



COUNTRY REPORT

**GERMANY**

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NEWIN – Negotiating Wage (In)equality is a project co-funded by the European Commission, DG Employment, Social Affairs and Inclusion, budget heading VP/2014/004, Industrial Relations and Social Dialogue

Further information is available at <http://www.adapt.it/> <http://moodle.adaptland.it/course/view.php?id=464/>

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With support from the European Union (Grant agreement VS/2014/0538).

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Germany has long been regarded as an outstanding example of coordinated capitalist economies that combine high international competitiveness of the manufacturing sector with high wages and a – relatively – equal distribution of income. On this base, it was said that the German economy specializes in customized and high quality products, making use of well trained employees with broad skills and high job tenure in the companies. Industry level wage coordination is a central mechanism of this kind of “diversified quality production”, because it impedes wage competition between companies and sectors within the economy, it gives incentives to make use of the skills of the employees and it enforces the companies to modernize and to increase productivity in line with the wage increases.

In this narrative about the German model of capitalism wage setting by industry collective bargaining and the development of wage inequality are strongly linked. Coordinated industry wage setting is a precondition for tempering inequalities, as at the same time a tempered level of inequality is a precondition for a well functioning of industry collective bargaining, because otherwise companies would have incentives to opt out from the system and to make use of low wage strategies. But how have wage setting and wage inequality evolved in the recent years? Is the linkage between wage setting and wage inequality as a central feature of the German model of coordinated capitalism still working? This report tackles these questions by focusing on national and industry developments in the retail sector, the banking sector, the metal industry and schools.

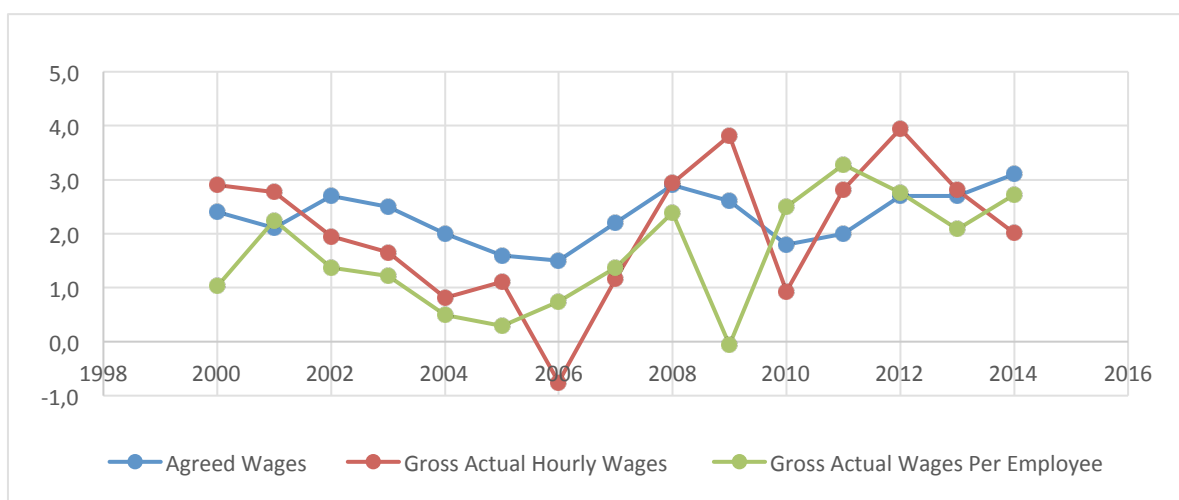
## 1. National situation

The analysis of the national situation starts with the development of wages and the factors explaining their development, analyses wage differentiation and wage inequality and, finally, pays attention to the public debate on wages and growing inequalities.

### 1.1. Wage developments and income distribution

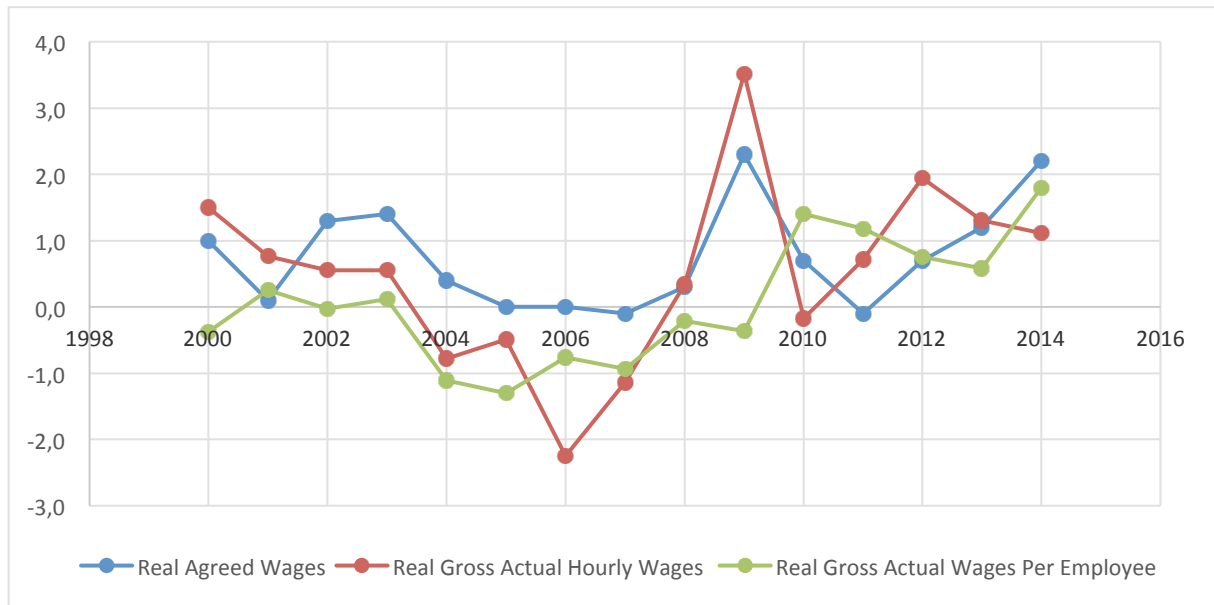
Wage development in Germany since the Millennium is split up in two periods which are divided by the financial crisis. Before and until the financial crisis, the increase of the agreed wages has been higher than that of the actual wages, and the wage drift has been negative. During and after the financial crisis agreed and actual wages developed more in line and followed a common trend of wage increases (figure 1).

**Figure 1.** The development of nominal agreed and actual wages 2000-2014 (data Destatis, WSI-Tarifarchiv, own illustration, in %)



These trends are also reflected in the *development of real wages* and the wage share. Like nominal wages, real wages developed in a different way in the pre- and in the post-crisis period. In the pre-crisis period, real wage growth, both agreed and actual, was meagre at best, and actual wages showed a negative growth for most of the years of the period with the exception of the first three years of the last decade (figure 2). In this period, Germany was the only OECD country with a negative growth of real wages.

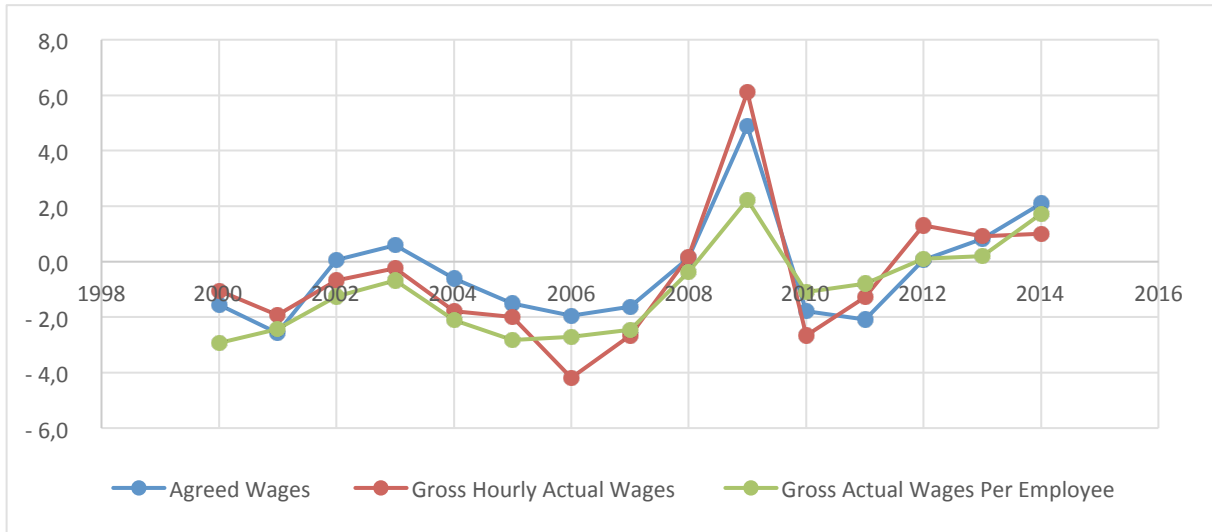
**Figure 2.** The development of real agreed and actual wages 2000-2014 (data Destatis, WSI-Tarifarchiv, own illustration, in %)



When the crisis peaked in 2009, the growth rate of real hourly wages became positive and even outpaced agreed wages, whereas the growth of real actual wages per employee was more moderate because of the working time reductions during the crisis. After the crisis, real actual wages increased partly at a higher rate than real agreed wages because of a positive wage drift and because of the stronger nominal wage growth and low inflation rates. The impact of the financial crisis on the German economy was less lasting than in many other European countries. After a GDP decline of 5% in 2009, the GDP went up again soon, driven by a booming export sector and the service sector which had been an anchor of stability in the immediate crisis years. From then on a virtuous cycle started, with growing demand for labour increasing wages which stabilized domestic demand which again fueled labour demand.

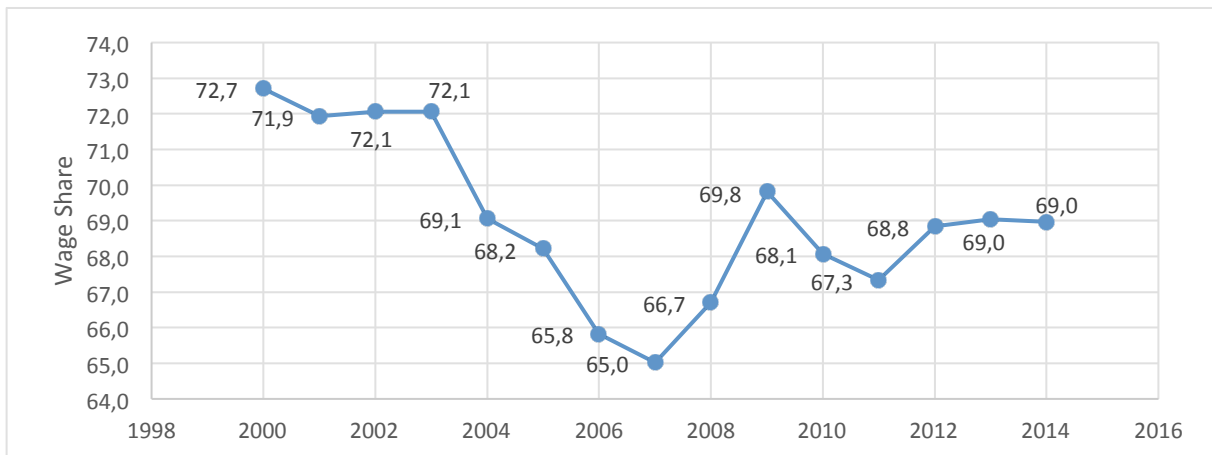
The different periods of wage development are mirrored in the extent of exploitation of the *cost-neutral margin of distribution* which is composed of the increase in inflation plus the increase in productivity (figure 3). In the pre-crisis period, the cost-neutral margin of distribution was exploited by agreed wages only in the years 2002 and 2003; in all the other years the growth of both agreed and actual wages was much below the margin. In the crisis year 2009, wage growth outpaced the margin significantly, fostered by a breakdown in productivity because of low capacity usage in the manufacturing industries. In the two years following, wages again lagged behind the margin, and only in the last three years the margin was exceeded again.

**Figure 3.** Exploitation of the cost-neutral margin of distribution for agreed and real wages (data: Destatis, WSI-Tarifarchiv, own illustration)



Correspondingly, the *wage share* dropped for more than 7% in the pre-crisis period and hit the rock bottom of 65% in 2007 (figure 4). This was the level the wage share had in the early 1960s, before the unions were able to shift the functional distribution of income in favour of wages.

**Figure 4.** Development of the wage share (Destatis, WSI-Tarifarchiv, own illustration)

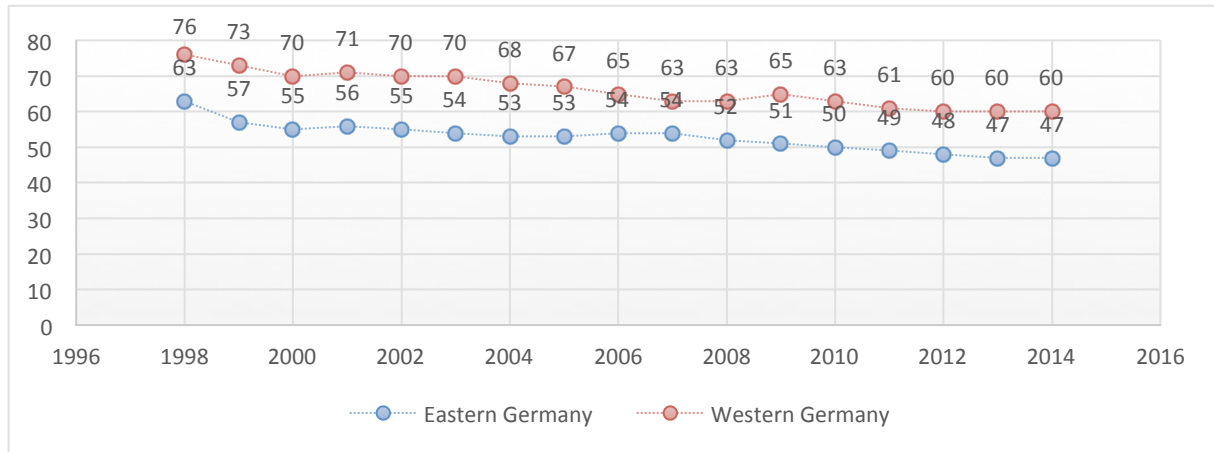


The negative wage drift and the weakness of real wages in the first half of the 2000s can be explained by three developments. First, *collective bargaining coverage* declined rapidly from the end of the 1990s until the financial crisis in 2008 for more than 10% in Western and nearly 10% in Eastern Germany (figure 5), and it can be supposed that companies opting out from employers' associations or not entering the employers' associations pay lower wages on average compared to the agreed wages of the collective bargaining agreements (Schroeder, Ruppert 1996). Since the financial crisis, the figures



of collective bargaining coverage stabilized after an additional decrease in the years 2010 and 2011.

**Figure 5.** Collective bargaining coverage of employees Western and Eastern Germany (IAB-Betriebspanel, own illustration, in %)



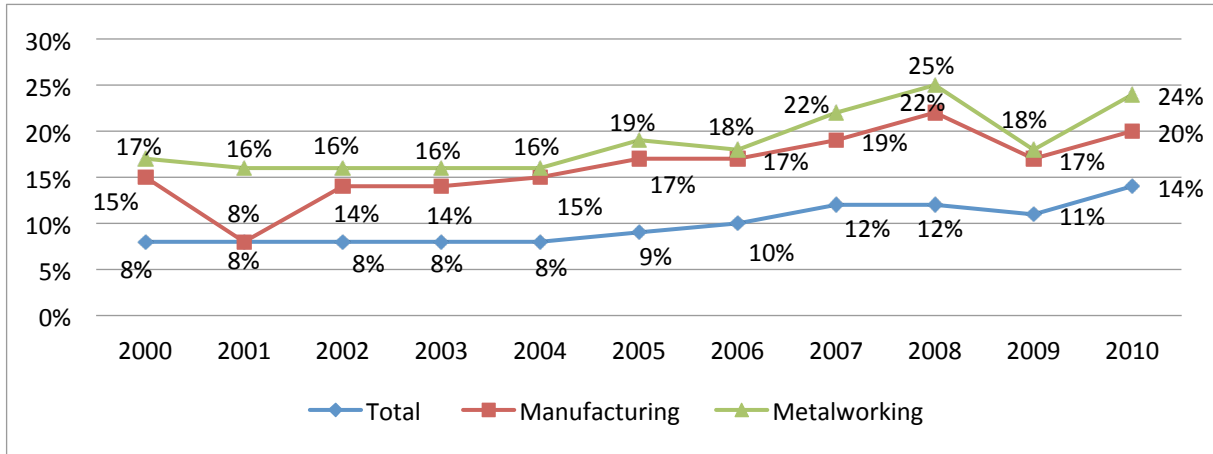
Second, companies have reduced the formerly positive *wage drift* by cutting wages they have paid above the level of the collective bargaining agreements. Before, employers accepted higher wages either because they wanted to hire certain employees in a former tighter labour market or because they have made silent agreements with the works councils to group workers or certain groups of workers higher than they would have been grouped according to the wage framework agreements or because they paid workers additional single payments at the end of the year to reward and motivate them. However, with unemployment rising and new opportunities to relocate or outsource production, the acceptance of the wage drift shrank since the 1990s.

Third, at the end of the 1990s and at the beginning of the new Millennium in many industries *opening clauses* for derogations from collective bargaining agreements have been agreed. According to these clauses, companies are allowed to negotiate less favourable working conditions, including wages, with works councils and unions if they at the same time agree on a temporary safeguarding of jobs or locations or on new investments. In the first half of the last decade, a run on derogations took place with many companies wanting to extent working times without wage increase or to cut wages. After a while, unions managed to control and restrict derogations better than before, and since then it can be said that around 10% of the companies in the manufacturing industry derogated from the collective bargaining agreements (Haipeter 2009).

An important factor to explain the positive wage drift after the crisis is *profit sharing* (Bispinck 2012). In the years before and after the financial crisis, many big companies have introduced profit sharing schemes. As figure 6 shows, the spread of profit sharing increased rapidly in the second half of the last decade, only interrupted by the financial crisis in 2009. After the crisis, especially in the big OEMs of the manufacturing industries profit sharing boomed, and in some companies additional wages up to 10,000 euro on

average for the workers were paid per year. However, the spread and level of profit sharing wages increases by qualification and occupational status of the employees and therefore deepens wage differentials between employees.

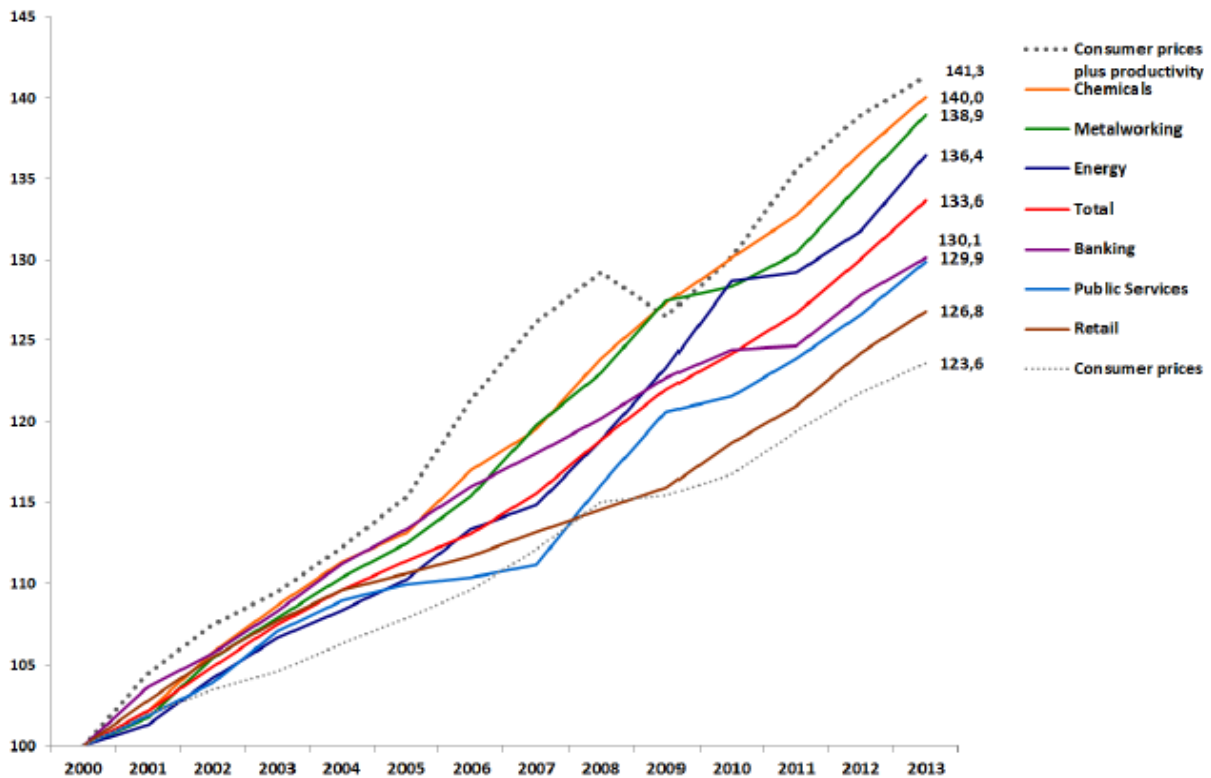
**Figure 6.** Incidence of profit-sharing by employee and industry (Haipeter, Slomka 2014)



## 1.2. Wage differentiation and wage inequality

Although Germany has been regarded for a long time as an economy with low inequality, in fact wage differentials have been rather pronounced between the industries. Wages have always been higher in the manufacturing industries, the traditional strongholds of the unions, than in the private service industries except the banking industry, which used to pay wages comparable to manufacturing. However, the extent of inter-industry wage differentiation was for a long time confined on a stable level by the logic of pattern bargaining (Bosch et al. 2007). According to this logic, unions in the manufacturing sectors or the public services agreed on wage increases in collective bargaining that later on have been adopted in the service industries so that wage growth between the sectors developed in a parallel fashion. However, in the last decade the logic of pattern bargaining eroded and *wage growth between the sectors* started to diverge. Since then, only the collective bargaining agreements of the manufacturing industries have been able to exploit the cost-neutral margin of distribution (figure 7). Public and private services are lagging far behind.

Figure 7. Development of collectively agreed wages in Germany (Schulten, Bispinck 2014, p. 12)



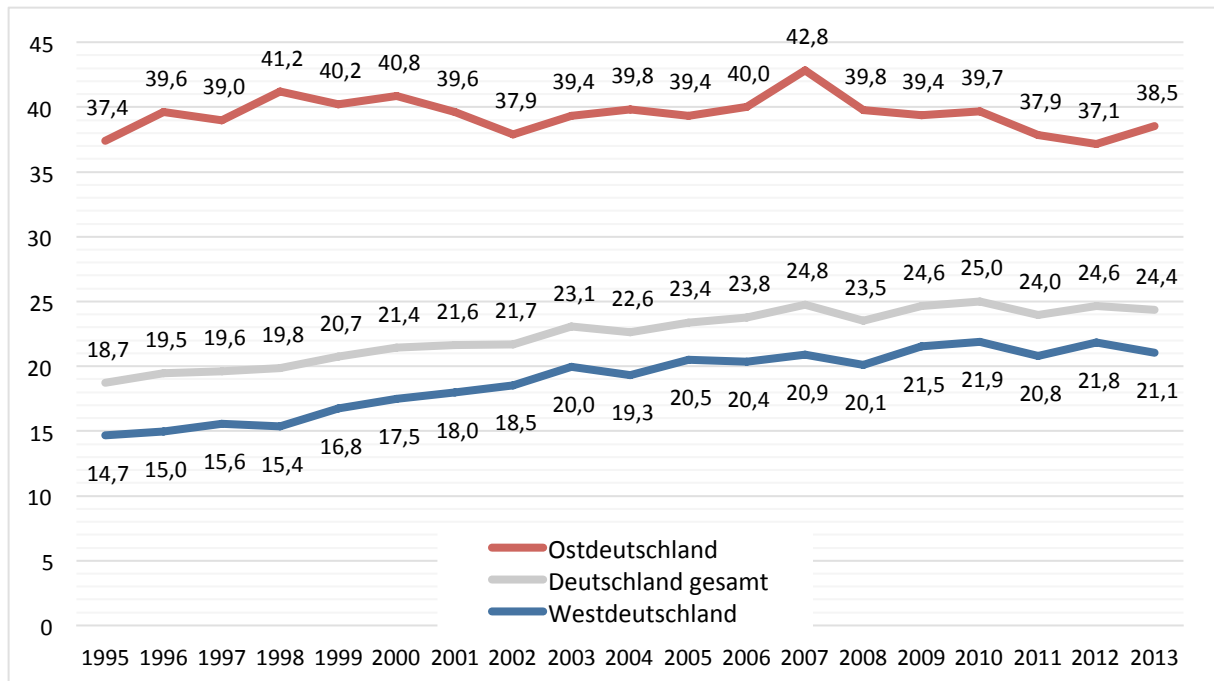
Source: WSI Collective Agreement Archive

Today, bargaining outcomes reflect differences in organizational power and the relative weakness of service sector unions much more directly than in former times. At the same time, inter-industry wage differentiation tends to undermine wage setting also in the sectors with strong unions. For wage differentials to other sectors give employers in the sectors with strong agreements the incentive to source out activities to low wage sectors or to put pressure on the union in their sector to make wage concessions, either in industry agreements or in local derogations, and to decrease the inter-industry wage differentials for the respective groups of workers.

