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

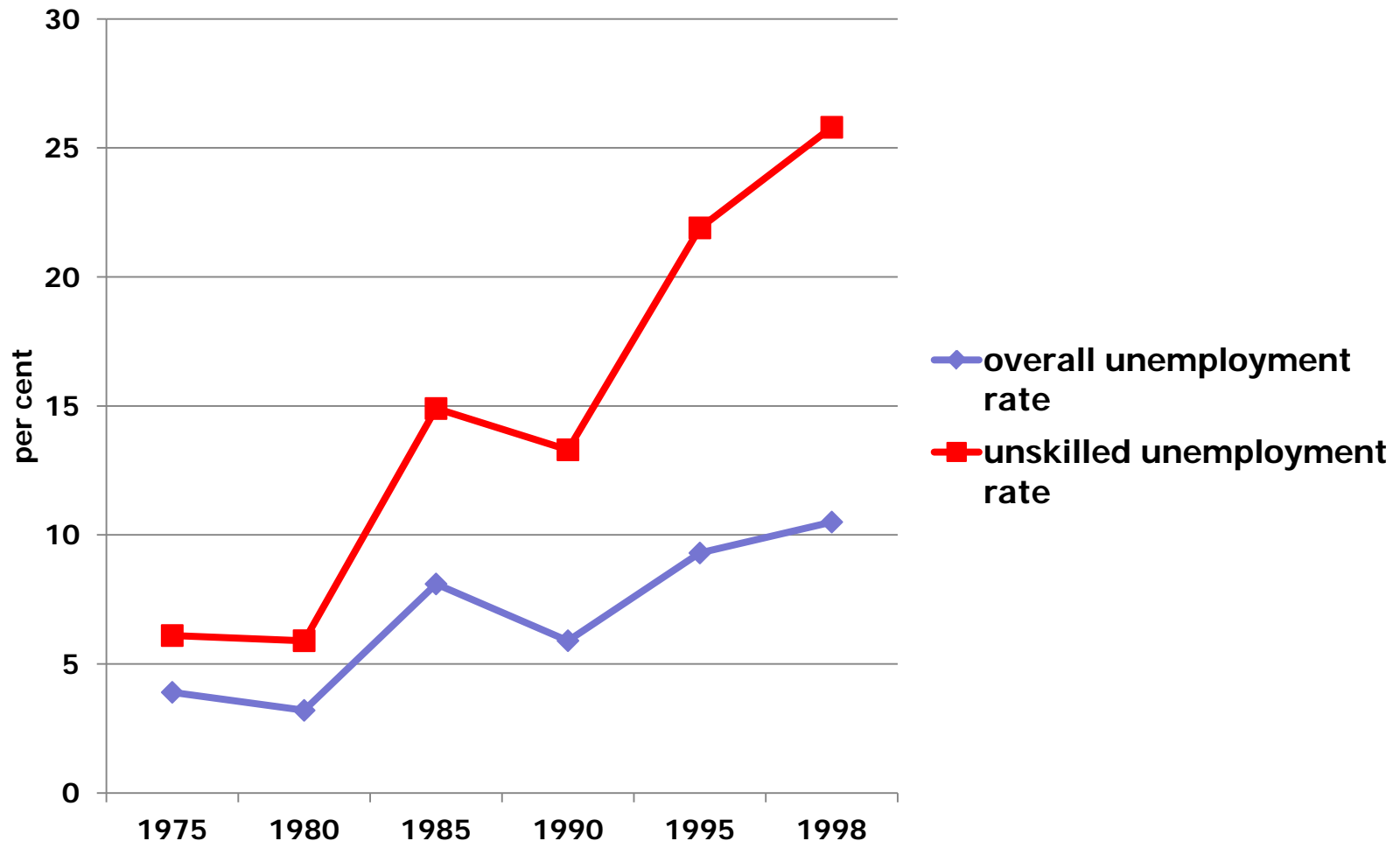
Welfare States' Responses to Labor Market
Dualism and the Working Poor, Seoul,
December 16, 2011

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.

1. low (hourly) wages

Growing skills gap in unemployment rates ... triggered discourses on the **desirability** of a 'low wage sector'



