

Industry-wide minimum wages in Germany: uncertain progress along a bumpy road

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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. However, since the mid-1990s, the low-wage sector has grown considerably and has now almost reached the share seen in the USA (Bosch and Kalina 2008; Solow 2008). More than one of five German employees is on low pay and the wage differentiation to the bottom is much more pronounced than in other European countries (Kalina and Weinkopf 2010). The main reason is the vulnerability of the German system of collective agreements to outside competition. Since there are no generally binding minimum wage thresholds (as a result of a statutory minimum wage or generally binding collective agreements), it is in most industries possible to pay wages below the industry rates. Prior to the reunification of Germany, this had 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 since 1997. 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.

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A further political impetus was given by the so-called Hartz reforms, implemented in 2003/2004. Several changes made to laws increased the downward pressure on wages – among them the replacement of the former income-related unemployment assistance by a standard minimum payment plus an additional rent subsidy and deregulations of temporary agency work and the so-called “mini-jobs” (Bäcker et al. 2011). The number of these temp agency and marginal part-time jobs with frequently very low hourly pay has increased substantially in recent years. Only recently minimum wages have been introduced in several industries in which employers and unions agreed to limit unregulated wage competition.

The main issue of this paper is to provide an overview of the German debate about minimum wages and the current state of the implementation of industry-specific minimum-wages. We argue that it has been a rather bumpy road by now which is due to a number of reasons. However, most recently, the support for binding minimum standards or even a statutory minimum wage has been increasing even among those who denied the necessity in recent years.

The paper is structured as follows: In section 2, the minimum wage policy in Germany and its changes in recent years are briefly described. In section 3, we provide an overview on the sectors with minimum wages and their levels in relation to the median hourly wages. In section 4, we describe and illustrate the pitfalls and obstacles of the implementation of sector-specific minimum wages. In section 5, some findings from our three industry case studies (construction, cleaning, temp agencies) are briefly presented. Finally, in section 6, we summarize our results and draw some conclusions on what may happen in future.

2 Minimum wage policy in Germany

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.

For a long time, 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.

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 political parties have made several U-turns. Still promoting the expansion of the low-wage sector by means of the Hartz reforms in 2003, the social-democratic and green parties 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 minimum wage). Although polls have shown that a large majority of Germans are in favour of a minimum wage, the former great coalition (2005 – 2009) also failed to agree on a general minimum wage for the whole economy. This was mainly due to different positions of the two ruling parties. Instead, minimum wages were to be determined for separate industries. To achieve this, in 2007 they agreed upon a choice of two mechanisms:

- Industry-specific minimum wages based on collective agreements: Employers and unions can conclude collective wage agreements for their respective minimum wages. If these agreements are concluded at the national level and can be regarded as “representative”² for the sector, the government can declare them as generally applicable and binding on the basis of the Law on the Posting of Workers.
- 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 (*Mindestarbeitsbedingungengesetz*). 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

² The law does not specify the criteria for representativeness. As the extension of collective agreements by declaring them generally binding in Germany requires a coverage of at least 50% of the employees, this is one of the possible conditions, but not mandatory.

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.

However, in the remaining time of the great coalition, particular in the conservative parties, the attitudes remained mixed and several members of the government emphasized that minimum wages would drive out jobs. After CDU/CSU and FDP won the Bundestag election in September 2009, the assessment of minimum wages became even more critical due to the FDP's strong opposition to any form of minimum labour standards. Accordingly, the coalition agreement of the new government stated 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)³

Moreover, the FDP negotiated some kind of a veto-option against the implementation of additional minimum wages by an agreement that decisions on new minimum wage applications require a consensus within the coalition.