An important driver of wage differentials across industries has been the systematic dismantling of the Federal Government policy to declare sector level collective agreements *generally binding* (Schulten, Bispinck 2013). These declarations are based on recommendations of a commission the BDA is forming together with members of the DGB, and the BDA has developed a strategy to block positive recommendations since the 1990s. Until recently the collective bargaining law did not allow a positive decision against the veto of one party. This rule was circumvented in some sectors on the grounds of the posted workers act which gives the labour ministry the possibility to declare an agreement generally binding via a directive. However, posted workers agreements on wages only refer to the lowest wage group of an agreement, and in order to declare whole agreements binding, the approval of the commission is still needed.

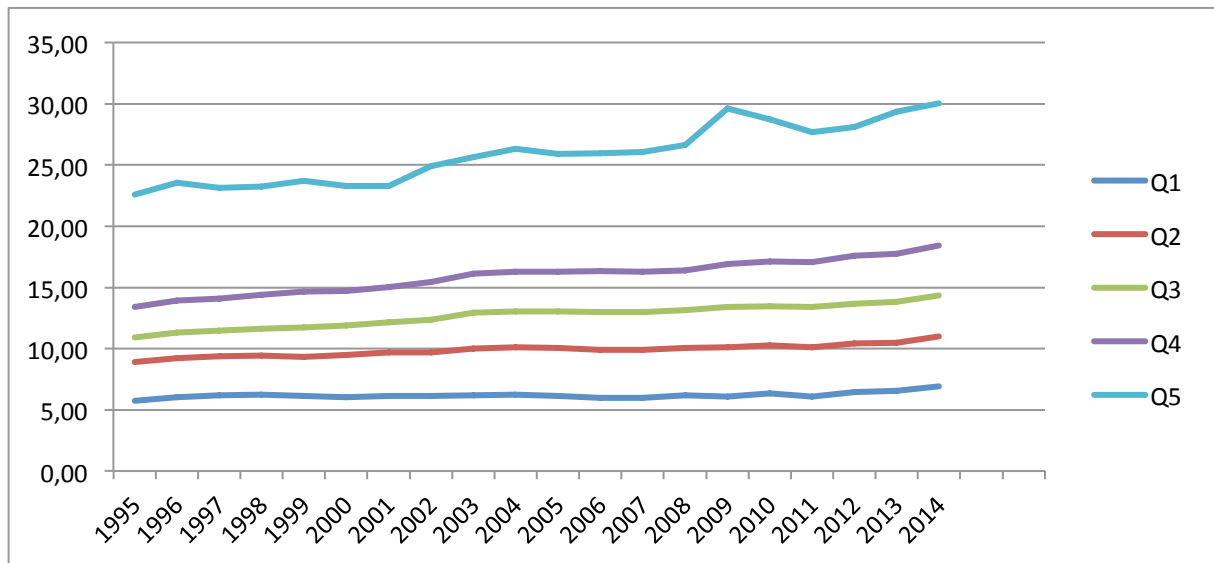
What is more, *labour market reforms* in the first half of the last decade had a severe impact on wage developments by deregulating atypical forms of employment like temp agency work or marginal part-time work, the latter by creating the so called mini-jobs that exempt employees from paying social security contributions. Since the reforms and until 2010, the shares of employees working for temp agencies and of marginal part timers increased from 0.4% to 2.3% for the former and from 11.3 to 14.3% for the latter group. Atypical work has proven to be an important driving force for the growth of the low wage sector in Germany which today counts for about 25% of the employees in the German economy (figure 8). In 2013, more than 76% of the marginal part-timers were low-wage workers, and they formed nearly 40% of the low wage sector. Hotels and restaurants are the biggest employers of low wage workers; more than 55% of the workforce in the industry gets low wages. Agriculture (about 37%) and the retail sector (about 28%) are following on ranks two and three (all data Kalina, Weinkopf 2015).

**Figure 8.** Low wage shares in Germany in % of the employees (Kalina, Weinkopf 2015)



The growth of the low wage sector is one of the reasons for an increasing *wage inequality* in the German economy. The other reason is the increase of wages on the upper ceiling of the wage structure (figure 9). In the last 20 years, the upper wage quintiles increased much more rapidly than the lower ones.

**Figure 9.** Hourly wages in quintiles from 1995 to 2014, mean values (SOEP, own calculations)



In the period from 1995 to 2014, the two upper quintiles have shown an increase of nearly 38 (quintile 4) and 33% respectively compared to only (table 1) little more than 20% in the two lower quintiles. The relatively weaker performance of Q5 compared to Q4 obviously has to do with income losses during the financial crisis.

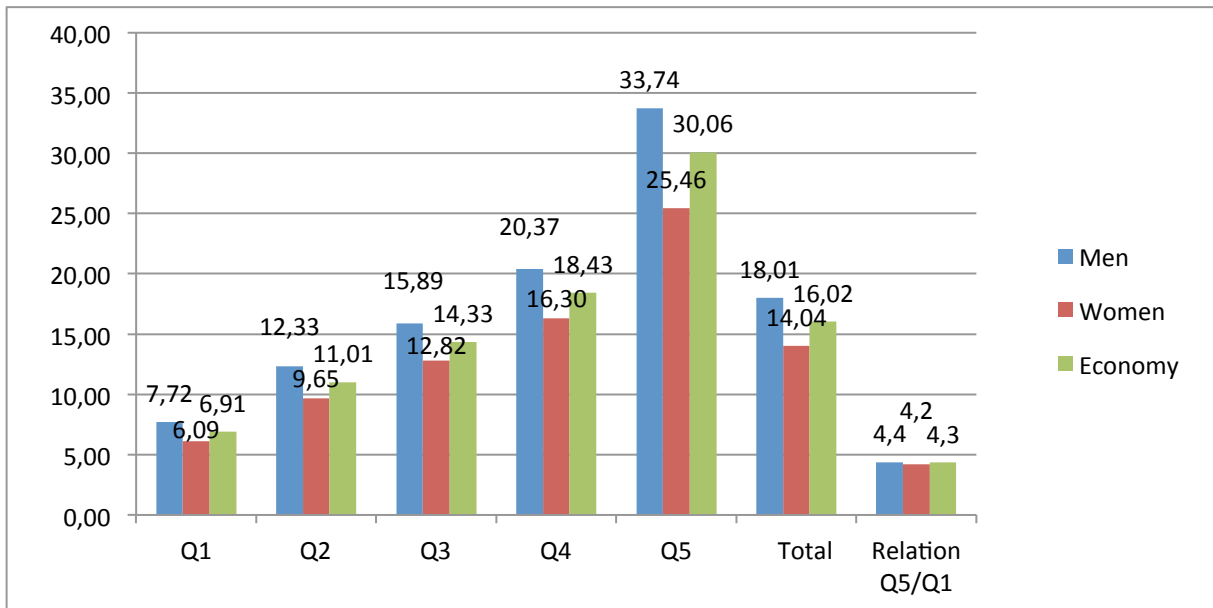
**Table 1.** Wage increase ratios from 1995 to 2014 in quintiles (SOEP, own calculations)

	Q1	Q2	Q3	Q4	Q5
Change 1995-2014 in %	20.4	23.8	31.4	37.7	33.1

This might also be the reason why the ratio Q5/Q1 has decreased a little bit since the financial crisis. Whereas it increased from 1995 to 2009 from 3.9 to 4.9, it went down since then to 4.3 in 2014.

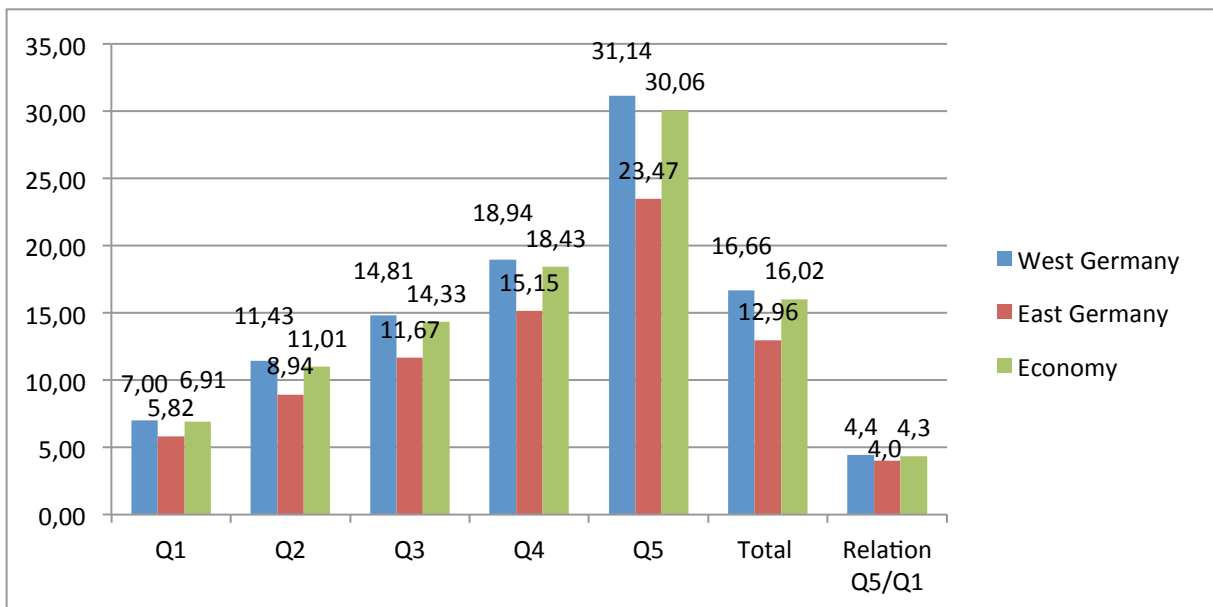
Wage inequality between high and low wages is accompanied by wage inequality between *men and women* and between workers in West and East Germany. As figure 10 shows, the wage level of women is much lower than that of men in all quintiles, and the more the higher the quintile is. The relation between the quintiles is not affected by the gender effect.

**Figure 10.** Hourly wages of men and women in quintiles 2014 (SOEP, own calculations)



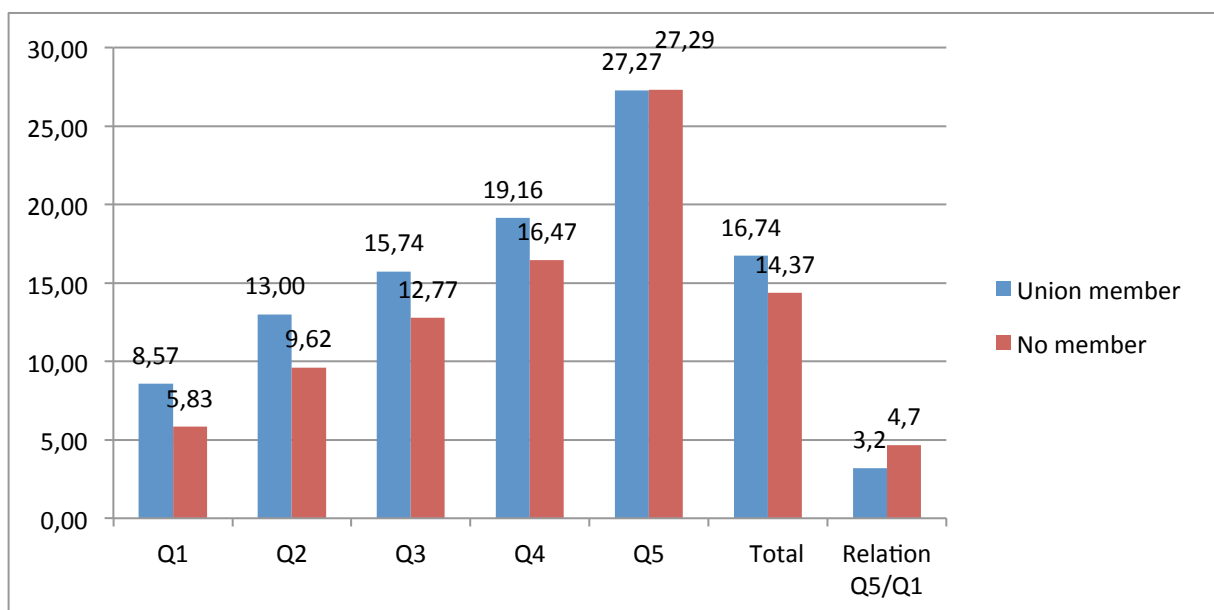
The same can be said about wage inequality between *Western and Eastern German workers* (figure 11). Like in the gender case, here the by far biggest wage gap exists in the 5<sup>th</sup> quintile. This can be explained by the differences in the plant and employment structure between East and West Germany, The headquarters of the bigger companies and the R and D centers in which workers with higher wage levels are employed are mainly located in the Western part of the country.

**Figure 11.** Hourly wages in Western and Eastern Germany in quintiles 2014 (SOEP, own calculations)



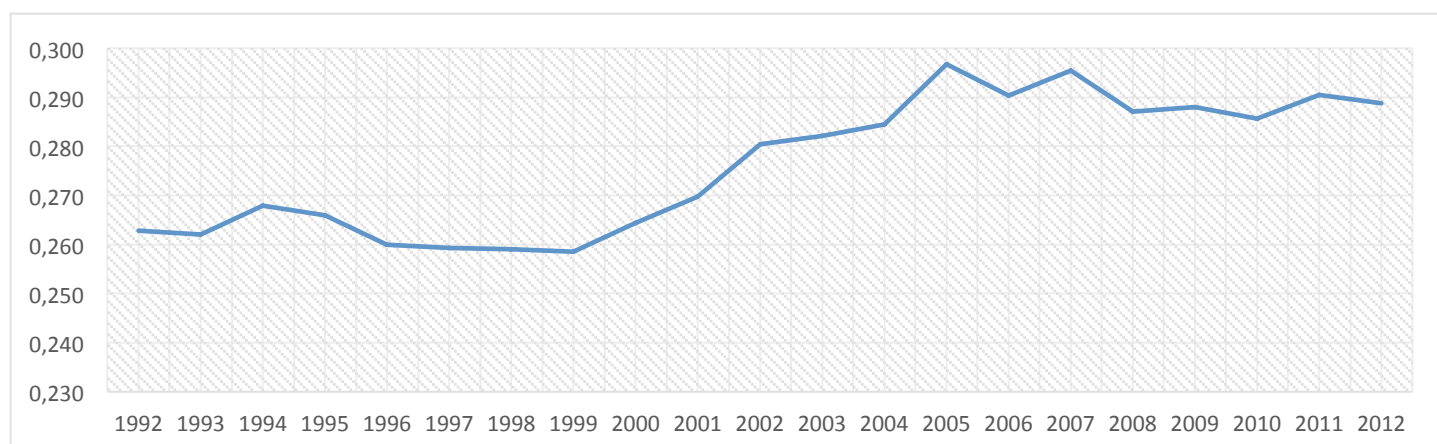
Finally, a wage gap can also be observed between *union members and employees who are not members of a union* (figure 12). Union members benefit from higher wages the more the lower the wage quintile is. As high wages of the upper quintile usually are not negotiated and agreed by unions it is little surprising that the wage level between members and non members in this quintile is similar. However, because of the higher wages in the lower quintile, the Q5/Q1 ratio for union members is much lower than for employees who are not members of a union.

**Figure 12.** Hourly wages of union members and non-union members in quintiles 2014 (SOEP, own calculations)



The increase of wage inequality is also indicated by the development of the Gini-coefficient. The coefficient shows a strong upswing in the first half of the last decade and a slightly downward development afterwards (figure 13). The reason for the shape of the graph is contested. The open question is whether it is the development of labour income and/or of capital income that has shaped the coefficient. On the one hand it is argued that it was a weak performing labour market and a growing wage inequality both for full time employment and atypical employment that has caused the inequality in the first half of the decade, and that it was the employment growth which has reduced it afterwards because it increased the hours worked by those at the end of the income scale (OECD 2015; IAW 2013). On the other hand it is argued that wage inequality continued to rise in the second half of the decade and afterwards, but that it was capital income that explains the stagnation of the Gini-coefficient: first, because capital income is of increasing importance as a source of revenue, and second because capital income dropped in the years following the financial crisis (Rehm et al. 2014; Behringer et al. 2014).

**Figure 13.** Development of the Gini-Coefficient (Equivalised Net Income, OECD 2015, own illustration)



### 1.3. Debate, policy measures and strategies of unions and employers

Wages and wage coordination started to be in the spotlight of public debates from the middle of the 1990s onwards. It was in the aftermath of the economic crisis of the early 1990s which followed the short reunification boom that a debate about investment and profit conditions of companies was launched by employers and the conservative media. Its focus was on taxes, labour market regulations and collective bargaining, including wages. An important aspect of this so called “Standortdebatte” was the fact that, for the first time, globalization and competition to low wage locations became an issue and a reason to criticize high German wages, driven by the boom of German foreign direct investments in the new EU member states of Middle and Eastern Europe.

However, employers and the conservative government were reverberated by a successful strike of the unions against restrictions on continuation of payments to sick workers planned by government. The electoral victory of the red and green parties in 1998, together with an economic upswing, seemed to have put an end to the discussion. The government strengthened corporatist policy making by introducing an alliance for work between the umbrella associations of labour and employers which was to develop ideas for labour market reforms. However, in 2000 government implemented a tax reform with tax reductions especially for higher incomes, reducing the top income tax rate from 53% to 42%, and government passed several laws to strengthen the financial markets and the financialisation of the economy, among them the tax exemption of capital gains which fueled the retreat of banks from shareholding and offering patient capitals to the companies.

From 2001 onwards, the business cycle changed to a downswing, unemployment rose, and the government was facing new elections. In this situation, government decided to abolish the alliance for work, which has produced little results and to implement an expert commission led by VW’s HR manager Peter Hartz which was to develop a



programme for labour market reforms. In this way the social democratic led government eliminated the influence of the unions on governmental policy making and put an end to corporatist decision making in the political realm (Streeck 2005). The expert commission finally developed a reform with three elements that had effects on wages: the reduction of entitlements for unemployment benefits, the deregulating of temp agency work, and the extension of marginal part time work.

However, although neoliberal in character, the labour market reforms did not go far enough in the eyes of the employers' and business associations and conservative and liberal parties and media. Since then these actors launched a public campaign to put pressure on government and the unions. Besides criticizing codetermination on the supervisory boards, the most persistent demands were to open collective bargaining agreements for local derogations by law and to extend the agreed working times. Employers' associations wanted to decentralize bargaining and to reduce industry collective agreements to a mere frame that has to be filled on the local level. With respect to wages, this would have included both the possibility to derogate from the industry agreements and the opportunity for local actors to negotiate parts of the wage increase. Moreover, many of them introduced a so called 'unbound' membership status which allowed the member firms to opt out from collective bargaining agreements and to remain members at the same time, which has been impossible before because bargaining coverage was mandatory for members (Haipeter 2011).

The campaigns have been most successful with respect to derogations. Although no legal opening clause has been implemented, government successfully used it as a threat to put pressure on the collective bargaining actors to negotiate derogation clauses in the collective bargaining agreements. The most popular example of such an agreement has been the opening clause negotiated in the metalworking industry in 2004. After the agreement has been made, many employers demanded working time extensions without pay compensation or direct wage cuts from the works councils and the union.

The unions themselves were forced onto the defensive not only in the political realm, but also in collective bargaining. Besides the employers' campaign, they faced huge membership losses since the beginning of the 1990s. From 1992 union density dropped from about nearly 34% to only 22% in 2004. This was why the unions had difficulties to prevent employers from opting out of the collective bargaining agreements or from pushing derogations even in the traditional sectors of unions' stronghold.

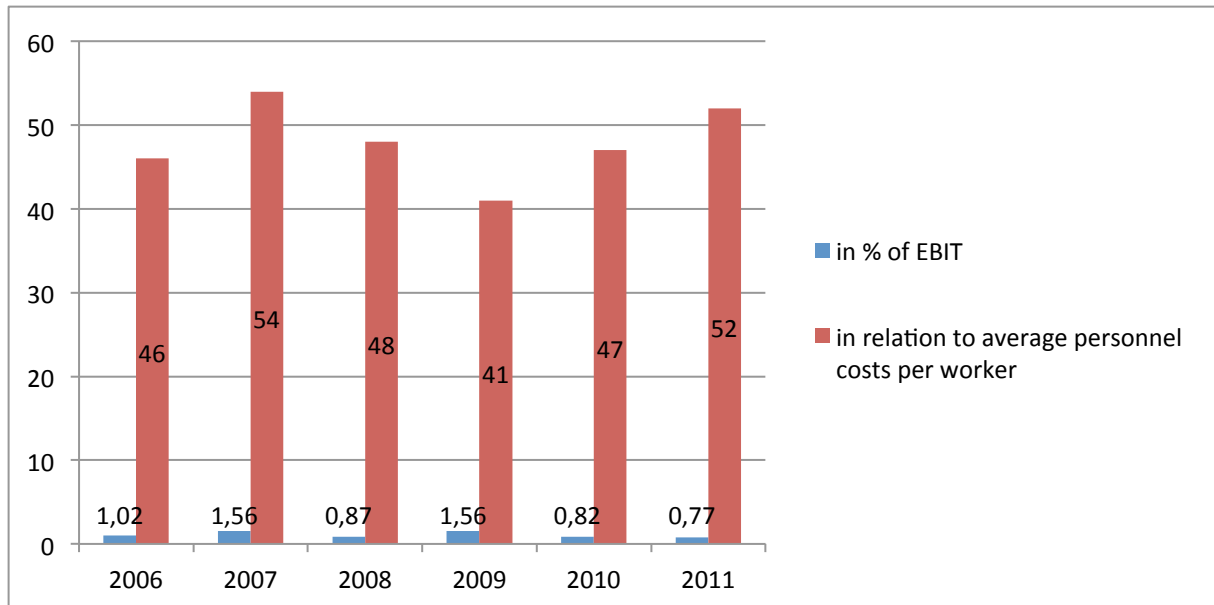
However, the problems became so severe that the unions developed new strategies to cope with them and to re-strengthen collective agreements and agreed wages. The first of them, initiated by the metalworkers' union, the IG Metall, was to increase the organizational power in *conflicts about local derogations* by giving its members the opportunity to participate in decision making based on membership assemblies and voting. This has proven to be rather successful in increasing union density (Haipeter 2011). Another strategy, developed by the service sector union, Verdi, and the IG Metall, was to experiment with *new forms of organizing* adapted from American and British unions like social campaigning or working with professional organisers. The third strategy, finally, was to launch a campaign for the *introduction of a statutory minimum wage* which was initiated first by Verdi and the union of the hotel and restaurant industry

NGG because the low wage sector boomed in their organizational domains. It was taken up later on by the umbrella association of the industry unions, the German Trade Union federation DGB, after sceptics from the manufacturing unions could be convinced to support the campaign. The campaign has proven to be very successful in influencing the public opinion and creating a new sense for wage injustices. This is the reason why it has been taken up by the social democratic party in the 2013 electoral campaign. The introduction of a statutory minimum wage was then made part of the government agreement between Christian Democrats and Social Democrats which paved the way to implement the minimum wage successfully in 2015. Hand in hand with the statutory minimum wage goes the existence of industry specific minimum wages according to the Posted Workers Act that define minimum wages above the statutory level in today 19 industries like construction, laundries or facility cleaning including more than 4.5 million workers.

