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INTRUDUCING A MINIMUM WAGE IN GERMANY?

Abstract

The extent of low-wage work in Germany is hotly debated. In international comparisons, Germany is often classified as a country with a low wage dispersion. Compared to the USA and UK, Germany has a relatively equal income structure and a small proportion of low-paid workers. This picture has changed since the mid 1990s. Low-wage employment has grown considerably in the last ten years. In European comparison Germany has now one of the highest values of the continental European countries. Low wages are especially concentrated on unskilled, women, younger workers and foreign workers. Especially in services and on small companies unions are too weak to guarantee a minimum wage level. As Germany is the only country in the EU without a minimum wage and without any alternative for ensuring a minimum wage floor, we draw the conclusion, that Germany urgently needs a general minimum wage. The article discusses indicators for the right level of a minimum wage.

JEL Classification System:

J31 - Wage Level and Structure; Wage Differentials; J80 - Labor Standards: National and International - General

Introduction

The extent of low-wage work in Germany is hotly debated. In international comparisons, Germany is often classified as a country with a low wage dispersion. Compared to the USA and UK, Germany has a relatively equal income structure and a small proportion of low-paid workers (OECD, 1996; OECD, 1997). Only in the Scandinavian countries is income inequality even lower. Furthermore, the OECD's international comparative studies show that the chances of low-paid workers obtaining a better-paid job are higher in Germany than in the United States, a country with more income inequality. This is frequently the justification given for political measures and reforms that seek to extend low-wage work.

However, like most international comparisons, the OECD's studies relate only to Western Germany and to the 1990s. Moreover, the figures do not yet fully reflect the consequences of the persistent high unemployment and the substantial reduction of coverage by collective agreements let alone the impact of the recent, wide-ranging labour market reforms, which will probably influence wage structures in the labour market.

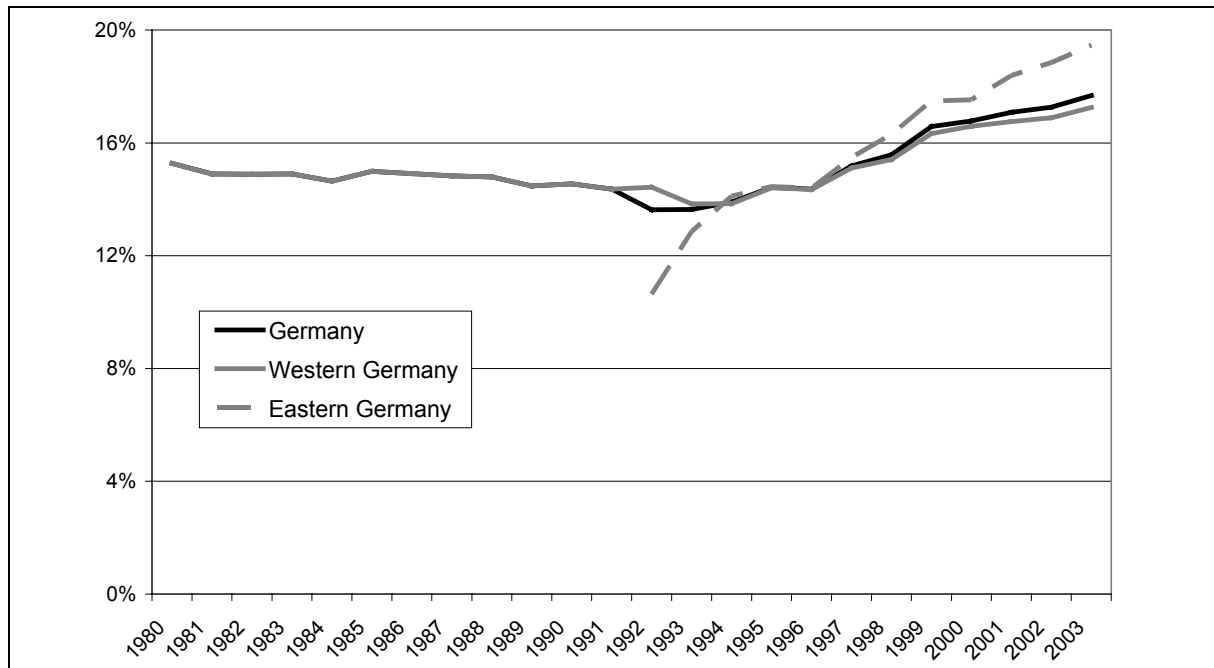
In our view, the inadequate nature of the information on low-wage employment in Germany makes it necessary for us to effect our own calculations. Figure 1 provides an overview of the trend over time in the percentage of low-wage workers among employees subject to compulsory social security contributions.¹ In 1980 the percentage of low-wage workers