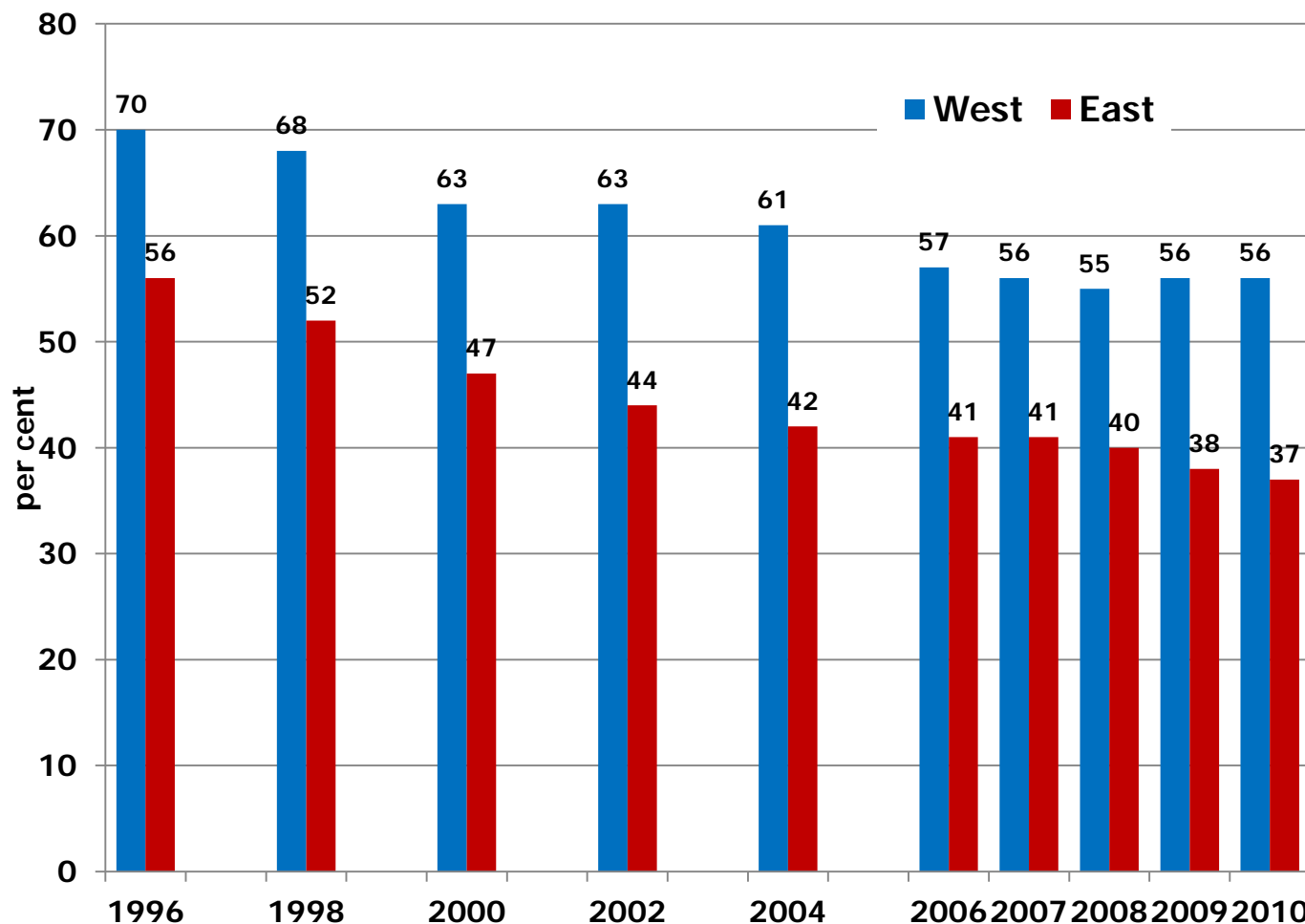
Source: Reinberg, Alexander (1999): Der qualifikatorische Strukturwandel auf dem deutschen Arbeitsmarkt - Entwicklungen, Perspektiven und Bestimmungsgründe. In: Mitteilungen aus der Arbeitsmarkt- und Berufsforschung, vol. 32, no. 4, pp. 434-447.

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)