Moreover, even the *fundamental critique* of the employers' associations on wages, working times and collective bargaining agreements faded away. Already tempered after the elections of 2005 which brought the Christian democrats back to government as the leading party in a coalition with the social democrats, the employers' changed their approach in the course of the financial crisis. In this period they cooperated with the unions in developing demands for the financial stimulus packages of the government, and in the manufacturing industries they negotiated wage agreements for the safeguarding of jobs, including wage restraint and widened opportunities for short time work and working time reductions. The financial crisis was a watershed in the sense that social partnership was developed in a new way, indicated also by a new approval of the unions by the employers' associations (Haipeter 2012; Helfen 2013).

Another effect of the crisis has been a rather general critique of *high wages of top managers* and high compensations they got for job losses. The coalition of Christian and social democrats discussed hard legal upper ceilings for management salaries but could not make a compromise and decided for some softer regulations, although, according to polls, the majority of the Germans would be clearly in favour of it. The employers' associations were against it, arguing that this question should be decided in the companies. And the unions have been rather silent on the issue, because they in many cases have agreed on management salaries in the supervisory boards, which made it difficult for them to become fundamental critics. The critics can argue that the average salaries of board members in relation to personnel costs have increased again since the crisis, the defenders of soft regulation can argue that, as a share of the EBIT, the salaries have decreased since then (figure 14).

**Figure 14.** Average salaries of board members in DAX companies in % of the EBIT and in relation to average personnel costs per worker (Götz, Friese 2012, own presentation)



However, the more cautious approach of the employers' associations does not mean that the problems of the unions and of wage setting have faded away (Bispinck, Schulten 2011). The share of the low wage sector has stagnated over recent years at a high level and wage competition between industries continues to undermine collective bargaining even in the sectors with stronger unions. This was the reason why they continued to insist on the introduction of the legal minimum wage. Moreover, in 2011 the union IG Metall has launched a collective bargaining campaign called "equal pay for equal work" and demanded the same wages for *temp agency* workers than they are agreed for core workers in the sector. The metalworking industry is making the most extended use of temp agency workers. The campaign was very successful first in mobilizing public support, second in organizing temp agency workers for the union and third in agreeing industry wage premiums for temp agency workers on the level of the lower wage groups of the collective agreements. This took place in 2012, and in the same year the chemical industry followed with a similar agreement.

Although the employers' accepted the compromise, they still try to defend wage differentiation wherever possible. Important examples for this ongoing conflict are the resistance against a reactivation of the extension of collective agreements in large service industries such as the retail trade (which continues to suffer from the lowest wage increases across major sectors), as well as the harsh conflicts over a statutory re-regulation of contract and temp agency work.

## 2. Banking industry

### 2.1. Some features of the industry and collective bargaining

The German banking industry is hallmarked by a three-tier system (Deeg 1999) composed of private banks including the “big” banks, public banks, both in the form of regional banks (Landesbanken) owned by the German Länder and local savings banks (Sparkassen) owned by the communalities, and, finally, mutually owned cooperative banks, which are, like the savings banks, specialized in consumer retail banking. Employment in the banking sector has declined slowly but steadily since the Millennium, from about 775,000 employees in 2000 to 640,000 employees in 2014. The public banks are the biggest banking group in terms of employees with about 294,000 employees, followed by the private banks with nearly 181,000 employees and the cooperative banks with 165,000 employees. One and a half decades before, in 2000, the private banks still counted nearly 253,000 employees.

The respective banking groups have separate collective bargaining agreements. Traditionally, all of them were negotiated by the service sector union Verdi and by different employers’ associations: the *Arbeitgeberverband Banken* (AGV Banken) for the private banks and some privatized or semi-private *savings banks*; the *Vereinigung der kommunalen Arbeitgeberverbände* (VKA) for the public banks, which in fact means that the public banks are integrated in the collective bargaining agreements of the municipalities; and, finally the *Arbeitgeberverband Volks- und Raiffeisenbanken* (AGR) for the cooperative banks. In 2013 the AGR has terminated the collective bargaining agreement with Verdi and since then negotiates agreements with two small unions only present in the banking industry, the *Deutsche Handels- und Industrieangestelltenverband* (DHV) and the *Deutsche Bankangestelltenverband* (DBV) which is member of the federation of Christian unions (CGB). The reason was a conflict with Verdi about a new variable pay component – the employers demanded a component of 16% variable payments – which Verdi did not want to agree on but the smaller unions finally did. The agreements between the banking groups differ mainly in the structure of the respective wage groups; the wage levels are still similar (albeit the strategy of the AGR to step out from agreements with Verdi also is motivated by the goal to reduce the wage level in this banking group).

For reasons of complexity, the analysis is confined to the forms and practice of wage setting in the private banking industry. The two case studies are composed of a private bank – one of the remaining German big banks – and a public bank which has been privatized temporarily at the beginning of the 1990s, when it merged with a local private bank, became member of the AGV Banken and implemented the collective bargaining agreements of the private banking group; for a couple of years, however, the savings bank

has become a public owned bank again, but remained in the private banking collective agreements.

## 2.2. Collective bargaining agreements on wages

Wage collective bargaining agreements are negotiated mostly on a two years basis. Wage increases are defined as a percentage of the current wage that has to be paid additionally during the time span of the agreement. Agreed wages in the banking sector have increased for 29% nominal from 2000 to 2012; in real terms the increase was 5.5% (AGV Banken 2015). Wage groups and the criteria according to which workers are classified in the wage groups are stipulated in a framework agreement, the *Manteltarifvertrag*. The framework agreement also includes paragraphs regulating single payments and an opening clause for the reduction of working times and wages for the safeguarding of jobs. Besides these two types of wage agreements, there is another agreement referring to wages and relevant for the wage levels, the agreement of performance and profit related pay from 2003. Table 2 gives an overview that will be explained in the following paragraphs.

**Table 2.** Wage agreements in the banking sector

Wage agreements	1-2 years
Wage increases	As percentage of wage
Wage groups	9, TG4 qualified clerks; highest grouping TG5-9.
Criteria of classification	Job requirements/tasks, non-analytic, job examples
Seniority/Experience	Yes, 7 levels (maximum)
TG9/TG1	2.21
TG9/TG5	1.87
Lowest CBA	2,128 euro
Highest wage CBA	4,700 euro
Collective bargaining coverage	High, around 70%, reduction because of outsourcing back office services; high share of AT-employees (>50%)
Variable pay profit sharing	Yes, but irrelevant in practice; on top systems instead and variable AT-wages
Variable pay performance	Yes, but irrelevant in practice; on top systems instead and variable AT-wages
Derogation clauses	No, restricted practice in case of crisis
Employers' association	OT-strategy used by outsourced service providers
Unions	Attempt to modernize wage groups, include AT-employees,

	company agreements with outsourced firms
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There are nine wage groups (TG's) defined in the wage agreements. Additionally, the wage groups are differentiated internally according to seniority levels for the first ten years of occupational experience. However, not all the seniority levels are taken up in all the wage groups. The higher the wage group, the higher the level of seniority that is relevant for wage differentiation.

The classification of jobs or occupations to the respective wage groups depends on job characteristics defined in the collective bargaining agreements. These characteristics are based on tasks and requirements and are defined in form of a non-analytical job evaluation in a rather short form for the nine wage groups. TG4 marks the wage group that requires skills on the level of a vocational training certificate offered in the vocational training system. Because the banks would not employ a bank clerk below its qualification level in order not to waste their investments in qualification, it can be said that the TG4 marks the minimum wage level for banking clerks. Additionally, the job descriptions are specified by examples of concrete jobs in order to clarify which job has to be classified in which wage group, ranging from the kitchen helpers in TG1 to the consultants with special skill requirements and branch managers in TG9. White-collar and the today almost inexistent blue-collar activities are integrated in the wage scale.

The structure of the wage groups, job definitions and job examples originates from a collective bargaining agreement stipulated in 1972 after several years of negotiation. In the middle of the 1980s the job examples were re-defined partially with respect to examples for jobs in IT-departments and for activities at counters and consultancy. The ratio TG9/TG1 is 2.28, the median wage is 3,414 euro, the highest wage in TG9 is 4,700 euro.

The distribution of employees covered by collective bargaining agreements among the respective wage groups shows a clear dominance of the higher wage groups from TG6 to TG9. More than 85% of the employees are classified in one of these work groups, and more than 40% in the two highest wage groups TG8 and TG9 (table 3).

**Table 3.** Shares of employees covered by CBA in wage groups 2009 (AGV Banken 2015)

TG1	TG2	TG3	TG4	TG5	TG6	TG7	TG8	TG9
0.06	0.18	0.64	2.91	10.03	20.75	24.63	21.77	19.04

The distribution of employees among the wage groups has changed fundamentally in the last 30 to 40 years. Whereas in 1975 more than 20% of the employees have been grouped in the wage groups 1-3, nearly 60% in wage groups 4-6 and about 20% in the upper wage groups 7-9, in 2009 more than 65% of the employees are in the three upper wage groups and only 0.19% are in the three wage groups 1-3. The ration TG9/TG5 is 1.87.

The decline of the lower wage groups is a result of two developments. On the one hand, many of the simple banking activities like counting money former included in these groups do not exist any longer or are replaced by automation. On the other hand, simple

blue collar or non-banking service activities like caretakers, drivers or kitchen helpers have been sourced out.

“The job requirements of the TG1 to 3 do not exist anymore in the banks today. They have been sourced out since the 1990s when the outsourcing wave started after the McKinsey suggestions. Facility management is one of the examples” (expert union).

Furthermore, also many back-office tasks especially in the areas of payment transactions have been sourced out in the last decade. These activities have been pooled in so called bank factories, either organized as subsidiary companies or as external providers offering the respective services to several banks.

“We have got a differentiated landscape in the banking industry. The banks have sourced out their payment transactions and partly the foreign transaction units in subsidiaries or to external providers. In many cases they are composed of simpler tasks classified in the wage groups 4 or 5” (expert employers’ associations).

This trend is dominant also in the cases we studied. At the *savings bank*, the payment transactions have been sourced out to a common subsidiary shared by the savings banks, and all blue collar or other non-banking activities have been sourced out to external suppliers not covered by the collective bargaining agreements of the industry.

“Until the 1990s we had our own kitchen, drivers, and the payment transactions here in-house. Everything has been sourced out” (works council savings bank).

Also at the *private bank*, our second case, simple service activities are sourced out. Here the payment transactions and the securities business are sourced out to subsidiaries that are not covered by collective bargaining agreements. Until 2009, the works councils negotiated a preservation of the current working conditions for the employees (which, however, meant that new employees got worse conditions), since then the company does not source out jobs but functions so that every employee can decide to stay in the bank, however, without having a function anymore and in danger to be dismissed.

“Simple services like kitchen, security or facility management are sourced out. The payment services are, as far as it is legally possible, organized in a subsidiary company, the securities business as well. These subsidiaries are not covered by collective bargaining agreements, we have not been able to put that through” (works council private bank).

For these reasons, TG6 has been established as the lowest starting wage group for the employees with vocational training certificates, depending on the requirements of their first job. In our *savings bank* case, the bank clerks entering the bank (the bulk of them qualified in the bank) either start in TG6 if they are applied at the counters or in TG7 if they start directly with consultancy. After that, depending on their experiences and on further training certificates, in the banking industry either the *Bankfachwirt* or the higher ranked *Bankbetriebswirt*, they can advance to TG8 or TG9.

“For bank clerks the typical way is to start in TG6 at the counters or in TG7 with consultancy activities. After that, they could make career with further trainings and went to the credit departments, became branch manager or went to the central departments. The last step has become unusual today, because the central departments started to recruit academics” (works council savings bank).

Whereas in the case of the *savings bank* the process of grouping is described as cooperative and little problematic by the works council, in the *private bank* it is contested. One important source of conflict at the *private bank* was the strategy of customer group segmentation (Haipeter 2006). Selling standard products for the mass market in the eyes of the bank was a much simpler task than traditional banking consultancy and therefore the bank wanted to downgrade in the wage groups. This strategy, however, did not work. The bank had to go to the courts because the works councils did not accept the regrouping of employees, and it finally shipwrecked. Furthermore, the idea of simple products could not be realized as it was designed in the first place.

“The bank has tried to downgrade the consultants in private banking. The argument was that if you sell only five standard products, the job requirements are different from a more complex consultancy. However, the bank has not been successful in pushing this point of view. The labour courts rejected the argument because it is wrong. Moreover, the idea simply did not work, because in private mass market banking you still find a lot of products, from saving and security products to credit products and, in our case, also insurance products” (works council private bank).

In the end, bank and works councils made the compromise that banking clerks in private banking will reach their wage group after one year of work experience so that they are downgraded for one year after they finished their apprenticeship. In this way the actors have defined, as the works council said in the interview, an entrance wage group which does not exist officially in the collective bargaining agreements.

Another conflict at the private bank was about the grouping of bank clerks at the counters. Here the bank argued that this is just an “introductory consultancy” which is defined in the collective bargaining agreements as a characteristic of wage group TG6. The works councils argued instead that the introductory consultancy is only part of the tasks, and that another part is formed by selling products which is defined in the collective bargaining agreements as a “closing consultancy” characteristic for TG7. Again the bank applied the labour courts, and again it did not succeed.

### **2.3. Collective bargaining density and its limits**

Collective bargaining coverage is high in the banking industry. According to the IAB-Betriebspanel, in 2014 73% of the employees in the banking industry in Western Germany and 58% in Eastern Germany have been covered by industry collective bargaining agreements (Ellguth, Kohaut 2015). The banking industry is the industry with



the highest level of collective bargaining coverage following the public services (91% West, 88% East Germany) and in front of the energy and mining industries (70% West, 38% East). Membership of the employers' associations is stable for decades.

“There are no signs of a decline of collective bargaining density. Our membership is stable, we have about 80 members for a long time” (expert employers' association).

According to the expert of the AGV Banken, this is an expression of the will of the companies to pay good wages, to be attractive as employers and to bind the employees to the companies.

“The banks want to pay good wages. Even during the financial crisis we agreed wage increases, different from other industries” (expert employers' association).

However, collective bargaining coverage has decreased. In 2011 the coverage was 79%, 6% higher than 2014. One of the main reasons for this development besides the entry of new or international banks in the market is the trend of outsourcing of back office activities mentioned above. The new established subsidiaries or the external providers of pay transaction services are not covered by collective bargaining agreements; either they have company collective agreements negotiated with the union defining lower labour standards than the industry agreements or they have no agreements at all.

“We try to negotiate collective agreements in these areas. Our goal is to agree labour standards as tight to the industry norms as possible. We are controlling this internally and we do not accept agreements which violate the norms in order not to weaken the industry agreements” (expert union).

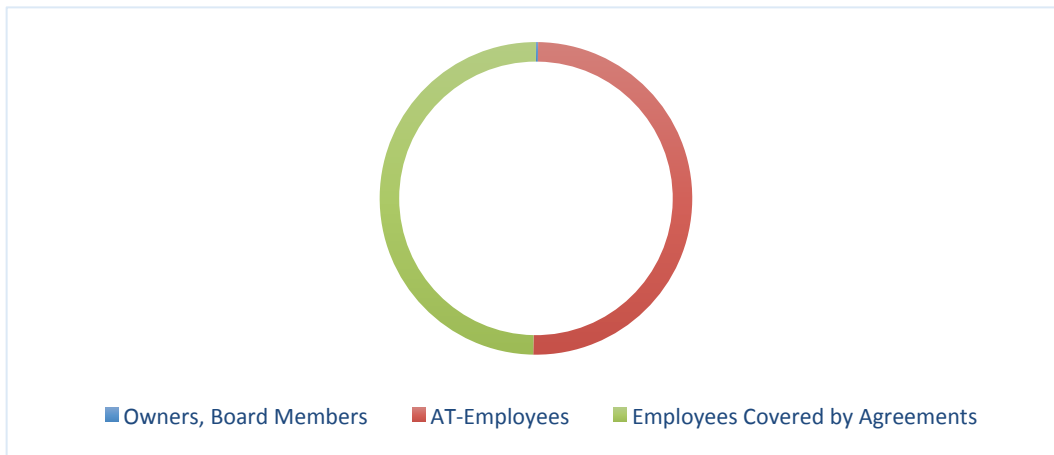
This includes the rejection of agreements deviating too much from the standards; in the eyes of the union it is better to have no agreements at all than weak agreements. In the employers' association, the outsourcing trend is not regarded as a problem. The association has established unbound memberships (so called OT-memberships) at the beginning of the last decade, which means that these members, different from the other normal members, do not have to implement the industry collective agreements. Many of the outsourced subsidiaries or the external service providers have become unbound members and so increase the number of membership firms of the associations.

“OT members are in many cases firms whose collective agreements deviate in one respect or the other from the industry agreements. Among them are many of the subsidiaries or the service providers of back-office services” (expert employers' association).

However, there is a second problem for the coverage of the collective bargaining agreements which exists inside the covered firms. This problem is the change in the structural composition of the workforce in favour the so called AT-employees. The German acronym AT stands for *außertariflich* and denotes those employees who are not paid in accordance with the rates laid down in the relevant collective agreement. They are usually high-skill workers paid above the collectively agreed rates. The share of AT-

employees has risen steadily in the last decades, and today amounts to more than half of the employees employed in the private banks (figure 15).

**Figure 15.** Structure of employees in private banks, AGV Banken 2015



The reason for this development is twofold: On the one hand a growing number of employees working mainly in the bank headquarters dealing with investment banking, wealthy clients and also with the new requirements of regulation the banks are confronted with; and on the other hand the decreasing numbers of employees working in retail banking because of the stepwise retreat of the banks from retail business and in the back-office areas because of rationalization and outsourcing.

AT-employees usually have their own wage systems based on plant level agreements between the companies and the works councils. In many cases there are four or five wage groups defined for AT-employees. Mostly they are not characterized by steps but by flexible bands in which the employees are placed and which are overlapping. The first position in the bands is defined by analytical or other methods, and the movements within the bands depend on the performance, or to be more precise, on the assessment of the performance by the superiors.

In the case of the private bank, there are four wage bands for the AT-employees. Wage grouping is based on about 20 criteria which are, according to the works council, not clear-cut like the terms “active” or “pro-active” selling. There has been a court decision on that issue because the works council took a case to the court, and the judge said that he cannot imagine what a pro-active selling might be. Because of these problems management and works councils are negotiating a new agreement with more simple criteria. However, the best solution in the eyes of the works council would be to extend the wage levels of the collective bargaining agreements and to include at least a part of the AT-employees.

“We are discussing a new wage system for AT-employees since 2010 and are still in negotiations. However, the real goal we have is to extend the collective agreements and to add the wage groups number nine, ten and eleven. For one thing is clear: If more than 50%

of the employees are not covered by the agreements, the union has a problem” (works council private bank).

Moreover, the wage increases of the AT-employees systematically lag behind the wage increases of the collective bargaining agreements. They are defined on a yearly base by the companies and are based on budgets which are related to return on capital; and the bank argues that earnings have not been sufficient to increase AT-wages in line with those of the collective bargaining agreements.

“You can say that in a way the AT-employees are a financial domain of the bank” (works council private bank).

In the *private bank* there are two wage groups beyond the wage levels of the AT-employees, the board members and the investment bankers. Board members wages are negotiated individually and have to be accepted by the supervisory board; investment bankers earn about 500,000 euro per year, depending on their success and on the team they are part of.

At the *savings bank* the picture is different, for the *savings bank* is a special case. Here, the wage groups of the AT-employees are in fact directly coupled with the wage groups of the collective bargaining agreements and they are defined as steps and not as bands. There are six wage groups for AT-employees built on the wage groups of the collective agreements, and like the latter ones they have a seniority component from the 10<sup>th</sup> to the 20<sup>th</sup> year on the job. Different from the wage bands it is not the superior who decides about the wage development but the seniority and the job requirements defined with the wage groups.

“I do not understand why the other works councils have agreed on wage bands. They can only codetermine the band in which the employee is placed, but not the position in the band. In our case we can codetermine every question except the question with which wage the AT-system starts. The only thing that is clear in this respect is that it has to be higher than the collective bargaining agreements because this is said in the agreements” (works council savings bank).

#### **2.4. Variable components of collective pay**

Variable pay components are regulated in the collective bargaining agreements; however, they play only a marginal role for wages of the employees. Variable pay components have been stipulated in the agreements of 2003 in two forms. The first one is the possibility to transform up to 4% of the monthly payments into a variable pay component. The idea is that, given the usual agreed pay increases, the variable component can be composed mainly of wage increases. The payment is based on performance and profits; performance can be measured in the way of a management by objectives or a more traditional performance assessment of the employee; both are regulated in detail in the

collective bargaining agreement. The second form is the variabilisation of the collectively agreed single payment which has the level of a 13<sup>th</sup> monthly wage. Here it is said that the 13<sup>th</sup> monthly wage of 2002 is fix, and that the wage increases of the following years can be used as a variable budget, with the wage increases forming the base of the upper and the lower limits of variable pay. A wage increase of 3% in 2003 could be used for a possible reduction of the single payment up to 3% and an increase of 6%, for it is said that the limits of wage increases should be double as high as those of the decreases.

Although the employers' association pushed the issue, the regulations are of little if no practical relevance. The reason is that they have to be introduced in the form of plant level agreements with the works councils and that they have to be voluntarily. This means that works councils can avoid them simply by saying no. Moreover, even if they would say yes, such an agreement would have to be negotiated for each plant, or, in the case of the banks, for each branch or at least each city or region. This includes a high level of administrative effort that has proven to be impractical for the banks. Therefore the union states that the regulations for variable pay are dispensable.

“The companies would like to agree one agreement for all branches and employees. This is why both opportunities of variable pay actually are not used in the banks” (expert union).

The employers' association, the AGV Banken, has a different opinion on the issue. Although the opportunities are not used by its members, it is argued that it is good to have them and in any case better than having nothing to offer to the member companies.

“The union asks sometimes: Why do you need this stuff at all? We have a different opinion. It is one opportunity the collective bargaining agreement offers to the companies, like it offers other opportunities that the companies can use but need not to use. It is not necessary for a regulation to make sense that it is used encompassingly” (expert employers' association).

Apart from the collective bargaining agreement, the big banks have introduced systems of variable pay on their own already in the 1990s, influenced by the model of lean banking. These systems were based on wages paid above the collectively agreed wages. Our case *private bank* has a profit sharing scheme for the employees covered by the collective bargaining agreements. The scheme is based on wages above the levels of the collective agreements; the variable pay opportunities of the collective agreements are not used. However, in the last ten years no profit sharing was paid out because the targets defined in the scheme have not been reached.

“We have a profit sharing scheme based on company profits. In the last ten years, no payments have been made. We want to agree on a new scheme” (works council private bank).

Also at the *savings bank*, a variable pay system is installed on top of the agreed wages which is not based on the collective bargaining agreement. Here the formerly paid 14<sup>th</sup> monthly wage, which was a voluntary payment, was reorganized. 75% of the former

payments are paid as a profit sharing wage, depending on the rate of the return on capital. 25% of the former payments are paid individually, dependent on the assessment of the superiors.

“Our profit sharing has proven to be quite successful. In the last seven years since we introduced it, we had no payment in one year, 50% in another but the whole 100% in all the other years. And roughly 90% of the employees on average get the individual component” (works council savings bank).

Variable pay is more widespread and more important among AT-employees, both in the form of profit sharing and in the form of performance based pay. In many cases both elements are coupled, in others the variable pay is based only on profit sharing elements. However, as the union expert stressed, performance based pay is already part of the basic wages, because the position in the wage bands is based on the performance assessments of the superiors.

“In the AT-areas we have two starting points for variable pay, the variable components like profit sharing or the performance based payments, and the performance elements of the basic wages” (union expert).

At the *private bank*, variable pay of the AT-employees has the volume of one monthly salary. Here variable pay is based on three components: company profits; economic success of the respective business unit; and individual performance. The components are weighted differently, with the company success being the most important one with a share of 40%. Like for the ‘normal’ employees, the profit sharing has not been paid for years.