3 Sector-specific minimum wages

Although the former great coalition had expected more applications for minimum wages through the Law on the Posting of Workers after its opening in 2007, in early 2008 only eight industries applied for minimum wages. As we see it, the reasons are obvious: The conditions for minimum wages are met only by some industries (e.g., construction industry and cleaning industry). Other industries with a high proportion of low wages, such as the meat industry, have no country-wide collective wage negotiation mechanisms in place, with the result that such agreements cannot be concluded. Further industries such as the temporary agency sector are characterized by competing collective wage agreements with

³ The evaluations of the existing minimum wages in eight industries were commissioned in December 2010 and will be completed by 31 August 2011. Our institute is responsible for the evaluation of two sectors – commercial cleaning and industrial laundries.

different 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.⁴

Notably, the second mechanism through the reformed Minimum Working Conditions Act has not yet evolved any effect by now. The steering committee has met only once a few days before the Bundestag election in September 2009. Although call centres were proposed as an area with a need for minimum standards by a civil servants union (dbb tarifunion 2009), by the time of writing this paper (June 2011) no further consideration or meeting of the steering committee has taken place.

Main construction had been the first industry with minimum wages in 1997 according to the Law on the Posting of Workers and the construction-related industries such as roofing, painting and varnishing and electric trade followed a bit later. Afterwards, it took until July 2007 that minimum wages were implemented in the commercial cleaning sector and in postal services since January 2008 according to the Law on the Posting of Workers. The minimum wage in postal services, however, was disputed from the beginning and compliance by private providers was incomplete. In January 2010, the minimum wages were postponed by a court decision.

Taking into account that these industries were not affected by the opening mechanism agreed in 2007, the effect of the new legislation can be assessed as very limited until the end of 2009. The first industries with new minimum wages were the very small segment of mining specialists with about 2,500 employees and industrial laundries with around 35,000 employees, both in October 2009. In January 2010, minimum wages were implemented in waste management and the large care sector followed in August. In late 2010, the expiration period for the minimum wage for mining specialists ended without renewal. Most recently, minimum wages have been implemented for security services since 1 June 2011 (now based on a collective agreement negotiated by the DGB-union ver.di).⁵ The implementation of a binding “wage floor” (*Lohnuntergrenzen*) for temp agencies through a specific solution of apart from the Law on the Posting of Workers has been announced since early 2011, but not yet realized until June 2011 (Vates/Roth 2011). The expected hourly minimum wages for temp agency workers are 7.79 € for western and 6.89 € in eastern Germany.

⁴ Notably, several recent court decisions stated that Christian unions are not qualified to conclude collective agreements. This reveals far-reaching consequences particularly for temp agency workers as they are principally entitled to claim for equal pay even for former periods of being paid according to those collective agreements. Moreover, the social insurances are demanding to be paid back 3 Billion € of social contributions from temp agencies that paid the rates of the Christian unions.

⁵ The first collective agreement for security services had been negotiated with a Christian union (cf. section 3).

Table 1: Industry minimum wages (according to the Law on the Posting of Workers), gross hourly rates (June 2011)

Industry	Occupation	Minimum wage
Main construction (390,000 employees)		
Western Germany and Berlin	Low-skilled	10.90 €
	Semi-skilled	12.95 € (12.75 € in Berlin)
Eastern Germany		9.50 €
Care services (800,000 employees)		
Western Germany		8.50 €
Eastern Germany		7.50 €
Roofing trade (82,000 employees)*		
Germany		10.80 €
Electric trade (243,000 employees)*		
Western Germany		9.70 €
Eastern Germany and Berlin		8.40 €
Commercial cleaning (830,000 employees)*		
Western Germany and Berlin	basic indoor cleaning	8.55 €
	Outside cleaning	11.33 €
Eastern Germany	basic indoor cleaning	7.00 €
	Outside cleaning	8.88 €
Industrial laundries (30,000 employees)*		
Western Germany		7.80 €
Eastern Germany		6.75 €
Painting and varnishing trade (64,000 employees)*		
Germany	Unskilled	9.50 €
Western Germany	Journeymen	11.50 €
Waste management (175,000 employees)*		
Germany		8.24 €
Security services (170,000 employees) (since June 2011)		
Western Germany	Differentiated by federal state	6.53 – 8.60 €
Eastern Germany		6.53 €