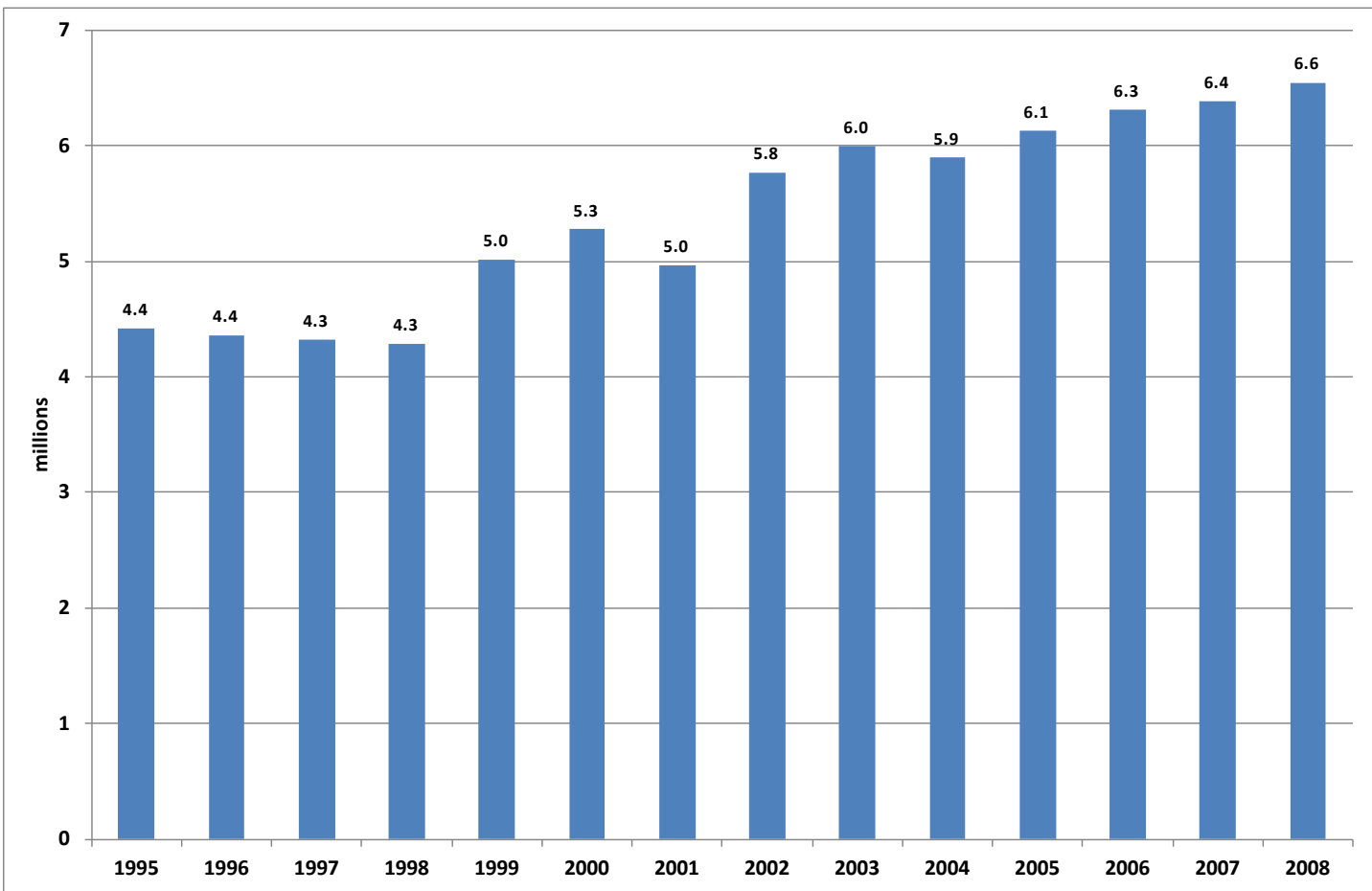
Percentages of employees in establishments covered by sectoral/regional collective agreements, 1996 to 2010

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)

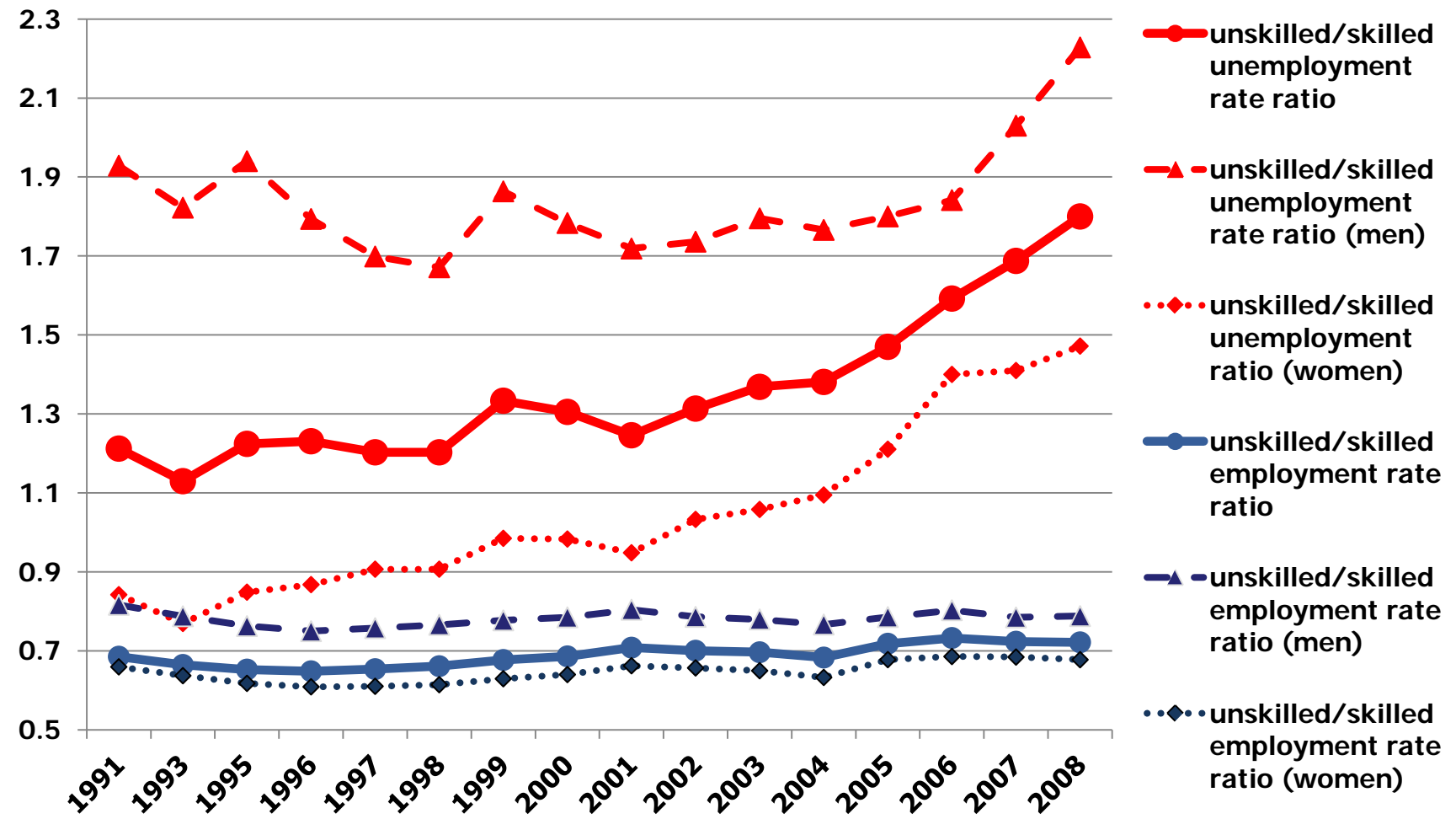
*)Low-wage thresholds 2008:	
West	9.30 €
East	6.87 €
Germany	9.06 €
= 13,798 KRW	
1.15 million workers (=3.6%) with hourly wages <5 € = 7,615 KRW	