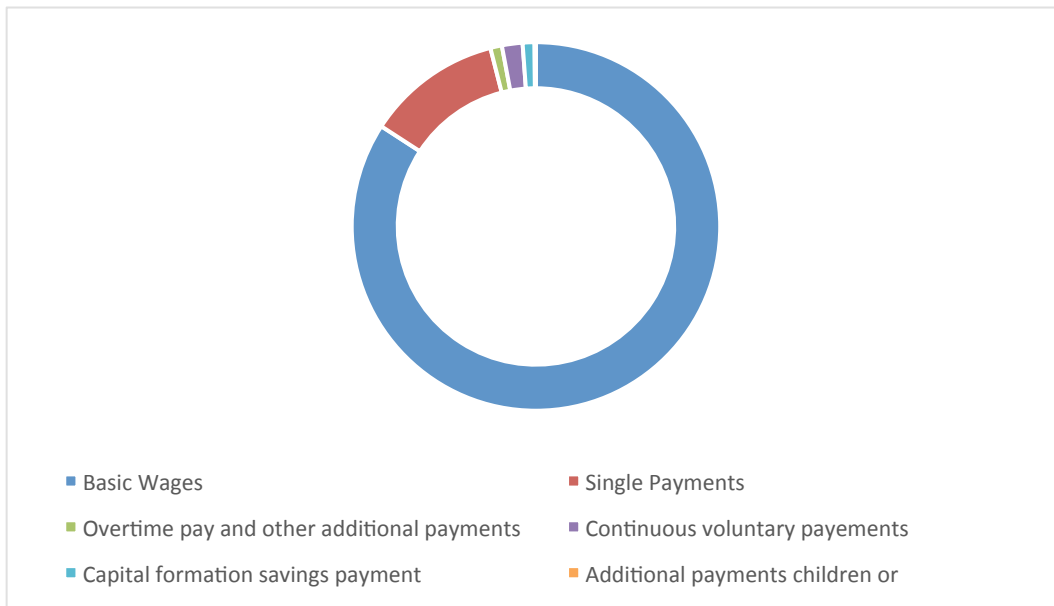
“The company component has a weight of 40%, but has not been paid for 10 years now. That means that the employees could get only up to 60% of the variable pay component in these years” (works council private bank).

This can be explained on the one hand by the deterioration of profits during and after the financial crisis. On the other hand, however, the company has redistributed the resources towards the investment banking business. Investment bankers at the *private bank* have yearly salaries of about 500,000 euro as a basic wage, and they can earn about the same volume additionally in the form of variable payments. The volume of variable pay has been confined legally after the financial crisis on this level. According to the new regulations, the banks do not pay the variable pay components yearly but keep them partly and pay them out in later years in order to create incentives for the investment bankers to accumulate less risks and to have a compensation in case they do not succeed. In total, variable pay components form a rather low share of the wages in the banking sector. Nearly 85% of the wages are basic payments. Voluntary or capital forming wages (profit sharing) compose less than 3% of the wages, and the single payments, which amount to nearly 12%, are divided: part of them is agreed in collective bargaining agreements and not transformed to variable pay, part of them is voluntary and may be

transformed (figure 16). The expert of the employers' associations is even observing a growing importance of fix payments.

“Because of the new financial regulations variable payments, especially on the top management levels, are more and more restricted, and they are not extended for the other employees, so that in total their share is decreasing” (expert employers' association).

**Figure 16.** Wage components 2014, AGV Banken 2015



## 2.5. Strategies and perspectives on wage regulation and inequality

The development of wage setting in the German banking industry shows a trend of growing wage inequality which is driven by company strategies. Wage differentials are increasing for two reasons: outsourcing of simple services and back-office activities on the one and the increase in the share of AT-employees on the other hand. However, at least in the big banks, redistribution has taken place within the AT-employees in favour of investment bankers and in disfavour of AT-employees in more traditional functions. Investment bankers have much higher earnings both in terms of basic and of variable pay components. Moreover, if the banks have to cut costs, AT-employees are an easy target group because wage increases can be lowered or profit sharing can be cancelled. Cuts in wage increases of AT-employees at the same time can be regarded as counter tendencies to wage differentiation, albeit they are not strong enough to reverse the general trend.

The general trends are assessed differently by unions and employers' association. To start with the latter one, the AGV Banken is quite content with the current agreements. The expert states that the agreements are well implemented and that they create reliability and a certainty of expectations. In his eyes even the rather old framework agreements on wage groups seem to fit quite well with the need of the member companies.

“At the moment I do not see any need to alter the existing agreements on wages. The collective bargaining agreements proved their value, even the framework agreements that are semantically no longer up to date. All the parties involved can live with them” (expert employers’ association).

From this point of view, the trend of increasing inequality is not induced by collective bargaining agreements but an expression of needs of the companies to reduce costs and to reshape business. On labour’s side the assessment is different. The expert of the union stresses the need to modernise the framework agreement with respect to the job requirements and tasks defined and to include more requirements like social competencies or cooperation.

“The old criteria like knowledge, abilities or responsibility do not cover any longer all the requirements of modern service work in which cooperation or social competencies become more and more important” (expert union).

Modernisation was negotiated already in the 1990s, however the attempt failed after several years of negotiation. Although a lot of meetings have taken place, in the end the employers’ expressed a strong interest in variable pay systems (which was finally introduced in 2003) and lost their interest in the reform of the wage groups.

“The negotiations were far developed at that time. We had more than 100 meetings on the issue. However, finally the employers’ had a strong interest in variable pay, so that we did not succeed in making an agreement” (expert union).

Besides modernizing the wage groups, the union wants to shift the wage groups upwards and, thereby, to include at least the lower ranks of the AT-employees in the wage groups. The union argues that this would improve the transparency of AT-wages for the employees and that they could benefit from the wage increases of the collective bargaining agreements. And for the union itself it would be crucial to cover this important and relatively growing group of employees at least partly by their collective agreements, both in order to maintain the claim to represent all the workers of the industry and to become more attractive for the AT-employees. The union tries to use the issue of wage group expansion to develop an initiative to activate and, on a later stage to organise AT-employees for this goal.

“We have developed an initiative. Works councils and shop stewards (gewerkschaftliche Vertrauensleute) are going to the AT-employees and inform them about the collective bargaining agreements and about the problems of their own wage systems and ask them if it would make sense to act collectively to solve the problems. We try to stress commonalities as a first step and try to get a legitimation to become active. Last week we had the initial meeting of the initiative in Frankfurt” (expert union).

At the other end of the wage groups, outsourcing of non-banking activities seems to be irreversible, as well as the outsourcing of back-office activities like payment transactions

in subsidiary companies or to external providers. The unions seems to have accepted the development and tries to cope with the consequences by negotiating company collective bargaining agreements with the new companies and by making sure that the derogations from the industry agreements are as little as possible. In the eyes of the employers' associations the union has been rather successful in this respect.

“The union is rather well organized in the back-office areas, here are the strongholds of the union, and therefore the union has negotiated company agreements in many cases” (expert employers' association).

The union tries to prevent wage cuts at the lower end of the wage spectrum and to expand the collective bargaining agreements to the higher end. Both goals can be said to reduce or at least control wage inequality in the industry. New forms of inequality coupled with investment banking, however, are beyond the reach of the union.



### 3. Schools

#### 3.1. Some features of the “industry” and collective bargaining

As the majority of schools in Germany are public schools, this report concentrates on wage setting for teachers in public schools. Teachers in public schools in Germany are employed by the 16 *Länder*, not by the federal state. On June 30<sup>th</sup> 2014, 777,515 teachers were employed in public schools all over Germany (Statistisches Bundesamt 2015). Wage setting for public school teachers in Germany is a complex affair. This is due to several reasons, especially the status differences between teachers. Teachers can be either civil servants (*Beamte*) or non-civil servants, i.e. employees subject to collective agreements (*Angestellte*). For these two groups, wage setting works differently. The shares of civil servant teachers and non-civil servant teachers are quite different in the different *Länder*. In the West-German *Länder* the share of civil servants is high (between 73.1% in Hamburg and 91.9% in Baden-Württemberg), while in the East-German *Länder*, it is lower to virtually non-existent (between 78.6% in Brandenburg to 0.1% in Mecklemburg-West Pomerania). On average, the share of civil-servant teachers is 75.4% (all numbers for 30.06.2014, see Statistisches Bundesamt 2015).

As education lies within the competence of the *Länder*, different rules may apply to teachers, depending on the *Land* they work for. For civil servants, each *Land* regulates individually. For non-civil servants, all *Länder* except Hesse coordinate their collective bargaining in a working partnership (*Tarifgemeinschaft deutscher Länder, TdL*), but some *Länder* apply the agreed terms in their own way. There are two relevant unions for teachers: the teacher’s union (*Gewerkschaft Erziehung und Wissenschaft, GEW*, 266,129 members, non-civil servants as well as civil servants) and the union of civil servants (*Deutscher Beamtenbund und Tarifunion, dbb*, 1,265,720 members, not only teachers but all kinds of civil servants as well as non-civil servants working for public employers) (numbers from Bosch et al. 2012). However, the collective bargaining agreements are negotiated by Verdi as the head of a bargaining coalition with the GEW and the dbb.

#### 3.2. Collective bargaining agreements on wages and pay regulations

For *non-civil servants*, wages are negotiated and agreed between unions and employers/employer’s associations. Collective bargaining in the German public sector has changed significantly during the last years, the main aspect of this change being decentralisation. Collective agreements used to encompass non-civil servants in the whole public sector (federal state, *Länder* and municipalities), leading to very homogeneous working conditions and wages. The decentralisation of collective bargaining in the public sector goes back to negotiations on the new framework

agreements which started in 2003. Due to cost pressures after tax cuts, the negotiations were unusually fierce and did not produce a new single agreement. In the end, two slightly different national framework agreements were installed: one for the municipalities and the federal state (TVöD) and one for the *Länder* except Hesse (TV-L). Hesse negotiates its own agreement (TV-H) that is however pretty close to the TV-L. All in all, collective bargaining and working conditions in the public sector have become more heterogeneous and more flexible (Keller 2010, 12). The TV-L regulates working conditions for non-civil servant teachers in one encompassing agreement. There are negotiations every second year.

For *civil servants*, there is no collective bargaining. Wages are set unilaterally by the employers with some consultation of the unions. These consultations have changed significantly during the last years, too. As working conditions of civil servants were regulated by national legislations, consultations used to take place at national level. The reform of the federal system in 2006 transferred responsibility for the working conditions of civil servants to the *Länder*. This led to an increasing differentiation of working conditions. The richer *Länder* offer higher wages to attract employees with scarce qualifications, among them teachers, from other *Länder* (Bosch et al. 2012, p. 21-22). The public employer has to act according to the principle of “alimention”, i.e. has to pay remunerations that guarantee civil servants an adequate standard of living. This includes allowances for married partners and children as well as compensation during sickness, accidents, disability and old age. If civil servants believe that the principle of alimention is violated (e.g. because the costs of living increase significantly but remuneration is not increased), their only option is to appeal to court. However, the unions have to be consulted on all decisions concerning status and working conditions of civil servants. (Bosch et al. 2012, p. 21) In addition to that, they have a range of informal means of pushing through their interests, e.g. contacts to parliamentarians (a lot of them are civil servants themselves) or influencing public opinion (Keller 2010, p. 18). Following collective bargaining for non-civil servants, there are so-called participation talks (Beteiligungsgespräche) between the *Länder* and the unions. But, as the GEW expert puts it, “these talks are no negotiations on a level playing field between bargaining partners. There are discussions, but in the end, the legislator, i.e. the employer, decides” (expert GEW).

Table 4 gives an overview over wage regulation for teachers that will be explained in the following paragraphs.

**Table 4.** Wage agreements for teachers

Wage agreements	Every 2 years
Wage increases	As percentage of wage
Wage groups	15 in the collective agreements, the upper 3 relevant for teachers; wage groups for civil servants; integration white – blue collar workers
Criteria of classification	Tasks and school forms

COUNTRY REPORT – GERMANY

Seniority/Experience	Yes, 5 levels (experience)
EG15/EG13	1.88
EG15/EG1	3.6
Lowest wage CBA (for teachers)	3,083.48 euro
Highest wage CBA	5,788.02 euro
A15/A12	1.85
Lowest wage civil servant teachers	3,386.86 euro
Highest Wage civil servant teachers	6,271.40 euro
Variable Pay (Profit sharing, performance related pay)	No, and no practice in schools
Derogation clause	No, no practice
Collective bargaining coverage	100%
Employers' association	Different wages for new entrants, no upgrading of primary school teachers
Unions	Upgrading of primary school teachers, common wage groups civil and non-civil servants; abolishing wage differences between <i>Länder</i>

### 3.3. Wage groups and levels

*Non-civil servants*: Wage differentiation and wage inequality is agreed in the form of wage groups (*Entgeltgruppen*). The TV-L defines 15 wage groups. For most teachers, the groups E12-E15 are relevant. Only some teachers, like arts and crafts teachers, and candidates with incomplete teacher training, are grouped in lower groups. The wage groups are differentiated internally into experience levels (*Erfahrungsstufen*) that are passed through one after the other. The formerly employed principle of seniority (*Dienstaltersprinzip*) was abolished because according to current jurisdiction it is seen as age discrimination. For this reason, seniority levels were replaced by levels of experience. (GEW 2015) The higher wage groups that are relevant for teachers are differentiated into five levels (the lower wage groups are differentiated into six levels).

In general, the classification of jobs or occupations to the wage groups of TV-L depends on the job characteristics defined in the collective bargaining agreements – with some exceptions, and among these are teachers. For teachers, the classification of jobs to the wage groups draws on the regulations for civil servants that assign teachers to different wage groups according to tasks and their education for the different school forms. Teachers at elementary/primary schools are assigned to the lower wage groups (usually E12), while teachers at secondary schools (Gymnasium) and vocational schools are assigned to higher wage groups (usually E13 to E15). As more than 90% of teachers at primary schools are female, while at secondary schools their share is much lower, this

does also mean that there is wage inequality according to gender. The unions have been criticising this for a long time, but as upgrading e.g. elementary school teachers would cost a lot of money, the *Länder* refuse their claims.

“The employers are not interested in suspending the pay differences between the different school forms. The experts at the ministries of education maybe, but the ministries of finance, that are in charge of negotiations, always say ‘we don’t have any money’” (expert GEW).

The connection to the regulations for civil servants is governed unilaterally by the TdL’s teacher directives (*Lehrerichtlinien*) and in grouping decrees (*Eingruppierungserlasse*) of the *Länder*. The teacher directives of the TdL include an allocation table (*Zuordnungstabelle*) that allocates the wage groups for non-civil servants to the wage groups of civil servants. Both unions have been criticising this for years, because the wage groups for non-civil servants do not correlate with the wage groups for civil servants one-to-one. There is a “tilt” (expert GEW) at the expense of non-civil servants, and especially the lower wage groups, the unions criticise. The unions have been trying to achieve a common collectively agreed grouping for teachers. There have been several rounds of negotiations that did not bring forth a result.

The gross wages for non-civil servants are homogeneous across all *Länder* of the TdL (i.e. all *Länder* except Hesse). There are, however, differences in the application of the system: e.g. the *Land* Berlin, that has to deal with a shortage of teachers, pays entrants the highest level 5 right from the start (level 5 is normally reached only after 9.5 or 10 years). (GEW 2015) These differences of application lead to inequalities in payments between the *Länder*. Although there is a uniform wage table for all *Länder* in the TdL, the *Länder* apply this table differently; some are paying entrants the highest level 5 right from the start in order to attract teachers.

*Civil servant teachers* are assigned to different wage groups (*Besoldungsgruppen*) according to tasks and their education for the different school forms on the basis of salary acts (*Besoldungsgesetze*) of the respective *Länder*. Teachers at elementary/primary schools are assigned to lower wage groups while teachers at secondary schools (*Gymnasium*) and vocational schools are assigned to higher wage groups. Generally, of the 16 wage groups for civil servants, four are relevant for teachers (A12 to A15). As for non-civil servants, the wage groups are differentiated into experience levels. Civil servants pass through one after the other in different intervals. The formerly employed principle of seniority (*Dienstaltersprinzip*) was abolished because according to current jurisdiction it is considered age discrimination. For this reason, like in the collective bargaining agreements, seniority levels were replaced by levels of experience.

Since the reform of the federal system (*Föderalismusreform I*) in 2006 the *Länder* are in charge of public service law including the remuneration of their civil servants. Thus, each *Land* decrees its own pay regulation. In addition to that, in the different *Länder*, there are in part different types of schools and thus also different teaching careers with different assignments to the wage groups (see GEW 2015). The different *Länder* pay different wages to civil servant teachers in the same wage groups and levels. One example: An

elementary school teacher in wage group A12 level 4 earns 3,132.50 in Brandenburg and 3,375.48 in Bavaria (brutto, as per 2014) (oeffentlicher-dienst.info, accessed 12.11.2015). In addition to that, in some *Länder* new teachers start in level 1 of their wage group, while in other *Länder*, they start in level 3 or 4 (see GEW 2015).

The unions have been criticising the inequalities in the pay of civil servant teachers (i.e. the wage differences between forms of school and between the *Länder*) for years. But as there is no collective bargaining for civil servants, they can only try to build up political pressure.

“For civil servants, we do not have the possibility to negotiate. Instead, we build up political pressure, organise campaigns, talk to the ministries and governments, do lobbying” (expert GEW).

In the *Land* of North Rhine-Westfalia, a new teacher-training law that was passed in 2009 (see Schulministerium NRW 2009) offers a new approach to the unions to address the differences between the forms of schools.

“According to the new teacher training law in NRW, all students studying to become teachers study for the same number of semesters and graduate equivalently with 300 credit points. When they are recruited as civil servants, we can try to regulate grouping anew. We will have to see if GEW and dbb can achieve a grouping for civil servants that is really fair. This would then automatically be transferred to non-civil servants” (expert dbb).

In the *Länder* of Brandenburg, Bremen and Hamburg, there are similar developments, in all other *Länder*, the study programs for the different forms of schools still differ (GEW 2014b) and provide a justification for the different grouping of teachers in different school forms.

In the past, improvements of working conditions through new collective agreements for non-civil servants, including wages, were directly transferred to civil servants (Grundsatz: “Besoldung folgt Tarif”). Since early 2000, this quasi-automatic connection has been disintegrated. To save money, employers increase wages of civil servants only with a delay or not in the same amount as agreed in the collective bargaining agreements. As a result, according to the DGB-Besoldungsreport, wages for civil servants in the different *Länder* by 2014 diverge up to 18.5% (DGB 2014). But as for civil servants, the unions cannot threaten with strikes, they can only try to build up political pressure.

“That worked for a long time, it was routine. When the collectively agreed wages of the non-civil servants were increased by 3.2%, this was reproduced one-to-one for civil servants. But during the last years, there have been lots of deviations, increases were not transferred, different by Land” (expert GEW).

However, it can be said that up to now civil servant teachers receive higher wages than non-civil servant teachers doing the same job:

“When we look only at current net earnings, we see a big gap between what a civil servant A13 has got and what a non-civil servant E13 has got ... This can easily amount to 400-500 euro, in extreme cases up to 800 euro” (expert GEW).

It is however difficult to specify the exact net difference, as civil servants do not pay into statutory social insurance and have to choose between private health and long term care insurances with varying premiums (see Bundesministerium des Innern (o.A.)). The unions have been criticising the pay differences between civil servants and non-civil servants for years. But while the dbb has always advocated for the continuance of civil servant status, the GEW for a long time has argued for uniform, collectively agreed principles for all employees of the public sector (Keller 2010, p. 16).

### **3.4. Variable components of collective pay**

*Non-civil servants:* When the TV-L was first agreed in 2006, the possibility to use performance-related pay components was agreed. However, this regulation was never developed and applied and was deleted in 2009. In the interpretation of the expert from GEW this was due to the complexity of the task. Defining performance and regulating performance-related pay for non-civil servants from all different fields of public service with different tasks got too complicated.

“We have always objected to performance-related pay. We think that performance-related pay, especially for the public service, especially for teachers, is going nowhere ... For teachers, it is completely dubious how to measure and control performance” (expert GEW).

*Civil servants:* Theoretically, there is a performance component (*Leistungskomponente*) for civil servant teachers that can either accelerate or slow down the progress through the levels of each wage group. According to the expert GEW, this is not used in practice.

### **3.5. Strategies and perspectives on wage regulation and inequality**

Both unions have been criticising the fact that there is no collectively agreed remuneration regulation for non-civil servant and civil servant teachers between the Länder and have been trying to achieve a collectively agreed grouping for non-civil servant teachers.

“For 60 years, non-civil servant teachers have been paid according to employer’s guidelines. This has led to great injustice, because every Land decided for itself” (expert dbb).

With the aid of this remuneration regulation they want(ed) to address several wage inequality factors:

“This has been a big issue and a long fight of the GEW, this collectively agreed grouping. It was meant to lead to a) that grouping is really negotiated between unions and employers on a level playing field and b) that at least these distortions by Land are removed and c) that in the long run this net inequality between non-civil servants and civil servants is removed and d) that the inequalities between the different school forms are removed” (expert GEW).

There have been several rounds of negotiations that did not lead to a result. In early 2015 dbb, GEW and TdL negotiated again. In the end, dbb and TdL agreed on a new remuneration regulation (*Entgeltordnung*), while the GEW refused to agree. In the dbb-TdL remuneration regulation the allocation table stays the same, but teachers in wage groups EG9, EG10 and EG11 receive a so-called harmonization bonus (*Angleichungszulage*) of 30 euro/month (TdL 2015b). In the perspective of the dbb, this bonus is to be further increased from 2017 on until it results in a higher grouping (dbb 2015). From the perspective of the dbb, this remuneration regulation is a first step in the direction of a parallel allocation table:

“With this agreement we achieved the introduction of the parallel table, and of course we will negotiate again in 2017 to achieve more improvements. We made the first step to mend the injustices in comparison to civil servants, according to criteria that are the same in all Länder but that will not lead to uniform wages in all Länder because the point of reference is always the civil servant in the respective Land” (expert dbb).

The GEW stucked to the claim to introduce a parallel allocation table for all wage groups. In addition to that, they want to abolish the reference to the wage groups of civil servants. Thus, the GEW assesses the dbb-TdL remuneration regulation differently:

“Accepting this agreement would have meant to codify the present situation – all disadvantages of civil service law, but not the material advantages – with our signature as ‘collective agreement’” (GEW 2015b).

All in all, the wage setting situation for teachers has become even more unclear, as opinions on significance and impact of the dbb-TdL remuneration regulation differ.

“This means that now there is a remuneration regulation that applies directly only to members of the dbb. But the Länder want to apply it to teachers that are not members of the dbb, too. As a consequence, the Länder dispose of their teacher directives and start applying the remuneration regulation they agreed on with the dbb. There is still dispute about the legal consequences of this” (expert GEW).

According to the interview partner from the GEW, the GEW still has to decide how to react to the new situation:

“The political situation is a bit complicated because of this remuneration regulation of the dbb. The demands of the GEW endure. If and how we will address this topic again is hard to say at the moment. We are still forming our political opinion internally” (expert GEW).

## 4. Automotive industry

### 4.1. Some features of the industry and collective bargaining

The German automotive industry is one of the largest manufacturing industries in Germany. In 2014, 774,900 workers were employed in the automotive industry and the industry increased its turnover to 367.9 billion euro (VDA 2016). The automotive industry is part of the metal and electrical engineering (M and E) industries, which represent one of the main economic sectors in Germany. It covers the automotive industry as well as machine building, electrical industry, aerospace industry, shipyards and others.<sup>1</sup> The German M+E industry generates a turnover of more than a trillion euro per year in more than 24,000 companies with more than 3.7 million employees. The industry is dominated by small and medium-sized companies. Over two thirds of the companies have fewer than 100 employees and only 2% have a workforce of more than 1,000. The metalworking industry at the same time a large employer industry of temp agency work in Germany, employing around 150,000 temp agency workers in peaks. Part-time and fixed-term employment on the other hand play only a minor role in the M and E industry; according to Gesamtmetall, in 2013 only 5% of all employees in the M and E industries worked part-time and only 4% had a fixed-term work contract (Gesamtmetall 2016a and b).