* The numbers of employees are taken from Deutscher Bundestag 2010.⁶

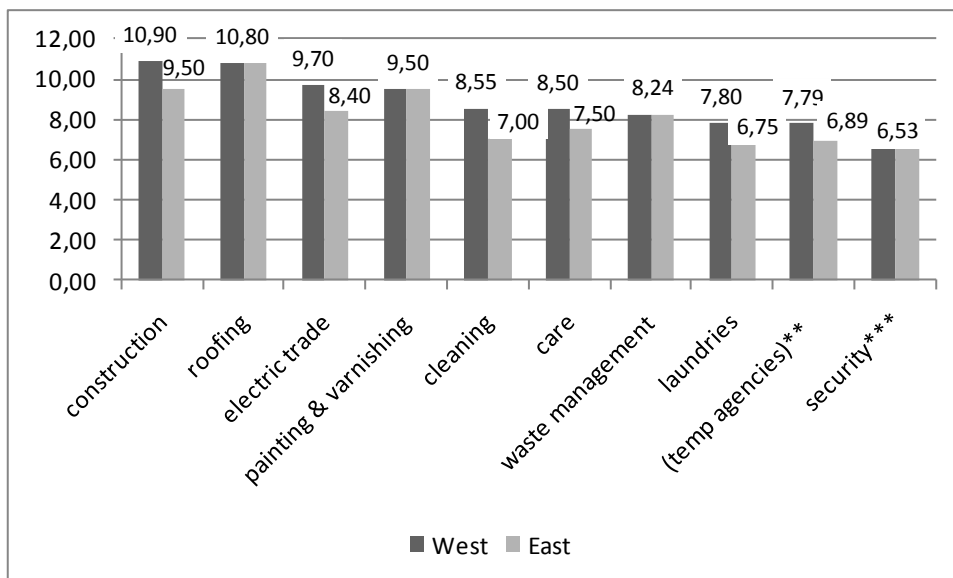
Source: Own compilation based on Bundesministerium für Arbeit und Soziales 2011

⁶ According to this source, the number of construction workers is 678,000. However, this does not take into account that minimum wages are only applicable in “main construction” (*Bauhauptgewerbe*).

Notably, in almost each of these sectors, it took enormous efforts to push through the approval and implementation of minimum pay standards (cf. section 3 for more details). The extension of collectively agreed minimum wages in other sectors such as forestry and further education which has been applied for by the social partners already in early 2008 has been denied until now. Accordingly, in June 2011, nine industries in Germany reveal sector-specific minimum wages based on collective agreements and extended through the Law on the Posting of Workers. Table 1 shows the industries and current rates of the respective minimum wages.

Figure 1 illustrates the large variation of minimum pay rates with the highest level for construction workers in western Germany and the lowest level in security services in eastern Germany. While three sectors have uniform minimum wages for Germany as a whole, the other sectors still differentiate between East and West or even by federal states (security services).

Figure 1: Sector-specific hourly minimum wage rates, June 2011*, in €



* 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.

** 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 €.

Source: Own compilation.

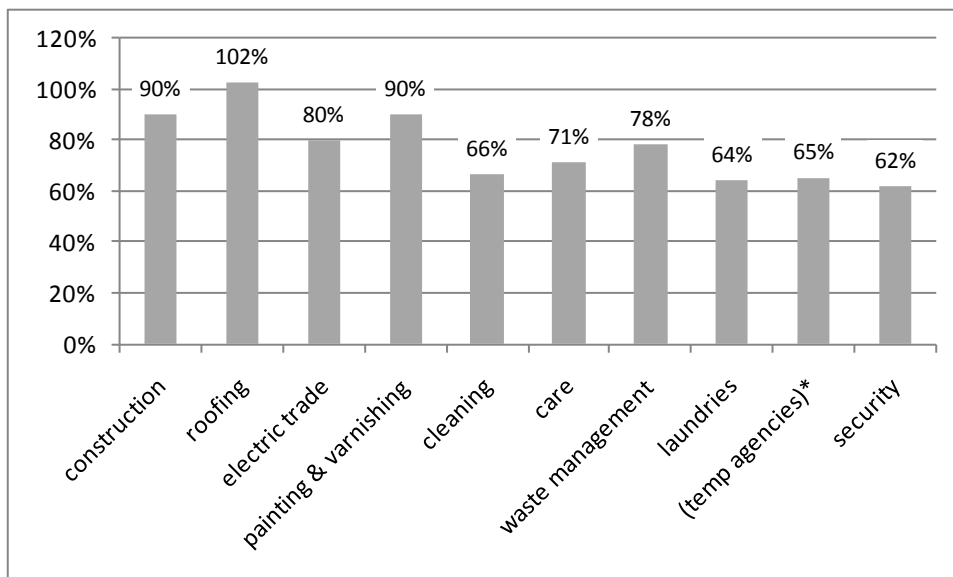
Even more than 20 years after German unification, the wage levels in both parts of the country are still very diverse. In 2009, the median hourly wage of all employees⁷ in eastern