*) Low-wage thresholds computed separately for East and West Germany for each calendar year.
 Source: Kalina, Thorsten; Weinkopf, Claudia (2010): Niedriglohnbeschäftigung 2008: Stagnation auf hohem Niveau – Lohnspektrum franst nach unten aus. (IAQ-Report, 6).

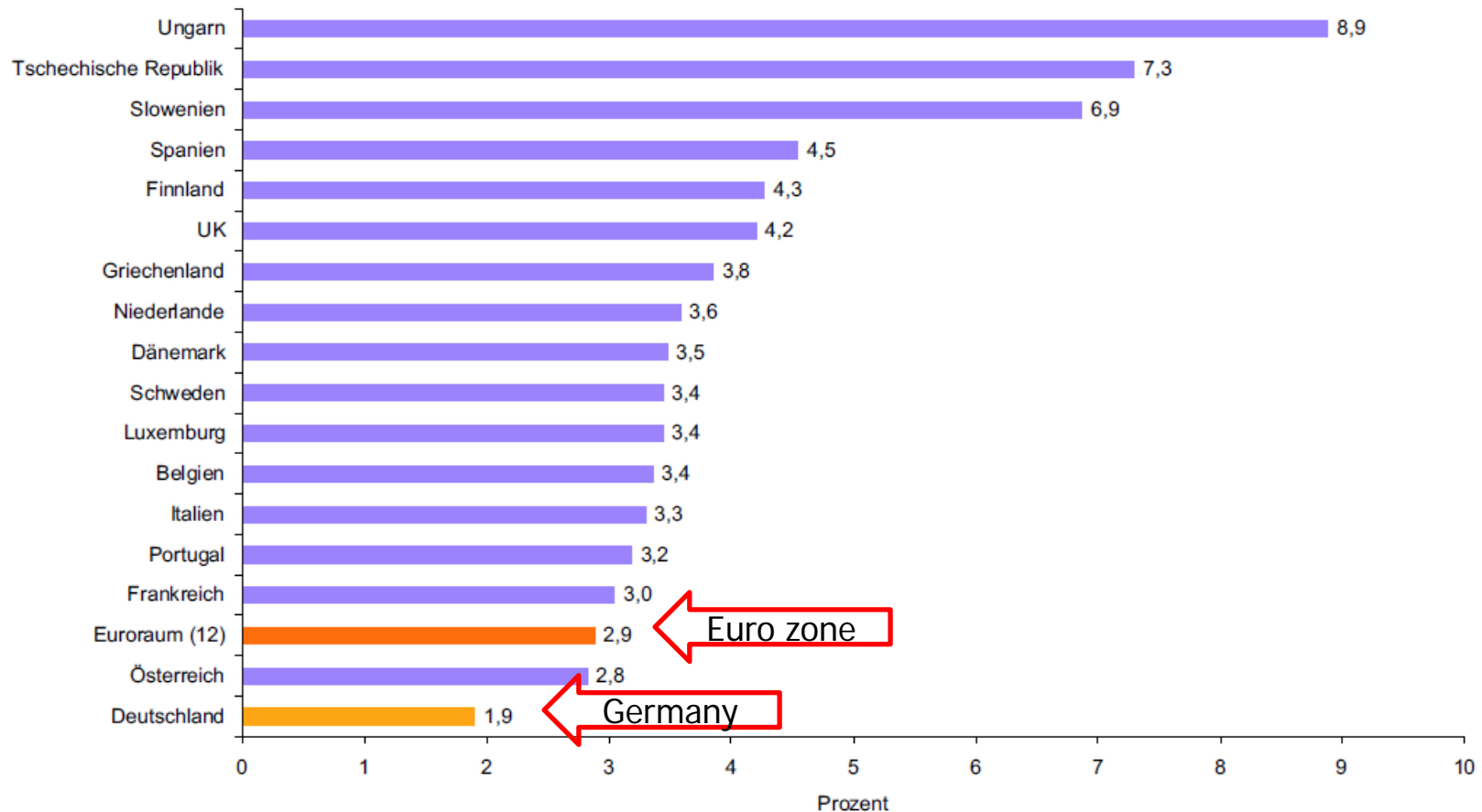
Did the growth of the low-wage sector reduce the skills gap on the labour market?

