.7	49.6	81.2

Employment data from the GSOEP data source suggest a female share of 69%, among whom 65% work part-time.

**Table A4. Pay levels in cleaning (ISCO 9132)**

	All	Male			Female			All	
		Full Time	Part Time	All	Full Time	Part Time	All	Full Time	Part Time
<b>Average/mean</b>	8.41 €	*	*	*	(7.93 €)	8.33 €	8.29 €	9.07 €	8.31 €
<b>Median</b>	7.67 €	*	*	*	(7.76 €)	7.67 €	7.67 €	(7.76 €)	7.67 €
<b>Low Pay Incidence (%)</b>	78.4	*	*	*	(77.1)	81.0	80.6	(60.8)	81.1

Employment data from the GSOEP data source suggest a female share of 95%, among whom 90% work part-time.

**Table A5. Pay levels in care (ISCO 3231, 5132, 5133, 5139 in NACE 85)**

	All	Male			Female			All	
		Full Time	Part Time	All	Full Time	Part Time	All	Full Time	Part Time
<b>Average/mean</b>	12.16 €	15.42 €	*	15.55 €	11.81 €	11.51 €	11.66 €	12.56 €	11.66 €
<b>Median</b>	11.98 €	15.52 €	*	15.52 €	12.27 €	10.39 €	11.20 €	12.72 €	10.58 €
<b>Low Pay Incidence (%)</b>	26.7	3.6	*	3.2	29.5	30.8	30.1	24.1	29.9

Employment data from the GSOEP data source suggest a female share of 89%, among whom 55% work part-time.



**Table A6. Pay levels in security (ISCO 5169, 9152 in NACE 74)**

	All	Male			Female			All	
		Full Time	Part Time	All	Full Time	Part Time	All	Full Time	Part Time
<b>Average/mean</b>	8.91 €	9.75 €	8.46 €	9.53 €	7.64 €	5.58 €	7.15 €	9.23 €	7.50 €
<b>Median</b>	7.73 €	9.27 €	4.98 €	8.66 €	7.35 €	5.29 €	6.47 €	8.23 €	4.98 €
<b>Low Pay Incidence (%)</b>	54.0	44.3	63.9	47.5	68.8	83.1	72.2	50.2	70.3

Employment data from the GSOEP data source suggest a female share of 38%, among whom 31% work part-time. Among men the part-time share is 19%.

**Table A7. Pay levels in food processing (NACE 15)**

	All	Male			Female			All	
		Full Time	Part Time	All	Full Time	Part Time	All	Full Time	Part Time
<b>Average/ mean</b>	11.87 €	13.95 €	*	13.69 €	8.95 €	9.03 €	8.99 €	12.64 €	8.86 €
<b>Median</b>	11.50 €	12.62 €	*	12.27 €	8.34 €	6.99 €	7.97 €	11.98 €	6.99 €
<b>Low Pay Incidence (%)</b>	33.3	13.1	*	14.4	49.8	78.8	63.2	22.7	74.7

Employment data from the GSOEP data source suggest a female share of 42%, among whom 51% work part-time.

**Table A8. Pay levels in agency work (special question in GSOEP)**

	All	Male			Female			All	
		Full Time	Part Time	All	Full Time	Part Time	All	Full Time	Part Time
<b>Average/ mean</b>	9.50 €	10.16 €	(9.26 €)	10.07 €	10.59 €	7.59 €	8.75 €	10.27 €	7.89 €
<b>Median</b>	8.52 €	9.13 €	(7.67 €)	9.10 €	10.35 €	7.21 €	7.73 €	9.20 €	7.21 €
<b>Low Pay Incidence (%)</b>	51.9	42.8	(55.4)	44.1	37.1	78.2	62.3	41.4	74.1

Employment data from the GSOEP data source suggest a female share of 44%, among whom 53% work part-time. Among men the part-time share is 23%.

**Table A9. Industries which have applied for a minimum wage (and agreed upon minimum wage-rates) but not yet implemented (May 2010)**

<b>Industry</b>	<b>Occupation</b>	<b>MW</b>
<b>Continuing education (23,000 employees)</b>		
Western Germany and Berlin	Education	12.28 €
	Administration	10.71 €
	Other	7.60 €
Eastern Germany	Education	10.93 €
	Administration	9.53 €
	Other	7.60 €
<b>Security services (177,000 employees)</b>		
Western Germany		6.00 – 8.32 €
Eastern Germany and Berlin		6.00 – 6.50 €

Source: Own compilation based on [www.mindestlohn.de](http://www.mindestlohn.de) and Bundesministerium für Arbeit und Soziales 2009

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