⁷ The calculation includes full-time and part-time employees. Side-jobs of students and pensioners are excluded. The same applies to workers for whom no meaningful hourly rates can be calculated (e.g. self-employed and freelancers, trainees, interns etc.).

Germany was at 10.55 € and thus far below the median in western Germany (14.64 €). The overall eastern median only reached 72% of the western level. Against this background, it is remarkable that the minimum wages are at the same level all over Germany in at least three sectors and that in the other sectors the gap between East and West is at least less pronounced than the gap in actually paid wages. Compared to the level in western Germany, the minimum wages in the east range between 82% in cleaning and 88% for care services.

Although the minimum wages in most sectors are lower in the east, their relative level compared to the (eastern German) median is much higher than in western Germany – ranging from outstanding 102% in roofing down to 62% in security services (figure 2). All eastern German minimum wages are above the low-pay threshold of two thirds of the median or only slightly below (security services, temp agencies and laundries).

Figure 2: Relative level of hourly minimum wages in eastern Germany, in % of median hourly pay (2009: 10.55 €)

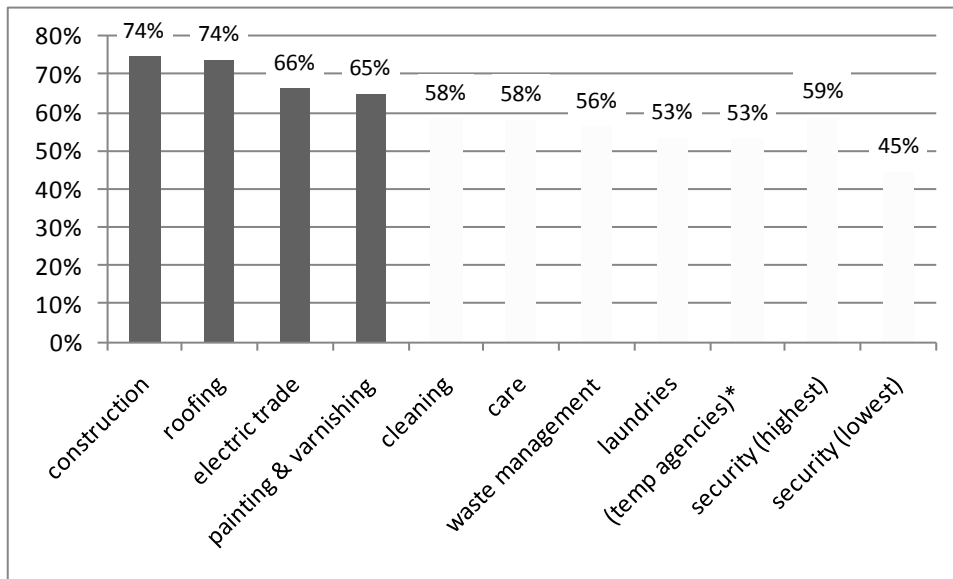


* The wage floor for temp agencies has been not yet implemented.

Source: Own compilation.

The picture for western Germany is quite different (figure 3). The highest minimum wages reach 74% of the median in construction and roofing, while the minimum pay in electric trade and painting and varnishing is very close to the low-pay threshold. In the other six sectors (including temp agencies), the minimum wages reach less than 60% of the median. The lowest relative levels are to be found in laundries (53%) and in security services with only 45% in the three federal states with the lowest minimum wage rate of 6.53 € (Rhineland-Palatinate, Saarland and Schleswig-Holstein).