¹

With the focus on employees covered by social security the BA-employee panel covers about 80% of

among full-time employees subject to compulsory social security contributions was 15.3%, but by 1993 this figure had decreased to 13.8%. Since then, however, this percentage has risen again, reaching 17.3% in 2003. The trend over time coincides with the OECD analyses (OECD, 1996), which show a reduction in income inequality in Germany in the low-wage sphere (comparison D5/D1) between 1983 and 1993. This makes Germany the only country in which income inequality had lessened. However, this trend appears to have reversed since the mid-1990s.

Chart 1: Share of low-wage workers among full-time employees covered by the social security system



Source: IAB regional sample (IABS-R01) and BA-employee panel

It proves to be difficult to categorise the level of low-wage employment in Germany in an international comparison, since the studies available reach varying conclusions. According to the 1996 OECD study, Germany and France share top position in terms of the highest percentage of low-wage workers among the countries of continental Europe. Only the United Kingdom and the United States have higher levels of low-wage workers. The study by Marlier and Ponthieux (Marlier, Ponthieux, 2000) shows a comparable list of rankings, although the measurement concept adopted is very different. Unlike the OECD, they include part-time employment, but on the basis of monthly income.

The latest study presented by the European Commission (European Commission, 2004), which is based on a definition of low-pay as below two-thirds of the national median of hourly gross salary shows a similar country ranking. Only the UK, Ireland, the Netherlands (and Greece) show higher shares of low-pay than Germany. In most studies, the UK and the US have the highest shares of low pay. Germany usually has one of the highest values of the continental European countries.

all employees. Self-employed and civil servants are not included. Our analysis focuses on full-time employees only, which excludes part-time work. Besides this we excluded apprentices.

Structural characteristics of low-paid workers

Having shown that there is already a substantial amount of low-wage employment in Germany today, in this section we shall go on to elicit information on which groups of persons are particularly affected by low wages. The structural analysis shows particularly high proportions of low-wage employees among persons with no vocational training (30.2%), women (30.8%), young people (42.8%) and non-nationals (27.0%) (see Table 1).

Table 1: Structural characteristics of low-wage workers (Germany, 2003)

	Category	Incidence (in category)	Distribution (low-wage worker)	Distribution (total economy)	Concen- tration
Educa- tional level²	Unskilled	30.2%	22.2%	13.0%	1.71
	Skilled	17.6%	75.5%	75.6%	1.00
	College/ university	3.6%	2.3%	11.4%	0.20
Sex	Men	10.0%	35.9%	63.2%	0.57
	Women	30.8%	64.1%	36.8%	1.74
Age	under 25	42.8%	18.0%	7.4%	2.42
	25 – 34	18.6%	25.9%	24.6%	1.05
	35 – 44	14.8%	27.8%	33.2%	0.84
	45 – 54	14.5%	20.6%	25.1%	0.82
	55+	14.3%	7.7%	9.6%	0.81
Na- tio- nalit y	German	17.0%	89.7%	93.3%	0.96
	Foreign	27.0%	10.2%	6.7%	1.53
Total economy		17.7%	100.0%	100.0%	1.0