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

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.

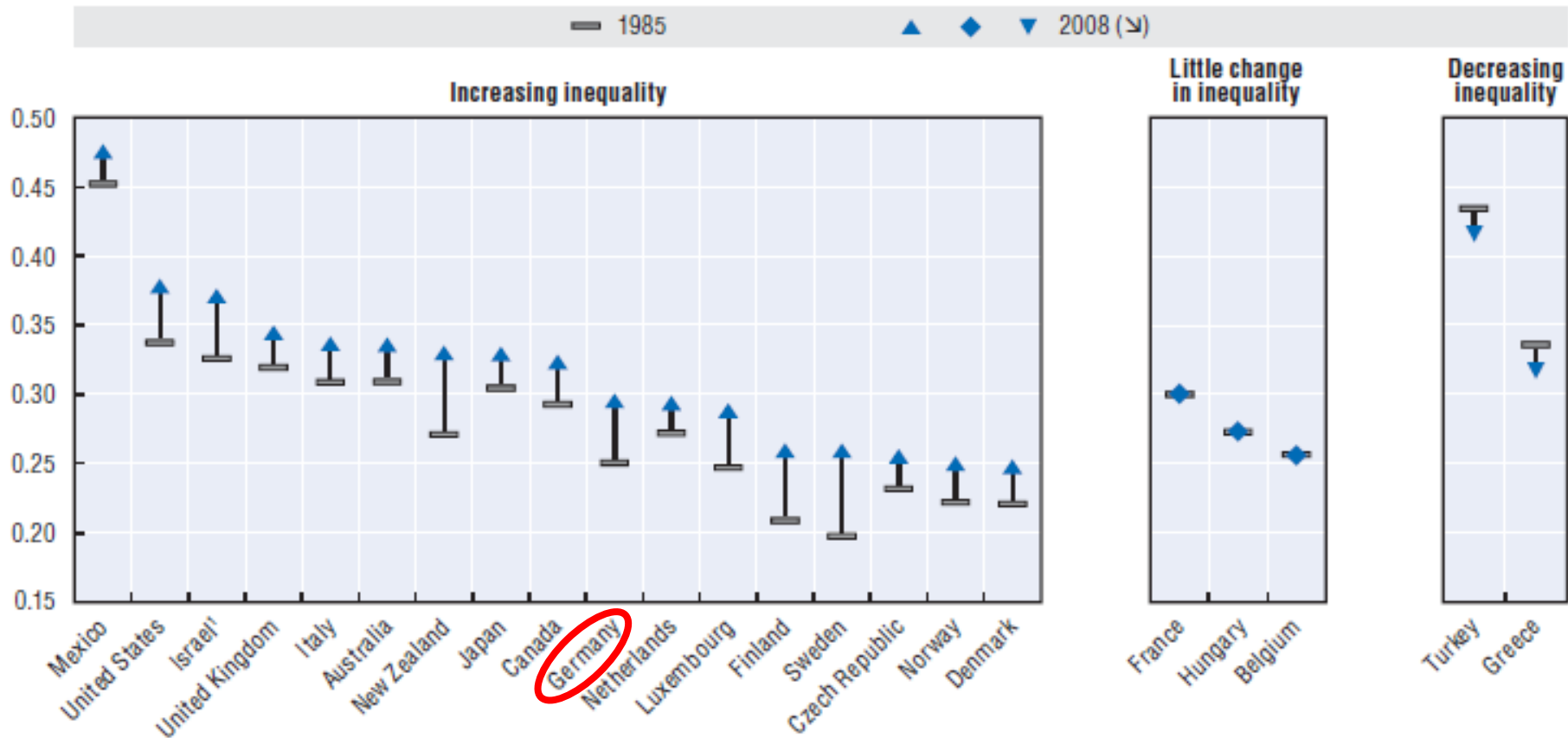
² Wirtschaftszweige B bis N (NACE Rev. 2), siehe Tabelle A1 im *Methodischen Anhang*.