As part of M and E, the automotive industry is covered by the organisational domains of the collective associations of the metalworking and electrical industry, the metalworkers' union IG Metall and the regional employers' associations that are represented by the umbrella association Gesamtmetall. Collective bargaining agreements for the M and E sector include the firms of the automotive industry as far as they are members of the employers' associations; within the M and E industry, only the iron and steel industry and metal trading have independent agreements (Bispinck, Dribbusch 2011, p. 20). The IG Metall is the largest German union with about 2.27 million members in 2014. The union negotiates collective bargaining agreements with the 13 regional employers' associations that are organised in Gesamtmetall.

Collective bargaining takes place on the regional level in eight bargaining regions. The most prominent bargaining areas are Baden-Württemberg and North-Rhine Westphalia where M+E companies are concentrated. Usually one of these regions negotiates an avant-garde agreement which later on is taken over in form of a "band-waggon-principle" by the other regions, sometimes with some minor changes. Whereas the union as a centralised organisation has little problems in coordinating strategies between the bargaining regions (the so called 'Bezirke' in the union organization), coordination has

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<sup>1</sup> NACE sectors C 24.3-24.5, 25-30, 32, 33. This matches the definition used by the Federal Statistical Office (*Bundesamt für Statistik*), the union IG Metall and the employers' association Gesamtmetall.



proven to be a much more difficult task for the employers’ umbrella association Gesamtmetall. A famous example for the coordination difficulties the umbrella association is facing is the collective bargaining round of 1995 when Gesamtmetall failed to enforce a conflict strategy on the regional member association in Bavaria (Thelen 2000).

The automotive industry is a driving force of the changes of collective bargaining agreements in the M and E sector. Since the 1990s, production models and value chains have been restructured in the industry. OEMs have internationalised their production capacities, they have reduced their internal supply capacities, they have outsourced activities to suppliers, at the same time they have increased the economic pressure on suppliers by global sourcing strategies, and they, like their suppliers, have outsourced industrial services like logistics or also development activities. Furthermore, the OEMs increasingly have used temp agency workers to flexibilise production and decrease wage costs.

#### 4.2. Collective bargaining agreements on wages

The main differences between the separate regional agreements refer to aspects of working time regulation and wage structures. (Meine et al. 2014). Traditionally, in the German M+E industry four types of collective agreements can be differentiated (on the following, see Meine et al. 2014, p. 27): Framework agreements on working conditions (*Manteltarifverträge*) regulate questions of working time, paid holidays, periods of notice etc.. Framework agreements on pay (*Entgelt-Rahmentarifverträge*) include wage classifications, descriptions of wage groups, regulations on performance-related wage components etc. Collective agreements on wages determine the wages. Their contract periods are shorter than those of framework agreements. Between 1991 and 2010, the contract periods ranged from 12 to 26 months with an average of 19.4 months (Gesamtmetall 2012). In addition to that, there are collective agreements on specific subjects like partial retirement or qualification.

Table 5 gives an overview of wage regulation in the metalworking industry that will be explained in the following paragraphs.

**Table 5.** Wage agreements in the metalworking industry

Wage agreements	Every 1 to 2 years
Wage increases	As percentage of wage; in some bargaining rounds lump sum payments and possibilities to postpone or reduce payments
Wage groups	10 to 17 in the regional collective agreements; integration white – blue collar workers
Criteria of classification	Job requirements/tasks, non-analytic and analytic (regions); integrated agreements modernized

NEWIN

Seniority/Experience	Mostly no, but different levels within some higher wage groups according to requirements
EG17/EG1	2.51 (Baden-Württemberg)
EG17/EG2	2.45 (Ba-Wü)
Lowest wage CBA	2,193 euro (Ba-Wü)
Highest wage CBA	5,526 euro (Ba-Wü)
Variable pay profit sharing	No, but plant level agreements on top, important in automotive
Variable pay performance	Yes, different forms (piece-rate wages, bonus wages for quality etc., target-related pay)
Temp agency work/Outsourcing	Industry premiums on temp agency wages
Derogation clause	Regulation and practice
Collective bargaining coverage	Below 50%
Employers' association	Lower wage group for simple jobs, more differentiation within lower wage groups; more flexible wage agreements (possibilities to postpone or reduce payments)
Unions	Regulation of temp agency and contract/outsourced work (like logistics in automotive)

Wage settlement in the M and E sector has changed significantly since the last decade due to several new collective bargaining agreements. These agreements have regulated both a decentralisation and a modernization of collective bargaining in the metalworking industry. The so-called *Pforzheim accord* (Pforzheimer Vereinbarung) in 2004 formalised and harmonised the procedures in bargaining on local derogations. It defines the grounds on which companies may be allowed to temporarily reduce wages or extend working-times in order to secure or expand employment or improve capacity for innovation and competitiveness or investment. Agreements of this kind have to be signed by representatives of the legitimate collective bargaining parties, at least the union, for the employers' are allowed to agree on collective bargaining agreements on their own. IG Metall took this framework agreement as a starting point for a strict reorganisation of its internal coordination and supervision procedures regarding derogation agreements, stipulating the need for final approval of all local derogations by the union at national level (Haipeter 2009). Due to increasing international competition and following waves of restructuring aiming at cost cutting and job cuts, there have been lots of local derogations in the German automotive industry since the 1990s on various issues. After a run of the firms on derogations in the years 2004 and 2005, the share of firms with derogations has stabilised on a level of about 10% of the membership firms of the employers' associations (Haipeter 2009).

The interview partner from the union confirms this:

“The principle of derogations has consolidated [...] Both sides have learned to handle this instrument” (expert union).

Gesamtmittel on the other hand stresses that derogations are exceptional cases and that wage agreements themselves need to become more flexible (see below in the chapter on wage groups and levels).

As more and more M+E companies outsourced service functions not directly related to the production process, such as canteens or security, in order to reduce costs, in the important bargaining area of Baden-Württemberg special *collective agreements on services* defining lower standards than in the M+E industry were negotiated in individual companies. In this way, bargaining partners aim at preventing companies from outsourcing service functions by regulating working standards on a level lower than “normal” M+E level but still higher than in other sectors (Dünnemeier 2008). At the time of the interview, the union was preparing a collective agreement for contract logistics.

Besides decentralisation of collective bargaining agreements, the union managed to centralise collective agreements for the growing group of temp agency workers. In 2012, IG Metall concluded a *collective agreement on temporary agency work* with the employers’ associations for temporary agency work (Bundesarbeitgeberverband der Personaldienstleister, BZA, and Interessenverband Deutscher Zeitarbeitsunternehmen, IGZ). After the deregulation of temp agency work in Germany in 2003, the number of temp agency workers in the industry had increased significantly. In addition to that, employers increasingly employed temp agency work strategically, i.e. as a quasi-permanent component of their workforce in order to reduce labour costs and stabilize profits (Holst et al. 2010). Against this background the metalworker’s union in 2007 started a campaign focusing on the fact that temp agency workers earned considerably less than regular M and E workers doing the same jobs (campaign “equal pay for equal work”, Kampagne “Gleiches Geld für gleiche Arbeit”). In the end, the union managed to enforce the agreement on extra pay for temporary agency work in the metal- and electrical engineering industry (Tarifvertrag über Branchenzuschläge für Arbeitnehmerüberlassung in der Metall- und Elektroindustrie, TV BZME). This agreement regulates that temp workers receive an extra pay in addition to their hourly wage. This additional charge increases gradually the longer a temp worker works in a M and E company (from +15% after six weeks up to +50% after nine months). As the agreement is with the employers’ associations for temporary agency work, temp agency workers receive the extra pay also when working in a M and E company that is not subject to collective agreements in the M and E industry (destatis 2015; Meine et al. 2014, p. 204).

In the interviews, both experts from Gesamtmetall and union asserted that the use of temp agency work in the M and E industry is decreasing. Both experts trace this back to the agreement on extra pay for temporary agency work:

“There are two aspects of temp agency work: flexibility and costs. The cost aspect has been largely captured by the agreement on extra pay for temporary agency work so that the application of temp agency work for cost reasons has decreased. On the other hand, there is

still an enduring need for using the flexibility potential of temp agency work” (expert Gesamtmetall).

However it is known that especially automobile companies heavily employ temp agency work. The case study company is an exception in this respect:

“We do use temp agency work in production, but very, very little. That is a major difference to other automobile companies [...] We have about 9,000 employees in production, among these are just under 300 temp agency workers, and that is already a high” (works council automobile company).

The union expert criticizes that companies reducing the application of temp agency work now increasingly apply service contracts (Werkverträge):

“This causes a ‘flight’ into service contracts, also in ‘chains’ [several consecutive contracts]. The strategy of the IG Metall is to brand this as a scandal and to demand a political solution” (expert union).

For the Gesamtmetall expert however, service contracts are a necessary mechanism of flexibility:

“Apart from illegitimate use, service contracts must stay legal or we will not be able any more to produce in Germany. From my point of view, this is a normal process in an economy based on the division of labour” (expert Gesamtmetall).

### **4.3. Wage groups and levels**

Wage differentiation and wage inequality is agreed in the form of wage groups in the framework agreements on pay (Entgelt-Rahmenabkommen, ERAs) of the industry. These agreements have been stipulated anew in the years of 2002 and 2004, after more than ten years of negotiations. The new framework agreements are the most important examples for wage modernisation in the M and E industry. The old framework agreements dated back to the 1960s, and wage practice in companies often differed from their regulations that were deemed outdated. The modernisation of the framework agreements was a huge reform in the industry, their conclusion was called “a milestone of bargaining policy” (Brandl, Wagner 2011). All jobs in the industry had to be reassessed according to the requirements of the new framework agreements, wage structures in the companies were necessarily changed.

Bahn Müller and Sperling (2011) identify four innovative aspects of the new framework agreements they assess as modernisation. First, the new frameworks abolish the traditional differentiation between blue collar and white collar workers. Second, the grouping criteria were revised: Physical strains were abolished as grouping criteria, while new criteria were introduced in addition to competence, skills and responsibility. These new criteria (cooperation, communication, leadership and flexibility) serve to better

describe the requirements of process-oriented forms of work organisation like team work or project work. Third, pay methods were re-systematised and complemented. In all bargaining areas, target-related pay was introduced as a new method of performance-related pay, regulating target agreements that were increasingly used in companies. The fourth innovation of the new framework agreements refers to the relations of basic and performance-related pay. In all bargaining areas, the importance of basic pay was increased. While the share of performance-related pay before the new framework agreements varied between 30% and 60% in the different bargaining areas, after the introduction of the new agreements it may vary between 10 and 20% (Meine et al. 2011). The experts from union and Gesamtmetall agree that the ERAs were “necessary and positive” (expert Gesamtmetall).

“ERA is often called a ‘reform of the century.’ That sounds grand, but is true. At least when we consider that we abolished the old distinction in grouping between blue-collar and white-collar workers (Arbeiter und Angestellte). [...] The second most important point from my point of view is that we gave more importance to the question of what work people do – basic wages are more important than performance-related pay. [...] Thirdly, we abolished discriminatory regulations. And finally we revised grouping criteria and included soft skills such as team skills” (expert union).

The works council of the case study company stresses the transparency of applying ERA:

“The grouping of jobs is better and more transparent than it used to be. And it is easier to explain to employees. The old wage group 7 was described in one sentence, I could interpret it in almost any way I wanted. ERA creates hard facts in many ways” (works council automobile company).

Different from the union expert, the expert from Gesamtmetall expects that ERA will have to be adjusted in the near future:

“We must not think that we can rest on these laurels. When you see what is coming up to us with ‘industry 4.0’, the next revolution is imminent. It will force us to reconsider and adjust ERA” (expert Gesamtmetall).

The implementation of the new framework agreements in companies was in many cases accompanied by severe conflicts, although there were differences between the bargaining regions (for Baden-Württemberg, see Bahn Müller, Schmidt 2009, for Thüringen, see Schmierl 2011, for North-Rhine-Westphalia, see Bender, Möll 2011). There were two main reasons for these conflicts: On the one hand, some employers used the introduction of the new framework agreements as a means to reduce costs, although cost neutrality had been agreed on. On the other hand, volitional and collectively agreed changes in the rating of tasks led to conflicts (Bahn Müller, Schmidt 2009). During the implementation process of the new framework agreements it was up to works councils to monitor the reassessment of jobs together with HRM and to negotiate solutions in conflict situations. In many companies, the introduction of the new systems of classification and grouping

took longer than expected, but has meanwhile been completed in all bargaining areas (Meine et al. 2014, 216).

The case study was conducted in a production site of an automobile company. There, like in many other companies, the change to ERA was fraught with conflict. However, in this company there were not many complaints from employees. This was due to the fact that company and works council dealt with conflicts before the actual introduction of ERA:

“Negotiations lasted for about ten years. We didn’t get as many complaints from employees as in other companies, but rather had the conflicts earlier, between works council and company” (works council automobile company).

Negotiations were that complex because over the years, a wage system of its own (differing from collective agreements) had developed within the company.

“We always had very specific conditions. We didn’t have job descriptions but a job catalogue and rankings. We worked with extra pay (Zulagen) and lump sums (Pauschalen) a lot. We had additional job groups etc. And we always paid more than was collectively agreed. [...] Transferring that to ERA was rather complicated” (works council automobile company).

In addition to that, the company wanted to use the change to ERA to stop paying more than collectively agreed wages.

In the end the works council achieved that employees earning more than they were entitled to by ERA are comprehensively protected against reductions (according to ERA, their wages were to be reduced step by step). On the other hand, employees earning less than they were entitled to by ERA received step-by-step wage increases just as regulated in the collective agreement.

When the company hires new employees now, they are paid according to ERA and do not receive any additional payments so that the company is going to save money in the long run. The coexistence of employees paid by different standards however causes conflicts.

“This is a different discussion. We have colleagues working next to each other and doing the same job, but one was hired before ERA and one afterwards. They may have a wage difference of 200-500 euro. This is a discussion the works council has to bear. We always acted on the assumption that we do not ‘touch’ a wage somebody once earns ... One day, in 30, 40 years, when the last worker earning more than collectively agreed in ERA has died off, the company will be where it wants to be” (works council automobile company).

The classification of jobs to the wage groups depends on job characteristics defined in the framework agreements. These characteristics describe the tasks and the qualification that is usually needed to be able to fulfil these tasks (that does not mean a worker has to have these qualifications, the formal qualification is not the precondition to fulfil a task that is defined by that level). In most bargaining areas, the job requirements are defined in form of a rather short non-analytical job description in a rather short form. Only in two bargaining areas (Baden-Württemberg and North-Rhine Westphalia) the job requirements are determined in an analytical job evaluation (Meine et al. 2014, pp. 134). In the

different bargaining areas, between ten and 17 wage groups are differentiated and described. In most bargaining areas, the wage groups encompass several levels, but in different forms. Most bargaining areas use levels to further differentiate within one wage group. E.g. the agreement of the region Hamburg/Unterweser differentiates basic level (*Grundstufe*), main level (*Hauptstufe*) and three additional levels (*Zusatzstufen*). Special characteristics are defined for the three additional levels: flexibility, responsibility and cooperation. If a job requires more flexibility than usually in the respective wage group, it will be shifted to the additional level 1. If it requires more flexibility and responsibility, it will be allocated to the additional level 2, and so on. Only in North-Rhine-Westphalia the agreement defines levels in the higher wage groups workers pass through one after another (Meine et al. 2014, IG Metall 2015b).

The allocation of workers to the wage groups in the M and E industry has changed over the years. While the larger share of workers used to be found in the lower wage groups, today it is found in the middle group and one above (figure 17). These groups include skilled blue-collar workers.

**Figure 17.** Share of workers in the M and E industry in different levels of qualification (see IG Metall 2011, p. 11)<sup>2</sup>



For the union expert, this development towards higher wage groups is caused by the technological and structural development of the industry:

<sup>2</sup> As there are different numbers of wage groups in the different bargaining areas, they are here combined into levels of qualification.

“We used to have our core area in the lower wage groups, with un- and semi-skilled workers. This is decreasing [...] This goes hand in hand with the development of work in Germany as a high-tech location” (expert union).

The expert from Gesamtmetall on the other hand traces this development back to bargaining policy:

“This development really worries me, because our bargaining policy led to that the lower wage groups are virtually empty. The whole thing is moving too much into the higher wage groups so that it has become very, very difficult to offer simple jobs in the first place” (expert Gesamtmetall).

According to the works council, the core area in the case study company is even higher. In the perception of the works council, this is due to the fact that particularly small and medium companies grouped more restrictively when introducing ERA:

“We have an ERA working party at the local union office with colleagues from other companies and there we saw that we have created structures that are exactly in accordance with the collective agreement [...] But small and medium companies applied the grouping in a different way, so that the average will be lower” (works council automobile company).

Another long-term development in the M and E industries is shown in table 6: The difference between the lowest wage group and the middle wage group for qualified production workers (Eckentgelt, 100%-Gruppe) has decreased considerably. At the same time, wage differences between different bargaining areas were reduced.

The union has always pursued the goal to “raise” the lower wage groups:

“Especially in the 1980s and 1990s, we tried to ‘close’ the wage groups below the 100%-group. In 1950, the lowest wage group was about 50% of the 100%-group, and in the beginning of the 1990s, it was up to 83%. This has always been union policy” (expert union).



**Table 6.** Lowest wage group in relation to 100% group (see IG Metall 2008, p. 36)

<b>Unterste Lohngruppe im Verhältnis zur 100-%-Gruppe Metall- und Elektroindustrie</b>					
Tarifgebiet	1950 %	1960 %	1970 %	1990 %	2008 %
Bayern	62,5	67	75	76	82,8
Berlin	63	66	75	81,5	85
Berlin/Brandenburg <sup>2)</sup>	-	-	-	81,5	85
Hamburg	68,4	74	75	82	86
Hessen	70	75	75	81	84
Mecklenburg-Vorpommern <sup>2)</sup>	-	-	-	82	86
Niedersachsen	64	72	75,5	81	85
Nordrhein-Westfalen	58,7	70	75	82	85
Nordwestliches Niedersachsen <sup>1)</sup>	64	70	75	81,5	86
Nordwürttemberg-Nordbaden	72,5	75	75	81,4	85
Osnabrück	72	72	75	80,5	85
Rheinland-Pfalz	56	72,5	75	81	84
Saarland	71,5	75	75	82	84
Sachsen <sup>2)</sup>	-	-	-	76	82,8
Sachsen-Anhalt <sup>2)</sup>	-	-	-	81,5	85
Schleswig-Holstein	63	72,5	72,5	82	86
Südwest	63	72,5	78	81,6	85,2
Thüringen <sup>2)</sup>	-	-	-	81	84
Unterweser	68	74	75	81,5	86

<sup>1)</sup> Wilhelmshaven <sup>2)</sup> 1991

The employers' associations demand for more differentiation in the lower part of the wage grid. Moreover, they want new wage groups below the present wage group one:

“We should not only think about a stronger differentiation below the 100% group, but also about new possibilities for unskilled jobs in general. Also because in the foreseeable future we will have to deal with the question of how to make use of the refugees and their potential for our industry. From my point of view that means that we will have to concern ourselves with the sphere between the minimum wage and our wage grid. There is leeway there. We have the will to shape it, but the union” (expert Gesamtmetall).

The works council from the automobile company on the other hand would like to further differentiate the upper part of the wage grid:

“We would like to have greater differentiation, 17 or 18 wage groups instead of 14. At the bottom, the grid is quite differentiated. Semi-skilled jobs can go from wage group 1 to 6, skilled jobs from 7 to 12. Master craftsmen (Meister) are all in 12 and 13 and then we have only 14 for everyone up to the highest development engineer” (works council automobile company).

This may be a luxury problem of a large company, but the works council also considers that for small companies, the wage difference between wage groups 13 and 14 (about 1,000 euro) is very big, so that they, too, could profit from a higher degree of differentiation.

Wage increases in the M and E industry are usually defined as a percentage of the current wage. However, there have been variations of that rule by combining percentage increases, as the dominant element, with lump sum payments for specific reasons. An outstanding case in this respect was the 2006 agreements in the M+E industry that combined this mixed approach with an opening clause stipulating that a lump-sum single payment of 310 euro could be postponed or reduced at company level depending on the specific business situation. In 2007, another single payment of 400 euro plus an additional wage increase of 1.7% were agreed on, both could be postponed for up to four months depending on business situation. Since then, there have been several agreements of this kind, the last one in 2012 (Haipeter 2014). With regard to wage (in)equality the lump-sum single payments have a compressing effect because they reduce differences between wage groups. However, the possibilities to reduce payments or postpone them for a specified period of time may lead, if in some cases only temporarily, to more differentiated and unequal pay structures within the industry, with an overall depressing effect on average wages.

The employers' association calls for more agreements of this kind in order to allow for more differentiation:

“The M+E industry is a very complex industry. There are different business cycles in different sectors of the industry, even different business cycles in different companies. If you apply one wage agreement to all of these sectors and companies, you will cause scenarios of overstraining in large parts of these sectors. It will undermine the acceptance of this solution if you are not able to develop differentiated results [...] From our perspective, an instrument to solve this problem could be that a wage agreement can be adjusted to the needs of a company for the period of the agreement. E.g. wage increases could be postponed” (expert Gesamtmetall).

A special group of employees are employees with pay levels above the agreed wage scale, so-called AT-employees (AT stands for *außertariflich* and refers to the fact that they are not paid according to collective agreements) including mostly high-skilled white-collar workers. In the different bargaining areas, the income of AT-employees is higher than about 6,000 euro/month (Meine et al. 2014, p. 125). They usually negotiate their wages individually, but it is also possible for employers and works councils to agree on company-specific frameworks for AT wages.

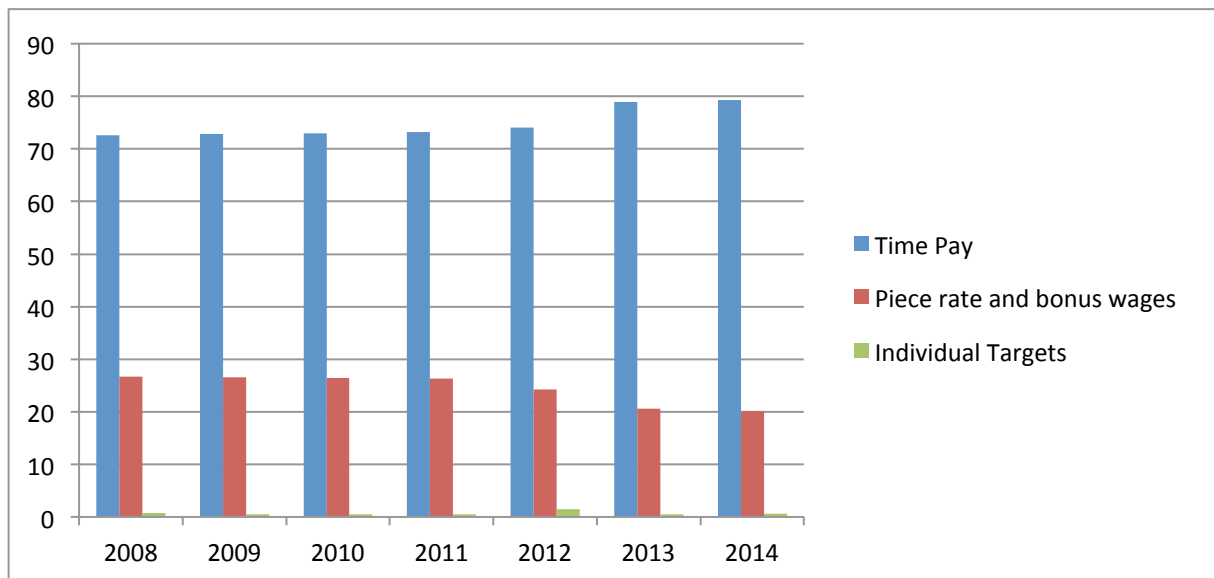
While the union expert assumes that the number of AT-employees is growing (see also IG Metall 2011), the expert from Gesamtmetall doubts this:

“The number of AT-employees is not necessarily increasing. The definition of AT is different from bargaining area to bargaining area. So you will find more or less ATs depending on where you look. However, there is no clear-cut data on this” (expert Gesamtmetall).

In the case study company, the introduction of ERA caused the group of AT-employees to decrease. The share of AT-employees among white-collar employees was very high before ERA, about 70%. On the one hand, AT-employees did earn more in absolute numbers than employees covered by collective agreements, on the other hand, they worked 40 hours a week instead of 35, so that hiring AT-employees paid off for the company. After ERA, it does not pay off any more because the agreement includes a minimum interval to the highest collectively agreed wage (Abstandsgebot). At the time of the interview, the share of AT-employees among white-collar employees in the company was at about 40%. That is due to the fact that AT-status is protected just like pay above collectively agreed wages. But over time, the share of AT-employees is going to further decline. The works council expects that once “pre-ERA-ATs” have died off, the share of ATs will be down to about 30%.