Source: BA employee panel, own calculations

These groups have a high concentration of low-wage employment, since their shares in low-paid employees are substantially higher than their shares in the economy as a whole. For example the share of woman in low-wage work is 1.7 times higher than their share in the total economy, which is indicated by the concentration measure in the last column. However, it is not only the groups cited that are affected by low-wage employment – 75.5% of low-paid employees have completed a course of vocational training, 35.9% are men, the majority of them (74.2%) are not young people (being aged 25-54), and 89.7% of all low-paid employees are German nationals.³

Low pay by company characteristics

When we look at the distribution of low pay by company characteristics, it becomes obvious, that the share of manufacturing and agriculture in the total of low pay is decreasing

² In 11.6% of all cases, no data on vocational training are available. In the analysis that follows, we have assumed that the cases where this information is missing are equally distributed across all training levels (see Reinberg, Hummel, 2002; Riede, Emmerling, 1994; Reinberg, Schreyer, 2003).

³ Similar findings for the characteristics cited are reported by Bispinck et al. 2003.

while it is increasing in services (infrastructure and transport, business services as well as household and personal services) (Table 2).

Table 2: Distribution of low pay by aggregated industries (Germany, full-time employees)

Category	1980	1995	1999	2003
Agriculture	2.4%	2.7%	1.7%	1.6%
Manufacturing	34.9%	23.3%	18.4%	17.2%
Agriculture	4.5%	4.8%	4.9%	4.2%
Infrastructure and transport services	2.6%	4.4%	5.5%	6.7%
Business services	6.6%	12.8%	15.5%	17.4%
Economic transaction services	26.9%	22.6%	22.7%	21.6%
Political transaction services	3.3%	3.4%	2.7%	2.3%
Household and personal services	18.8%	25.9%	28.4%	28.8%
Total	15.6%	14.2%	16.3%	17.3%

Source: IAB-employment subsample (75-95) and BA-employee panel, own calculations

In the same time span the share of small companies in the total of low pay is increasing and for large companies it is decreasing (Table 3).

Table 3: Distribution of low pay by aggregated industries (Germany, full-time employees)

	1980	1995	1999	2003
1-19	48.4%	56.3%	54.2%	53.3%
20-99	23.6%	24.6%	25.2%	26.7%
100-499	18.7%	14.7%	15.8%	15.5%
500+	9.3%	4.3%	4.8%	4.5%
Total	100.0%	100.0%	100.0%	100.0%

Source: IAB-employment subsample (75-95) and BA-employee panel, own calculations

One explanation that we draw from statistical data and case studies, is the outsourcing of jobs from sectors with a strong employee representation (manufacturing) to service industries with relatively weak employee representation.

To sum up the findings we can say that the overall share of low pay is increasing, low pay is not only a phenomenon of marginalized groups and low pay is more and more concentrating in services and small companies, where unions are too weak to set minimum standards. Germany is one of six countries in the EU without a minimum wage and without any alternative institutionalised way to guarantee a minimum wage floor (Table 4) (cf. Bosch, Kalina, Weinkopf, 2006).

Table 4: Old EU- member states without a minimum wage

Country	Alternative to the minimum wage	coverage by collective agreements
DK SE FI	high unionization level (> 80%) caused by the „Gent-System“ ⁴	80 – 90%
AT	obligatory membership of employers in the chamber economic chamber	98%
IT	constitution de facto leads to the declaration of collectively agreed wages as generally binding	90%
DE	no comparable regulation	68% West / 53% East

Source: Schäfer, 2005

From this we conclude, that Germany needs a general minimum wage. In the next paragraph we will present two indicators to determine the right level of a minimum wage by international comparison.