Figure 3: Relative level of hourly minimum wages in western Germany, in % of median (2009: 14.64 €)



* The wage floor for temp agencies has been not yet implemented.

Source: Own compilation.

Although relative minimum wage levels in western Germany are considerably lower than in eastern Germany, it is notable that most of the existing German sector-specific minimum wages are above the relative level of the statutory minimum wages in several other European countries. However, several of these countries such as France or the Netherlands have two types of minimum wages: the statutory minimum wage and – by extension of the whole wage scale of collective agreements – higher minimum wages in most industries (Bosch et al. 2011).

4 The bumpy road to minimum wages

The coverage of employees by industry-wide collective wage agreements dropped from 70% in 1996 to 56% in 2010 in western Germany and from 56% to 37% in eastern Germany in the same period (IAB 2011a). As a further 7% of employees in western and 13% of the employees in eastern Germany are covered by company-level agreements (2010), the shares of employees not covered by collective agreements is at 37% in West and even 51% in East Germany (IAB 2011b). The decline in coverage in recent years 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 several 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 several 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. 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. As already mentioned in section 2, the former great coalition extended this option based on the Law on the Posting of Workers and added a second mechanism for the implementation of sector-specific minimum wages in 2007/2008.

However, the complex system of regulations provides numerous possibilities for politics, employers, and competing unions to block its practical application. In early 2008, eight industries applied for minimum wages based on collective agreements according to the Law on the Posting of Workers. Although six of these applications (except temporary work agencies and forestry services) were principally accepted by the government in January 2009, minimum wages had been implemented only for two small industries (industrial laundries and mining specialists) by the end of 2009.

The hesitant implementation was not only due to the controversial attitudes on minimum wages across the new government elected in September 2009 but also to conflicts between the social partners in the national Collective Bargaining Committee in August 2009. The union representatives did not support the implementation of minimum wages in security services because the collective agreement in question had been negotiated with a Christian union and the level of the agreed wages was regarded to be too low. Employer representatives voted against an agreement for continuing education because they did not consider the need in that industry or thought that the agreed levels were too high.

In the care services sector, the main problem was the lack of a sectoral collective agreement which is due to the heterogeneous structure of providers (public, private, non-profit, churches). Against this background, the reformed Law on the Posting of Workers contains a clause for the establishment of a particular commission to agree upon minimum rates in care services with particular veto entitlements for the church representatives. This commission was established in September 2009 and met several times in order to find a compromise. The finally agreed minimum wages were at the lower end of the possible range discussed before. After the minimum wage levels were agreed upon on 25 March 2010, it took until August 2010 before the minimum wages were implemented by the government.

A further problem not yet mentioned before reveals from the lack of after-effects (*Nachwirkung*) of minimum wage agreements. If their validation period ends before new minimum wage rates have been negotiated by the social partners and implemented by the

government, the minimum wages are phased out without prejudice. This happened, for instance, in summer 2009 in the cleaning sector: The validation period of the former minimum wages ended in August 2009, but due to a controversial bargaining round with strikes it took until October 2009 to negotiate the new collective agreement. Despite both employers and unions pressing for extension of the minimum wages by early 2010 it was only in March 2010 when the government completed the administrative procedures and the new minimum wage rates came into place. This six-month period during which companies operated without any binding wage standards has powerfully illustrated the importance of the minimum wages for the cleaning sector. According to newspaper articles (for instance Kröger 2010), several employers exploited the opportunity to reduce wage levels for new entrants immediately after the obligation to comply with minimum standards had been expired in autumn 2009. In some cases, wages were reduced by up to 30% (the legal threshold for “immoral” wages).⁸

Another notable case is the German temp agency sector. Social partners (two of the three employer associations in this industry) and the DGB-unions had negotiated a “minimum wage collective agreement” already in May 2006 but did not succeed to get it extended to the whole industry immediately afterwards (Weinkopf 2006). In 2008, the social partners officially applied for declaring this agreement as generally binding by the Law on the Posting of Workers. The application also aimed to enforce a compliance requirement for agencies from other countries (BZA/iGZ 2008). Due to several reasons – among them competing lower collective agreements (negotiated by a Christian union) and ongoing political disputes about the legal framework and possibly needed adaptations according to the EU-directive on temp agency work – it has taken almost five years to principally agree upon implementation by a particular mechanism apart from the Law on the Posting of Workers. This decision has been obviously enforced by the opening of the labour market for MOE-citizens in May 2011. The temp agencies were afraid that seconded workers from other EU-Countries would undercut even the low German collective agreements. However, as mentioned before – it is still open by now (June 2011) when the wage floor will really come into place (Vates/Roth 2011).