2. small (individual) earnings

Elements of the German employment and family regime promoting low earnings

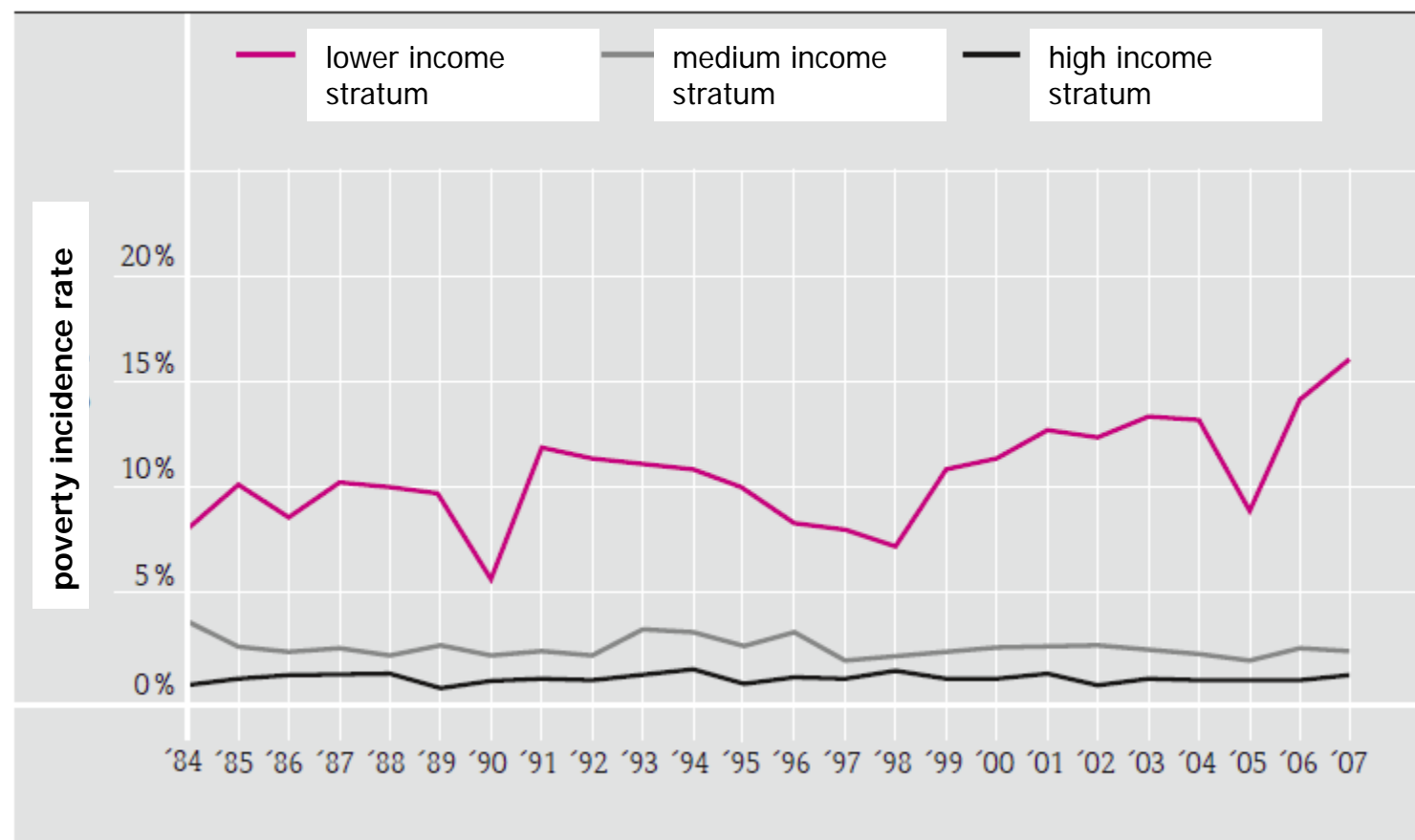
- West Germany: insufficient care facilities for small children
 - ⇒ traditional 'male breadwinner model' only half-way modernized into a 1¼ or 1½ dual earner model
- subsidies for the single or 1¼ earner model:
 - free health insurance coverage for non-working spouses; survivors' pensions
 - income 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



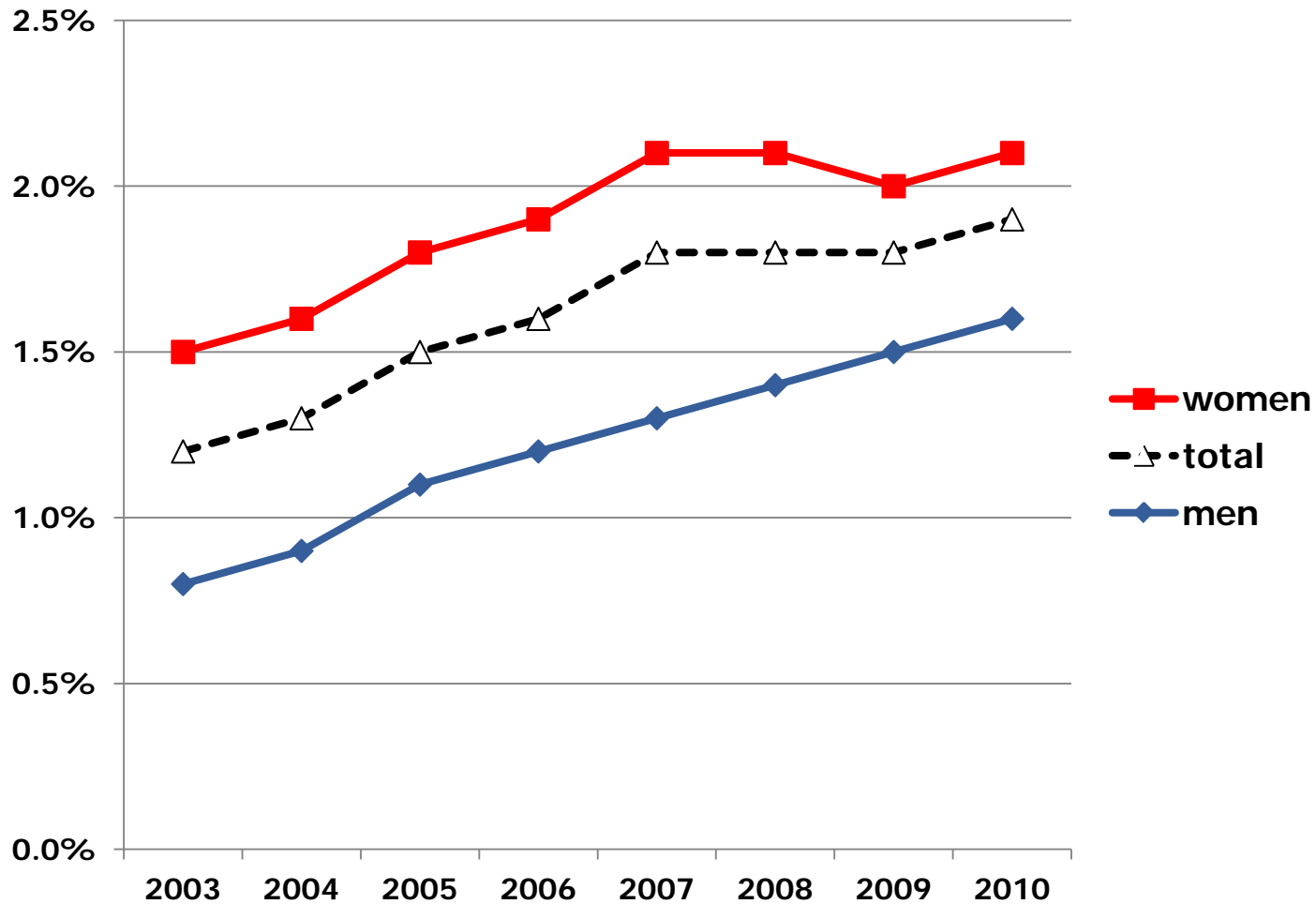
Source: Organisation for Economic Co-operation and Development: Divided we stand. Why inequality keeps rising (2011). Paris, Bristol: [University Presses Marketing [distributor].