Indicators for the right level of a minimum wage in Germany

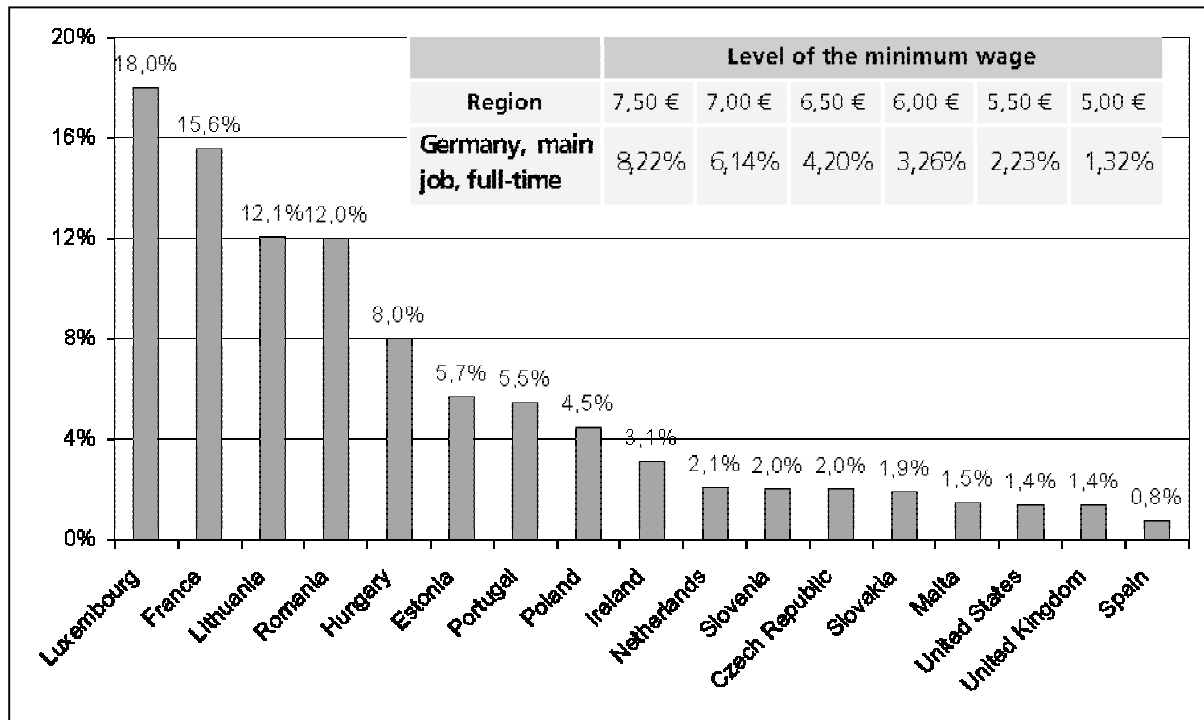
We will use two indicators for determining the right level of a minimum wage in Germany, first the share of minimum wage earners in all employees and secondly the relation of the minimum wage to the average wage. For both indicators we have international comparable data, so that we can determine the place of Germany in the international country ranking for different levels of a minimum wage in Germany (from 5 € to 7.50 € which is claimed by the biggest service union ver.di).

For the share of workers affected by a minimum wage we got a share of 1.3% for a minimum wage of 5 € and 8.2% for 7.50 € for full-time workers, which is comparable to the international calculations. With a minimum wage of 7.50 € Germany would range on rank five in the international country distribution behind Luxembourg, France, Lithuania and Romania. With a minimum wage of five Euros Germany would range at the last place, even behind the USA with their symbolic minimum wage, but before Spain (Chart 2).

With the second indicator, the relation of the minimum wage to the average wage, France, Greece, Ireland and Luxembourg show the highest values, while most of the East European countries show very low values. With a minimum wage of 7.50 € Germany would again range in the upper third of the country distribution, with 5 € it would again range on the last place at the level of the USA.