Besides the complex procedures to implement sector-specific minimum wages and their pitfalls and obstacles as illustrated above, a number of further disadvantages of the German path of sector-specific minimum wages need to be emphasized. First, large areas of the labour market – especially in service industries – still remain completely unregulated because of the declining number of companies covered by collective agreements. Second, the levels of sector-specific minimum wages are very diverse (as shown in section 3) and provide incentives to shift activities to sectors with lower or even without minimum standards. Third, enforcement of a variety of different minimum standards is much more difficult. 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

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

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 also complain that controls of various minimum standards (by sector and sometimes even by federal states) are rather difficult.

5 Sector case study findings

We carried out detailed case studies with a focus on the interaction between developments in industry-specific minimum wages, pay structures and social dialogue in three sectors: construction, cleaning and temp agencies. We found that in construction and cleaning – i.e. sectors where minimum wages were implemented several years ago (1997 and 2007) collective bargaining has been strengthened. Minimum wages are negotiated as a part of the pay ‘grid’ in these 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 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 where the minimum wage is the “going rate”. This also explains the different behaviour of the eastern and western German employer representatives in collective bargaining. Our interview partners reported 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 wage.

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 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. 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.

5 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.

However, the introduction of a statutory national minimum wage, as in several other European countries, 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. Collectively agreed minimum wages at industry level can be declared generally binding in response to an application by the two sides of industry. A reform of the 1952 Law on minimum working conditions may be applied to industries without collective bargaining or with low coverage to enable the possibility of introducing minimum wages. Only the first route has been used until now and in June 2011, nine industries have minimum wages in accordance to the Law of the posting of Workers. For temp agencies, it has taken more than five years that minimum wages through another mechanism are now expected to be coming soon.

Our 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 and pitfalls as well.

Some of the newly agreed minimum wages are quite low since 'employer friendly unions' have signed a collective agreement with low rates. Also, in several low-wage industries there are no minimum rates at all due to delays in social partners reaching an agreement or because there is no willingness or ability to do so. Moreover, even where social partners have successfully negotiated industry minimum wage agreements, the process of acceptance and implementation is difficult and time-consuming. Social partners are confronted with various 'hostile' political interventions from the government or parts of it or from the federal employers' association (BDA) to prevent minimum wage implementation. Last not least, 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. Minimum wages in Germany have thus been very slow in their realisation and a patchwork of different minimum wages together with large unregulated zones of wage-setting without binding minimum standards is the result by now.

It remains difficult to predict what will happen with the German minimum wage policy in future. More and more employers associations especially in the low wage industries are changing their views on minimum wages. They suffer from unfair wage competition, find it increasingly difficult to recruit workers in an increasingly tighter labour market with smaller cohorts entering the labour market, and see the need of a minimum pay threshold in an open European labour market. The parties of the government have at least slightly changed their mind over time and are now less opposed to minimum wages than in 2009 after the federal elections. Although they are still in favour of sector-specific minimum wage agreements, most recently, first voices from their lines demand for a statutory minimum wage for all sectors. For instance, the employee wing of the Christian parties has recently argued for an extension of the minimum standards that are expected to be implemented for temp agencies to all industries. The impact of the minimum wages on employment, competitiveness of companies and protection of workers in eight industries is presently evaluated. Based on these evaluations the government will debate their politics on minimum wages in October 2011. Compared to the sharply U-turn of the German conservative government as regards nuclear power policy after Fukushima, the recently changing attitudes according to minimum wages are more modest but at least remarkable.

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