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



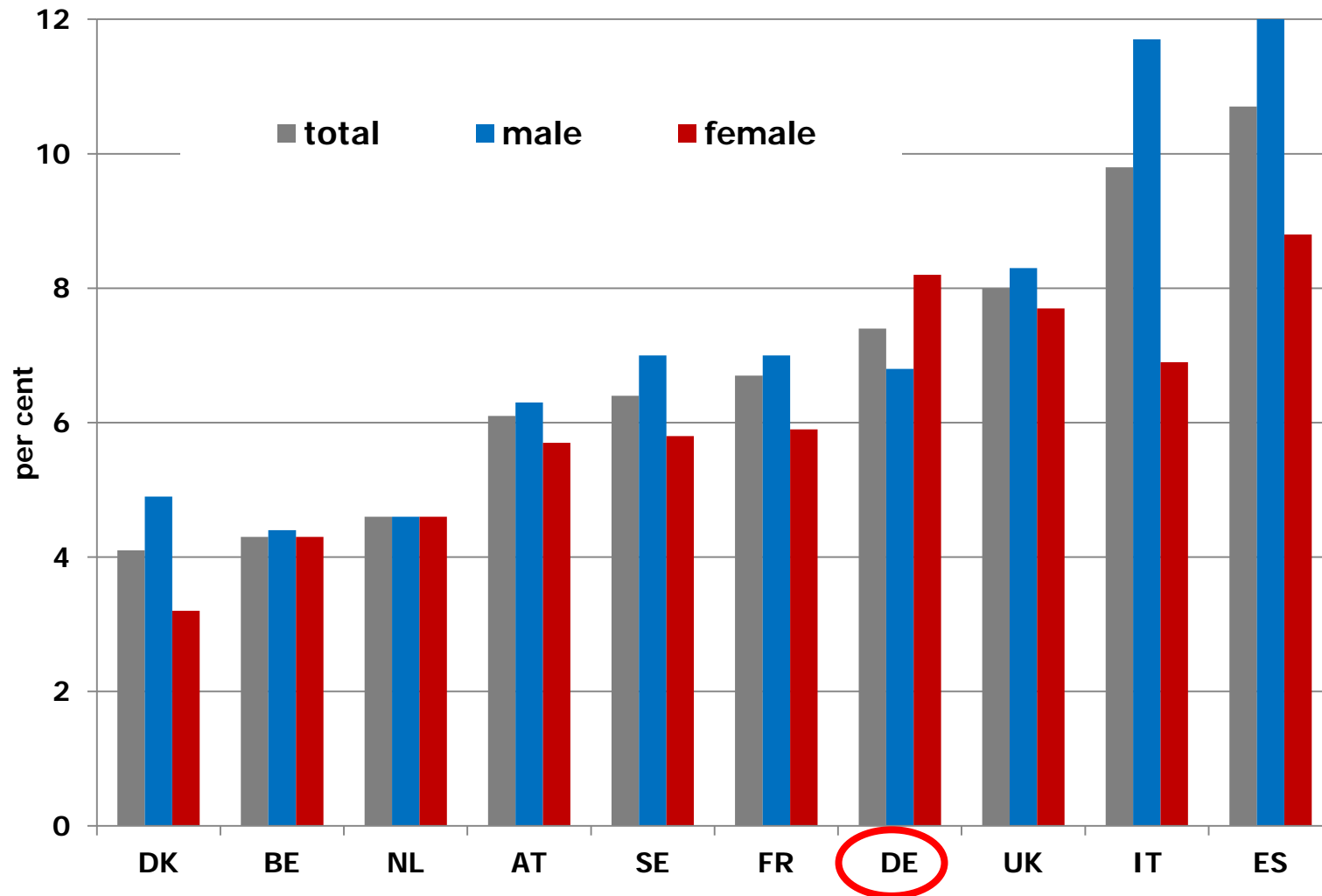
Source: Ehlert, Martin; Heisig, Jan Paul (2011): Arm, ärmer, am ärmsten. Menschen mit niedrigem Einkommen steigen immer häufiger ab. In: WZB Mitteilungen (134), p. 7–9.

