

Wage (In)Equality and Wage Setting – Challenges for Germany

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The German “job miracle” during the financial crisis and the relative economic prosperity in the post-crisis era have changed the picture of Germany in the international discussion. The former “sick man of Europe” transformed into a new economic model within Europe and beyond, based on a booming and export oriented manufacturing sector. After the crisis, real wages started to rise for the first time in the last decade for a longer period. Unions and works councils, the main drivers of wage growth, have re-gained recognition and acceptance. Also labour market policy and legislation changed. For the first time ever, a statutory national minimum wage was introduced to cope with the growing low wage sector.

However, a closer look at the developments reveals that wage inequality and problems of wage setting still are crucial challenges Germany. The country is still facing long-term and ongoing trends that foster wage inequality and tend to undermine the institutional structures of wage setting that have been successfully developed in the post-war decades. Recent changes like the minimum wage have created a new wage floor, but do not seem to be sufficient to reduce wage inequality or to stabilise wage setting on their own. There are at least three developments that are threatening established wage structures and wage equality.

First, the neoliberal shaped labour market reforms of the Schröder-era are still in force. They include, besides a reduction in the duration of entitlements in unemployment benefits, the deregulation of temp agency work and the extension of marginal part time work. Atypical employment like temp agency work and marginal part time work increased significantly after the reforms and still is holding a share of around 25% of the workforce. Consequently, the standard employment relationship lost importance relatively. The rise of atypical work is one of the main factors explaining the expansion of the low wage sector in Germany. Low wage work nowadays covers about 23% of the employees and is a main driver for the increase in wage inequality.

Second, collective bargaining is facing an ongoing trend of declining coverage. Whereas in the 1980s the industry level collective bargaining agreements covered about 75% to 80% of the employees, since then the coverage, including company based agreements, has declined to less than 60%, and in some industries of the service sector has fallen

even down to about 40%. As in Germany collective bargaining agreements are compulsory for members of employers' associations, this development reflects problems to organize on the employers' side. However, also the unions have become weaker in terms of members and therefore are no longer able to enforce employers to stay within their associations or to join them for the first time. Outside the collective bargaining agreements employers are free to pay wages according to the market level. Moreover, in many industries collective bargaining agreements today have opening clauses for local or company level derogations from collective labour norms. They offer the opportunity to decrease wages also within collective bargaining agreements.

Third, the differences between industry collective bargaining agreements have increased significantly. Wage standards in the export oriented manufacturing industries like metal, electronics or chemicals with wage increases more or less in line with inflation and productivity growth are decoupling more and more from the wage levels in the service sector. In many private services and in the public services, wage increases are lagging far behind. The former dominant logic of pattern bargaining, based on strong industry unions negotiating wage increases and collective agreements in industries with weaker unions following them, does not work any longer. Already existing wage differentials between the industries have deepened. This gives employers in sectors with more "expensive" agreements like the manufacturing industries the incentive to source out activities that are also covered by the "cheaper" service sector agreements, a trend that tends to undermine the stability of wages and wage setting in the manufacturing core sectors themselves.

Besides these trends a lot of ambivalent tendencies can be identified within the patterns of wage setting by collective bargaining agreements. Among them is the modernisation of framework agreements defining the methods of job evaluation and the wage groups in some industries which is contrasting with the failure to modernise in others. Other tendencies to mention are the growing importance of variable, performance related pay in the areas of high-qualified white-collar work or the expansion of profit sharing and financial participation schemes especially in big enterprises. These developments have to be scrutinised in order to assess their effects on wage setting and wage inequality in Germany.