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On Contradictions of 'Low Wage Policies': The German Example

Three issues to be distinguished

1. low (hourly) wages ↔ wage regulation
2. small (individual) earnings ↔ taxation, work incentives, social insurance
3. in-work poverty (of households) ↔ minimum income benefits (≈ social assistance)

• issues obviously related – but far from identical
• treated separately in political discourse and regulation
• contradiction: compensating in 3. what has been favored in 1. and 2.
Growing skills gap in unemployment rates ... triggered discourses on the desirability of a 'low wage sector'.

The 'low wage sector' as a positive programme

- allow wage costs to reflect lower productivity of the low-skilled:
  - less displacement of low-skilled workers by automation
  - less displacement of low-skilled workers by higher skilled workers
  - less offshoring to low-wage countries
  - increasing demand for labour-intensive personal services
  → more employment for low-skilled workers

- two variants of the argument:
  1. breaking up the structure of collective bargaining
  2. subsidies
     a) to employers (lowering wage costs)
     b) to employees (making low wages acceptable)
Percentages of employees in establishments covered by sectoral/regional collective agreements, 1996 to 2010

Note: there is no universal legal minimum wage (yet?) in Germany!

The growth of the low-wage sector: workers with gross hourly wages below the low-wage threshold*) (millions, 2/3 median wage)

*) Low-wage thresholds 2008:
- West: 9.30 €
- East: 6.87 €
- Germany: 9.06 €

= 13,798 KRW

1.15 million workers (=3.6%) with hourly wages <5 € = 7,615 KRW

Did the growth of the low-wage sector reduce the skills gap on the labour market?

Ratios of skill-specific employment and unemployment rates*), 25 to <65 years of age, 1991 to 2008

*) ILO concept; both employment and unemployment rates calculated as percentages of the relevant population
Source: German microcensus (labour force survey), calculations by PD Dr. Martin Brussig
Wage restraint and growing wage dispersion ... led to imbalances in the EURO zone

Average annual growth rates of hourly wage costs in the private sector, 2000 to 2009, in national currencies

1 Auszubildende werden bei den Arbeitskosten und bei den geleisteten Stunden berücksichtigt.
2 Wirtschaftszweige B bis N (NACE Rev. 2), siehe Tabelle A1 im Methodischen Anhang.

Quelle: Eurostat; Berechnungen des IMK.
Elements of the German employment and family regime promoting low earnings

- West Germany: insufficient care facilities for small children
  ⇒ traditional 'male breadwinner model' only half-way modernized into a 1¼ or 1½ dual earner model
- subsidies for the single or 1¼ earner model:
  - free health insurance coverage for non-working spouses; survivors' pensions
  - income tax splitting: lower tax progression for the higher or only earner
- 'mini-jobs' <400 Euros/month exempt from employees' social insurance contributions; flat-rate income tax paid by employer
  ⇒ spouses wanting to increase their labor market participation discouraged by high marginal taxation
- 'Hartz reforms' 2003-2005 – 'work first' turn in German labor market policy:
  - "any (small) job better than no job"
  - minimum income benefits can be received as a supplement to low earnings
Income inequality: Gini coefficients and their changes 1985 → 2008

Poverty risk has increased (only) for the lower income stratum (<80 per cent of medium income)

Outcomes of low lifetime earnings

Percentages of old-age pensioners receiving supplementary minimum income benefits

Source: Federal Statistical Bureau
3. in-work poverty

Rates of population at risk of poverty despite being employed at least 6 in 12 months, after social transfers, 2006, selected EU member states

Source: Federal Statistical Bureau
In-work benefits incorporated in the income support system for working-age people

- out of around 5 million recipients of minimum income benefits 'for jobseekers', 1.3 million have earned income in their households
  - of these, only around 300,000 are working full-time
  - around 500,000 in mini-jobs
  - around 400,000 in part-time jobs above the mini-job
  - around 100,000 self-employed
- In the absence of a universal and effective minimum wage, it is not clear:
  - is Germany incentivizing take-up of work?
  - or subsidizing low wages and downward wage spirals?
  - or subsidizing marginal labor market participation where more participation would be possible?
Inconclusive minimum wage regulations

- traditional *erga omnes* clause in the Collective Bargaining Act (1949):
  - existing collective agreement covering at least 50 per cent of employees in the sector
  - request for generalization by either of the sectoral social partners
  - approval of the Tariff Committee (social partner umbrella organisations)

- Posting of Workers Act (1996):
  - existing country-wide collective agreement (irrespective of coverage)
  - joint application by the parties of that agreement sufficient
    - umbrella organisations sidelined
  - currently in place in 11 sectors (with minima differing by sector!)

- Minimum Working Conditions Act of 1952, revived in 2009:
  - no effective wage regulation achieved to date

- Temporary Work Agency Act (amended in 2011):
  - existing country-wide collective agreement (irrespective of coverage)
  - joint proposition by parties of that agreement sufficient
  - only applicable to temporary agency workers

⇒ Still today, there cannot be any wage floor where there is no collective agreement to be extended.
Sector-specific hourly minimum wage rates, June 2011*, in Euros

<table>
<thead>
<tr>
<th>Sector</th>
<th>West</th>
<th>East</th>
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<tbody>
<tr>
<td>construction</td>
<td>10.90</td>
<td>10.80</td>
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<tr>
<td>roofing</td>
<td>9.50</td>
<td>9.70</td>
</tr>
<tr>
<td>electric trade</td>
<td>9.70</td>
<td>8.40</td>
</tr>
<tr>
<td>painting &amp; varnishing</td>
<td>9.50</td>
<td>8.55</td>
</tr>
<tr>
<td>cleaning</td>
<td>8.55</td>
<td>8.50</td>
</tr>
<tr>
<td>care</td>
<td>8.24</td>
<td>7.80</td>
</tr>
<tr>
<td>waste management</td>
<td>7.79</td>
<td>6.75</td>
</tr>
<tr>
<td>laundries (temp agencies)</td>
<td>6.89</td>
<td>6.53</td>
</tr>
</tbody>
</table>

10.90 € = 16,601 KRW

6.33 € = 9,640 KRW

* The figure focuses solely on the lower MW-rates.
** The wage floor for temp agencies has been not yet implemented.
*** The hourly minimum wage rates in western German security services differ by federal states between 6.53 and 8.60 Euros.

Latest developments

- Evaluations of sector-specific minimum wage regulations via the various *erga-omnes* type extension mechanisms have shown *no negative employment effects*
- Christian Democratic Party Convention (major partner of the ruling coalition) has passed an ambivalent decision that might lead to more minimum wage regulations
- Unclear whether this will be universal or sector-specific, regionally specific etc.
Conclusions

• Germany is simultaneously
  • favoring low wages, higher wage dispersion and overall wage restraint
  • incentivizing small jobs and earnings, particularly of women
  • combating in-work and old-age poverty.

• Such strategies are contradictory and costly.
• 'Low wage policies' have not improved the relative labour market position of the low-skilled.
• Restrained wage growth has contributed to Germany's favorable export position – but also to the current Euro crisis.