#### **4.4. Variable components of collective pay**

The framework agreements in the M+E industry not only define job demands and wage groups, they also regulate different methods of variable pay companies can choose from. There are differences between the bargaining areas, but basically companies can choose between piece rate, bonus, target-related pay and time pay with a performance-related element (Haipeter 2014, pp. 29, 30). Collectively agreed performance-related pay elements are added to the basic wages as a percentage. Collective agreements in the different bargaining areas partially define a mean minimum amount for this (e.g. in Baden-Württemberg performance-related pay has to amount to 15% on company-wide average, for individual workers it can vary between 0 and 30% (Meine et al. 2014, p. 226)). Performance has to be measurable or countable and assignable to the employees, which excludes financial indicators. In most bargaining areas except Baden-Württemberg also time pay is possible. However, time pay has got a performance-related element too, which is defined in individual assessments by the superiors. As figure 18 shows, time pay is the most widespread form of pay in the metalworking industry. Collective forms of performance based pay like bonus systems (where the bonus depends on productivity or quality or other targets) count for about one quarter of all employees, individualized forms of performance based pay like pay coupled with individual targets only play a minor role.

**Figure 18.** Spread of performance related pay elements (Gesamtmetall 2015, own presentation)

Regarding basic pay, the introduction of ERA has meanwhile been completed in all bargaining areas. This is different with the ERA regulations on performance related pay. Up to now, these new regulations are implemented in relatively few companies. In this respect, the expert from the union states that there is still “huge need for implementation”. In the case study company, the issue of performance related pay was broached, too:

“When we introduced ERA, we also discussed the possibility of introducing a bonus system in the production divisions. But the employer didn’t want that. [...] Now we have time pay with performance assessments, but ... 99% of our staff are assessed with ‘normal performance’ [...] The employer is very dissatisfied with this because he sees that we have very little differentiation. Everybody sticks to these 10% on average from the collective agreement” (works council automobile company).

Since the end of the 1990s, profit-related pay elements have been on the bargaining agenda of the social partners in the M+E industry. The employers’ associations are interested in introducing profit-related pay as a conversion of existing collectively agreed pay elements into profit-related pay elements. For the union, variabilising collectively regulated pay elements is not an option, instead they want to regulate profit-related pay on top of other collectively agreed pay elements. As compromise is not foreseeable, the negotiations are in a deadlock (Haipeter 2014).

However, companies are free to introduce profit-related pay elements on top of collectively agreed pay elements as so-called benefits exceeding collectively agreed wages. In the M+E industries, benefits exceeding collectively agreed wages are much more widespread than in other industries. In addition to that, Haipeter and Slomka (2014) show that profit sharing is especially widespread among automobile companies and (to a reduced extent) their large 1<sup>st</sup> tier suppliers. 2<sup>nd</sup> or 3<sup>rd</sup> tier suppliers usually don’t pay profit-related pay elements to their employees due to the cost pressure by the OEMs.

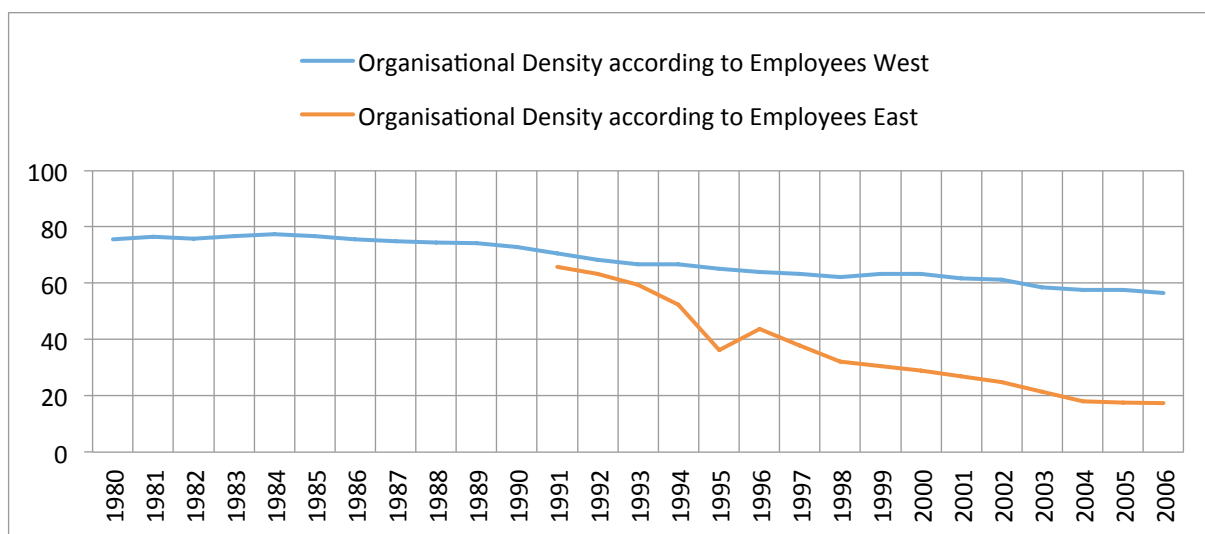
High profit sharing spread and payouts among the OEMs therefore reflect a redistribution of profits along the value chain. In this way, profit sharing increases wage inequalities along the value chain. Furthermore, profit-related pay elements correlate positively with workers’ qualification and occupational status and increase already existing wage differences among workers.

“On the one hand, there are of course ‘lighthouses’ and icons. The automobile manufacturers apply bonus agreements and let their employees partake in their success. However, you have to be aware of that they pass on the pressure to increase productivity to their suppliers without mercy. You will not find any suppliers with bonus agreements in the same dimensions” (expert Gesamtmetall).

#### 4.5. Collective bargaining density and its limits

The coverage of collectively agreed wages shows a long-term decline in the M and E sector. The share of employees covered by the agreed wages has declined since the beginning of the 1990s. The IAB-Betriebspanel only publishes data for manufacturing as a whole (including the chemical industry for example); according to this data 56% of the employees in West and 23% in Eastern Germany were covered by industry collective bargaining agreements, and further 10% of the employees by plant level agreements (Ellguth, Kohaut 2015). More exact figures for the M and E industry is given by the membership data of the employers’ associations published by Gesamtmetall. Whereas in the 1980s more than three quarters of the employees in the sector were employed by member firms of the employers’ associations that were covered by collective bargaining agreements, until 2006 this share declined to less than 60% in Western and to less than 20% in Eastern Germany.

**Figure 19.** Organisational density of employers’ association in the metalworking industry (Gesamtmetall 2015, own calculations)



Since then, the organizational density of the employers' associations in the sector, measured for Germany as a whole, decreased slightly and for a couple of years stabilized at about 48%.

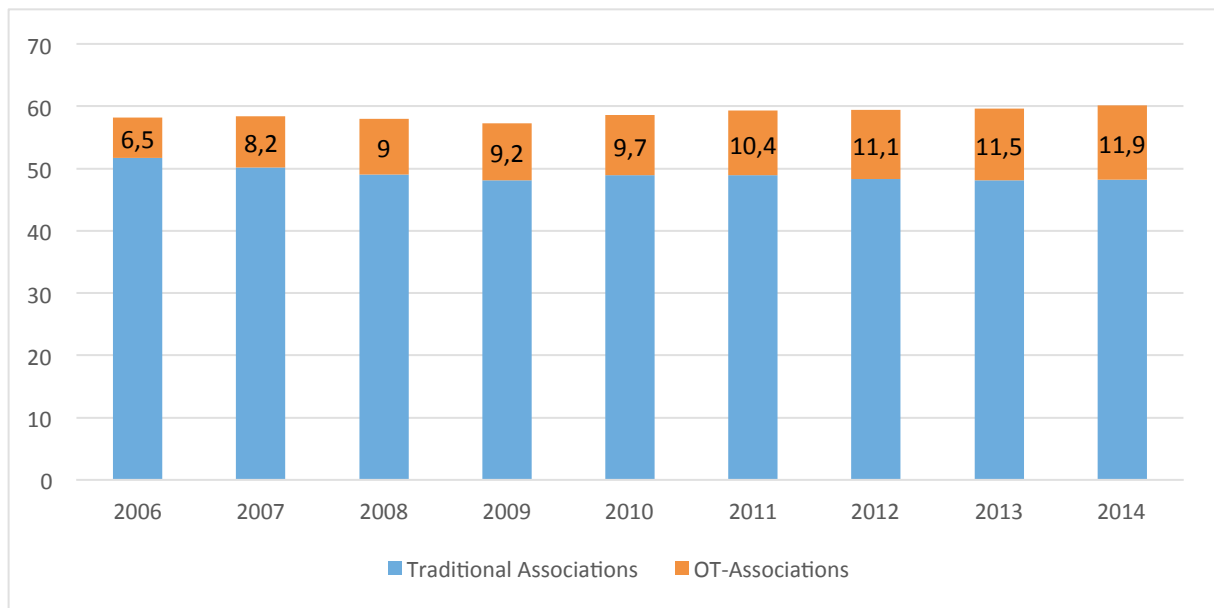
At the end of the 1990s the employers' associations of the M and E sector have introduced a new kind of membership known as "unbound" or "without collective agreement" (Ohne Tarifvertrag, OT) as a reaction to the membership crisis and in order to give members the opportunity to stay in the employers' associations even if they do not want to accept the collective bargaining agreements. OT-members can use the services of the association like consultation e.g. on questions of labour law but do not have to comply with the standards of the collective agreements. In 2005, also Gesamtmetall introduced OT membership (Bispinck, Dribbusch 2011); since then also the OT-associations have become members of Gesamtmetall and are counted in the statistics of the association.

"Gesamtmetall had no choice but to admit OT-companies because otherwise we had not been able to serve as mouthpiece for 'the M+E industry'. To the extent that our wage agreement was too expensive and too monolithic, we had to organize these OT-structures as a means of differentiating" (expert Gesamtmetall).

Gesamtmetall's statistics show a considerable and steady increase of OT members. In 2014, 3,554 businesses were "normal" members of employers' associations, while 3,349 were "unbound" members.

However, it becomes apparent that OT-members are on the average smaller businesses: they employ only about 20% of workers, while 80% of employees of Gesamtmetall's members are employed by companies that are bound by collective agreements (all numbers from Gesamtmetall 2015). Haipeter's (2011) analysis of OT-strategies of employers' associations identifies regional differences in motives for and the use of OT-memberships: While some M+E associations use OT-memberships as an instrument of liberalisation to build up pressure in bargaining rounds, for other associations they are primarily a means to recruit new members and to increase the organisational density. In the last years the OT-associations indeed seem to have the effect of attracting new instead of replacing old members, for the total organisational density of the associations increased (figure 20).

**Figure 20.** Organisational density of traditional and OT-associations in the M and E industry (Gesamtmtall 2015, own calculations)



#### 4.6. Strategies and perspectives on wage regulation and inequality

Within the M and E sector, major changes have taken place that have affected the structures of collective bargaining in the sector both with respect to the coverage and the contents of collective bargaining agreements:

- A decline in collective bargaining coverage from 80% to about 50% and the opting out of smaller firms from employers' associations;
- New strategies of the employers' associations to implement new forms of 'unbound' membership of firms;
- Derogation clauses in the collective bargaining agreements that allow firms to fall short of collective bargaining standards for a defined period of time and that are widely used;
- An agreement on extra pay for temporary agency work in the metal- and electrical engineering industry;
- New forms of wage increases combining the traditional percentage increases with lump sum payments and possibilities for postponing or reducing increases in difficult business situations;
- The spread of profit sharing among the big companies of the sector, especially the automotive companies.

On the one hand, international competition is strong and a major driving force for changes in the German M and E industry and especially in the automotive industry. On the other hand, bargaining partners are strong. So far, they managed to regulate developments like derogations or the increasing use of temporary agency work,

implementing instruments that allow flexibility while at the same time keeping up industry-wide standards.

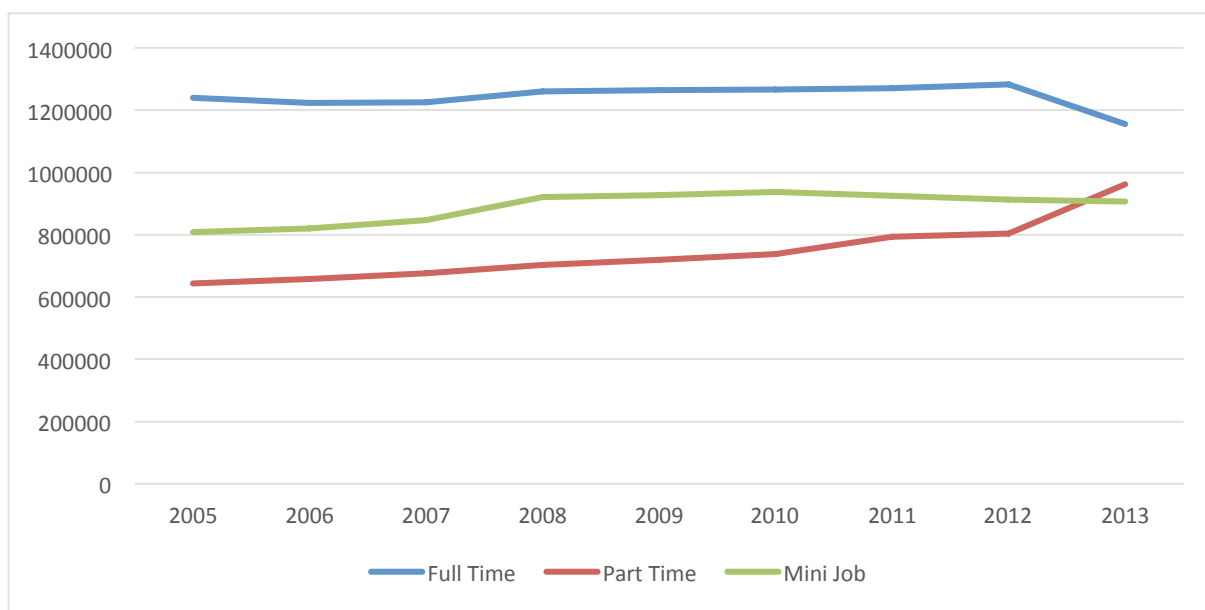


## 5. Retail industry

### 5.1. Some features of the industry and collective bargaining

The retail sector is one of the biggest sectors of the German economy in terms of employment. In 2014 nearly 3 million employees worked in the sector. However, given the high level of employment, the labour volume actually made use of by the companies is much lower due to the high shares of part time which are characteristic for the industry. As figure 21 shows, employment growth has been driven to a large extent by part time work, both in the form of normal part time, which is regulated by collective bargaining agreements and subject to social insurance contribution, and marginal part time work in the form of the so called “mini jobs”; here the employees are allowed to earn up to 450 euro a month and only the employer pays social insurance contributions.

**Figure 21.** Employment and employment forms in the German retail sector (HDE 2013 and 2015, own calculations)



The share of part time workers (including marginal part-time) increased from around 54% in 2005 to nearly 62% in 2013. In terms of labour volume, in 2012 full time work had a share of nearly 66%, part time work of 19% and marginal part time of 15.5% (HDE 2013). The high share of part time work can be explained both by the high share of female employment, which counts for about two thirds of total employment, and by the strategy of many retail companies to organise shifts composed of few hours in order to cover long opening hours and daily or weekly fluctuations of customer demand (Voss-

Dahm 2009). However, another interesting trend within part time work is the changing composition of ‘normal’ and marginal part time work at the expense of the latter. The antecedent trend of growing mini job shares seems to be over and normal part time on the rise.

The retail trade is segmented in different channels of distribution like the traditional specialized shops, the big department stores, supermarkets and self-service department stores, discounters or the online distribution channel. Among these forms of distribution the specialized shops have a high but declining share of about 34% in 2014, the big department stores also declined to a share of less than 3% today, whereas the share of discounters increased to more than 15% and the shares of supermarkets and self-service department stores are rather stable at about 9% and 12.5% respectively. Online distribution is booming at growth rates of about 10% or more; however, its share was still only 3.3% in 2014 (all data HDE 2013). Voss-Dahm (2002) has distinguished three sales strategies of retailers, first the strategy of self service, second the strategy of intensive consultancy and third a hybrid strategy mixing both within one shop like the self-service department stores which have sales counters with service and consultancy for meat or fish. Looking at these strategies it can be said that the traditional strategy of intensive consultancy is on the retreat but nevertheless still important, that pure self-service strategies have gained importance but their growth seems to lose dynamic (except online sales) and that the hybrid strategy, ranging from supermarkets to self-service departments and specialized stores like hardware stores, has become the most important segment with a rather stable share of about 40%.

The main actors of collective bargaining in the industry are the employers’ association, the *Handelsverband Deutschland* (HDE), and the service sector union *Verdi*. Until the end of the 1990s, collective bargaining in the retail sector has been characterised by the fact that the wage agreements, and most of the other collective bargaining agreements as well, have been declared generally binding for the industry by the federal ministry of labour. The legal formal condition for this declaration is a membership density either of the employers’ association or the union of at least 50% of the employees. As the union never achieved these density rates in the retail sector, it was the density of the employers’ association that was used as a formal criterion.

However, applying for extending the agreements also was based on a consensus of the collective bargaining actors in the sector. This consensus eroded in the second half of the 1990s due to critique in the employers’ camp about the wage agreements. At the same time a fraction of the employers, led by the department store Karstadt, separated from the HDE and created a second employers’ association, the *Bundesarbeitsgemeinschaft der Mittel- und Großbetriebe* (BAG). The new association opened the doors for unbound OT-memberships that do not include coverage by the collective bargaining agreements, and soon after that the HDE followed by introducing its own OT-membership status. Peek and Cloppenburg was the first big retail company that went into the OT-status. This was the starting point for a flight from the collective bargaining agreements that destroyed the formal requirements for declaring the agreements generally binding. In 2009, the BAG closed due to financial problems which rooted in the crisis of the Karstadt-group, and the HDE once again became the only association on the employers’ side.

The two case studies are composed of a *self-service department store* and a *self-service furniture store*. The *department store* is part of a regional retail chain with more than 40 big department stores which have about 350 employees each. The single stores are rather autonomous, based on their own management and personnel departments which are controlled by budgets. The company is owned by a single owner and not covered by the collective bargaining agreements; the chain has opted out from the collective agreements some years ago and since then has developed its own company wage system. The *furniture store* is part of an international retail chain with stores in all bigger German cities. The company is covered by collective bargaining agreements; it has re-entered the employers' association recently, but has accepted the agreements long before. The case study store has nearly 290 employees and is headed by a store manager and managers for personnel and controlling.

## 5.2. Collective bargaining agreements on wages

Table 7 gives an overview over wage regulation in the metalworking industry that will be explained in the following paragraphs.

**Table 7.** Wage agreements in the retail industry

Wage agreements	Every 1 to 2 years; trend of decoupling end/beginning of agreements; regional differences wage levels
Wage increases	As percentage of wage; in some bargaining rounds and areas fixed wage increases; wage increases and actual wages of skilled workers depending on regions.
Wage groups	Five to six in the collective agreements; separation white – blue collar workers; bulk of employees in wage group 2
Criteria of classification	Job requirements/tasks, non-analytic, outdated job examples ,
Seniority/Experience	Differentiation of wage groups according to experience, 3 to 7 steps
EG 5/EG1	2.71
Lowest wage CBA	1,627 euro
Highest wage CBA	4,414 euro
Variable pay profit sharing	No, little practice on plant level
Variable pay performance	No, some practice on plant level
Temp Agency Work/Outsourcing	Outsourcing of cashiers and storage fillers, high share of mini jobbers
Derogation Clause	No, restricted practice

Collective Bargaining coverage	Below 40%
Employers' Association	New wage system, downgrouping of cashiers and storage fillers; contested criteria job demands
Unions	New wage system, no downgrouping effects, contested criteria job demands

Wage agreements in the retail industry are negotiated on a regional base for the federal states by the regional units of Verdi and the respective regional members of the employers' association HDE. The regional agreements are rather different. Although the first agreement reached in a bargaining round serves as a model for the others, coordination of negotiations and the final agreements is a difficult task especially for the union, because the bargaining regions in the sector traditionally have a rather high autonomy.

“We have consultations, we try to define common goals, but the demands are defined in the regions. We try to coordinate the negotiations and then to define minimum standards. Coordination can be tighter or more loose, but it has become more and more loose in the last years” (expert union).

Union demands are fixed in a different way between the regions; some regions demand wage increases in per cent of the former wages, others demand a fixed amount like 150 euro. The latter form of demand has a compressing effect on wages because all the wage groups get the same amount of wage increase so that differences between the groups are reduced by inflation and productivity effects (as far as they are reflected in the wage increases).

In the last bargaining rounds the new agreements have not directly followed the former agreements because negotiations took more time. In these cases it has become usual to agree on single payments to bridge the gap between the end of the old and the start of the new agreements.

“This has become a common instrument, and we accepted it after some hesitation, because in the end it is better than getting nothing for the time between the agreements. Furthermore, it has a social component because everybody gets the same money, so it is much liked by our core clientele, the cashiers and the less qualified employees” (expert union).

The framework agreement defines the wage groups and the job requirements coupled with them. Some of the agreements define six salary groups, some only five, among them: the unskilled, the skilled sales assistant and the sales(wo)man (these are partly split up in two or merged in one wage group), the first sales(wo)man, the substitute or team leader and the department manager. Besides that, the agreements also include wages for blue collar workers like for employees who fill up the storage racks and for drivers and craftsmen.

All the wage groups are differentiated by work experience. In the latest wage agreements from 2013-2014 in the region of North Rhine-Westphalia the wages in the respective wage groups for the upper level of experience have been increased by 3.0% and agreed as follows.

**Table 8.** Salaries, Wages and Wage Groups Retail Industry, in euro

Unskilled	Sales Assistants	Sales(women)	First Sales(women)	Substitutes	Department Manager	Storage Fillers	Drivers	Craftsmen
1,627	2,315	2,315	2,720	3,405	4,414	2,063	2,668	2,668

The exact wage figures differ between the regions. Whereas wages for sales assistants and sales(women) are identical between the regions, the wages for the other wage groups differ considerably. The final wages (at the end of the seniority steps) for unskilled varied in 2013-2014 from 1402 euro in Bremen to 2,280 euro in Berlin; those for first sales(woman) from 2,315 euro also in Bremen to 2,741 euro in Berlin and Brandenburg; those for substitutes from 2,950 euro in Bavaria to 3,441 euro in Berlin and Brandenburg; and those for department managers, finally from 3,347 euro in Baden-Württemberg to 4,414 euro in North-Rhine Westphalia.

The wage groups are subdivided in wage steps defined by job experience or seniority. The number of steps within the wage groups differ, they vary from three to seven steps, including up to eight years of job experience, depending on the respective collective agreement. The differences between the seniority based wage levels within the groups are quite high. Taking the example of North-Rhine Westphalia, it is about 170 euro between the first and the final level for unskilled, nearly 700 euro for sales assistants, about 500 euro for sales(women), more than 600 euro for first sales(women), about 400 euro for substitutes and more than 1,200 euro for department managers. The wages of substitutes and department managers additionally are differentiated with respect to the number of employees they head (usually in steps up to four, four to eight, more than eight employees). Here the wage gap between the lowest and the highest wage for department managers in North-Rhine Westphalia amounts to more than 1,200 euro.

### 5.3. Framework agreements and wage groups

The definition of the salary groups and the additional wage groups for blue collar work in the framework agreements of the retail sector is based on broad descriptions of job demands, qualification levels and some additional examples for jobs typical for the respective wage groups. The structure of job demands and some of the examples are listed in table 9.

**Table 9.** Job demands and job examples in Baden-Württemberg

<b>Wage Group</b>	<b>Job Demand</b>	<b>Examples</b>
<b>I</b>	unskilled; simple, mechanic tasks	sales agents with very simple tasks, copying, transcriptions
<b>II</b>	simple sales(wo)men tasks; vocational training	sales agents, sales(wo)man cashiers
<b>III</b>	more autonomous sales(wo)men tasks	sales(wo)man, cashiers with more complex tasks
<b>IV</b>	autonomous sales(wo)men tasks with responsibility	first sales(wo)man, buying agents, substitutes
<b>V</b>	managing tasks with responsibility and discretion	department managers, branch managers, leading buying agents

Both qualification and job demands are defined as criteria for classifying employees in the wage groups. In fact, wage group 2 is the basic wage group for all qualified employees working as sales(wo)men or cashiers. The agreement offers little opportunities to differentiate jobs according to demands.