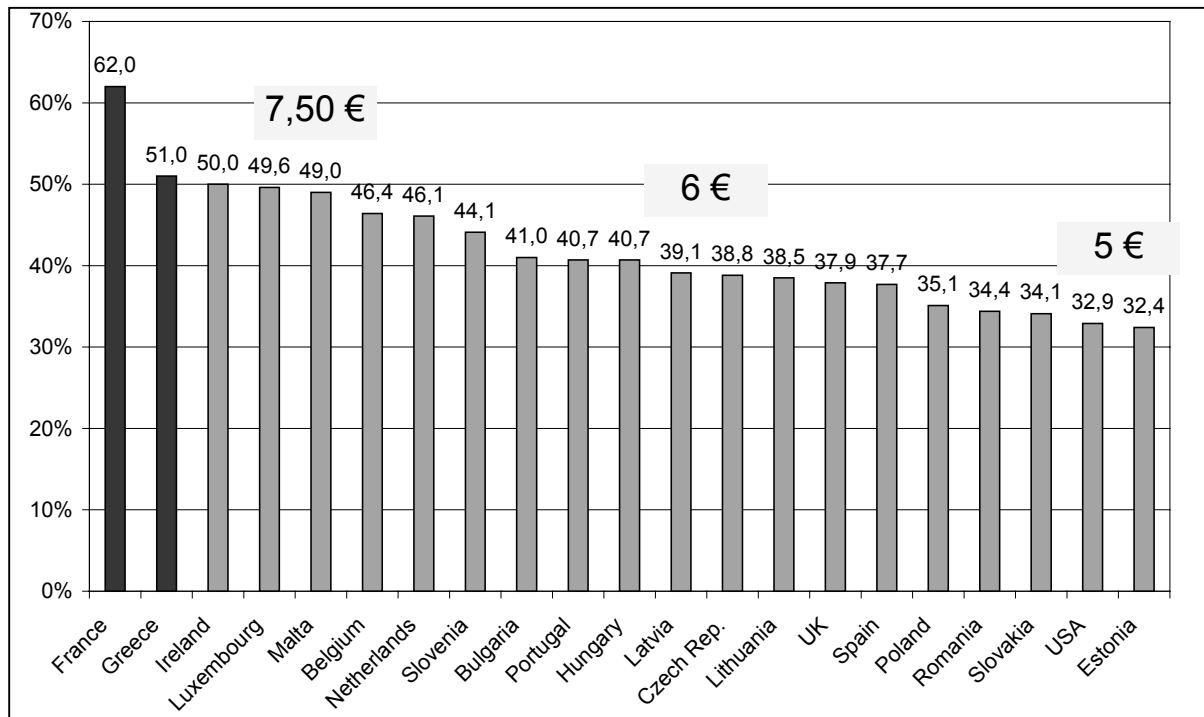
⁴ The workers unions are administrating the unemployment insurance, which is related to a high unionisation level.

Chart 2: Share of minimum wage earners in full-time employees (2004)



Source: Eurostat; monthly gross wages, full-time employees

Chart 3: Relation minimum wage to average wage



Source: Eurostat 2004, Structure of Earnings Survey 2002; taken from Schulten 2006 and Employment in Europe 2005

Conclusions

From the analysis we can draw the following conclusions: In Germany the low-wage sector is increasing strongly since the mid 1990s. Low wages are especially concentrated on unskilled, women, younger workers and foreign workers. But, in the distribution of low pay on the different employee groups we found, that the core work force of skilled workers makes the majority of low wage workers, which could lead to an erosion of the dual system of vocational training, which is essential for the German employment system. We further found an increasing concentration of low wages in services and on small companies, where unions are too weak to guarantee a minimum wage level. As Germany is the only country in the EU without a minimum wage and without any alternative for ensuring a minimum wage floor, we drew the conclusion, that Germany urgently needs a general minimum wage.

The indicators for determining the right level of the minimum wage show that with a level of 7.50 €, which is demanded by the service union ver.di, Germany would range in the upper third of an international country ranking and with a minimum wage of five Euros it would range on one of the last places. From the experience with the introduction of a minimum wage in the UK (cf. Bosch, Weinkopf, 2006) we learned, that first the introduction should be announced a time in advance that is long enough for companies to get prepared for this, secondly the level for the introduction of the minimum wage should not be too high, in order to avoid an economic shock and third the introduction process should be evaluated by an independent commission. From this we would recommend a level slightly below 7.50 € for the introduction and especially the great earning differences in the wage level between East and West Germany should be considered. In the end the international comparison showed that there is no alternative to a general minimum wage in Germany, the most important question now is how to introduce it.

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