Percentages of old-age pensioners receiving supplementary minimum income benefits



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



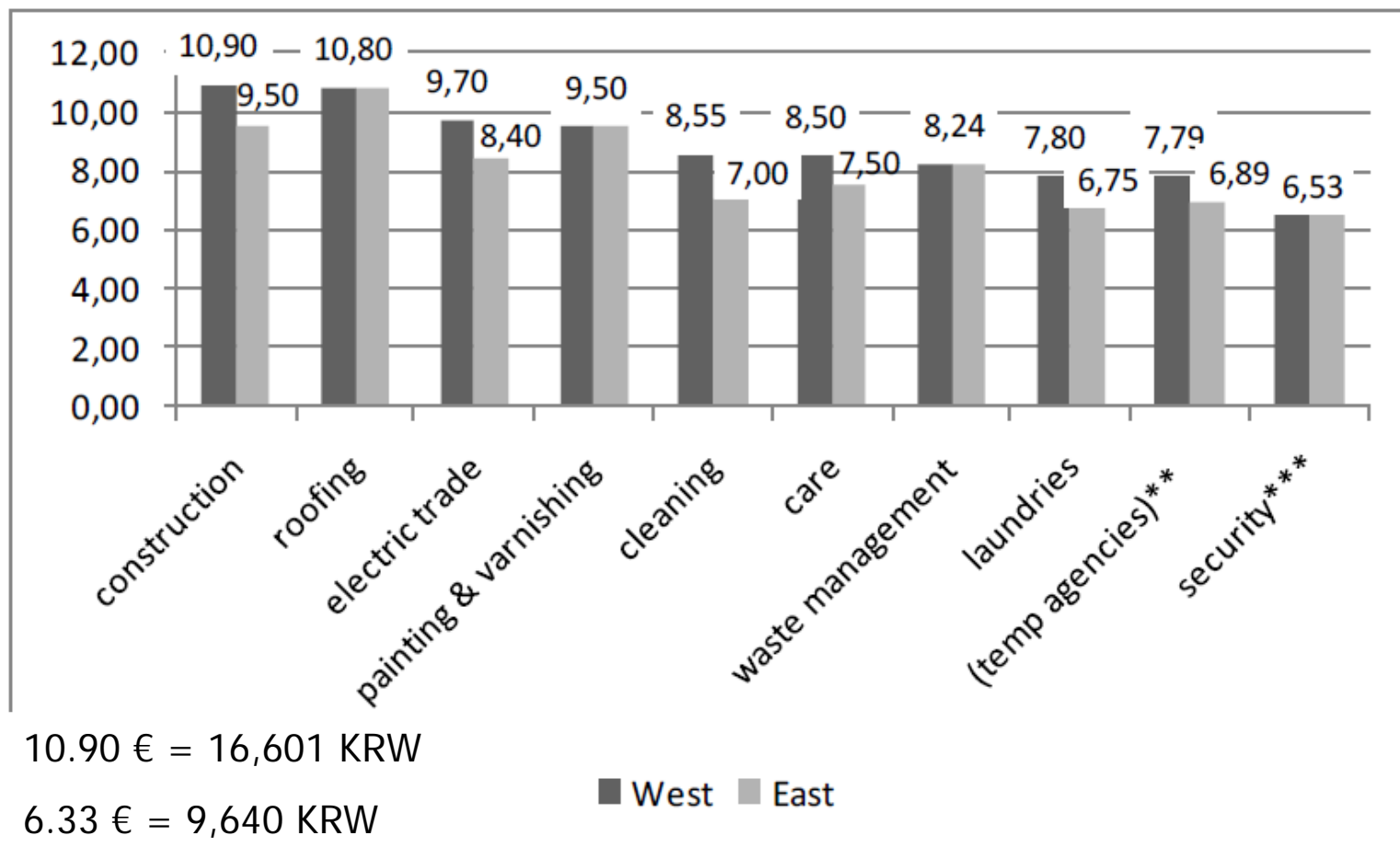
In-work benefits incorporated in the income support system for working-age people

- 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



* 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.

Source: Bosch, Gerhard; Weinkopf, Claudia (2011): Industry-wide minimum wages in Germany: uncertain progress along a bumpy road. Paper prepared for the ILO Regulating for Decent Work conference, 6-8 July 2011.

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.