“Today we have a mixture of qualification and experience. It is impossible to differentiate wages according to job demands within the wage groups. Somebody, who need high social competencies or who has additional tasks like inventory-taking or so cannot get a higher wage” (works council furniture store).

An important feature of the agreement is the transition between unskilled and skilled wage groups. The demarcation between the unskilled wage group I and the wage group II for skilled sales assistants is blurred in the sense that employees from the unskilled wage group are transferred automatically to the higher wage group after they have passed the seniority levels for the lower wage group that are defined in the agreements. The reason is that in former times in the retail sector many employees worked without formal qualifications or without formal retail specific qualifications.

“The automatism is a result of the fact that many employees did not have a formal qualification. They started with simple tasks like placing the commodities in the shelves and then carried out other more and tasks. This has been a quite common development in many cases” (expert union).

Because of the automatic transfer most of the employees today are grouped in the wage groups for qualified sales(wo)men, the work groups II and III. Sales(wo)men or cashiers get the same agreed wage, therefore the wage groups are described by the expert of the employers’ association as a highly egalitarian system.

“The system has created a common wage floor for the different tasks of cashiers or sales(wo)men. This is very much liked by the union” (employers’ association).

The lowest wage group has been adapted to the introduction of the legal minimum wage which was introduced in 2015 because in Eastern Germany the wages for unskilled workers in the retail sector were lower than the 8.50 euro per hour defined as legal minimum wage.

“Hurrying ahead we have adopted our wages in Eastern German regions to the new minimum wage and lifted them above 8.50 euro” (expert employers’ association).

However, whereas Verdi has been the main supporter of the minimum wage on the side of the unions, the HDE has a rather skeptical stance towards it for two reasons. First it is said that the minimum wage may overburden the smaller firms in Eastern Germany who depend on low wages. And second it is argued that the minimum wage poses bureaucratic burdens for the employers because of the high shares of mini-jobbers. For in order to control the compliance with the law, the employers have the obligation to register the working times of the mini jobbers, which is said to be difficult to organize in big retail companies with many branches.

Besides these problems, the framework agreement is highly contested among the collective bargaining actors. In fact it was one of the main reasons for the employers’ association to demand for an end of the universally binding agreements at the end of the 1990s after several years of fruitless negotiations to reform the agreement that have taken place.

The main reason for the dissatisfaction is that the framework agreements are regarded as outdated by both collective bargaining actors. The agreements have their roots in the 1950s and have not been revised substantially since then. The retail sector at that time was dominated by the big department stores on the one and small retailers on the other hand. Since then, in the 1960s and 1970s, supermarkets developed, and later on new retail channels emerged like the discounters which only have two types of jobs, cashiers and storage filling, or self-service department stores which have counters for fresh products, or the specialized department stores for electronics or do-it yourself products which have some consulting staff.

These developments went hand in hand with new forms of division of work within the retail branches that directly affected the structure of the wage groups of the framework agreements. First, the blue collar workers like drivers or craftsmen are sourced out to a large degree, with the exception of craftsmen that are needed in the specialised department stores or at the fresh product counters of supermarkets or self-service department stores. Retailers have focused on the core activities and hired subcontractors for the logistics or the facility management, not at least because these groups of employees use to have lower wage levels in the collective bargaining agreements of their industries.

“In the 1920s, drivers have been regarded as ‘kings of the roads and they therefore got a rather high ranking in the wage groups. Until today their agreed wages are higher in the retail sector than they are in the logistics industry” (expert employers’ association).

Second, the former transitions from unskilled to skilled work do not take place any longer in the way they used to. Demarcations between skilled and unskilled work have become more pronounced especially with respect to the storage fillers, who today are workers separated from the others and in a significant number of cases sourced out to service companies who pay lower wages.

“Of course companies make use of wage differentials between industries; take the drivers or the storage filling which is offered cheaper by service companies than it is grouped in our agreements” (expert employers’ associations).

In the bargaining round of 2013, the bargaining actors agreed on a compromise to lower the wages for the storage fillers if at the same time the companies cancel their outsourcing decisions and source these activities back to their companies. However, according to the union expert, this insourcing clause is rarely practiced.

“There is a lot of uncertainty about this part of the agreement, and therefore it is not practiced. Does it apply to all companies or only to those companies who can prove that they did insourcing in this area?” (union expert).

Third, according to the employers the activities of the cashiers have changed in the course of automation and the introduction of electronic scanning systems. Today cashiers just need a short on-the-job training to be able to do their job.

“Especially the work of the cashiers has changed. Today, this has become a rather simple activity. You just have to control if the customer has laid everything on the table, and then you have to move it over the scanner. Everything else is done automatically” (expert employers’ association).

Negotiations for a new framework agreement started already at the beginning of the 1990s but still have not been finished. Right from the start, the concepts of the collective bargaining actors have been rather incompatible so that negotiations were stopped without results. In 2002 negotiations were taken up again, then titled as a new project called ‘FIT’. Different from the former negotiations this time experts were consulted to create ideas from outside that could be taken up from the collective bargaining actors. In the negotiations it became clear soon that the employers’ association wanted to develop a new analytical system to replace the old one. There have been two main points of conflict: First the criteria for job demands, and second whether to have an analytical scheme at all or not. The employers’ association voted for a more narrow range of criteria like knowledge and abilities, whereas the union wanted a broad in order to include new criteria like social skills and competencies. What at first sight seems to be a more academic controversy would have been of significant practical relevance, especially with respect to the grouping of cashiers. For a narrow approach would have meant that the job demands of cashiers were to be classified as unskilled labour, because it can easily be learned on the job and requires little ‘hard’ skills.



“In an analytical perspective, what knowledge and abilities are required for cashiers? Writing, reading, a little bit of communication, that is it. This can be done by everybody, also by housewives or pupils, and it does not justify a wage of 2,300 or 2,500 euro” (expert union).

However, if social skills are included, it could be argued that cashiers are the last employees face to face to the customer before he leaves the store and that therefore they have a decisive role for creating customer loyalty. This was the argument of the union who cared much about the cashiers, both in order to preserve the egalitarian wage structure and in order to defend the interests of the group of employees with the highest union density in the retail sector. However, the resistance of the employers was fierce.

“They wanted it to be classified as unqualified work, like filling the storages. So little qualified work would have been left in the food retail industry except the sales counters for fresh products” (union expert).

Moreover, unionists showed resistance against analytical schemes in general because they feared that it would ask too much of the works councils who have to control the wage schemes and who would have to be educated in analytical job evaluation. Moreover, they feared that the union would not be able to do so.

“We would not have been able to educate the works councils in a way to enable them to cope with the problem” (union expert).

However, even in the employers’ camp the resistance against analytical job evaluations grew, especially among the smaller members of the association.

“The main problem has been: The companies had a look at the suggestions and many of them, especially our smaller members, said: Analytical job evaluation is too complicated for us” (expert employers’ associations).

So in 2011 the negotiations were stopped. Negotiations started again last year, and at the moment the collective bargaining actors are discussing job examples. However, it is still a long way to go in the eyes of the experts, and the old questions like the criteria for evaluation are still on the agenda.

“Verdi is preferring a non-analytical scheme and at the same time wants to introduce six or seven criteria for job evaluation. This cannot work in a non-analytical scheme. And this is why the discussion slowed down again” (expert employers’ association).

#### **5.4. Wage groups and the practice of wage grouping**

According to the experts of the union and the employers’ association, companies try to circumvent the regulations of the framework agreements for cashiers and storage fillers

respectively. This is done by using precarious employment contracts and by outsourcing. On the one hand, jobs of cashiers or storage fillers are given to marginal part timers working as mini jobbers. And on the other hand, storage filling is sourced out to service companies which pay lower wage levels because they are not covered by a collective bargaining agreement.

Re-integration of cashiers and storage fillers into the wage schemes was one of the main motivations of the *department store* to opt out from the collective bargaining agreements and to develop its own wage system. According to the expert we asked, there were three problems to solve with respect to a new wage framework. The first was to include blue collar workers in a new way, because all the stores have their own bakeries, butcher shops and restaurants. The second problem was that the cashiers only work on the cashpoints and have a learning-on-the-job qualification; they have been hired by a temp agency company which is a subsidiary of the retail company. The third motive, finally, was to integrate the storage fillers.

“We did what our competitors did as well: We hired an external service company for the storage filling, and the employees earned 6.43 euro per hour. We asked ourselves: What can we do to hire them directly and get them on our payroll?” (HR department store).

The most striking feature of the new wage structure is that it includes the job demands into a single system which no longer differentiates between salaries and wages and the company at the same time has insourced the formerly outsourced activities. The lowest wage group is defined by the storage fillers and forms the basic wage. It was settled on the base of the minimum wage and now, after the first wage increase in the new structure, amounts to 9.17 euro per hour. All the other wage groups refer to the basic wage, for instance the cashiers who get 120% of the basic wage. The department managers form the upper ceiling of the wage groups; they are placed just below the store managers in the organizational hierarchy (each store has one store manager who belongs to the small number of employees with salaries beyond the collectively agreed wage scale, the so-called “AT-employees”) and earn about 400% of the storage fillers.

Both for the storage fillers and the cashiers the income decreased compared to the industry collective bargaining agreements, but it improved at least slightly compared to the actual situation of these groups of employees who were hired before on a precarious base as temp agency workers or as employees of low wage service companies.

“Now they have permanent contracts with our company, they are covered by all the other regulations of our agreements, and they get the improved employee conditions to buy our products” (HR department store).

Furthermore, the seniority steps defined in the collective agreements were reduced so that the final pay of a wage groups will be reached after three years. The job descriptions have proven to be rather clear. There are little disputes about wage grouping which is based on the rule that the predominant activity defines the wage group.

“If the activities change and somebody has a new activity which is predominant he or she has the right for a new assessment and a regrouping” (HR department store).

The agreement was negotiated between management and the joint works council of the company who was authorized by the single works councils of the retail branches. However, the agreement finally was signed with the single works councils of the stores. According to the HR manager, 33 councils of branches which belonged to the company for a long time did not hesitate to do so, however, about six of 13 new branches which were acquired recently from another big retail chain voted against the agreement. However, the arbitration committee decided in favour of the company so that the agreement was implemented company wide.

The *furniture store* has re-entered the employers’ association some years ago, not at least in order to gain influence on the negotiations about a new wage framework agreement. However, the store has accepted the collective bargaining agreements even during the time it has opted out from the association. The store has a rather lean staffing, composed of three managers (store, personnel and controlling) that are paid at higher rates than the highest wage group of the wage scheme, it has five department managers grouped in wage level V and some team leaders grouped in level IV.

“We are much leaner than competitors, because we operate with less management staff; however, this also has disadvantages, because administration work is delegated to the lower levels – and we cannot pay the employees higher wages because the wage agreement does not give us the opportunity to do so” (works council furniture shop).

The bulk of employees is grouped in wage group II. Sales(wo)men who are planning kitchens for customers have been regrouped recently into wage group III after a court decision – an employee of the furniture shop brought the case to trial – in which it was said that kitchen planning is a more complex task than selling and has to be grouped higher.

According to the works council, lean staffing is combined with flexible usage of personnel. Employees are to work both at the cashpoints and as sales(wo)men, depending on the staffing situation, and also the manager work at the cashpoints if they are needed.

“This is a way of the store to fill the gaps of the lean staffing” (works council furniture store).

Another strategy to gain flexibility is the recruitment of employees with fixed-term contracts and students. Fixed-term contracts are recruited during the seasonal business peak in the fourth quarter of a year. At that time, the quota of employees with fixed term contract is about 20%. After that quarter of the year, the contracts are not renewed. Students are employed for the work at the cashpoints on Saturdays and on other days that are known to be highly frequented by customers. Also part-time work is part of the flexibility strategy, 55% of the employees are part-timers. Part-time contracts are offered from 40 hours to 120 hours per month, the bulk of the part-timers is working 87 contractual hours per month. That means that the company does not offer marginal part-

time jobs. However, the monthly made shift plans of the part-time workers are flexible and structured according to customer frequencies.

Apart from that, the furniture shop has not tried to downgrade storage fillers or cashiers set. The storage fillers are paid according to the wage groups for blue collar workers, and the storage fillers who have a license to use a lift truck are paid higher wages than the others. Actual wages for more qualified employees can be higher than the levels agreed in the collective bargaining agreements, largely depending on regional market wages.

“In these areas we find market wages. You cannot get department managers or so for the wages agreed in the collective bargaining agreement. But also qualified sales(wo)man in many cases get higher than the agreed wages, depending to a large degree on the regions they work. In many big cities and agglomerations like Munich or Hamburg it is impossible to get a qualified sales(wo)man for these conditions. In towns of the Ruhr area like Gelsenkirchen or in the countryside this is still different” (union expert).

But not only managers and sales(wo)men have a chance to get higher wages, also butchers or bakers at the service counters tend to get higher wages than agreed.

“The employees at the service counter like meat or fish get higher wages. I have seen advertisements of a retail branch from Munich who offered additional payments and a free move to the city” (expert employers’ association).

At the *department store*, the branches are free to negotiate wages with the employees. Here the HR manager mentions the examples of the butchers and the significant regional discrepancies.

“To get butchers in Eastern Germany based on our agreed wages is rather simple, since the agreed wages for butchers in their industry are lower than ours. In other regions this is different and we have to pay them more. The branches can manage this according to their needs. They have a budget that can be used freely” (HR department store).

In the *furniture store* management positions are paid higher wages than agreed in the collective agreements. According to the works council this is a general pattern among all the German stores of the company.

“The problem is that it is not possible to get appropriate managers on the labour market for the agreed wages” (works council furniture shop).

All the other employees are paid the agreed wages except the Christmas bonus which is higher than agreed at the *furniture shop*. The shop pays a full monthly wage instead of 62.5% of a monthly wage as it is agreed in the collective bargaining agreements.

### 5.5. Collective bargaining density and its limits

38% of the employees and 29% of the plants of the retail sector in Western Germany have been covered by collective bargaining agreements in 2014. The respective figures for Eastern Germany are 19% and 10% (Ellguth, Kohaut 2015). Both density rates, the one for plants and the one for employees, belong to the lowest among the industries of the German economy. Three years ago, in 2011, the collective bargaining coverage in Western Germany still was at 43% for the employees and 28% for the plants (Ellguth, Kohaut 2012). Since then some big companies have opted out of the agreements, the last one of them the retail chain Real, which explains the decrease of the employees' coverage figure. Transitions to company level collective bargaining agreements seem to be rather rare; in most cases the employers not covered do not negotiate any agreements at all or they make plant level agreements like *department store*.

“We have hardly any cases of company level collective bargaining agreements among our OT-members. And we have a small number of OT-cases who recognize the collective bargaining agreements officially” (expert employers' association).

Given the fact that before 2000 all the employees were covered by generally binding agreements, this is a massive erosion of bargaining density. However, 60% of the plants not covered by the collective bargaining agreements in Western Germany (and 40% in Eastern Germany) say that they have working conditions similar to those of the agreements (Ellguth/Kohaut), which may include derogations for instance with respect to working times or to wages. Our case *department store* is one of the rare cases of a new wage system developed by the companies themselves.

According to the expert of the employers' associations, many companies have opted out from the agreements by becoming OT-members of the employers' association, not because they are dissatisfied with the agreements in a general way, but because they want to change some special points defined in the agreements.

“The problem is that companies do not have the opportunity to derogate from the collective bargaining agreements with respect to single issues because Verdi is denying it. So the companies have to take the agreements as they are or they have to leave” (expert employers' association).

Indeed the position of Verdi towards derogations is rather restrictive; they are monitored and controlled intensively by the headquarters of the union.

“Derogations are an exception. All of the agreements on the issue have to be presented here. We have defined a procedure, and they have to be accepted by us” (union expert).

Therefore, derogations are rather rare in the retail sector. The number of cases is small; there have been less than ten cases of derogations, among them Karstadt, Woolworth or the supermarket chain Kaisers. So in fact derogations in the sector do not take place by

making use of opening clauses, but by opting out from the collective bargaining agreements.

However, opting out does not mean that the wage level has eroded in any case. In many cases the companies just wanted to change some elements of working time regulation or other issues.

“This was a real fear that the wages would erode because of the erosion of the employers’ association. But this did not happen. In many cases companies have extended working time flexibility or sometimes working times themselves” (union expert).

However, it was the employers’ association itself that fostered the opting out of companies at the beginning of the 2000s in order to decrease collective bargaining coverage and to destroy the preconditions for declaring the collective bargaining agreements of the industry generally binding. An interesting detail is that, different from other industries, in the retail sector it were many large companies who opted out.

“We had to do something. More and more companies said that they wanted to get rid of the collective bargaining agreements. We had to reduce collective bargaining coverage below 50%, and we established the OT-membership status. This was the starting point for a process that weakened the employers’ association, and large companies have used the opportunity as well. This became a self-enforcing process” (expert employers’ association).

One of the reasons for the wave of opting out is the weak organizational power of the union in many companies; union density is rather low with a figure of about 10% to 20%. In many cases the union was not able to prevent the companies from opting out. However, in one case the union was successful in enforcing collective bargaining coverage; this was the Lidl case where the union has launched an innovative campaign for the establishment of works councils and the implementation of the collective bargaining agreements, based on organizing and the cooperation with social movements (also Bormann 2011). The union had a similar success at the drugstore chain Schlecker, but the company went bankrupt afterwards (for other reasons than wages).

“We have been successful in forcing Lidl into the collective bargaining agreements because of the conflict we have been able to initiate there. They had no alternative in the end, because they have not been able to withstand the public campaign we have launched” (union expert).

Although the employers’ association has triggered the erosion of collective bargaining density by creating OT-options and by refusing to accept generally binding agreements in the first place, today it recognizes the precariousness of the development for its own organizational power and would like to strengthen its position as collective bargaining actor. From its point of view, a new framework agreement would be the best marketing for a return of the companies to the collective bargaining agreements.

“If we would have a new agreement, we would promote it and try to convince the companies to join the collective bargaining agreements” (expert employers’ association).

Besides opting out, outsourcing of activities and precarious forms of employment have become common instruments for the companies to reduce wage levels and to increase flexibility for certain categories of workers, especially storage fillers and cashiers. First, marginal part time work is a way to increase the flexibility of staffing according to customer frequencies for instance at the cashpoints, and at the same time to reduce wages by circumventing the agreed wage groups.

“They are paid according to the minimum wages, but the marginal part timers are in many cases not correctly classified in the wage groups they belong to” (union expert).

Second, outsourcing takes place either by making use of temp agency workers or by contracting external suppliers who themselves either employ temp agency workers or make contracts with false self-employed who earn less than the minimum wage.

“After temp agency work became too expensive for these employers, they try to make use of these forms of self-employment or of service contracts. To prove in a concrete case that the self-employment is a false one is quite difficult” (expert union).

The case of the *department store* is contradictory with respect to these developments. On the one hand, the company has opted out from the collective bargaining agreements mainly in order to reduce the wage level of cashiers and the storage fillers. On the other hand it has sourced these activities in again after they were sourced out to the company owned temp agency or to external suppliers with wage levels below those of the new wage structure. So in fact these groups of employees today are earning more in the wage structure that derogates from the collective bargaining agreements than they have earned before when the company was still covered by the agreements but has sourced them out. The *furniture shop* seems to be able to guarantee competitiveness by lean staffing and a personnel policy aimed at functional and temporal flexibility. Outsourcing is not part of the strategy. The only activities sourced out up to now have been dish washing in the kitchen and the recollection of the trolleys; these services now are offered by the security and facility management company. However, the works councils has the impression that the online strategy of the company could induce changes and increase the probability of outsourcing.

“There is a tendency that the stores are more and more used as exposition floors where furniture is presented that is bought online at home afterwards. That would mean that selling and cashier activities become less important and could be sources out at least partly” (works council furniture shop).

## 5.6. Variable components of collective pay

The collective bargaining agreements of the retail sector do not include variable pay components. The only additional wage elements besides the basic pay are the single payments like Christmas and holiday pay and the premiums for overtime work and work at non-regular opening hours. Different from overtime work, the premiums for irregular working times are paid in time and not in money, and they can be taken in free days on Fridays or Saturdays. Both full and part timers are entitled to get these forms of time compensation for irregular working times.

“The premiums are independent from the actual weekly or monthly working times of the employees, every employee who is working after 6.30 pm is entitled to get it. Traditionally, we also had premiums paid in money for night work after 8.00 pm, but the time threshold for this premium has been extended after the opening hours were extended beyond 8.00 pm” (union expert).

However, variable pay exists in the form of additional payments made on top of the collective bargaining wages in the form of individual sales premiums. According to the union expert, these forms of variable pay are common in textile stores and stores selling consumer electronics. In former times they existed also in the big department stores but have been abolished in the last decades.

“They were paid in many departments of the big department stores, but they have been abolished in many cases. In the middle of the 1980s I have made interviews in a department for furs; and there many of the good sellers worked part time and were able to compensate or even to overcompensate the wage gap to the full time workers with the sales premiums” (union expert).

In the case of the self-service *department store*, the company tries to abolish all performance or profit premiums. This has been done for employees covered by the wage system, and also wages of the AT-employees who got a performance based variable pay component before the reform are changed to a system of fixed monthly wages.

“For the AT-employees we try to include everything in the monthly salaries so that they do not get any additional payments but higher fixed salaries. We do this with all new contracts, and we try to change the contracts of the older employees” (HR department store).

The reason for the HR management to fix former variable pay elements is the impression that it is difficult to find criteria for individual or collective success that are not affected by external factors that cannot be influenced by the employees.

“If you are a team manager and if you have a special sales counter for two weeks in summertime to sell sun cream and if it rains all the days in these two weeks you will have a bad result, but it is not your fault and has nothing to do with your performance. Or take an indicator like the number of staff ill, this is something outside your influence” (HR department store).



Different from the department store the *furniture store* has a variable pay system. Here two forms of variable pay exist. The first one is a profit sharing scheme; here profit sharing is not paid out to the employees but saved on a company pension system. Every employee of the company gets the same amount of money after five years of employment at the company, around 1,300 euro last year. The second form of variable pay is a bonus coupled on the developments of the sales volume, the gross profits and the costs. In the last year, this bonus amounted to a monthly wage. However, for this year no bonus will be paid because of the depreciation of the euro; the company is buying many of the products it sells in Dollar so that the European branches are not able to generate enough profits to exceed the threshold defined by the company. This has caused some unrest at the *furniture shop*:

“There was some unrest here because the people did not understand why there will be no payment for this year. We have managed to increase the sales volume of the store for about 9% this year, so the people worked hard and now they do not understand why they will not be rewarded. This is why the German management kept the profit targets for the next year; however, I think we will fail again because of the exchange rates” (works council furniture shop).

### 5.7. Strategies and perspectives

Wage setting and wage inequality in the German retail sector have changed significantly in the last years. On the one hand, wage setting by collective bargaining was marked by a trend of erosion, starting with the abolishment of general binding agreements and the OT strategies of the employers’ associations and continuing with the opting out of companies from the collective bargaining agreements. In contrast to many other sectors, in the retail industry it has been to a large degree big companies which decided to opt out and they could do so because the organizational power of the union in many companies was too weak to impede the opting out. On the other hand, both covered and non-covered companies have fuelled new wage inequalities by using temp agency workers or by sourcing out activities in the lower wage groups like cashiers and storage fillers to service companies employing low wage workers. In our case studies, different strategies have been developed which work as functional equivalents: the creation of a new wage system lowering the wages for these groups of workers at the *department store* and a strategy of lean and flexible staffing at the *furniture store*. At the same time, wages for higher skilled workers are on the rise at least in regions with labour shortages. In sum, wage disparities are increasing outside and also inside the coverage of the collective bargaining agreements.

Furthermore, the agreements, and especially the wage framework, are partly outdated and need to be revised. Interestingly, although both collective bargaining actors agree in this diagnosis and both actors have an interest to modernize the system, up to now they have proven to be unable to find a consensus. The main reason is the conflict about wage equality. The employers, on the one hand, want to increase wage inequality by

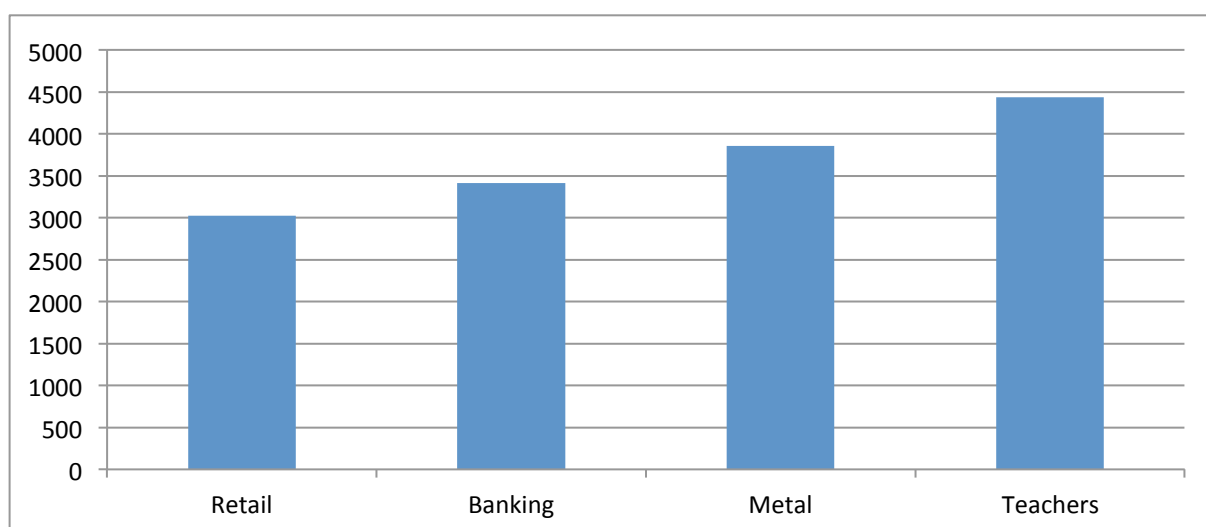
downgrading big groups of employees like cashiers and storage fillers. The union, on the other hand, wants to keep the wages of these groups as high as possible because they are the strongholds of union power in the companies. However, both actors are too weak for a compromise. The employers' association has lost a lot of the big companies who opted out and has to make bargaining agreements for many smaller retail firms who are less willing to make compromises in wage issues. And the union is too weak to enforce a new wage structure that would maintain wage equality at the current level. So both actors have learned to live with the out-dated agreements. The union can say that the agreement is good for the employees because it has a priority on wage compression for the lower skilled employees, and the employers can circumvent the regulations by opting out or by sourcing out. However, the victim is the collective bargaining agreement which covers a decreasing number of firms and employees.

## 6. Comparing the sectors

In this section we will compare wage inequality between the sectors. We will first refer to the agreed wages, then compare actual wages between the sectors and finally try to develop an (in-)equality index based on collective bargaining regulations and wage developments in the sectors.

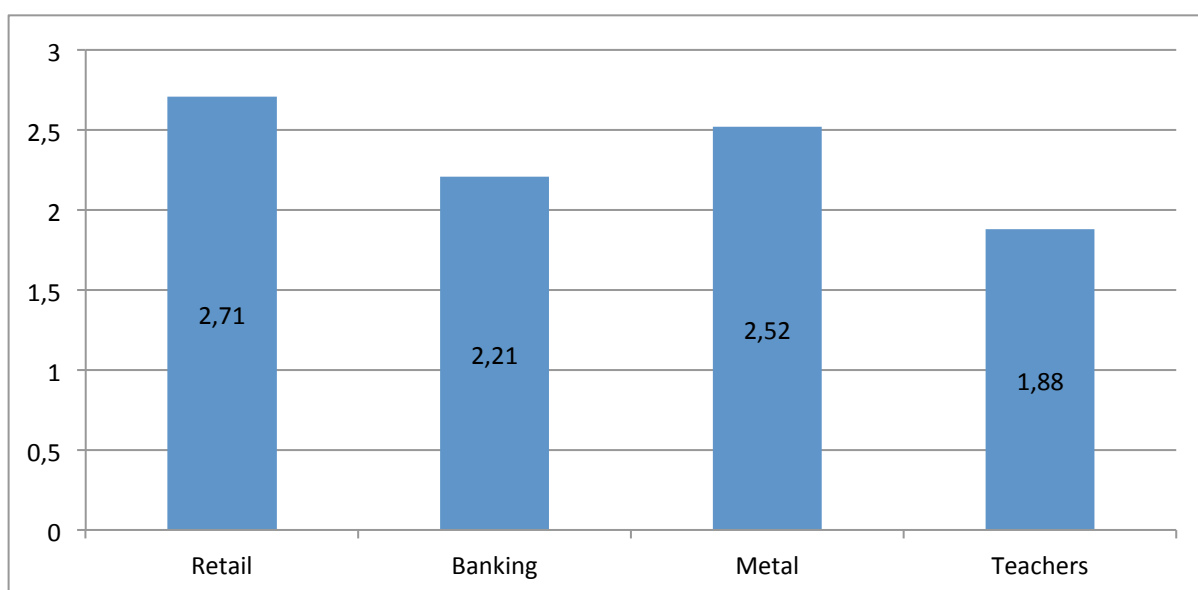
Figure 22 shows the median wage of the collectively agreed wages of the respective sectors in order to compare the formal wage levels between the sectors. According to this data, the lowest wage level exists in the retail sector, followed by the banking and the metalworking sector. The high median wage of the school teachers can be explained by the fact that this is, different from the other industries, a rather homogeneous and well qualified academic workforce grouped only in higher wage groups of the collective bargaining agreements which have been used for this calculation (EG12 to EG15). Including all the wage groups of the agreements of the public sector would have produced a rather different picture. So the comparison in this respect is tricky because sectors are compared with occupations. And please note that the median wage has little to do with the actual distribution of wages among the employees that depends on the distribution of the employees on the respective wage groups. Such an analysis would, as it can be supposed, produce a different picture. As in the banking industry most of the employees are in the upper wage groups, but in the retail industry many of them are grouped in the lower and middle wage groups, the differences in the wage levels between these sectors would be much bigger if the distribution of employees would be taken into account.

**Figure 22.** Mean wage of current collective bargaining agreements (own calculations)



Wage inequalities of agreed wages can be measured by the ratio between the highest and the lowest wage groups (figure 23). Little surprisingly, the lowest ratio exists for the teachers because of their compressed wage structure. Leaving them aside, among the industries compared the lowest ratio can be found in the banking industry and the highest one in the retail sector. According to this data, the retail industry is characterized by the highest agreed wage inequality among the sectors. However, this statement should be made only with caution, for in the retail sector most of the employees covered by the collective bargaining agreements are actually covered by the wage groups; only managers of big department stores and of the headquarters are excluded from them, whereas in the banking industry the upper wage group is so low that more than half of the employees are not covered by the agreements because they are grouped higher in the companies. A low level of agreed wage inequality may have the price of excluding many employees from the coverage of the agreements. This is why the union in the banking sector wants to increase agreed wage inequality by creating a new upper wage group. In the metalworking industry the upper wage groups are much higher (differentiating between the regions) than in the banking industry (5,526 euro compared to 4,700 euro), and also here the share of AT-employees is much lower than in the banking industry, albeit also increasing because of structural changes in the composition of the workforce in favour of higher qualifications.

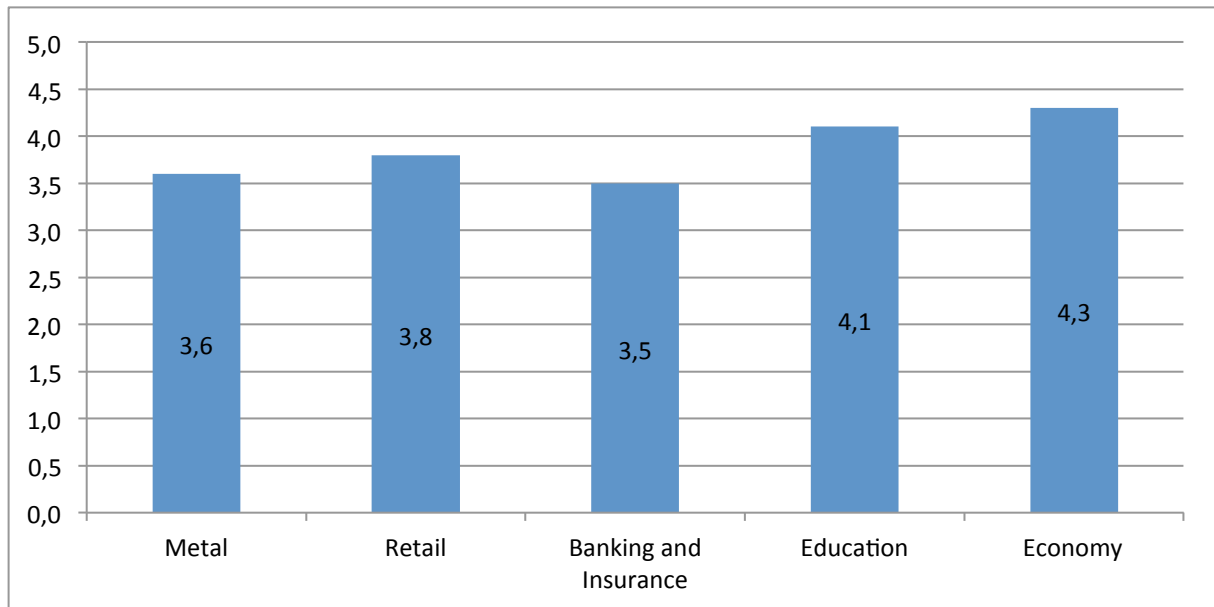
**Figure 23.** Ratio of highest/lowest wage groups in the collective agreements (own calculations)



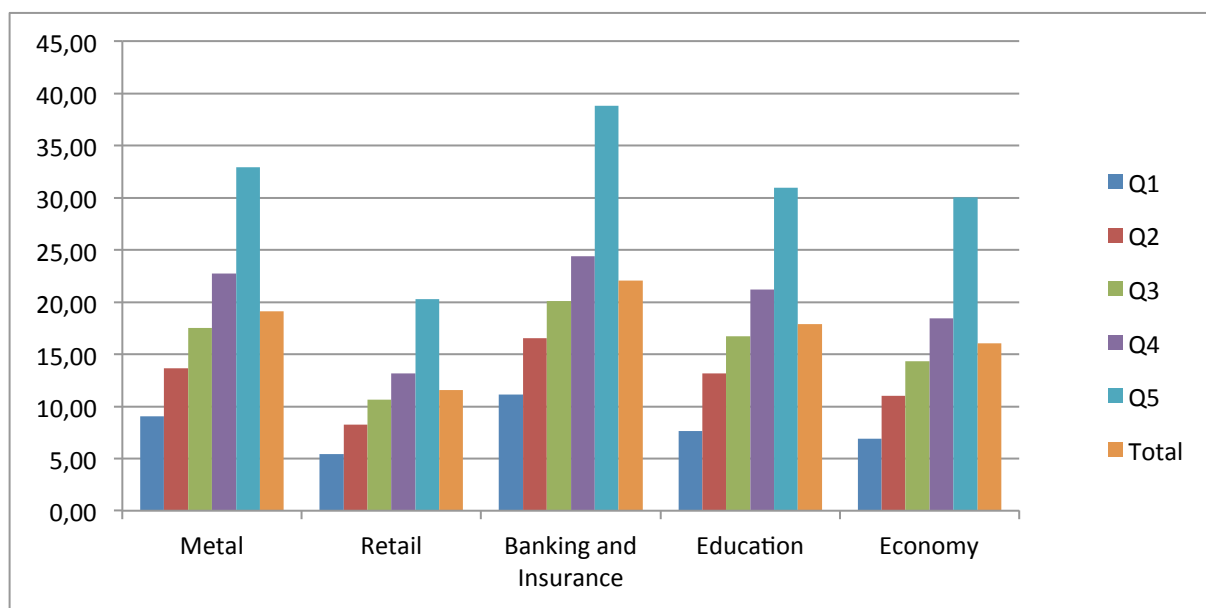
The actual wages show a similar picture (figure 24): the Q5/Q1 ratio among the three industries is the highest in the retail sector, followed by metalworking and banking. However, the differences are not very pronounced, and all the industries are below the inequality level of the whole economy. Teachers are replaced in the calculation by the education sector that covers all the employees in public and private organizations,

including non-academic teachers or administrative staff. The occupation is replaced by a sector, therefore the inequality level has risen sharply compared to the agreed wages.

**Figure 24.** Relation Q5/Q1 of actual hourly wages (SOEP, own calculation)



The comparison of the actual hourly wages in quintiles between the industries shows that the low wage inequality in the banking sector is based on high actual wages, the highest among the industries compared. The lowest quintile of this industry has a mean value higher than the third quintile of the retail sector. Moreover, the upper quintile is nearly twice as high as the one of the retail sector and also much higher than that of the other sectors. This reflects the fact that the bulk of employees in the banking sector is working in the upper wage groups of the collective agreements or gets wages above this level.

**Figure 25.** Actual hourly wages in quintiles (SOEP, own calculations)

The (in-)equality index, finally, tries to take into account both the regulatory dimension of wages and the wage developments. Both regulatory elements and wage developments are assessed with respect to their effects on wage equality, with (-) signs indicating negative and (+) signs denoting positive effects on wage equality. The sign (0) denotes that there are no effects to be supposed. However, apart from the index it has to be taken into account that the collective agreements as a whole have positive effects on equality because they define standards and obligatory norms for wages and wage levels which would be replaced by a variety of company agreements or individual wage contracts if collective bargaining agreements do not exist or are not applied. So their general effects are positive, even if we find some factors fuelling inequality in detail.

*Wage increases* in all sectors are defined as a percentage of the former salary and have no effect on wage equality, because the relative differences between the wage groups remain at the same level. *Regional wage disparities* are significant in the retail sector and, less important in terms of their extent of regional wage differences, in the metalworking sector. In teaching they exist only in two Länder, Hesse and Berlin, therefore they are neglected here, and they are non-existent in the banking industry. In metal, banking and teaching the *range of salaries* (upper/lower wage group) is lower than in retail; however, in retail more groups of worker are actually covered by the agreements and only a minority of managers gets wages above the agreed wage scale. So in general the range of salaries is assessed positive; either because it is low or because it covers many workers.

**Table 10.** (In-)Equality index of the sectors (own calculations)

<b>Topic</b>	<b>Metal</b>	<b>Retail</b>	<b>Banking</b>	<b>Education Teachers</b>
Wage increases	0	0	0	0
Regional wage disparities	-	-	0	0
Range of Salaries	+	+	+	+
Coverage of collective bargaining agreements	-	-	+	+
Opening Clauses on higher wages (CBA as minimum wage)	+	0	+	0
Opening clauses on lower wages	-	0	0	0
Job classification systems	+	+	+	+
Seniority/Experience	0	0	0	0
Variable pay profit sharing	-	0	-	0
Variable pay performance	+	0	0	0
Temp agency work/Outsourcing/Marginal part-time	+	0	0	0
<b>Total (unweighted)</b>	<b>+ (1)</b>	<b>0</b>	<b>+ (3)</b>	<b>+ (3)</b>

*Collective bargaining coverage* is exceptionally high in public school teaching and therefore fosters equality by setting encompassing standards. It is also still high in the banking industry, although the outsourcing of back-office activities is undermining the positive effect. In metalworking coverage has eroded to a certain degree and even more so in the retail sector, where collective bargaining agreements today are implemented only by a minority of firms for a minority of workers. *Opening clauses allowing for higher wages* exist in all the industries without the public services (teaching), and they say that the upper wage groups of the collective wage agreements define minimum standards that have to be exceeded for the AT-employees. *Opening clauses on derogations* do not exist in retail, banking and teaching, and derogations are rarely negotiated because of a restricted stance of the union Verdi. In the metalworking sector, opening clauses exist, and derogations are rather frequent; however, here it has to be kept in mind that the introduction of formally regulated opening clauses has increased the transparency of derogations and was the precondition for an improved control and a restricted practice. *Job classification systems* exist in all the sectors analysed, most of them non-analytic; only in some regions of the metalworking industry they are analytic. In metalworking and teaching the agreements have been modernized in the last decade, possible sources of wage discrimination in the agreements have been tackled and most of the jobs have been evaluated anew. Only in the retail sector a difference between white and blue collar workers is still made. Here the social partners also complained about the outdated structure of the wage groups and try to develop a new framework agreement. *Seniority rules* are in all the cases replaced by *experience levels* that have a neutral effect

on wage equality, for on the one hand they create more wage levels, and on the other hand they leave the wage spread (upper/lower wages) unaltered.

Variable pay in the form of *profit sharing* generally increases wage inequality because it creates wage differences between successful and less successful firms or between different forms of regulating profit sharing with respect to profit indicators or the share of wages. Collective bargaining agreements temper the effects by creating common regulations; however, in our sample they either do not exist like in metalworking or they are not relevant in the organizational practice like in the banking sector. The worst effects can be regarded in the metalworking sector, where no regulation exists on collective bargaining level and at the same time profit sharing plays an important role in certain companies in the automotive industry. Also in the banking industry with many plant level regulations, the contribution of profit sharing to wage equality is negative, mitigated only by the fact that the payouts in the sector decreased due to the profit crisis after the financial crisis. Only in teaching neither a regulation nor a practice exists. This is true also with respect to variable pay in the form of *performance based pay*, so that wages are not differentiated further in the sector. Also in the case of the retail industry no performance wages are regulated in the collective agreements, however, here they may exist on plant level and may increase wage inequalities between workers and plants. In the banking industry, the rules of the collective agreements on this wage component are rarely used, but many plant level agreements exist especially for AT-employees that fuel wage inequality between workers and plants. In the metalworking industry performance based wages are part of the collective bargaining agreements and they are implemented on plant level in a highly regulated way so that their effect on wage equality is positive in this case.

Atypical work and outsourcing are big issues for wage equality because they use to go hand in hand with wage reductions for certain groups of workers and, therefore, fuel wage inequality. This is a problem in the retail sector, where cashiers and storage fillers are outsourced or replaced by temp agency workers, in the outsourced back offices of the banking industry and in the metalworking sector with its high share of temp agency workers and the ongoing outsourcing of activities like logistics. Only in the metalworking sector the problem could be tempered by the industry premiums for temp agency workers negotiated in the collective bargaining agreements. The other sectoral agreements do not contain regulations on the issue.



## **7. Conclusions: wage coordination at the crossroads**

The sector studies show growing divergences of wages and wage regulation between and within the different sectors of the German economy that challenge the idea of the coordinated market economy. Of course there is still coordination left, but it has changed both in extent and forms. Moreover, it seems to be an open question whether there are still collective actors willing and able to coordinate in a way necessary for a coordinated economy.

Coordination between industries is much weaker today than it has been twenty years ago. The logic of pattern bargaining between the sectors, which made sure that wages in the German economy developed in a rather parallel way, albeit on a different wage base, has been largely eroded. Wage development in the manufacturing and many of the service industries is decoupled. This trend has been fuelled by the spread of atypical forms of employment, especially temp agency work, that has contributed to the growth of a low wage sector within the service industries. Moreover, also the coverage of collective bargaining has decreased significantly; whereas in the 1990s still around 75% of the employees were covered by industry collective bargaining agreements, today only about 50% of the employees are covered (and some more by firm collective agreements).

These developments undermine the former effects of wage coordination, for they offer room of manoeuvre for wage competition between the sectors with different wage levels and between companies covered and companies not covered by collective bargaining agreements. Companies not covered and companies in industries with lower wages have advantages in wage competition compared to companies from high wage industries producing similar products for the internal or the external market. This has repercussions for the wages in the high wage companies, for it gives incentives to decrease wage costs by making use of the lower wage levels of other industries and companies.

Coordination has changed also within industries. In many industries not only the collective bargaining coverage has declined, but also the collective bargaining agreements have been decentralized in order to allow local derogations from collective bargaining agreements. Derogations can have an ambivalent effect on wages, for on the one hand temporary wage cuts decrease the wage level for the employees of the respective plants or firms, and on the other hand they may be an instrument for the companies to regain competitiveness in a situation of crisis and to be able to pay the wage level of the collective bargaining agreements again after the derogation is expired. Among the sectors of this study, derogations are mostly used in the metalworking sector where around 10% of the companies covered by collective bargaining agreements make use of them.

However, given the wage differences between the industries and the possibility to opt out from employers' associations or, in the OT-cases, to opt out from collective bargaining agreements only, companies have increased room of manoeuvre to cut wage costs. In the banking industry, banks have created new subsidiaries specialized on back-office

activities that are not covered by the collective agreements. In the retail industry, companies opt out from collective bargaining on large scale and at the same time use atypical workers in order to lower the wage levels of cashiers and storage fillers. And in the automotive industry, companies make use of temp agency work and outsourcing to suppliers or contract workers in order to reduce costs for activities former organized in-house. In the public services in case of the teachers, the *Länder* as employers make use of the difference between civil servant and non-civil servant teachers, and they offer different wages for entrants according to their financial budgets.

So wage cutting takes place in different forms in the industries and with different effects on coordination. In the retail industry wage coordination has eroded to a point that undermines the collective bargaining agreements. Collective agreements only cover a minority of firms and employees, and the flight out of the employers' association is going on. In the banking industry, collective bargaining and its coverage is still high formally, but the upper wage levels are so low that today the bulk of employees no longer is covered by the collective bargaining agreements any more. In the M and E industry collective bargaining coverage has stabilized on a low level, but the economic pressure on firms on the lower levels of the automotive value chains is still strong so that derogations or opting out remain options.

The weakness of coordination has a lot to do with the weakness of the actors of coordination. Both in the banking and in the retail sectors the collective bargaining actors have proven to be unable to agree on a reform of the wage structures that would be urgently needed in both sectors to stabilize the collective bargaining system. In the banking industry the union tries to shift the wage scale upwards so that more employees are covered by the agreements. This is unacceptable for the employers' association because of their members' interests in individual contracting with the employees; and the association even accepts the old wage structure in order to prevent shifts in the wage scales. The union at the same time is too weakly organized among the AT-employees to demand for a wage reform more effectively. In the retail industry, the employers' associations wants to combine a modernization of the wage structure with a downgrade of cashiers and storage fillers and their fixation as low wage activities. The union wants to prevent this, not at least because these wage groups form the bulk of union members in the industry. At the same time, the union is much too weak to push its own ideas of modernization against the opposition of the employers.

Whereas the collective bargaining actors in these sectors are in a stalemate because of their weakness, in the two other sectors they have proven to be more capable of acting and to reform the collective bargaining agreements. In both sectors, M and E and public services, the wage structure has been modernized after long term negotiations. However, in the public sector the unions have difficulties to agree on a common strategy to mitigate the differences between non-civil and civil servant teachers. In the automotive and M and E industry, the union has problems to prevent companies from opting out from collective agreements and to prevent them from contracting out services to subcontractors from other industries or to subcontractors without collective bargaining coverage.

Nevertheless, there are also examples of collective bargaining actors regaining the initiative, the most important ones the successful campaign of the unions for a statutory

minimum wage and the campaign of the metalworkers' union for a wage premium for temp agency workers. Both campaigns have increased the public attention for wage inequalities and have improved the position of the unions in the public opinion. Also other circumstances like economic growth and the political climate are in favour of a strengthening of unions and a more offensive union wage policy. This is a big difference to the years before the financial crisis that were marked by slow growth and a more neoliberal political climate.

On the one hand the problems of wage coordination are obvious. Wage coordination still works, but it works only for some industries and for a shrinking share of employees, and the interaction between coordinated and uncoordinated areas actually undermines the former in favour of the latter. However, on the other hand, collective bargaining actors show signs to become stronger again, and it seems to be an open question if and in how far they will be able to revitalize wage coordination in the future.

Additionally, the role of the state in wage setting has increased, both by organizing the statutory minimum wage and by extending industry minimum wages according to the posted workers' act. In this way the state has reacted on the weakness of coordination and the weakness of the collective bargaining actors. However, the state is not a perfect substitute for collective bargaining. For the state only has created a minimum wage floor: the much more complex wage structure of industries and all the regulations of wage (in-)equality going along with this still have to be created and implemented by the collective bargaining actors or they will not be created and implemented at all.

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